Regulatory Watch
Weekly COVID-19 Edition
7th May 2020

During the COVID-19 crisis, we have committed to keeping you up to date with the latest regulatory news relating to COVID-19. Our LightHouse Regulatory Scanning and Routage Solution is designed to ensure our clients know what regulators expect them to do, in an efficient and cost-effective manner.

This newsletter covers regulatory updates issued by select global, regional and national authorities from 4th May 2020.[1] If you would like to discuss any of these announcements in more detail, or to receive a demonstration of our LightHouse tool, please reach out to your local Aurexia teams or contact us at regulatory.watch@aurexia.com.

Aurexia LIGHTHOUSE Reg Scanning & Routage

[1] The regulatory websites currently monitored by our LightHouse tool include: FCA, PRA, FRC, ESMA, EIOPA, EBA, ECB, AMF, CSSF, HKMA, MAS, FSB and IOSCO.

Latest COVID-19 News

Europe

In response to the COVID-19 outbreak, the European Supervisory Authorities (EBA, EIOPA and ESMA – ESAs) have proposed a one-year deferral of the two implementation phases of the EMIR bilateral margining requirements. The deferral was published in joint draft Regulatory Technical Standards (RTS) that amend the EMIR Delegated Regulation on the risk mitigation techniques for non-centrally cleared OTC derivatives (bilateral margining).

The amendment was a response to the agreement reached on 3rd April by the Basel Committee on Banking Supervision (BCBS) and the International Organisation of Securities Commissions (IOSCO) to defer completing the final two implementation phases of the bilateral margin requirements until 2021.

These measures will provide additional operational capacity for counterparties to respond to the immediate impact of COVID-19. The draft RTS' will result in covered counterparties, with an aggregate average notional amount of non-centrally cleared derivatives above €50 billion, becoming subject to the requirement to exchange initial margin from 1st September 2021. Covered counterparties with an aggregate average notional amount of non-centrally cleared derivatives above €8 billion will become subject to the requirement from 1st September 2022.

ESMA has issued a public statement on the risks to retail investors when trading under the highly uncertain market circumstances due to the COVID-19 pandemic. ESMA has also reminded investment firms of the key conduct of business obligations under MIFID when providing services to retail investors.

Latest COVID-19 news in France

FRANCE

The president of the Autorité des Marchés Financiers ("AMF"), Robert Ophèle, has explained the measures taken in recent weeks to guarantee the proper functioning of the markets and the financial ecosystem during this period on launching their business plan. The AMF has undertaken actions in four key areas:

- Markets and infrastructure: the AMF has ensured the proper functioning of circuit breakers, defined acceptable arrangements for placing orders remotely, and restricted net short positions.
- Issuers: the AMF has encouraged issuers to communicate their forecasted business and financial impact of the crisis and has provided guidance on good practices for the organization of Annual General Meetings.
- Asset management: the AMF has ensured daily monitoring of money market fund liquidity.
- Investors: the AMF has strengthened its communication with investors, by issuing warnings against alternative investments, scams and updated its list of fraudulent sites.

The Autorité de Contrôle Prudentiel et de Résolution (ACPR) has launched a thematic review on business interruption guarantees, which only cover a specific type of material damage to property. The ACPR is seeking to create an inventory of the main contracts sold by insurers. The first results of the survey will be presented to the ACPR College (Board) in June and July.

The Bank of France has published the speech by François Villeroy de Galhau, its Governor, to the Finance Committee and the European Affairs Committee of the National Assembly. Key points included:

- Third party loss of activity and use of the reduced hours working scheme and compensation packages.
- The successful mobilisation of the Bank of France and the ECB in the crisis.
- The conditions for economic recovery, initial hopes were for a rapid "V" rebound, but current thinking is based on the "confidence triangle", meaning that a successful recovery is dependent on household confidence, corporate solvency and the sustainability of public debt.

The Bank of France has published a study on small and medium-sized enterprises (SME) requests for cash loans in the first quarter of 2020. It concluded that the demand has tripled during the COVID-19 pandemic, which has reached 17% of all SMEs.

The Bank of France has published a study on the impact of the COVID-19 crisis on domestic and company finances. Overall, the study found that household credit has been falling while companies have increased the use of credit and deposits.

The Bank of France Crisis Committee on Payment Terms has warned about the emergence of new abnormal invoice payment practices by some companies. The Committee has also acknowledged that companies are concerned about the deterioration in credit insurance coverage.

Latest COVID-19 News

United Kingdom

The Financial Conduct Authority (FCA) has asked firms with customers who took out mortgages with higher risk characteristics before the COVID-19 crisis to review the interest rates charged to such customers as a matter of urgency. This is to ensure that, in line with the FCA's Handbook requirements such as PRIN 6 and MCOB 12.5, customers on variable rates of interest are being treated fairly. The FCA states that as a result of receiving this letter, it expects lenders to critically review their variable rates of interest against their funding costs, contracts terms, and any other factors that may apply and take any necessary action. Firms are also expected, on demand, to be able to supply written support to justify the rates they charge.

The FCA has also published changes to its Handbook incorporating the COVID-19 temporary measures and guidance that were recently published for consultation. The changes include: the COVID-19 Deferral of Commencement (Pension Transfers, Investment Pathways, Platform Switching, Access to Insurance) Instrument 2020; the COVID-19 Credit Cards and Personal Loans Instrument 2020; the COVID-19 Motor Finance and High Cost Credit Instrument 2020; the COVID-19 Mortgages Instrument 2020; and the Pension Guidance and Relevant Provisions (Miscellaneous Amendments) Instrument 2020.

In a speech delivered by Nausicaa Delfas, Executive Director of International, the FCA stressed the importance of getting the post-crisis recovery right, and to leverage the experience of working through the pandemic. Other key points included the FCA continuing to prepare for the end of the Brexit transition period. The FCA is working closely with HM Treasury and the Bank of England to prepare for a range of scenarios and to ensure as smooth a transition as possible. It was said that firms should continue to consider what actions they need to take to be ready for the end of the transition period, and what this will mean for their customers.

The FCA has extended the maximum period firms can arrange cover for a Senior Manager without being approved, from 12 weeks to 36 weeks, in a consecutive 12-month period. The modification by consent to rule SUP10.3.13R is available to all solo regulated firms. It aims to provide flexibility to firms managing their governance arrangements during COVID-19.

The Bank of England (BoE) has announced changes to the 'Term Funding Scheme with additional incentives for SMEs' (TFSME) to support HM Treasury's Bounce Back Loans Scheme (BBLS). The TFSME allows eligible banks and building societies to access four-year funding at rates very close to the Bank Rate. The scheme is designed to incentivise eligible participants to provide credit to businesses and households to bridge through the current period of economic disruption caused by the outbreak of COVID-19. The scheme includes additional incentives to provide credit to SMEs.

The Prudential Regulation Authority (PRA) has published a statement setting out its observations on the risk-weighted treatment of exposures under the BBLS and a related change to the UK leverage ratio framework. In the BBLS, the government guarantees, in full, loans from banks to small and medium-sized businesses. The PRA is offering a modification by consent for banks subject to the PRA's UK Leverage Ratio rules to exclude loans under this scheme from the leverage ratio total exposure measure, if they choose to do so. It also permits firms to exclude loans made pursuant to schemes of a similar character which are 100% guaranteed by a government or central bank of a European Economic Area (EEA) state or the European Central Bank (ECB) provided that such loans do not exceed €60,000 per loan. The PRA will consider further modifications for substantively similar EEA schemes which do not meet these criteria on a case-by-case basis.

The PRA has published a statement providing details of its de-prioritisation of work during the COVID-19 pandemic. This includes postponing the launch of the Climate Biennial Exploratory Scenario until at least mid-2021. Other impacted initiatives include the suspension of the LIBOR transition data reporting at the end of Q1 , and the delays in the Insurance Stress Test 2019 and in the updates to the Stressed VAR 12-month periods.

The BoE, PRA, FCA, Payment Systems Regulator and the Competition and Markets Authority have jointly published a grid setting out the planned timetable for major initiatives - including the transition from LIBOR and the introduction of financial services legislation to prepare for the end of the Brexit transition period. The publication highlights the initiatives that have been cancelled or delayed as a result of COVID-19 with the aim of easing the burden on financial services firms as they respond to the crisis.

The BoE and PRA have announced changes to resolution measures aimed at alleviating operational burdens on PRA-regulated firms in response to COVID-19. These include extending the compliance deadline for the Bank's Statement of Policy on valuation capabilities to support resolvability by three months to 1st April 2021.

For the resolvability assessment framework, the dates for the major UK banks and building societies to submit their first reports on their preparations for resolution and to publicly disclose a summary of these reports have been extended by a year. These firms will now be required to submit their first reports to the PRA by October 2021 and make public disclosures by June 2022.

In respect of resolution plan reporting, the PRA has announced that firms will not be required to submit certain resolution pack information under PRA Supervisory Statement SS19/13 'Resolution Planning' until the end of 2022.

The PRA also announced changes on the conversion of Pillar 2A capital requirements. The PRA is seeking to alleviate unwarranted pressure on firms from COVID-19 by setting all Pillar 2A requirements as a nominal amount, instead of a percentage of total Risk Weighted Assets (RWAs). 2021 MRELs will reflect the PRA's latest policy changes to Pillar 2A capital setting. The Bank will continue to keep MRELs under review, including the transition time for firms to meet higher MRELs.

Latest COVID-19 News

Luxembourg

On 4th May 2020, the Commission de Surveillance du Secteur Financier (CSSF) published a press release regarding Anti-Money Laundering and Countering Financing of Terrorism (AML & CFT) supervision in the collective investment sector during the COVID-19 pandemic.

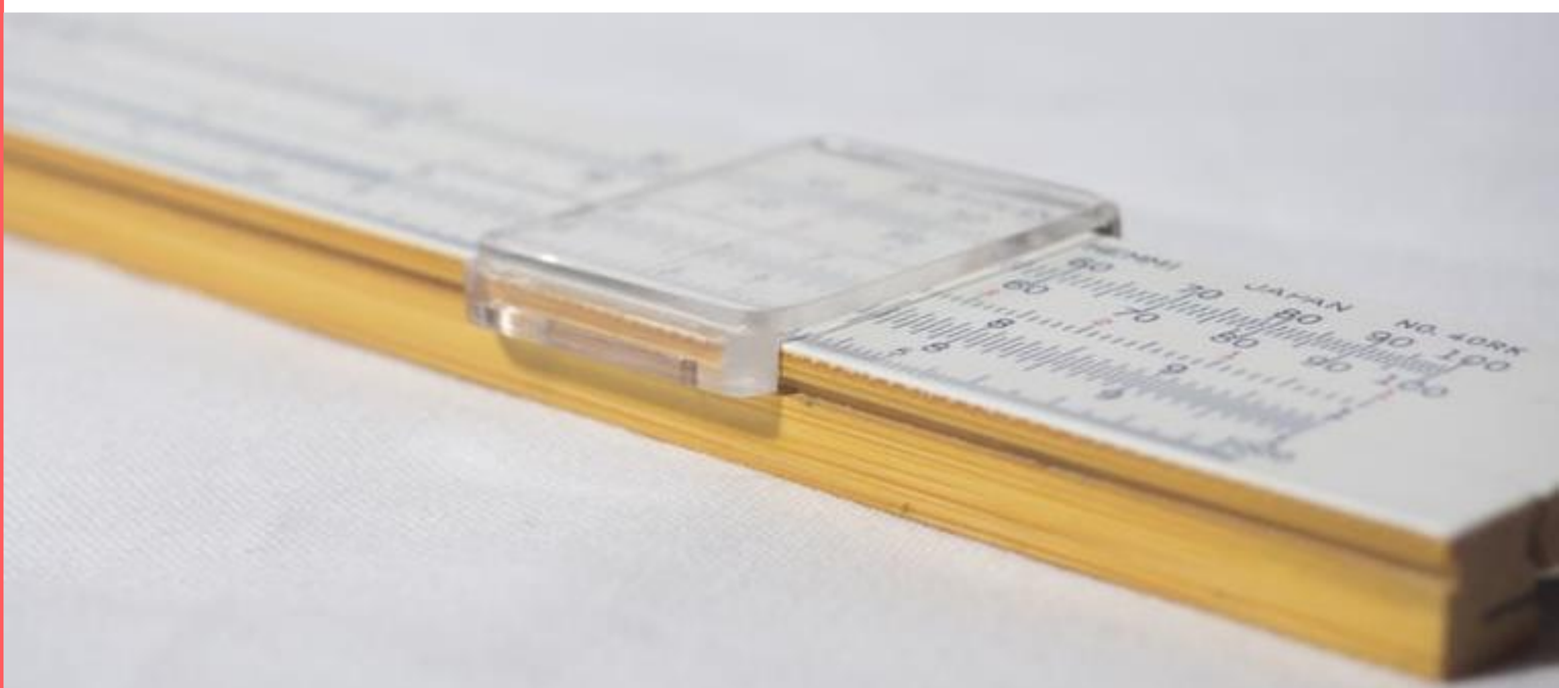
In addition, the Financial Action Task Force (FATF) and the CSSF have both provided COVID-19 specific guidance regarding AML & CFT obligations. The CSSF have set out its expectation to firms regarding:

- Understanding specific COVID-19 money laundering and terrorist financing threats and vulnerabilities
- Implementation of tailor-made mitigation measures
- Typologies and red flags

On 1st May 2020 the Plenary Assembly of the Chamber of Commerce of Luxembourg proposed eleven measures to support Luxembourg companies. These include:

1. Provide better flexibility in the partial unemployment arrangements
2. Reduce the fixed costs of businesses and support their liquidity
3. Reinstate 'repayable advances' only after a return to 'better fortune'
4. Consider reopening shops and restaurants that can implement health restrictions
5. Create an 'Economic Stabilisation Fund'
6. Set up a system for loss carry-back
7. Create a 'package' aimed at supporting consumption in the heavily affected Luxembourg sectors
8. Exemptions from employer contributions for the first job created by a Very Small Enterprise (VSE)
9. Align the self-employed and salaried employee social security systems
10. Review the bankruptcy procedures
11. Creation of a unique point of contact for back-office dispatching for SMEs

These measures are part of the Chamber's call for the Government to increase the current aid for businesses that are not authorised to open and those whose activity remains hard hit by the health crisis.



Latest COVID-19 news in Singapore

Singapore

The Monetary Authority of Singapore (MAS), the Association of Banks in Singapore (ABS) and the Finance Houses Association of Singapore (FHAS) announced a second package of measures to support individuals facing financial difficulties due to the COVID-19 pandemic. This second package will extend the scope of relief for individuals to other types of loan commitments, and allow them to continue to have access to affordable basic banking services. The new measures include:

- Easing of cashflow issues by deferring repayment **(subject to assessment)** for commercial and industrial property loans, mortgage equity withdrawal loans, renovation and student loans, motor vehicle loans and hire-purchase agreements. The loan tenure for Debt Consolidation Plans (DCPs) has also been extended.
- Reduction of debt via refinance investment property loans, without being subject to the total debt servicing ratio and mortgage servicing ratio.
- Ensuring access to basic banking services via waiving fall-below service fees and failed GIRO deduction charges for retail bank accounts.

Similar to the first industry support package, this second set of relief measures for individuals will be provided by financial institutions on an opt-in basis.

LIGHTHOUSE

REG SCANNING & ROUTAGE

Aurexia is proud to present LIGHTHOUSE, a regulatory horizon scanning and routage tool.

Regulatory Horizon Scanning has become a critical activity for firms, as the plethora of regulatory publications increases.

Despite the level of resources allocated by Compliance Functions to perform this activity, many challenges remain.

In order to help firms, Aurexia has developed a cutting-edge tool to better monitor Horizon Scanning, helping firms to reduce risk in a more cost efficient way.

15%

Time spent weekly by Compliance Officers to track and analyze regulatory developments

3x

More time spent weekly by Compliance Officers updating policies (from 9% in 2017 to 26% in 2019)

6.6x

Growth in number of alerts from 2008 to 2018

220

Average global regulatory intelligence alerts

**Source: Thomson Reuters, Cost of Compliance 2019: Ten Years of Regulatory Change*

Aurexia's RegWatch

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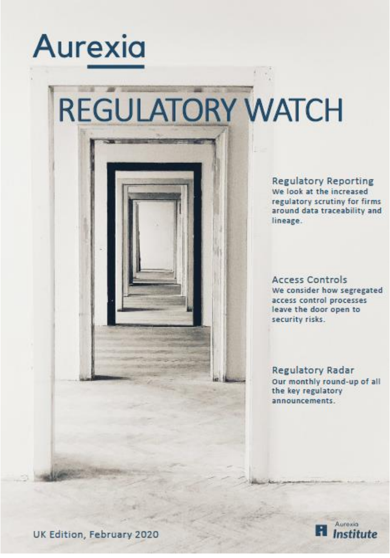

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