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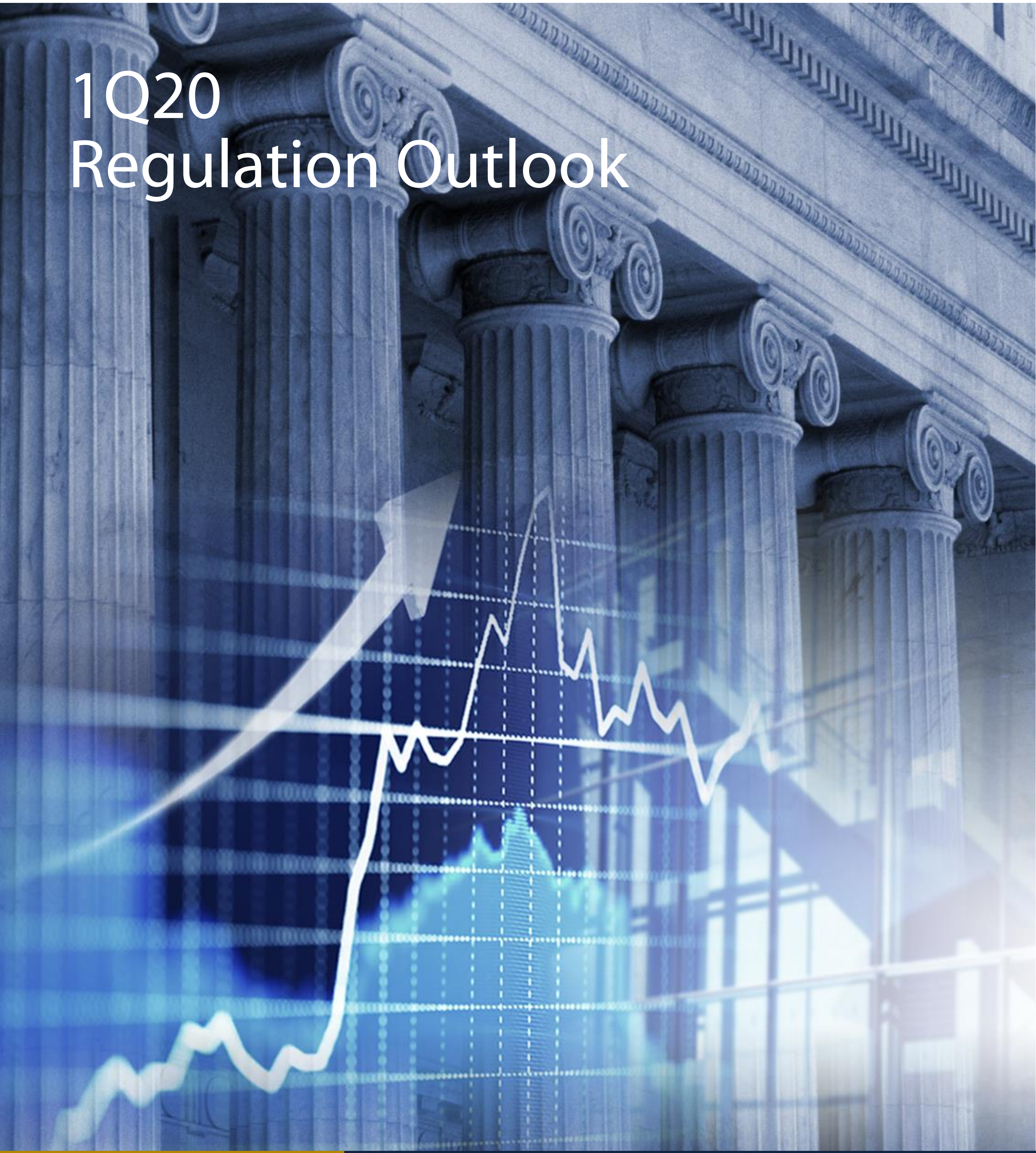
1Q20 Regulation Outlook



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Executive Summary

The first quarter of 2020 is characterized by publications aimed to manage the impact of the COVID-19 outbreak. In addition, the EC published the European Data Strategy and a White Paper on Artificial Intelligence, as well as a Proposal for a European Green Bond Standard. At the local level, the Spanish Government published Royal Decree 309/2020, which develops the legal regime for EFCs.

Publications related to the outbreak of COVID-19

Global publications

- At international level, the BCBS announced the **deferral of the implementation of the final Basel III reform** to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities of the global financial system.

European publications

- In Europe, the ECB announced **ECB Banking Supervision flexibility measures** related to the use of capital and liquidity buffers, the coverage of Pillar 2 requirements with lower quality capital and the treatment of NPLs. The EBA also issued clarifications on the **implementation of the prudential framework**.
- In addition, the ESMA published a **Guide on the accounting implications of COVID-19**, a **Decision on thresholds for reporting net short positions** to reduce volatility in the securities market and a **Public Statement on measures to mitigate the impact of COVID-19** on EU financial markets to defer reporting obligations on securities financing transactions (SFT). Finally, the ESMA also published a set of **Recommendations to financial market participants**.

Local publications

- In Spain, the Government published the **Royal Decree-Law 8/2020 on urgent extraordinary measures to deal with the economic and social impact of COVID-19**.

Local publications (continuation)

- In addition, **the CNMV published a temporary ban on constituting or increasing net short positions on listed shares**, in order to reduce volatility and avoid speculative movements.
- In the US, the Fed published **measures** to support the flow of credit to the various markets and entities; a **Provisional Final Rule to revise the TLAC Rule** that facilitates the use of entity buffers to promote credit activity; and a **statement on supervisory activities** establishing supervisory adjustments motivated by the COVID-19.
- The Fed, FFIEC, SEC and CSBS coordinated a joint effort to publish a series of **measures to mitigate the economic impact**. In addition, the Fed, FDIC and OCC published an **Interim Final Rule for the Money Market Liquidity Facility (MMLF)**. Finally, OCC also published an **Interim Final Rule to amend the Short-Term Investment Fund (STIF) Rule** for domestic banks acting in a fiduciary capacity.
- In the UK, the BoE published a series of **Measures to Respond to the Economic Shock** to help local businesses and families cope with the expected economic slowdown, and jointly with HM Treasury launched a **Covid Corporate Financing Facility (CCFF)** to provide support to companies in various sectors to pay wages and suppliers. In addition, the BoE and PRA also published **Supervisory and Prudential Policy Measures to address the challenges of COVID-19**.

Other publications of interest

European publications

- At European level, the EC published the **European Data Strategy** with the aim of creating a single market for data, as well as a **White Paper on Artificial Intelligence (AI)** to mobilise resources along the entire value chain and create the right incentives to accelerate their deployment.
- In addition, the EC's Technical Expert Group on sustainable finance (TEG) published a **Usability guide proposal for an EU Green Bond Standard (GBS)** and a Final Report with recommendations on the overall design of the Taxonomy.
- The EP and Council published **Directive (EU) 2019/2177 amending the Solvency II, MiFID II and AML/CFT IV Directives** to improve the quality of data provision services, to strengthen cooperation between supervisory authorities and to establish new powers for the EBA, respectively.
- The EBA published the **Report on Big Data and Advanced Analytics** with key observations, and presenting the pillars and elements of confidence building, as well as a **Discussion Paper on future changes in the stress test in the EU**. The EBA also published a **CP on draft GL on the subsets of sectoral exposures** to which a systemic risk buffer can be applied with the aim of establishing a common framework.

Local publications

- At local level, in Spain, the Government developed the legal regime for EFC through the **Royal Decree 309/2020**, adapted to the needs of the business but at the same time equivalent in terms of robustness to that established for credit institutions. In addition, the BoS published **Circular 1/2020 amending provisions relating to the Central Risk Information (CIR)** to improve the consistency of the information collected and clarify the information to be submitted on certain transactions.
- In the US, the Fed, OCC, FDIC, SEC and CFTC published a **Proposed Revision of the Prohibitions and Restrictions on Proprietary Trading** and certain Interests and Relationships with Hedge Funds. In addition, the Fed and FDIC issued **Proposed Guidance on Resolution Plans for certain Foreign Banking Organizations (FBOs)**.
- In the UK, the PRA published the **Consultation Paper (CP) 2/20 on Pillar 2A: Reconciling capital requirements and macroprudential buffers**, to reduce the variable capital requirements of Pillar 2A by taking into account the additional resilience associated with larger macroprudential buffers in a standard risk environment.

Regulatory projections

At European level, Regulation (EU) 2019/2089 amending, among others, the EU climate transition benchmarks and the related EP and Council reporting will apply. Additionally, the EBA ICT risk and security management GL will apply. In the US, the Final Rule on the Review of the Additional Leverage Ratio of the Fed, OCC and FDIC will apply.

*Regulatory projections**

1. Next quarter

- **(Europe) April 2020**: the EP and Council Regulation (EU) 2019/2089 which modifies, among others, the EU Climate Transition Benchmarks and sustainability-related disclosures for benchmarks, will be applicable.
- **(US) April 2020**:
  - The Fed, OCC and the FDIC Final Rule on simplifications to the Capital Rule will be effective.
  - The Final rule on revisions to the Supplementary Leverage Ratio of the Fed, FDIC and OCC will come into force.
  - The Final Rule on Standardized Approach for Calculating the Exposure Amount of Derivative issued by the Fed, FDIC and OCC will enter into force.
  - The Final Rule on Regulatory Capital Treatment for High Volatility Commercial Real Estate (HVCRE) Exposures of the Fed, FDIC and OCC will be applicable.
- **(Spain) April 2020**: The CNMV temporary prohibition on constituting or increasing net short positions on listed shares will finalise and may be extended for a further period not exceeding 3 months or lifted at any time before the expiration of tha period, if deemed necessary.
- **(Europe) June 2020**:
  - EBA's Final GL on ICT and security risk management will apply.
  - The temporary thresholds for reporting net short positions will finalise.

2. Next year

- **(Spain) July 2020**: the legal regime for FCIs will enter into force.
- **(Europe) September 2020**: the ESMA Final GL on liquidity stress testing in UCITS and AIFs will apply.
- **(US) October 2020:** the firm's first stress buffer requirements set by the Fed would generally be effective.
- **(Global) December 2020**: the BCBS GL on step-in risk will be applicable.
- **(Europe) December 2020**: the ECB Regulation (EU) 2018/1845 on the materiality threshold for credit obligations past due will be applicable.
- **(Spain) December 2020**: credit institutions will apply the significance threshold of the credit obligations specified in the Circular 3/2019 of the BdE and the Circular 4/2019 on public and reserved financial information standards and model financial statements of the BdE.
- **(Europe) 2020**: its expected that the EC adopts the Final RTS on SA-CCR published by the EBA on 2019 defining its date of application.
- **(Europe) January 2021**:
  - The EBA GL on the new definition of default will be applicable.
  - The EBA GL on CRM for institutions applying the advanced internal rating-based (A-IRB) approach will be applicable.
- **(Europe) March 2021**: the EP and the Council Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector will enter into force.

(*) The regulatory projections have been updated with the information available up to the date of publication of the report, on the modified deadlines as part of the flexibility measures adopted by different authorities in relation to the management of COVID-19.

3. More than a year

- **(Europe) 2021**: EIOPA's occupational retirement provisions stress test results will be published.
- **(Europe) June 2021**:
  - The CRR II of the EP and the Council will be applicable with certain exceptions.
  - The EP and the Council adaptation of the investment firms prudential framework will be applicable.
- **(Europe) July 2021**: the amendments introduced by the CRR II which have an impact on the ECB Guide on internal models will apply.
- **(US) July 2021**: FED and FDIC Final Rule on modifications to resolution plan requirements will be applicable for companies subject to category I, II and III standards.
- **(Global) December 2021**: the BCBS new assessment methodology for G-SIBs will be applicable.
- **(Europe) December 2021**: a new stress test methodology is expected to be approved.
- **(Europe) 2022**: the proposed framework would be introduced in the 2022 EU-wide stress test.
- **(Europe) January 2022**:
  - The EBA GL on IRB parameters estimation will be applicable.
  - The EBA final RTS on an economic downturn as well as the GL for the estimation of LGD appropriate for an economic downturn will be applicable.
- **(UK) January 2022**: the PRA will require firms to comply with an end-state MREL.
- **(US) July 2022**: the Final Rule of the Fed and the FDIC on modifications to resolution plan requirements for covered companies that are triennial reduced filers will apply beginning July 2022.
- **(Europe) July 2022**: It will be applicable the EP and Council Directive (EU) 2019/2162 and Regulation (EU) 2019/2160 on exposures in the form of covered bonds.
- **(Europe) December 2022**: the EBA will issue an impact assessment of MREL on banks' profitability.
- **(Global January 2023**:
  - The revised SA for credit risk, the revised IRB framework, the revised CVA framework, the revised operational and market risk framework published in Basel III and the standard on the minimum capital requirements for market risk by the BCBS will be implemented. Moreover, the LR framework using the revised exposure definition and the G-SIB buffer will be applicable.
  - Most of the new disclosure requirements of the BCBS Pillar III updated framework will have to be implemented.
- **(Global) January 2028**: an output floor of 72.5% of RWA in the SA approach will be applicable according to the Basel III reform.

Publicaciones del trimestre

Summary of outstanding publications of this quarter

Topic	Title	Date	Page
	Basel Committee on Banking Supervision		
Basel III	• Deferral of Basel III implementation	31/03/2020	12
	European Commission		
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COVID-19	• ECB further flexibility to banks in reaction to coronavirus	24/03/2020	18
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COVID-19	• EBA - Statement on actions to mitigate the impact of COVID-19 on the EU banking sector • ECB - Banking Supervision provides temporary capital and operational relief in reaction to coronavirus	13/03/2020	19
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Stress test	• Discussion Paper on the future changes to the EU-wide stress test	24/01/2020	22
Internal models	• Report on the results from the 2019 market risk benchmarking exercise • Report on the results from the 2019 low-default and high-default portfolios exercise	05/02/2020	24
AML/FT	• Consultation Paper (CP) on Draft Guidelines (GL) on customer due diligence (CDD) and the considering factors when assessing the money laundering (ML) and terrorist financing (TF) risk associated with individual business relationships and occasional transactions	07/02/2020	26
Risk buffer	• Consultation Paper (CP) on Draft Guidelines (GL) on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer	14/02/2020	27
MREL	• Quantitative MREL Report	19/02/2020	28

31/03/2020
Deferral of Basel III implementation

1. Context

In December 2017, the BCBS issued the finalisation of the Basel III post-crisis reform where a key objective of the revision was to reduce excessive variability of risk-weighted assets (RWAs). The Basel III framework established transitional arrangements to implement the new standards by 1 January 2022 and 1 January 2027 for the output floor. Furthermore, the Pillar 3 disclosure requirements and the minimum capital requirements for market risks were revised in December 2018 and January 2019 respectively, whose implementation deadline was also set by 1 January 2022.

Due to the global situation regarding COVID-19, the BCBS has announced the **deferral of Basel III implementation** to provide additional operational capacity for banks and supervisors to respond to the immediate financial stability priorities on the global banking system.

2. Main points

- The implementation date of the **Basel III standards** has been deferred by one year to 1 January 2023. The accompanying transitional arrangements for the **output floor** has also been extended by one year to 1 January 2028.
- The implementation date of the revised **market risk framework** has been deferred by one year to 1 January 2023.
- The implementation date of the revised **Pillar 3 disclosure requirements** has been deferred by one year to 1 January 2023.

EUROPEAN COMMISSION

21/02/2020

- **European strategy for data**
- **White paper on Artificial Intelligence**
- **B2G Expert Group Report: Towards a European strategy on business-to-government datasharing for the public interest**
- **Commission Report on safety and liability implications of AI, the Internet of Things and Robotics**

1. Context

Since 2014, the Council, the European Parliament (EP) and the European Commission (EC) have approved several regulations to facilitate the development of a data-agile economy such as the Regulation on the free flow of non-personal data, the Cybersecurity Act, the Open Data Directive and the General Data Protection Regulation (GDPR). Furthermore, in 2018, the EC presented for the first time an Artificial Intelligence (AI) strategy, and agreed a coordinated plan with Member States (MS) with the objective of boosting EU's research and industrial capacity.

In this context, the EC has published the **European strategy for data** with the aim of setting up a European data space, a single market for data, to unlock unused data, allowing it to flow freely within the EU and across sectors for the benefit of businesses, researchers and public administrations. The EC has also published the **White paper on AI** with the objective of mobilising resources along the entire value chain and creating the right incentives to accelerate deployment of AI, including by smaller and medium-sized enterprises.

Along with these documents, the EC has published the “B2G Expert Group Report: Towards a European strategy on business-to-government datasharing for the public interest” and the “Commission Report on safety and liability implications of AI, the Internet of Things and Robotics” to support these action plans.

2. Main points

European strategy for data

- **Cross-sectoral governance framework for data access and use**. The EC aims to create the necessary over-arching framework for the data-agile economy, avoiding fragmentation of the internal market through inconsistent actions between sectors and MS.
- **Investments in data and strengthening Europe’s capabilities and infrastructures for hosting, processing and using data, interoperability**. The EC’s objective is to offer an environment that supports data-driven innovation and stimulates demand for products and services that rely on data as an important factor of production. The key actions and regulations in this field will be:
    - Invest in a High Impact project on European data spaces, encompassing data sharing architectures and governance mechanisms (2022).
    - Sign Memoranda of Understanding with MS on cloud federation (Q3 2020).
    - Launch a European cloud services marketplace, integrating the full stack of cloud service offering (Q4 2022).
    - Create an EU self-regulatory cloud rulebook (Q2 2022).
- **Empower individuals, invest in skills and in SMEs**. The EC’s main axes of this strategy are the funding dedicated to skills under the Digital Europe programme that will contribute to narrowing the gap in terms of big data and analytics capacities, while individuals will be further supported in enforcing their rights with regard to the use of the data they generate (e.g. portability right for individuals under the GDPR). The EC also wants to create opportunities for SMEs in the data economy, to have better access to data and to develop new services and applications based on data.
- **Common European data spaces in strategic sectors and domains of public interest**. The EC’s goal is to lead the availability of large pools of data in the sectors and domains of public interest, combined with the technical tools and infrastructures necessary to use and exchange data, as well as appropriate governance mechanisms. The EC will support the establishment of nine Common European data spaces: industrial, Green Deal, mobility, health, financial, energy, agriculture, public administration and skills.

2. Main points (cont.)

White paper on AI

- **Develop an ecosystem of excellence**. The EC's focus is to develop an ecosystem of excellence that can support the development and uptake of AI across the EU economy and public administration (e.g. digital innovation hub per MS, or public-private partnership in AI, data and robotics).
- **Develop an ecosystem of trust**. The EC aims to create a solid European regulatory framework for trustworthy AI. The EC also recommends that certain additional requirements for the development of high risk AI systems be adopted on the following aspects: i) training data; ii) record-keeping on data and algorithms; iii) information to be provided on the use of AI systems; iv) robustness, accuracy, reproducibility and error treatment; v) expert review and validation; and) treatment of restrictions in the case of the use of biometric data for remote identification.

3. Next steps

- The White paper on AI will be open for public consultation until **19 May 2020**.

EUROPEAN COMMISSION

13/03/2020

- **Usability guide TEG proposal for an EU Green Bond standard (GBS)**
- **Taxonomy: Final report of the Technical Expert Group on Sustainable Finance**
- **Updated methodology & Updated Technical Screening Criteria**

1. Context

In March 2018, the European Commission (EC) published its Action Plan on Financing Sustainable Growth which set out a comprehensive strategy to further connect finance with sustainability. In Action 2 of the Action Plan, the EC committed to create standards and labels for green financial products. In June 2018, the EC set up the TEG to assist it in developing the EU taxonomy to determine whether an economic activity is environmentally sustainable; an EU Green Bond Standard (GBS); methodologies for EU climate benchmarks and disclosures for benchmarks; and guidance to improve corporate disclosure of climate-related information.

In this context, the EC has published the **Usability guide TEG proposal for an EU GBS** with the aim to support potential issuers, verifiers and investors of EU Green Bonds. Furthermore, the EC also published the **Taxonomy: Final report of the Technical Expert Group on Sustainable Finance** which contains recommendations relating to the overarching design of the Taxonomy, as well as guidance on how users of the Taxonomy can develop Taxonomy disclosures and a summary of the economic activities covered by the technical screening criteria.

In addition, along with these documents the TEG has also published an **Annex** which explains the methodologies for developing technical screening criteria for climate change mitigation objectives, adaptation objectives and ‘do no significant harm’ to other environmental objectives in the legislative proposal.

2. Main points

<u>Usability guide TEG proposal for an EU Green Bond standard</u>

- **Green Projects**. The proceeds from EU green bonds should finance “Green Projects”, which should comply with these requirements:
    - Contribute substantially to at least <u>one of the six environmental objectives</u> of the EU Taxonomy Regulation (TR), i.e. climate change mitigation or adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystems.
    - Not significantly <u>harm any of the these objectives</u>
    - Comply with <u>minimum safeguards</u>
    - Comply with <u>Technical Screening Criteria</u> (TSC)
- **GBS**. The TEG proposes that the EU GBS should be a voluntary standard proposed to issuers that wish to align with best practices in the market, designed to be relevant and accessible to issuers located in and outside the EU. Furthermore, the TEG proposes a “Use-of-Proceeds” approach providing transparency for investors on the green projects that are being financed or refinanced, as well as additional information on the management of proceeds, impact reporting and external reviews. The proposed EU GBS model sets out four core components:
    - <u>Alignment of the use-of-proceeds with the EU Taxonomy</u>. The issuer needs to check the TSC relevant to the specific activity and related NACE code and a procedural approach to do no significant harm (DNSH) and minimum safeguards assessment and verification for EU GBS that may be sufficient to provide confiability to investors.
    - <u>Content of a Green Bond Framework (GBF) to be produced by the issuer</u>. The structure of the GBF Template is: i) strategy and rationale; ii) projects' alignment with EU Taxonomy; iii) projects description; iv) proceeds allocation; and v) reporting and verification.
    - <u>Required allocation and impact reporting</u>. The EU GBS requires two different types of reporting: i) allocation reporting (which shall be published at least annually until full allocation), and ii) impact reporting (which shall be published at least once during the lifetime of the EU Green Bonds).
    - <u>Requirements for external verification by an approved verifier</u>. The EU GBS requires the mandatory verification by a registered verifier of a EU green bond issuance seeking alignment at 2 points in time and on specific elements of the standard: first, the alignment of the Green Projects with the EU Taxonomy within the parameters set out by the EU GBS, and second, after full allocation of proceeds, the actual allocation of these proceeds to green eligible projects.

2. Main points (cont.)

Taxonomy: Final report of the Technical Expert Group on Sustainable Finance

- **Objective**. The EU Taxonomy is a tool to help investors, companies, issuers and project promoters navigate the transition to a low-carbon, resilient and resource-efficient economy. The Taxonomy sets performance thresholds, the so called TSC, for economic activities which make a substantive contribution to one of six environmental objectives, DNSH to the other five and meet minimum safeguards.
- **Overarching design issues**. The sectors that have a large emissions footprint are prioritized in the development of the taxonomy, identifying the covered and non-covered sectors. For each environmental objective, the TR proposed recognises two distinct types of substantial contribution that can be considered Taxonomy-aligned:
  - Economic activities that make a substantial contribution based on their own performance.
  - Economic activities that, by provision of their products or services, enable a substantial contribution to be made in other activities.
- **Climate change mitigation**. To establish transition pathways for heavily emitting sectors for which low-carbon solutions are not available the TEG adopted two principles: ensuring no lock-in of assets inconsistent with the goals of reducing emissions and environmental performance well above the sector average.
- **Taxonomy application**. The taxonomy will be applicable to:
  - Financial market participants offering financial products in the EU
  - Large companies who are already required to provide a non-financial statement
  - The EU and Member States, when setting public measures, standards or labels for green financial products

3. Next steps

- The EC will hold a public consultation for **three months form mid-March 2020** on the EU GBS.

09/01/2019

- **Directiva (UE) 2019/2177 por la que se modifican las Directivas de Solvencia II, MiFID II y AML/CFT IV**

1. Context

In May 2014, the EP and the Council approved the Directive 2014/65/EU on markets in financial instruments (MiFID II) which aims at making financial markets in the EU more robust and transparent, and establishing a new legal framework that enhances investor protection. Furthermore, in October 2014, the European Commission (EC) published a Delegated Regulation (EU) 2015/35 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II). In addition, on 2015, the Directive (EU) 2015/849 on anti-money laundering and countering the financing of terrorism (AML/CFT IV) was published.

In this context, the EP and Council have published **Directive (EU) 2019/2177 amending the Solvency II Directive, MiFID II and AML/CFT IV**, with the aim of adapting the rules to regulatory changes and new challenges in the financial system. The amendments to these three directives take the shape of an improvement in the quality of data provision services, a strengthening of cooperation between supervisory authorities and new powers for the EBA, respectively.

2. Main points

- **Amendments to MiFID II**. This Directive removes the provisions regarding the operational requirements of data providers and the responsibilities of the competent authorities with respect to these MiFID II providers. This amendment aligns the provisions contained in MiFIR with the objective of ensuring the quality of trading data and the processing and supply of such data, including the cross-border processing and supply of data, as well as the role of the European Securities and Markets Authority (ESMA) in market surveillance, among others.
- **Amendments to Solvency II**. This Directive improves the convergent application of Union law in cases of cross-border insurance activity, and the exchange of information and cooperation between supervisory authorities and the European Insurance and Pension Authority (EIOPA) is strengthened. To this end, it is foreseen to set up collaborative platforms to facilitate the exchange of information and notifications between the relevant supervisory authorities. In addition, the calculation of the volatility adjustment on interest rates is modified; the minimum value to be reached by the spread for the risk-adjusted country is reduced from 100 to 85 basis points.
- **Amendments to AML/CFT IV**. This Directive provides the European Banking Authority (EBA) with a new role in preventing the use of the financial system for money laundering or terrorist financing. The former functions attributed to the European Supervisory Authorities (ESAs) are now under the responsibility of the EBA, including the development of draft technical standards, guidelines or opinions.

3. Next steps

- Member States shall transpose, in general terms, by **30 June 2021** this Directive, which shall apply:Los Estados miembros deberán trasponer, con carácter general, antes del **30 de junio de 2021** esta Directiva, que tendrá las siguientes fechas de aplicación:
    - Amendments related to Solvency II and AML/CFT IV shall apply by **30 June 2021**.
    - Amendments related to MiFID II shall apply by **1 January 2022**.
- Furthermore, Member States shall transpose the measures regarding volatility adjustment to the relevant risk-free interest rate term structure in Solvency II by **30 June 2020**, and they shall apply by **1 July 2020**.

13/03/2020

- **EBA - Statement on actions to mitigate the impact of COVID-19 on the EU banking sector**
- **ECB - Banking Supervision provides temporary capital and operational relief in reaction to coronavirus**

1. Context

The outbreak of COVID-19 (Coronavirus) and its global spread since February has created significant immediate challenges to society and risks for the economic outlook. Although the long term magnitude of the economic shock cannot yet be quantified, it will likely dampen economic activity. Since the financial crisis, EU banks have implemented measures to ensure business continuity and adequate service to their customers, but they are facing operational challenges, hence the need to focus on their core operations and critical functions.

In this context, the EBA, along with national competent authorities (NCAs) and the ECB, is coordinating a joint effort to alleviate the immediate operational burden for banks at this juncture. The EBA recommends NCAs to make full use of the flexibility embedded in the regulatory framework to support the banking sector.

2. Main points

- **EBA's measures**. In order to address any operational challenges banks may face, the following measures are going to be carried out:
    - The EBA postpones the EU-wide stress test exercise to 2021.
    - The EBA will carry out an additional Eu-wide transparency exercise in 2020 to provide updated information on banks' exposures and asset quality to market participants.
    - The EBA recommends CAs to i) plan supervisory activities, including on-site inspections, and possibly postpone those deemed non-essential; and ii) to give banks some leeway in the remittance dates for some areas of supervisory reporting.
- **ECB's measures**. The ECB has announced a number of measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy as the economic effects of the coronavirus become apparent.
    - The ECB allow banks to operate temporarily below the level of capital defined by the Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR).
    - The ECB recommends an appropriate relaxation of the countercyclical capital buffer (CCyB) by the national macroprudential authorities.
    - The ECB allows to partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital (e.g. Additional Tier 1 or Tier 2 instruments) to meet Pillar 2 Requirements (P2R).
    - The ECB is additionally discussing with banks individual measures, such as adjusting timetables, processes and deadlines, e.g. rescheduling on-site inspections and extending deadlines for the implementation of remediation actions stemming from recent on-site inspections and internal model investigations, while ensuring the overall prudential soundness of the supervised banks.

EUROPEAN CENTRAL BANK
EUROSYSTEM

24/03/2020
ECB further flexibility to banks in reaction to coronavirus

1. Context

Since the beginning of March, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that the COVID-19 could have on the economy. In Europe, the ECB has launched a new temporary asset purchase programme of private and public sector securities called the Pandemic Emergency Purchase Programme (PEPP) of €750 billion and it allow banks to temporarily operate below P2G, the CCB and the LCR requirement. Furthermore, the European Banking Authority (EBA) has decided to postpone the EU-wide stress test exercise to 2021 and it will carry out an additional EU-wide transparency exercise in 2020.

In this context, the ECB has published **new ECB Banking Supervision flexibility measures for banks in reaction to COVID-19** in order to ensure that its directly supervised banks can continue to fulfil their role to fund households and corporations amid the COVID-19 related economic shock to the global economy.

2. Main points

- **Temporary additional transparency obligations**. The ECB has introduced supervisory flexibility regarding the treatment of non-performing loans (NPLs), in particular to allow banks to fully benefit from guarantees and moratoriums put in place by public authorities to tackle the current distress. Specially, the ECB:
    - Will exercise flexibility regarding the classification of debtors as "unlikely to pay" (UTP) when banks call on public guarantees granted in the context of coronavirus. The supervisor will also exercise certain flexibilities regarding loans under Covid-19 related public moratoriums.
    - Loans which become non-performing and are under public guarantees will benefit from preferential prudential treatment in terms of supervisory expectations about loss provisioning.
    - Will discuss with banks the implementation of NPL reduction strategies, taking into account the extraordinary nature of current market conditions.
- **Recommendations on IFRS 9**. The ECB recommends banks to:
    - Avoid procyclical assumptions in their models to determine provisions.
    - Those who have not done this so far opt for the IFRS 9 transitional rules.

3. Next steps

- The ECB will continue to closely monitor the developments and implications of this crisis for the banking sector and may **reassess their measures if it is needed**.

15/01/2020
Report on Big Data and Advanced Analytics

1. Context

In March 2018, the European Supervisory Authorities (ESAs) issued a Joint Committee Final Report on Big Data and the EBA published its Roadmap on FinTech. In both documents the ESAs tackled the issues about data-driven approach emerging across the banking sector, which are affecting banks' business strategies, risks, technology and operations. Furthermore, through the use of Big Data and Advanced Analytics (BD&AA) techniques, institutions are exploring more efficient ways to save costs and ensure regulatory compliance, as well as for the calculation of regulatory capital requirements.

In this context, the EBA has published the **Report on Big Data and Advanced Analytics**, with the aim of sharing knowledge among stakeholders on the current use of BD&AA by providing useful background on this area, along with key observations, and presenting the key pillars and elements of trust that could accompany their use. This report focuses on BD&AA techniques and tools, such as machine learning (ML), that go beyond traditional business intelligence to gain deeper insights, make predictions or generate recommendations using various types of data from various sources.

2. Main points

Key pillars. This report identifies four key pillars for the development, implementation and adoption of BD&AA, which interact with each other and are thus not mutually exclusive:

- Data management enables the control and security of data for enterprise purposes taking into account data types and data sources, data protection and data quality. This could lead to improved decision-making, operational efficiency, understanding of data and regulatory compliance.
- Technological infrastructure entails processing, data platforms and infrastructure that provide the necessary support to process and run BD&AA.
- Adequate organisation and governance, through appropriate internal governance structures and organisational measures, along with the development of sufficient skills and knowledge, support the responsible use of BD&AA across institutions and ensure robust oversight of their use.
- Analytics methodology to facilitate the development, implementation and adoption of advanced analytics solutions with an specific lifecycle (data sources, collection, preparation, analytics and operations).

Elements of trust in BD&AA. This report shows that the roll-out of BD&AA specifically affects issues around trustworthiness and notes a number of fundamental trust elements that need to be properly and sufficiently addressed and which cut across the four key pillars:

- Ethics. The development, deployment and use of any Artificial Intelligence (AI) solution should adhere to some fundamental ethical principles.
- Explainability and interpretability. It is a key figure in the building of trustworthy models the explainability and interpretability, which should be transparent, correctly understood and with clear justifications.
- Fairness and avoidance of bias. Fairness requires that the model ensure the protection of groups against discrimination, and in order to ensure it, the model should be free from bias.
- Traceability and auditability. The use of traceable solutions assists in tracking all the steps, criteria and choices throughout the process, which enables the repetition of the processes resulting in the decisions made by the model and helps to ensure the auditability of the system.
- Data protection and quality. Data should be adequately protected with a trustworthy BD&AA system and its quality needs to be taken into account throughout the BD&AA lifecycle.
- Security. It is important to maintain a technical watch on the latest security attacks and related defence techniques and ensure that governance, oversight and the technical infrastructure are in place for effective ICT risk management.
- Consumer protection. A trustworthy BD&AA system should respect consumers' rights and protect their interests.

Key observations, risks and opportunities:

- Key observations on institutions:
  - Different stages of BD&AA development.
  - More use of internal data, rather than external data.
  - Different implementation on the use of advanced analytics on organization.
  - Rely on technology companies for the provision of both infrastructure and cloud services.
- Key opportunities:
  - Processing personal data for the leisure and retail sectors.
  - Improving customer satisfaction and insights.
  - Interpretable models.
- Key risks and proposed guidance:
  - With regards to implementation, it should not be deterministic and should take into account human review (human-in-the-loop).
  - In relation to model governance, it should be adequately justified and documented. Furthermore, explainability and interpretability are key to ensure the traceability and auditability of the model and it allow its review consistent with the ethical standards of the institution. The effort in explainability and interpretability should be based on a risk-based approach.

2. Main points (cont.)

- **Key observations, risks and opportunities**:
    - Key observations on institutions:
        - Different stages of BD&AA development.
        - More use of internal data, rather than external data.
        - Different implementation on the use of advanced analytics on organization.
        - Rely on technology companies for the provision of both infrastructure and cloud services.
    - Key opportunities:
        - Processing personal data for the leisure and retail sectors.
        - Improving customer satisfaction and insights.
        - Interpretable models.
    - Key risks and proposed guidance:
        - With regards to implementation, it should not be deterministic and should take into account human review (human-in-the-loop).
        - In relation to model governance, it should be adequately justified and documented. Furthermore, explainability and interpretability are key to ensure the traceability and auditability of the model and it allow its review consistent with the ethical standards of the institution. The effort in explainability and interpretability should be based on a risk-based approach.
        - As a consequence of the dependence on open source tools, as well as a high use of tools and systems developed by third parties, both their potential risks and the liability, which will always remain with the entity, must be assessed.
        - Finally, the importance of data quality, protection and security is underlined, both for regulatory purposes and to ensure the adequacy of the model.

3. Next steps

- The EBA considers that the existing regulatory framework is deemed sufficient at this stage in the areas of ICT, security and governance. The next steps could focus in particular on **data management and ethical aspects**.

24/01/2020
Discussion Paper on the future changes to the EU-wide stress test

1. Context

Since the global financial crisis, the stress test has become a widely used tool for supervisors to assess the resilience of banks and of the banking sector through its solvency. The EBA conducted its first EU-wide stress test in 2011 and most of the features of the EU-wide stress test have remained unchanged since its establishment. The EBA has organized numerous workshops and other formal and informal interactions with stakeholders in order to improve the stress test methodology and processes, but there has never been a structured discussion on the post-crisis long-term strategy for the EU-wide stress test and on possible fundamental changes to the framework.

In this context, the EBA has published a **Discussion Paper on the future changes to the EU-wide stress test** with the objective to contribute to the development of a framework that optimizes its usefulness to supervisors, banks and policymakers, as well as its relevance to market participants. In particular, this discussion paper covers an assessment of the current EU-wide stress test framework, a possible new framework and the interaction of that new framework with the scenario design and other risks.

2. Main points

- **Assessment of the current framework**. The current framework has contributed to improve the EU banking sector's resilience after the financial crisis through different features such as the bottom-up approach, the simultaneity of the process across a large number of banks which provides consistent and comparable outcomes, and the increase of transparency by disclosing granular information on a bank by bank basis. Despite having some advantages there are areas where the current framework could be improved and more fundamental changes might be needed:
  - <u>Lack of clarity</u> and prioritization of the EU-wide stress test (e.g microprudential purpose of having the stress test results feeding each bank's SREP concomitantly, versus macroprudential objective of assessing systemic risks).
  - <u>Limited integration of the results in the regular supervisory process</u>, especially in comparison with other international frameworks such as the ones in UK or USA.
  - <u>Methodological constraints</u> for some risks.
  - <u>Ownership of results</u>.
  - <u>Resource-intensive</u> nature of the exercise for all parts involved.
- **Proposed new framework**. The proposed framework determines a clear objective, the features and the communication of the stress test results and disclosure.
  - <u>Objective</u>. This new framework confirms that the EU-wide stress test is primarily a microprudential exercise whose main objectives are the assessment of banks' capital adequacy and the identification of risks. For <u>supervisors</u>, the exercise is a concrete support for the SREP and for the assessment of capital planning. For <u>banks</u>, it should complement their internal capital adequacy assessment process (ICAAP) and contribute to improving their internal risk management practices.
  - <u>Features of the framework</u>. This new framework is based on two legs: the supervisory leg and the bank leg. The supervisory leg would be a basis for supervisory decisions, directly linked to the Pillar 2 Guidelines (P2G) setting, and a constrained approach. The bank leg would allow more flexibility and would focus on providing disclosure and fostering market discipline.
    - The **supervisory leg** would be based on a constrained bottom-up similar to the current framework, whereby banks' projections are challenged and quality is assured by supervisors using various challenger models and benchmarking tools. The publication of the supervisory leg would be limited to a basic set of data points focused on capital depletion and its main drivers.
    - The **bank leg** would be obtained by using a flexible bottom-up approach. The results would not be quality assured by the supervisor, giving full ownership of the results to banks. Banks would be allowed to decide on whether to apply the constraints prescribed in this methodology or not.
  - <u>Communication of stress test results and disclosure</u>. Two different stress test results would be obtained, reflecting the supervisory leg and the bank leg:
    - **Supervisory leg**. Results disclosed regarding bank by bank and on aggregate data, limited to the capital ratios relevant to capital distribution and key drivers for each scenario.
    - **Bank leg**. Results disclosed regarding bank by bank, granular data. These data would be based on common disclosure templates similar to the EBA transparency templates of the 2020 EU-wide stress test.

2. Main points (cont.)

- **Proposed changes to the scenarios**. The current framework includes a baseline and an adverse macroeconomic scenario. To make the framework more useful for identifying risks and for exploring a wider number of vulnerabilities, this discussion paper looks at the possibilities of introducing:
    - <u>Multiple scenarios</u>. Testing banks against a number of scenarios with different severities and various narrative paths would be ideal. However, it has three main challenges: i) difficulties in communicating results; ii) producing projections of two scenarios would increase the costs of the exercise; and iii) having two scenarios with a plausible combination of relevant risks would still leave some banks with very little effect in their projections and therefore would not be particularly relevant to understanding their vulnerabilities.
    - <u>Sensitivity analyses</u>. A comprehensive macroeconomic scenario, which, although it might vary in its narrative over time, would include additional sensitivity analyses; and could provide valuable insight by looking at the risks that unfolded in some of the historical episodes or by taking a more forward-looking view and assessing bank's sensitivities to, for instance, climate change, business model disruptions or negative rates.
    - <u>Exploratory scenarios</u>. Some features of the new framework could also be used for introducing exploratory scenarios, which would focus on potential risks with very short realisations (e.g. liquidity risks) or on risks coming from longer term changes in the business environment or in technology, or even risks from structural changes.

3. Next steps

- Comments to this consultation may be submitted by **30 April 2020**.
- The proposed framework would be introduced in the **2022 EU-wide stress test** at the earliest and the methodology for this exercise would have to be approved during the **4Q2021**.

05/02/2020

- **Report on the results from the 2019 market risk benchmarking exercise**
- **Report on the results from the 2019 low-default and high-default portfolios exercise**

1. Context

Under the CRD IV, competent authorities (CAs) shall carry out supervisory benchmarking studies of internal approaches for calculating own funds requirements. Moreover, the EBA is mandated to produce a report to assist the CAs in the assessment of the quality of the internal approaches.

In this regard, the EBA has published two reports on the consistency of RWAs, a **Report on the results from the 2019 market risk benchmarking exercise** as well as a **Report on the results from the 2019 low-default and high-default portfolios (HDPs and LDPs) credit risk benchmarking**. In particular, the objective of the market risk report is to assess the level of variability observed in risk-weighted assets (RWAs) for market risk produced by banks' internal models whereas the HDPs and LDPs report assesses not only the overall level of variability in RWAs but also examine and highlight the different drivers of the dispersion observed.

2. Main points

Report on the results from the 2019 market risk benchmarking exercise

- **Sample**. 50 banks from 13 jurisdictions that submitted data for 59 market portfolios in all asset classes (e.g. equity, interest rates) and 4 correlation trading portfolios.
- **Main findings**.
    - Reduction in the dispersion in the initial market valuation (IMV) due to the simplification applied with the new exercise: instruments in this exercise consist of more plain vanilla instruments than in the previous exercises.
    - Interest rates portfolios exhibit a lower level of dispersion than other asset classes due to the use of more consistent practices and assumptions that are more homogeneous across the banks when modelling equity and interest rate risk.
    - Across all asset classes, the overall variability for value at risk (VaR) is lower than that observed for stressed VaR (21% and 30%, respectively). More complex measures such as incremental risk charge (IRC) and all price risk (APR) show a much higher level of dispersion (54% and 37%, respectively).
    - The dispersion of empirical estimates of expected shortfall (EES) at a 97,5% confidence level across risk factors is similar than that found for VaR and P&L VaR.
- **Dispersion in capital outcome**. The average variability across the sample, measured by the inter-quantile dispersion statistic (IQD) coefficient, is around 23% (considered significant by the EBA), especially for the most complex portfolios in the credit spread asset class.
- **CAs' assessments based on supervisory benchmarks**. Overall, CAs planned some actions for 10 banks (e.g. reviewing the banks' internal VaR and IRC models; a supervisory extra charge; stringent conditions on any extension of the internal model approach, or further internal model investigation at peer level).

2. Main points (cont.)

Report on the results from the 2019 low-default and high-default portfolios exercise

- **Sample**. 111 banks that submitted data for both LDPs (i.e. exposures to large corporates, sovereigns and institutions) and HDPs (i.e. residential mortgages, small and medium-sized enterprise (SME) retail, SME corporate and corporate-other portfolios). This report analyses the variability of both HPDs and LPDs.
- **Variability of the HPDs**:
  - In the 2019 supervisory benchmarking (SVB) exercise, the HDPs consist of four broad types of exposures: residential mortgages, SME retail, SME corporate and corporate-other portfolios. For these exposures, the average default rates are collected in order to attempt to compare the variability of IRB (internal ratings-based) estimates with the variability of empirical level of risk.
  - The IRB approach does not lead per se to higher variability in the capital requirements than the variability already embedded in the standardised approach (SA).
  - For both the IRB approach and the SA, a top-down analysis highlighted that the default mix (share of defaulted exposures) and the portfolio mix (the share of regulatory (sub) exposure classes) explain more than 70% of the observed variability.
  - Within a single exposure class, the variability under the IRB approach follows in a conservative manner the empirical variability of risk, while the variability of RWAs in the SA is less linked to the empirical risk variability.
- **Variability of the LDPs**:
  - In the 2019 SVB exercise, the LDPs consist of three broad type of exposures: large corporates, institutions, and central governments and central banks.
  - The top-down analysis can be performed for only the IRB approach, but a common counterparty analysis is possible thanks to a dedicated template, which makes it possible to quantify the non-risk-based variability both in absolute terms and in relative terms. The following observations affirm the general reliability of the IRB approach in the assessment of risk:
    - Similarly to HDP, **results are stable over the years** if based on a **common sample**, with around 50% of variability explained by the default and portfolio mix.
    - In absolute terms, the **non-risk-based variability of the probability of default** (PD) estimates on single counterparties has a limited impact on the variability of risk weight (RW), with interquartile ranges on the common sample of obligors at 8% for large corporates and 4% for sovereigns and institutions.
    - In relative terms, a **statistical analysis** indicates that institutions **rank obligors consistently**.
- **Main findings from CAs' assessments based on supervisory benchmarks**. Supervisors generally deem the institutions' level of RWAs adequate, although the adequacy of RWA levels cannot be assessed from the SVB results only. Deficiencies spotted by supervisors are spread evenly between LDPs and HDPs, and rather relate to the calibration of risk parameters. The number of unjustified negative deviations from the benchmarks is decreasing over time, as is the proportion of previously unidentified negative deviations. This shows that CAs are more and more picking up on more and more issues and gaining in efficiency.

07/02/2020

Consultation Paper (CP) on Draft Guidelines (GL) on customer due diligence (CDD) and the considering factors when assessing the money laundering (ML) and terrorist financing (TF) risk associated with individual business relationships and occasional transactions

1. Context

In June 2015, the Directive (EU) 2015/849 on Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) entered into force, requiring the ESAs to issue GL on this issue. In this sense, the ESAs published the Final GL on the risk factors that financial institutions should consider when assessing the ML/TF risk associated with a business relationship or occasional transaction and setting out how financial institutions can adjust their CDD measures as a result of that risk assessment.

In this context, the EBA has published a **CP on Draft GL on CDD and the considering factors when assessing AML/CFT risk associated with individual business relationships and occasional transactions** with the objective to promote the development of a common understanding of what the risk-based approach to AML/CFT entails and how it should be applied. These publication updates the 2017 ESA's GL on ML/TF risk assessments, CDD measures, TF risk factors and new guidance on emerging risks. In particular, this GL is divided into two parts: General GL (e.g. risk assessments, assessing ML/TF risk or record-keeping) and Sector specific GL (e.g. correspondent banks, retail banks or electronic money issuers).

2. Main points

- **General GL**. This part of the GL applies to all firms and covers the following topics:
  - Risk assessments. Firms should ensure that they have a thorough understanding of the ML/TF risks to which they are exposed.
  - Identifying ML/TF risk factors. Firms should identify risk factors relating to their customers, countries or geographical areas, products and services, and delivery channels in the wayset out in these Guidelines.
  - Assessing ML/TF risk. Firms should use the risk factors they have identified to assess the overall level of ML/TF risk.
  - CDD measures to be applied by all firms. A firm's business-wide and individual risk assessments should help it identify where it should focus its ML/FT risk management efforts, both at customer take-on and for the duration of the business relationship.
  - Record-keeping. Firms must keep records at least of CDD information, their risk assessments and transactions.
  - Training. Firms must make their staff aware of the provisions they have put in place to comply with their AML/CFT obligations.
  - Reviewing effectiveness. Firms should regularly assess the effectiveness of their approach to AML/CFT and determine the frequency and intensity of such assessments on a risk-sensitive basis.
- **Sector specific GL**. This part of the GL is sector specific and complements the general GL. It sets out the risk factors that are of particular importance in certain sectors and provides guidance on the risk-sensitive application of CDD measures by firms in those sectors. This title covers the following:
  - The sectoral GL for correspondent banks, retail banks, electronic money issuers, money remitters, trade finance providers, investment firms, providers of investment funds, firms providing activities of currency exchange offices, and firms that offer corporate finance services, establishes that these institutions should consider a set of risk factors and measures established in this GL, alongside with the General GL in order to avoid the occurrence of ML/TF activities.
  - The sectoral GL for wealth management sets out that firms in this sector should consider a set of risk factors and measures established in this GL, alongside with the General GL in order to avoid the occurrence of ML activities.
  - The sectoral GL for life insurance undertakings and regulated crowdfunding platforms set out that firms in these sector should consider a set of risk factors and measures established in this GL, alongside with the General GL in order to avoid the occurrence of TF activities.
  - The sectoral GL for payment initiation service providers (PISPs) and account information service providers (AISPs) sets out that PISPs and AISPs when offering payment initiation services or account information services should take into account, alongside with the General GL, the provision set out in this GL.

3. Next steps

- Comments to this consultation may be submitted by **5 May 2020**.

14/02/2020

Consultation Paper (CP) on Draft Guidelines (GL) on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer

1. Context

In 2013, CRD IV introduced macroprudential tools to strengthen the resilience of the banking sector against future financial crises. One of this tools was the systemic risk buffer (SyRB), which could be applied to both all or a subset of banks in order to prevent and mitigate structural systemic risks of a long-term, non-cyclical nature inherent in the balance sheet of European banks. Furthermore, in 2019 the European Parliament and the Council adopted the Reform Package of the Banking System to reinforce banks' ability to withstand potential shocks.

In this context, the EBA has published a **CP on draft GL on the appropriate subsets of sectoral exposures to which competent or designated authorities may apply a systemic risk buffer** with the objective of setting a common framework to harmonise the design of the subsets of sectoral exposures to which a SyRB may be applied, thus facilitating a common approach throughout the EU.

2. Main points

- **Sectoral exposures**. Competent authorities (CAs) should identify a subset or subsets of sectoral exposures by combining elements from three dimensions (debtor or counterparty sector, type of exposure and type of collateral) and, where appropriate, sub-dimensions of exposures (economic activity, risk profile and geography, respectively).
- **Systemic relevance**. These GLs establish that the CAs should make a quantitative and qualitative assessment of the systemic relevance of the subset of sectoral exposures taking into account the following criteria:
    - Whether the size of the targeted subset of sectoral exposures can give rise to a serious risk to the financial system and the real economy in a specific Member State.
    - Whether the credit, market and liquidity risk of the targeted subset of exposures is correlated with the magnitude of losses stemming from this subset.
    - Whether other subsets of exposures or financial market actors depend directly and indirectly on the targeted subset of sectoral exposures (interconnection).
- **Interactions with other macroprudential measures and reciprocity**. When NAs decide to identify a subset of sectoral exposures they should ensure the right balance between addressing the systemic risk stemming from the identified subset and the unintended consequences when applying a sectoral SyRB to this subset.

3. Next steps

- Comments to this consultation may be submitted by **12 May 2020**.

19/02/2020
Quantitative MREL Report

1. Context

In 2014, the Bank Recovery and Resolution Directive (BRRD) introduced the concept of minimum requirement for own funds and eligible liabilities (MREL) to ensure that European banks have financial resources in sufficient quantity and quality to cover losses upon failure and restore the viability of the going-concern parts of the institution. Furthermore, in June 2019, the EP and the Council published BRRD II which mandates the EBA to issue a report on MREL annualy, in order to update the European bank's situation.

In this context, the EBA has published its first **Quantitative MREL Report** with the objective of providing information on the increased resilience of the European banking system through improved loss-absorbing capacity and in particular: i) to provide an update on the progress of authorities in setting resolution strategies and MREL across the EU; ii) to report on the levels at which the requirements are set; and iii) to monitor the build-up of resources against these requirements.

2. Main points

- **Scope**. This reports covers 222 resolution groups and stand-alone resolution entities or groups from 24 Member States to which decisions have been communicated setting MREL higher than their current minimum capital requirement in order to facilitate a resolution strategy. This represents 80% of EU domestic assets covered by a bail-in strategy and 5% by a transfer strategy.
- **Main findings**:
  - MREL requirements in the EU range between 26.5% of <u>risk-weighted assets (RWAs)</u> for the G-SIIs and 19% of RWAs for the banks with total assets below € 1 bn that are neither G-SIIs nor O-SIIs.
  - <u>Subordination levels</u> vary significantly, from 100% of MREL to just the level of own funds requirements, depending on the resolution authority's policy and risk appetite towards no creditor worse off (NCWO) risk.
  - <u>Shortfalls</u>. 117 resolution groups show an MREL shortfall. For 65 of them MREL requires not to issue completely new types of debt instrument but, at least in part, to roll over existing debt. Shortfalls vary depending on the **type** and **size** of the bank and its resolution group, while the other marketable securities (OMS) tends to benefit larger banks and to dry out as institutions decrease in size.
- **Recommendations**. The EBA highlights that MREL has a greater impact on some banks than on others, depending on their existing funding profiles. The EBA recommends European resolution groups to take advantage of the current positive market conditions to issue and build up resources.

3. Next steps

- The EBA will issue an impact assessment of MREL on banks' profitability by **December 2022**.

31/03/2020

- **Clarifications to banks and consumers on the application of the prudential framework in light of COVID-19 measures**
- **Guidance on accounting implications of COVID-19**

1. Context

Since the beginning of March, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that the COVID-19 could have on the economy. In Europe, the European Central Bank (ECB) has launched a new temporary asset purchase programme of private and public sector securities called the Pandemic Emergency Purchase Programme (PEPP) of €750 billion and it allow banks to temporarily operate below P2G, the CCB and the LCR requirement. Furthermore, the EBA has decided to postpone the EU-wide stress test exercise to 2021 and it will carry out an additional EU-wide transparency exercise in 2020. In addition, the ECB has introduced supervisory flexibility regarding the treatment of non-performing loans (NPLs), recommended banks to avoid procyclical assumptions in their models to determine provisions on IFRS 9 and postpone some inspections.

In this context, the EBA has published **clarifications to banks and consumers on the application of the prudential framework in light of COVID-19 measures** in order to ensure consistency and comparability in risk metrics across the whole EU banking sector, which are crucial to monitor the effects of the current crisis. Furthermore, the ESMA has published a **Guidance on accounting implications of COVID-19** in order to provide guidance to issuers and auditors on the application of IFRS 9, specifically as regards the calculation of expected credit losses (ECL) and related disclosure requirements.

2. Main points

EBA - Clarifications to banks and consumers on the application of the prudential framework in light of COVID-19 measures

- **Prudential identification of default**. Defaults do not have to happen until 90 days past due on material credit obligation. The EBA guidelines on the application of the definition of default already explicitly account for the possibility that public moratoria may extend this period. Public and private moratoria should be treated similarly to the extent they have similar purpose and characteristics. In case the loans are renegotiated but the obligor remains likely to meet its obligations there is no need to classify the exposure as defaulted.
- **Classification of forbearance**. The EBA notes that the offering and acceptance of terms set out in general moratoria would not necessarily lead to a reclassification of any loan under the definition of forbearance. It requires the individual assessment of the borrower's financial difficulties and granting measures tailored to this financial situation of the borrower.
- **Considerations on IFRS9**. The EBA considers that the application of public or private moratoria should not be considered by themselves as an automatic trigger to conclude that a significant increase in credit risk has occurred. Institutions should consider the current exceptional circumstances when determining which information can be considered reasonable and supportable information as foreseen under IFRS9, also taking into account the expected nature of the shock (i.e. whether it is expected to be temporary or not) and the scarcity of available and reliable information. Institutions should carefully assess the extent to which, amongst other facts, the high-degree of uncertainty and any sudden changes in the short-term economic outlook are expected to result in impacts over the expected life of the financial instrument. By doing this, it is expected that institutions will assess individually the situation of each debtor and distinguish between obligors for which the credit standing would not be significantly affected by the current situation in the long term, from those that would be unlikely to restore their credit worthiness. In any case, in determining the impact on banks' income statements stemming from the recognition of the expected credit losses (ECL) the mitigation provided by the existence of collateral or public guarantees would need to be considered. Competent authorities should also duly consider the exceptional circumstances when authorizing institutions to opt for the application of IFRS 9 transitional arrangements envisaged in the CRR.
- **Postponed EBA activities**. The EBA has decided to:
    - To extend by two months: i) the deadlines of ongoing public consultations; ii) the remittance date for funding plans data; and, iii) in coordination with the BCBS, to extend the remittance date for the QIS based on December 2019 data.
    - To postpone all public hearings already scheduled to a later date and run them remotely via teleconference or similar means.

2. Main points (cont.)

ESMA - Guidance on accounting implications of COVID-19

- **Accounting implications**. The ESMA considers that in the absence of specific guidance in IFRS 9, issuers should develop their accounting policies in accordance with IAS 8 and IFRS 9 principles.
- **Assessment of significant increase in credit risk (SICR)**. Due to the economic volatility, the ESMA considers that:
    - When the COVID-19 support programs impact the lifetime risk of default on a financial instrument, they should be considered in the assessment of the SICR of it.
    - Issuers may use past due information to determine whether there have been significant increases in credit risk since initial recognition.
    - The presumption that payment defaults of more than 30 days provide evidence of a significant increase in credit risk can be rebutted.
    - Possibility to perform the assessment on a collective basis rather than at instrument level on the identification on the COVID-19 effects.
    - Forbearance measures should be analysed taking into account all the facts and circumstances.
- **ECL estimation**. ESMA considers that, when making forecasts, issuers should consider the nature of the COVID-19 economic shock and the impact that the economic support and relief measures will have on the credit risk over the expected life of the instruments.
- **Public guarantees on issuers' exposures**. ESMA is of the view that the assessment of whether the public guarantee can be considered an integral part of the contractual terms or not may involve judgement and it highlights that such judgements should be clearly disclosed in their financial statements.
- **Transparency**. ESMA considers that issuers should provide any information to enable users of financial statements to understand the overall impact of COVID-19 on the financial position and performance of the issuer.

23/01/2020
Consultation Paper (CP) on Guidelines (GL) on securitisation repository data completeness and consistency thresholds

1. Context

On November 2018, the ESMA published and submitted a Final Report on securitisation repositories technical standards, which includes a set of RTS on these procedures. Furthermore, the European Commision (EC) reviewed this RTS that led to an obligation to ensure that the data submission in respect of the “No Data Options” should be sufficiently representative of the underlying exposures in the securitization.

In this context, the ESMA has published the **CP on Guidelines on securitisation repository data completeness and consistency thresholds**, with the objective to help market participants and securitisation repositories to understand ESMA’s expected maximum use of No Data options contained within a securitisation data submission. This GL are designed to ensure a consistent application of the requirement to be “sufficiently representative”.

2. Main points

- **Thresholds**. This CP sets out an initial calibration of thresholds to be applied by repositories when verifying the completeness and consistency of disclosure templates submitted to them by reporting entities. The tolerance thresholds are complementary and cover the following situations:
    - First threshold: covers the situation where a reporting entity is unable to provide information for a limited number of underlying exposures for several fields.
    - Second threshold: covers the situation where the reporting entity is unable to provide information for many or all underlying exposures for a few fields.
- **Calibration depending on threshold**. This CP proposes several calibrations for these two situations, using a combination of guiding principles and actual data on the percentage use of ‘No Data Options’ in each field across similar securitisation data submissions since 2013.

3. Next steps

- Comments to this CP shall be submitted by **16 March 2020**.

20/03/2019

- **Decision on thresholds for reporting net short positions.**
- **Public statement: Actions to mitigate the impact of COVID-19 on the EU financial markets**
- **ESMA recommends action by financial market participants for COVID-19 impact**

1. Context

In early March 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 as a pandemic originating in Wuhan, China. The pandemic situation caused by COVID-19 has led to an abrupt increase in uncertainty that can threaten both economic growth and financial stability. Since the beginning of March, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that this pandemic could have on the economy.

In this context, the ESMA has issued a **Decision on thresholds for reporting net short positions** in order to assess the proper functioning, ensure market integrity and reduce market volatility due to the stock market impact of COVID-19. Furthermore, the ESMA also has published a **Public statement on actions to mitigate the impact of COVID-19 on the EU financial markets** with the aim of postposing the reporting obligations related to securities financing transactions (SFTs) under the Securities Financing Transactions Regulation (SFRT). Finally, the ESMA has also published a set of **Recommendations to financial market participants** with the aim of ensuring the efficient functioning of the market.

2. Main points

Decision on thresholds for reporting net short positions.

- **Temporary additional transparency obligations**. A natural or legal person who has a net short position in relation to the issued share capital of a company that has its shares admitted to trading on a regulated market shall notify the relevant competent authority where the position equals 0.1% of the issued share capital of the company concerned and each 0.1% above that threshold too.
- **Exemptions**. The temporary additional transparency obligations shall not apply to:
    - Shares admitted to trading on a regulated market where the principal venue for the trading of the shares is located in a third country.
    - Market making activities.
    - A net short position in relation to the carrying out of a stabilization under European regulation on market abuse.

Public statement: Actions to mitigate the impact of COVID-19 on the EU financial markets

- **SFTR application**. ESMA expects competent authorities:
    - Not to prioritise their supervisory actions in respect of SFT reporting obligations, under SFTR and Markets in Financial Instruments (MIFIR), as of 13 April and until 13 July 2020, including regarding to SFTs concluded in that period of time.
    - Generally apply their risk-based approach in the exercise of supervisory powers.

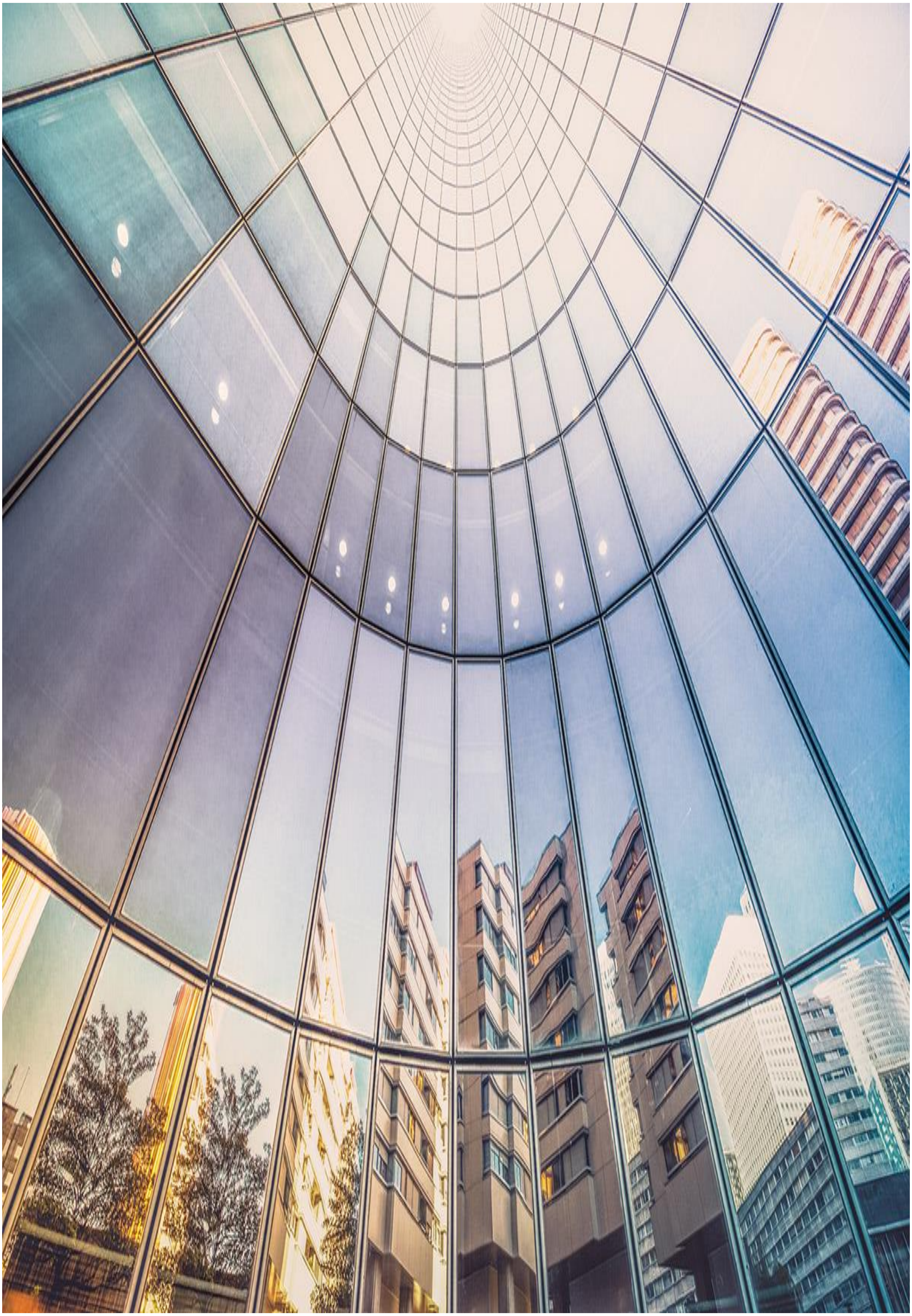
Furthermore, ESMA does not consider it necessary to register any Trade Repository (TR) ahead of 13 April 2020.

ESMA recommends action by financial market participants for COVID-19 impact

- **Recommendations**. ESMA makes the following recommendations to financial market participants:
    - Business Continuity Planning. Financial market participants, should be ready to apply their contingency plans to ensure operational continuity in line with regulatory obligations.
    - Market disclosure. Issuers should disclose any relevant significant information concerning the impacts of COVID-19 on their fundamentals, prospects or financial situation in accordance with their transparency obligations under the Market Abuse Regulation (MAR).
    - Financial Reporting. Issuers should provide transparency on the impacts of COVID-19, to the extent possible based on a qualitative and quantitative assessment on their business activities, financial situation and economic performance in their 2019 year-end financial report.
    - Fund Management. Asset managers should continue to apply the requirements on risk management, and react accordingly.

3. Next steps

- The temporary thresholds for reporting net short positions will be applicable until **16 June 2020**.



GOBIERNO DE ESPAÑA

27/02/2020

Real Decreto 309/2020 sobre el régimen jurídico de los establecimientos financieros de crédito por el que se modifica el Reglamento del Registro Mercantil, y el Real Decreto 84/2015 por el que se desarrolla la Ley 10/2014 de ordenación, supervisión y solvencia de entidades de crédito

1. Context

In January 2014, financial credit institutions (FCIs) lost their status as credit institutions as a result of European and national regulatory developments. The new specific regime for FCIs came with Law 5/2015 on the promotion of business financing. However, there has been no regulatory develop since then, generating a problem of lack of legal certainty as they are subject to a regime similar to that of credit institutions, without there being adequate adaptation to the nature of their business, causing problems of interpretation for the supervisors and the institutions themselves.

In this context, the Spanish Government has published the **Royal Decree 309/2020 the legal regime for FCIs** with the aim to develop a legal regime for FCIs that is clear, comprehensible and adapted to the needs of the business, but at the same time equivalent in soundness to the established for credit institutions. In particular, this Royal Decree will improve the protection of the financial client and competition in the provision of loans, while maintaining the prudential standards that should define such activity.

2. Main points

- **Activity requirements**. This RD includes the activity requirements of the FCIs, among which the following stand out:
  - The definition of FCIs and their form of financing is provided, which differentiates these entities from credit institutions since they cannot raise repayable funds from the public (i.e. deposits, loans, repurchase agreements or similar).
  - The authorisation, registration and activity of FCIs is regulated. The new regime for the authorisation of hybrid institutions, which are configured as payment or electronic money institutions that carry out the activities of FCIs and for which a single authorisation has been designed, should be highlighted. It also includes the regulation of cross-border activity and the regime for opening offices and acting through agents.
  - The provisions regarding significant shareholdings; suitability requirements, incompatibilities and registration of senior executives; and corporate governance and remuneration policy are reinforced.
- **Solvency and conduct obligations**. This RD introduces modifications subjecting FCIs to prudential requirements that are comparable to those applied to credit institutions in terms of soundness. The main amendments include the following:
  - The capital conservation buffer and the counter-cyclical buffer will not apply to those entities that are considered SMEs.
  - A liquidity buffer is established that FCIs must maintain in order to cope with their liquidity outflows during a sufficiently long period of stress in the financial markets.
  - Obligation to maintain an adequate structure of financing sources and maturities of assets, liabilities and commitments.
  - Less frequent solvency reporting obligations than those required of credit institutions.
- **FCIs supervision**. The control and inspection of FCIs and consolidated groups of FCIs will be carried out by the BoS. In addition, when the BoS develops or endorses guidelines issued by international organisations or committees to the supervised entities and groups, it shall decide whether they also apply to the FCIs.

3. Next steps

- This Royal Decree will enter into force on **1 July 2020** with two exceptions:
  - Article 30, which regulates the **liquidity buffer and the structure of the sources of financing of the FCIs**, will enter into force **three months after** the publication of the Bank of Spain's circular implementing the provisions of this article.
  - The second final provision on **auditing processes** will enter into force on the **day following** its publication in the Boletín Oficial del Estado (BOE).

20/03/2020

Real Decreto-ley 8/2020, de 17 de marzo, de medidas urgentes extraordinarias para hacer frente al impacto económico y social del COVID-19

1. Context

In early March 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 as a pandemic originating in Wuhan, China. The pandemic situation caused by COVID-19 has led to an abrupt increase in uncertainty that can threaten both economic growth and financial stability. Since the beginning of March, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that this pandemic could have on the economy. In this sense, the Spanish Government has adopted the Royal Decree Law 7/2020 adopting urgent measures to address the economic impact of COVID-19, and the Royal Decree 463/2020 declaring the state of alarm for the management of the health crisis caused by COVID-19.

In this context, the Spanish Government has published the **Royal Decree-law 8/2020 on urgent extraordinary measures to deal with the economic and social impact of COVID-19**, with the aim of adopting measures to strengthen the liquidity of the productive sector and prevent solvent companies negatively affected by the temporary and exceptional economic crisis caused by COVID-19 from leaving the market.

2. Main points

- **Measures to support workers, families and vulnerable groups**. Measures are taken to ensure home care for dependent persons, to extend protection in the field of energy and water supply, and in the provision of telecommunications services. The protection of self-employed workers is also strengthened and a suspension of mortgage payments for particularly vulnerable groups is provided. In particular, the suspension of mortgage payments includes the following characteristics:
  - Scope of application. Loan or credit contracts guaranteed by a real estate mortgage whose debtor is in a situation of vulnerability. This extends with the same conditions to the guarantors of the main debtor.
  - Request for the suspension of mortgage payments. The request can be submitted up to 15 days after the end of the Royal Decree-Laws effective date.
  - Concession. The suspension of mortgage payments will be implemented within a maximum of 15 days. Once the suspension has been granted, the credit institution shall inform the Bank of Spain (BoS) of its existence and duration for accounting purposes and of the fact that it has not been included in the calculation of risk provisions.
- **Measures to make the temporary activity adjustment mechanisms more flexible to avoid layoffs**. Measures are adopted in the area of temporary suspension of contracts (ERTEs) to prevent a situation such as the current one from having a negative structural impact on employment:
  - It is specified that activity losses as a result of COVID-19 will be considered force majeure for the purposes of suspending contracts or reducing working hours and the processing of employment regulation procedures is facilitated.
  - Contributory unemployment benefit for workers affected by an ERTE even if they do not have the necessary contribution to have acces to it.
  - Companies are exempted from paying 75% of the employer's Social Insurance contribution for companies with 50 workers or more, and 100% for companies with less than 50 workers.
- **Liquidity guarantee to sustain economic activity**. A number of measures are established to ensure such liquidity guarantee:
  - State-guaranteed line for companies and self-employed professionals of up to € 100 MM euros, covering both loan renewals and new financing.
  - The net borrowing capacity of the Official Credit Institute (ICO) is increased by € 10 MM to immediately provide additional liquidity to companies, especially SMEs and the self-employed.
  - Creation of an insurance coverage line of up to € 2 MM to be charged to the Internationalisation Risk Reserve Fund.
  - Customs import procedures are simplified in the industrial sector.
  - The resolution of public contracts by all public institutions is prohibited.
- **Measures to support COVID-19 research**. Research on the disease is encouraged for the development of effective medicines and vaccines to help contain the impact of future outbreaks.

3. Next steps

- The measures provided for in this Royal Decree-law shall remain in force for a **period of one month** from its entry into force, without affecting the fact that, following an assessment of the situation, their duration may be extended by the Government through a Royal Decree-law.

07/02/2020
Circular 1/2020 por la que se modifican disposiciones relativas a la Central de Información de Riesgos

1. Context

In March 2019, Law 5/2019 which regulates real estate credit contracts, came into force. This law included, among other amendments, the possibility of giving all real estate credit lenders access to the BoS's Central Credit Register (CIR) . As a result of this amendment, the perimeter of reporting institutions was extended to include real estate lenders and other credit institutions, and access to risk reports was facilitated for credit intermediaries.

In this context, the BoS has issued the **Circular 1/2020 amending provisions relating to the Central Credit Register**, with the aim of improving the consistency of the information collected through the CIR and clarifying the information to be submitted for certain transactions, reorganizing the way the information is presented in some modules and introducing some additional dimensions.

2. Main points

- **Scope of application**. This Circular extends the scope of the reporting institutions that are required to send information to the CIR, including real estate lenders and credit institutions operating under the regime of freedom to provide services.
- **Access to risk reports**. This Circular allows real estate credit intermediaries to have access to reports on the risks of natural and legal persons registered with the CIR under the same conditions as reporting institutions, with the aim of increasing the information available to institutions to assess the risks of their customers.
- **Data modules**. This Circular modifies certain data modules that reporting institutions have to submit, including new complementary data on loans to legal institutions and collaterals and guarantees received, among others. In addition, this Circular exempts certain reporting institutions from the submission of some data modules (e.g. Spanish credit institutions and branches in Spain of foreign credit institutions whose head office is not located in another country of the European Economic Area shall not report the data module on the activity of credit institutions operating under the freedom to provide services and of real estate lenders).

3. Next steps

- The Circular will enter into force on **25 February 2020**.

19/03/2020
Prohibición temporal de la constitución o incremento de posiciones cortas netas sobre acciones cotizadas

1. Context

In early March 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 as a pandemic originating in Wuhan, China. The pandemic situation caused by COVID-19 has led to an abrupt increase in uncertainty that can threaten both economic growth and financial stability. Since the beginning of March, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that this pandemic could have on the economy.

In this context, the CNMV has published the **temporary ban on forming or increasing net short positions on listed shares**, in order to reduce volatility and avoid speculative movements in the Spanish Stock Markets and Alternative Stock Market (MAB).

2. Main points

- **Prohibition on short positions**. The prohibition applies to any transaction in shares or indexes, including spot trading, exchange-traded derivatives or OTC derivatives, which involves creating a net short position or increasing a pre-existing one, even if it is on an intraday basis. For the purposes of this prohibition, net short positions are defined as positions resulting from any of the following cases:
  - The <u>short sale of shares issued by a company</u> or of debt instruments issued by a sovereign issuer.
  - Carrying out a transaction through a financial instrument whose <u>effect is to confer a financial advantage</u> on the natural or legal person carrying out that transaction in the event of a <u>decrease in the price or value of the share</u> or debt instrument.
- **Exemptions**. The following operations are excluded from the scope of the prohibition:
  - <u>Market creation activities</u> under the terms of European regulations.
  - The creation or increase of net short positions when the investor who purchases a convertible bond has a <u>neutral position in terms of delta</u> between the position in the convertible bond's equity element and the short position taken to cover that element.
  - The creation or increase of net short positions when the creation or increase of the short stock position is <u>covered by an equivalent purchase</u> in terms of the proportion of subscription rights.
  - The creation or increase of net short positions through <u>derivative financial instruments on indices or baskets of financial instruments</u> that do not consist mainly of securities affected by the prohibition.

3. Next steps

- The ban is effective until **17 April 2020** and may be extended for a further period not exceeding 3 months or lifted at any time before the expiration of that period, if deemed necessary.

31/01/2020
Final Rule on transparency for determining control of a banking organization

1. Context

The Bank Holding Company Act (BHCA) establishes the percentage of voting securities that one company controls of a second company to consider that has control over it. Under the statute, a company that controls 25 percent or more of any class of voting securities of a second company controls the second company. Similarly, a company that controls less than 5 percent of any class of voting securities of a company is presumed not to control the second company. This statutory framework leaves a space between 5 percent and 25 percent of a class of voting securities where a company does not have clear statutory control and is not presumed not to control.

In this context, the Fed has issued the **Final Rule on transparency for determining control of a banking organization** in order to determine whether a company has the ability to exercise a controlling influence over another company for purposes of the BHCA or the Home Owners' Loan Act (HOLA). In particular, this regulation covers the tiered presumptions and exclusions in the determination of control.

2. Main points

- **Determination of control**. The Fed may issue a preliminary determination of control if it appears that a company has the power to exercise a controlling influence over a bank or other company.
- **Presumptions of control**. The presumptions are arranged in tiers based on the level of voting securities of the first company in the second company. Each of these presumptions applies where the first company has at least a specified level of voting securities in a second company, and another specified relationship with the second company. The presumptions effectively assume that higher levels of business relationships, combined with higher levels of voting securities, increase the likelihood of the ability to exercise a controlling influence. The presumptions established by the Fed are, among others, the following:
    - Level of <u>representation on the board of directors</u> of a second company
    - Company's <u>business relationships</u> with a second company
    - Number of <u>senior management interlocks</u> with a second company
    - Capability of setting <u>contractual limits on major operational or policy decisions</u>.
    - Level of <u>control of the total equity</u> of a second company
    - Agreements that allow a company to direct or exercise <u>significant influence over the core business or policy decisions</u> of a second company
    - <u>Consolidation</u> with a second company for purposes of GAAP

3. Next steps

- This final rule will be effective on **April 1, 2020**.

06/03/2020
Final rule on simplifications to the Capital Rule for large banks

1. Context

The resiliency of large financial institutions is critical to the stability of the financial sector. In this regard, the Fed's stress testing and the Comprehensive Capital Analysis Review (CCAR) programs have significantly increased the resiliency of the banking sector and led to stronger capital planning practices at large bank holding companies.

In this context, after the publication of the Proposal on April of 2018, the Fed has published the **Final rule on simplifications to the Capital Rule for large banks**, in order to simplify its capital rules for large banks while preserving strong capital levels that would maintain their ability to lend under stressful conditions; reduce burden for smaller, less complex firms; and align certain elements of the stress test with expected actions by banking firms in a stress scenario. In particular, the Proposal covers the integration of certain elements of the Fed's capital regime (e.g. new stress buffer requirements), changes to CCAR, and changes to capital plan rule procedures.

This Proposal would apply to bank holding companies with $50 billion or more in total consolidated assets and US intermediate holding companies of foreign banking organizations.

2. Main points

- **Integration of certain elements of the Fed's capital regime**. The Final Rule simplifies the Fed's overall capital regime by integrating the capital rule and CCAR. Further, it introduces the following amendments:
  - <u>A risk-based stress capital buffer requirement</u>, which is calculated as the difference between the firm's starting and lowest projected CET1 ratio under the severely adverse scenario of the supervisory stress test (calculated using the standardized approach), plus the firm's planned common stock dividends for each of the fourth through seventh quarters of the planning horizon. This buffer would be no less than 2.5% of RWAs (replacing the static 2.5% buffer requirement under the standardized approach).
  - <u>Limitations on capital distributions and discretionary bonus payments</u>, as firms would be required to maintain capital ratios above its minimum plus its buffer requirements in order to avoid the application of such restrictions (e.g. dividend payments, or discretionary bonus payments made to executive officers).
  - <u>Assumptions related to planned capital distributions</u>, such as that the Fed no longer assumes that a firm makes any repurchases or redemptions of any capital instruments; or that the Fed eliminates the 30% dividend payout ratio.
  - <u>Adjusting assumptions about balance sheet behavior</u>, as the Fed modifies the approach to balance sheet projections in its supervisory test and the Stress Testing Policy Statement in order to include an assumption that the firm takes actions to maintain a constant level of assets, including loans, trading assets, and securities over the planning horizon, among others.
- **Changes to CCAR**. The Final Rule modifies certain elements of CCAR to reflect the introduction of the stress buffer requirements. Specifically, the Fed eliminates the quantitative objection and the process by which a firm determines the final planned capital distributions included in its capital plan. Furthermore, under certain conditions, the final rule no longer requires a firm to request prior approval to make distributions that exceed the amount included in its capital plan. For the largest and most complex firms, the qualitative review of a firm's capital plan and planned capital actions would continue to take place through the CCAR program.
- **Changes to capital plan rule procedures**. The Final Rule revises the procedures for a firm to request reconsideration of a qualitative objection to its capital plan and would apply the same procedures to allow a firm to request reconsideration of its stress buffer requirements.

3. Next steps

- This Final Rule will be effective on **60 days after date of publication** in the Federal Register. However, a firm's first stress buffer requirements would generally be effective on **October 1, 2020**.

31/01/2020
Final Rule on transparency for determining control of a banking organization

1. Context

The Bank Holding Company Act (BHCA) establishes the percentage of voting securities that one company controls of a second company to consider that has control over it. Under the statute, a company that controls 25 percent or more of any class of voting securities of a second company controls the second company. Similarly, a company that controls less than 5 percent of any class of voting securities of a company is presumed not to control the second company. This statutory framework leaves a space between 5 percent and 25 percent of a class of voting securities where a company does not have clear statutory control and is not presumed not to control.

In this context, the Fed has issued the **Final Rule on transparency for determining control of a banking organization** in order to determine whether a company has the ability to exercise a controlling influence over another company for purposes of the BHCA or the Home Owners' Loan Act (HOLA). In particular, this regulation covers the tiered presumptions and exclusions in the determination of control.

2. Main points

- **Determination of control**. The Fed may issue a preliminary determination of control if it appears that a company has the power to exercise a controlling influence over a bank or other company.
- **Presumptions of control**. The presumptions are arranged in tiers based on the level of voting securities of the first company in the second company. Each of these presumptions applies where the first company has at least a specified level of voting securities in a second company, and another specified relationship with the second company. The presumptions effectively assume that higher levels of business relationships, combined with higher levels of voting securities, increase the likelihood of the ability to exercise a controlling influence. The presumptions established by the Fed are, among others, the following:
    - Level of representation on the board of directors of a second company
    - Company's business relationships with a second company
    - Number of senior management interlocks with a second company
    - Capability of setting contractual limits on major operational or policy decisions.
    - Level of control of the total equity of a second company
    - Agreements that allow a company to direct or exercise significant influence over the core business or policy decisions of a second company
    - Consolidation with a second company for purposes of GAAP

3. Next steps

- This final rule will be effective on **April 1, 2020**.

25/03/2020

- **New measures to support the economy**
- **Interim Final Rule to revise TLAC Rule**

1. Context

Since the beginning of March 2020, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that the COVID-19 could have on the economy. In the US, the Fed, FFIEC, SEC and CSBS are coordinating a joint effort to publish a series of measures and recommendations, among them it stands out the Fed's cut on the interest rates and the quantitative easing program.

In this context, the Fed has published **new measures to support the economy** in order to provide support to a wide range of markets and institutions, thereby supporting the flow of credit in the economy. Furthermore, the Fed has also published an **Interim Final Rule to revise TLAC Rule** that will facilitate the use of firms' buffers to promote lending activity to households and businesses.

2. Main points

<u>New measures to support the economy</u>

- **Support for critical market functioning**. The Federal Open Market Committee (FOMC) will purchase Treasury securities and agency mortgage-backed securities (including those backed by commercial mortgages) in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions and the economy.
- **Supporting the flow of credit to employers, consumers, and businesses** by establishing new programs that, taken together, will provide up to $300 billion in new financing. The Department of the Treasury, using the Exchange Stabilization Fund (ESF), will provide $30 billion in equity to these facilities.
- **Establishment of three facilities to support credit**.
    - The <u>Primary Market Corporate Credit Facility</u> (PMCCF) to support credit to large employers for new bond and loan issuance. The PMCCF has the following characteristics:
        - Is open to **investment grade companies** and will provide **bridge financing** of four years.
        - Borrowers may elect to **defer interest** and **principal payments** during the first six months of the loan in order to have additional cash on hand that can be used to pay employees and suppliers.
    - The <u>Secondary Market Corporate Credit Facility</u> (SMCCF) to support credit to large employers by providing liquidity for outstanding corporate bonds. The SMCCF will purchase in the secondary market corporate bonds issued by investment grade companies and listed exchange-traded funds of the US whose investment objective is to provide broad exposure to the market for US investment grade corporate bonds.
    - The <u>Term Asset-Backed Securities Loan Facility</u> (TALF), to support the flow of credit to consumers and businesses. The TALF will enable the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets. Under the TALF, the Fed will lend on a non-recourse basis to holders of certain AAA-rated ABS backed by newly and recently originated consumer and small business loans. The Fed will lend an amount equal to the market value of the ABS less a haircut and will be secured at all times by the ABS.
- **Facilitating the flow of credit to municipalities** by expanding:
    - The <u>Money Market Mutual Fund Liquidity Facility (MMLF)</u> to include a wider range of securities, including municipal variable rate demand notes (VRDNs) and bank certificates of deposit.
    - The <u>Commercial Paper Funding Facility (CPFF)</u> to include high-quality, tax-exempt commercial paper as eligible securities. In addition, the pricing of the facility has been reduced.

2. Main points (cont.)

Interim Final Rule to revise TLAC Rule

- **Modifications to TLAC Rule definitions**. The interim final rule revises the definition of eligible retained income in the TLAC rule to the greater of:
    - A covered company's net income for the four preceding calendar quarters, net of any distributions and associated tax effects not already reflected in net income.
    - The average of a covered company's net income over the preceding four quarters. This definition will apply with respect to all of the TLAC buffer requirements under the TLAC rule.

3. Next steps

- Comments on the Interim Final Rule to revise TLAC Rule must be received not later than **45 days after date of publication in the federal register**.

31/03/2020
Statement on supervisory activities

1. Context

The spread of COVID-19, and the several health and economic issues it is causing, has led to the reaction of regulators at both the local and supranational levels, that are issuing measures to mitigate the possible impact of this crisis on the economy. In the US, the Fed, FFIEC, SEC and CSBS are coordinating a joint effort to publish a series of measures and recommendations, among them it stands out the Fed's cut on the interest rates and the quantitative easing program.

In this context, the Fed has published a **statement on supervisory activities** in order to provide additional information to financial institutions regarding adjustments to the agencies supervisory approach in light of the COVID- 2019. In this statement, the Fed outlines actions that are intended to help financial institutions to deploy their resources as efficiently as possible and continue to support their customers and local economies in a prudent and fair manner while meeting current challenges.

2. Main points

- **Working with customers**. The Fed encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19.
- **Increased Focus on Monitoring**. The Fed has placed its focus on monitoring efforts:
  - For all firms, supervisors will focus on continued monitoring and analysis of operations, liquidity, capital, asset quality, and impact on consumers.
  - For large financial institutions, supervisors will focus additionally on operational resiliency and potential impacts on broader financial stability.
- **Changed Focus on Examinations**. The Fed is reducing its focus on examinations and inspections, which will be temporally conducted off-site:
  - For supervised institutions with less than $100 billion in total consolidated assets, the Fed generally intends to cease all regular examination activity, except where the examination work is critical to safety and soundness or consumer protection, or is required to address an urgent or immediate need.
  - For supervised institutions with assets greater than $100 billion, the Fed intends to defer a significant portion of planned examination activity based on its assessment of the burden on the institution and the importance of the exam activity to the supervisory understanding of the firm, consumer protection, or financial stability.
- **Extended Time Periods for Remediation of Supervisory Findings**. The Fed is extending the time periods for remediating existing supervisory findings by 90 days, unless the Fed notifies the firm that a more timely remediation would aid the firm in addressing a heightened risk or help consumers.
- **Continuous Communication with Institutions**. The Fed will continue to communicate with financial institutions as this situation unfolds, including through additional statements, webinars, frequently asked questions, and other means.

3. Next steps

- The Fed intends to reassess its approach to examinations in the **last week of April** to determine whether conditions have changed.
- Firms should submit the capital plans that they have developed with respect to the upcoming Comprehensive Capital Analysis and Review (CCAR) by **April 6, 2020**.

11/03/2020
Proposed Guidance on resolution planning for eight large, complex U.S. Banking Organizations

1. Context

According to the Dodd-Frank Act, certain financial companies are required to report periodically to the Fed and the FDIC (the agencies) their plans for rapid and orderly resolution under the U.S. Bankruptcy Code in the event of material financial distress or failure. In this regard, in April 2016 the agencies issued a Guidance on resolution planning in order to assist the development of the covered companies' 2017 resolution plans. Furthermore, in 2018, the agencies issued the Guidance on resolution planning for eight large, complex U.S. Banking Organizations, which updated the agencies' expectations for how a firm's resolution strategy should address certain aspects like capital, liquidity or governance mechanisms.

In this context, the Fed and the FDIC have now published a **Proposed Guidance for Resolution Plan Submissions of Certain Foreign Banking Organizations (FBOs)**, that updates the agencies' expectations for how a firm's resolution strategy should address the following aspects: i) capital, ii) liquidity, iii) governance mechanisms, iv) operational, v) legal entity rationalization and separability and vi) derivatives and trading activities.

2. Main points

- **Scope of application**. The proposed guidance would apply to FBOs that are triennial full filers and whose U.S. Intermediate Holding Companies (IHCs) have a method 2 G-SIB score of 250 or more. The Specified FBOs as of the date of this proposal would be U.S. operations of Barclays, Credit Suisse, and Deutsche Bank.
- **Capital**. The Proposal describes expectations concerning:
    - The <u>appropriate positioning of capital</u> and other <u>loss-absorbing instruments</u> (e.g. debt that the parent may forgive or convert to equity) among the U.S. IHC and its subsidiaries (resolution capital adequacy and positioning or RCAP).
    - A methodology for periodically estimating the <u>amount of capital</u> that may be needed <u>to support each U.S. IHC subsidiary after the U.S. IHC's bankruptcy filing</u> (resolution capital execution need or RCEN).
- **Liquidity**. The Proposal establishes that a firm's ability to reliably estimate and meet its liquidity needs of the U.S. IHC and its subsidiaries prior to, and in, resolution is important to the execution of a Specified FBO's U.S. resolution strategy.
- **Governance mechanisms**. The Proposal sets out, among others, expectations that firms:
    - Have <u>playbooks that describe the board and senior management actions</u> of the U.S. non-branch material entities necessary to execute the firm's U.S. resolution strategy.
    - Have <u>triggers that are linked to specific actions</u> outlined in these playbooks to ensure the timely escalation of information to both U.S. IHC and foreign parent governing bodies.
    - Identify and analyze <u>potential legal challenges</u> to planned U.S. IHC support mechanisms, and any defenses and mitigants to such challenges.
- **Operational**. The Proposal establishes that firms should, among others:
    - Possess fully developed capabilities related to <u>managing, identifying, and valuing the collateral</u> that is received from external parties and its affiliates.
    - Have <u>management information systems</u> that readily produce key data on financial resources and positions on a legal entity basis.
    - Develop a <u>clear set of actions</u> to be taken to maintain payment, clearing and settlement activities.
    - Maintain <u>an actionable plan to ensure the continuity</u> of all of the shared and outsourced services that their critical operations rely on.
- **Legal entity rationalization and separability**. The Proposal states that firms should develop criteria supporting the preferred resolution strategy and integrate them into day-to-day decision making processes. It also provides that the firm should identify discrete and actionable operations that could be sold or transferred in resolution to provide meaningful optionality for the resolution strategy under a range of potential failure scenarios.
- **Derivatives and trading activities**. The Proposal sets out that firms should have capabilities to identify and mitigate the risks associated with their derivatives and trading activities and with the implementation of their preferred strategies.

3. Next steps

- Comments on this Proposal will be accepted for **60 days after date of publication** in the Federal Register.

19/03/2020

- **Federal Reserve Actions to Support the Flow of Credit to Households and Businesses (Fed)**
- **Federal Reserve issues Federal Open Market Committee (FOMC) statement (Fed)**
- **Coordinated Central Bank Action to Enhance the Provision of U.S. Dollar Liquidity (Fed)**
- **Agencies encourage financial institutions to meet financial needs of customers and members affected by coronavirus (FFIEC & CSBS)**
- **Look Out for Coronavirus-Related Investment Scams - Investor Alert (SEC)**
- **Interagency Statement on Pandemic Planning (FFIEC)**

1. Context

In early March 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 as a pandemic originating in Wuhan, China. The pandemic situation caused by COVID-19 has led to an abrupt increase in uncertainty that can threaten both economic growth and financial stability. Since the beginning of March, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that this pandemic could have on the economy.

In this context, the Fed, FFIEC, SEC and CSBS are coordinating a joint effort to publish a series of **measures and recommendations to mitigate the economic impact of COVID-19 on the US**.

2. Main points

- **Fed's measures**. The Fed has approved these measures:
  - The new Fed funds rate will now be targeted at <u>0% to 0.25%</u> down from a previous target range of 1% to 1.25%, which had previously been cut on 3 March as a result of the outbreak of the crisis from the 1.50-1.75% range.
  - Slash the primary credit rate of the discount window for depository institutions by <u>150 basis points, to 0.25%</u>, and the extension of the term that deposit institutions can borrow from the discount window for periods of up to 90 days, prepaid and renewable by the borrower on a daily basis.
  - Launch of a <u>$700 billion quantitative easing program</u> that will take the form of $500 billion of Treasurys and $200 billion of agency-backed mortgage securities.
  - The Fed and other central banks (Canada, England, Japan, Switzerland and European Central Bank) in order to enhance the provision of liquidity have agreed to <u>lower the pricing on the standing U.S. dollar liquidity swap arrangements</u> by 25 basis points, so that the new rate will be the US dollar overnight index swap (OIS) rate plus 25 basis points.
- **SEC's recommendations**. The SEC urge investors to be aware of the potential fraud related to COVID-19. The SEC recommendations for investors are:
  - Be <u>cautious of claims</u> that a company's <u>products or services can help stop the coronavirus</u>, especially claims that involve microcap stocks. These claims may be made as part of fraudulent "pump-and-dump" schemes.
  - Investors may lose significant amounts of money if they invest in a company that makes <u>inaccurate or unreliable claims</u>. Investors may not be able to sell your shares if trading in the company is suspended.
  - Submissions of <u>tips, complaints, or referrals</u> relating to suspected securities fraud or wrongdoing can be made online at SEC website.
- **FFIEC's measures**. The FFIEC jointly with the CSBS has published recommendations to financial institutions to meet financial needs of customers and members affected by coronavirus. Specifically, this agencies will:
  - Encourage financial institutions to <u>meet the financial needs</u> of customers, members and operations affected and will provide <u>appropriate regulatory assistance</u> to affected institutions subject to their supervision.
  - Work with affected financial institutions in scheduling <u>examinations</u> or <u>inspections</u> to minimize disruption and burden.

Furthermore, the FFIEC has issued the Interagency Statement Pandemic Planning. This guidance identifies actions that financial institutions should take to minimize the potential adverse effects of a pandemic. The institution's business continuity plan (BCP) should address:

- A <u>preventing program</u> (e.g. monitoring of potential outbreaks).
- A <u>documented strategy</u> that provides for scaling the institution's pandemic efforts.
- A <u>comprehensive framework of facilities, systems or procedures</u> to provide the organization the capability to continue its critical operations.
- A <u>testing program</u>.
- An <u>oversight program</u> to ensure ongoing review and updates to the BCP.

23/03/2020

- **Interim Final Rule for Money Market Liquidity Facility (Fed, FDIC, OCC)**
- **Interim Final Rule to revise the short-term investment fund (STIF) rule for national banks acting in a fiduciary capacity (OCC)**

1. Context

Since the beginning of March 2020, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that the COVID-19 could have on the economy. In the USA, the Fed, FFIEC, SEC and CSBS are coordinating a joint effort to publish a series of measures and recommendations, among them it stands out the Fed's cut on the interest rates and the quantitative easing program.

In this context, the Fed, FDIC and OCC (the Agencies) have published an **Interim Final Rule for Money Market Liquidity Facility (MMLF)** in order to allow banking organizations to neutralize the effects of purchasing assets through the program on risk-based and leverage capital ratios. Furthermore, the OCC has also published an **Interim Final Rule to revise the short-term investment fund (STIF) rule for national banks acting in a fiduciary capacity** that allows the OCC to authorize banks to temporarily extend maturity limits of these funds.

2. Main points

Interim Final Rule for Money Market Liquidity Facility

- **MMLF capital exemptions**. The agencies believe that it would that it would be appropriate to exclude the effects of purchasing assets through the MMLF from a banking organization's regulatory capital, because of the non-recourse nature of the Fed's extension of credit to the banking organization. In particular, the interim final rule would permit banking organizations to exclude non-recourse exposures acquired as part of the MMLF from a banking organization's total leverage exposure, average total consolidated assets, advanced approaches-total risk-weighted assets, and standardized total risk-weighted assets, as applicable.

Interim Final Rule to revise the STIF rule for national banks acting in a fiduciary capacity

- **Amendment of the STIF rule**. The OCC is amending the OCC STIF Rule to add a reservation of authority provision addressing the rule's limits on weighted average portfolio maturity, weighted average portfolio life maturity, and the method for determining those limits. The OCC believes that the temporary nature of the need for relief, and the uncertainty associated with future market conditions, counsel the OCC's use of a flexible method of administering relief from the limits, rather than a direct rule amendment to the limits themselves. The interim final rule sets out a framework under which the OCC's reservation of authority will be exercised in the format of an OCC administrative order.

3. Next steps

- Comments on the Interim Final Rule for MMLF must be received not later than **45 days after date of publication in the federal register**.
- Comments on the Interim Final Rule to revise the STIF rule for national banks acting in a fiduciary capacity must be received not later than **45 days after date of publication in the federal register**.

BANK OF ENGLAND

18/03/2020

- **Bank of England measures to respond to the economic shock from Covid-19**
- **Covid Corporate Financing Facility (CCFF)**

1. Context

In early March 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 as a pandemic originating in Wuhan, China. The pandemic situation caused by COVID-19 has led to an abrupt increase in uncertainty that can threaten both economic growth and financial stability. Since the beginning of March, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that this pandemic could have on the economy.

In this context, the BoE has issued a set of **Measures to respond to the economic shock from COVID-19** with the aim to help UK businesses and household bridge across the economic disruption that is likely to be associated with Covid-19. Furthermore, the BoE and HM Treasury have launched a **Covid Corporate Financing Facility (CCFF)** with the objective of helping businesses across a range of sectors to pay wages and suppliers, even while experiencing severe disruption to cash flows.

2. Main points

Measures to respond to the economic shock from Covid-19

- **Reduction of Bank Rate and new Term Funding Scheme**. The Monetary Policy Committee (MPC) has issued this measures:
  - Reduction of Bank Rate 50 basis points to 0.25%.
  - Introduction of a new TFSME with additional incentives financed by the issuance of central bank reserves, at 10 MM €.
  - Maintenance of the stock of UK government bond purchase, financed by the issuance of central bank reserves, at 435 MM €.
- **Release of the UK Countercyclical Capital Buffer (CCyB)**. The Financial Policy Committee (FPC) has approved a reduction of the UK CCyB to 0% of banks' exposures to UK borrowers with immediate effect. The rate had been 1% and had been due to reach 2% by December 2020. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest. The Prudential Regulation Authority (PRA) expects firms not to increase dividends and other distributions in response to this policy action and will monitor firms's distributions. The PRA expects firms to ensure that any proposals or discussions relating to potential dividend or share buybacks are undertaken in a manner consistent with firms' safety and soundness and subject to a transparent governance process.

Covid Corporate Financing Facility (CCFF)

- **CCFF functioning**. The CCFF will provide funding to businesses by purchasing commercial paper of up to one-year maturity, issued by firms making a material contribution to the UK economy. Businesses do not need to have previously issued commercial paper in order to participate. The facility will:
  - offer financing on terms comparable to those prevailing in markets in the period before the COVID-19 economic shock
  - be open to firms that can demonstrate they were in sound financial health prior to the shock.
  - look through temporary impacts on firms' balance sheets and cash flows by basing eligibility on firms' credit ratings prior to the COVID-19 shock.

3. Next steps

- The BoE and HM Treasury will take **all further necessary steps** to support the UK economy and financial system.
- The CCFF will operate for at least **12 months** and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy.

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

03/03/2020
Consultation Paper 2/20 on Pillar 2A: Reconciling capital requirements and macroprudential buffers

1. Context

In July 2018, the European Banking Authority (EBA) published guidelines on the SREP process, which included the reconciliation of Pillar 2A requirements with buffer and macroprudential requirements. The PRA sets Pillar 2A capital for risks that are not fully captured under CRR. It assesses those risks as part of the SREP, in light of both the calculations included in a firm's Internal ICAAP document and the PRA's Pillar 2A methodologies set out in its Statement of Policy. Furthermore, on December 2019, the Financial Policy Committee (FPC) raised the level of the UK countercyclical capital buffer (CCyB) rate that it expects to set in a standard risk environment from in the region of 1% to in the region of 2%.

In this context, the PRA has published **Consultation Paper (CP) 2/20 on Pillar 2A: Reconciling capital requirements and macroprudential buffers**, in order to reduce variable Pillar 2A capital requirements to take account of the additional resilience associated with higher macroprudential buffers in a standard risk environment. The proposals in this CP are part of a package of changes that includes the review of the structural level and balance of capital requirements for the UK banking system undertaken by the FPC, with the purpose of increasing resilience, improving responsiveness of capital requirements to economic conditions and enhancing resolvability.

2. Main points

- **Reduce pillar 2A**. The PRA proposes on this CP to reduce Pillar 2A capital requirements with the aim of keeping total regulatory loss-absorbing capacity (TLAC) (i.e. minimum requirement for own funds and eligible liabilities (MREL) plus buffer) broadly constant. The PRA proposes to only reduce the variable component of total Pillar 2A capital requirements and would only be relative to the 1 percentage point increase in the standard risk-environment CCyB announced by the FPC.
    - For firms whose MREL exceeds total capital requirements (TCR) (i.e. Pillar 1 + Pillar 2A) the PRA proposes to reduce variable Pillar 2A capital requirements by 50% of the firm specific increase in the UK CCyB rate in a standard risk environment.
    - For firms whose MREL is equal to TCR and which are considered to have a low risk profile by the PRA, it is proposed to make an additional reduction of 50% of the firm-specific UK CCyB pass-through rate.
- **Interactions with the Leverage and MREL frameworks**. The PRA recognises that the proposed changes to the capital framework may increase individual firms' TLAC where banks are bound by existing UK leverage ratio requirements. UK firms with a bail-in or partial-transfer resolution strategy are required to maintain sufficient resources in a form that can be used in the event of a failure to absorb losses and allow for recapitalisation.
- **Interim MREL**. Due to the proposed Pillar 2A reduction, the Bank of England (BoE), as the UK resolution authority, set a transition period until 1 January 2022 for firms to meet their end-state MREL.
- **Internal MREL**. The BoE expects that internal MREL for a material subsidiary will be scaled in the range of 75% to 90% of the full amount of external MREL that the material subsidiary would otherwise be required to maintain if it were itself a UK resolution entity, which means a more limited benefit from the reduction in Pillar 2A.

3. Next steps

- Comments to this CP shall be submitted by **30 April 2020**.

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

23/03/2020
Supervisory and prudential policy measures to address the challenges of COVID-19

1. Context

Since the beginning of March 2020, various agencies at both the local and supranational levels have begun to issue measures to mitigate the possible impact that the COVID-19 could have on the economy. In the UK, the BoE issued a set of measures to respond to the economic shock from COVID-19 with the aim to help UK businesses and household bridge across the economic disruption that is likely to be associated with this virus. Furthermore, the BoE and HM Treasury launched a COVID Corporate Financing Facility (CCFF) with the objective of helping businesses across a range of sectors to pay wages and suppliers.

In this context, the BoE in collaboration with the PRA, have published **Supervisory and Prudential Policy Measures to Address the Challenges of COVID-19** with the aim of alleviating the operational burden on PRA-regulated firms and Bank-regulated financial market infrastructures (FMIs), as well as providing flexibility for them to continue to operate in a safe and sound manner.

2. Main points

- **Cancellation of the BoE's 2020 annual stress test**. The PRA has decided to cancel the 2020 stress test for the eight major UK banks and building societies in order to help lenders focus on meeting the needs of UK households and businesses via the continuing provision of credit.
- **Biennial exploratory scenario (BES) timetable**. Some amendments have been introduced on the BES timetable:
    - Liquidity. The BoE has paused this exercise until further notice the publication of the results of the 2019 BES on liquidity.
    - Climate risk. The BoE will take stock of the responses on the discussion paper on the 2021 BES on the financial risks from climate change as well as the evolving situation with a view to announcing the way forward for this exercise in the summer.
- **BoE statement on IFRS 9 and COVID-19**.
    - The PRA reminds firms that forward-looking information used to incorporate the impact of COVID-19 on borrowers into the expected credit loss (ECL) estimate needs to be both reasonable and supportable for the purposes of IFRS9.
    - The PRA expects firms to reflect the temporary nature of the shock, and fully take into account the significant economic support measures already announced by global fiscal and monetary authorities.
    - The BoE expects that eligibility for UK Government's policy on the extension of mortgage repayment holidays should not automatically, other things being equal, be a sufficient condition to move participating borrowers into Stage 2 ECL.
- **Open-ended funds**. The planned joint BoE - Financial Conduct Authority (FCA) survey into open-ended funds has been delayed until further notice. The BoE and PRA have identified a number of other prudential measures that will alleviate operational burdens on firms and FMIs at the current time:
    - Supervisory programmes for individual firms and FMIs: The BoE and PRA supervisors will review their work plans so that non-critical data requests, on-site visits and deadlines can be postponed, where appropriate.
    - BoE and PRA will postpone the deadline for their current consultations on Operational Resilience Policy Development.
    - Internal Ratings Based (IRB) models: The implementation of the proposals related to the definition of Default, Probability of Default (PD), and Loss Given Default (LGD) estimation, and the move to 'hybrid' IRB models will be delayed by one year to 1 January 2022. Firms using the standardised approach to credit risk will also benefit from a delay to changes they need to make as part of guidelines on definition of default.
    - Basel 3.1: The Government has announced that it will be introducing legislation that will enable the implementation of Basel 3.1 in the UK and HM Treasury anticipates a central role for UK regulators in designing and implementing Basel 3.1 requirements that will apply to firms.

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