ELFA Briefings

ELFA Legal & Regulatory Update
25/05/2020 – 29/05/2020

Key Highlights:

- This Legal & Regulatory Update covers the week commencing 25/05/2020.
- PRA publishes Q&A on Capital Requirements Regulation (CRR) requirements for property valuations.
- FRC completes its annual review of FRS 101 Reduced Disclosure Framework and makes minor amendments, for consistency, to the disclosure exemptions relating to statement of cash flows.
- EBA publishes its Guidelines on Loan Origination and Monitoring, which require institutions to develop robust and prudent standards to ensure newly originated loans are assessed properly.
- ECB publishes its research on COVID-19 and non-performing loans: lessons from past crises.
- AMF assesses the role of systematic internalisers in the French market.
- FINMA licenses reviewing bodies for prospectuses.
- CSSF publishes information on global situation of undertakings for collective investment at end of April 2020.
- FSB Europe group discusses financial vulnerabilities and responses to the COVID-19 pandemic.
- ICMA publishes its report on performance of European investment grade corporate bond markets during COVID-19 crisis, which we summarise below and analyse in more detail at the end of this update.
- IOSCO issues public statement encouraging fair disclosure of COVID-19 related impacts, which we summarise below and analyse in more detail at the end of this update.
- In this update, we also cover some of the most important news on leveraged finance published by the Financial Times and Thomson Reuters during the week.
- Finally, we analyse some of the most important updates in more detail at the end of the update.

Bank of England (BoE)

27 May 2020: PRA publishes Policy Statement & Supervisory Statement on expectations of firms in accordance with requirements under the Prudent Person Principle (PPP) of the Solvency II Directive

The PRA published Policy Statement 14/20. This Policy Statement provides feedback to responses to Consultation Paper (CP) 22/19 ‘Solvency II: Prudent Person Principle’, which consulted on the PRA’s proposed expectations for investment by firms in accordance with the Prudent Person Principle (PPP) as set out in Chapters 2 to 5 of the Investments Part of the PRA Rulebook (which transpose Article 132 of the Solvency II Directive (2009/138/EC) (Solvency II)).

The PRA also published its final policy in Supervisory Statement (SS) 1/20 ‘Solvency II: Prudent Person Principle’. This SS sets out the PRA’s expectations of firms in accordance with the requirements under the PPP under the Solvency II Directive regarding:

- their development and maintenance of an investment strategy;
- their management of risks arising from investments and their internal governance within the investment function; and
- their investment in assets not admitted to trading on a regulated market and intragroup loans and participations.

This SS is addressed to all UK Solvency II firms, including in the context of provisions relating to Solvency II groups, mutuals, third-country branches, the Society of Lloyd’s and its managing agents.

29 May 2020: PRA consults on expected FMI fee rates for 2020/21 and other related policy changes

The PRA published a Consultation Paper, which sets out the expected FMI fee rates for 2020/21 for financial market infrastructures (FMI) that are recognised by the Bank and subject to the FMI fee regime. The proposals include:

- the fee rates set as part of the Bank’s 2020/21 funding requirement for its FMI supervisory activity and the policy activity that supports this, as permitted by the Bank’s fee-levying powers;
- how the BoE intends to apportion surpluses from the 2019/20 FMI fees; and
- amendments to the special project fee (SPF) invoicing process and the SPF hourly rates to reflect current BoE costs.

The consultation paper is relevant to all firms currently paying FMI fees or expecting to do so within the 2020/21 fee year. This consultation closes on Wednesday 29 July 2020.

29 May 2020: PRA publishes Q&A on Capital Requirements Regulation (CRR) requirements for property valuations

The PRA published a set of Q&As answering some commonly asked questions regarding residential and commercial property valuations for CRR purposes during the period of disruption caused by Covid-19. In particular, given the disruption in the property market caused by Covid-19, firms have identified difficulties in conducting physical inspections due to social distancing measures, obtaining reliable property valuations and determining appropriate approaches to suspended or unreliable house price indices. This document is aimed at all firms to which the CRR applies.

25 – 29 May 2020: Speeches & Other Publications

During the week, the BoE released the following speeches & other publications that might be of interest to our readers:

- Minutes of the Wholesale Distribution Steering Group - April 2020
- Covid-19 and monetary policy - speech by Michael Saunders
- Statistical Notice 2020/04
- Bank of England Weekly Report 27 May 2020
- Capital Issuance - April 2020
- Global financial cycles since 1880
- Macroprudential policy, mortgage cycles and distributional effects: Evidence from the UK

Financial Conduct Authority (FCA)

25 – 29 May 2020: Speeches, Letters & Other Publications

During the week, the FCA released the following publications that might be of interest to our readers:

- Primary Market Bulletin Issue No. 28 coronavirus (Covid-19) update
  In this special edition, the FCA publishes a statement on temporary relief for the timing of the publication of half yearly financial reports.
- Market Watch issue 63: market conduct and discipline in context of coronavirus
  This edition of Market Watch provides important information to market conduct and discipline in context of coronavirus.

- Mutual societies registration function: 2019-20
  This update gives an overview of developments from 2019 to 2020, including the FCA's response to the coronavirus (Covid-19) pandemic and a breakdown of societies on the register.

Financial Reporting Council (FRC)

29 May 2020: FRC completes its annual review of FRS 101 Reduced Disclosure Framework and makes minor amendments, for consistency, to the disclosure exemptions relating to the statement of cash flows

The Financial Reporting Council (FRC) announced that it has completed its annual review of FRS 101 Reduced Disclosure Framework and made minor amendments, for consistency, to the disclosure exemptions relating to the statement of cash flows.

The FRC has also issued FRED 74 Draft amendments to FRS 102 – Interest rate benchmark reform (Phase 2). As interest rate benchmark reform takes place, this proposes amendments to provide relief to minimise discontinuities in the accounting for financial instruments and leases, minimise reporting costs, assist entities in providing useful information to users of financial statements and avoid unnecessary discontinuation of hedge accounting as agreements are modified in order to transition to alternative benchmark rates. The effective date is proposed as 1 January 2021 with early application permitted. The comment period ends on 30 September 2020.

29 May 2020: FRC issues Local Auditors (Transparency) Regulations 2020

The FRC issued the Local Auditors (Transparency) Regulations 2020. This replaces the Local Auditors (Transparency) Instrument 2015 which is now revoked. The new Regulations can be found here. The FRC has also published a Feedback Statement & Impact Assessment which provides information on the results of the consultation undertaken on the new regulation, which can be found here.

25 – 29 May 2020: Speeches, Letters & Other Publications

During the week, the FRC released the following publications that might be of interest to our readers:

- FRC Ethical Standard 2019 Implementation Guidance
- Responsibilities of the Chair, Deputy Chair, Chief Executive/Chief Accounting Officer (CEO) and NEDs
- FRC's response to IESBA's consultation on proposed revisions to the fee-related provisions of the International Code of Ethics for Professional Accountants
- IFRS 17 UK Endorsement Project - initial preparer outreach
- IFRS 17 Insurance Contracts

The Pensions Regulator (TPR)

25 – 29 May 2020: TPR Blogs & Other Publications

During the week, The Pensions Regulator (TPR) published the following blog that might be of interest to our readers:

- COVID-19: Transfer your attention
  The blog provides information and responds to queries on defined benefit transfers, defined contribution transfers and scams.

ESMA

27 May 2020: ESMA publishes its Newsletter Nº14

ESMA published its Newsletter - Nº14. In this issue, ESMA gives an update on ESMA's recent activities related to COVID-19 and takes a closer look at the Thematic Report on Collateralised Loan Obligations credit ratings in the EU. ESMA also highlights deadlines for closing consultations next month and catches up on the full list of publications from April and May.

28 May 2020: ESMA updates its Questions and Answers on the Securitisation Regulation

ESMA updated its Questions and Answers on the Securitisation Regulation (Regulation 2017/2402). The majority of the new Q&As in this document provide clarification on different aspects of the templates contained in the draft technical standards on disclosure which are published on the website of the European Commission. In particular, the document clarifies how several specific fields in the templates should be completed, including questions which are specific to fields in the ABCP template. The document also contains clarifications addressed to securitisation repositories.
28 May 2020: ESMA updates Q&AS on MiFID II investor protection

ESMA updated its Questions and Answers on the implementation of investor protection topics under the Market in Financial Instruments Directive and Regulation (MiFID II/ MiFIR). The Q&As on MiFID II and MiFIR investor protection and intermediaries' topics includes a new answer on 'MiFID inducements'. More specifically, the new Q&A provides clarification on the application of the MiFID definition of "acceptable minor non-monetary benefits". The purpose of the MiFID II/ MiFIR investor protection Q&As is to promote common supervisory approaches and practices in the application of MiFID II and MiFIR.

28 May 2020: ESMA publishes updates to EMIR Q&A

ESMA updated its Questions and Answers document on practical questions regarding data reporting issues, under the European Markets Infrastructure Regulation (EMIR). The newly added Trade Repository (TR) Q&A 54 provides clarifications on reporting of OTC derivatives by a financial counterparty (FC) on behalf of a non-financial counterparty below clearing threshold (NFC-) under EMIR Refit.

In particular, the TR Q&A 54 clarifies:

- what are the reportable details that the NFC- should provide to the FC;
- how the FC should proceed if the NFC- does not renew its LEI;
- how the FC should proceed if an NFC that has been classified as an NFC+ changes its status to NFC- and fails to timely inform the FC of this fact; and
- how FC and NFC- should proceed if they report to two different trade repositories.

29 May 2020: ESMA updates its Q&As on MiFID II and MiFIR transparency and market structures topics

ESMA updated its Questions and Answers regarding market structures and transparency issues under the Market in Financial Instruments Directive (MiFID II) and Regulation (MiFIR). The Q&As provide clarification on the following topics:

- the default liquidity status, SSTI and LIS thresholds of non-equity instruments;
- the publication of transactions in an aggregated form;
- the conversion of LIS / SSTI thresholds in lots [amendments to an existing ESMA Q&A]; and
- multilateral systems facilitating the execution of repurchase agreement (repo) transactions.

29 May 2020: ESMA's Supervisory Coordination network concludes its work

ESMA announced the finalisation of the work of the Supervisory Coordination Network (SCN). The SCN was established in May 2017 as a response to emerging supervisory convergence risks with respect to the treatment of authorisation requests by EU27 national competent authorities (NCAs) in the context of the UK's withdrawal from the European Union (EU). It was composed of senior supervisors from the EU27 NCAs and chaired by Verena Ross, ESMA's Executive Director. As the Withdrawal Agreement entered into force on 31 January 2020, the work of the SCN is coming to an end. The SCN will hold a final follow-up meeting before the end of the year to close its work. ESMA will continue to work with NCAs in preparation for the end of the transition period. You can find an overview of the SCN's work here.

European Insurance and Occupational Pensions Authority (EIOPA)

29 May 2020: EIOPA publishes bi-weekly information for Relevant Risk Free Interest Rate Term Structures and Symmetric Adjustment to Equity Risk with reference to 26 May 2020

Due to COVID-19 outbreak, the European Insurance and Occupational Pensions Authority (EIOPA) is carrying out bi-weekly extraordinary calculations to monitor the evolution of the relevant risk-free interest rate term structures (RFR) and the symmetric adjustment to equity risk (EDA). EIOPA is publishing this information in order to support insurance and reinsurance undertakings in the monitoring of their solvency and financial position. The information will be published on a specific area of the website created for this purpose for both RFR and EDA named "Extraordinary updates".

European Banking Authority (EBA)

25 May 2020: EBA publishes a preliminary assessment of the impact of COVID-19 on the EU banking sector

The European Banking Authority (EBA) announced that it has published a preliminary assessment of the impact of COVID-19 on the EU banking sector. According to the analysis, banks entered the crisis with strong capital and liquidity buffers and managed the pressure on operational capacities activating their contingency plans. However, the crisis is expected to affect asset quality and, thus, profitability of banks going forward. Nonetheless, the capital accumulated by banks during the past years along with the capital relief provided by regulators amounts on average to 5p.p. above their overall capital requirements (OCR). This capital buffer should allow banks to withstand the potential credit risk losses derived from a sensitivity analysis based on the 2018 stress test.

27 May 2020: EBA issues Opinion on measures to address macroprudential risk following notification by French High Council for Financial Stability (HCSF)

The EBA announced that it has published an Opinion following the notification by the French macroprudential authority, the Haut Conseil de Stabilité Financière (HCSF), of its intention to extend a measure introduced in 2018 on the use of Article 458(9) of the Capital Requirements Regulation (CRR) to safeguard institutions from excessive risk-taking and to prevent the build-up of future vulnerabilities. The measure intends to tighten, for French global or other systemically important institutions, the large-exposure limits applicable to large and highly indebted non-financial corporations (NFCs) resident in France or groups of connected NFCs assessed to be highly indebted and based in France. Based on the evidence submitted, the EBA does not object to the extension of the proposed measure, which will be applied from 1 July 2020 to 30 June 2021.

29 May 2020: EBA sees considerable achievements in supervisory convergence and good level of engagement in supervisory colleges across the EU

The EBA announced that it has published its Report on convergence of supervisory practices in 2019. Overall, the report finds that the key topics for supervisory attention identified in the EBA 2019 convergence plan have been largely implemented in supervisory work across the EU. The report is part of the EBA's work to actively foster and promote supervisory convergence across the Union in order to bring about strong supervisory standards and a common supervisory culture.

29 May 2020: EBA publishes its Guidelines on Loan Origination and Monitoring, which require institutions to develop robust and prudent standards to ensure newly originated loans are assessed properly

The EBA announced that it has published its Guidelines on Loan Origination and Monitoring, which require institutions to develop robust and prudent standards to ensure newly originated loans are assessed properly. The Guidelines also aim to ensure that the institutions' practices are aligned with consumer protection rules and respect fair treatment of consumers. The Guidelines specify internal governance arrangements for the granting and monitoring of credit facilities throughout their lifecycle. In particular, the Guidelines clarify the credit decision-making process including the use of automated models, building on the requirements of the EBA Guidelines on internal governance. The Guidelines set requirements for assessing the borrowers' creditworthiness together with the handling of information and data for the purposes of such assessments. In these requirements, the Guidelines bring together the EBA's prudential and consumer protection objectives. The EBA has developed these Guidelines building on the existing national experiences, addressing shortcomings in institutions' credit granting policies and practices highlighted by past experiences. At the same time, these Guidelines reflect recent supervisory priorities and policy developments related to credit granting, including environmental, social and governance factors, anti-money laundering and countering terrorist financing, and technology-based innovation.

The Guidelines will apply from 30 June 2021. However, institutions will benefit from a series of transitional arrangements: (1) the application of the guidelines to the already existing loans and advances that require renegotiation or contractual changes with the borrowers will apply from 30 June 2022, and (2) institutions will be allowed to address possible data gaps and adjust their monitoring frameworks and infrastructure until 30 June 2024. Notwithstanding the extended transition period, the EBA notes that all loan origination requires effective risk oversight and management.

29 May 2020: EBA consults on draft amended technical standards on own funds and eligible liabilities

The EBA announced that it has published a Consultation Paper on the draft amended Regulatory Technical Standards (RTS) on own funds and eligible liabilities. Since their entry into force, the RTS on own funds have significantly enhanced regulatory harmonisation of prudential rules and contributed to strengthening the quality of regulatory capital. With the revised Capital Requirements Regulation (CRR) introducing new criteria and requirements for eligible liabilities, these amended RTS capture several aspects of eligible liabilities as well as the changes to the own funds framework. The consultation runs until 31 August 2020.

European Central Bank (ECB)

26 May 2020: ECB publishes its May 2020 Financial Stability Review

The European Central Bank (ECB) published its May 2020 Financial Stability Review, which assesses how the financial system has operated so far during the pandemic. Key results from the review include:

- the pandemic greatly amplified existing vulnerabilities of the financial sector, corporates and sovereigns;
- policy responses to the pandemic are essential to preserve financial stability; and
- euro area banks, although now better capitalised, are likely to face significant losses and further pressure on profitability.

In summary, the euro area financial system has weathered the immediate stress caused by the coronavirus pandemic. Policy responses have been essential in preserving financial stability; however, pre-existing vulnerabilities have increased and pose challenges to the recovery.

27 May 2020: ECB publishes its research on COVID-19 and non-performing loans: lessons from past crises

The ECB published its research entitled "COVID-19 and non-performing loans: lessons from past crises". In this article, the ECB uses a new database covering non-performing loans (NPLs) in 88 banking crises since 1990 to examine the lessons from past crises for non-performing loan resolution after COVID-19. The data show that dealing with NPLs is critical to economic recovery. Compared with the 2008 crisis, some factors are conducive to NPL resolution this time: banks have higher capital, the forward-looking IFRS 9 accounting standards can help NPL recognition, and the COVID-19 crisis was not preceded by a credit boom. However, other factors could make NPL resolution more challenging: government debt is substantially higher, banks are less profitable, and corporate balance sheets are often weak.

25 – 29 May 2020: ECB Blogs & Other Publications

During the week, the ECB published the following blogs, interviews, speeches & publications that might be of interest to our readers:

- Volatility-targeting strategies and the market sell-off
- Recent stress in money market funds has exposed potential risks for the wider financial system
- Dividend payouts and share buybacks of global banks
- Macroprudential capital requirements with non-bank finance
- Who's afraid of euro area monetary tightening? CESEE shouldn't
- Trends in residential real estate lending standards and implications for financial stability
- Derivatives-related liquidity risk facing investment funds
- Financial stability implications of private equity
- Euro area banks' sensitivity to corporate decarbonisation
- Potential impact of government loan guarantee schemes on bank losses
- The role of bank and non-bank interconnections in amplifying recent financial contagion
- Cross-border currency exposures: new evidence based on an enhanced and updated dataset
- Twin default crises
- Guidance notes to reporting agents on SHS regulation for statistics on holdings of securities by reporting banking groups (SHSG)
- Opinion of the ECB on cash limitations concerning postal payments and anti-money laundering measures
- Monetary developments in the euro area: April 2020
- Euro money market statistics: second maintenance period 2020
- Consolidated financial statement of the Eurosystem as at 22 May 2020
- Interview with Isabel Schnabel, Member of the Executive Board of the ECB, on the ruling of the German Federal Constitutional Court
- European banking supervision measures in the context of the coronavirus (COVID-19) pandemic

European Commission (EC)

25 May 2020: Commission approves Dutch guarantee scheme to stabilise trade credit insurance market in coronavirus outbreak

The European Commission has approved, under EU State aid rules, a Dutch guarantee scheme to support the trade credit insurance market in face of the coronavirus outbreak. Trade credit insurance protects companies supplying goods and services against the risk of non-payment by their clients. Given the economic impact of the coronavirus outbreak, the risk of insurers not being willing to issue this insurance has become higher. The Dutch scheme ensures that trade credit insurance continues to be available to all companies, avoiding the need for buyers of goods or services to pay in advance, therefore reducing their immediate liquidity needs.

26 May 2020: Commission approves Lithuanian fund to enable up to €1 billion of liquidity and capital support to medium-sized and large enterprises affected by the coronavirus outbreak

The European Commission has approved Lithuanian plans to set up a fund with a target size of up to €1 billion that will invest through debt and equity instruments in medium-sized and large enterprises active in Lithuania affected by the coronavirus outbreak. The State will provide an initial investment of €100 million in the fund and will guarantee bonds up to €400 million that will be issued to raise additional capital for the fund. The State's total investment in the fund may therefore increase up to €500 million. The fund will also aim to attract private investments for up to additional €500 million. Private investments will be made on different terms with respect to the State: the risk-sharing arrangements will be determined through an open, transparent, non-discriminatory call in order to minimise any possible aid to private investors.

28 May 2020: Commission proposes a public loan facility to support green investments together with the European Investment Bank

The European Commission presented its proposal for a public sector loan facility under the Just Transition Mechanism. The facility will be implemented with the involvement of the European Investment Bank and will encourage investments that support the transition towards a climate-neutral economy by public sector authorities to the benefit of coal- and carbon-intensive regions. The facility will include €1.5 billion in grants from the EU budget and up to €10 billion in loans from the European Investment Bank's own sources. The facility will mobilise up to between €25 and €30 billion of investments for helping territories and regions most affected by the transition to a climate-neutral economy, prioritising those that have less capacity to deal with the costs of the transition.

Central Bank of Ireland (CBI)

27 May 2020: CBI publishes its Annual Report & Annual Performance Statement 2019

The Central Bank of Ireland published its 2019 Annual Report and Annual Performance Statement. The report provides an overview of the key activities and work undertaken by the Central Bank to safeguard monetary and financial stability and to ensure that the financial system operates in the best interests of consumers and the wider economy.

Autorité des Marchés Financiers (AMF) of France

26 May 2020: AMF assesses the role of systematic internalisers in the French market

As part of its remit to monitor the proper functioning of markets and at a time when the European Commission has undertaken a technical reform of the regulatory framework of these markets, the French regulator examined the role of systematic internalisers in the French equity market. The AMF published its findings, which demonstrate that systematic internalisers make a limited contribution to transparency on buying and selling interests in the market. The AMF presents an analysis of the role of systematic internalisers in the French stock equity market from three angles: their weight in the current market structure, their contribution in terms of pre-trade transparency and price formation and, lastly, the quality of their prices compared with those of Euronext Paris.

Swiss Financial Market Supervisory Authority (FINMA)

28 May 2020: FINMA licenses reviewing bodies for prospectuses

FINMA announced that it is licencing BX Swiss AG and SIX Exchange Regulation AG as reviewing bodies for prospectuses with effect from 1 June 2020. The reviewing bodies regulated in accordance with the Financial Services Act (FinSA) have the task of checking the prospectuses published in connection with a public offer of securities or the admission of securities to trading on a stock exchange with regard to their completeness, coherence and clarity and approving them. This is intended to ensure a uniform and adequate quality of the prospectuses. Both of the newly licensed reviewing bodies have already reviewed prospectuses in connection with the admission of securities to trading on a stock exchange in the past.

The reviewing bodies will not be subject to prudential supervision by FINMA after being licensed. According to the law, the sole responsibility for reviewing the prospectuses lies with the reviewing bodies. They must report important changes to FINMA, however, and submit an annual activity report. Additionally, the six-month transitional period provided for in the Financial Services Ordinance (FinSO) will begin to run with the licensing of the two reviewing bodies, and the publication of approved prospectuses will be mandatory from 1 December 2020. From 1 December 2020, prospectuses which have been approved in advance by one of these reviewing bodies must be published ahead of a public offer of securities or the admission of securities to trading on a stock exchange.

Commission de Surveillance du Secteur Financier (CSSF)

27 May 2020: CSSF publishes information on global situation of undertakings for collective investment at end of April 2020

The CSSF published information on the global situation of undertakings for collective investment at the end of April 2020. According to the CSSF, as of April 30, 2020, the total net assets of collective investment undertakings, including UCIs subject to the 2010 Law, specialised investment funds and SICARs, amounted to EUR 4,403.683 billion compared to EUR 4,149.916 billion as of March 30, 2020, an increase of 6.11% over one month. Considered over the period of the past twelve months, the volume of net assets has decreased by 0.03%. The Luxembourg UCI industry therefore registered a positive change in April amounting to EUR 253.767 billion. This increase represents the balance of positive net issues up to EUR 42.882 billion (+ 1.03%) and the favourable development of the financial markets up to EUR 210.885 billion (+ 5.08%).

25 – 29 May 2020: CSSF Blogs & Other Publications

During the week, the CSSF published the following blogs, interviews, speeches & publications that might be of interest to our readers:

- Interview between Claude Marx, Director General of the CSSF and Rajaa Mekouar, CEO Luxembourg Private Equity Association (LPEA)
  In this interview, Claude Marx spoke about the role of the CSSF in the context of the crisis related to COVID-19 and the manner in which the institution prepares for its future challenges.

Financial Stability Board (FSB)

26 May 2020: Financial policymakers discuss responses to COVID-19 with the private sector

Financial policymakers and international standard setters met virtually with private sector executives to discuss international policy responses to COVID-19. Organised by the FSB's Standing Committee on Supervisory and Regulatory Cooperation (SRC), in cooperation with Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI), the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO), the meeting brought together senior representatives from central banks, regulatory authorities and finance ministries as well as about 30 international banks, insurance firms, asset managers, market infrastructures and credit rating agencies. The meeting was chaired by Himino Ryozo, Chair of the SRC and Vice Minister for International Affairs, Japan Financial Services Agency. The meeting explored the effectiveness of prudential and other financial policy measures taken to date, including experiences with their implementation. Participants also discussed policy issues going forward, notably how financial institutions can better cope with the challenges resulting from rising solvency risks, and exchanged views on potential areas that may warrant further policy coordination.

28 May 2020: FSB Europe group discusses financial vulnerabilities and responses to the COVID-19 pandemic

The FSB Regional Consultative Group (RCG) for Europe held a conference call to discuss global and regional macroeconomic and financial market developments and their potential impact on European economies. Members exchanged views on the latest financial stability implications of COVID-19, including the wide range of policy measures authorities have taken to sustain the supply of credit to the real economy, to support financial intermediation, and to preserve the functioning and resilience of the global financial system, as well as their effectiveness. The group highlighted the importance of stress tests concerning banks' asset quality and lending capacity, and of considering how policy measures might need to evolve over time. The group also received an update on the FSB's work programme, which has been re-prioritised to focus on responding to the impact of COVID-19 on the financial system. Members welcomed the FSB's policy work on enhancing global payment systems, LIBOR transition and other areas to promote a strong global financial system that supports the real economy.

International Capital Markets Association (ICMA)

28 May 2020: ICMA publishes report on performance of European investment grade corporate bond markets during the COVID-19 crisis

ICMA published a new Report that documents the performance of the investment grade secondary bond market in Europe during the last weeks of February through March and April 2020, as the COVID-19 pandemic caused levels of market volatility and dislocation surpassing those seen during the global financial crisis of 2007-2008. The report is based on market data as well as interviews and surveys of buy-side and sell-side market participants.

Please read our more in-depth report (Report 1) at the end of this update for a comprehensive summary and analysis of ICMA's Report.

25 – 29 May 2020: ICMA Podcasts

During the week, ICMA released the following podcasts that might be of interest to our readers:

- The European IG bond market in the COVID-19 crisis
  Andy Hill discusses ICMA's new report documenting the performance of the investment grade secondary bond market in Europe from February to April 2020 as the COVID-19 pandemic caused unprecedented levels of market volatility. During the peak of the crisis, before central bank intervention, participants resorted to voice trading

when the market became too volatile and too illiquid for dealers to risk providing pricing across electronic platforms, although trading volumes recorded through platforms were at record levels. One of the key lessons from the crisis is that while market infrastructure held up well after 10 years of technological innovation, the role of market-makers in creating liquidity remains at the core of the secondary markets. Reducing the ability of market-makers to provide this service will inevitably impact market liquidity and efficiency, especially in times of market stress.

- Navigating through the crisis, an Allianz GI perspective
  Martin Scheck, ICMA Chief Executive speaks to Ingo Mainert, Managing Director and CIO Multi Asset Europe at Allianz Global Investors about how his firm is navigating its way through the current crisis on an operational level, while taking stock of both the risk management aspect and the investment outlook; and discusses his views of the monetary actions taken by central banks as well as the fiscal measures by governments in response to the pandemic. Ingo also talks about Allianz GI's ESG investment framework, the growing role of impact investing, and the longer term economic impact of the COVID-19 crisis.

- COVID-19: ICMA Asset Management & Investors Council weekly market update
  Robert Parker, Chair of ICMA's Asset Management and Investors Council, reviews the market events of the last week in the context of the COVID-19 pandemic, with a specific focus on the European Commission proposal for a €750 billion EU recovery fund, the drivers behind the bond and equity rallies, and the risk of a Brexit stalemate.

International Organization of Securities Commissions (IOSCO)

28 May 2020: IOSCO consults on outsourcing principles to ensure operational resilience

The Board of the International Organization of Securities Commissions (IOSCO) announced that it is requesting feedback on proposed updates to its principles for regulated entities that outsource tasks to service providers. IOSCO prepared this report before the COVID-19 outbreak. However, on 8 April 2020, the IOSCO Board agreed to delay publication of its reports to allow firms and financial institutions to redirect their resources to focus on the challenges arising from the pandemic. As the initial stages of this crisis pass, the IOSCO Board has decided to publish this report now because the outbreak of COVID-19 has highlighted the need to ensure resilience in operational activities and to maintain business continuity in situations where both external and often unforeseen shocks impact both firms and their service providers.

The revised principles comprise a set of fundamental precepts and a set of seven principles. The fundamental precepts cover issues such as the definition of outsourcing, the assessment of materiality and criticality, their application to affiliates, the treatment of sub-contracting and outsourcing on a cross-border basis. The seven principles cover the following areas:

- Due diligence in the selection and monitoring of a service provider
- The contract with a service provider
- Information security, business resilience, continuity and disaster recovery
- Confidentiality Issues
- Concentration of outsourcing arrangements
- Access to data, premises, personnel and associated rights of inspection
- Termination of outsourcing arrangements

To account for the ongoing resource constraints on financial institutions, the consultation period will end on 1 October 2020 (well beyond IOSCO´s typical 90-day comment period).

29 May 2020: IOSCO issues Public Statement encouraging fair disclosure of COVID-19 related impacts

IOSCO issued a Public Statement highlighting the importance, to investors and other stakeholders, of having timely and high quality information about the impact of COVID-19 on issuers´ operating performance, financial position and prospects. In light of COVID19, IOSCO confirms its commitment to the development, consistent application and enforcement of high-quality reporting standards and disclosure regulations, which are critical to the proper functioning of the capital markets.

Please read our more in-depth report (Report 2) at the end of this update for a comprehensive summary and analysis of IOSCO's Public Statement.

In the News

During the week, the Financial Times & Thomson Reuters published the following news that might be of interest to our readers.

Financial Times

- Riskier European companies draw €32bn from bank credit lines
  "Struggling companies across Europe including Matalan, Travelodge and Heathrow airport have tapped their banks for €32bn of funds to help stay afloat through turbulence caused by coronavirus lockdowns"

- UK bailout schemes could create coronavirus debt trap, warn banks
  "business leaders and policymakers are questioning whether the rescue packages that the government has put in place to save British businesses might eventually prove their undoing by creating an unsustainable mountain of debt"

- Top-rated companies raise $1tn in 5 months to fill 'war chests'
  "Investment-grade borrowers take advantage of low yields to boost Covid-19 balance sheets. Highly rated companies including Disney, Apple and ExxonMobil have borrowed $1tn in five months as they seek to fortify their balance sheets against the coronavirus-induced economic downturn"

- UK lenders approve almost 1.5m holidays for card and loan payments
  "Customers hit by the economic downturn of the pandemic have been granted almost 1.5m payment holidays on credit cards and personal loans by lenders, according to an industry body"

- UK regulator opens probe into PwC and KPMG audits of Eddie Stobart
  "The UK accounting watchdog is investigating audits carried out by PwC and KPMG of Eddie Stobart, the UK logistics and haulage company that came close to collapse last year"

- Will the ECB expand its bond-buying programme?
  "Investors will be paying close attention to the European Central Bank's monetary policy meeting on Thursday, focusing on economic growth projections for the eurozone and any extension of the bank's bond-buying programme"

- German ECB executive shrugs off court ruling against bond buying
  "The European Central Bank intends to shrug off the German constitutional court's ruling against its flagship bond-buying policy and expects Germany's central bank to resolve the legal impasse, according to one of the eurozone institution's top executives"

- Brussels wants €750bn borrowing power to fund virus recovery
  "Brussels has called for the power to borrow €750bn to bankroll recovery efforts after the coronavirus crisis, warning that failure to act would leave the EU permanently fractured along economic lines"

- ECB warns of challenge for eurozone from soaring public debt
  "Soaring government debt levels threaten to make investors reassess European sovereign risk and could reignite pressures on more vulnerable countries in the region, the European Central Bank has warned"

- EU watchdog hopeful most banks can absorb €380bn pandemic hit
  "European banks are expected to suffer a hit of up to €380bn to their capital due to the economic disruption from coronavirus, but most should be able to absorb the losses, according to the EU banking watchdog"

- European consumers stockpile savings, adding to economic drag
  "The sharp increases in savings suggest that consumers' thrift could hinder the scope for a consumption-driven economic recovery. Although savers may choose to boost their spending after the initial crisis period is over, pumping some cash back into the economy, the European Commission forecasts high savings rates will persist this year"

- EU denies creating 'extra hurdles' for Lufthansa bailout
  "Margrethe Vestager, the EU competition chief, has rejected accusations that Brussels is creating extra hurdles for the €9bn bailout of Lufthansa, after the German group's supervisory board balked at requests to relinquish lucrative slots at its hub airports in Frankfurt and Munich"

- France's state-backed BPI raises 'lake of cash' for stakes in domestic companies
  "France's state-backed investment bank BPI has identified a handful of listed companies in which it plans to buy stakes worth up to €1bn in the coming months as a new fund intended to back domestic companies swings into action"

- Federal Reserve adds just $1bn of new corporate debt to balance sheet
  "The Federal Reserve's emergency lending facilities attracted little additional use over the past week, as an expansion of the US central bank's purchases of bond funds and commercial paper was partially offset by continued declines in other programmes put in place to prop up financial markets in March"

- Market 'distress' over virus sparked emergency Wall St measures
  "More than 270 of Wall Street's key trading staff were summoned for emergency weekend duty to clear a massive backlog of failed trades in March and April, highlighting the stress that built up in the financial system when the coronavirus crisis tore into markets"

- A ban on US banks issuing dividends would be bad policy
  "Economic turmoil related to the Covid-19 pandemic has spurred calls for the Federal Reserve to prevent US banks from issuing dividends, following similar moves by regulators in Europe and the UK. Such action would produce little to no benefits and substantial costs. In fact, a ban could strain banks' ability to support lending and economic growth, both now and over the long term"

- Jamie Dimon says no immediate return of share buybacks
  "US banks will not resume their share buyback programmes until executives can see the white of the eyes of the recovery and they will not return to pre-coronavirus levels, warned Jamie Dimon, chief executive of JPMorgan Chase"

- Macy's pledges stores as collateral in $1.1bn bond deal
  "Macy's is turning to its real estate portfolio to raise cash in the coronavirus crisis, pledging several of its department stores and other properties as collateral in a $1.1bn bond deal"

- Asset-backed debt: everybody Hertz
  "When you borrow against an asset instead of just projected future cash flows, you can get a lower cost of capital. But a borrower is making not one but, rather, two bets. The first is revenue continues to flow, which allows the debt to continue to be serviced. The second is collateral value remains resilient. Rental car mainstay Hertz Corporation is learning the hard way what happens when both bets go sour"

- Companies ditch commercial paper to lock in longer-term debt
  "Commercial paper has lost its fizz. Dozens of blue-chip companies including Coca-Cola and PepsiCo, which have long relied on the market to raise cash, are paying off tens of billions of dollars of borrowing in favour of new longer-term facilities"

Thomson Reuters

- New UK insolvency law fails to deliver
  “A new insolvency law fast tracked by the UK government as a response to the impact of the Covid-19 pandemic on businesses has prompted confusion and disappointment among restructuring advisers”

- Stick or twist? Investors face coronavirus-induced property dilemma
  “The coronavirus pandemic has emptied offices and shuttered shops but filled warehouses and highlighted demand for work-from-home spaces, leaving investors wondering if they should flee real estate or double down on their bets”

- UK economy to struggle to recover from ‘searing’ COVID blow: BoE’s Saunders
  “Britain’s economy is unlikely to recover fully from the “searing experience” of the coronavirus in the next two to three years, Bank of England policymaker Michael Saunders warned in the gloomiest medium-term assessment to date from a UK policymaker”

- Deutsche Bank to issue first green bond
  “Deutsche Bank is planning to issue its first green bond after the Pentecost holiday, two people familiar with the matter said, adding it would have a volume of 500 million euros”

- Euro zone bond yields stable in aftermath of EU proposal
  “Euro zone bond yields were relatively stable in early Thursday trade, with Italian yields holding near eight-week lows as optimism derived from the European Commission’s recovery fund proposal continued to drive the market”

- ECB’s Visco says policymakers must counter deflation risk
  “European Central Bank Governing Council member Ignazio Visco said on Friday policy makers had to head off deflationary risks from the abrupt halt to economic activity in the coronavirus lockdown as data from Italy showed prices fell in May”

- EU recovery fund plan not a game changer – PIMCO
  “The European Union’s 750 billion euro recovery fund plan is not a game changer as the level of debt alleviation for the likes of Italy are likely to be marginal, PIMCO’s lead sovereign credit research analyst in Europe said”

- Exclusive: ECB prepares for the worst: life without the Bundesbank
  “The ECB is drafting contingency plans to carry out its multi-trillion bond-buying programme without the Bundesbank in case Germany’s top court forces the main participant in the scheme to quit, four sources told Reuters”

- Private equity requests for flexibility may backfire during pandemic
  “The unprecedented coronavirus crisis may have become a headache for private equity sponsors that have pushed for loose lending terms to finance leveraged buyouts as they saddled their portfolio companies with debt”

- In rescue effort, Fed has broad stake in corporate America’s fortunes
  “ The U.S. central bank now has a stake in the fortunes of a broad swath of corporate America after buying about $1.3 billion of bond funds with debt issued by firms in all walks of the world’s biggest economy, from Apple Inc (AAPL.O) to a clutch of companies in bankruptcy”

- Citadel Securities says banks struggled to price bonds during U.S. Treasuries rout
  “Citadel Securities says bank pricing models were more of a problem than balance-sheet constraints when the U.S. Treasury market suffered from extreme illiquidity and volatility in March”

- Occidental is sued by shareholders, bondholders over Anadarko merger
  "Occidental Petroleum Corp (OXY.N) has been sued by investors who claim they suffered billions of dollars of losses because the heavily indebted company concealed its inability to weather plunging oil prices, after paying $35.7 billion to acquire Anadarko Petroleum Corp"

Report 1. ICMA issues report on performance of European investment grade corporate bond markets during the COVID-19 crisis - 28 May 2020

ICMA published a new Report that documents the performance of the investment grade secondary bond market in Europe during the last weeks of February through March and April 2020, as the COVID-19 pandemic caused levels of market volatility and dislocation surpassing those seen during the global financial crisis of 2007-2008. Drawing on interviews and surveys of sell-side and buy-side market participants, as well as market data and analysis, this report attempts to identify the key themes and dynamics of the 'Covid-19 crisis', the challenges faced by market participants, and the extent to which the market was able to adapt and respond. The report also looks to provide some potential lessons learned from the recent turbulence. The following are the key findings from ICMA's report.

On liquidity

- Liquidity in the European IG credit market became severely impaired during the period of late February and early to-mid March, and by March 18, considered to be the nadir of the 'liquidity crisis'; some report that the market had become dysfunctional.
- Furthermore, there are suggestions that liquidity in the week following March 18 was perhaps even worse than the week leading into it.

Market moves

- One of the most vivid representations of the crisis is the rapid and acute widening of credit spreads, followed by their subsequent extensive retracement.
- Respondents report that largely as a result of years of assertive central bank monetary policy, IG credit had become a technically driven market, where fundamental valuations had come to take second place. The Covid-19 crisis has to some extent corrected this aberration, returning to a more fundamentals-based repricing of risk.
- Market Structure
- During the peak of the crisis, for the most part, electronic trading in the European corporate bond markets broke down as participants resorted to voice trading. This was not so much due to technological challenges, but rather because the market became too volatile and too illiquid for dealers to risk providing pricing across electronic platforms. However, while overall e-trading volumes reduced dramatically relative to voice, overall volumes on venues seemed to have remained high, registering record volumes at certain points. Meanwhile, some protocols appear to have fared better than others.
- While many banks did 'step up to the plate' to continue providing liquidity and making markets for their clients, albeit with significantly wider bid-offer spreads, this was not the case for all market-makers, and overall dealer capacity appears to have shrunk at a time when it was needed most.

Central bank intervention

- Central bank intervention, particularly the announcement of the ECB's PEPP on March 18, is viewed as critical in ensuring that the European secondary bond markets continued to function. Not only did this provide a backstop bid for a large section of the market, more importantly it restored confidence.
- There is a counterview that this could be more problematic in the longer term as it creates a market dependency on central bank intervention in order to function effectively, particularly in times of stress.

New issuance

- One of the key factors in bringing some stability to the corporate bond secondary market seems to be the surge in new issuance following the ECB's March 18 intervention.
- Not only did this new supply satisfy pent-up demand, it also helped to provide a point of reference for secondary valuations.

ETFs

- Some respondents note that the one-directional nature of the orders in the bonds underlying corporate bond ETFs helped to exacerbate the market moves, which possibly explains the large discounts and premiums witnessed in ETF prices compared to the net asset value.
- The counter argument is that corporate bond ETFs performed well through the crisis and that it remained possible to recycle risk in the secondary market, while also being able to meet the heightened investor outflows and inflows. The observed dislocations reflect the loss of liquidity in the underlying market, with the ETF providing a more accurate valuation.

CDS

- During the Covid-19 crisis the role of CDS indices as both a means to trade and hedge credit risk appears to have been pivotal and volumes in index CDS increased notably during this period.
- Participants report that it was more difficult accessing the single name CDS market. However, European SN-CDS traded volumes for both financial and non-financial names did increase in absolute terms following the ECB's PEPP announcement.

Credit repo

- Repo and lending activity for corporate bonds saw a notable increase through the middle of March, followed by a subsequent decline, mirroring underlying market moves. However, survey respondents identify the lack of liquidity in the credit repo market as one of the major underlying contributors to the reduction of liquidity in the underlying bond market during the crisis.

Settlement fails

- It is reported that there was a sizeable, albeit temporary, increase in settlement fails during the height of the crisis, which is largely attributed to operational challenges.
- This increase in structural settlement fails has accentuated concerns about the EU's CSDR mandatory buy-in provisions and raises questions as to how this would have impacted the market if it had been in place during the Covid-19 turbulence. The general view of participants is that it would have turned a crisis into a catastrophe.

Trading under lockdown

- Respondents suggest that despite some initial challenges, the physical relocation and separation of trading teams and associated functions has worked successfully.
- While many seem to have enjoyed working from home, the most common complaint relates to the loss of information flow and the immediacy of human interaction that come from being on a trading floor, which inevitably impacts overall efficiency, and market liquidity.

Lessons learned

The Covid-19 crisis perhaps also provides a number of lessons from which market participants and other stakeholders can potentially learn, and which may help to inform future market developments related to structure, innovation, and regulation:

- The market infrastructure held up through the crisis, and both buy-side and sell-side traders were quickly and successfully able to adapt to operating remotely. The observed increase in voice trading, relative to e-trading, was largely a consequence of market volatility and liquidity conditions, and not because of any technological deficiencies.

- Constraints on dealer balance sheets limit the extent to which market-makers can provide liquidity when markets become heavily directionally skewed, which in turn exacerbates market moves and price gapping. However, it is also observable that some dealers choose to reduce their propensity to take risk under stressed conditions.
- While central bank intervention is critical in a crisis, it is also a double-edged sword. The announcement of the ECB's PEPP on March 18 effectively brought the market back from 'the brink', restoring confidence for both investors and liquidity providers. However, it also becomes clear that sustained central bank bond purchases result in artificial credit valuations and a mispricing of risk.
- While the corporate bond ETF market appears to have functioned well during the crisis, sustaining heightened inflows and outflows amidst significant price volatility, there is also a view that the associated flows in the underlying baskets helped to amplify moves in the bond market.
- The loss of liquidity and depth in critical ancillary markets that help to hedge and recycle risk, in particular the SNCDS and credit repo markets, are viewed as exacerbating the crisis.
- While the imminent EU mandatory buy-in regime is expected to reduce corporate bond market liquidity and efficiency in benign conditions, it is widely believed that this will prove to be disastrous in a stressed scenario.
- While there are benefits to working from home (both psychological and environmental), there is also a loss of both synergy and camaraderie that the trading floor environment engenders. It may be that the future for trading will embrace a hybrid model.

ICMA reiterates that the main lesson learned from the crisis is to be reminded how corporate bond secondary markets function and how liquidity is created, with market-makers at their core. The structure of corporate bond markets is fundamentally different to that of the equity market, and while over a decade of technological innovation has provided significant efficiencies as well as facilitating new ways in which to access liquidity, this simple reality has not changed. Market-makers remain at the core of credit markets, and it is their capacity and willingness to assume and recycle risk (both long and short) that allows the secondary market to function. This has been a central message of ICMA and the wider market for a number of years.

Therefore, anything that constrains the ability of market-makers to take prudent and appropriately priced and capitalised risk will inevitably impact market liquidity and, potentially, efficiency. This includes capital and liquidity rules, pre- and post-trade transparency calibrations, access to ancillary hedging and financing markets, as well as the projected EU mandatory buy-in provisions. If regulators are to learn anything from the recent crisis, it is that whether the screens are switched on or off, it is the dealer-client relationship that ultimately holds the market together. This statement from ICMA, alongside the concerns raised by the market about settlement fails, is a clear message against the CSDR mandatory buy in regime, due to come into force in early 2021. You could also listen to Andy Hill's, the author, Podcast on the report.

Report 2. IOSCO issues Public Statement encouraging fair disclosure of COVID-19 related impacts - 29 May 2020

The Board of the International Organization of Securities Commissions (IOSCO) issued a Public Statement highlighting the importance, to investors and other stakeholders, of having timely and high quality information about the impact of COVID-19 on issuers´ operating performance, financial position and prospects (the "Statement"). In light of COVID19, IOSCO confirms its commitment to the development, consistent application and enforcement of high-quality reporting standards and disclosure regulations, which are critical to the proper functioning of the capital markets. IOSCO's Statement provides guidance on the following issues in financial statements.

Impact on amounts recognised, measured and presented in financial statements

IOSCO states that the factors to consider in relation to asset values, liabilities and assessments on solvency and going concern may include "business and economic factors", "industry specific factors" and "government initiatives, assistance and support". IOSCO acknowledges that, in the current environment, issuers need to make significant judgments and estimates that are subject to greater uncertainty than usual. IOSCO understands the difficulty in preparing financial statements in an evolving and uncertain environment, with potentially imperfect information that could change after financial information is made publicly available. Nevertheless, IOSCO reminds issuers of their responsibility to use the best available information in making well-reasoned and supported judgements and estimates that take in account the impacts of the COVID-19 pandemic, the guidance issued by standard setters and the government relief and support measures available in each jurisdiction. Therefore, IOSCO notes that issuers may wish to consider whether additional expertise is needed to assist management in fulfilling their responsibilities to prepare financial reports.

Importance of transparent and complete disclosures

IOSCO notes that, particularly in an environment of heightened uncertainty, it is important that financial reporting include disclosures that provide an adequate level of transparency and is entity-specific regarding uncertainties inherent in judgments and estimates. Therefore, disclosures should explain the material impact on specific assets, liabilities, liquidity, solvency and going concern issues as relevant and any significant uncertainties, assumptions, sensitivities, underlying drivers of results, strategies, risks and future prospects. Issuers should not limit disclosures to boilerplate discussion on COVID-19 itself, but to explain; (i) how COVID-19 impacted and/or is expected to impact the financial performance, financial position and cash flows of the issuer, (ii) how the strategy and targets of the issuers have been modified to address the effects of COVID-19 and (iii) measures taken to address and mitigate the impacts of the pandemic on the issuer.

IOSCO explains that the following areas require greater transparency in disclosures:

- assessment of the impact of COVID-19 on the historical financial information and nonfinancial information, including future outlook, which comprise the company's current financial and operating situation, and how its operations and financial condition may change in the near and longer-term;
- going concern assessments, including management's plans to mitigate the uncertainty;
- significant judgements and estimates regarding: assessment of goodwill and other nonfinancial assets for impairment, fair value measurements using significant unobservable inputs, and impairment of financial assets including application of accounting for Expected Credit Loss;
- forward looking information may be needed in these areas to project future cash flow; and
- subsequent events.

Non-GAAP Financial Measures / APMs

IOSCO explains that Non-GAAP financial measures, also referred to as Alternative Performing Measures (APMs), can be useful to investors when they provide additional insight into an issuer's financial performance, financial condition, and cash flow. However, an inappropriate use of Non-GAAP financial measures has always been a cause of concern to IOSCO, particularly, when Non-GAAP financial measures are presented inconsistently from period-to-period, defined inadequately, or are used to obscure rather than supplement financial information determined in accordance with the applicable accounting framework.

IOSCO stresses that in the current environment, it is particularly important that issuers be mindful of the elements of reliable and informative non-GAAP financial measures that are not potentially misleading. Given the uncertainty in the current environment, issuers should carefully evaluate the appropriateness of an adjustment or alternative profit measure. Therefore, not all COVID-19 effects are non-recurring, and there may be a limited basis for management to conclude that a loss or expense is non-recurring, infrequent or unusual. IOSCO explains that it could be misleading to describe an adjustment as COVID-19 related, if management does not explain how an adjusted amount was specifically associated with COVID-19. Additionally, characterising hypothetical sales and/or profit measures (e.g., had it not been for the effect of COVID-19 the company's sales and/or profits would have increased by XX%) as non-GAAP financial measures would not be appropriate. **In this context, please read our ELFA statement on the generously redefined version of ex-COVID EBITDA and its detrimental impact on calculating debt capacity.**

Interim reports

IOSCO explains that, while the requirements for interim reports may contain fewer required disclosures than is the case for annual reports, where an interim report is the first report to be published since the COVID19 pandemic, it will be relevant to include more detailed disclosure on these matters and their material effect on the issuer.

Implications for the annual audit

IOSCO states that the auditor remains responsible for performing a high-quality audit in accordance with professional standards. Auditors are reminded of their responsibilities to report on Key Audit Matters (KAM), including a description of how the auditor addressed these matters. Additionally, there may be circumstances for which the auditor concludes that the audit report should contain an emphasis of matter paragraph or a material uncertainty relating to going concern paragraph. Auditors should modify their reports when the standards require to do so (e.g., if there is a material uncertainty about the entity's ability to continue as going concern and this uncertainty has not been adequately indicated in the notes or the management commentary). In this regard, IOSCO reminds external auditors of their responsibility to communicate with management and audit committees (or TCWG) and to evaluate the adequacy and transparency of disclosures provided in the financial statements.

Filing deadlines extended in many jurisdictions

In response to the current situation, regulators in some jurisdictions have provided an accommodation that allows issuers an extended period to prepare and issue their financial information. IOSCO explains that, when considering such extensions, issuers should balance the needs of investors with the responsibility for providing timely and comprehensive financial information that includes reasonable and supportable judgements, and on the other hand investors and other stakeholders are expected to pay more attention to issuers' situation. Where more time is taken, issuers should consider informing the market about the reasons for the delay, how the matters will be addressed and the expected reporting date.

In conclusion, IOSCO reminds issuers, audit committees (or TCWG), and external auditors of the important role each plays in providing investors with high-quality, reliable, timely, and transparent financial information, especially in times of heightened uncertainty. It is the responsibility of management to develop well-reasoned and supportable estimates, establish and maintain effective internal controls over financial reporting, provide reliable financial information and transparent, entity-specific disclosures about the current and potential future effects on the issuer from COVID-19. Audit committees and/or TCWG are responsible for oversight of the issuer's financial reporting and the external audit process. Additionally, it remains the responsibility of the external auditor to perform high-quality assurance services in accordance with professional standards on the financial information with which they are associated.

Regulators & Associations Monitored

1. FCA
2. BoE
3. The Pensions Regulator
4. FRC
5. ESMA
6. EBA
7. EIOPA
8. ECB
9. European Commission
10. Autorité des Marchés Financiers (AMF) of France
11. CSSF
12. FINMA
13. CBI
14. ICMA
15. IOSCO
16. FSB

Important Information: