

A nighttime photograph of a city skyline, likely Shanghai, featuring numerous illuminated skyscrapers and a complex highway interchange in the foreground. The image is overlaid with a semi-transparent blue filter.

Regulatory Framework Under COVID

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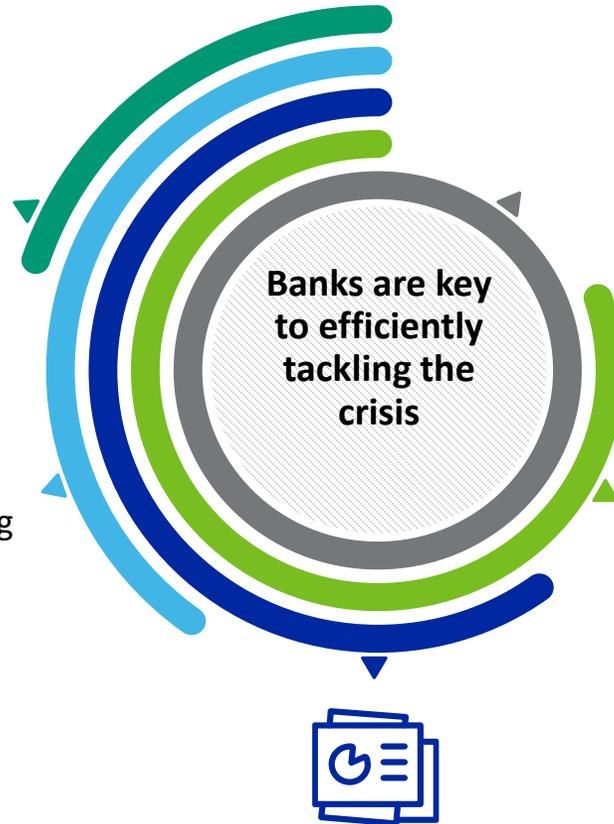
Disciplined crisis management...So far



“Banks are the solution” rather than the problem as in 2008



Flexibility embedded in regulation is being used



Official sector put together a series of measures to help banks support the real economy



Will this thoughtful stance last going forward ?



Rules/regulations are not suspended (no forbearance strictly speaking)

Regulation/Supervision (I)



Capital buffer (capital conservation buffer) *ECB/SSM*



SSM provided long term economic scenarios



LCR can fall below 100% *ECB/SSM*



The ECB/SSM postponed on- site examinations

Regulation/Supervision (II)

BCBS delayed implementation of Basel 3/4



EBA postponed stress test to 2021



ECB, EBA, IEOPA urged banks & insurance companies to suspend dividends and postpone shares buy back



Countercyclical/systemic risk buffers removed in most EU countries



Review of Solvency 2 is postponed



SRB adjusted its expectations



Current motto is “Using Flexibility”



Some banks will strive to not use the regulatory “flexibility”



Other banks won't have that choice



Risk of market stigma



MDA involves coupon suspension. Yet SSM has no plan to order it (A. Enria)

Supervisors seek to avoid undue stress



Supervisors urge banks to consider a beyond-the-crisis approach.



Authorities will seek to avoid economic crisis becoming a financial crisis

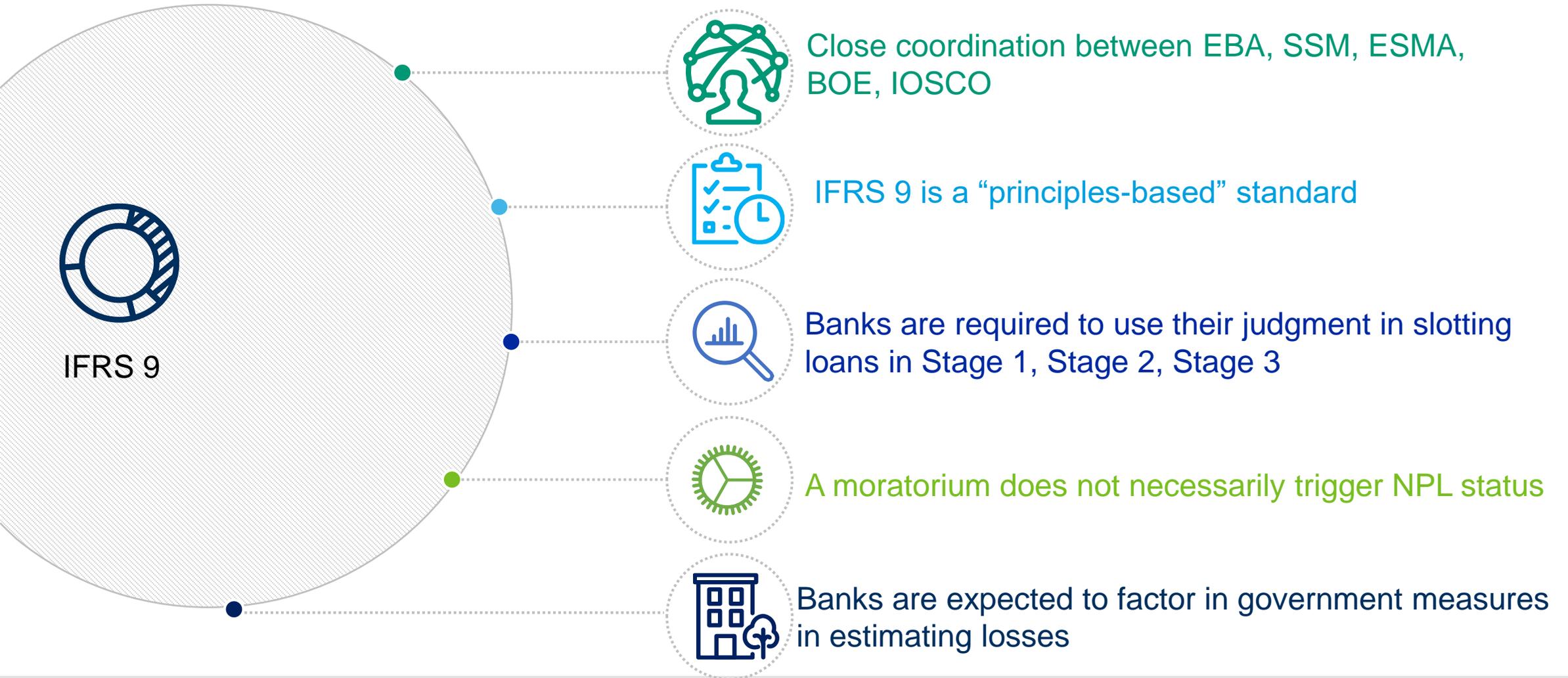


Risk of supervisory intervention has somewhat receded

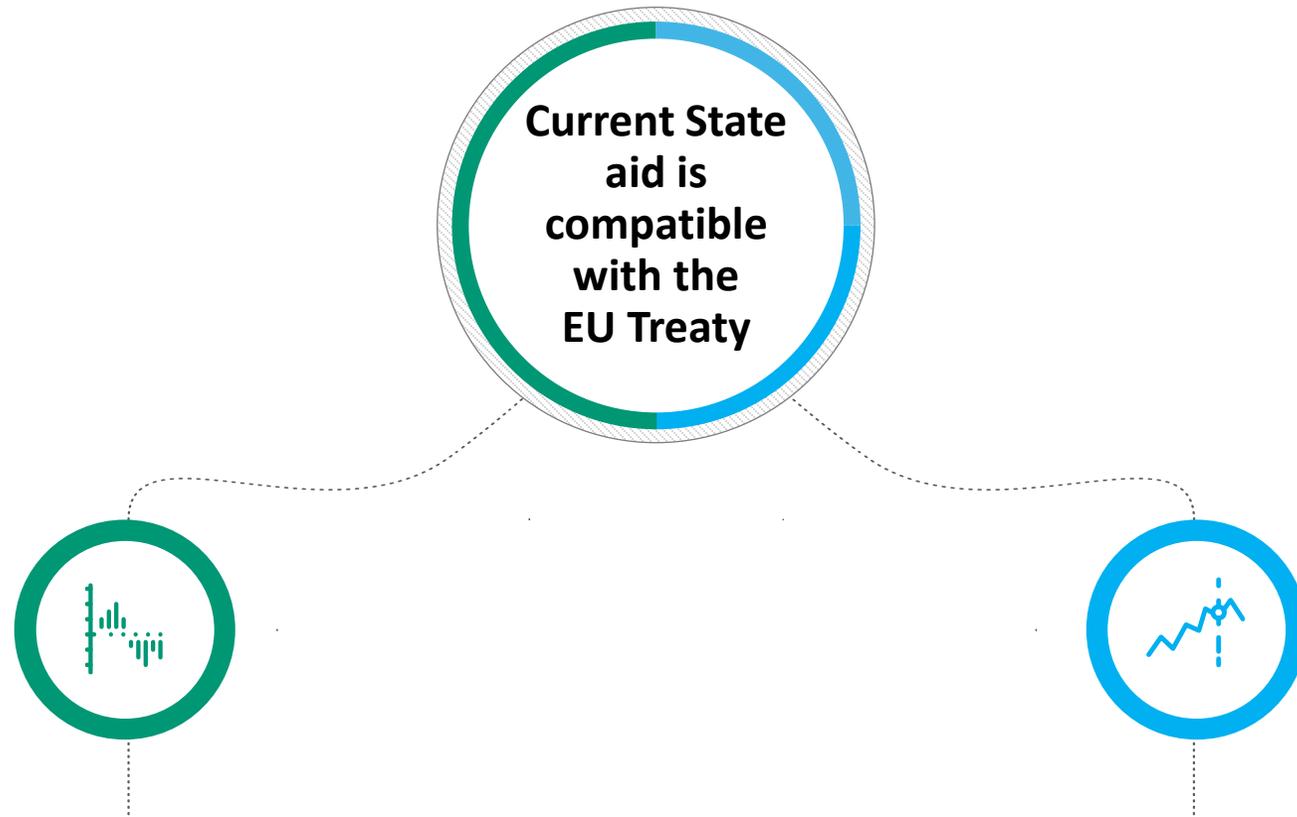


Resolution along with a bail-in appears unlikely at the moment

Accounting standard – IFRS 9



State Aid Framework has not been amended



(Pursuant to Article 107(3)(b) TFEU the Commission may declare compatible with the internal market **aid to remedy a serious disturbance in the economy of a Member State**

Aid granted by Member States to banks under Article 107(2)(b) TFEU to compensate for direct damage suffered as a result of the COVID-19 outbreak **does not have the objective to preserve or restore the viability, liquidity or solvency of an institution or entity**. As a result, such aid would not be qualified as extraordinary public financial support

Burden-sharing would be more limited than under normal circumstances



In order to ensure access to liquidity to undertakings facing a sudden shortage, **public guarantees on loans for a limited period and loan amount can be an appropriate**, necessary and targeted solution during the current circumstances



The Commission will consider such State aid...compatible with the internal market on the basis of Article 107(3)(b) TFEU



To the extent such measures address problems linked to the COVID-19 outbreak, they would be deemed to fall under point 45 of the 2013 Banking Communication, which sets out an **exception to the requirement of burden-sharing by shareholders and subordinated creditors hence subordinated debt is protected**

CRR2 “Quick Fix”

Endorsement of measures/guidance recently taken/issued by the likes of ECB, EBA, etc



Amendment of prudential treatment of IFRS 9, prudential filter on FVOCI government securities, etc.



Early enforcement of numerous measures of CRR2 (e.g. SME factor)



Objective is to protect banks' CET1



Supervisors may be forced to take further action

Economic conditions could deteriorate further and spillover into a prolonged recession

Banks with non viable business models could be intervened/forced to merge/etc

Forbearance could be extended (more leeway re. capital requirements for example)

Covid-crisis could give “bad bank” scenario added appeal (SSM could push for it) a credit positive for banks potentially



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