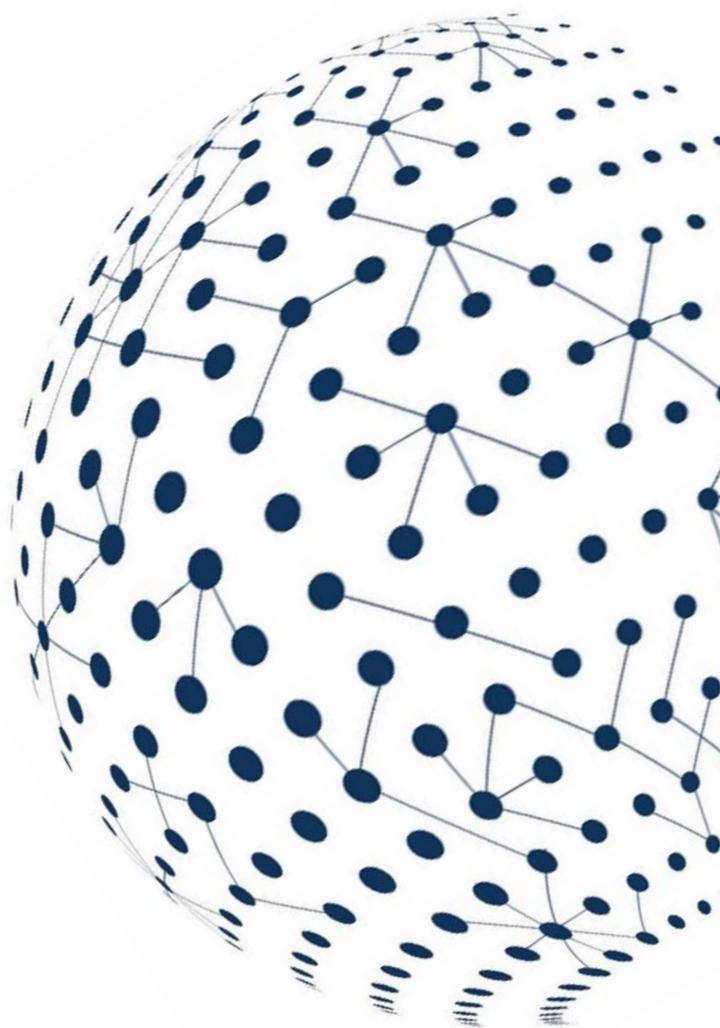


COVID-19 Pandemic: Financial Stability Implications and Policy Measures Taken

Report submitted to the G20 Finance
Ministers and Governors



15 July 2020

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Executive summary

The COVID-19 pandemic has placed the global financial system under strain. The system entered the crisis more resilient and better placed to sustain financing to the real economy as a result of the G20 regulatory reforms in the aftermath of the 2008 global financial crisis. In particular, greater resilience of major banks at the core of the financial system has allowed the system largely to absorb rather than amplify the macroeconomic shock. Financial market infrastructures, particularly central counterparties (CCPs), have functioned well, despite challenging financial and operational conditions.

Key funding markets experienced acute stress and authorities needed to take a wide range of measures to sustain the supply of credit to the real economy and to support financial intermediation. The actions taken were determined and bold, featuring large-scale central bank liquidity support. These included measures to: support the provision of credit to non-financial corporates; alleviate US dollar funding shortages; alleviate funding constraints from the shift of investors to safe assets; and support market functioning and ensure market integrity.

Since the FSB last updated the G20 in April, financial markets have continued to recover from the COVID-19 shock on the back of this decisive policy action. While improving market sentiment has lifted risky asset prices, this may not fully reflect the fact that the pandemic continues and the path of recovery remains highly uncertain. As a result, risky assets remain vulnerable to shifts in the economic outlook.

Meanwhile, credit provision to the real economy has held up, but lenders face a challenging combination of deteriorating credit quality and rising credit demand. There has been a notable increase in bank lending to non-financial corporates. Capital markets – assisted by determined policy actions – have remained open and enabled firms to raise new and longer-term financing. However, virus containment measures, sharp reductions in supply capacity and falling commodity prices have led to a broad-based reduction in corporate earnings. This, together with relatively high levels of indebtedness and more relaxed underwriting standards in certain market segments in recent years, is weighing on credit quality. At the same time, the demand for credit is expected to rise if corporate revenues fall short of expenses, and existing corporate cash reserves are run down. Where used, government guarantees will mitigate some of the rising risks to bank balance sheets.

Potential procyclical effects of credit rating downgrades and the risk of further liquidity stress require continued attention. Any residual mechanistic reliance on ratings may exacerbate the impact of downgrades on the cost and availability of financing for corporates, including through the effects on asset values, haircuts and margins. Emerging market economies (EMEs) may face particular challenges in this respect. As solvency concerns increase, liquidity stress could also resurface if there are changes in perceptions of safe assets and counterparty risks. More generally, the global financial system remains vulnerable to another round of liquidity strain, including in cross-border USD funding markets. Vigilance by authorities is necessary to identify and address vulnerabilities promptly if they arise.

The FSB Principles have guided national responses to COVID-19 to date. The international standards adopted through the G20 reforms have discouraged unilateral actions that would distort the level playing field and lead to market fragmentation. Most measures taken to deal

with the COVID-19 shock have used the flexibility available in international standards by design, including in the form of system-wide and firm-specific buffers. In a few cases individual temporary measures went beyond the flexibility of those standards, in order to respond to extreme financial conditions and provide operational flexibility to financial institutions.

The decisive policy response has laid the ground for effectively containing the economic and financial fallout of the pandemic, but much remains to be done. While it is too early to assess whether the measures taken have achieved their ultimate goals, authorities' experiences to date suggest common elements in the policy approach that may support the effectiveness of policies. These include: (i) ongoing monitoring and information collection to support effective crisis management, which depends on reliable and timely information in a rapidly evolving environment; (ii) the use of stress tests and scenario analysis, to provide policymakers with an understanding of how a range of economic recovery scenarios may affect financial resilience; (iii) a forward-looking supervisory approach in light of likely changing circumstances; (iv) clear communication of policy measures and supervisory approaches, not least regarding the usability of buffers to support lending and absorb losses; and (v) cross-border coordination to preserve consistency with international standards when using the in-built flexibility in their regulatory and supervisory frameworks.

A continuation of strong and coordinated policy measures is called for. Fundamental uncertainty persists about the evolution of the COVID-19 pandemic, constraints to economic activity and the shape of the economic recovery. Insufficient financial policy support would add to the problems faced by households and corporates and deepen the economic downturn. It is therefore important that authorities provide reassurance that policy measures such as lending support and appropriate use of available buffers will remain in place as long as is needed to support the economic recovery.

The policy focus is shifting to measures to address a growing need for real economy financing. Lending now may support stronger economic outcomes. Over the past decade, banks have built up their buffers, which are available to be used during the current period of stress. These buffers allow banks to absorb losses while discouraging them from excessive deleveraging so that they can continue the provision of financial services, including lending to creditworthy households and businesses, thereby supporting economic recovery. Many authorities have encouraged or recommended that financial institutions use these buffers, and the BCBS has communicated that using capital resources to support the real economy and absorb losses should take priority at present. Supervisors will give banks sufficient time to restore buffers taking account of economic and market conditions and individual bank circumstances. However, some banks may be unwilling to use these buffers to the extent anticipated and appropriate in the current period of stress. Additional work may be required to identify and assess impediments to buffer usability and consider any actions to remove them.

Policy measures may evolve further. Adjustments may be appropriate over time to enhance the effectiveness of existing measures in light of experiences gained with responses. More fundamentally, policies will have to be adjusted to changing underlying circumstances, including growing solvency risks and changing assessments of real economy funding needs and the path of recovery, which in turn will depend on policy measures taken. Public sector responses may be needed to support debt sustainability and the capacity to invest by non-

financial corporates. At a later stage, the issue of when and how to exit from temporary financial policy measures will have to be addressed.

The FSB continues to support international cooperation and coordination on the COVID-19 response underpinned by the FSB principles. First, the FSB is assessing vulnerabilities in the global financial system, to support assessments of the appropriateness of financial policy responses and potential adjustments. Second, the FSB has been regularly sharing information on policy responses and has begun supporting domestic assessments of the use of policy measures taken. Third, the FSB has been coordinating on the response to policy issues, including measures that standard-setting bodies (SSBs) may take to provide, or give guidance on, flexibility available to authorities and firms within existing international financial standards. The FSB and SSBs will also coordinate the future timely unwinding of the temporary measures taken as well as addressing any areas where existing policy frameworks have been found wanting.

The FSB will consider the longer-term implications of the market turmoil in March. This will include a holistic post-mortem of what happened, drawing also on work by the SSBs. It will consider the nature of any vulnerabilities in non-bank financial intermediation (NBFi) in relation to the liquidity stress and the implications of the extent and nature of central bank liquidity support, and the overall resilience of the NBFi sector. This work will inform the FSB workplan on NBFi for 2021 and beyond.

The FSB will provide a further update on member authorities' and SSBs' COVID-19 responses, its financial stability risk assessment and its work on the effectiveness of policy responses by November 2020, ahead of the G20 Summit.

Introduction

G20 Finance Ministers and Central Bank Governors, in their Communiqué of 15 April 2020¹ asked the FSB to continue monitoring financial sector vulnerabilities and coordinate regulatory and supervisory measures. They also requested that the FSB draw from members' experiences to share best practices on policy measures taken. This report responds to this request. It builds on the FSB Principles, which underpin the official community's response to the pandemic.

FSB Principles that underpin the official sector response to the pandemic²

1. Authorities will, individually and collectively through the FSB and standard-setting bodies (SSBs), monitor and share information on a timely basis to assess and address financial stability risks from COVID-19, so as to maximise the benefit of a global policy response.
2. Authorities recognise, and will make use of, the flexibility built into existing financial standards – including through the use of firm-specific and macroprudential buffers – to sustain the supply of financing to the real economy, to support market functioning and to accommodate robust business continuity planning.
3. The FSB, SSBs and authorities will continue to seek opportunities to temporarily reduce operational burdens on firms and authorities, so as to assist them in focusing on COVID-19 response. This includes, for instance, delaying implementation deadlines, reprioritising timetables for initiatives in other policy areas, or providing flexibility in technical compliance rules.
4. Authorities' actions will be consistent with maintaining common international standards, given that these provide the resilience needed to sustain lending to the real economy, and preserve an international level playing field. Such actions will not roll back regulatory reforms or compromise the underlying objectives of existing international standards.
5. Authorities will coordinate through the FSB and SSBs the future timely unwinding of the temporary measures taken, to assist in returning financial conditions and firms' operations to normal in a smooth and consistent manner and to maintain financial stability in the longer term.

This report provides an update on financial stability developments and risks relating to COVID-19 (Section 1); the policy actions taken to date and how they relate to the FSB principles (Section 2); factors that affect the effectiveness of policies and their implementation (Section 3); and the way forward (Section 4).

The report draws on information shared by members of the FSB and of its Regional Consultative Groups concerning their recent policy measures. It also draws on discussions with industry participants on the effectiveness of prudential and other financial policy measures taken to date, including experiences with their implementation.³

¹ See [https://g20.org/en/media/Documents/G20_FMCBG_Communique_EN%20\(2\).pdf](https://g20.org/en/media/Documents/G20_FMCBG_Communique_EN%20(2).pdf).

² FSB, <https://www.fsb.org/wp-content/uploads/P150420.pdf#page=4>, 15 April 2020.

³ See <https://www.fsb.org/2020/05/financial-policymakers-discuss-responses-to-covid-19-with-the-private-sector/>.

1. Financial stability developments

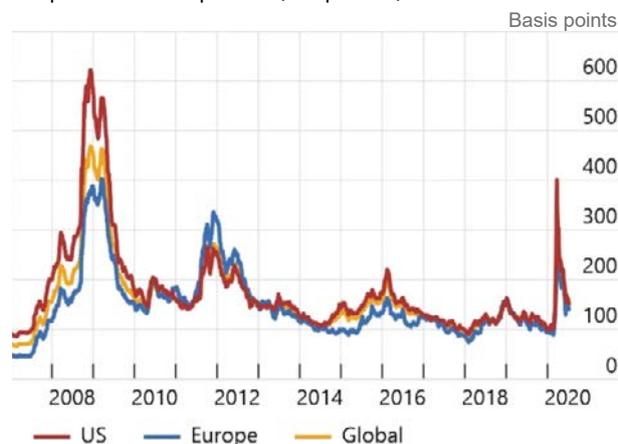
As the scale of the COVID-19 pandemic became apparent in March, the financial system was placed under considerable strain. The system entered the crisis more resilient and better placed to sustain financing to the real economy as a result of the G20 regulatory reforms in the aftermath of the 2008 global financial crisis. In particular, greater resilience of major banks at the core of the financial system has allowed the system largely to absorb rather than amplify the macroeconomic shock. Financial market infrastructures, particularly CCPs, have functioned well, despite challenging financial and operational conditions.

Key funding markets experienced acute stress. Amid extreme demand for cash and near-cash assets, market activity and price discovery was impaired, including in some markets that are usually highly liquid. Surging demand for safe assets was reflected in outflows from a subset of open-ended funds, including ETFs that invest in less liquid assets, and prime institutional US money market funds (MMFs) and similar non-US MMFs, which invest in instruments that are usually highly liquid. Authorities had to step in and take a wide range of unprecedented measures to sustain the supply of credit to the real economy and to support financial intermediation. The actions were determined and bold, including large-scale central bank liquidity support. The measures aimed to: support the provision of credit to non-financial corporates; alleviate US dollar funding shortages; alleviate funding constraints from the shift of investors to safe assets; and support market functioning and ensure market integrity.

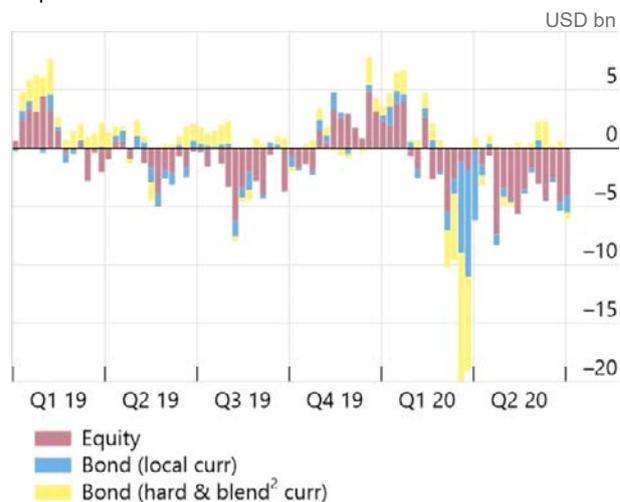
Financial market strains have eased

Graph 1

Corporate bond spreads (IG spreads)¹



Capital flows from EMEs



¹ Option-adjusted investment grade (IG) spreads. ² Blend currency funds invest in both local currency and hard currency bonds.

Sources: EPFR; ICE BofAML indices; FSB calculations.

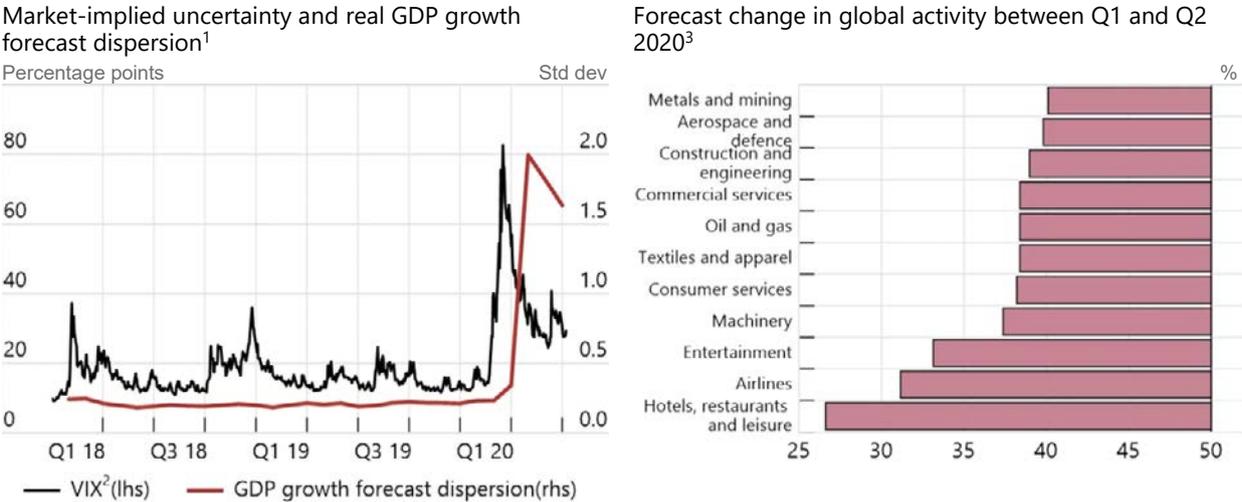
Since then, financial market strains have eased on the back of decisive policy action.

Over the past few months, funding markets have continued to recover from the most severe stress seen since the 2008 global financial crisis. Financial conditions have eased in domestic and foreign currency funding markets on the back of large-scale central bank liquidity support and government measures. Credit spreads have narrowed for both investment grade and high-yield bonds, and markets are functioning in an orderly manner (Graph 1, left-hand panel). The availability of offshore USD liquidity, particularly in EMEs, has significantly improved following the US Federal Reserve actions, and overall capital outflows from EMEs have receded (Graph

1, right-hand panel). Financial market infrastructures, particularly CCPs, functioned well, despite the challenging external financial and operational conditions, trading generally remained orderly and markets remained open.

Improving market sentiment has lifted risky asset prices, but markets remain vulnerable to shifts in the economic outlook and developments in the pandemic. Since May, a gradual easing of lockdown measures, tentative signs of a recovery of activity and expectations of continued policy stimulus in a number of economies have supported a steady rise in the prices of equities and other risk assets such as leveraged loans. However, uncertainty about the economic outlook remains high (Graph 2, left-hand panel). Global output losses have been very large. According to the latest IMF forecast, global GDP could be 6-10 percentage points lower than earlier 2020 estimates. While some indicators suggest a rebound in activity, the path of recovery remains highly uncertain, suggesting a potential disconnect with the prices of risky assets.

Lower financial market volatility and growing economic uncertainty Graph 2



¹ Cross-sectional standard deviation of Consensus Economics forecasts of full-year real GDP growth, computed on a monthly basis. Simple average of US, Euro area, JP and UK. Each series is weighted averages of current and next-year forecasts, with weights shifting as the year progresses to proxy a 12-month-ahead forecast. ² Chicago Board Options Exchange S&P 500 implied volatility index. ³ Based on Purchase Managers Index (PMI). Sum of the percentage of respondents reporting an increase in economic activity compared to the previous month. A value below 50 suggests that the majority of respondents expect a reduction in activity.

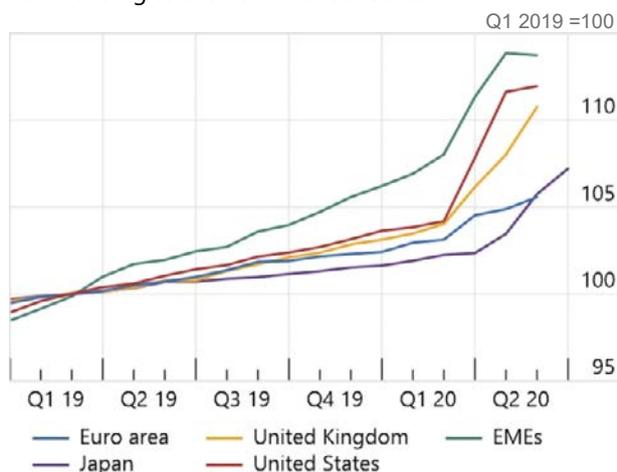
Sources: Consensus Economics; Bloomberg; FSB calculations.

Credit provision to the real economy has held up thus far. Stronger capital buffers have allowed banks to absorb losses whilst discouraging them from excessive deleveraging, so that they can continue the provision of financial services, including lending to credit-worthy households and businesses, thereby supporting economic recovery. There was a notable increase in bank lending (Graph 3, left-hand panel), as large non-financial corporates initially tapped credit lines to cover funding shortfalls from reduced operations due to the lockdown and from reduced supply of short-term nonbank finance. This took place at the same time as many banks tightened their lending standards in response to the deterioration of the general economic outlook and firms' increased credit risk. Following the extensive monetary, fiscal and prudential measures taken to support funding markets, corporate bond issuance increased significantly in April and May, including for lower-rated bonds (Graph 3, right-hand panel).

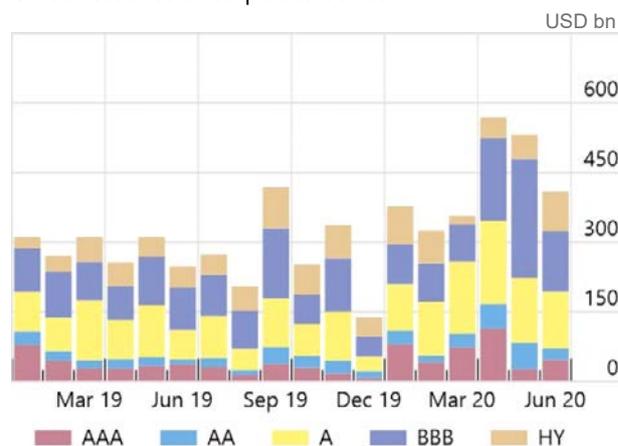
Bank lending and corporate bond issuance pick up

Graph 3

Bank lending to the non-financial sector¹



Global issuance of corporate bonds²



¹ For EMEs, simple average for Brazil, Indonesia, Mexico, Russia, South Africa and Turkey. Series used for each jurisdiction (seasonally adjusted): For Brazil, loans from financial system to nonfinancial corporations and households (total credit outstanding); for European Monetary Union, money supply, loans to other Eurozone residents except government; for Indonesia, commercial and rural banks' claims on private sector (loans); for Mexico, commercial banks' credit to private sector; for Russia, bank lending, corporate and personal loans; for Turkey, bank lending to private sector; for the United Kingdom, monetary financial institutions' sterling net lending to private non-financial corporations and households; for the United States, commercial banks' loans and leases in bank credit. ² Bloomberg composite rating.

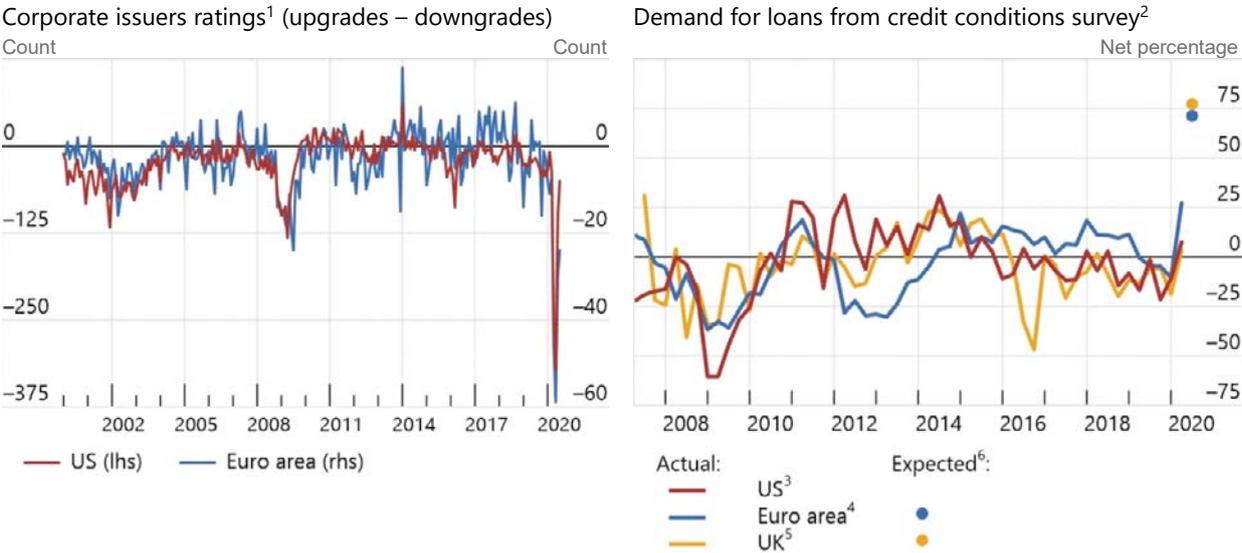
Sources: Bloomberg; national sources; FSB calculations.

Lenders face a combination of deteriorating credit quality and rising credit demand. The credit quality of both financial and non-financial corporates is deteriorating. The sectors most affected by containment measures and those experiencing sharp reductions in supply capacity have experienced large declines in earnings. As a consequence, unlike in previous downturns, services and manufacturing sectors have been hit simultaneously (Graph 2, right-hand panel). In addition, falling commodity prices have affected the energy sector and commodity exporting economies. Broad-based reductions in earnings, coupled with pre-existing vulnerabilities such as high levels of indebtedness and more relaxed underwriting standards in recent years, have already affected the severity and dynamics of the credit deterioration. Indeed, the pace of rating downgrades by credit rating agencies has been high in comparison to prior crises. At the same time, the demand for credit is expected to rise as corporate revenues remain below what would be needed to cover expenses, and existing cash reserves are run down (Graph 4, right-hand panel).

Deteriorating credit quality calls for attention to the potential procyclical effects of credit rating downgrades. The number of rating downgrades in advanced economies has reached a record pace (Graph 4, left-hand panel), although the share of downgraded firms so far is smaller than in the past. While to be expected in a downturn, such downgrades may exacerbate the impact on the availability of financing for corporates if market participants rely on them mechanistically. In particular, credit downgrades of BBB-rated corporate bonds to high yield ("fallen angels") may result in a disproportionate increase in the funding costs of those firms. Recent official sector actions to support credit markets may have helped to ameliorate these effects. The cliff effect for covenants involving loans downgraded to CCC may incentivise managers of collateralised loan obligations to sell such loans in order to maintain the ratings for lower tranches. These effects may be amplified by the impact of downgrades on asset values, haircuts and margins. EMEs may face particular challenges, as sovereign downgrades imply a lower rating ceiling for many domestic issuers and can result in widespread

downgrades. Moreover, progress in reducing mechanistic reliance on ratings since the global financial crisis may have been slower in many EMEs than in advanced economies.

Credit quality is deteriorating while credit demand is rising **Graph 4**



¹ S&P ratings, non-financial corporations local currency long-term debt rating; foreign currency long-term debt rating if previous not available. ² Positive figure indicates an increase in demand. ³ Net Percent of Domestic Respondents Reporting Stronger Demand for Commercial and Industrial Loans from large and middle-market firms (annual sales of \$50 million or more). ⁴ Net percentages of banks reporting an increase in demand from large enterprises. ⁵ Net percentages of banks reporting an increase in demand from large private non-financial corporations. ⁶ For the Euro Area, large enterprises' demand for loans, forward looking three months, from Bank Lending Survey Statistics (the data comprises of survey responses of senior loan officers of a representative sample of euro area banks); for the UK, projected demand for lending from large private non-financial corporations for the next three months from the Credit Conditions Survey.

Sources: Bank of England; European Central bank; Board of Governors of the Federal Reserve System; S&P Capital IQ; FSB calculations.

The risk of further liquidity stress requires continued vigilance. The global financial system remains vulnerable to another round of liquidity strain, including in offshore USD funding markets. This could be triggered by, for example, a larger than expected deterioration in economic activity; acceleration in infections globally; or a major default. In turn, market participants may withdraw funding from higher risk sectors – due to risk aversion, balance sheet constraints or operational issues – and seek financial safe havens, placing renewed demand on market and funding liquidity. This type of event could potentially generate new outflows from investment funds, further negative externalities on currency and debt markets – particularly, in emerging economies with less deep and liquid financial markets—and certain tension in their macroeconomic and financial stability conditions. As solvency concerns increase, liquidity stress could also resurface as a result of changes in perceptions of safe assets and increased counterparty risks. Vigilance by authorities is necessary to identify and address these issues promptly if they arise.

Policymakers should enable the financial system to continue to provide financing to the real economy under different recovery scenarios. The major banks at the core of the financial system are more resilient and better placed to sustain financing as a result of the G20 regulatory reforms in the aftermath of the 2008 financial crisis, notwithstanding the unprecedented scale of the shock. Capital markets –assisted by a wide range of measures, including those to sustain the supply of credit to the real economy and to support financial intermediation – have remained open and functioning, and a number of firms have been able to raise new and longer-term financing. In addition, governments have introduced a range of measures to improve firms' cash-flow solvency, which should mitigate short-term losses for

the financial system. Nevertheless, in an environment of declining credit quality and uncertainty about the timing and pace of the recovery, authorities need to remain vigilant to the risks and vulnerabilities stemming from the pandemic and continuously review and calibrate their policy responses to enable financial resilience and support to the real economy (see next section). This includes:

- Using regulatory flexibility where appropriate, for instance taking further steps that clarify the usability of capital or liquidity buffers.
- Providing clarity that support measures will be kept in place as long as needed.
- Providing guidance about the eventual rebuilding of buffers.
- Providing reassurance to market participants that the financial system is resilient, for instance by conducting and publishing the results of rigorous stress tests, and by taking corrective action when needed.
- Coordinating the timing of any future lifting of measures in a way that avoids market disruptions and fragmentation.

Furthermore, the market turmoil has reinforced the need to better understand the nature of liquidity risks in the global financial system. In particular, measures taken to support markets and NBFIs raise a series of questions for further consideration. These include questions about the way the announcement and use of central bank liquidity facilities have affected market conditions, and whether an expectation that such measures would be sustained could lead to an underestimation of market risk. Ultimately, the measures taken by central banks to calm markets are temporary and were not aimed at addressing potential underlying vulnerabilities. Further consideration of the lessons learnt from the COVID-19 stress and the way it has transmitted through bank and non-bank finance is needed before reaching conclusions about any underlying vulnerabilities revealed by this stress event. The FSB will consider the longer-term implications of the market turmoil in March. This will include a holistic post-mortem of what happened, drawing also on work by the SSBs.

2. International policy response

2.1. Policy measures taken

The policy response to COVID-19 is unprecedented. Authorities in FSB jurisdictions have taken a wide range of policy measures to sustain the supply of credit to the real economy, support financial intermediation, and preserve the functioning and resilience of the global financial system. As of 30 June, FSB members have submitted more than 1,500 entries to the FSB repository of policy measures. Graph 5 provides an impression of the evolution of measures over time. The [Annex](#) describes the measures taken in more detail. Almost all the measures introduced so far (with the exception of some short-term measures to support market functioning in March) are still in force.

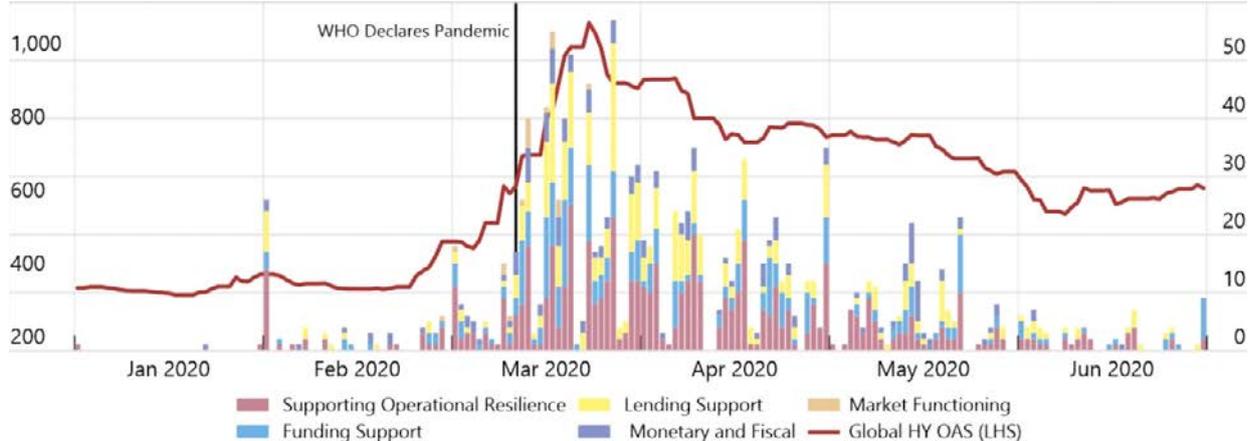
Policy measures taken in response to COVID-19

Number of policy submissions per day

Graph 5

Global HY OAS

No. of submissions



Global HY OAS refers to ICE BofA Global High Yield Index Option Adjusted Spread

Bloomberg, FSB calculations

The focus and objectives of policy measures have evolved with the spread of the virus and the impact on financial markets and the real economy. In the initial phase, measures focused on supporting business continuity and containing operational risk, and in particular on firms' and authorities' pandemic plans. Increasingly, measures have involved cyber security arrangements in light of remote working and possible exploitations of security weaknesses by cyber threat actors. Given the nature of COVID-19 as a health crisis, measures to support operational resilience have remained an important part of policy actions until now.

In a second phase starting in March, jurisdictions stepped up their policy response significantly as economic and financial market conditions deteriorated. They adopted far-reaching actions to sustain the supply of financing to the real economy, provide economic assistance, and support ongoing market functioning amidst acute liquidity strains in key funding markets. Such actions, many of them at an unprecedented scale, consisted of monetary and fiscal stimulus to support the real economy; the provision of liquidity to banks and markets through central bank interventions in the form of funding facilities and asset purchases; and a range of measures to support credit supply, including credit guarantees, direct capital injections, debt moratoria, and regulatory and supervisory measures to facilitate the restructuring of loans or to provide corporate relief.

During this phase, authorities also focused on the operational and financial resilience of financial market infrastructures and market functioning. The FSB, IOSCO and market regulators issued statements stressing their commitment to ensuring that markets continue to function in an open and orderly manner⁴. IOSCO also stressed the importance to investors and stakeholders of having timely and high-quality information about the impact of COVID-19 on issuers' operating performance, financial position and prospects.⁵ During periods of turmoil

⁴ See FSB: [FSB coordinates financial sector work to buttress the economy in response to COVID-19](#), 20 March 2020; IOSCO: [Securities regulators coordinate responses to COVID-19 through IOSCO](#), 25 March 2020

⁵ See IOSCO: [IOSCO encourages issuers' fair disclosure about COVID-19 related impacts](#), 29 May 2020.

in March or April, trading venues and market regulators in a number of cases applied circuit breakers and, in a few cases, short-selling bans.

To free up staff resources at firms and authorities to be deployed on COVID-19 responses, authorities, SSBs and the FSB took actions to alleviate operational burdens.

Such actions included extending implementation timelines, temporarily relaxing compliance requirements, and reprioritising timetables for policy initiatives.⁶ A number of authorities have postponed data-intensive stress tests, postponed on-site inspections, suspended or extended timelines for public consultations, and reduced information requirements as part of recovery plan submissions.

In the current third phase, the focus is shifting to measures to address a growing need for real economy financing amidst deteriorating credit quality. While many of these measures were already adopted in March and April, authorities have often fine-tuned and adjusted measures in light of developments or reinforced communication about their availability. In the area of prudential regulation, three sets of actions stand out.

- **First, many authorities have encouraged or recommended that financial institutions use capital and liquidity buffers.** The build-up of buffers since the 2008 financial crisis has made the financial sector more resilient, and provided the room to use buffers in response to stresses. A number of jurisdictions decided to lower or reduce the countercyclical capital buffer (CCyB) to zero. A few others temporarily reduced other types of capital buffers, such as for domestic systemically important banks or the capital conservation buffer. The BCBS has emphasised that using capital resources to support the real economy and absorb losses should take priority at present, that the liquidity buffer helps banks absorb liquidity-related shocks and maintain the flow of lending to the real economy and that a measured drawdown of banks' Basel III buffers to meet these objectives is both anticipated and appropriate in the current period of stress.⁷
- **Second, SSBs and authorities have given guidance on the application of accounting rules, in particular with respect to credit losses.** Several authorities provided guidance on restructured or non-performing loans and payment moratoria for regulatory purposes and emphasised the flexibility allowed under the standards when assessing the impact on expected credit loss (ECL) estimates and recognition of extending the timelines for borrowers to repay their loans.⁸ The BCBS clarified in April the treatment of payment moratoria and public guarantees in the context of risk based capital requirements, and agreed to amend its transitional arrangements for the regulatory capital treatment of ECL accounting, in order to provide flexibility for jurisdictions in deciding whether and how to phase in the impact of ECL on regulatory capital.⁹

⁶ International standard-setters have extended implementation timetables. These include the BCBS extending the implementation date of the final Basel III framework by one year, and the IAIS stretching out timelines for putting into operation the Holistic Framework for systemic risk. The BCBS and IOSCO have also deferred by one year the final implementation phases of the framework for margin requirements for non-centrally cleared derivatives.

⁷ See BCBS: [Basel Committee meets; discusses impact of Covid-19; reiterates guidance on buffers](#), 17 June 2020.

⁸ See IASB: [IFRS 9 and Covid-19](#), 27 March 2020.

⁹ See BCBS: [Basel Committee sets out additional measures to alleviate the impact of Covid-19](#), 3 April 2020.

- **Third, several authorities have encouraged firms to use existing flexibility in the application of prudential requirements.** For example, authorities encouraged banks to adjust their credit risk assessments to take into account longer time horizons, using all reasonable and supportable information available, while also avoiding mechanistic approaches and taking into account extraordinary support measures adopted by different authorities.

2.2. Policy measures and the FSB principles

The FSB, working with the SSBs, is monitoring the use of flexibility and consistency of jurisdictions' COVID-19 policy responses with international standards. The information to date suggests that the standards and G20 financial reforms are generally flexible (because they are principles-based or have built-in options and buffers) and thereby provide the scope for discretion by authorities.

The large majority of regulatory and supervisory measures taken to date by FSB jurisdictions have been consistent with international standards – for example:

- Most measures taken with respect to Basel III make use of the flexibility available in the current Basel framework or in forthcoming Basel standards. These measures are mainly capital or liquidity-related, with the primary objective to support banks' ability to continue lending and meet their liquidity needs.
- Resolution authorities have continued recovery and resolution planning consistent with the FSB *Key Attributes of Effective Resolution Regimes for Financial Institutions*. Some authorities have taken actions to alleviate the burden on firms for reporting and for meeting certain requirements regarding resolution capabilities. No measures have been reported to date that relate to the implementation of the FSB's Total Loss-Absorbing Capacity (TLAC) standard.
- Authorities in some FSB jurisdictions have introduced prohibitions or set supervisory expectations on bonus payments. This is consistent with the FSB's *Principles and Standards for Sound Compensation Practices*, to the extent that variable compensation could affect the capital resources available to firms to deal with any solvency issues.
- There is little or no indication of any domestic financial market infrastructure regulation being relaxed in response to COVID-19. The inherent flexibility in the CPMI-IOSCO *Principles for Financial Market Infrastructures* provides the scope for authorities to adjust their regulatory and supervisory measures by adapting to the challenging work environment.
- The regulatory and supervisory measures taken by authorities on MMFs and investment funds so far indicate that the high-level IOSCO standards provide flexibility to adjust the use of those standards to the specificities of the turmoil. Jurisdictions report monitoring of liquidity for investment funds, issuance of additional guidance, use of stress testing, and requirements for notification on the use of certain liquidity management tools. However, additional policy interventions were needed by central banks. These were either directly aimed at money market funds or more broadly enhanced overall market functioning and credit provision to the broader economy indirectly benefiting MMFs.

There have been a few cases where individual measures went beyond the flexibility of the standards. These measures include reducing certain credit risk capital or leverage ratio requirements; lowering liquidity requirements; and postponing the application of the large exposures framework. However, most of these measures are temporary, in order to respond to extreme financial conditions and provide operational flexibility to financial institutions. FSB member authorities will coordinate the future timely unwinding of such measures, to assist in returning financial conditions and firms' operations to normal in a smooth and consistent manner and to maintain financial stability in the longer term.

3. Policy design and effectiveness

3.1. Factors affecting effectiveness: initial considerations

The decisive policy response has laid the ground for effectively containing the economic and financial fallout of the pandemic, but much remains to be done. While it is too early to assess fully whether the policy measures taken have achieved their ultimate objectives, a couple of observations suggest that the comprehensive and swift policy action has been instrumental in limiting the impact of the COVID-19 shock on the global financial system, thereby laying the ground for recovery.

- Financial institutions and market infrastructures were able to move to a work-from-home posture without major reported incidents. In addition to the specific measures taken to strengthen operational resilience, steps by authorities in all FSB member jurisdictions to reduce operational burden may also have helped in this context.
- Decisive official sector action succeeded in alleviating funding strains. Authorities acted together to keep global financial markets open and functioning. These temporary actions included measures to alleviate funding constraints resulting from the shift of investors to safe assets, to alleviate dollar funding constraints, and measures to preserve market orderliness and integrity.
- The swift buffer release by many supervisory authorities and the statements by FSB and BCBS encouraging the use of buffers sent a strong signal to the market about the resilience of the banking system and the preparedness of authorities to take action in a coordinated manner.

Technical design and clear communication matter for the effectiveness of measures. Experiences gathered with the implementation of policy measure suggest that due consideration of technical and operational factors, as well as subsequent adjustments to overcome any unexpected obstacles, have supported a fast and targeted transmission of measures by reducing operational frictions. For example, in some jurisdictions, there were efficiency gains because authorities and firms were able to leverage an existing infrastructure.¹⁰ In other jurisdictions, financial institutions have faced operational challenges

¹⁰ For example, in the US, the Paycheck Protection Program was able to use the infrastructure of the Small Business Administration to review a record amount of loan applications in the first round (over 1.6 million loans, totalling more than \$342 billion), but program funding was exhausted more quickly than expected and a second round of funding was approved. In France, the temporary unemployment scheme moved quickly to provide support to 700,000 businesses, covering 40% of private sector workers, but the costs were €24bn, three times the initial estimate.

in implementing support schemes quickly. Design features such as whether lenders retain risk exposures under a government-guaranteed lending scheme seem to have affected loan approval timelines. In some cases, banks sought clarification of different aspects of support schemes (e.g. magnitude and scope of guarantees, the duration and possible conditionality of support measures), including the prudential treatment of guaranteed loans. These demonstrated the importance of a clear understanding and communication to stakeholders.

In order to foster effectiveness, authorities should consider several factors as they develop, implement or adjust policies forward:

- **Usability of buffers.** The BCBS has clarified that a measured drawdown of banks' Basel III buffers is anticipated and appropriate in the current period of stress, and that supervisors will provide banks sufficient time to restore buffers taking account of economic and market conditions and individual bank circumstances. Authorities should continue to build on this guidance, which will help provide additional certainty on the role and use of buffers to all stakeholders. Additional work may be required to identify and assess impediments to buffer usability and consider any actions to remove them.
- **Financial soundness.** Should the prospect of a prolonged U- or L-shaped recovery become more likely, measures that mitigate credit risks for banks while sustaining the flow of financing to the real economy may gain in importance. Such measures may include greater supervisory scrutiny regarding credit risk management, as well as government credit guarantees and equity support measures for non-financial companies. Importantly, the effectiveness of policy measures over time may partly depend on the shape of the recovery.
- **Allocation of credit.** The need for swift action and the persistent uncertainty regarding the recovery could make it difficult to ensure that lending support is provided only to viable firms. While preventing defaults in the near term, providing support to unviable or unproductive firms may be a drag on productivity and growth in the longer run. Moreover, there may be free-rider issues if individual banks do not have the incentive to provide credit to the economy but benefit from others doing so. Avoiding such effects requires having a good understanding of how support measures affect the behaviour of bank and non-bank lenders, and addressing potential misaligned incentives, including through a structured and proactive approach to dealing with non-performing loans.
- **Market fragmentation.** While capital released in a home jurisdiction can have positive externalities across all jurisdictions, excessive capital retention at the level of an individual subsidiary level could reduce financial institutions' resilience and efficient allocation of funds. As the timing and severity of the pandemic vary across countries and regions, approaches taken in each jurisdiction and the recovery also vary. This timing difference could cause fragmentation across jurisdictions.

3.2. Towards effective practices

Authorities' experiences to date suggest that there are common elements in the policy approaches that may help policies to work in an effective manner.

3.2.1. Ongoing monitoring and information collection

Effective crisis management depends on reliable and timely information in a rapidly evolving environment. Jurisdictions have generally stepped up monitoring efforts during the COVID-19 crisis, concentrating on understanding the challenges and risks that the current environment presents for firms, including their customers, staff, operations, and financial condition and the firms' response to these challenges and in areas significant to the current environment, such as operations and technology, liquidity, capital, and asset quality.

It has proved useful to supplement this monitoring with timely and sufficiently frequent collection of data not currently captured by regulatory reports or that are currently captured only at infrequent intervals to monitor the effectiveness of policy measures (e.g. new loan requests and approvals, delinquencies, uptake of any repayment flexibility programs). Complementing this, market intelligence has been an important mechanism for obtaining information on the effects of policy measures in a timely manner.

The FSB in consultation with member authorities and SSBs is continuing to share views on indicators that authorities could use to monitor the measures to support firms' financing conditions.

3.2.2. Use of effective tools for evaluating the impact of COVID-19

Stress tests and scenario analyses are important tools for evaluating the impact of COVID-19 on solvency. These assessment tools can provide policymakers with an understanding of how a range of economic recovery scenarios may affect the solvency and liquidity position of firms. If supplemented by information indicating the relative likelihood of different events, scenario analysis and stress tests can assist authorities in understanding where further policy support may be most needed and effective under different conditions and better target and calibrate supervisory responses.

These tools could, for example, inform potential adjustment of policy measures, by providing additional information on: (i) how likely it is that firms will ultimately face solvency concerns; (ii) the timing and extent of the potential solvency concerns; (iii) where potential stress is most likely to emerge (e.g., at what specific firms, portfolios, sectors, or business models); (iv) how much additional lending or loss absorption can be supported by existing capital buffers; and (v) the extent to which positive spillovers from lending to the real economy will affect bank capital levels.

If accompanied by a view on what amount of lending may be needed to support the recovery, the use of these tools could also help inform whether pre-emptive action may be needed to preserve or rebuild bank capital while protecting banks' ability to lend.¹¹

¹¹ See <https://www.bis.org/publ/bisbull09.pdf> and <https://www.bis.org/publ/bisbull11.pdf> for recent examples of such analysis.

3.2.3. Adaptation of supervisory and regulatory action over time in light of circumstances

Supervisors and regulators may need to adjust their supervisory and regulatory response over time to address the changing underlying circumstances, including growing solvency risks, changing assessments of the path of recovery and potential structural changes to the economy. In a prolonged recession scenario, authorities may place greater focus on prompt loss recognition and prudent provisioning for losses to support resilience and continuity in the provision of financial services.

At this stage, the focus is on making use of the flexibility embedded in the framework, to make sure that banks can absorb losses and continue to support the economic recovery. In this respect, the banking sector would benefit from clarity and stability on the time horizon afforded to them by authorities to make use of the flexibilities, for example the drawdown and subsequent rebuilding of buffers. This would enable banks to carry out better capital planning that may also improve in turn buffer usability at the current juncture.

Authorities may also need to adopt a tailored response with respect to individual firms, for example with respect to those that entered the crisis less resilient. At a later stage, the issue of when and how to exit from temporary financial policy measures will arise.

3.2.4. Clear communication of policy measures and supervisory approaches

Supervisory and regulatory authorities need to communicate clearly to the industry and the public their supervisory approaches and policy stance, including any changes, the duration of measures and planned exit strategy, in order to support market confidence and limit the risk of unintended market reactions to policy measures.

Clear communication is important regarding the use of buffers for lending. Supervisors may reduce uncertainty by issuing guidance that provides sufficient time for banks to rebuild capital buffers in the future. Clear communication of guidance on banks' dividends, share buybacks and bonuses can help to avoid any stigma effect from individual banks' actions.

To strengthen market confidence and reduce uncertainty about the health of the financial system and individual firms, authorities may consider disclosing the results of COVID-related stress testing or other analysis. Any such disclosure or communication regarding the health of the financial system must recognise the uncertainty regarding the future macroeconomic scenario. If stress-test results are disclosed, authorities should consider accompanying them with a discussion of the policy implications.

3.2.5. Cross-border coordination

Policy makers should appropriately use the flexibility in their regulatory and supervisory framework while preserving consistency with international standards as they design and implement and, if necessary, adjust their policy responses.

Firms operating globally may face different regulatory expectations due to changing underlying circumstances, it is important that authorities cooperate and coordinate closely to address any frictions, unintended consequences, and level playing field issues.

4. Way forward

A continuation of strong and coordinated policy measures is called for. The pandemic and sudden stop in real economic activity has been an exogenous shock to the financial system. Fundamental uncertainty persists about the evolution of the COVID-19 pandemic, constraints to economic activity and the shape of the economic recovery. Insufficient financial policy support would add to the problems faced by households and corporates and deepen the economic downturn. It is therefore important that authorities provide reassurance that policy measures such as lending support will remain in place as long as is needed to support the economic recovery.

At the same time, policy measures are bound to evolve further. Adjustments to policy measures may reflect a desire to enhance the effectiveness of existing measures in light of experiences gained with responses. More fundamentally, policies will have to adjust to changing underlying circumstances, including deteriorating credit quality and changing assessments of real economy funding needs and the path of recovery. Such adjustments will have to take into account that the recovery path depends on the impact of policy actions taken, and vice versa. At a later stage, the issue of when and how to exit from temporary financial policy measures will have to be addressed.

The FSB continues to support international cooperation and coordination on the COVID-19 response:

- **First, the FSB will continue to analyse and share information on COVID-19 risks to financial stability.**

The FSB will continue to monitor the resilience of the critical nodes in the global financial system.

The FSB will deepen its analysis of vulnerabilities, including those relating to: (i) the solvency of non-financial corporates; (ii) procyclicality of credit rating downgrades; and (iii) potential sources of further liquidity stress.

The FSB will also carry out a holistic post-mortem of the market turmoil in March, drawing on work by the SSBs. It will be important to consider the nature of vulnerabilities in NBFIs in relation to the liquidity stress and the implications of the extent and nature of central bank liquidity support, and to better understand the resilience of the NBFIs sector. To assist this analysis as well as future policy work, the FSB has begun work on an interconnectedness map showing the linkages among different parts of the NBFIs ecosystem and with banks. This work will inform the FSB workplan on NBFIs for 2021 and beyond.

- **Second, the FSB will continue to facilitate the sharing of information and coordinate on policy responses, including to explore effective practices in policy approaches.**

Authorities will share information through the FSB on supervisory and regulatory actions, as well as on the adjustments made to overcome the practical frictions

experienced. The FSB will continue to work on assessing the impact and effectiveness of policy measures, including the examination of aspects of particular importance for EMEs and of the impact of policy measures on the behaviour of lenders and other market participants.

FSB members will continue to discuss stress testing practices and scenario analyses, including on the information that stress tests may provide on the usability of buffers and on how a range of economic recovery scenarios may affect the solvency and liquidity position of firms and support assessments of appropriate policy design.

FSB members will share effective practices on clear communication of supervisory and regulatory actions and disclosures of relevant information.

To help inform an effective policy response and promote a level playing field, authorities will continue to engage in the FSB and other fora about the interaction of different policy measures (e.g. regulatory, monetary and fiscal measures) and cross-border and cross-sector spillovers.

Additional work will be needed to provide a fully-fledged assessment of the effectiveness of the policies implemented so far from a financial stability perspective and best practices. This analysis will need developed over a longer time horizon as data becomes available.

- **Third, FSB members are coordinating on their responses to policy issues, including measures that SSBs and national authorities take to provide flexibility within existing international financial standards.**

The official sector response will continue to be underpinned by the FSB principles, which were designed with these evolving challenges in mind.

The COVID-19 situation is still evolving, so there is a need to consider this issue in a dynamic way. The question of whether the flexibility provided by authorities is actually used by financial institutions may require particular attention. These considerations will inform discussions of future policy adjustments, including coordinating through the FSB on the eventual exit path from temporary measures.

There may be lessons to be learned at the appropriate time from the COVID-19 crisis about the effectiveness of existing standards. The FSB will gather such information, for instance from specific FSB or SSB “lessons learned” exercises from COVID-19, or as part of wider FSB and SSB evaluations of effects of reforms.

The FSB will provide a further update on member authorities’ and SSBs’ COVID-19 responses, its financial stability risk assessment and its work on the effectiveness of policy responses by November 2020, ahead of the G20 Summit.

Annex: Synthesis of policy measures

In recognition of the unprecedented nature of the economic shutdown triggered by the COVID-19 pandemic, policymakers have taken actions to sustain the supply of financing to the real economy, provide economic assistance, and support market functioning. Broadly, such actions include (1) Government guarantees and direct lending, loan restructuring, capital injections and other corporate relief; (2) Central bank policy interventions to ease credit conditions and keep markets open and functioning; (3) Prudential measures to facilitate the continued flow of credit to the real economy and provide operational flexibility to supervised firms; and (4) actions to support market functioning.

1. Government guarantees and direct lending, loan restructuring, capital injections and other corporate relief

Because the crisis is an exogenous (health) shock impacting the real economy, an early focus has been on fiscal measures providing financial support to corporates and households. A number of jurisdictions have provided government guarantees, facilitated the restructuring of loans, including through moratoria, and provided other forms of corporate relief (e.g. tax deferral).

1.1. Government guarantees on loans

Most FSB jurisdictions (AR, AU, BR, CA, CH, CN, DE, ES, EU, FR, HK, ID, IT, JP, KR, MX, NL, SG, TR, UK, RU, SA, SE)¹² have introduced public guarantees on loans to businesses in order to support and provide incentives for continued bank lending. In all cases, they cover loans taken by SMEs. The maximum amount and percentage of the loan that is guaranteed varies: in some jurisdictions and cases (CA, CH, DE, IT, JP, HK) the guarantee covers the full amount while other jurisdictions will guarantee a variable portion (including through co-lending programmes).¹³ A majority of authorities have also set up facilities that cover larger firms. However, whereas loans to smaller businesses are often 100% guaranteed loans for larger firms are generally not guaranteed in full. Two jurisdictions (RU, SE) have set up specific programs that target firms that are deemed to be strategically important.

According to members' submissions, loans extended by all financial institutions are covered by the guarantees in the majority of cases (for instance AU, CA, ES, IT, UK specifically mention "financial institutions" in their submissions and in many others there is no specific reference to "banks"). Only a handful of members (CH, FR, HK) appear to have facilities only available to banks. Jurisdiction-specific institutional factors may influence the share of loans extended by different types of participants (i.e. banks and non-banks).

¹² AR Argentina, AU Australia, BR Brazil, CA Canada, CH Switzerland, CN China, DE Germany, EA Euro area, ES Spain, EU European Union, FR France, HK Hong Kong, ID Indonesia, IN India, IT Italy, JP Japan, KR Korea, MX Mexico, NL Netherlands, RU Russia, SA Saudi Arabia, SE Sweden, SG Singapore, TR Turkey, UK United Kingdom, US United States, ZA South Africa.

¹³ For instance in CA there is a combination of programs, some of which have a full guarantee, while others have co-lending arrangements. CA provides interest-free loans, up to CAD \$40,000, to small businesses that are 100% funded by the government (and may be partially forgivable under certain conditions). SMEs can also access loans of up to CAD \$6.25million. These loans, where 80% of the funding is provided by the government, are not guaranteed in full.

In most cases there do not seem to be particular conditions attached to the availability of loans subject to guarantees. However, in a few cases (AR, CA, RU, SE) authorities specifically mention that loans should cover operational expenses (e.g. the salary of workers). In some jurisdictions, the availability of loans are subject to prohibitions or limitations of use, such as for stock buyback, option issuance, increases to executive compensation, or repayment/refinancing of other debt (CA, DE).

1.2. Direct public sector lending to firms

Some jurisdictions' fiscal authorities (AR, BR, CA, ES, EU, IT, JP, KR, MX, SA, TR, UK) set aside funds to lend directly to firms by establishing special lending schemes or committing additional funds to existing ones.¹⁴ They use their public finance corporations, export promotion agencies or development banks to directly provide loans to firms bypassing other financial intermediaries.¹⁵

1.3. Restructuring of loan terms

Most FSB jurisdictions (AR, AU, BR, CA, CN, DE, ES, FR, HK, ID, IN, IT, JP, KR, MX, NL, RU, SA, SE, SG, TR, UK, US) have either introduced the possibility, or in some cases mandated, the restructuring of loan terms for businesses and/or households (e.g. mortgage loans). In some cases, the measures introduced include a total moratorium on payments of credit obligations for a limited period of time. Some jurisdictions introduced jurisdiction-wide moratoria based on specific legislation, whereas in others moratoria have been implemented through voluntary industry-wide or individual initiatives by institutions, or a combination thereof.

In some jurisdictions government interventions are supplemented by statements by trade bodies that provided relief packages to small businesses and individual borrowers. In these cases, trade associations are unilaterally extending payment terms. The focus of the measures is on small firms or individual borrowers. The restructuring includes mortgages, credit cards and in some cases insurance policies in the case of borrowers, and bank loans in the case of small firms. The grace period for repayment is usually a few months in length but can be as long as a year.

1.4. Capital injection

In a number of jurisdictions, governments have introduced or are considering direct support measures for small businesses, self-employed workers and/or members of the liberal professions, in the form of direct capital injections or grants (DE, ES, FR, ID, IT, JP, NL, RU, UK, US). In some of these jurisdictions the grants target specific hard-hit economic sectors, while in other jurisdictions small businesses generally can apply for them, for instance to help compensate for fixed costs such as property costs. Some jurisdictions have enacted specific

¹⁴ This is separate from direct lending to firms through the establishment of central bank facilities, such as commercial paper schemes (UK, US), which are covered in section 2.

¹⁵ In the case of Mexico, development banks are providing first- and second-tier loans through banking and non-bank financial entities to support micro, small and medium-sized enterprises.

frameworks for capital injections in businesses that are significant for the economy (DE, ES, FR, IT, RU).

1.5. Corporate relief

In several jurisdictions, governments adopted corporate relief measures covering support for businesses to maintain employment and pay wages (AU, BR, CA, CN, DE, ES, FR, NL, HK, IT, KR, RU, SG, TR, SE, UK), and deferrals or reductions in the payment of taxes or social security contributions (AR, BR, CA, CN, DE, ES, FR, ID, IT, IN, JP, KR, RU, SA, SE, TR, UK).

2. Central bank action to ease credit conditions and keep markets open and functioning

Major central banks eased monetary policy, by cutting interest rates and through new, or the expansion of existing, asset purchase programmes. In addition to such monetary easing, central banks have taken a wide range of measures to provide liquidity to banks and markets, to alleviate funding constraints from the shift of investors to safe assets, and to alleviate US dollar funding shortages.

2.1. Provision of domestic currency liquidity to banks and markets

A number of central banks have stepped up provision of liquidity to banks, including through additional longer-term refinancing operations or a reduction of minimum reserve requirements (AU, BR, CA, CH, CN, ECB, HK, IN, ID, JP, KR, MX, TR, UK, US). Central banks also activated or reactivated funding facilities to facilitate the flow of funding to non-financial corporates through short-term funding markets and capital markets and established facilities to support credit to corporates through loan and bond purchases in primary and secondary markets, including facilities to support lending to small businesses (AU, BR, CA, CN, ECB, HK, IN, ID, JP, KR, MX, TR, UK, US). The implementation and the design of all these programmes was intended to ensure that funding reached firms that would not have otherwise been able to access alternative sources of financing, while providing full transparency on which firms are receiving support.

Some central bank measures specifically aimed at alleviating funding constraints from the shift of investors to safe assets, including the provision of liquidity to market intermediaries purchasing assets from certain types of money market funds (US) or the inclusion of non-financial commercial paper in corporate security purchase programmes (ECB, UK).

2.2. Alleviating US dollar funding shortages

To lessen strains in global US dollar funding markets, the Federal Reserve added temporary swap arrangements with nine central banks, to be in place for at least six months, to the standing swap arrangements with five major central banks. These additions concern central banks that established swap lines during the global financial crisis of 2008, which expired after the crisis subsided. The Federal Reserve established a temporary repurchase agreement facility for foreign and international monetary authorities. Separately, a number of central banks

(BR, IN, MX, RU, SG, TR) have undertaken USD swap auctions or otherwise sold US dollar for local currency.

3. Prudential measures to support credit and lending

Regulatory and supervisory authorities have taken a series of measures that complement governments' and central banks' efforts to support the real economy. These measures help to ensure that the public support, including government guarantees, and central bank funding and market facilities can be effective and aimed at expanding financial intermediaries' capacity to continue to lend as well as to absorb losses. Many of the measures follow statements as well as specific guidance provided by the BCBS, IAIS, International Accounting Standards Board (IASB) and International Organization of Securities Commissions (IOSCO) regarding the use of flexibility within existing standards and the extension of implementation timelines for international standards.¹⁶ These measures include the following

3.1. Release of countercyclical capital buffer and of other systemic risk buffers

All authorities that had previously activated a countercyclical capital buffer (CCyB) released it, fully or partially, early on. These buffers were available and ready to be deployed within a clear framework, thereby providing room of manoeuvre that authorities and banks are confident to use. Authorities either released it entirely (CH, DE, FR, SE, UK) or reduced it by approximately half of its size (HK). The magnitude of release ranged from 0.25ppt (DE, FR) to 2.5ppt (SE).

Several jurisdictions have released other systemic risk requirements or buffers. CA and NL have reduced the domestic systemically important bank (D-SIB) buffers (additional loss absorbency requirements on their domestic SIBs). BR reduced the capital conservation buffer to 1.25% of risk-weighted assets for 1 year and set up a transitional arrangement to restore it at its previous level during 1 additional year.

All these measures are meant to reduce the required capital and encourage lending. In some cases (CA, CH, HK) the release of the buffer has been explicitly accompanied by an encouragement to use the released buffers for maintaining lending.

3.2. Encouragement to use capital and liquidity buffers

Many authorities have encouraged or more forcefully recommended financial institutions to use their capital and liquidity buffers to support lending (AU, CA, CH, DE, EA, JP, HK, KR, MX, RU, SG, UK, US). The BCBS has also clarified that a measured drawdown of banks' Basel III

¹⁶ See Annex 2 to the [FSB Report](#) of 15 April 2020.

buffers is anticipated and appropriate in the current period of stress.¹⁷ AU explicitly released the additional domestic capital buffer benchmarks introduced in 2016. HK released half of its banks' regulatory reserves.¹⁸ ID reduced the minimum reserve requirement ratio in foreign currency of all commercial banks from 8% to 4%.

Other authorities have only encouraged the use of liquidity buffers, in some cases using the flexibility in the standard and allowing banks to operate below the 100% liquidity coverage ratio (LCR) requirement (BR, CA, MX, SE, TR, ZA). Some jurisdictions have accompanied the release by also easing related conditions. RU reduced the fee for providing irrevocable credit lines in accordance with the LCR.

3.3. Modification of leverage ratio rule

A number of authorities (CA, CH, US) have temporarily modified the leverage ratio rule to exclude reserves or deposits at the central bank from the calculation without commensurate recalibration of the minimum leverage ratio requirement.¹⁹ Also JP has published a draft rule for a temporary exemption of the outstanding balance of financial institutions' current accounts at the Bank of Japan from the leverage ratio exposure measure.

The US introduced a temporary change to its supplementary leverage ratio rule which excludes US Treasury securities and deposits at Federal Reserve Banks from the calculation of the rule for holding companies. The change would temporarily decrease tier 1 capital requirements of holding companies by approximately 2 percent in aggregate. The rule, which will be in effect until 31 March 2021, is expected to facilitate holding companies' significant increase in reserve balances resulting from the Federal Reserve's asset purchases and the establishment of various programs to support the flow of credit to the economy, as well as the need for these institutions to continue to accept high levels of customer deposits. CA has also excluded sovereign-issued securities from the leverage ratio calculation on a temporary basis (until 30 April 2021).²⁰

3.4. Restrictions on dividends, share buybacks and bonuses

In order to ensure that banks preserve the capital needed to support lending, numerous authorities (AR, AU, BR, CA, CH, DE, EA/EU, IN, MX, RU, SE, SG, UK, ZA) issued recommendation on dividends and share buybacks, and in a few cases on remuneration policies. These measures were taken in the context of international discussions to ensure that banks can continue to lend to households and businesses (see BCBS Statements mentioned above). Large UK banks followed the UK's recommendation to suspend dividends and buybacks on ordinary shares until the end of 2020, and to cancel payments of any outstanding

¹⁷ See BCBS: [Basel Committee meets; discusses impact of Covid-19; reiterates guidance on buffers](#), 17 June 2020.

¹⁸ In HK, banks had been required to maintain regulatory provisions in excess of IFRS 9 provisions earmarked for the purpose of maintaining adequate provision for possible credit losses.

¹⁹ Notwithstanding the temporary exclusion, in the United States and in Switzerland, domestically headquartered G-SIBs continue to face a buffer requirement of two percent on top of the three percent minimum leverage ratio requirement to avoid restrictions on capital distributions and certain discretionary bonus payments.

²⁰ Further, CA permits Canadian institutions to exclude their exposures generated through their US subsidiaries to the Federal Reserve of Boston's Money Market Mutual Fund Liquidity Facility and to the Federal Reserve System's Paycheck Protection Program Lending Facility, in line with the announced US leverage ratio exclusions.

2019 dividends. Banks are expected not to pay any cash bonuses to senior staff, including all material risk takers. The ECB recommends that at least until 1 October 2020 no dividends are paid out and no irrevocable commitment to pay out dividends is undertaken by the credit institutions for the financial year 2019 and 2020 and that banks refrain from share buy-backs aimed at remunerating shareholders. A number of EU national authorities have extended this recommendation to the smaller banks under their remit. Other authorities have either issued recommendations or called on institutions to reconsider their dividend proposals and formulated expectations for shareholder meetings to take prudent decisions.

3.5. Asset classification guidance

SSBs and authorities have given guidance on the application of accounting rules, emphasising the flexibility allowed under the standards when assessing the impact on expected credit loss (ECL) estimates and recognition of extending the timelines for borrowers to repay their loans.²¹ The BCBS clarified in April the treatment of payment moratoria and public guarantees in the context of risk based capital requirements, and agreed to amend its transitional arrangements for the regulatory capital treatment of ECL accounting, in order to provide flexibility for jurisdictions in deciding how to phase in the impact of ECL on regulatory capital.²²

Several authorities provided guidance on restructured or non-performing loans and payment moratoria for regulatory purposes. For example, AU and HK²³ indicated that loans granted a repayment deferral as part of a COVID-19 support package need not be regarded as restructured, while institutions are required to publicly disclose these. Similar indications were provided by other authorities (AR, BR, CA, EA/EU, IN, ID, JP, KR, MX, RU, SG, TR, UK) in some cases limited to specific borrower loan types. In CA, for example, the Canadian supervisory authority has indicated that the utilization of a payment deferral program should not result in an automatic trigger, for significant increase in credit risk. In CA and HK mortgage payment deferrals will continue to be treated as performing loans for capital requirement purposes – for the duration of the payment deferral, up to 6 months. In IN and JP, specific provisions looked also at the effects on credit history, so that credits restructured or with modified terms would not be registered as delinquent.

In several cases, guidance on restructured or non-performing loans has been accompanied by specific guidance regarding treatment in terms of loss provisioning in order to ensure that institutions use the flexibility allowed in the accounting standards to reduce the impact of overly conservative interpretation on ECL provisioning and capital positions, and authorities have extended transitional arrangements to mitigate negative impacts on banks' balance sheets (CA, EA/EU, ID, RU, TR, UK, US). The ECB for example indicated that, in order to avoid

²¹ See IASB: "IFRS 9 and Covid-19", 27 March 2020 (<https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-9/ifrs-9-ecl-and-coronavirus.pdf?la=en>).

²² See BCBS: Basel Committee sets out additional measures to alleviate the impact of Covid-19, 3 April 2020 (<https://www.bis.org/press/p200403.htm>).

²³ In HK, such guidance was in place before the COVID-19 crisis.

excessive procyclicality of regulatory capital and published financial statements, it will take steps to tackle excessive volatility of loan loss provisioning (under IFRS9).²⁴ MX adopted special accounting criteria, with partial or total deferral of principal and interest payment for up to 6 months, as a support measure for specific types of outstanding bank loans (mortgages and revolving loans to individuals and small businesses) that were included in the bank's current account up to 28 February 2020.

3.6. Flexibility in the application of prudential requirements

A few authorities have provided some flexibility in the application of prudential requirements, loosened specific requirements in support of the smooth operation of emergency facilities (US) or issued general statements of regulatory forbearance on the financial support provided in response to COVID-19 (KR). The US revised the capital rule in conjunction with the money market mutual fund liquidity facility (MMLF) and paycheck protection program (PPP) facility to indicate that no credit or market risk is taken in association with the facilities. Other types or releases are related to domestic macroprudential requirements. For example, ID removed additional reserve requirements for meeting the Macroprudential Intermediation Ratio (MIR) for a period of one year, KR eased the FX market stabilisation rule to enhance foreign currency funding conditions, RU reduced risk add-ons on mortgages, TR increased its loan-to-value (LTV) ratios of residential mortgages from 80 to 90%.

In the US, banks may defer appraisals and evaluations for up to 120 days after closing of certain residential or commercial real estate loan transactions, and appraisal standards have been temporarily amended in view of current evaluation and appraisal challenges.

Some authorities have adopted forms of supervisory flexibility to stem potential liquidity issues. HK allows funds, temporarily and subject to certain conditions, to increase their fund swing factor without prior approval. On a case-by-case basis IN permits mutual funds with heightened redemption pressure to borrow beyond the existing limit of 20% of the net assets of the scheme. In MX, CNBV may exceptionally authorise asset managers to sell securities to financial related parties if liquidity issues arise.

A specific case is that of IN, which relaxed the compliance requirements for Credit Rating Agencies (CRAs) to enable CRAs to factor into their ratings any delay arising solely due to lockdown or due to moratorium provided by RBI and reduce compliance burden on CRAs. They indicated that CRAs may not consider delays in payment of interest/principal or rescheduling the payment of debt obligation solely due to lockdown conditions as default event and/or recognize default during the period of moratorium by RBI.²⁵

²⁴ First, within its prudential remit, the ECB recommends that institutions under its supervision that have not already done so implement the transitional IFRS 9 arrangements provided in the Capital Requirements Regulation (CRR). Adopting transitional IFRS 9 implementation measures should allow all banks to filter out from their prudential capital a large part of the additional IFRS 9 volatility from 2020 until the end of the foreseen transitional period. Second, the ECB recommends that, within the framework provided for by international accounting standards, institutions give greater weight to a long-term stable outlook evidenced on past experience when estimating long-term expected credit losses for the purposes of IFRS 9 provisioning policies. Third, the ECB will provide central macroeconomic scenarios to support banks in applying IFRS 9 provisioning policies. See <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200320~4cddbcbf466.en.html>.

²⁵ Other regulators, including the US, are prohibited from regulating the substance of credit ratings or the procedures and methodologies used to determine credit ratings.

3.7. Moral suasion

A number of authorities have also exerted moral suasion by issuing general encouragements to lend (CN, JP, HK, ID, KR, MX, TR, UK, US). For example, the US federal financial regulatory agencies issued a joint statement encouraging banks, savings associations and credit unions to offer responsible small-dollar loans to consumers and small businesses in response to COVID-19. For borrowers who experience unexpected circumstances and cannot repay a loan as structured, banks, savings associations and credit unions are further encouraged to consider workout strategies designed to help borrowers to repay the principal of the loan while mitigating the need to re-borrow. JP requests financial firms to promptly and proactively respond to the needs of businesses and households for example through withholding excess reliance on collateral and guarantees for new loans, modifying terms of existing loans and to treating covenant breaches in a flexible and careful manner.

3.8. Targeted supervisory activities

In the vast majority of jurisdictions, supervisory authorities and market authorities have refocused their supervisory activities, especially through closer interaction with supervised firms and market infrastructures in relation to their risk exposures and operational resilience. Some authorities indicate that they have requested or are considering specific data requests to firms on credit conditions, problem loans, the impacts on their risk positions and/or the measures firms have taken to strengthen their risk monitoring (AU, IT, ZA).

With regard to asset managers, authorities have focused mainly on liquidity risks, and a number of authorities (BR, DE, FR, HK, IN, IT, MX, SE, UK) are monitoring redemption flows in open-end investment funds, in some cases linked to stricter reporting requirements. IT indicates it does this both for funds established in Italy and for foreign funds passported in Italy that overcome a pre-defined threshold.

Similar enhanced monitoring exercises are applied to insurers. For example, in the EU, the European Insurance and Occupational Pensions Authority (EIOPA) carries out extraordinary calculations on weekly basis to monitor the evolution of the relevant risk-free interest rate term structures (RFR) and the symmetric adjustment to equity risk (EDA). IT and other EU insurance authorities are performing enhanced liquidity monitoring of insurers.

A number of jurisdictions (AR, AU, BR, CA, EU, FR, JP, IT, KR, RU, UK, US) report having issued guidance to the public and safeguarding consumer protection, e.g. by warning consumers for financial scams, increasing efforts to fight scams and fraud, or capping fees for online transactions.

3.9. Reduction of operational burden

Many authorities (AU, CA, CH, EU, HK, JP, IN, KR, MX, RU, SA, SG, UK, US) indicate they have suspended or extended timelines for firms' implementation of changes or regulatory expectations. BR, CA, CH and SG note deferment of margin requirements for non-centrally

cleared derivatives, in line with the announcement by the Basel Committee and IOSCO regarding the one year deferral of the final implementation phases of the framework.²⁶

IN deferred implementation of the Net Stable Funding Ratio (NSFR) and of the last tranche of Capital Conservation Buffer by 6 months. MX deferred implementation on IFRS9 provisions (Jan 2022), NSFR, operational risk capital requirements and TLAC (until the COVID-19 emergency is over), and large exposures (Jan 2021).

Almost all FSB jurisdictions indicate that they have granted extensions to some or all regulatory reporting deadlines and/or to the submission of annual financial statements and/or of other corporate disclosures. A number of jurisdictions have postponed or cancelled data-intensive stress tests (AR, DE, EA, HK, UK), and several have suspended or extended timelines for public consultations. The EA has significantly reduced information requirements as part of recovery plan submissions, while ensuring at the same time that financial institutions keep reviewing and updating the core parts of the recovery plans, thereby ensuring that institutions maintain a strong focus on crisis management and preparedness.²⁷ Several authorities (AR, DE, EA, IN, JP, MX, RU, SA, SG) have suspended certain on-site inspections and/or deadlines for firms to implement remediation plans. AR and MX indicate that they have suspended all hearings and procedures during a certain period (except for urgent cases).

A number of jurisdictions indicate that possibilities for remote board, committee and/or shareholder meetings (AGMs) are in place or have been created (AR, AU, BR, CH, DE, ES, FR, JP, ID, IN, IT, KR, MX, SG, UK, US), although in some cases only temporary. Some jurisdictions have extended the deadline for AGMs to take place. In several jurisdictions (AU, ID, IN, SG), some requirements have been temporarily amended to facilitate certain forms of corporate capital raising, relating either to the extent of disclosure requirements or to obtaining prior shareholder approval.

Some jurisdictions report having temporarily altered conduct of business and/or investor protection requirements (AU, BR CH, EU, HK, IN, IT, RU, UK, US). For instance, in view of the situation, many staff members of financial firms are working from home, which may complicate continued compliance with certain requirements, such as recording of relevant (trading) conversations or paper-based communication with the authorities.

4. Measures to support market functioning

IOSCO as well as several market regulators have issued statements to stress the importance of markets being open and continuing to function in an orderly manner. To this end, authorities have in particular focused on the operational and financial resilience of financial market infrastructures. Automatic market-wide circuit breakers have been triggered in many jurisdictions (BR, CA, IN, ID, IT, JP, ES, FR, KR, MX, TR, US). A variety of volatility control mechanisms are in operation. For example, in some jurisdictions thresholds are fixed upon a drop of certain indexes or of the market overall (often between 5 and 10%). In response to

²⁶ See BCBS, 3 April (<https://www.bis.org/press/p200403.htm>).

²⁷ The EA approach to recovery planning is supported by the European Banking Authority (EBA) [statement on additional supervisory measures in the COVID-19 pandemic](#), published on 22 April, which outlines operational measures while ensuring that institutions focus on updating core parts of their recovery plans in order to maintain a strong focus on crisis preparedness.

volatility, in some jurisdictions thresholds were tightened (TR) but in others they were increased (ES, IT).

Various jurisdictions enacted additional prohibitions of short-selling (FR, ID, IT, KR, ES, TR) and some of these have meanwhile been lifted. The short-selling bans in the European Union include some exemptions, including for market makers. JP publicly announced that it would strictly enforce the existing framework of short selling and other market-related regulation to ensure market integrity.

ESMA reduced the position-reporting threshold from 0.2% so that it required holders of net short positions in shares traded on an EU regulated market to notify to the relevant national authority any such position of 0.1% or more of the issued share capital²⁸. ESMA has renewed this decision: The measure applies from 17 June 2020 for a period of three months.

In relation to the proper functioning of trading and settlement systems, authorities continue to monitor the impacts on CCPs and central securities depositories (CSDs) and/or their margining, also with a view to limit contagion. Some authorities set temporary limits on trading to relieve pressure on post-trading processes (AU, IN) and some of these have been rescinded in the meantime.

²⁸ Initially enacted for a period of three months, this measure has been extended for a further three months. <https://www.esma.europa.eu/press-news/esma-news/esma-renews-its-decision-requiring-net-short-position-holders-report-positions>.