

Brussels, 11 March 2020
EBF_XXXX



SUBJECT: EBF call for European measures to face COVID-19 outbreak

Dear _____,

The coronavirus infection is a global emergency. It has quickly evolved from being a public health issue to being a source of serious challenge to the economy. Enterprises, and especially SMEs, are already experiencing sharp and severe demand and supply side shocks. These shocks can be expected to increase, while at the same time our customers face ongoing payment obligations to providers, employees, tax authorities and banks.

EBF banks ask regulators and supervisors for assistance to be able to work constructively with borrowers and other customers in affected communities, which will require flexibility to stem the regulatory-enforced barriers to finance borrowers in temporary struggle. At its core, banking is about managing risk. This includes assessing the ability of overcoming crises such as the current one in order to accommodate clients' financing needs to avoid disruptions.

The European banking system is fully committed to sustaining its support of the European economy during times of economic plight, helping citizens and businesses endure adverse situations without major disruption to their financing needs. EBF banks remain committed to help the European economy navigate through the temporary difficulties posed by the COVID-19 spread. To be truly effective, this endeavour will require close and intense coordination between public authorities and banks.

Against this background, in the opinion of the EBF, it is the joint responsibility of European authorities, regulators, supervisors and banks, to quickly adopt a series of measures needed to neutralize the effects of the COVID-19 on the economy.

This should be addressed through a three-stage series of coordinated actions:

1. Firstly, a set of immediate decisions to avoid adverse liquidity effects on European businesses and households during the coming weeks.
2. Secondly, a set of medium-term actions to secure the continuation of credit transmission by banks which enables them to maintain their current prudential robustness over the next six months.
3. Thirdly, other measures to smooth the prudential effects on banks in the next year.

In the first group, we propose the following decisions for a quick implementation:

- a) EU authorities should enable a moratorium tool for sound borrowers facing liquidity challenges related to COVID-19 effects. The moratorium tool would allow banks to

European Banking Federation aisbl

Brussels / Avenue des Arts 56, 1000 Brussels, Belgium / +32 2 508 3711 / info@ebf.eu
Frankfurt / Weißfrauenstraße 12-16, 60311 Frankfurt, Germany
EU Transparency Register / ID number: 4722660838-23


www.ebf.eu

restructure the payment schedule of borrowers which are affected by the consequences of the COVID-19 without detriment to their prudential evaluation. The moratorium would be applied to viable and resilient firms which are temporarily facing liquidity challenges due to exceptional circumstances. We do not see the moratorium tool as a way of preventing defaulted exposures from being identified.

The EBA Guidelines on the definition of default consider a special treatment in case of moratorium by force of law, whereby credit exposures within the defined moratorium scope shall be excluded from the past due detection. The EBF proposes to extend such treatment to exposures affected by the coronavirus situation in a consistent manner across the EU, regardless if they are measures adopted by public institutions or by individual banks. Also, the assessment of possible indications of unlikelihood to pay on a case-by-case basis should not be required for those exposures, thus preventing their straightforward classification as non-performing exposures.

- b) EU authorities and Member States should improve banks' lending capacity by easing the level of the Combined Buffer Requirement which includes components set at national level like the countercyclical capital buffer and the domestic capital buffers. These macro-prudential measures have been intended to provide room for manoeuvre in crisis situations.

EU authorities in close coordination with the competent authorities in Member States should provide a clear approach across the EU to free up temporarily the banks' Combined Buffer Requirement. We would request regulators to reconsider the introduction of macroprudential measures where the underlying markets have changed significantly.

National authorities should consider easing these national buffer requirements in a coordinated way to boost economic resilience and prevent a downturn. In addition, Member States could consider extending to banks specific credit guarantees for new working capital facilities extended to sound clients.

- c) Supervisors should ensure that banks' liquidity is available for businesses and especially for SMEs. An immediate effect of COVID-19 is the disruption in the supply chain causing delays in deliveries and payments. As a result, businesses might need temporary extensions of liquidity and/or ask for further use of working capital credit limits.

EU banks currently hold a sizeable liquidity buffer well above the minimum of 100% Liquidity Coverage Ratio (LCR). Banks could make use of the excess liquidity over minimum requirement to provide temporary liquidity to non-financial businesses, as long as supervisors commit to accepting the use of the excess buffer without a detriment to their prudential evaluation. We recommend that the SSM makes a clear statement that LCR buffers are usable if necessary.

- d) The ECB should extend the Targeted Longer-Term Refinancing Operation (TLTRO) programs in time and scope. The role of the European Central Bank in this context is key; immediate action should be focused on maximizing the efficiency of already existing tools (i.e. TLTRO) and at providing new targeted emergency facilities.

We would like to propose two measures:

- i. Fine-tune the terms and conditions of the existing TLTRO III including the revision of the lending threshold requirement and incentives to SME lending;
 - ii. Introduce of a new lending facility to bridge the expiry of TLTRO II with TLTRO III.
- e) The EBA and EU supervisors should consider postponing the capital increases associated with the changes in technical criteria of definition of default and the Targeted Review of Internal Models. This is not the right moment to lock capital that could otherwise be used to sustain the real economy.
- f) The SRB should be flexible with the timing of the MREL decisions letting banks use the period envisaged in the BRRD2 until 2024 thus avoiding the pressure to issue or renew issuances during the current market instability.

Mindful of the critical role that banks play in the continued provision of finance to the European economy, the EBF would be grateful for the opportunity of a direct exchange of views with the ECB, the Commission, the EBA, the SSM and the SRB in the coming days, among others to discuss the concrete measures that we recommend should be taken based on our proposals above. In the meantime, the EBF is working on a wider set of measures in more detail for the next months which we look forward to sending to you soon.

We are sure that policymakers and banks will act together swiftly to the benefit of the European economy in the face of the imminent threats posed by COVID-19 to its citizens.

We look forward to engaging with you promptly on this important topic and remain at your disposal.

Yours sincerely,

Wim Mijs
EBF CEO

Jean-Pierre Mustier
EBF President

Christian Ossig
Chair EBF Executive Committee

Copy to:

Mr Luis DE GUINDOS, Vice-President of the European Central Bank
Mr Valdis DOMBROVSKIS, Executive Vice-President of the European Commission
Mr Andrea ENRIA, Chair of the Supervisory Board of the European Central Bank
Mr José Manuel CAMPA, Chairperson of the European Banking Authority
Dr Elke KÖNIG, Chair of the Single Resolution Board
Mr John BERRIGAN, Director-General DG FISMA, European Commission