3 April 2020

PENSIONS EUROPE

Subject: **CRISIS 2020 – UPDATE 3**

Impact on pension funds of current financial markets turmoil and challenges to Europe and global economy

Action required:
For information

We will closely follow the on-going economic and financial market crisis and its impact on issues relevant for funded pensions and our members. We will provide similar weekly updates and provide additional information if necessary. This CRISIS 2020 UPDATE includes information of developments this far and of some of the measures that have already been taken including a summary of the questionnaire to PensionsEurope's members.

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1. PensionsEurope's actions

We have continued to discuss with EIOPA a recommendation to National Competent Authorities to delay IORPs quarterly and annual reporting requirements. EIOPA is willing to do this and finalise their decision within the following 2 weeks. We appreciate this very much as it will help IORPs in their administrative burden and enable them to better concentrate on the more pressing problems at hand. The envisaged plan is that there would be a recommendation of a 2 weeks delay for the basic balance sheet information and a longer 3 months delay for submitting the more detailed information. IORPs could of course, if they so choose, submit all data in one set with the shorter 2 weeks delay. EIOPA has already given a similar recommendation in relation to insurers. Some NCAs as e.g. the Dutch DNB have delayed annual reporting by three months or are perhaps considering whether to do so. EIOPA will also discuss with ECB the reporting as the new ECB reporting requirements for IORPs are also in force.

2. Impacts on IORPs – Updated summary of answers

PensionsEurope is currently mapping the situation and problems IORPs and other pension funds have experienced and expect and measures that can take place and what could be helpful. For that purpose, we sent a questionnaire to our full and observer members, and, so far, we have received answers from the following countries: **Austria, Belgium, Bulgaria, Finland, France**[1]**, Germany, Italy, the Netherlands, Sweden,** and **Switzerland.** This section also includes some additional information provided by our Members (**Portugal, Spain** and the **UK**[2]).

a. **Funding levels and returns of pension funds:** The stressed financial markets pose major problems as the value of assets decreases drastically and lower interest rates increase the value of liabilities further. In all the countries which responded to PensionsEurope questionnaire **the funding levels of pension funds have dropped as a result of the current turmoil in financial markets**.

In the **Netherlands**, the funding levels of IORPs have significantly declined, for some funds even lower than the 90% minimum requirement. It is important to note that in 2019, the Minister of Social Affairs already extended the recovery periods and relaxed the intervention levels to 90%. When funding ratios decline to a low level, realising the recovery plan may become challenging and benefit cuts would have to be implemented. Next year is an election year in the Netherlands and political parties are expected to be reluctant to substantially cut pension benefits. The Dutch Pension Law provides the Minister with the possibility to intervene during special economic situations and modify the capital requirements applied to Dutch IORPs. Measures that allow a temporary waiving of contributions are being considered and sponsor companies in difficulties of payment will probably benefit from a repayment plan. The adoption of further measures that would allow completely waiving the payment of

[1] The French government is suspending all reforms already underway, starting with the pension reform.
[2] On 26 March 2020, the PLSA, PensionsEurope's Member Association, published Tips for DB pension schemes and LGPS funds facing a number of tough challenges around covenant strength, funding, investment, governance and communications to members and tips for DC schemes facing a number of tough questions on issues around administration, member communications, investment, governance and support on decumulation options.

contributions is not an option due to the mandatory nature of the Dutch pension system. There is therefore a risk that sponsor companies could default on their postponed payment obligations which would add to the challenges already faced by Dutch IORPs.

On 31 March 2020, the Dutch government provided details around the compensation scheme the Temporary Emergency Scheme for Work Retention Scheme ("NOW"). This scheme is one of the measures implemented in order to mitigate the magnitude of the financial consequences for employers and self-employed. The emergency package consists of a number of schemes to ensure as much as possible that companies can continue to pay their employees, that forced redundancies are avoided and that self-employed are provided a financial bridge and, where possible, to preserve liquidity through relaxed tax regimes, compensation and additional credit opportunities.

For employers, the details of the NOW scheme under which they can be eligible to receive compensation for wage costs, such as the specific wage components that are compensated for under the scheme, have been published. Additional details regarding the conditions to receive income support and business credit for self-employed have also been shared.

Under the NOW, employers continue to pay the employees' salary for 100%, while receiving a substantial compensation towards the wage costs of up to 90% of the wage sum (up to a certain maximum) from the Dutch Labour Authority ("UWV"). The compensation applies with respect to employees with a permanent and flexible contract, such as on-call workers. Additional charges and costs that are not part of the wage sum, such as employer contributions and employee contributions to pension and the accrual of holiday allowance are also eligible for compensation. In order to speed up the application process, a surcharge of 30% for employer charges will be added to the wage sum.

Belgian IORPs have been affected by the market distress since they significantly invest in equity. Notwithstanding this their funding position seems to be adequate for the moment. Belgian IORPs are closely monitoring their asset portfolios with their asset managers as well as their short-term and long-term funding levels to ensure adequate coverage of technical provisions. Safety buffers have significantly declined, which in case that the financial markets do not recover in the forthcoming months would bring Belgian IORPs closer to a possible trigger of recovery plans and sponsors would therefore have to cover any deficit. Due to the current market conditions, it is important to ensure that recovery periods are long enough. It must also be ensured that sponsors' contributions paid during the period of technical unemployment due to the crisis will benefit from the same favourable tax treatment. For DC plans, the introduction of flexibility on contributions would not be considered as a good practice, unless the pension plan and the pension rights would be modified.

Both in Belgium and in the Netherlands, recovery actions are triggered only after the closing of the annual accounts when the minimum requirements are breached. In this sense, Belgian and Dutch IORPs still benefit from some leeway.

In Belgium, the legislation requires that pensioners can receive their pension as a lumpsum at the moment of retirement, which might exacerbate the impact of the current crisis. Finally, a minimum rate of return must be guaranteed - currently 1,75% - which may become challenging under the current context of market distress with negative rates.

Most DB plans in **Austria** are closed for new entrants and the impact of additional funding contributions could have severe impact on the balance sheet of companies. Liquidity issues could be solved within existing legislation, which foresees the introduction of flexibility measures on contributions in case that sponsors are in distress. In general, pension funds have to be fully funded (min. 100%) but in special circumstances, underfunding can be tolerated if a plan to overcome the underfunding status is agreed with the national supervisory authority.

In **Ireland**, the combination of increased liabilities, declined assets and weaker employers may be challenging and compromise the interests of beneficiaries. Irish pension funds are not required to sell distressed asset under national rules. Another challenge relates to the absence of a protection fund to support the funds when the employer goes bust.

Italian pension funds are DC funds and do not present any solvency concern even if returns have declined as a result of the shock in the financial markets.

In **Bulgaria**, pension funds which are DC schemes do not face any solvency concerns, but several challenges arise, mainly:

- An increase of withdrawals from voluntary pension plans is already observed
- Contributions have declined for supplementary statutory funds (first-pillar bis) due to expectations of higher unemployment
- A delay in the adoption of the new legislation on the pay-out phase from supplementary statutory funds has already been observed.
- Recently the aggregated assets of pension funds have decreased by around 6-7%.

Under the national framework, sponsors and individual members of supplementary statutory funds are required to make contributions as part of the 1st pillar contribution payment. Therefore, any questions related to contributions would be addressed by the Government with the support of the employee and employers' associations.

In **Germany**, the supervisory authority BaFin has conducted a special survey with large insurers and IORPs in order to assess the consequences of the COVID 19 outbreak. BAfin already adopted some measures to handle potential temporary IOPRs' underfunding. In case of funding shortfalls up to 10%, German pension funds are required to present a recovery plan within three months under normal circumstances. This deadline has now been postponed to October 2020. In addition, it has been decided to postpone to 2021 the payment of recovery contributions by sponsoring employers which are due when the shortfall exceeds 10%. Additional measures could be considered to mitigate and/or postpone the liquidity outflows from sponsoring companies. BaFin also adopted additional measures to provide supervisory flexibility to the Pensionskassen (one of the forms of IORPs in Germany). These IORPs must comply with the Investment Regulation when investing capital, which defines some quotas for each asset category. BaFin will not object to a temporary passive excess of the quota for real estate, under current market circumstances.

In **Portugal**, recently the aggregated assets of pension funds have decreased by around 7-10% and market volatility has been a concern to them as well. In general, the government has introduced a lot of new legislation.

In **Switzerland**, the encouraging 2019 earnings strengthened the resilience of the Swiss pension funds before the crisis but did not impede that the funding position of pension funds has been affected. The Federal Council adopted several actions as a result of the crisis, that are of relevance for pension funds. Among other measures, it simplified and extended the framework for short-time working. Under the pension law, employers must continue paying contributions in full to pension funds in the event of short-time work, but the employer is entitled to deduct contributions in full from the employee's salary. In addition, the Federal Council adopted a nationwide standstill for debt enforcement proceedings that will apply until 19 April 2020. The Federal Council also decided that employers may temporarily use the employer contribution reserves they have built up to pay employees' contributions to the occupational pension scheme. This measure should make it easier for employers to bridge liquidity shortages. It is important to stress that in Switzerland, there is currently no possibility to defer (with waiver of interest on arrears) the payment of contributions. However, in the current situation, it is worth considering voluntarily granted payment deferrals and measures that would temporarily suspend the collection of contributions (e.g. for 60 days). In this case, a written agreement is recommended. Even if the current market situation will be considered, the LOB guarantee fund which has been designed to protect pillar 2 retirement savings in the event of occupational pension fund bankruptcy may reduce its guarantee if contributions have not been paid for more than two years.

In **Finland**, the funding situation of several IORPs is worrying and some employers might be required to provide considerable amount of funds to IORPs in the future in order to cover losses. Discussions are underway with the Ministry of Social Affairs and Health to introduce some new flexibility measures, for example:

1. Lifting the discount rate above the normal maximum rate, letting those IORP's with a lower discount rate use the highest IORP's discount rate.
2. Fixing the value of stocks or real estate to the value the asset class had at December 31st
3. Allow the use of the buffer fund of "index increment buffer" to cover investment losses. In principle, this buffer fund can only be used for specific purposes.
4. Allow the use of certain asset classes to cover liabilities in excess than normally allowed by national legislation.

In the **United Kingdom yet has no figures on the impact on funding and investmetns.** ,The impacts of the current turmoil in the financial markets on DB schemes will be limited since they have lower holdings in equity and significant investments in fixed income. Bigger challenge are in DC schemes, which have more and substantial equity investments. The impacts on returns and pension benefits may affect confidence in DC schemes.

In **Spain**, the Government adopted a new measure that opens the possibility for individuals affected by the crisis to withdraw their pension savings in order to achieve additional liquidity and complete their income. The plan is that people would be able withdraw their assets from pension funds up to their wage losses resulting from the crisis. Details of this plan are to be finalised soon. The current crisis poses remarkable concerns to the Spanish pension funds about volatility, liquidity, and citizens' decreasing general interest in private pension savings.

b. **Pension funds' investment policies: Most pension funds in all the countries which responded to PensionsEurope questionnaire follow their investment policies - which have not been adjusted so far** - and may rebalance their portfolio based on some thresholds and triggers foreseen in their policies. Some pension funds will postpone the rebalancing due to the high volatility and the lack of liquidity in the markets.

Belgian IORPs take their investment decisions based on the statement of investment principles (SIP). Most of the IORPs have no liquidity concerns with positive net cash flow according to their forecasts. In normal circumstances, changing the SIP requires a prior consultation process in the works council, which may not be fit for purpose for this situation and does not allow a prompt reaction in the current context of market distress. Some flexibility should be provided in order to make sure that the SIPs can be adjusted in a timely manner under the current circumstances. Timing of rebalancing is been reconsidered.

In **Italy**, some pension funds provided reassuring messages to their members and highlighted that their asset managers have adequate flexibility and skills to manage the situation. Current losses would be converted in gains when the markets will start to recover. No concern arises from liquidity risk since contributions largely exceed payments. The only concern for the moment relates to a potential rise in the requests for early withdrawal.

In the **Netherlands**, IORPs are not subject to any obligation to sell distress assets under the Pension Law or as a result of supervisory actions even if some IORPs may decide to de-risk in the future but on their own initiative. Dutch IORPs rebalance their assets according to their stated investment policies, which could mean selling bonds and buying equity although this may remain challenging under current market conditions with scarce liquidity and high transaction costs. Currently liquidity management is a key issue to the Dutch IORPs.

In **Austria**, investment strategies differ from one pension fund to another. Pension funds follow their investment policies and may rebalance their portfolio based on some thresholds and triggers foreseen in their policies. Some pension funds will postpone the rebalancing due to the high volatility and the lack of liquidity in the markets.

Bulgarian pension funds keep their long-term investment policies unchanged but might rebalance their assets with no restriction under national rules, considering the last developments in the stock and bond markets.

c. Measures of the NSAs: In several countries, authorities will offer operational relief to pension funds in reaction to the crisis

In **Italy**, the supervisor may provide some flexibility regarding the organisation of the board meetings which can now be held via conference call. In addition, the General Assembly Meetings for balance sheet and P&L approval may be postponed to June 2020 and the provision of the Pension Benefit Statement may be postponed from March 31st to May 31st. The deadline to respond to an ongoing consultation on disclosure has also been delayed.

In **Austria**, the supervisory Board meetings can be held by telephone conferences instead of physical meetings.

In the **Netherlands**, the pensions regulator indicated it will temporarily relax the supervisory burden on pension funds, e.g. in terms of governance requirements. The Dutch regulator will also assess individual requests by pension funds for deferring recovery plans, which have to be submitted this month. In this sense and with the purpose to provide similar flexibility than for insurers[3], Dutch National Bank already announced that an additional 3 months for reporting of all annual statements (until 30 September 2020) will be provided to IORPs.

In **Ireland**, a discussion is underway with the national regulator to provide operational relief (particularly on the administrative side) to Irish pension funds and allow them focus on key issues.

In **Bulgaria**, the deadline for FSC reporting has been postponed. Some discussions are also underway to explore the possibility to delay some administrative obligations and tax payments. Most importantly, some measure are being considered with the purpose to encourage employers to preserve their staff and share the consequent costs with the State.

In **Germany**, flexibility was also provided for some reporting requirements: the deadline for the submission of the security asset registers (initially March 31st) was suspended. The legally required submission in paper form must be made by June 30th. The Bundesrat also approved numerous amendments to the civil law which are relevant to IORPS, with the purpose to mitigate the consequences of the COVID 19 pandemic in civil, insolvency and criminal proceedings. The aim is to enable companies and associations to take the necessary decisions and remain capable of acting despite the currently restricted freedom of movement and assembly.

In **Italy** the NCA doesn't plan to give IORPs any delays or flexibility in the reporting requirements.

[3] See section 3

d. Additional information based on various sources

The Netherlands

Klaas Knot, president of Dutch pensions supervisor DNB, has said the pandemic had increased the urgency of pensions reform, as its impact had made the current pensions system “absolutely untenable”. A new pensions contract must offer pensioners the perspective of indexation. It is too early to start discussing a possible deferment of rights discounts for ailing pension funds. Losses might still be recovered in the second half of this year. The DNB now focuses on supervising short-term issues.

As for the Dutch pension fund for the care and welfare sector PFZW, the main focus is currently on sufficient liquidity for collateral payment as well as on its investment portfolio (Peter Borgdorff, Director of PFZW). Although the funding level had dropped, it is still far too early to take measures about the level of benefits or contributions. The scheme will assess employers’ requests for deferment of premium payments case by case for tailored solutions.

Dutch pension fund service providers APG and PGGM have been allotted €36m in total from the €1bn COVID-19 Response Bond issued by Nordic Investment Bank (NIB). Helsinki-based NIB said I t will use the proceeds of the three-year bond to finance projects alleviating social and economic consequences of the pandemic in Nordic and Baltic countries.

The Dutch Pensioenfunds PGB has not seen a great negative impact from the latest equity market collapse as it had recently sold part of the put options it had acquired as a hedge against a decline of its equity investments. In addition, it had also divested 10 percentage points from its equity holdings ahead of the COVID-19 crisis.

Spain

Spanish occupational pension funds will make Q1 2020 returns of between -8% and -15%, most likely eroding the “extraordinary” performance of 2019, according to estimates from Mercer. In terms of asset allocation, most funds are maintaining long-term strategies as they are, waiting for ongoing meetings to evaluate any need for change. According to Inverco, non-domestic equities is the largest asset class for pension funds, up to 23.2% of assets. The equity allocation is at 36.4% of assets. Fixed income represents 45.3% of portfolios. Spanish government bonds forms 20% of assets. A further 14.8% is in Spanish corporate bonds, with 10.5% in non-domestic fixed income.

United Kingdom

Updated guidance from the UK pensions regulator has paved the way for sponsors of defined benefit (DB) schemes to reduce or suspend deficit recovery contributions for a three-month period. DB plan trustees may also suspend planned transfers of participant retirement pots to defined contribution or other arrangements for up to three months. The regulator also updated its guidance for trustees of defined contribution (DC) schemes.

IPE survey

IPE.com surveyed European pension funds on their immediate reactions to the pandemic and its consequences.

Communication plans. Most of the pension funds are communicating with their members about potential impacts, either directly or via their website and through newsletters.

Cautious rebalancing. Some funds are cancelling investment plans and any rebalancing of their portfolio for the time being (Belgian Pensioenfonds UZ Gent) while many others stick to their investment policies and will rebalance accordingly (Munich-based European Patent Office's Reserve Funds for Pensions and Social Security). Some funds pointed to the challenge of low market liquidity when seeking to rebalance. Asset owners with less liquid bond markets are also coming under pressure, with one CEE fund reporting selective sales of fixed income securities due to liquidity pressure and "materially lower" asset levels compared to year-end.

United States, Canada and Australia

In the U.S., equity losses caused funded status to fall to a level not seen since 2012. Based on some estimates, the average U.S. corporate pension plan funding ratio as of March 31 dropped to 77.9% from 88.7% as of Dec. 31.

More than 200.000 small defined contribution retirement plans could be at risk of termination because of the pandemic (Will Hansen, chief government affairs officer - American Retirement Association). The industry[4] has asked the Department of Treasury for regulatory changes that would allow sponsors of safe harbor retirement plans to reduce or suspend employer contributions immediately without giving participants 30 days' notice as required under current rules. Companies of all sizes are looking into freezing or postponing planned matching contributions to their defined contribution plans. (Peg Knox, COO of the Defined Contribution Institutional Investment Association). Employee retirement adequacy is not top of mind for companies as they tackle more pressing issues like remote working operations and payroll matters. Moreover, any plan changes that were not already underway have been postponed indefinitely.

In Canada, the median funding ratio of Canadian pension plans fell to 89.1% in the quarter ended March 31, down from 102.5% at the end of 2019, according to some estimates. Sponsors need to update their cash-flow projections and review their risk management, and the strategies that are available to manage contributions in the face of deteriorating solvency positions.

Several funds in Australia's superannuation industry are currently reviewing the value of their unlisted assets. The largest superannuation fund has cut the value of its €16.5bn unlisted real assets by 7.5%

[4] The American Society of Pension Professionals and Actuaries, the National Association of Plan Advisors, the National Tax-Deferred Savings Association and the American Society of Enrolled Actuaries.

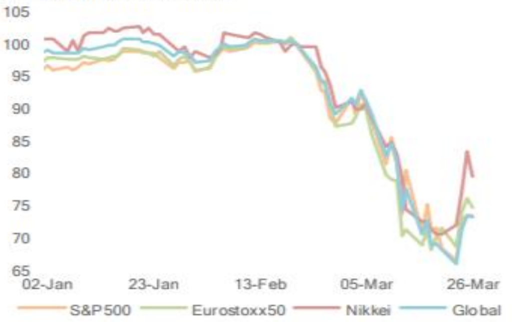
as a result of the market uncertainty. The values of all investment portfolios had been adjusted to reflect the economic and financial market impacts of the pandemic. Members are urged not to take any action and the fund would continue to constantly monitor the outlook and ensure valuations remain fair. If there were rush from members to withdraw money it could trigger a squeeze on liquidity, in spite of continuing contribution inflows.

3. Market developments

ESMA [updated](#) its risk dashboard to account for the impact of the COVID-19 pandemic, with the following main conclusions.

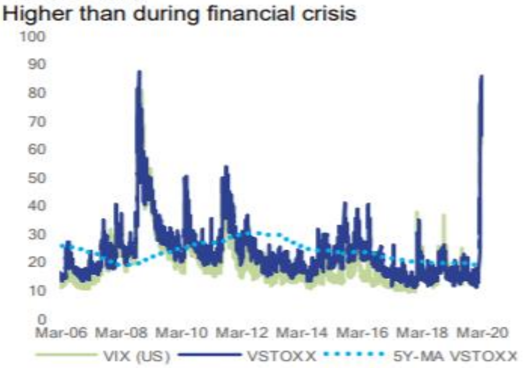
- **Equity:** Since mid-Feb, global equity markets saw major price corrections (R.1) with peakto-trough falls comparable to the Global Financial Crisis (-38% for EuroStoxx), accompanied by record volatility (R.2).
- **Corporate bonds:** Markets show signs of severe stress. Spreads jumped +81bps for AAA, +170bps for BBB bonds (R.3); liquidity deteriorated far below long-term averages.
- **Sovereign bonds:** EA markets saw sharp increases in spreads up to 466bps to multiyear highs, before decreasing after ECB interventions mid-March (R.4).
- **Asset management:** Performance decreased across asset classes in line with market valuations. Especially bond UCITS and ETFs had to manage massive outflows and MMFs also faced significant challenges. A number of fund managers started to use liquidity management tools and some ETFs showed signs of price dislocation.

R.1
Equities
Global market sell-off



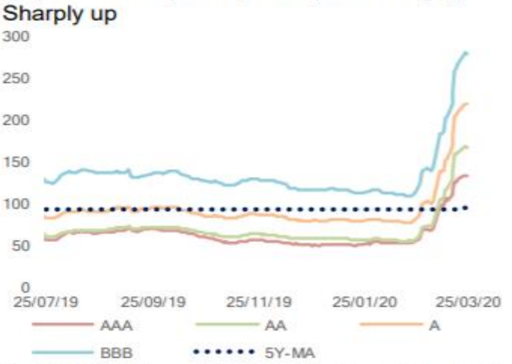
Note: Equity prices, 20/02/2020=100.
Sources: Refinitiv Eikon, ESMA.

R.2
Equity volatility
Higher than during financial crisis



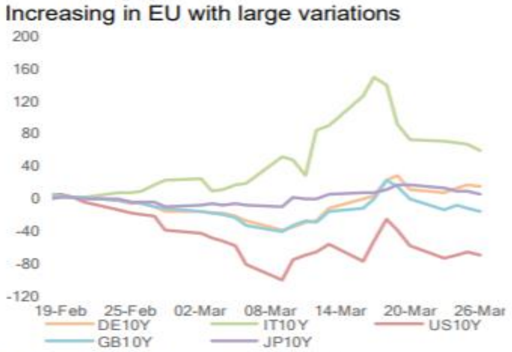
Note: Implied volatility of EURO STOXX 50 (VSTOXX) and S&P 500 (VIX), in %.
Sources: Refinitiv Datastream, ESMA.

R.3
Corporate bond spreads [to be updated tonight]
Sharply up



Note: ICE BofAML EA corporate bond option-adjusted spreads by rating, in bps. 5Y-MA=five-year moving average of all indices.
Sources: Refinitiv Datastream, ESMA.

R.4
10Y sovereign yields
Increasing in EU with large variations



Note: Change in 10Y sovereign yields since 20/02/2020, in basis points
Sources: Refinitiv Eikon, ESMA.

Risk Outlook: Key risk drivers will be the final economic impact of the pandemic as well as the occurrence of additional external events in an already fragile global environment. Macroeconomic forecasts predict a global recession for 2020, with Europe particularly affected. While monetary and fiscal policy actions taken or underway, uncertainty over the economic impact of COVID-19 is expected to translate into further volatile financial market conditions.

Corporate bond, government bond markets and a number of investment funds show signs of stress. Market infrastructures have continued to function in an orderly manner despite significant surges in trading activity, the use of circuit breakers and increases in derivatives margins. ESMA sees a prolonged period of risk to institutional and retail investors of market corrections and very high risks across the whole of ESMA's remit.

4. Financial market measures

- **The European Commission has extended the deadlines to respond to relevant ongoing consultations.**

Deadline for NFRD review has been postponed to 11 June and deadline for MiFID II review to 18 May 2020.

- **The Financial Stability Board (FSB) defines its main priorities to deal with the crisis**

The FSB's overall COVID-19 work includes:

1. regularly sharing information on evolving financial stability threats and policy measures
2. assessing financial risks and vulnerabilities in the current environment; and
3. coordinating policy responses to maintain global financial stability, keep markets open and functioning, and preserve the financial system's capacity to serve households and businesses

a. Banking Sector

Companies remain heavily reliant on banks for funding purposes in the European Union and already face a severe shock both on the demand and the supply sides. Disruptions to supply chains and weaker activity could challenge cash flows and increase the demand for short-term credit from households and companies. Such issues are likely to be most acute for smaller businesses and will probably increase loan losses on banks' credit portfolios. Banks need to be in a position to continue financing households and corporates experiencing temporary difficulties and have already implemented measures to ensure business continuity and adequate service to their customers, but they are facing operational challenges, hence the need to focus on their core operations and critical functions. Banks also play an essential role in channelling the effects of the recently adopted monetary policies by the ECB to the real economy. For all these reasons, European and national competent authorities have already adopted several measures to allow European banks to prioritize operational continuity and ensure that they can fulfil their role in funding the real economy. The European prudential framework already ensures that banks build up adequate capital and liquidity buffers which are designed to be used in order to absorb losses and ensure continued lending to the economy during a downturn.

Main measures adopted in the first weeks of the crisis[5]:

- Banks under the direct supervision of the Single Supervisory Mechanism (SSM, ECB supervisor) are temporarily allowed to operate below the level of capital and liquidity required in normal circumstances. The relaxation of some capital buffer requirements in times of crisis such as foreseen in the prudential rules releases capital and increases banks' lending capacities.
- Many national supervisors adopt similar actions and relax the capital requirements applied to their supervised banks.
- Postponement of several supervisory actions by the EBA (2021 stress test exercise).

New measures adopted by standard-setters, EU and national authorities

- **Measures adopted by the Basel Committee on Banking Supervision (BCBS)**

The BCBS supports the measures adopted by local competent authorities with the purpose to target the provision of lending by banks to the real economy and notes that members have flexibility to undertake further measures if needed. The Committee is also suspending consultation on all policy initiatives and postponing all outstanding jurisdictional assessments planned in 2020 under its Regulatory Consistency Assessment Programme.

With the purpose to provide banks and supervisors with additional capacity to respond immediately and effectively to the impact of Covid-19, the Committee has decided to postpone the implementation of the outstanding Basel III standards.

- The implementation date of the final Basel III standards has been deferred by one year to 1 January 2023. The accompanying transitional arrangements for the output floor have also been extended by one year to 1 January 2028.
- **The postponement of the implementation of the new framework is good news since several aspects of the final Basel III rules may entail significant indirect cost impacts on pension funds**[6]. Under the new rules, the cost of repo transactions may significantly increase due to new restrictions on the estimation of repos' maturity in banks' internal models. In addition, the non-cleared derivative markets may become unworkable for pension funds since there is a risk that specific additional capital charges finally apply to derivative operations between banks and pension funds[7].
- The implementation date of the revised market risk framework has been deferred by one year to 1 January 2023.

[5] See PensionsEurope's Membership notes 5 and 6.

[6] See PensionsEurope's responses to European Commission consultation on the transposition of Basel IV in the EU and to the BCBS targeted consultation on CVA risk.

[7] The current EU exemption provided to derivatives with pension funds from the application of capital charges for Credit Valuation Adjustments (CVA) may be removed under the new framework.

- The implementation date of the revised Pillar 3 disclosure requirements has been deferred by one year to 1 January 2023.

- **Measures adopted by the European Banking Authority (EBA)**

Following its call for flexibility in the prudential framework and supervisory approaches to support lending into the real economy[8], EBA clarified its expectations in relation to dividend and remuneration policies, provided additional guidance on how to use flexibility in supervisory reporting and recalled the necessary measures to prevent money laundering and terrorist financing in the current context.

- **Measures adopted by the Single Resolution Board (SRB)**

The SRB published a letter to banks under its remit on potential operational relief measures. The authority announced it will consider postponing less urgent information or data requests related to this upcoming 2020 resolution planning cycle. The SRB will also analyse the potential impact of market conditions on transition periods needed for the build-up of new loss absorbing capacities.

- **Following past week BCBS's statement[9], several banks introduced moratoria of payments obligations in several countries**

In the Netherlands, companies healthy prior to corona crisis are offered a six-months postponement for the repayment of their loans. This is a joint decision by ABN Amro, BNG Bank, ING, Rabobank, Volksbank and Triodos Bank. German banks and savings banks have also taken new paths with their customers in order to jointly counter any payment difficulties. In Belgium, households encountering financial problems can get a mortgage payment holiday up to September. Stable businesses and the self-employed can also apply for a payment delay.

- **Measures adopted by Bank of Italy**

Similarly to other national supervisors[10], the Bank of Italy have announced a series of measures to help banks and non-bank intermediaries under its supervision, in line with the initiatives undertaken by the ECB and the EBA. These include the possibility to temporary operate below selected capital and liquidity requirements; extension of some reporting obligations; and rescheduling of on-site inspections.

b. Insurers

Such as recognised by EIOPA[11], insurers are likely to face progressively difficult conditions in the immediate future, both in terms of navigating challenging market conditions and in maintaining

[8] See PensionsEurope's Membership notes 5 and 6.
[9] See PensionsEurope's Membership note 6.
[10] See PensionsEurope's Membership notes 5 and 6.
[11] See PensionsEurope's Membership note 5.

operations, while taking steps to protect employees and customers. It is essential to ensure the access to and continuity of insurance services, safeguarding the ability of the insurance sector to continue to perform its role as risk transfer mechanism from citizens and businesses and its capacity to mobilize savings and invest them in the real economy.

As mentioned in a previous statement[12], insurers should take measures to preserve their capital position in balance with the protection of the insured, following prudent dividend and other distribution policies, including variable remuneration. In the context of current uncertainty, EIOPA urges insurers to temporarily suspend all discretionary dividend distributions and share buy backs aimed at remunerating shareholders. This prudent approach should also be applicable to the variable remuneration policies.

In Belgium, the insurance sector adopts measures to mitigate the negative impact of the crisis on private individuals, households, self-employed and companies. Over the next few months, insurance companies will show flexibility towards customers in difficulty and will make sure that they remain permanently covered. Among other measures, cover for pension, death, disability and hospitalisation under group insurance is extended for all those laid off temporarily. The payment of premiums due by employers is deferred until 30 September 2020. Also, companies that are forced to suspend their activities will be able to obtain a payment deferral for all premiums falling due between 30 March and 30 September.

In Ireland, insurers are exploring a range of flexible options to allow businesses impacted by closure suspend or reduce cover or receive flexibility in payments.

The Romanian Supervisory Authority and EIOPA decided to postpone the start of the Balance Sheet Review of the Romanian insurance sector.

c. ESMA and market infrastructures

ESMA has recognised that the outbreak of the COVID-19 impacted significantly the activities of all market stakeholders imposing a reprioritisation of efforts to address the crisis and in such circumstances.

ESMA issued a statement recomending competent authorities not to prioritise their supervisory actions towards entities subject to Securities Finance Transactions reporting obligations as of 13 April 2020 and until 13 July 2020. ESMA also expects trade repositories to be registered sufficiently ahead of the next phase of the reporting regime, i.e. 13 July 2020, for credit institutions, investment firms, CCPs and CSDs and relevant third-country entities to start reporting as of this date. ESMA issued an updated statement providing further clarifications.

d. Trade associations

[12] See PensionsEurope's Membership note 5.

EFAMA, ISDA, AFME and 18 other financial associations submitted a letter requesting BCBS, IOSCO and global regulators to suspend the current timeline for the initial margin phase-in to allow market participants to focus their resources on ensuring continued access to the derivatives markets.

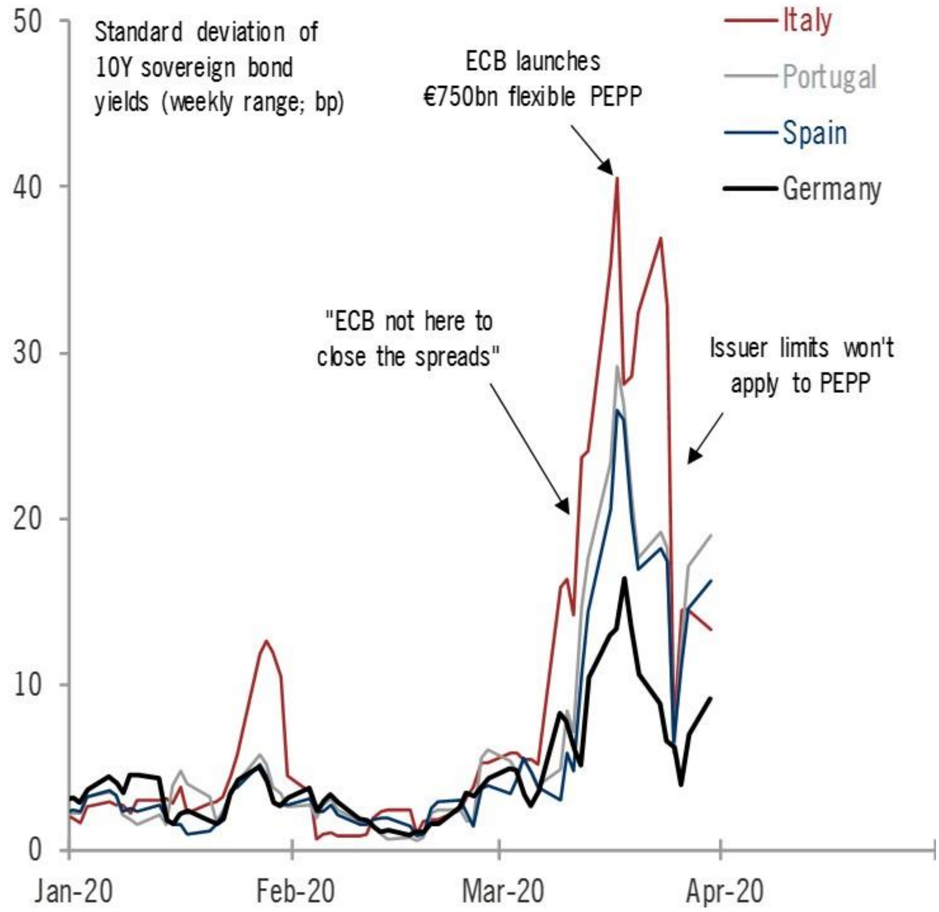
AFME and other trade associations issued a joint statement addressed to EU and UK authorities to emphasise the importance of keeping the European financial markets open during this period.

5. Wider economic impact and measures

CBs:

The ECB Balance sheet has topped €5tn for the 1st time with aggressive efforts to support banks through long-term loans & Swap Arrangements (see below in more detail). Total assets have increased by €135.4bn as banks have taken €100bn in TLTROs & use swap arrangements w/volume of €15bn. The balance sheet now equals to 42.5% of EZ GDP.

The ECB bought €15.6bn of bonds under its emergency PEPP in just two firs days. That would be €39bn per week, or €156bn per month, on top of €20bn APP and €12bn from extra envelope. Unlikely to be sustained, but still. The ECB's success is not only about (implicitly) capping the level of sovereign bond yields and spreads, but also about (explicitly) capping volatility. So far, so good, but it may well require front-loading PEPP purchases with maximum flexibility (see below in more detail):



The crisis has driven also other Central Banks to buy bonds (see below in more detail):

EC:

- **The European Council has tasked the Eurogroup to come up with proposals to fight the economic effects of the coronavirus crisis within the next weeks**.
- **The Commission will participate in these discussions and stands ready to assist, if supported by the Eurogroup. This is required since the fiscal space for new instruments is limited as we are in the last year of the MFF.**
- In parallel the Commission is working on proposals for the recovery phase within the existing treaties. As a first step the EC is currently working **on a full flexibilisation of existing funds - such as the structural funds.** This will provide immediate support.
- To ensure recovery the Commission will propose **changes in the MFF proposal that will allow to address the fallout of the coronavirus crisis.** This will include a stimulus package that will ensure that cohesion within the Union is maintained through solidarity and responsibility.
- On 30 March 2020, the Commission issued **new practical advice to ensure that mobile workers within the EU**, in particular those in critical occupations to fight the coronavirus pandemic, can reach their workplace. This includes but is not limited to those working in the health care and food sectors, and other essential services like childcare, elderly care, and critical staff for utilities. Together with the Guidance on the implementation of the temporary restriction on non-essential travel to the EU also issued on 30 March, this responds to requests made by EU leaders on 26 March and seeks to address practical concerns of citizens and companies affected by the measures taken to limit the spread of the coronavirus, as well as of national authorities implementing the measures.
- **This week the EC has continued approving numerous state aid schemes.**

Eurogroup:

On 7 April 2020, the Eurogroup will work further on the coordinated response to the economic fallout of the COVID-19 pandemic, following the invitation by EU leaders on 26 March 2020.

Fiscal policies in several EU Member States:

Belgium
Adoption of a fiscal package of €8-10 bn and €50 bn of guarantees for new bank loans to companies and self-employed. Key fiscal support measures include: (i) boosting health expenditure; (ii) increasing support for those in temporary unemployment and self-employed; and (iii) liquidity support through postponements of social security and tax payments for companies and self-employed. Regional governments have also announced additional subsidies to affected firms and sectors and further bank-loan guarantees. The Government also agreed the postponement of any debt repayment due to banks by affected households and companies to September 30, 2020.

Germany
Key spending and tax measures totaling €156 bn include: (i) spending on healthcare equipment, (ii) expanded access to short-term work subsidy to preserve jobs and workers' incomes, (iii) €50 bn in

grants to small business owners and self-employed persons severely affected by the Covid-19 outbreak in addition to interest-free tax deferrals until year-end. The government is also expanding the volume and access to public loan guarantees for firms of different sizes, with an allocation of at least €822 bn.

The Netherlands

A package of fiscal measures was announced to contain the economic impact of the outbreak. The package includes spending measures of about 10-20 bn euros in the next three months, and covering (i) compensation of up to 90% of labor costs for companies expecting a reduction in revenues of 20 % or more; (ii) compensation for affected sectors; (iii) support for entrepreneurs and the self-employed; (iv) scaling up of the short-time working scheme. In addition, companies can defer tax payments without penalties, and calculate provisional taxes on the basis of expected reduced activity levels. Also, public guarantee schemes, especially for SME loans, are expanded to help the most vulnerable companies to manage their liquidity problems.

Spain

Key measures - €8.9 bn - include boosting health expenditure; entitlement of unemployment benefit for workers temporarily laid off, increased sick pay for infected workers or those quarantined, an allowance for self-employed workers affected by economic activity suspension. Further measures include exemptions of social contributions by impacted companies that maintain employment; tax payment deferrals for small and medium enterprises and self-employed for six months; 50 % exemption from employer's social security contributions and other measures.
In addition, the government of Spain has extended up to €100 bn government loan guarantees for firms and self-employed; as well as other public guarantees. In total, these measures could leverage up to €83 bn of liquidity support to companies through the private sector. Other measures include one-month moratorium on mortgage payments for the most vulnerable.

Italy

Adoption of a €25 bn emergency package. It includes (i) funds to strengthen the Italian health care system and civil protection; (ii) measures to preserve jobs and support income of laid-off workers and self-employed; (iii) other measures to support businesses, including tax deferrals and postponement of utility bill payments in most affected municipalities; as well as (iv) measures to support credit supply aimed to unlock about €350 bn of liquidity for businesses and households. The authorities indicated that additional steps could be taken if needed.

United Kingdom

Tax and spending measures include: (i) additional funding for the NHS and other public services (£5 bn); (ii) measures to support businesses (£27 bn), including property tax holidays, direct grants for small firms in the most-affected sectors, and compensation for sick pay leave; and (iii) strengthening the social safety net to support vulnerable people (by nearly £7 bn). The government is also launching the Coronavirus Business Interruption Loan Scheme to support SMEs; deferring VAT payments for the next quarter until the end of the financial year; and will pay 80 % of the salary of furloughed employees for an initial period of 3 months.

France

Adoption of a fiscal package of €45 bn and €300 bn of state guarantees for bank loans to companies. Key immediate fiscal support measures include (i) streamlining and boosting health insurance for the sick or their caregivers; (ii) increasing spending on health supplies; (iii) liquidity support through postponements of social security and tax payments for companies; (iv) support for wages of workers under the reduced-hour scheme; (v) direct financial support for affected SMEs and independent workers; and (vi) postponement of rent and utility payments for affected SMEs.