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# **COVID-19 Regulatory update no. 5**

## COVID-19 Regulatory update

Welcome to the fifth in our weekly COVID-19 Regulatory update. A relatively quiet week in terms of new COVID-19 related regulation. The FCA has announced that it will be sending out weekly updates on COVID-19 for those interested, as well as clarifying the scope of SM&CR.

Updates from last week are in blue, earlier but still relevant updates in grey. We will be updating this table with further developments from regulators as they continue to be published.

Issue	Response
Basel III	9 April – PRA announces a decision to <b>maintain firms'</b> Systemic Risk Buffer (SRB) rates at the rate set in December 2019.
	8 April – BCBS released the <b>results</b> of the latest Basel III monitoring exercise, based on data as of 30 June 2019. The results do not reflect the economic impact of Covid-19 on participating banks, however BCBS believes that the information can act as a useful benchmark for analysis.
	7 April – MAS (Monetary Authority of Singapore) will <b>defer</b> by one year the implementation of the final set of Basel III reforms for banks in Singapore. MAS will defer to January 1, 2023 for the implementation of revised standards for: <ul style="list-style-type: none"> <li>• Credit risk, operational risk, leverage ratio, output floor and related disclosure requirements (with the accompanying transitional arrangements for the output floor extended to January 1, 2028) and</li> <li>• Market risk and credit valuation adjustments for supervisory reporting purposes (for purposes of compliance with capital adequacy and disclosure requirements, these standards will be implemented from January 1, 2023 or later).</li> </ul>
	27 March- the BCBS <b>announced</b> the deferral of final Basel III implementation measures.  The December 2017 Basel III standards related to: the leverage ratio framework, the GSIB buffer, standardised and IRB approach for credit risk, operational and CVA frameworks are deferred by one year to 1 January 2023  The January 2019 market risk framework is deferred to 1 January 2023

	December 2018 Pillar 3 disclosure requirements are deferred to 1 January 2023
Benchmark Transition	<p>6 April – EC published a draft version of an equivalence decision with respect to benchmarks in Japan under the Benchmarks Regulation ((EU) 2016/1011)</p> <ul style="list-style-type: none"> <li>• After an assessment of the benchmark regime in Japan the EC determined that the legal and supervisory framework applicable to the benchmarks in Japan are equivalent to the requirements of the BMR.</li> </ul>
	<p>6 April – Australian Securities and Investments Commission (ASIC) has released <b>feedback</b> on responses to ‘Dear CEO’ letter from major Australian financial institutions.</p> <ul style="list-style-type: none"> <li>• The feedback highlights the need for all institutions to plan for Libor transition taking into account that disruptions from Covid-19 may affect timing of some aspects of institutions’ transition plans.</li> </ul>
Consultations	<p>2 April – EC announced an <b>extension</b> of the response date on the consultation on the review of MIFID II by four weeks. The deadline is now May 18 2020 (instead of April 20).</p>
	<p>20 March - On 20 March, ESMA decided to <b>extend</b> the response date for all ongoing consultations by four weeks. Some of the affected consultations include:</p> <ul style="list-style-type: none"> <li>• Consultation on MiFIR report on SI</li> <li>• Draft Regulatory Technical Standards under the Benchmarks Regulation</li> </ul>
IFRS9	<p>02 April- the EBA issued <b>Guidance</b> clarifying that payment moratoria do not trigger classification as forbearance or distressed restructuring if the measures taken are based on the applicable national law or on an industry or sector-wide private initiative agreed and applied broadly by the relevant credit institutions.</p>
	<p>31 March- the EBA provided additional clarity on its <b>call to protect institutional capital</b> by refraining from the distribution of dividends, on the <b>need for one-month flexibility on reporting and Pillar 3 disclosures</b>, and reiterates <b>the need to share information on ML/TF risks</b>.</p>
	<p>26 March - Joint statement by FCA, FRC and PRA -The PRA <b>sent a letter</b> to firms giving them guidance about the approach they should be adopting in assessing expected loss provisions under the International Financial Reporting Standard (IFRS).</p>

IM	<p>15 April – Canada’s OSFI <b>delays</b> final phases of IM by one year, adopting the BCBS and IOSCO <b>guidelines from 3 April 2020</b>. The new guidelines are as follows:</p> <ul style="list-style-type: none"> <li>• Deadline of September 1 2021 for covered entities of AANA exceeding CAD 75 billion</li> <li>• Deadline of September 1 2022 for covered entities of ANNA exceeding CAD 12 billion</li> </ul>
	<p>15 April – The JFSA published the <b>proposed amendments</b> to adopt the BCBS-IOSCO’s guidelines from the 3 April and defer the timeline as follows:</p> <ul style="list-style-type: none"> <li>• 1 September 2021 for covered entities exceeding 7 trillion JPY</li> <li>• 1 September 2022 for covered entities exceeding 1 trillion JPY</li> </ul>
	<p>14 April – Swiss Financial Market Supervisory Authority (FINMA) announced that they would be adopting the <b>BCBS/IOSCO statement</b> from 3 April 2020 that extends the final phases of IM <b>by one year</b>:</p> <ul style="list-style-type: none"> <li>• Duty to exchange will apply to counterparties for which the AANA of the group is greater than CHF 50 billion from September 1 2021</li> <li>• Is greater than CHF 8 billion from September 1 2022.</li> </ul>
	<p>9 April - the CFTC <b>formally adopted</b> the old BCBS-IOSCO guidelines, and makes no mention of the BCBS-IOSCO’s latest statement from the 3 April. Although, somewhat confusingly presented as a COVID-19 measure, the mitigation contains no new elements:</p> <ul style="list-style-type: none"> <li>• New Phase 5 phase in: Target institutions &gt; \$50bn</li> <li>• New Phase 6 phase in: Target institutions &gt; than \$8 bn</li> </ul>
	<p>8 April – ISDA sets out some <b>clarifications</b> regarding the performance of the ISDA Standard Initial Margin Model (SIMM).</p>
	<p>7 April – MAS (Monetary Authority of Singapore) has <b>deferred</b> by one year the implementation of the final two phases of the margin requirements for non-centrally cleared derivatives:</p> <ul style="list-style-type: none"> <li>• September 1, 2021 for a bank or merchant bank whose group’s aggregate non-centrally cleared derivatives exposure is more than \$80 bn and</li> <li>• September 1 2022 for a bank or merchant bank whose group’s aggregate non-centrally cleared derivatives exposure is more than \$13 bn and up to \$80 bn.</li> </ul>

	<p>26 March - Joint statement by FCA, FRC and PRA -The PRA <b>sent a letter</b> to firms giving them guidance about the approach they should be adopting in assessing expected loss provisions under the International Financial Reporting Standard (IFRS).</p>
	<p><b>23 March</b>- the LMA published 3 COVID-19 briefing notes prepared by Clifford Chance. Available to LMA members via its <b>website</b>, the notes cover: leveraged finance , electronic signatures, investment grade lending</p>
MiFIR	<p>20 March- ESMA published a statement clarifying that it does not expect regulators to prioritise compliance with the Article 17a MiFIR 26 March 2020 application of the tick-size regime for systematic internalisers.</p>
RCAP	<p>26 March - Joint statement by FCA, FRC and PRA -The PRA <b>sent a letter</b> to firms giving them guidance about the approach they should be adopting in assessing expected loss provisions under the International Financial Reporting Standard (IFRS).</p>
Reporting	<p><b>02 April</b>- The PRA published a statement outlining its approach to regulatory reporting and Pillar 3 disclosures for UK banks, building societies, designated investment firms and credit unions in response to Covid-19 and the EBA's 31 March statement on 'Supervisory reporting and Pillar 3 disclosures in light of Covid-19' .</p>
	<p>26 March – Joint statement by FCA, FRC and PRA</p> <ul style="list-style-type: none"> <li>• The <b>statement</b> recognises that given the present conditions, market participants are facing unprecedented challenges in preparing and auditing financial information.</li> <li>• The FCA <b>announced</b> a two month temporary relief for listed companies to complete their audited financial statements, meaning that they will have 6 months to publish financial statements from their year-end, instead of the mandated four months.</li> </ul>
	<p><b>20 March</b> – the BoE and PRA <b>stated</b> that their supervisors would be cancelling 'non-critical data requests, on site visits and deadlines' where appropriate.</p> <ul style="list-style-type: none"> <li>• This will be on top of the cancellation of the 2020 bank stress tests.</li> <li>• This relief is to allow financial services groups to be able to channel more resources towards customers' needs during the COVID-19 disruption</li> </ul>
SFTR	<p>26 March- ESMA published a <b>revised version</b> of its SFTR statement. The revision clarifies that SFTs concluded between the 13 April 2020 and 13 July 2020 and</p>

	SFTs subject to backloading will not be a supervisory priority. The FCA has updated its SFTR <a href="#">webpage</a> to ensure consistency.
	26 March - The FCA <a href="#">revised</a> its approach on a co-ordinated supervisory approach to the application of the SFTR so that it is consistent with that of ESMA.
Short-selling	18 March - multiple authorities (such as the French AMF, the Italian CONSOB and the Spanish CNMV) took <a href="#">action</a> to temporarily ban short selling of certain products.
SM&CR	15 April – FCA published a ' <a href="#">Dear CEO</a> ' letter to banks on lending to SMEs, stating that although the activity of lending to an SME is outside its scope, the SM&CR defines senior managers' responsibilities and accountability in a way that applies to unregulated activities conducted by a bank.

This table has been altered according to regulatory issue rather than by regulator as the financial regulations have been developing.

Useful links:

1. <https://drs-als.com/im-deferred-1-year/>
2. <https://www.isda.org/2020/04/08/coronavirus-and-the-simm/>
3. <https://www.apra.gov.au/news-and-publications/regulators-release-feedback-on-financial-institutions%E2%80%99-preparation-for-libor>
4. <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/pr-statement-on-decision-by-insurance-companies-to-pause-dividends>
5. <https://eba.europa.eu/coronavirus>
6. <https://www.ft.com/content/936a8575-04e0-44a4-95dd-95ce1611243f>
7. <https://www.bankofengland.co.uk/news/2020/march/boe-announces-supervisory-and-prudential-policy-measures-to-address-the-challenges-of-covid-19>
8. <https://www.mas.gov.sg/news/media-releases/2020/mas-takes-regulatory-and-supervisory-measures-to-help-fis-focus-on-supporting-customers>
9. <https://www.bankofengland.co.uk/coronavirus/information-for-firms>
10. <https://www.fca.org.uk/firms/information-firms-coronavirus-covid-19-response>
11. <https://drs-als.com/coronavirus-initial-regulatory-responses/>

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