EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Financial regulation in 2020: trends in the EU and global patterns

Meeting with Mazars and Official Monetary and Financial Institutions Forum (OMFIF)

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Supervisory measures during crisis (1/2)

Press release 12 March: capital, liquidity and operational relief

- Banks allowed to use capital and liquidity buffers, including Pillar 2 guidance
- Frontloading change of capital composition of Pillar 2 requirements
- Postponement of existing supervisory deadlines and new decisions

€120 billion capital freed up to support lending

Press release 20 March: guidance on NPLs and IFRS 9

- Relief measures regarding asset quality deterioration and non-performing loans (NPLs)
- Guidance on prudential treatment of loans to take account of new public support measures
- Avoiding excessive procyclicality when applying the international accounting standard IFRS 9 through use of transitional arrangements and by giving greater weight to long-term stable outlook when estimating long-term expected credit losses

Press Release 27 March: recommendation on dividends

- ECB recommends banks not to pay dividends for 2019 and 2020 and to refrain from share buy-backs aimed at remunerating shareholders until at least **1 October 2020**

Supervisory measures during crisis (2/2)

Press release 16 April: reduction in requirements for market risk

- Qualitative market risk multiplier set by supervisors temporarily reduced

Press Release 28 July: communication update

- Recommendation on dividends and share buy-backs extended until **1 January 2021** as a **temporary and exceptional measure**
- Banks asked to be extremely moderate with regard to **variable remuneration**
- Forward guidance provided on the timeline for **buffer replenishment**
- Deadline for **non-performing loan reduction strategies** further extended, allowing more time to assess impact of coronavirus (COVID-19) pandemic
- Path to normality on **operational relief** measures – e.g. suspension of follow-up actions on supervisory decisions was not extended

Press Release 17 September: leverage ratio temporary relief

- Banks allowed to exclude central bank exposures from the leverage ratio until 27 June 2021
- Exercise of regulatory discretion by declaring exceptional circumstances due to the pandemic

COVID-19 vulnerability analysis

Press release 28 July

- ✓ April – July 2020: 86 banks tested to assess the impact of the coronavirus pandemic on their financial and prudential positions
- ✓ Three scenarios tested: baseline scenario of the European Banking Authority 2020 stress test to serve as benchmark of the impact of the crisis. Two scenarios anchored to June 2020 Eurosystem staff projections on the economic impact of the pandemic
- ✓ Based on the central scenario (the most likely to materialise according to Eurosystem staff), the euro area banking sector is resilient and continues to fulfil its role of lending to the economy
- ✓ In the severe scenario, several banks would need to take action to maintain compliance with their minimum capital requirements, but the overall shortfall would remain contained
- ✓ Overall, the banking sector is well capitalised to withstand the pandemic-induced stress, but if the situation worsens and the severe scenario materialises, authorities must stand ready to implement further measures

Challenges of a “new normal”

Uncertainty of the macroeconomic environment

- Phasing out of public support measures and concerns about risk developments

Structural factors remain on the agenda, now and beyond

Pandemic	Longer term
Outsourcing ↔ Concentration and risk management	
Digitalisation / Fintech / Cloud computing ↔ Cyber resilience	
Remote working ↔ Operational resilience	Profitability ↔ Consolidation

Outlook

Forward guidance provided on the timeline for buffer replenishment

- Banks not expected to start rebuilding buffers before peak capital depletion is reached
- Banks can operate below Pillar 2 guidance and the combined buffer requirement until at least end-2022, and below the liquidity coverage ratio until at least end-2021, without automatically triggering supervisory actions
- Timeline to be decided on a case-by-case basis following the 2021 EU-wide stress test

Dividend recommendation

- Review of decision in fourth quarter of 2020, taking into account the economic environment, stability of the financial system and reliability of capital planning

Conclusion

- Measures taken during the coronavirus crisis were **prompt**, **balanced**, **risk-sensitive** and **transparent**, making use of the flexibility contained in the regulation …
- … but no room for complacency in facing the challenges of a “new normal”

→ Vital to pursue coordination to facilitate level playing field and cross-border integration

- Financial system in the lead-up to current crisis was stronger and more resilient than ever before, largely due to international cooperation and coordination
- We should continue to build on European and global coordination to ensure that the international financial system recovers from this crisis