NOT EXACTLY BORN IN THE USA

U.S. REGISTERED COVERED BONDS

IT’S THE KIND OF PUZZLE LAWYERS LOVE—working their way rules and regulations to create opportunities for a client. That’s what we achieved for the Royal Bank of Canada. Prior to spring 2012, foreign banks relied on Rule 144A to issue covered bonds into the United States in private placements to institutional investors. In May 2012, RBC filed with the SEC the first-ever covered bond registration statement.

Why is the first registered covered bond offering into the United States significant? It sets a precedent for future registered offerings of covered bonds into the United States. It also indicates that there is a healthy market for covered bonds in the United States.

Working with RBC, we decided the best approach to offering registered covered bonds into the United States would be to adapt RBC’s existing covered bond program. We sought assurance from the SEC that it would permit RBC to rely on its prior SEC filing history and would be able to use a short-form, or “shelf,” registration statement to offer the covered bonds. We obtained regulatory relief in the form of a no-action letter. We worked to craft disclosures that made sense for the covered bond asset class, which was new to the SEC. Although Europeans are all too familiar with covered bonds, U.S. regulators have only recently begun to learn more about these products.

The SEC’s no-action letter provides a road map for other issuers that seek to offer registered covered bonds, and the registration statement sets the disclosure standard for all registered covered bond offerings to follow. With the first registered covered bond offering in the United States, it would appear that covered bonds are finally coming to America. Registration with the SEC paves the way for a much broader group of U.S. investors to participate in the covered bond market.