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Covid#19

Attached you'll find the latest version of our tracker "Economic and Regulatory Measures taken by Countries to Respond to the COVID-19 Pandemic".

- a. Yale School of Management tracker
- b. Cicero tracker
- c. Clifford Chance Coronavirus: Government financial aid to business - an international guide
- d. ICMA COVID Market Updates
- e. WFE COVID-19 information sharing webpage

London expects only half of bankers back at their desks this year; Article reports that banks plan for no more than half their stuff to return to their offices, with the majority still working at home as a result of Covid-19, according to City of London leader Catherine McGuinness. Please see click here to read the article in full

Euro area banking sector resilient to stress caused by coronavirus, ECB analysis shows; *On 28 July 2020, the European Central Bank (ECB) published the aggregate results of its vulnerability analysis of banks directly supervised within the Single Supervisory Mechanism. The exercise assessed how the economic shock caused by the COVID-19 pandemic would impact 86 euro area banks and aimed to identify potential vulnerabilities within the banking sector over a three-year horizon. Overall, the results show that the euro area banking sector can withstand the pandemic-induced stress.*

- The vulnerability analysis focused different scenarios including one that ECB staff feel is the most likely to materialise with real gross domestic product (GDP) in the euro area declining by 8.7% in 2020, and GDP growth at 5.2% and 3.3% in 2021 and 2022, respectively. In this scenario banks' average Common Equity Tier 1 ratio, a key indicator of financial soundness, deteriorated only by 1.9 percentage points to 12.6% from 14.5%. As a result, banks could continue fulfilling their role of lending to the economy.

7 July 2020 – The FICC Markets Standards Board (FMSB) has today published a Spotlight Review which examines remote working risks in FICC markets.

- Following COVID-19 being declared a global pandemic and the closure of many offices, FMSB formed a working group of members and other interested market participants to consider the impacts of financial services activities being undertaken by a workforce which is widely distributed and using remote working. The working group set about identifying and capturing the main priorities from a wide range of risks that arise from the new working environment, with a focus on areas which impact the fairness and effectiveness of wholesale FICC markets, and then to consider mitigants or strategies to manage these risks.
- As part of this, FMSB has created a risk register that shares the experience and observations of the working group for market practitioners to use when conducting their own risk assessments.
- The Review categorises risks into nine thematic categories:

1. Control limitations
2. Execution risks
3. Governance
4. Heightened cyber risk
5. Sales lifecycle

6. Sharing of confidential information
7. Staff treatment and productivity
8. Third party risk
9. Threats to market effectiveness

- Within these nine categories, the risk register outlines over 40 specific risks, including cultural leakage and reduced employee engagement, weakened control of confidential information, poorer identification of suspicious trading activity, and physical and mental stress resulting from home office environments. For each risk there is an outline of the potential impact and example control and mitigation measures.
- The risk register is already being used by members of the working group in considering how they should best deal with the challenges posed by remote working. FMSB may decide to issue subsequent iterations when it considers there are substantive changes that would be helpful to share.
- Rosie Murphy Williams, Chair of the FMSB Remote Working Risk and Controls Group and former Chief Compliance Officer of several trading platforms and financial institutions said: "It has been impressive to see this group of market participants come together and pool their collective view of the most significant risks arising from the COVID-19 pandemic and the rapid adoption of remote working practices. I am certain that the resulting risk register will prove incredibly valuable to firms across the financial services sector, regardless of business model or location."
- Martin Pluves, CEO of FMSB said: "The rapid transition to widespread and prolonged remote working presented significant new challenges for all participants in wholesale FICC markets. It would appear that remote working in one form or another is here to stay and each firm must navigate its own unique set of challenges. FMSB's risk register, the product of a diverse group of practitioners, provides practical considerations to help firms with the task of identifying and mitigating risks during this ongoing period of significant change."
- Importantly, the risk register and this cover note do not constitute advice or guidance and are not intended to be a comprehensive assessment of all potential risks nor do they consider the full range of potential responses to each risk. Individual firms should consider the specific risks which impact their business and the full range of potential actions that they could take in mitigation taking into account the context of the nature, scale and operational structure of their own organisations.
- The FMSB working group may decide to issue subsequent iterations of this register when it considers there are substantive changes that would be helpful to share. This may include, for example, when:
- a vaccine is widely available; and/or
- government, regulator and market responses are updated significantly.
- Longer term, FMSB members may consider whether this topic may benefit from further consideration, and whether in due course FMSB Standards or Statements of Good Practice would be of value.

Risk categories To support firms in their remote working risk assessments this Spotlight Review proposes nine thematic risk categories.
Control limitations
Execution risks
Governance
Heightened cyber risk

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Sales lifecycle
Sharing of confidential information
Staff treatment and productivity
Third party risk
Threats to market effectiveness

Virus response sees Europe recovery surpass US Europe's measures to combat the coronavirus pandemic caused a steeper initial contraction in the bloc's economy than in the US, but has produced a stronger bounceback. Composite purchasing managers' index data for June, compiled by IHS Markit, was below expectations for the US but surged significantly for Europe. **Full Story:** The Wall Street Journal (tiered subscription model) (7/27), Bloomberg (tiered subscription model)

FCA Trying To Cram Pandemic Into Biz Policies, Insurers Say; The Financial Conduct Authority has conflated the COVID-19 pandemic into an ongoing emergency and a single incident to allow small businesses to make claims for losses during the crisis, insurers said Monday in a major legal case testing cover for business interruption.

KPMG weekly poll had been pointing to a shift in business leaders' focus from improving resilience and recovery, to preparing for the New Reality. But this will be iterative, with the need to revisit resilience initiatives as both the pandemic and economic uncertainty develops over the coming months.

- With a vaccine still some way off, what we hoped might be short term measures may actually be long term changes to both businesses and the broader economy. This feels like the end of the beginning, not the beginning of the end for the wide scale implications of the pandemic.
- We will be taking a short break from our COVID-19 Business Insights newsletter and weekly webinar series during August, but will return in September.
- In the meantime, you may find it useful to stress test your plans with our COVID-19 Response Assessment tool. Workforce planning will also remain a major consideration as the Job Retention Scheme (JRS) winds down, so we will continue to share insights on the JRS with you as fresh announcements are made by the Government.
- After 19 weeks of webinars, we round up our Wednesday series as we go into the summer recess with our guest speaker **Dame Carolyn Fairbairn, Director General of the CBI**, who will take a look back with us at what we've learnt so far, and then forward to where business is heading in the New Reality.
- This week we will also be hosting webinars on the 'New Customer' and what this means post COVID-19 as well as a session on important tax considerations for private business.

Risk survey points to post-coronavirus changes; A survey of buy-side firms found that two-thirds of respondents will be making changes to their risk management practices based on what they have learned from the unexpected coronavirus disruption to the financial system. Respondents said they plan to revamp the content of risk reports, reduce risk limits and add new hypothetical stress scenarios. **Full Story:** Risk (subscription required)

Corona Capital: Precious metals, Share sales, Toys; Concise views on the pandemic's corporate and financial fallout: The virus and central banks' response to it is a rich seam for gold and silver prices; UK companies' growing preference for bonds rather than stock is a warning sign; Hasbro and Mattel vie to see who loses less.

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- **Travel disruptions, Barbados, HDFC** Concise views on the pandemic's corporate and financial fallout: Travel companies risk crash-landing; Barbados seeks to lure remote workers; India's veteran bank boss cashes out.
- **Goldman DJ, 3M masks** Concise views on the pandemic's corporate and financial fallout: Goldman Sach's boss-DJ gets a little too close for Covid-era comfort; and how 3M's masks have become a luxury good without luxury profits.
- Google has told its employees they may work from home until the summer of 2021.
- **Singapore, Peugeot, Crisis warning**; Concise views on the pandemic's corporate and financial fallout: Singapore taps its sovereign wealth fund's reserves; cost cuts prop up the French carmaker's profit margin; and the former boss of the Hong Kong Monetary Authority channels Cassandra.
- **Baseball, Gas cloud, Luxury goods**; Concise views on the pandemic's corporate and financial fallout: Baseball's Covid-19 cases put popular college sports competitions in jeopardy; a recovery in drilling for gas is bad news for the environment; Gucci and other luxury retailers finally embrace the digital revolution.
- **Drugs, Planes, Parcels**; Concise views on the pandemic's corporate and financial fallout: Roche loses its ticket on the coronavirus therapy gravy train; the German government hits on a way to keep airlines in business; FedEx pilots discover quarantining in Hong Kong is no holiday.
- **GM, Glaxo, Shopify, Movies, Pemex**; Concise views on the pandemic's corporate and financial fallout: General Motors pulls further ahead; GlaxoSmithKline's vaccine-order boost; Shopify fills its revenue basket; AMC bows to online streaming's growing power; Mexico's oil giant puts on a brave face.
- **Mumbai's slums test lockdown logic** Nearly 60% of people in densely packed areas have had Covid-19, a study found, suggesting a low fatality rate. About 40% of the Indian financial capital's residents live in similar settings. The city's strict shutdown may now be impoverishing more than protecting the poor.
- **Samsung, Luxury, Lloyds**; Concise views on the pandemic's corporate and financial fallout: Samsung's late but welcome greening; China's renewed enthusiasm for luxury goods; and Lloyds' strategic disappointment.
- **UPS, Nestlé, Mediobanca** Concise views on the pandemic's corporate and financial fallout: Covid-19 gives UPS pricing power; Nestlé is ready to pounce for pets; and Mediobanca's coffers are well stuffed.

To V or not to V; By John Springford, 27 July 2020; *The debate over the shape of the economic recovery continues. But recent medical advances should tilt governments towards continued support for workers and companies, because the pandemic may be over sooner than they had feared.*

- In a much-discussed – and much-criticised – speech on June 30th, Bank of England chief economist Andy Haldane argued that Britain's post-pandemic recovery had been V-shaped so far. Quoting data from Google, the Open Table restaurant bookings platform and online payments, he argued that the recovery in spending had been faster than the Bank had previously forecast. Haldane had been the only member of the UK's Monetary Policy Committee to vote against further quantitative easing in its June meeting.
- Yet data from other countries, such as South Korea and New Zealand, which are further along into their recovery than the UK, suggest that spending on bars, restaurants and public transport has not bounced back completely, even with the virus largely under control. If governments withdraw support for workers and firms too quickly, a wave of bankruptcies and unemployment will follow.
- The shape of the recovery will be largely determined by medical and epidemiological progress, so it is difficult for economists to forecast it. Improved testing and contact tracing, alongside social distancing measures, have allowed European countries to ease lockdown

measures without significant increases in coronavirus cases. But to achieve a complete recovery, airlines, shops, theatres, cinemas, bars and restaurants will need to reopen fully, which will require a vaccine and improved treatment for the disease.

- There are some hopeful signs that vaccines will be available next year, with candidates in China, Germany, the UK and US all generating antibodies in the first stages of human trials (though they have not yet been shown to prevent infection). New treatments have been discovered: an anti-viral drug, remdesivir, has been shown to speed recovery; interferon beta inhalers have been found to reduce the need for hospitalised patients to be ventilated; and dexamethosone, a steroid, cuts the share of patients on ventilators who die by a third. Yet these treatments do not stop COVID-19 from being a highly contagious and potentially deadly disease. Social distancing measures will have to continue until a vaccine is developed and administered to the majority of the population. With luck, that might happen next year, at least in richer countries.
- Even those countries that have successfully contained the virus have not seen a full recovery in hospitality and retail. According to Google mobility data, which tracks people going to outlets in these sectors using their mobile phones, footfall is around 5 per cent lower in South Korea than it was a year ago, and 10 per cent lower in Japan and Australia. The numbers using public transport are much worse: footfall in bus terminals and railway stations is down 20 per cent in Japan and 40 per cent in Australia and New Zealand. People are walking, cycling and driving instead, but that does not prevent cafes, shops and bars near railway stations from struggling with depressed revenues. The hospitality, leisure and tourism industries are big employers across Europe, and unemployment will rise very rapidly if government support is withdrawn, as social distancing measures and people's fear of contagion weigh on consumption in these sectors.
- Governments have two potentially competing objectives now that the first wave has passed. First, they must continue to support firms that will be viable with a vaccine, but insolvent without one, and keep workers attached to them so that firm-specific skills are not lost. Second, they must seek to reduce support for companies that are able to operate under social distancing conditions, in order to reduce the cost to the taxpayer of supporting the economy and to start the process of redeploying capital and labour. The problem is that it is very difficult to identify which companies fall into which category.
- As British journalists Stephen Bush and Ben Kelly have pointed out, the good news on the vaccines and treatment front should, on balance, encourage policy-makers to continue to provide furlough schemes. If the pandemic is over in 2021, they can afford it. Britain's finance minister, Rishi Sunak, announced in July that he would reduce the amount of wage support paid by the government to 60 per cent per worker in September, and that the scheme would end on October 31st. Sunak said that he "will never accept unemployment as an unavoidable outcome", and he may have to revisit his decision to end the furlough scheme in October, especially if the infections start to rise again in the autumn. Under Germany's Kurzarbeit scheme, wage top-ups will continue until the end of 2020. And the French government has also been reducing support, to 70 per cent now and to 60 per cent in October, but its scheme will continue into 2021.
- To support contact-heavy areas of the economy, sector- and area-specific furlough and loan guarantee schemes may be a solution. Hospitality and leisure outlets could continue to receive support, while it is reduced in sectors that are able to return to normal. Local lockdowns will probably be needed to deal with outbreaks, and their economies will need emergency aid.
- It will not be possible, or desirable, for governments to rescue all companies – especially those that were already failing before the pandemic. Some will be unwilling to take on further debt, even if it is largely guaranteed by the state. Germany – and to a lesser extent, the UK – have tried to boost consumption through VAT cuts, to ensure that the economy returns to capacity (within the limit set by continued social distancing). Germany has reduced VAT to 16

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per cent (from 19 per cent). The rationale appears to be that this will hasten the recovery in spending, thereby helping unemployed people find work in jobs that are less affected by the virus. Both Germany and the UK have reduced VAT for the hospitality sector to 5 per cent, which may boost bookings, but people may continue to fear infection in restaurants and bars.

- Rather than trying to boost consumption, however, governments would do better to target the unemployment problem by giving more support for training and helping people find jobs. That is especially true of the UK, which spends only 0.3 per cent of GDP on such measures, according to the OECD. France spends 1 per cent of GDP, and its spending is far more cyclical than Britain's: it rises more in periods of high unemployment. Governments could also expand funding for care for the elderly and children. The pandemic has exposed the dire state of care homes in many countries, especially for poorer people. Better working conditions and pay would make it easier for homes to find staff. Greater childcare provision would allow more parents to work. Care is labour-intensive, and demand is rising as society ages.
- European countries have eased lockdowns without a big rise in infections, but that should not make anyone complacent about the speed of the recovery and the ability of governments to end support for the economy without a sharp rise in unemployment. The virus has not been beaten yet, but governments can be more confident that it will be: that should encourage them to err on the side of activism.

In the wake of Covid-19 lockdown, macroeconomic policymakers have to deal not only with the immediate contraction in the economy, but also with the medium and longer term macro-consequences. Over the past four months, the macroeconomic literature on these topics has expanded rapidly. This post reviews the literature that considers the channels via which the shock affects the economy, and the macroeconomic policy options for dealing with the aftermath, taking as given the shock caused by the virus and the lockdown.

- **Real Flow Variables (Goods Demand and Supply)**
- Guerrieri, Lorenzoni, Straub and Werning (2020) argue that while the lockdown is originally an (inflationary) negative supply shock because it keeps certain types of business from operating, the balance of the effects can resemble a (deflationary) demand shock under two conditions. The first is demand complementarities between sectors (gym closures that reduce demand for sports clothing), and the second is imperfect insurance (gym instructors who lose income and spend less). Fornaro and Wolf (2020) present a model with supply-demand doom loops driven by animal spirits, and come to similar conclusions. Baquee and Farhi (2020) argue there must also be an aggregate demand shock (e.g. confidence) alongside a supply shock to explain the observed inflation dynamics in the US. However, these arguments rely on models that abstract from the transmission channels of shocks running through balance sheets. This is problematic given the potential for amplification through liability-asset doom loops, bankruptcies and financial contagion. This view is in line with Stiglitz (2015), who argued that reliance on flow-based models, without a role for credit, actually contributed to the 2008 crisis, and to the initially inadequate response in its aftermath.
- **Balance Sheets (Financial Assets Demand and Supply)**
- The literature on the effects of the corona crisis on balance sheets is in its infancy. Danielsson, Macrae, Vayanos and Zigrand (2020) argue that the primary channel for a systemic crisis is not amplification from within the financial sector but cascading commercial-sector bankruptcies, and that mitigating these is not the main domain of monetary policy. Perotti (2020) argues that illiquidity in the shadow banking sector is another source of vulnerability by which losses from elsewhere in the economy could spill over to the banking sector. Danielsson, Macrae, Vayanos and Zigrand (2020) argue that banking sectors in major economies are sufficiently resilient to bear those losses, but this is likely to be

dependent on the overall size of losses incurred, and on how much of this is borne by the fiscal authority.

- **Monetary Policy**
- De Grauwe and Ji (2020) argue that in periods of extreme uncertainty, policy performs better when responding only to current inflation and not to forecasts of inflation, which are bound to be unreliable. While they use a model of animal spirits, this point deserves consideration even for standard central bank DSGE models.
- For central banks whose policy rates are already close to zero, Lilley and Rogoff (2020) have recently restated their case for negative policy rates when markets no longer believe that QE is sufficient to maintain inflation at target. However, the empirical literature, most prominently Heider, Saidi and Schepens (2019), find that commercial banks generally do not push deposit rates to negative levels, so that negative policy rates compress banks' net interest margins and hence their willingness to lend. This is formalised in the model of Kumhof and Wang (2020), where insufficient willingness to lend implies money creation that is insufficient to support an adequate level of real economic activity.
- **Fiscal Policy**
- A small recent literature studies interactions between fiscal policy and interest rate policy. Bianchi, Faccini and Melosi (2020) argue that fiscal and monetary policies cannot be neatly separated, based on the fiscal theory of the price level. The authors propose a separate emergency budget that contains no provisions for long run fiscal balancing, accompanied by a central bank response that tolerates the resulting inflation, which in turn reduces the debt-to-GDP ratio over time. Hagedorn and Mitman (2020) also argue that fiscal and monetary policies cannot be neatly separated, in this case based on HANK (heterogeneous agent New Keynesian) models. They advocate that treasuries should finance spending increases through permanent rather than temporary increases in debt to generate inflation. The policy implications are very similar to Bianchi et al. (2020). An important problem in Hagedorn and Mitman (2020) is the assumption that households are indifferent between IOUs issued by the treasury and the central bank. The problem is that households cannot hold the principal central bank IOU, reserves.
- Financing of increased government spending can be based on debt or money issuance. Several recent papers consider variants of debt financing. Goodhart and Needham (2020) argue that the government should issue consols (perpetual bonds) attractive to retail investors, in order to lock in current low interest rates. Similarly, Vihriälä (2020) argues that the ECB should swap existing short-term sovereign debt on its balance sheet against low-interest consols. Corsetti, Erce and Pascual (2020) argue that the European Recovery Fund (ERF) should lend very long term, while financing itself short term to take advantage of even lower short-term interest rates. This would of course not lock in current low interest rates. Bordignon and Tabellini (2020) argue that the ERF should be endowed with genuinely own EU sources of tax revenue.
- Debt financing may encounter limits. For the UK, Pacitti, Hughes, Leslie, McCurdy, Smith and Tomlinson (2020) show that if post-corona fiscal policy relies exclusively on borrowing, the larger debt burden creates a vulnerability to a rise in interest rates. For this reason, Gali (2020) has argued for a money-financed fiscal stimulus ("helicopter money") whereby the central bank lends reserves to the government and then immediately writes off the loan, with the government then spending that money into circulation. Similar arguments are made by Gurkaynak and Lucas (2020), Blanchard and Pisani-Ferry (2020) and Reichlin, Turner and Woodford (2013).
- However, one concern with helicopter money, ignored in the papers above, is that new reserve creation needs to be intermediated by the banking system. It may therefore be necessary to create mechanisms that support helicopter money. One option is to support bank lending, either by ensuring banks have a sufficient net interest margin (NIM) (Kumhof and Wang (2020)), or through other central bank incentives that support bank lending, such as the Bank

of England's Term Funding Scheme. The other option is direct central bank money distributions to non-banks that are not intermediated by banks, as in Friedman (1948). The modern incarnation of this idea is central bank digital currency (CBDC), as in Barrdear and Kumhof (2016). With CBDC, households and firms would directly hold central bank liabilities rather than commercial bank liabilities, and the quantity of these liabilities would therefore be under direct central bank control. Furthermore, CBDC would be interest paying in order to forestall any inflationary effects. One critical advantage of CBDC relative to bank lending is that it would not increase private sector debt and leverage.

- **Macroprudential Policy**
- Macroprudential policy could complement monetary and fiscal policies to limit the economic fallout. Drehmann, Farag, Tarashev and Tsatsaronis (2020) summarize the range of tools that are currently available to macroprudential policymakers, and argue that banks should be allowed to use liquidity and capital buffers so they can support lending to the real economy. Aikman (2020) surveys the deployment of these tools around the world so far, including widespread releases of countercyclical capital buffers and more ad hoc relaxation of some other rules. Acharya and Steffen (2020) argue that an extreme drawdown of credit commitments by corporate borrowers could move the Tier 1 ratio of many banks below the regulatory minimum. Regulators should therefore limit dividend payouts or share buybacks. Angeloni (2020) stresses the crucial role of public support for the banking system, including suspension of prudential norms, asset guarantees and public ownership, to facilitate the return to normality for the real economy.
- **Conclusion**

The aftermath of the corona shock will affect many sectors of the economy adversely, and in ways that are not yet easily predictable. However, unlike in the period following the 2008 financial crisis, the most direct effects are likely to occur outside the financial sector. This may account for the fact that a very large part of new research has so far focused on the appropriate design and financing of well-targeted fiscal interventions that help businesses and households. There is nevertheless a significant risk that cascading bankruptcies will ultimately affect the financial sector as well. An integrated response that links fiscal interventions with macroprudential and monetary interventions, including

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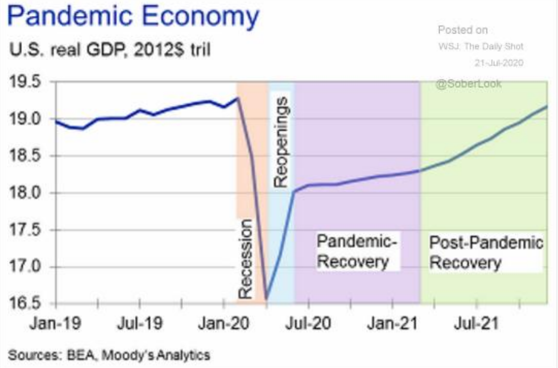
While many businesses have started to deploy return to work strategies, our weekly poll indicates that most are planning for the new reality with a reduced workforce 'onsite'.

- Only 1 in 5 expect 'almost all' of their staff to return to work premises by the end of the year, and a significant proportion are planning for a continuation of remote working. Half expect their employees will work from business premises for only one or two days per week, with 41% suggesting this will be three to four days.
- On last Wednesday's webinar we were joined by Liv Garfield, Chief Executive of Severn Trent, who shared their 'return to office' strategy and predictions for the future of work. Patrick Magee, Chief Commercial Officer of British Business Bank also discussed how they have supported businesses through £46 billion of loans and a recovery plan for SMEs.
- In this edition we continue to look at the technological strategic shift, offer insights on the investment market, and consider how the new reality might look for banking, customer service and also the transport sector, with our new research with the CBI into the future of commuting.

Corona Capital: Vaccines, Eyewear M&A, Halliburton**;** Concise views on the pandemic's corporate and financial fallout: The UK government both hedges its bets and creates jobs with its virus vaccine purchases; EssilorLuxottica's GrandVision deal starts looking blurry; Halliburton cuts its way to less painful results.

- Julius Baer, Philips, Reshoring Concise views on the pandemic's corporate and financial fallout: Market gyrations deliver rich rewards for Julius Baer, a healthier prognosis for Philips, and Japan's drive to encourage its companies to shift production out of China.
- Cognac and candy, EU banks, India Concise views on the pandemic's corporate and financial fallout: Swiss chocolate beat French spirits during lockdown, but not on the stock market; European bank shareholders brace for a bad-debt pummelling; Indian Prime Minister Narendra Modi cozies up to President Donald Trump.
- Travel insurance, Rents, Tapestry Concise views on the pandemic's corporate and financial fallout: German holiday operator TUI is dangling free travel insurance to entice tourists; London landlords in tony locations are losing the upper hand; the CEO of the firm behind Coach and Kate Spade is abruptly departing.
- Coronavirus vaccine hopes inflate bubble Multiple biotechs like Moderna are developing vaccines. The market capitalization of five of them is up over eightfold, adding more than $50 billion of value. That's excessive even if they capture the entire benefit – and there are over 150 competing efforts in all.
- Movies, Basketball, Tech optimism Concise views on the pandemic's corporate and financial fallout: Warner Bros' indefinite delay of its blockbuster movie "Tenet" spells bad news for the industry; healthy players and good social-media stats give the NBA a boost; Silicon Valley shows a hint of pessimism.
- LatAm pensions, Activism Concise views on the pandemic's corporate and financial fallout: Pension reform in Mexico and Chile gets a coronavirus makeover; UK chief executives catch a break during lockdown as the number of activist campaigns collapses.
- Consumer cheer, Roche, South Korea Concise views on the pandemic's corporate and financial fallout: Unilever and Pernod Ricard prove more resilient than investors had expected; Pharma giant Roche suffers from a widespread fear of doctors; South Korea's first recession in nearly two decades may be mercifully short.
- Thanksgiving shopping, Airlines Concise views on the pandemic's corporate and **financial fallout: Walmart gives thanks to employees; Airlines' relative winners emerge.**
- Vaccines, Snap, Airlines Concise views on the pandemic's corporate and financial fallout: The vaccine bubble envelopes Pfizer thanks to a drug order from Uncle Sam; Snapchat's disappointing user growth comes with a TikTok silver lining; European airlines face a harsh winter.
- Kingfisher, Hong Kong, London tube Concise views on the pandemic's corporate and financial fallout: The DIY retailer benefits from the lockdown boom in home and garden maintenance; a rebound in coronavirus cases in the Asian city; and funding the UK capital's transport system.
- UK retail, Pearson, Chinese buys Concise views on the pandemic's corporate and financial fallout: Britain's retail recovery looks patchy; Pearson's pandemic woes; Chinese buyers of Western assets get whacked.

The recovery has entered the slow ("pandemic") phase, according to Moody's Analytics.



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Swiss Re Suffers $1.1 Billion Loss on Coronavirus Claims; Firm had $2.5 billion of virus claims, reserves in first half; Sale of ReAssure unit to Phoenix Group has completed. Swiss Re reported a net loss of about $1.1 billion in the first half, driven by claims related to the coronavirus pandemic. Covid-related claims and reserves totaled $2.5 billion in the first six months, the company said in a statement late Wednesday. That includes $476 million of losses booked in the first quarter, mostly from canceled events. /bloom.bg/2WQGQRz

Business and Planning Act 2020 receives Royal Assent; On 22 July, the Business and Planning Act received Royal Assent introducing measures to help the economy recover from Covid-19, which (amongst other areas) ensure Bounce Back Loans will be facilitated by disapplying unfair relationships provisions in the Consumer Credit Act 1974 for lending made under them - this permanent change will apply with effect from 14 May 2020, throughout the UK. Bill documents

Moratorium and restructuring plan process now available to co-op and community benefit societies; On 18 July, the Part A1 process allowing companies to obtain a moratorium and the Part 26A process allowing companies in financial difficulty to use the new restructuring plan process introduced by the Corporate Insolvency and Governance Act 2020 was made available, with some amendments, to co-operative and community benefit societies. The changes were made by the Co-operative and Community Benefit Societies and Credit Unions (Arrangements, Reconstructions and Administration) (Amendment) and Consequential Amendments Order 2020. The expedited passage of the regulations was deemed necessary due to the Covid-19 pandemic. Statutory Instrument Explanatory memorandum

TheCityUK publishes report on supporting UK economic recovery and recapitalising businesses post COVID-19; *TheCityUK Recapitalisation Group (RCG) has published a report on supporting economic recovery and recapitalising businesses post COVID-19, which highlights the number of jobs and small and medium-sized businesses (SMEs) at risk if urgent action is not taken to tackle the projected GBP 35 billion of unsustainable debt that could result from COVID-19 loans. The report sets out a series of options for converting, restructuring and repaying this debt to help SMEs get back on their feet, save jobs, protect taxpayer money, and help power Britain's economic recovery and future growth.*

- Central to the options presented in the report is the founding of a new government-backed entity, a 'UK Recovery Corporation', which would both issue and hold, and oversee and manage, the unsustainable debt that is already government-guaranteed, in order to support funding on more manageable terms for businesses and provide a vehicle in which the private sector could invest in over time. Through the UK Recovery Corporation, viable SMEs would be offered the opportunity to convert their loans into new products allowing them to manage their debt in a more sustainable way and without being put into default. Depending on the size of their debt, they could either access a 'Business Repayment Plan (BRP)' to convert unmanageable loans into means-tested tax liabilities, or for larger debts, use 'Business Recovery Capital (BRC)' to convert crisis loans into preference shares or long-term subordinated debt.
- Also among the options presented in the report is the creation of a new growth capital fund, or the scaling up of an existing fund, to provide businesses with growth capital to help power business recovery across the country.
- The report warns that some sectors may face difficulty as early as autumn this year and that taking action now is vital to help businesses get back onto a stable footing.
- A number of Clifford Chance partners participated in the Technical Working Group supporting the report.

European Union; The EU Commission has welcomed a list of 'best practices' agreed by the financial sector and consumer and business organisations to help further mitigate the impact of the pandemic.

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The document sets out how different market participants can support citizens and businesses throughout the crisis. In particular, the 'best practices' cover:

- payment moratoria for consumer and business loans, and for insurance contributions, to help those facing financial difficulties by deferring payments;
- enabling safer cashless payments while ensuring cash payments remain available for those who need them;
- ensuring loans aimed at mitigating the impact of coronavirus are provided swiftly, and that the fees and interest rates incurred are fair; and
- legitimate insurance claims being processed and paid out as quickly as possible.
- The publication of the 'best practices' follows two roundtable meetings facilitated by the Commission with consumer and business representatives, European banks, other lenders, and the insurance sector. The Commission intends to facilitate a further roundtable in September to take stock of progress and has encouraged all participants to follow the best practices.

Germany; The BaFin has updated its coronavirus FAQ to include a list of payment relief initiatives that BaFin has notified to the European Banking Authority (EBA) as a general payment moratorium in accordance with no. 18 of the EBA guidelines EBA/GL/2020/02, detailing whether it is a legislative or non-legislative moratorium, the date from which it applies and other information as required by the guidelines. The list includes a number of non-legislative moratoria, e.g. a moratorium on KfW promotional loans intermediated by partner banks granted before the pandemic and various moratoria agreed and documented by the Association of German Banks (Bundesverband deutscher Banken) applicable to member institutions.

Luxembourg; *The Luxembourg financial sector supervisory authority (CSSF) has issued a communiqué to reiterate precautionary instructions amid a resurgence in COVID-19 cases. The CSSF has stressed that given the significant increase in coronavirus infections, it is essential, as during the first wave, to prevent the spread of the virus while ensuring operational continuity. The Luxembourg regulator has therefore urgently asked supervised entities to:*

- review their plans to lift the lockdown restrictions in order to make sure that they are in line with the current situation, especially for vulnerable persons; and
- ensure that the sanitary measures specified in the CSSF communiqué of 19 June 2020 are scrupulously respected.

United Kingdom; *HM Treasury has issued guidance on the applicability of COVID-19 related amendments to the Capital Requirements Regulation (CRR) and CRR2. The statement clarifies the amendments that are applicable before the end of the transition period and which will form part of the body of EU law to be retained in the UK.*

- The Prudential Regulation Authority (PRA) has updated its statement on the implementation of the European Banking Authority (EBA) guidelines to address gaps in reporting data and public information in the context of COVID-19. The PRA has now considered how to apply the disclosure elements of the guidelines. The PRA considers that there is substantial benefit to disclosure-users from public information about the effects of the measures that UK firms have taken in response to COVID-19, but it intends to exercise the options available in the guidelines to ensure they are implemented in a proportionate manner.
- In particular, the PRA expects that UK banks and building societies which:
    - (i) are, or are controlled by, global or other systemically important institutions designated by the PRA in the most recent list; and
    - (ii) have retail deposits equal to or greater than GBP 50 billion on an individual or consolidated basis, should make disclosures similar to those prescribed by the

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guidelines, but incorporating a number of modifications that the PRA will set out. The PRA expects such firms to make these disclosures for the highest level of consolidation in the UK.

- The PRA is finalising the design of the disclosure templates, including to ensure they capture the full range of payment moratoria available within the UK, and will share these with relevant firms directly in due course. The PRA has acknowledged that there may be practical difficulties caused by the publication of the EBA guidelines and templates, and the details of the PRA implementation of the guidelines, close to the 30 June 2020 disclosure reference date. With this in mind, the PRA does not expect that firms include these disclosures in the main Pillar 3 disclosures made for the 30 June 2020 reporting period, and accepts that firms may need to make disclosures for the 30 June 2020 reference date at a later time.
- The Financial Conduct Authority (FCA) has published a consultation paper (CP20/10) on making changes to its rules following the extension to the deadline by which FCA solo-regulated firms need to have implemented the Certification Regime. In June, the Treasury announced that the deadline by which firms must have first assessed the fitness and propriety of their Certified Staff will be delayed until 31 March 2021. This delay is intended to give firms who have been significantly affected by the coronavirus pandemic time to make the changes they need.
- To ensure other SM&CR deadlines remain consistent and to provide extra time for firms that need it, the FCA is consulting on extending the deadline for the following requirements from 9 December 2020 to 31 March 2021:
    - the date the Conduct Rules come into force;
    - the deadline for submission of information about Directory Persons to the FS Register; and
    - changing references in the rules to the deadline for assessing Certified Persons as fit and proper (which has been announced by the Treasury).

- The FCA is asking for comments on the consultation by 14 August 2020.
- The FCA has also confirmed the support that will be available for users of motor finance, buy-now pay-later (BNPL), rent-to-own (RTO), pawnbroking and high-cost short-term credit (HCSTC) products who continue to face payment difficulties due to coronavirus. The finalised guidance comes into force on 17 July 2020.
- The FCA and the City of London Corporation have announced that they will collaborate on the pilot of a 'digital sandbox' to support innovative firms tackling challenges caused by the pandemic. The strategic partnership will see both organisations work together to develop and launch a digital testing environment to provide innovative firms with access to high-quality data sets to allow for the testing and validation of technology solutions. In its pilot stage, the digital sandbox will support large financial institutions and start-ups looking to play a key role in the recovery from coronavirus through supplying relevant data sets and expertise in the areas of detecting and preventing fraud and scams, supporting vulnerable customers, and improving access to finance for SMEs financially affected by the pandemic.

United States; *The CFTC has published in the Federal Register an interim final rule amending its margin requirements for uncleared swaps for swap dealers (SDs) and major swap participants (MSPs) for which there is no prudential regulator. Due to operational challenges faced by certain entities as a result of the coronavirus pandemic, the CFTC is revising the compliance schedule for the posting and*

collection of initial margin under the CFTC margin rule to defer the compliance date of 1 September 2020 to 1 September 2021. Comments are due by 8 September 2020.

- The Federal Reserve Board has announced an extension of a rule change to improve the effectiveness of the Small Business Administration's (SBA) Paycheck Protection Program

(PPP). Like the earlier rule, the extension will temporarily modify the Board's rules so that certain bank directors and shareholders can apply to their banks for PPP loans for their small businesses. To prevent favouritism, the Board limits the types and quantity of loans that bank directors, shareholders, officers, and businesses owned by these persons can receive from their affiliated banks. However, these limits have prevented some small business owners from accessing PPP loans, especially in rural areas.

- The SBA clarified in April that PPP lenders can make PPP loans to businesses owned by their directors and certain shareholders, subject to certain limits, and without favouritism. The Board's rule change will allow those individuals to apply for PPP loans, consistent with SBA's rules and restrictions. The change only applies to PPP loans. The Board is providing the temporary change to allow banks to continue to make PPP loans to a broad range of small businesses within their communities.
- The SBA has explicitly prohibited banks from favouring in processing time or prioritisation a PPP loan application from a director or equity holder, and the Board will administer its rule change accordingly. The rule change is effective immediately and will be in place while the PPP is active. Comments will be accepted for 45 days after publication in the Federal Register.

HMT's statement on applicability of Covid-19 related amendments to the CRR; On 16 July, HMT published a statement clarifying the Covid-19 amendments to the CRR and CRRII that apply before the end of the transition period and which will form part of the body of EU law to be retained in the UK. The Treasury will use powers under the European Union (Withdrawal) Act 2018 (as amended by the European Union (Withdrawal Agreement) Act 2020 to address any deficiencies arising from the relevant provisions of the CRR, ensuring these elements of retained EU law operate effectively in the UK at the end of the transition period. Read more

The City of London Corporation has developed a comprehensive tracker of economic and regulatory measures taken by the UK, EU and select countries including Germany, France, the United States, Switzerland and Japan in response to the COVID-19 pandemic. The latest version is **available for download here**.

Further to the recent discussion regarding the challenges of the return to office-based working, you may be interested in this CBI/KPMG report on 'commuting beyond coronavirus – proposals for building back better on public transport networks' published this week. The report lays out ten recommendations:

- **Recommendation 1:** While maintaining a health first approach, the government should proactively encourage increased use of public transport.
- **Recommendation 2:** Businesses should undertake regular reviews into their workforce travel patterns, eventually making it common practice, and communicate these findings with local decision makers.
- **Recommendation 3:** At a national level, the Department for Transport should play a coordinating role in centralising real-time public transport data for public distribution.
- **Recommendation 4:** The government should continue supporting transport operators to keep services running as demand recovers from the crisis.
  - For the railways this should include extending and revising the Emergency Measures Agreements for rail services for a further 18 months. The agreements should incentivise efficient service delivery by the private sector and promote greater collaboration between Network Rail and Train Operating Companies.

  - For bus operators, a carefully targeted approach should be taken to support, providing operators with the stability they need to provide services notwithstanding slow recovery in demand.
- **Recommendation 5:** The government should continue to accelerate infrastructure investment plans, as outlined in the March 2020 Budget, with decisions drawing on findings of the Green Book Review to ensure additional spending delivers long term value for commuters.
- **Recommendation 6:** The Devolution White Paper should be used as an opportunity to consider how local decision makers can be empowered to plan, design, and deliver transport systems that work for residents and business.
- **Recommendation 7:** As a starting point, government should create a one-off fund of £90 million to support the roll-out of high capacity digital ticketing systems on rail services. This should come alongside the roll-out of "tap in and tap out" style “multi-modal” fare options across the UK.
- **Recommendation 8:** Local authorities should work closely with Local Enterprise Partnerships to plan the allocation of new active travel infrastructure, such as walking and cycling, in a way that will see the greatest uptake by commuters and support public transport networks.
- **Recommendation 9:** Government should scale up investment in electric vehicle charging infrastructure in those localities where the market will not deliver and introduce a ‘net-zero mobility credit’ scheme to incentivise the switch to low emission transport, including zero-emission vehicles.
- **Recommendation 10:** The government must publish its Decarbonisation of Transport Plan and National Bus Strategy by the end of the year.
- Please note that the autumn dates for the roundtable will be:

  - Monday 7th September 9am-10am
  - Monday 12th October 4pm-5pm
  - Tuesday 17th November 11am-12pm

FSB sets out action to maintain financial stability during COVID; FSB delivers Chair’s letter and report on COVID-related financial stability implications to the G20.

HMT Summer Statement – 8 July 2020 HIGHLIGHTS

- A £1,000 Job Retention Bonus will be introduced when the Coronavirus Job Retention Scheme ends for employees who have been furloughed. •
- A new Kickstart Scheme will cover employers’ costs for new six-month work placements for trainees aged 16-24. •
- A £1,000 payment will be made to employers for each 16-24-year-old on work placement and training. •
- Employers who hire new apprentices will receive payments of up to £2,000. •
- There will be a temporary cut to Stamp Duty Land Tax on residential property, increasing the zero-rate band to £500,000 and saving purchasers up to £15,000. •
- The rate of VAT will be cut temporarily from 20% to 5% for restaurant, food, accommodation and attractions businesses. •
- An ‘Eat Out to Help Out’ Scheme will offer 50% meal discounts during August.

KPMG; In last week’s Summer Statement, the Chancellor outlined the Government’s continued support to ease the UK economy out of lockdown. Unsurprisingly, a key focus was on protecting and creating jobs, as programmes such as the Job Retention Scheme start to wind down.

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- Our Chief Economist, Yael Selfin, has looked at the impact the announcement could have on the UK economy, and you can read our one page summary on the latest government measures.
- Many businesses are now prioritising digital transformation, and our poll last week highlighted a continuing key area of focus on customer experience, but also operations and supply chain.
- During last Wednesday's webinar, **Peter Brickley, Coca-Cola European Partners CIO**, discussed their digital transformation strategy during COVID-19, the importance of AI in predicting demand and the use of data to make faster, smarter decisions. **Kate Nicholls, Chief Executive at UKHospitality**, shared her views on the Chancellor's VAT cut for hospitality businesses, and how a 'back-to-work' strategy will support the recovery of this particularly hard-hit sector.
- 'Back to work' is back on the agenda at our webinar this Wednesday when we will be joined by **Liv Garfield, CEO of Severn Trent**, who will share her perspective on 'reoccupation' as well as the future relationship between employer and employee. **Patrick Magee, British Business Bank's Chief Commercial Officer,** will share insights around the support for businesses through recovery and beyond.

Report: Coronavirus to cause $2.1T bank losses; The world's banks could sustain combined loan losses of $2.1 trillion by the end of 2021 due to the coronavirus pandemic, the credit rating firm S&P Global said. It estimates the total will reach $1.3 trillion this year, more than double the figure for 2019. Reuters

Did we say "new own resources" for the recovery fund? Among the long list of difficult issues that must be solved before agreement on any new recovery fund is that of revenues. There is an understanding that revenues will guarantee the reimbursement of debt incurred by the EU – not from national contributions based on each member state's GDP as is the case now for most of the budget – but from new own resources. Read more

Europe's Good Crisis The COVID-19 crisis has shown that the European Union is much more than an assemblage of incessantly bickering small to medium-size countries. The evolution of key economic and epidemiological indicators is remarkably similar across EU countries, owing to a unity of perspectives that is glaringly absent in the United States. Read more

Next Generation EU: Shock absorber or larger, debt-financed EU budget? The Franco-German agreement to support those hardest hit by the current crisis with a €500 billion fund to be financed by new EU debt appeared to have cleared the way for a major European instrument. The 'Next Generation' instrument would help member states absorb shocks by providing the weaker economies with grants. The European Commission used this political breakthrough to propose a €750 billion instrument – to be added to the normal budget of the EU. Unfortunately, the Commission's proposal is more like an enlarged standard EU budget than a shock absorber. Read more

Firms begin slow unwind of remote working The success of remote working has left many financial and legal firms reluctant to force staff back to the office over the coming months. Barclays chief executive Jes Staley stated in April that a major office presence could be a "thing of the past", and a number of firms are thought likely to ask whether they still need to maintain a large centralised presence. The Guardian

FSB report on the financial stability implications of Covid-19 and policy measures taken; *On 15 July, the FSB published a report to the G20 Finance Ministers and Governors on the financial stability implications of Covid-19 and policy measures taken.*

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- The FSB states that it continues to support international cooperation and coordination on the Covid-19 response underpinned by the FSB principles, specifically by:
- (i) assessing vulnerabilities in the global financial system, to support assessments of the appropriateness of financial policy responses and potential adjustments;
- (ii) regularly sharing information on policy responses and supporting domestic assessments of the use of policy measures taken; and
- (iii) coordinating the response to policy issues, including measures that standard-setting bodies (SSBs) may take to provide, or give guidance on, flexibility available to authorities and firms within existing international financial standards.
- The FSB will provide a further update on member authorities' and SSBs' Covid-19 responses, its financial stability risk assessment and its work on the effectiveness of policy responses by November, ahead of the G20 Summit. Read more

EC best practices for relief measures in the context of Covid-19; *On 14 July, the EC published a document to facilitate the convergence and implementation of relief measures offered to consumers and businesses in the context of the Covid-19 crisis.*

- The best practices are aimed at insurers as well as for bank and non-bank lending to consumers and businesses. The best practices cover several issues, including: (i) payment moratoria for consumer and business loans, and for insurance contributions; (ii) enabling safer cashless payments while ensuring cash payments remain available for those who need them; (iii) ensuring loans aimed at mitigating the impact of coronavirus are provided swiftly, and that the fees and interest rates incurred are fair; and (iv) ensuring legitimate insurance claims are processed and paid out as quickly as possible. Read more

PRA updates statement on implementation of the EBA Guidelines to address gaps in reporting data and public information in the context of Covid-19

On 10 July, the PRA has updated its statement on the implementation of the EBA Guidelines on Covid-19 reporting and disclosure (dated 2 June 2020). The update states that the PRA has now considered how to apply the disclosure elements of the EBA Guidelines. The PRA expects that UK banks and building societies which: (i) are, or are controlled by, global or other systemically important institutions designated by the PRA in the most recent list; and (ii) have retail deposits equal to or greater than £50 billion on an individual or consolidated basis, should make disclosures similar to those prescribed by the EBA Guidelines, but incorporating a number of modifications that the PRA will set out. The PRA expects such firms to make these disclosures for the highest level of consolidation in the UK. The PRA is finalising the design of the disclosure templates.
Read more

EC timing for its work on the Capital Markets Union (CMU)

The EC has published Executive Vice-President Dombrovskis' remarks at the ECOFIN press conference. In his remarks, Mr Dombrovskis states that the Covid-19 pandemic has injected urgency into the CMU because the strength of economic recovery will depend on well-functioning capital markets and access to market financing. A fully-fledged CMU will also be vital for mobilising much-needed long-term investments in new technologies and infrastructure, to tackle climate change and to deliver Europe's Green Deal and Digital Agenda. In its CMU action plan which it intends to present in September, the EC will look at topics such as SME access to finance, market infrastructure, and measures to get savers in Europe to invest more through capital markets. The EC will also present later this month a package of targeted amendments, or "quick fixes", to capital markets rules to facilitate economic recovery.
Read more

European Union

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The EU Commission has:

- approved a EUR 6.2 billion Italian scheme to support small businesses and the self-employed affected by the outbreak. Under the scheme, the public support will take the form of direct grants. The scheme is open to small businesses and the self-employed active in all sectors except the financial sector and public administration; and
- approved Latvian plans to set up a fund with a current target size of EUR 100 million that will invest through debt and equity instruments in large enterprises active in Latvia affected by the coronavirus outbreak.

The schemes were approved under the State aid Temporary Framework.

The European Banking Authority (EBA) has published a report on the implementation of selected COVID-19 policies. The report is intended to clarify the implementation of the EBA's April 2020 guidelines on legislative and non-legislative moratoria on loan repayments by addressing a number of interpretative questions and presents an overview of the general payment moratoria in place in the EU based on notifications sent to the EBA. In addition, the report includes considerations on the COVID-19 issues which can arise in applying the operational risk framework. The report sets out common criteria intended to provide clarity on the supervisory and regulatory expectations regarding the treatment of COVID-19 operational risk losses in the capital requirement calculations. The report also encourages credit institutions to collect information on data losses, even when these are not expected to be part of the setting of capital requirements.

The EBA has also published a statement on resolution planning in light of the COVID-19 pandemic, which reiterates the importance of resolution planning in times of uncertainty to ensure that resolution stands as a credible option in times of stress. In addition, the statement highlights the importance for resolution authorities to continue promoting institutions' efforts to enhance their capabilities and increase their resolvability. The EBA has indicated that resolution authorities should:

- take into account the impact of COVID-19 on banks and their business models when taking decisions on resolution plans and on the minimum requirement for own funds and eligible liabilities (MREL); and
- use and test resolution colleges as the main fora to exchange information and share decisions in these times of stress.

The European Securities and Markets Authority (ESMA) has issued a public statement to promote coordinated action by national competent authorities (NCAs) in relation to the prohibition of providing external support to money market funds (MMFs) within the meaning of Article 35 of Regulation (EU) 2017/1131 (MMF Regulation).

The European Insurance and Occupational Pensions Authority (EIOPA) has issued a statement calling on insurance companies to review their product oversight and governance measures because of the potential impact the pandemic can have on products and their utility for customers. EIOPA is asking insurance manufacturers to identify products whose main features, risk coverage or guarantees have been materially affected by the pandemic. If such products no longer offer value to the target market, insurers should assess whether there is the risk of possible unfair treatment.

The assessment should be on a medium to longer term basis, to take into account product lifecycles and the evolution of the impact of the pandemic. Where there is a possibility of unfair treatment, EIOPA expects remedial measures to be taken. These measures should be proportionate to potential unfair treatment and take account of legal requirements in national civil and insurance law.

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Germany
Following the adoption by the German Parliament (Bundestag and Bundesrat) of a law establishing an Economic Stabilisation Fund (Wirtschaftsstabilisierungsfonds) to enable government stabilisation measures to mitigate the impact of the pandemic on German companies in March 2020 (see the related Clifford Chance briefing paper here), the German Federal Ministries of Finance and for Economic Affairs and Energy have announced in a joint press release that the EU Commission has granted the required approval. The fund is intended to stabilise non-financial undertakings by overcoming liquidity bottlenecks and by establishing the framework conditions to strengthen their capital base. For this purpose, the underlying law provides for two stabilisation measures: the granting of state guarantees and recapitalisation measures

Spain

Royal Decree-Law 25/2020 of 3 July on urgent measures to support economic recovery and employment (RDL), which adopts a series of measures to support the productive sector, employment and incomes, has entered into force. The RDL approves a guarantee scheme to encourage financing focused on investment, as opposed to the previous scheme which was mainly aimed at addressing liquidity needs caused by the pandemic. The scheme is due to have a maximum amount of EUR 40 billion and will be granted by the Ministry of Economic Affairs and Digital Transformation until 31 December 2020 to encourage financing granted by supervised financial institutions to companies and self-employed workers for the purpose of making investments. The applicable conditions and requirements to be met, including the deadline for the application for the guarantee scheme shall be established by the Council of Ministers. Likewise, a fund to support the solvency of strategic companies is being established, with the purpose of compensating the impact of the health emergency on the balance sheet of solvent companies considered to be of strategic importance for the economy. The fund shall be temporary with an initial allocation of EUR 10 billion for the acquisition of financial instruments, including debt, hybrid instruments or shares in the capital of such companies. The RDL also includes measures for the implementation of the Support Plans for the Tourism and Automotive Sector. Amongst other things, a mortgage moratorium is being adopted for real estate used in tourism. Self-employed workers and legal entities with a registered office in Spain who are experiencing financial difficulties as a result of the coronavirus crisis may benefit from this measure provided that they are not subject to other coronavirus-related moratoria.

In addition, Royal Decree-Law 26/2020, of 7 July, on economic recovery measures to deal with the impact of COVID-19 in relation to transport and housing, which adopts a series of measures with financial implications, has entered into force.

With regard to transport, moratoria are approved for the public transport of goods and discretionary transport of passengers by bus, establishing measures for deferring payments of instalments on loan, leasing and rental agreements granted to the self-employed and companies for the purchase of buses and vehicles for the public transport of goods of more than 3.5 tons of maximum authorised mass. In line with the rest of the legal moratoria previously established for other areas and sectors, these deferrals will be carried out exclusively on the principal. In relation to housing, the RDL adopts certain amendments to the following earlier coronavirus-related regulations:

- Royal Decree-Law 8/2020 of 17 March on urgent extraordinary measures to deal with the economic and social impact of COVID-19 – the possibility of applying for a moratorium on the payment of the mortgage loan is extended until 29 September (the previous deadline was 5 August); and
- Royal Decree-Law 11/2020 of 31 March on urgent complementary social and economic measures to address COVID-19 – the protection measures for vulnerable lessees, which were due to expire shortly, are extended and strengthened. The amendment extends until 30

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September (i) the possibility of applying for a moratorium or partial remission of the rent, where the lessor is a large owner or public entity, and (ii) the housing rental agreements eligible for the extraordinary extension of six months. Likewise, in order to prevent a default on non-mortgage loans by people in a situation of economic vulnerability, the possibility of applying for a moratorium is extended until 29 September.

United Kingdom

The Prudential Regulation Authority (PRA) has issued a statement to insurers to clarify its approach to the application of the matching adjustment (MA) during COVID-19. The statement is intended to ensure consistency in firms' interpretation of the PRA's policy and covers management of the MA portfolio, eligibility, calculation, and reflection in the Solvency Capital Requirement. The PRA considers that the MA has functioned as intended thus far throughout the crisis.

The PRA has also published a consultation paper setting out its proposal to extend coverage under the Financial Services Compensation Scheme (FSCS) for Temporary High Balances (THBs), from six months to twelve months from the date of deposit, or the first date the THB becomes legally transferable to the depositor. The proposed extension of coverage would be for a temporary period, and is being proposed in response to the impact of COVID-19 on residential property and investment markets, and access to banking services for some depositors. THB coverage would revert back to six months from 1 February 2021.
The policy proposals included in the paper are as follows:

- to extend THB coverage up until, and including, 31 January 2021, from six months to twelve months; and
- to revert back to a six-month THB coverage on 1 February 2021.

The consultation closes on 23 July 2020.

The Financial Conduct Authority (FCA) has published its finalised guidance for payment and e-money firms on coronavirus and safeguarding customers' funds to strengthen firms' prudential risk management and arrangements for safeguarding customers' funds in this period of economic stress.

The finalised guidance follows the consultation paper the FCA published on 22 May 2020.

Australia

The Australian Prudential Regulation Authority (APRA) has announced an extension of its temporary capital treatment for bank loans with repayment deferrals, as well as temporarily adjusting the capital treatment of loans where terms are modified or renegotiated (restructured). On 23 March 2020, APRA announced that banks that offered borrowers affected by the COVID-19 pandemic an option to defer repayments for a period of up to six months need not treat the repayment deferral period as a period of arrears for capital adequacy and regulatory reporting purposes. APRA has indicated that it will inform all authorised deposit-taking institutions (ADIs) that this regulatory approach will be extended to cover a maximum period of 10 months from the start of a repayment deferral, or until 31 March 2021, whichever comes first. APRA expects ADIs to grant new or extended loan repayment deferral arrangements after undertaking an appropriate credit assessment to ascertain if an extension or new deferral is appropriate for the particular borrower given their circumstances. APRA has also indicated that it will provide an adjustment to the normal regulatory treatment of loans that are restructured. Under the adjustment, the loan may continue to be regarded as a performing loan for capital and regulatory reporting purposes, where an ADI restructures an affected borrower's facilities before 31 March 2021 with a view to putting the borrower on a sustainable financial footing. APRA will also require ADIs to provide regular disclosures regarding the status of their deferred, restructured and impaired loan portfolios to maintain transparency. Further, APRA intends to publish monthly aggregate data on the extent and nature of loans currently subject to repayment deferrals. Moreover, APRA has indicated that it will actively supervise the implementation of these measures and continue to engage with industry to support affected customers and facilitate the recovery of the Australian economy.

APRA has also updated its existing set of banking COVID-19 frequently asked questions (FAQs) by adding a new Question 9 to the FAQs. The newly added question is intended to provide guidance to ADIs in repurchasing loans from securitisations in response to the COVID-19 repayment deferrals under 'Prudential Standard APS 120: Securitisation' (APS 120). The prudential standard APS 120 permits ADIs to repurchase loans from capital relief and funding-only securitisations only in limited circumstances, including where the borrower is granted a further advance (or similar purpose) and if the loan is not in default.

The Australian Securities and Investments Commission (ASIC) has provided further information on its focus areas for financial reporting in the COVID-19 environment for years ending 30 June 2020, following its guidance via the frequently asked questions relating to COVID-19 implications for financial reporting and audit published in April 2020. ASIC believes that, in the current environment, the quality of financial reports and related disclosures is more important than ever for investors and to maintain confident and informed markets. Given the adverse impacts on many entities from the COVID-19 pandemic, ASIC requires directors, preparers and auditors to focus on the reporting of asset values, provisions, solvency and going concern assessments, events occurring after year end and before completing the financial report, and disclosures in the financial report and operating and financial review. ASIC also believes that entities may face some uncertainties about future economic and market conditions, and the future impact on their businesses. In this regard, ASIC advises entities that assumptions underlying estimates and assessments for financial reporting purposes should be reasonable and supportable. Further, ASIC reminds entities that it has extended the deadline for both listed and unlisted entities to lodge financial reports under Chapters 2M and 7 of the Corporations Act by one month for certain balance dates up to and including 7 July 2020 balance dates. Entities have been advised that, where possible, they should continue to lodge within the normal statutory deadlines having regard to the information needs of shareholders, creditors and other users of their financial reports, or to meet borrowing covenants or other obligations.

The Australian Securities Exchange (ASX) has decided to extend its temporary emergency capital raising measures, which were due to expire on 31 July 2020, until 30 November 2020. The decision has been made in light of the high and increasing levels of COVID-19 infections in major overseas markets and the present uncertainty about the nature and level of government economic stimulus in Australia after September 2020. The new date takes account of ASIC's extension of the deadline for listed companies to lodge their audited accounts for the year ended 30 June 2020 until 31 October 2020. It gives companies a further month to complete a capital raising, if they decide they need one, after publishing their audited accounts by the revised deadline. The extension has been implemented by the publication of the following two replacement class waivers:

- Temporary Extra Placement Capacity Class Waiver; and
- Non-renounceable Offers Class Waiver.

On 31 March 2020, ASX introduced temporary emergency capital raising measures (by way of class waivers) to help listed entities affected by the COVID-19 pandemic to raise urgently needed capital. The class waivers were updated on 22 April 2020 to clarify certain matters and improve their overall operation. ASX has made some further minor changes to the class waivers to implement the extension.

Singapore

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Finally, the Singapore Government has gazetted the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Specified Public Bodies and Governing Bodies) Order 2020. The Order has been made in respect of the control measures under the COVID-19 (Temporary Measures) (Control Order) Regulations 2020 and the Infectious Diseases (Measures to Prevent Spread of COVID-19) Regulations 2020, and sets out the alternative arrangements to personal attendance in respect of meetings of specified public bodies and governing bodies. For the purposes of the Order, 'specified public bodies' are the Accounting and Corporate Regulatory Authority, Housing and Development Board, Land Surveyors Board, People's Association and Singapore Food Agency. The alternative arrangements for the convening, holding, conducting or deferral of a meeting of a 'specified public body' or a meeting of a 'governing body' have been set out in the second column of the Second Schedule to the Order, and will be applicable in respect of the provisions of the written law or legal instrument relating to such a meeting set out in the first column of that Schedule. The alternative arrangements apply for the period starting on 27 March 2020 and ending on 30 September 2020. The Order is deemed to have come into operation on 27 March 2020.

Designing a sustainable recovery: Tom Groom, managing partner for financial services at EY discusses the opportunities and risks to the sustainability agenda from the Covid-19 crisis. They focus on challenges for supervisors balancing priorities for immediate economic relief with the need to ensure a green recovery, the banking sector's preparedness for upcoming regulations and the innovations needed in capital markets to scale up sustainable investment opportunities. *Listen*.

Corona Capital: Eurogroup, South Korea, Debt Concise views on the pandemic's corporate and financial fallout: Ireland bags another top EU job; why house prices in Seoul will keep rising; and how to deal with a brewing corporate debt problem.

- **: Failed Chinese M&A, UK retailers** Concise views on the pandemic's corporate and financial fallout: Bank of China pulls out of a $175 million takeover of Ireland's Goodbody Stockbrokers; Primark and John Lewis announce they're passing up state bonuses for retaining furloughed workers
- **Productivity, Pepsi, Barclays** Concise views on the pandemic's corporate and financial fallout: Job descriptions will get more specific; Pepsi benefits from snack time all the time; and Barclays gets a capital boost.
- **Macau, Ocado, Hong Kong watches**; Concise views on the pandemic's corporate and financial fallout: Chinese high rollers get a partial green light to return to Macau's casinos; Britain's Ocado delivers another mixed bag to shareholders; and the clock ticks on Hong Kong's status as an Asian watch hub.
- **Lockdown diets, Beating the Fed**; Concise views on the pandemic's corporate and financial fallout: Covid-19 is prompting diets for both animal and human; and the Fed takes a hit on a garbage deal.
- **Trench coats, Chinese movies** Concise views on the pandemic's corporate and financial fallout: Fashion group Burberry learns the limits of China's Covid-19 recovery; Wanda Film, the Middle Kingdom's largest cinema operator, faces a messy sequel as a new wave of contagion in Hong Kong threatens more lockdowns.
- **Expense accounts, Zoom's new box** Concise views on the pandemic's corporate and financial fallout: Goldman Sachs' earnings give an insight into pandemic-era client schmoozing, and virtual meeting facilitator Zoom tiptoes into the high-priced hardware market.
- **Moderna, Capital gains, Paper fold** Concise views on the pandemic's corporate and financial fallout: Biotech Moderna has promising news on its vaccine candidate; the main UK political parties switch positions over tax; and a U.S. paper company partly blames the New England Patriots for its bankruptcy.

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- **Pizza, Mouthwash, Nissan's slide**; Concise views on the pandemic's corporate and financial fallout: Johnson & Johnson and Domino's Pizza unveil decent earnings implying a mutually beneficial symbiotic relationship; and Nissan still awaits a Covid-19 related boost to cars from commuters shunning public transport.
- **Euro-flyers, Air India, Heineken** Concise views on the pandemic's corporate and financial fallout: Aeroports de Paris experienced a lift from the end of lockdowns but is far from flying high; Narendra Modi gets closer to parting with Air India; and Heineken's new boss needs to get the profit taps running again.
- **Good news is bad news** Concise views on the pandemic's corporate and financial fallout: U.S. retail sales are rising and some banks say consumers are surprisingly resilient – but a recovery once glimpsed is even harder to give up.
- **Bad debt, Qiagen, Lawyers, Daimler**; Concise views on the pandemic's corporate and financial fallout: Nordic banks add to bad debt confusion; Thermo Fisher boosts its offer for German Covid-19 test maker Qiagen to $12.5 bln; Melbourne lawyers demonstrate the perils of office work; Daimler gets a surprise cash boost.
- **Newspapers, 747s**; Concise views on the pandemic's corporate and financial fallout: Congress may dangle newspapers a lifeline; British Airways brings its fleet of jumbo jets in for a final landing.

The City of London Corporation has developed a comprehensive tracker of economic and regulatory measures taken by the UK, EU and select countries including Germany, France, the United States, Switzerland and Japan in response to the COVID-19 pandemic. *The latest version is available for download here.*

International
The Financial Stability Board (FSB) has issued a statement on the impact of COVID-19 on global benchmark reform. The FSB's Official Sector Steering Group (OSSG) is monitoring developments and recognises that some aspects of firms' transition plans are likely to be temporarily disrupted or delayed, while others can continue. The FSB has reiterated its view that financial and non-financial sector firms across all jurisdictions should continue their efforts in making wider use of risk-free rates in order to reduce reliance on IBORs where appropriate and in particular to remove remaining dependencies on LIBOR by the end of 2021. The statement notes that relevant national working groups are co-ordinating changes to intermediate milestones in their benchmark transition programmes, where appropriate, to ensure global coordination. It also calls on financial and other firms to ensure that their transition programmes enable them to transition to LIBOR alternatives before end-2021. In its February 2020 communiqué, the G20 asked the FSB to identify remaining challenges to benchmark transition by July 2020 and to explore ways to address them and the FSB will publish a report on these issues later in July.

European Union; *The EU Commission has prolonged the validity of certain State aid rules which would otherwise expire at the end of 2020. In particular, the Commission has prolonged:*

- the Guidelines on regional State aid for 2014-2020, the Guidelines on State aid to promote risk finance investments, the Guidelines on State aid for environmental protection and energy, the Communication on the execution of important projects of common European interest (IPCEI), and the Communication on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to short-term export-credit insurance (STEC) by one year until 2021; and
- the General Block Exemption Regulation (GBER), the De minimis Regulation, and the Guidelines on State aid for rescuing and restructuring non-financial undertakings in difficulty by three years until 2023.

- After consulting Member States, the Commission has also decided to make some targeted adjustments to the rules which are being prolonged as well as to the Framework for State aid for research and development and innovation (which has no expiry date), in order to mitigate the economic and financial impact of the coronavirus outbreak on companies.
- The EU Commission has approved:
    - a EUR 30 billion French subordinated loan scheme to support companies affected by the outbreak; and
    - four Italian State aid schemes to support companies and self-employed workers affected by the outbreak, which are part of a wider Italian support package included in the 'Decreto Rilancio'.
- The schemes were approved under the State aid Temporary Framework adopted by the Commission on 19 March 2020, as amended on 3 April and 8 May 2020.
- Finally, the EU Commission has published a notice of information on the postponement of the entry into application of MiFIR open access provisions with regard to exchange-traded derivatives in the Official Journal. Article 54(2) of MiFIR provides for a transitional period during which Articles 35 or 36 of MiFIR do not apply to those central clearing counterparties (CCPs) or trading venues which made a request to benefit from this transitional arrangement with respect to exchange-traded derivatives. The transitional period expired on 3 July 2020. Given the high degree of uncertainty and market volatility as a result of the pandemic, the EU co-legislators have agreed to extend this period until 3 July 2021 and to extend the transitional arrangements in Article 54(2) concerning Articles 35 or 36 of MiFIR, effective as of 4 July 2020. The extension applies to those CCPs or trading venues, which made a request to their competent authorities to benefit from the transitional arrangements with respect to exchange-traded derivatives.

EU Institutional action on COVID-19; EBA provides clarity on the implementation of the prudential framework in the context of COVID-19 *On 7 July, the European Banking Authority (EBA)* ***published a report*** *providing clarifications on the application of the prudential framework that have been raised as a consequence of the COVID-19 pandemic.*

- In particular, the report provides clarity on the implementation of the Guidelines on legislative and non-legislative moratoria on loan repayments, and presents an overview of the general payment moratoria in place in the EU based on notifications sent to the EBA. The report also includes considerations on the COVID-19 issues which can arise in applying the operational risk framework.
- The report forms part of the EBA's wider monitoring of the implementation of COVID-19 policies, as well as of the application of existing policies under the current exceptional circumstances.

EIOPA clarifies supervisory expectations on product oversight and governance requirements in the context of COVID-19; *On 8 July, the European Insurance and Occupational Pensions Authority (EIOPA)* ***issued a statement*** *calling on insurance companies to review their product oversight and governance measures because of the potential impact the COVID-19 pandemic can have on products and their utility for customers.*

- In particular, insurance manufacturers are asked to:
- Identify their products affected as a result of COVID-19
- Assess possible unfair treatment of customers for these products
- Consider proportionate remedial measures
- Where there is a possibility of unfair treatment, EIOPA has stated that it expects remedial measures to be taken.

EBA calls on resolution authorities to consider the impact of COVID-19 on resolution strategies and resolvability assessments

- On 9 July, the European Banking Authority (EBA) **published a statement** on resolution planning in light of the COVID-19 pandemic. The statement reiterates the importance of resolution planning in current times of uncertainty, to ensure that resolution remains a

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credible option in times of stress. The statement also highlights the importance for resolution authorities to continue promoting institutions' efforts to enhance their capabilities and increase their resolvability.
- The EBA notes that resolution authorities should take into account the impact of COVID-19 on banks and their business models when taking decisions on resolution plans and on the minimum requirement for own funds and eligible liabilities (MREL).

Netherlands; The Dutch Government has announced a new measure for the reimbursement of SMEs' fixed costs.
- SMEs in affected sectors will be eligible to tax free compensation on top of the emergency bridging measure (NOW). The amount depends on the height of the fixed expenses and the decline in turnover needs to be at least 30%. The maximum amount is EUR 50,000 per company.
- The Reimbursement Fixed Costs Scheme for SMEs is intended to compensate selected SMEs for fixed costs other than wage costs, and replaces the TOGS measure that closed on 26 June. Applications can be made from 30 June until 30 October 2020.

United Kingdom; *The UK Government has launched a new GPB 200 million Sustainable Innovation Fund which is intended to help innovative businesses recover from the impact of coronavirus.*
- HM Treasury has announced that, as of 30 June, more start-ups and innovative firms will be able to apply for investment from the UK Government's Future Fund. Changes to the scheme's eligibility criteria will mean that UK companies that have participated in accelerator programmes and were required, as part of those programmes, to have parent companies outside of the UK will now be able to apply for investment.
- In a separate development, the Treasury has agreed to delay, from 9 December 2020 until 31 March 2021, the deadline for solo-regulated firms to have undertaken the first assessment of the fitness and propriety of their Certified Persons, in order to give firms significantly affected by the coronavirus pandemic time to make the changes they need. To ensure Senior Managers & Certification Regime (SM&CR) deadlines remain consistent, and to provide extra time for firms that need it, the Financial Conduct Authority (FCA) intends to consult on extending the deadline for the following requirements from 9 December 2020 to 31 March 2021:
    - the date the Conduct Rules come into force;
    - the deadline for submission of information about Directory Persons to the Register; and
    - references in its rules to the deadline for assessing Certified Persons as fit and proper (which has been agreed by the Treasury).
- The FCA has also issued a statement setting out its expectations regarding the Approved Persons Regime (APR) and coronavirus to help benchmark administrators and firms using Appointed Representative arrangements apply the APR during the pandemic. The FCA recognises that firms may need longer periods of temporary arrangements if, for example, an Approved Person is absent because of coronavirus, or if recruitment to replace an Approved Person has been delayed due to the pandemic.
- The FCA has confirmed the support users of certain consumer credit products will receive if they are still experiencing temporary payment difficulties due to coronavirus. The measures outline the options firms will provide credit card and other revolving credit and personal loan customers who are coming to the end of a payment freeze and for customers who have agreed an arranged interest-free overdraft of up to GBP 500. Customers yet to request a payment freeze or an arranged interest-free overdraft of up to GBP 500 will have until 31 October 2020 to apply for one.
- The FCA has also announced proposals which would provide continued support for users of motor finance and high cost credit products who continue to face payment difficulties due to coronavirus. The proposals outline the options firms will provide motor finance, buy-now pay-later (BNPL), rent-to-own (RTO) and pawnbroking customers who are coming to the end of a

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payment freeze, as well as those who are yet to request one. For customers yet to request a payment freeze, the time to apply for one would be extended until 31 October 2020. The FCA welcomes comments on these proposals until 5pm on 6 July 2020 and expects to finalise the guidance shortly afterwards.

- The FCA and the Payment Systems Regulator (PSR) have published more information on their joint work to map access to cash and how this will shape their future work in this area, including a statement on access to cash during COVID-19 and identifying and managing temporary gaps in provision and a statement on coverage of access to cash across the UK.
- The Prudential Regulation Authority (PRA) has issued a statement on the Capital Requirements Regulation (CRR) 'Quick Fix' package, setting out its initial views on:
  - transitional arrangements for capital impact of IFRS 9 Expected Credit Loss (ECL) accounting;
  - acceleration of the date of application of certain CRR2 measures that had been due to apply from 28 June 2021; and
  - discretion to apply a temporary prudential filter to certain unrealised gains or losses measured at fair value through other comprehensive income.

IFSB statements addressing the implications of Covid-19 on Islamic Banking and Capital Markets; *On 8 July, the Islamic Financial Services Board (IFSB) issued two statements addressing the implications of Covid-19 on certain elements of Islamic banking and Islamic capital markets*.

- The statement on Islamic banking aims to clarify the treatment of payment moratoriums, the expected credit loss approach and profit-sharing investment accounts in-line with Shar'iah rules and principles and guidance issued by the IFSB as well as other international standard-setters.
- The Islamic capital markets statement is focused on investor protection and highlights areas for greater regulatory vigilance and appropriate regulatory responses across IFSB member countries to mitigate the negative economic effects of the Covid-19 pandemic and to ensure continued strong investor protection in the Islamic capital markets.
- Press release / Statement – Islamic Banking / Statement – Islamic Capital Markets

United States; *The Securities and Exchange Commission (SEC) staff has extended some, but not all, COVID-19 related regulatory relief that was set to expire around the end of the first half of 2020. Amongst other things:*

- the SEC's Division of Corporation Finance has determined that it is unnecessary to extend the relief that provided 45-day filing extensions to public companies for annual reports on Form 10-K or 20-F, quarterly reports on Form 10-Q, and certain other reports that would otherwise have been due on or before 1 July 2020;
- the relief permitting Form 144 to be provided to the SEC via email rather than in paper form has been extended until the SEC's staff provides public notice that it will no longer be in effect. The SEC's staff has indicated that it plans to publish a notice at least two weeks before the termination of this relief; and
- the Division of Corporation Finance has similarly extended equivalent relief for other paper filings

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City of London Corporation COVID-19 Tracker; The City of London Corporation has developed a comprehensive tracker of economic and regulatory measures taken by the UK, EU and select countries including Germany, France, the United States, Switzerland and Japan in response to the COVID-19 pandemic.

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PRA updated statement on the regulatory treatment of the CBILS and CLBILs; *On 26 June 2020, the PRA updated its statement on the regulatory treatment of the UK Coronavirus Business Interruption Loan Scheme (**CBILS**) and the UK Coronavirus Large Business Interruption Loan Scheme (**CLBILS**). The update provides clarification for firms using the:*

- standardised approach for exposures to the obligor. The PRA explains that the portion of an exposure benefiting from the protection of a guarantee provided by the Secretary of State under the schemes is assigned the relevant sovereign risk weight prescribed by the standardised approach (the amount of guarantee recognised should be adjusted under relevant credit risk mitigation (**CRM**) provisions for any payment types excluded under the guarantees). The residual part of the exposure – that is the portion that does not benefit from the protection of a guarantee provided under these schemes – is assigned the standardised approach risk weight that would apply if the exposure were not guaranteed;
- IRB approach for exposures to the obligor and the standardised approach for exposures to the guarantor (under permanent partial use or rollout). The FCA explains that the portion of an exposure benefiting from the protection of a guarantee provided by the Secretary of State under the schemes is assigned the relevant sovereign risk weight prescribed by the standardised approach (the amount of guarantee recognised should be adjusted under relevant CRM provisions for any payment types excluded under the guarantees). The residual part of the exposure – that is the portion that does not benefit from the protection of a guarantee provided under these schemes – is risk weighted according to the relevant approved IRB approach as if the exposure were not guaranteed; and
- IRB approach for exposures to the obligor and the IRB approach for exposures to the guarantor. The FCA explains that firms should adopt an approach to reflect the effect of the guarantee provided by the Secretary of State that is consistent with their approved IRB models and their IRB permissions.

Businesses will need to become very agile in coming months – to balance essential financial resilience with the challenges of COVID-19 and the impending Brexit deadline. This is on top of the need to invest for growth, harness technology for the future and adapt to changing customer expectations in the new reality.

- Our virtual training series 'Technology in the New Reality' continues this week with a focus on how technology can help you adapt to changing consumer and employee needs while protecting your business from risk. You can also download a recording of the first session on how to use data, automation, cloud and artificial intelligence to help your company reduce costs and improve agility.
- On last week's Wednesday webinar **Toby Anderson, CEO at McKesson UK**, parent company of LloydsPharmacy and AAH Pharmaceuticals, reflected on disruption to the global supply chain and shared his views on the future of the health care system. We also heard from **Sam Lowe, from the Centre for European Reform**, on when he thinks a Brexit deal could be done as the compromises needed become clearer.
- On Wednesday's webinar this week, we will be joined by **Chris Grigg, CEO at British Land** who will share how they are preparing for the recovery and their outlook for the future, including expectations around occupiers' footprints and opportunities for future investment. We will also hear from KPMG's Tim Knight on customer expectations and what this could mean for the future of consumer behaviour and shopping habits and Paul Henninger will discuss the significance of data as we plan for the new reality and how we can use it to revisit business models.

COVID19 BEIJING: Tuesday 30th] #Beijing today again added 7 infections (with symptoms) to its official* #coronavirus outbreak count. City now has 325 cases over 19 days. Declared daily infection progression: 1, 7, 36, 36, 27, 31, 21, 25, 22, 22, 9, 13, 7, 13, 11, 17, 14, 7, 7. (BBC China)

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COVID19 U.S.A.: Arizona becomes latest state to roll back reopening plans; Governor closes bars, gyms and cinemas amid one of US's biggest spikes in coronavirus cases - With new cases surging in many parts of the country, at least a dozen states and cities are pulling back on their plans for reopening -Tennessee on Monday extended its state of emergency until August 29, effectively joining Arkansas, Louisiana,

- New Mexico and North Carolina, which last week paused their reopening plans, but some individual cities, such as San Francisco, have delayed plans to further ease lockdowns in the absence of a state-imposed pause. --- Monday: 569,394 tets, 36,490 positives. Arizona (625) California (5,307), Florida (5,266) and Texas (4,283) Georgia (2,207), Tennessee (2,125), Alabama (1,734). Figures on Monday tend to be lower than other days
- COVID19 U.S.A.: There were 621,114 test results reported over the last 24 hours. There were 52,982 positive tests. This is the most daily positive tests. The national positivity rate is 8.1% California's health department said earlier on Wednesday 9,740 people tested positive for Covid-19 over the past day, a record increase. Texas (8,076), Arizona (4,877), Georgia (2,946) and North Carolina (1,843) all had record jumps, while Florida (6,563), Louisiana (2,083), Tennessee (1,806), South Carolina (1,520) and Ohio (1,076) were the others with more than 1,000 new cases.
- COVID19 LOS ANGELES: "With a predicted increase in hospitalizations, for the first time since the crisis seemed to ease locally, L.A. County is now projecting the possibility of running out of currently available hospital beds in two to three weeks."
- COVID19 U.S.A.: The states that look most problematic currently are California, Texas, Florida and Arizona. The first three are the largest states in terms of population in the US (combined at 90.5 million people) and all have seen growing cases rates in the last 2 weeks. Unlike in European countries and New York today, cases in these states are continuing to rise. ---- Houston-area officials are "getting close" to reimposing a stay-at-home order and prepared to reopen a never-used Covid-19 hospital at a football stadium

Banks eye post-pandemic shake-up of op risk scenarios; *Covid-19 has forced banks to revisit their assumptions about the impact that pandemics can have on every aspect of their business – not least, their operational risk frameworks. While practitioners fear the full effects of the crisis will take years to get their arms around, many are already revising the scenarios used for capital planning and stress-testing. Their objective is to better anticipate the range and severity of future shocks, to bolster resilience – and avoid regulatory intervention.*

- Despite spending millions of dollars a year on vendor and bespoke applications for op risk scenario generation, banks acknowledge their scenarios signally failed to prepare them for the pandemic. Op risk scenarios have typically considered events – such as a blackout or terrorist attack – in isolation. And, more often than not, impacts have been regional, rather than global. Banks would have assigned such a low probability to a global pandemic as to ignore it. They now need to consider not only the probability of a pandemic-level disaster, but the second-order impacts it could have on other risks. "Across the industry, many banks have generated scenarios that are narrower in scope because catastrophic scenarios are seen as too extreme, and there's the question of how do these scenarios overlap with economic scenarios," says Evan Sekeris, head of model validation at PNC Financial Group. "The pandemic is a perfect example where you have a true op risk event, but it also triggers a macroeconomic event."
- Firms now face the challenge of incorporating the effects of a pandemic into the risk assessment process. They must decide between upgrading their standalone scenarios for pandemic risk or treating it as an event that can trigger other operational risks, such as rogue trading, mis-selling, fraud and physical attacks. "Is a pandemic a separate risk or a stress on

other scenarios? We're just starting to discuss that and how to deal with that in the construct of our existing frameworks," says the head of op risk quant at one large bank.

- The goal is not so much trying to assign probabilities to specific events, but instead to ask what happens, should an event occur. Op risk professionals say the inventory and types of scenario and attendant narratives are likely to undergo revisions – without necessarily changing the likelihood of the scenario actually happening. "The key is to think about the risks that you're facing, and making sure the inventory of scenarios reflects those risks," says an operational risk expert at a large US bank. "The whole point of the exercise when you have large-tailed events is it helps push thinking further out on the tail."
- So, rather than a set of standalone scenarios for individual risks, the focus will be on creating scenarios for multiple interlinked events. "Our scenario analysis work will now account for multiple events with simultaneous scenarios – given the ongoing Covid pandemic, coupled with civil unrest," says Gus Ortega, head of operational risk management at Voya Financial. "People will treat [a] pandemic as a causal environmental factor that affects the portfolio of scenarios, rather than articulating a standalone scenario," adds an operational risk executive at a large UK bank. "If you do a standalone scenario, you end up building an artificial representation."
- **Knock-on effects;** Although firms were able to handle well some of the unanticipated consequences of the pandemic – the transition to working from home being a prime example – they felt the underestimation of impact in various areas.Among these was credit card fraud, when artificial intelligence fraud detection systems were overwhelmed by a large number of false positives, owing to radical changes in customer behaviour patterns, such as shopping online instead of in person. In some cases, banks have had to completely shut down their machine learning-based systems and use manual processes instead.
- The speed with which banks are introducing products under government stimulus programmes also increases the risk of conduct-related losses, as they face lawsuits for mis-selling. Banks say there is an increased risk of operational failures associated with processing the surging volumes of loan applications from individuals and small businesses.
- Execution risk also increased significantly as financial markets collapsed then rebounded. "The pandemic was a very low-probability scenario in pretty much all firms, and not much thought was put into this scenario – therefore, there was indeed an underestimation of the impacts," says Marcelo Cruz, a risk management consultant. One of his clients, a large broker, saw its operational risk morph into credit and market exposures when its system could not match its clients' orders because of large volumes. The broker had to honour the prices the clients entered, producing a significant financial loss. "The experience has provided us [with] tremendous information in understanding how a pandemic impacts the world and our customers, as well as the institution itself," says the op risk quant.
- **Regulatory reach;** Banks say stress scenario planning for the purposes of operational resilience – which was already a concern of regulators, pre-pandemic – has now risen to the top of their agenda. While most firms have been shown to be resilient during the present crisis, the possibility of a second wave, coupled with a prolonged recession, will mean regulatory scrutiny will intensify. Last year, the Basel Committee on Banking Supervision signalled its intention to update its operational resilience principles, and the US Federal Reserve had plans to issue its own guidance. But those steps had not been taken when Covid-19 struck. In the absence of fully fledged resilience programmes, banks have had to fall back on existing business continuity plans that are designed to address point-in-time situations, rather than the long-term events that are unfolding today. "The ideal scenario would have been to build an op resilience framework and then … a chance to test the framework. But no-one's finished with the framework, so we got locked into crisis management," says Sam Lee, head of operational risk for Europe, the Middle East and Africa at Sumitomo Mitsui.
- While banks have come through with little intervention so far, they expect regulators to make the push to address resilience with renewed vigour over the coming months. "At the macro op

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resilience level, which is where all regulators want to get to, it's going to be an interesting exercise which transcends individual banks. What they'll be doing is make sure the banks have finished their op resilience framework," concludes Lee.

European Union; *Regulation (EU) 2020/873 amending the Capital Requirements Regulation (CRR) as regards adjustments in response to the COVID-19 pandemic was published in the Official Journal. Specific amendments include:*

- changing the minimum amount of capital that banks are required to hold for non-performing loans (NPLs) under the prudential backstop, including extending the preferential treatment granted to NPLs guaranteed by export credit agencies to national government and other public sector guarantors;
- extending for two years the transition period for arrangements related to the implementation of IFRS 9;
- reintroducing a prudential filter for sovereign bond exposures;
- excluding 'overshootings' (failures in the back-testing requirement) that occurred in banks' 2020 and 2021 internal models for market risks, provided they are not a result of deficiencies in the model;
- postponing the introduction of the leverage ratio buffer requirement to January 2023 and introducing targeted changes to the calculation of the leverage ratio;
- reintroducing certain transitional arrangements for exposures to central governments and central banks that are denominated in a currency of another member state; and
- bringing forward the introduction of some capital relief measures for banks under CRR2, including the preferential treatment of certain loans backed by pensions or salaries and of certain exposures to SMEs and infrastructure.
- The Regulation entered into force and applied from 27 June 2020, except for the amendments to exposures excluded from the total exposure measure, which apply from 28 June 2021.
- Amendments to regulatory technical standards (RTS) on prudent valuation under the CRR to address issues relating to COVID-19 were published in the Official Journal. Commission Delegated Regulation (EU) 2020/866, which sets out a new Annex to Delegated Regulation (EU) 2016/101 containing the formulae to be used for the purpose of aggregating additional valuation adjustments (AVAs), entered into force on 26 June 2020.

Luxembourg; *The Luxembourg financial sector supervisory authority (CSSF) issued a communiqué concerning the measures to be put in place, or that should continue to be applied, by all entities subject to its supervision when their employees and external providers return to work on-site further to the additional measures for the easing of the lockdown announced by the Luxembourg Government. In particular, in order to avoid a second wave of infections and ensure their operational continuity, the CSSF requires that supervised entities:*

- identify their vulnerable employee(s) and define the applicable protection measures;
- implement rules to avoid people infected by or suspected of being infected by COVID-19 returning to the office;
- define the organisational rules with respect to internal and external meetings and regarding the reception of visitors;
- implement procedures regarding restaurant, coffee and meeting areas;
- organise specific cleaning or disinfection of office areas and equipment; and
- display barrier gestures, such as those published by the Luxembourg Government.
- **The CSSF also updated its COVID-19 FAQs to inform banks and investment firms that:**

- the European Banking Authority (EBA) has decided to postpone the data collection exercise regarding high earners (the institutions covered by this exercise are the same as last year, except for those institutions that were newly authorised in 2019 which would be included in the scope of the exercise) and the data collection for its remuneration benchmarking exercise (the institutions covered by this exercise are the same as last year) by three months. The CSSF will contact the entities in scope of these data collections shortly, inviting them to provide the relevant data by 30 September at the latest; and
- the CSSF has decided to postpone the data collection for the remuneration benchmarking exercise at national level by one month. The institutions covered by this exercise are the same as last year, except for the institutions that were newly authorised in 2019 which would be included in the scope of the exercise. The CSSF will contact the institutions concerned shortly, inviting them to provide the relevant data by 30 October at the latest.

- **In addition, three new laws have been published in the Luxembourg Official Journal. The law of 20 June 2020 on the State guarantee within the framework of the EU level instruments introduced to mitigate the socio-economic consequences of COVID-19 will enter into force on 25 June 2020. The new law authorises the Luxembourg Government to grant a State guarantee to:**
  - the EU Commission for a maximum amount of EUR 105 million, under Council Regulation (EU) 2020/672 of 19 May 2020 establishing a European instrument for temporary support for the mitigation of the risks of unemployment in emergency situations (SURE) caused by the spread of COVID-19; and
  - the European Investment Bank (EIB) for a maximum amount of EUR 45 million, under the European Guarantee Fund COVID-19 set up by the EIB.
- **The law of 18 June 2020 amending the law of 4 December 2019 on the Luxembourg Export Credit Agency (ODL) will enter into force on 25 June 2020.**
- To make ODL support more flexible for Luxembourg companies during the pandemic, the new law introduces a derogation from the existing ODL legal framework to increase the current threshold of commitments undertaken by ODL on behalf of the Luxembourg State. Under the revised regime, the commitments made by ODL in 2020 on behalf of the State cannot exceed fifty times the own funds allocated to this activity. Furthermore, the new law removes the threshold applicable to commitments made by ODL on behalf of the State in relation to the total amount of its commitments assumed on its behalf with the State guarantee.
- **Finally, the law of 20 June 2020 establishing a support scheme for projects helping the fight against COVID-19 has entered into force, with retroactive effect as of 1 January 2020.** This new law introduces financial support to companies carrying out an investment or research and development project related to the fight against COVID-19. The Government had already introduced such a regime with the Grand Ducal Regulation of 8 April 2020 in order to be able quickly to grant aid to the relevant businesses, but this was limited to the period of a state of emergency. The purpose of the new law is to extend such support schemes to in-scope projects until 15 December 2020.

United Kingdom; *The Corporate Insolvency and Governance Act 2020 has received Royal Assent.*

- The Act introduces both temporary emergency measures and permanent measures, many of which took effect from 26 June 2020, aimed at easing the burden on businesses and helping them avoid insolvency during the period of economic uncertainty caused by the pandemic, including:
  - a temporary relaxation of the personal liability that may be imposed on directors;

- not allowing statutory demands served between 1 March and 30 September 2020 to form the basis of a winding up petition;
- not allowing winding up petitions to be presented between 27 April and 30 September 2020 unless the insolvency is not related to COVID-19;
- a standalone moratorium for viable companies providing for payment holidays for certain payments and protection from proceedings including enforcement;
- a new compromise procedure permitting one class of creditors to bind others to an arrangement to eliminate, reduce or prevent or mitigate the effects of any financial difficulties; and
- a prohibition on suppliers relying on termination clauses triggered by formal insolvency proceedings, including the new moratorium and compromise procedure.

- The Bank of England has announced that in light of continued improvements in funding market conditions and recent usage patterns it will discontinue 1-month Contingent Term Repo Facility (CTRF) operations at the end of June 2020. The final operation took place on 26 June 2020.
- The Prudential Regulation Authority (PRA) has published a statement on the implementation of the EBA's guidelines on COVID-19 reporting and disclosure, informing PRA-regulated firms that they are not expected to prepare or transmit the reporting templates contained within the guidelines. The PRA is considering how the disclosure elements are to be applied and intends to provide further details in due course.

FCA extends submission deadlines for certain regulatory returns – update on regulatory reporting during Covid-19; On 26 June, the FCA updated its webpage on changes to regulatory reporting during Covid-19, extending submission deadlines for certain regulatory returns. Firms are also reminded of their obligation under Principle 11 to inform the FCA of anything of which it would reasonably expect notice. Read more

PRA's statement on Covid-19 regulatory reporting and disclosure amendments; On 26 June, the PRA published a statement on Covid-19 regulatory reporting and disclosure amendments. In the PRA's previous statement 'Covid-19 regulatory reporting and disclosure amendments' published on 2 April, the PRA set out that it would accept delayed submission of certain regulatory returns with deadlines on or before 31 May. That statement noted the PRA would consider in due course the treatment of those returns with a deadline of June onwards. Having considered the fact that firms have now had time to adjust to new ways of working, and the prudential benefits to supervisors of timely submission of regulatory data, the PRA has concluded that it would not be appropriate to continue to apply the reporting measures set out in the previous statement to future submissions. In future, the PRA will therefore, in general, expect on time submission for future regulatory reporting. Firms experiencing difficulty with timely submission should contact their usual supervisor to discuss. Read more

Singapore; *The Singapore Government has gazetted the following subsidiary legislation:*

- COVID-19 (Temporary Measures) (Amendment) Act 2020 (Commencement) Notification 2020 – the Notification has been gazetted to announce that the COVID-19 (Temporary Measures) (Amendment) Act 2020, except sections 7, 8(f), 15 and 16, comes into operation on 20 June 2020. The sections which have not come into operation provide for, amongst other things, certain enhancements to the temporary relief measures for an inability to perform a scheduled contract that is to a material extent caused by COVID-19 (including a cap on late payment interest, the inability to terminate contracts due to late payment, and the holding over after termination or expiry of a lease or licence of a non-residential immovable property), a new rental relief framework, and temporary relief measures for parties to certain construction-related or supply-related contracts which are affected by a delay in performance or a breach which is to a material extent caused by COVID-19; and

- COVID-19 (Temporary Measures) Act 2020 (Amendment of Schedule) (No. 3) Order 2020 – the Order amends the Schedule to the COVID-19 (Temporary Measures) Act 2020 (Act) to provide that, from 20 June 2020, the leases for the following commercial equipment or commercial vehicles will be covered under the Act as scheduled contracts: (i) any plant, machinery or fixed asset in Singapore that is used for manufacturing, production, or other business purposes; or (ii) commercial vehicles, excluding taxis and private hire cars as described in the Second Schedule to the Road Traffic Act.

United States; *The Board of Governors of the Federal Reserve System published the results of its stress tests for 2020 and additional sensitivity analyses conducted in light of COVID-19. The sensitivity analysis assessed the resilience of large banks under V-shaped, U-shaped and W-shaped recessions, the results of which has led the Board to take the following actions:*

- requiring banks to preserve capital in Q3 by:
- suspending share repurchases;
- capping dividend payments to the amount paid in Q2; and
- further limiting dividend payments according to a formula based on recent income; and
- requiring banks to update and resubmit capital plans later in the year to reflect current stresses.
- **The Board will also conduct additional analyses each quarter to determine whether response adjustments are appropriate.**
- The Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC) and National Credit Union Administration, in conjunction with the state bank and credit union regulators, issued guidance for interagency examiners on assessing financial institutions' safety and soundness given the ongoing impact of COVID-19. The guidance advises examiners to continue to assess institutions in accordance with existing agency policies and procedures, while remaining flexible in their supervisory response, taking into consideration the unique, evolving and potentially long-term impact of the pandemic.

Investment firms: FCA consults on rules for UK prudential regime; *The FCA has issued a discussion paper (DP20/2) as part of its work to introduce a UK prudential regime for investment firms.*

- In December 2019, the EU IFR and IFD were published in the Official Journal. Investment firms and competent authorities in EU Member States will be required to comply with them from 26 June 2021.
- The UK Government intends to legislate to introduce a new prudential regime for UK investment firms. DP20/2 aims to make stakeholders aware of how the FCA may approach writing the rules for this domestic regime.
- The DP sets out the requirements the IFR/IFD places on EU firms and competent authorities and, where relevant, the FCA's initial views on the intention and implication of the regime and its interpretation of it.
- The FCA notes that the IFR/IFD represent a significant change to how MiFID investment firms will be prudentially regulated. The major changes described in DP20/2 include:
    - an update to the initial capital required for authorisation;
    - changes to the rules on the definition of capital;
    - new own funds requirements;
    - new rules on prudential consolidation, group risk and concentration risk;
    - applying liquidity requirements to all investment firms;
    - a new approach for investment firm's internal risk and prudential assessments, and the supervision of those requirements;

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- new requirements on remuneration policies; and
- changes to reporting and disclosure requirements
