



Mr. Valdis Dombrovskis
Executive Vice-President for An Economy
that Works for People
European Commission
Berlaymont
B-1049 Brussels
Belgium

19 March 2020

Addressing the economic fall-out of the Coronavirus Crisis

Dear Executive Vice-President Dombrovskis,

The coronavirus is now officially a global pandemic, with Europe rapidly emerging as one of the most impacted regions in the world, in both human and socio-economic terms. There is no recent precedent for a global health crisis of this magnitude, one which has already impacted severely –and will continue to do so-- the world's and Europe's economy, for an as-yet unknown duration. At a time like this, the members of the European Financial Services Round Table wish to reiterate their unwavering commitment to continue to support the European economy and their clients as we collectively face and strive to alleviate the economic consequences of this crisis, in particular with regard to our more vulnerable SME and retail clients. Consistent with our overall commitment to the sustainable economic prosperity of our clients, banks in a number of European jurisdictions are currently considering special facilities to provide extra support to those firms, in particular in the SME sector, hit by temporary liquidity challenges

European and national authorities are taking wide-ranging actions to prevent the spread of the epidemic and protect the population. EFR members encourage authorities across Europe to take measures to support liquidity on the financial markets, ensure that banks have sufficient access to liquidity and assist trade sectors and SMEs which are specifically affected by the crisis. We call for coordinated and decisive action which should dispel any doubt about national governments, central banks and the European Union's readiness to directly support businesses with sufficient liquidity that will be needed to address the acute crisis situation. We welcome in this respect the message by some governments that have announced measures such as tax deferrals and full credit guarantees, directly supporting businesses, and have deliberately not set any limits on the volume of liquidity and/or access to

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refinancing which could be provided given the unprecedented situation we find ourselves in.

Clear and transparent communication from governments and central banks is needed at this time.

Next to the national measures currently being undertaken to support retailers, SME's and corporates, the EU should welcome the announcement by the EC that the EU budget will deploy its existing instruments to support companies with liquidity, in order to complement measures taken at national level. We call for quick action when it comes to operationalising the European Investment Fund to incentivise banks to provide liquidity to SMEs and midcaps.

In the economic area also, governments have begun enacting exceptional actions and a number of measures have been announced by the European Banking Authority and the Single Supervisory Mechanism. These measures are welcomed. The EFR emphasises that the focus should be on support for businesses, entrepreneurs and employees directly. In addition, support should be extended to banks given their role as primary financiers of businesses. To that end, the EFR welcomes in particular

- the temporary relaxation of: i) capital requirements rules through relief in the composition of capital for Pillar 2 Requirements; ii) the capital conservation buffer; (iii) the liquidity coverage ratio; and iv) the ECB's intention to discuss with banks individual supervisor's measures.
- Furthermore, the SSM has called for national macro prudential authorities to ease the countercyclical capital buffer requirement, rightly in our view; and
- the timely decision by the European Banking Authority to postpone the 2020 EU-wide stress test to ease banks' operational burden as they face the challenges posed by this crisis.

Beyond the above measures which we welcome, there is a priority and urgency for authorities to apply flexibility and foresight with regard to forbearance rules to allow banks to support a temporary weakness of their clients due to the COVID 19. To that end, we urge European authorities and supervisors to:

1. Implement mechanisms to provide public guarantees to businesses which are currently suffering from declines in turnover as a result of the crisis, as well as for affected individuals. This shall promote the provision of liquidity by banks.
2. Adopt a flexible interpretation of the regulatory definition of default and of the treatment of restructured exposures. In particular, they should urgently exonerate banks, for a period of six months and including a review clause at the end to assess evolving conditions, from the EBA forbearance guidelines which have been in force since 30 June 2019:
 - In cases where banks do make concessions to counterparties in accordance with the instructions by governments or authorities, this should not automatically lead to the classification of the credit as a forbore exposure where there is no other evidence of financial difficulty, nor to that of the counterparty as non-performing

- Likewise, if a client is weakened directly by the COVID 19 or is in a sector which is itself impacted, banks should not have to consider these qualitative elements as an indication of “unlikely to pay,” which under the existing rules would lead to classifying the exposure as non-performing.
3. Temporarily ban short selling in order to reduce speculation and volatility in the capital markets in these exceptional circumstances. This shall be done in coordination with national authorities and ESMA. Additionally, and with the same objective, there is a need to introduce some flexibility in the restrictions on the holdings of treasury stock.
 4. Extend and refresh the existing transitional relief to provide up to 100% mitigation of the impact of IFRS9 on the capital regime, until the widespread outbreak of COVID-19 and its economic fall-out is over.

European banks look forward to play a full role to support the economy at this difficult time alongside EU, national governments and central banks. Decisive action is now needed.

Furthermore, considering the unprecedented current events, regulators need to stand ready to take emergency decisions to avoid unintended short term consequences of the current crisis on the resilience of the insurance sector.

We thank you for your consideration of our recommendations and will continue to engage with you to continue the dialogue on these important issues as this crisis evolves.

Yours sincerely,



Jean Lemierre
EFR Chairman
Chairman BNP Paribas

CC: José Manuel Campa, Chair of the European Banking Authority
Steven Maijoor, Chair of the European Securities and Markets Authority
Andrea Enria, Chair of the Supervisory Board, European Central Bank