24 April 2020

Subject: **CRISIS 2020 – UPDATE 6**

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

Action required:
For information

1. Compendium of measures adopted by NCAs and IORPs to face the COVID-19 crisis

PensionsEurope has been closely monitoring the COVID-19 developments in relation to the occupational pensions sector. As long-term investors IORPs can play a stabilising role in current volatile markets. However, they depend on the economy and financial markets and the short-term impact of the crisis is severe. Since the beginning of the crisis, European and national pension authorities have taken several measures to mitigate and manage the impacts of the Covid-19 crisis on the occupational pension sectors.
At EU level, EIOPA released a statement suggesting a number of principles to national competent authorities (NCAs) to ensure that IORPs can continue to carry out their key operational activities and to provide them flexibility in certain obligations.
EIOPA's statement follows many of the suggestions PensionsEurope and its member associations made some days before in a public statement, when we suggested several measures that could be considered to alleviate the pressures of funding obligations, to provide operational relief and to support pension funds' sponsoring companies.

In our five previous updates, we have included information from various sources on the measures adopted by EIOPA, NCAs and by the pension funds themselves to face the consequences of the COVID-19 crisis. We also sent two questionnaires 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, Ireland, the Netherlands, Sweden,** and **Switzerland and Norway.**

The contributions made by our members are key for the success of these updates. Recently, we have sent a new questionnaire for collecting further information on national measures. We would remind you that the deadline for submitting your inputs to info@pensionseurope.eu is Monday 27 April cob.

The section below includes a compendium of the national measures tracked until now.

A. Measures to alleviate the pressures of funding obligations

In some MSs, NCAs adopted specific measures that would provide a certain relief from the pressures arising from funding obligations, which are exacerbated by the crisis.

In **Austria**, underfunding can be tolerated if a plan to overcome the underfunding status is agreed with the NCA in special circumstances.

In **Finland**, the recently adopted state of emergency legislation enables to change the solvency requirements of pension insurance companies.

In **Germany**, in case of funding shortfalls up to 10%, German pension funds are required to present a recovery plan within 3 months under normal circumstances. This deadline has now been postponed to October 2020.

[1] The French government is suspending all reforms already underway, starting with the pension reform.

In the **Netherlands**, the Pension Law provides the Minister of Social Affairs with the possibility to intervene during special economic situations and modify the capital requirements applied to IORPs.

In **Portugal**, to mitigate the risk of having insufficient own funds to run the business and of not complying with the capital requirements the NCA adopted a Recommendation for undertakings to restrict any capital management measure that implies any decapitalization of the undertaking and a Recommendation for undertakings to closely monitor the amount of lapses and mitigate eventual reputational risk by informing extensively the clients about the consequences of early surrenders.

In **UK**, The Pension Regulator provided Guidance for employers about automatic enrolment duties and workplace pension contributions during the COVID-19 situation and guidance on scheme funding for employers with defined benefit pensions to follow during the COVID-19 situation.

B. Measures to support sponsoring companies, members or beneficiaries

EIOPA recommended NCAs to allow IORPs to provide flexibility in the collection of contributions from employers facing liquidity pressures. These measures may exacerbate liquidity risk for IORPs.

In several MSs, NCAs have already adopted measures that would enable IORPs to consider a deferment of contribution payments when sponsoring companies are in distress (for up to 2 months in the Netherlands, 3 months in Finland and 3 months for DB schemes in the United Kingdom). The measure has already been applied by several IORPs in the Netherlands and Finland.

In **Austria**, the existing legislation already foresees the introduction of flexibility measures on premium payments when sponsors are in distress.

In **Bulgaria**, a recommendation was made to all Pension Insurance Companies (PICs) when accepting applications for social security payments, withdrawal or transfer of funds from one supplementary pension fund to another, the PICs should provide the relevant person with the necessary information in order to be able to make a well-founded assessment of whether to exercise his or her rights. In order to illustrate the potential losses that would result in the withdrawal or transfer of funds at the current value of one unit, the relevant person may be provided with both general information about it and a comparison between the value of the assets owed to him or her based on the current value of the unit and the value of one unit before the worldwide COVID-19 outbreak and its significant impact on the markets (eg as of 31.12.2019). On the basis of this information, all PICs should recommend to the relevant person to carefully consider whether to postpone the exercise of his or her rights until after the situation in the financial markets has normalised.

In **Denmark**, IORPs are taking a flexible approach to dividend decision-making at companies they invest in. Authorities recognized some companies should not be distributing dividends under current circumstances.

In **Finland**, the NCA has decided to lower the contribution requirements from employers by around 2% and allowed businesses unable to operate during the crisis to postpone contributions completely for up to three months.

In **France**, CRPN (scheme for the airline sector) has allowed a deferral of 5 months on the payment of contributions.

In **Germany**, the payment of recovery contributions by sponsoring employers which are due when the shortfall exceeds 10% has been postponed to 2021.

In **Switzerland**, employers may temporarily use the employer contribution reserves they have built up to pay employees' contributions but there is currently no possibility to defer the payment of contributions.

In **Spain**, individuals affected by the crisis are allowed to withdraw their pension savings in order to achieve additional liquidity and complete their income, up to their wage losses resulting from the crisis.

In some MSs, it has been decided to provide compensation to companies in distress for the payment of salaries. In the Netherlands, the compensation amounts up to 90% of the wage. Employer contributions and employee contributions to pension are eligible.

In **Switzerland**, employers must continue paying contributions in full in the event of short-time work, but the employer is entitled to deduct contributions in full from the employee's salary.

In **Iceland** companies can apply to defer loan payments for up to six months. Available to companies in healthy operations and suffering a temporary loss of income.

C. Measures to provide operational relief

EIOPA recommended NCAs to ensure that IORPs prioritise the continuity of key operational activities. NCAs should also be flexible with respect to deadlines for publication of documents and data considered less urgent as well as in respect of national reporting requirements. The timings for the provision of occupational pensions information to EIOPA are extended by two weeks for the information regarding Q1 2020 and by 8 weeks for the information regarding annual reporting with reference to the year-end 2019.

In several Member States, NCAs have already adopted specific measures to postpone some supervisory reporting requirements. In **the Netherlands**, DNB indicated it will temporarily relax the supervisory burden on pension funds and already announced that an additional 3 months for reporting of all annual statements will be provided to IORPs. DNB also cancelled all on-site investigations.

In **Germany**, flexibility is 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.

In **Italy**, COVIP provided the postponement of the terms for pension funds to draft or approve the 2019 annual reports (to the end of June) and the deadline to send the periodic communication to pension members (2 months) and some annual reporting to COVIP (2-3 months).

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.

In **Portugal**, to allow undertakings to concentrate their efforts on monitoring and assessing the impact of the Coronavirus/COVID-19 situation as well as ensuring business continuity:

- Flexibilization of statutory reporting of the pension funds and public disclosure deadlines related with 2019.
- Suspension of on-site inspections scheduled for 2020, to allow undertakings to concentrate their efforts on monitoring and assessing the impact of the Coronavirus/COVID-19 situation as well as ensuring business continuity.

Recommendation for undertakings to regularly assess the need to adapt/adjust their contingency plans in place, to guarantee that the contingency plans are fulfilling its purpose of mitigating the risk of operational and business disruption at all times

In **UK** the Pension Regulator is providing flexibility on reporting duties and enforcement activity and guidance for trustees on scheme administration.

In **Ireland**, the NCA has provided some general guidance which highlights areas of priority – ensuring pensions and other benefits are paid and that contributions collected are remitted and invested promptly by fund. Trustees and administrators are urged to make best efforts to fulfil all other duties but the NCA will take the current circumstances into account when assessing compliance.

In **Poland**, the statutory reporting of the undertakings and public disclosure deadlines related with 2019 were postponed.

In several MSs, flexibility is provided as regard to the organisation of the administrative meetings of pension funds and the deadline to respond to several consultations on recent legislative proposals have been postponed.

D. Measure to improve consumer protection / communication

EIOPA recommended NCAs to encourage flexibility to safeguard members' pension rights and, particularly in defined contribution (DC) schemes, allow plan members to choose delayed application of lump sum payments or of mandatory annuitisation.

Moreover, NCAs should expect IORPs to communicate to sponsors, members and beneficiaries in a balanced way on the impacts of the crisis.

In the **Netherlands**, DNB emphasised that pension rights will remain if contributions aren't paid, and a two-month leeway is legally possible.

In **Italy**, some IORPs provided reassuring messages to their members and highlighted that their asset managers have adequate flexibility and skills to manage the situation. Members were informed that current losses would be converted in gains when the markets will start to recover.

In the **UK**, NCAs warned savers not to rush to make decisions about their pensions in response to the COVID-19 crisis, and to beware of scams.

E. Increased supervision

In several MSs, NCAs increased their supervisory oversight to closely monitor the impacts of the crisis. EIOPA recommended NCAs to closely monitor the both the funding and the liquidity positions of IORPs. EIOPA also recommended NCAs to expect IORPs to carefully consider the increased risk exposure to fraud, other criminal activity, cyber security and data protection.

In the **Netherlands**, focus will be increased on crisis management, including continuity management and cyber risks and increased supervision will also target the impact of market volatility on coverage ratios, the implementation of rebalancing policy and liquidity management.

In **Denmark**, the NCA is asking IORPs to report solvency coverage on a weekly basis together with a simplified stress test. The FSA requires pension funds to report on market-rate pension plans, and the effect the downturn in the markets would have on customers saving with these products.

F. Pension policy

In **France**, the pension reform has been postponed.

In the **Netherlands**, DNB recognizes that negotiations would still be aiming at delivering a framework for a new pensions system before the summer. However, the large funding shortfall in many pension funds is likely to complicate the transition to a new system.

In **Poland** the pension fund reform (transformation of Open Pension Funds into Specialized Open-End Investment Funds) has been postponed. The Polish government considers that proceeding with the reform in current financial market turmoil (stock exchange losses) would not be economically favourable for the pension fund participants, as well as for the State.

In **Switzerland**, despite the coronavirus crisis has forced an extension on the reform consultation until May 29, the delay should not have an impact on the final result. An occupational pensions reform is inevitable in Switzerland.

G. Other measures

In **Germany**, Pensionskassen 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 the **Netherlands**, DNB won't object to pension funds deviating from their strategic investment plans during the current extraordinary market conditions.

DNB also decided to publish the interest rate structure on a weekly instead of monthly basis. Dutch pension funds requested DNB to implement a weekly update of the interest rate structure and DNB wants to honor this request to help the sector.

In **Sweden**, Finansinspektionen published a press release with the message that insurance undertakings and occupational pension funds should use their buffers. Life insurance companies and occupational pension funds with long-term operations often have a larger share of risky assets. In the event of a significant decline in share prices, these companies' solvency deteriorates. Would insurance undertakings in a very short period make extensive adjustments to their asset portfolios, this could further amplify the fall in prices. This could in the long run also adversely affect financial stability and the real economy. In addition, it may adversely affect the value of future pensions.

2. EU economy and monetary policy – Short summary what has happened so far

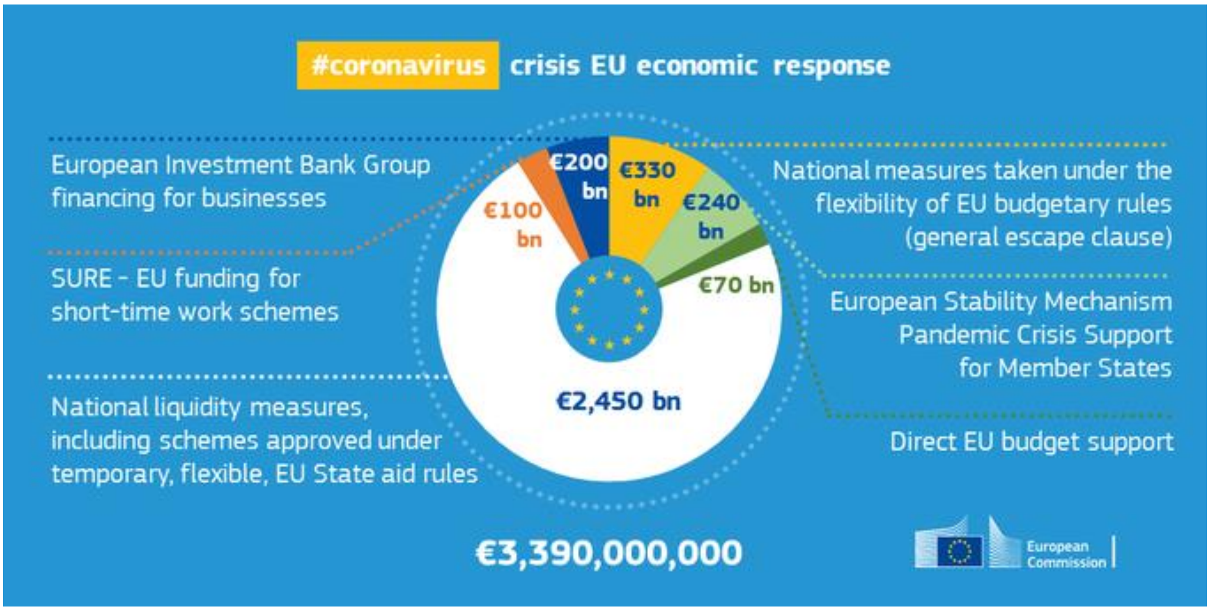
Impact on economy:

According to the International Monetary Fund (IMF), this will be the worst downturn since the Great Depression. The IMF expects global output to decrease by 3.0% in 2020, with the euro area economy contracting by 7.5%.

These are staggering numbers, dwarfing those recorded at the height of the financial crisis, in 2009, when real GDP growth decreased by 4.5% in the euro area. The forecast of a close to V-shaped recovery, with positive growth of 4.7% for the euro area in 2021, provides some comfort, despite persistent uncertainty.

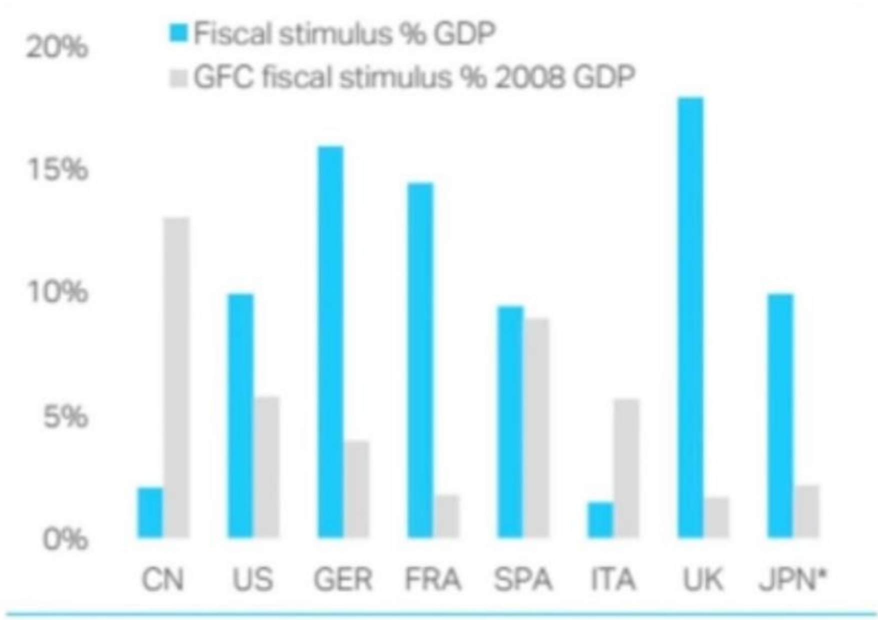
EU economic measures:

The EU and Member States have been mobilising available resources to respond quickly, forcefully and in a coordinated manner to the coronavirus pandemic. The total amount mobilised so far is around €3.4 trillion (see below in more detail).



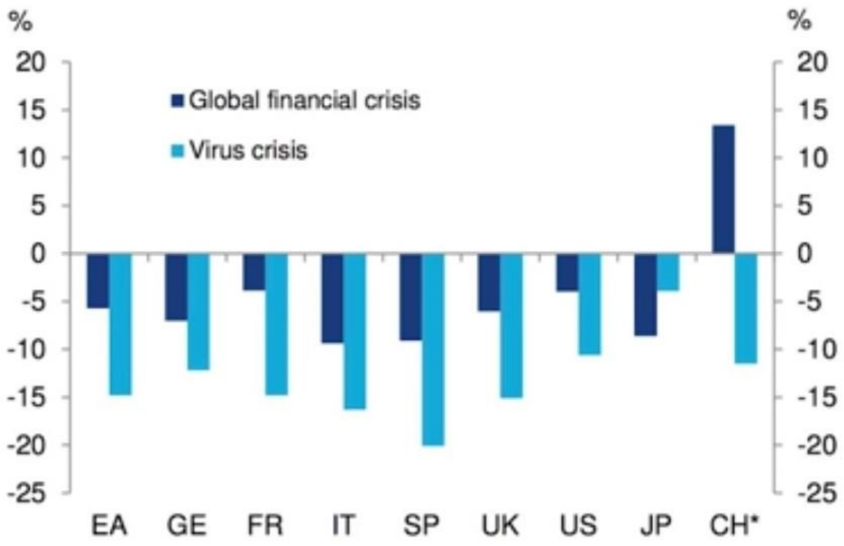
- **State aid. The main fiscal response to the coronavirus has come from Member States' national budgets** (and the EC has adopted temporary state aid rules so governments can provide liquidity to the economy).

- The recent fiscal stimulus packages of many countries have been enormous, and please find below a figure comparing (in selected countries) fiscal stimulus % GDP (this time) vs GFC fiscal stimulus % 2008 GDP.



Sources: CEIC, OECD, TS Lombard. *Not officially announced.

- Also, the (expected) losses caused by the crisis have been huge in most countries. Please find below economic forecast on the losses caused by the crisis (% loss from peak to trough) in various countries vs global financial crisis.



Note: China 'GFC crisis' based on GDP growth over the same period the US contracted; 'virus crisis' is Q1 2020 only. Source :Deutsche Bank Research

- **Rapid response.** The EC has adopted numerous decisions approving national measures by different Member States, such as guarantee schemes for companies and funds to support the production and supply of medical devices and masks. **The EC has approved 90 national measures notified by 25 different Member States and the UK.**
- **Flexibility of the European fiscal framework.** The EC has, for the first time, triggered the 'escape clause' to allow exceptional fiscal support. This will allow applying the maximum flexibility to the EU budgetary rules to help national governments financially support healthcare systems and businesses, and to keep people in employment during the crisis
- **European Central Bank response: €750 billion** Pandemic Emergency Purchase Programme of private and public securities during the crisis, in addition to the **€120 billion** programme decided earlier.
- The EC's **SURE** instrument provides temporary support to mitigate unemployment risks in an emergency by helping people keep their job during the crisis.
    - SURE provides funding to Member States of up to **€100 billion** by covering part of the costs related to the creation or extension of national short-time work schemes.
- **Liquidity measures** to help hard-hit small and medium businesses:
    - The **EIB** Group aims to invest an additional **€20 billion** in small and medium-sized businesses, partly using its own capital and partly backed by the EU budget.
    - The EC has unlocked €1 billion in an EU budget guarantee to the European Investment Fund, so it can provide liquidity to businesses, mobilising **€8 billion** in all to help at least 100,000 companies.
- **The Coronavirus Response Investment Initiative:**
    - The EC initiative to provide Member States with immediate liquidity. It consists of unspent cohesion policy funds (and various other initiatives as well).
- **Screening of foreign direct investment:** On 25 March 2020, the EC issued guidelines to help Member States screen foreign direct investments and acquisitions of control or influence. The aim is to protect critical European assets and technology in the current crisis.
- **The EU Solidarity Fund** can provide support to Member States affected by public health crises like the one caused by the coronavirus.

Some highlights from this week:

- **On 23 April 2020, the European Council followed up on the EU's response to the COVID-19 outbreak.**
    - **In his** letter (of 21 April) **to the members of the European Council, President Charles Michel invited EU leaders to discuss joint action to overcome the COVID-19 crisis. He presented** a joint roadmap for recovery**, prepared together with President von der Leyen. The roadmap focuses on the single market, massive investment efforts, EU global action and on better governance and resilience.**
    - **The European Council welcomed the Joint Roadmap for Recovery and directed the EC to draw up plans for a new long-term financial blueprint for the EU that would also drive an economic recovery from the coronavirus with a combination of loans**

and grants. The leaders did not agree on a figure for the recovery effort, which some EC officials have proposed should be up to €2 trillion.

- **On 22 April 2020, the Council** adopted **the Coronavirus Response Investment Initiative Plus**, **which is the second legislative act for amending the rules on the use of EU structural funds.**
    - It gives member states exceptional flexibility to transfer money between funds and between regions to meet their particular needs in mitigating the social and economic damage of the pandemic. All existing reserves in the structural funds for 2020 can be deployed to tackle the effects of the outbreak.
    - In addition, member states will be able, for the period between 1 July 2020 and 30 June 2021, to request 100% financial support from the EU budget.
    - In normal circumstances, cohesion policy programmes are financed jointly by the EU budget and contributions from member states.

Monetary policy:

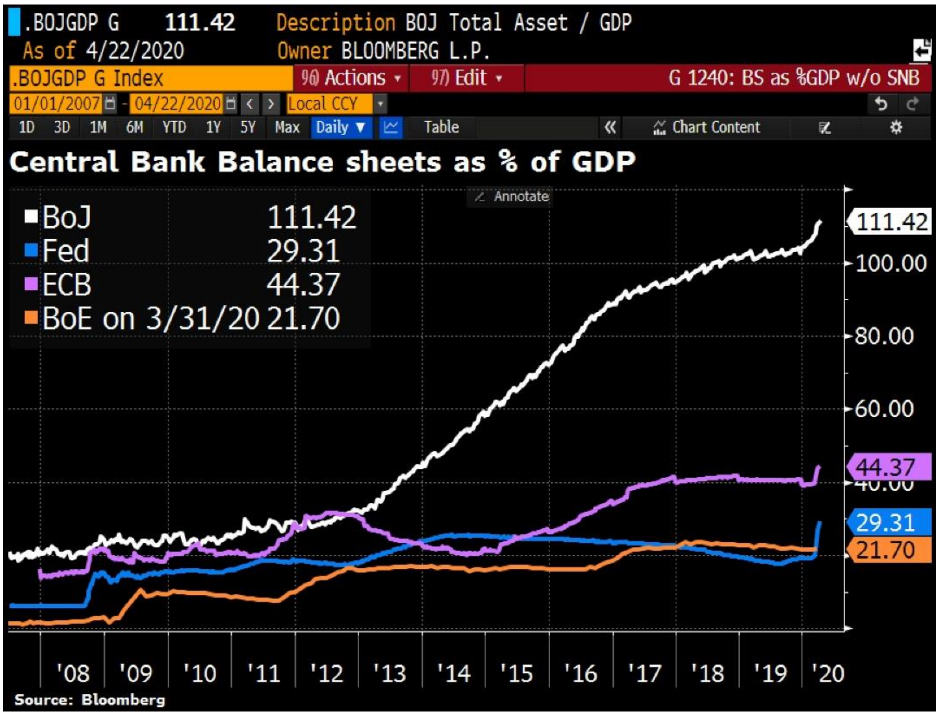
The ECB has taken three types of crisis measure by:

1. **launching the €750 million Pandemic Emergency Purchase Programme (PEPP), which will increase the total assets purchased by the ECB to €1.1 trillion in 2020.** This is a large sum in order to maintain financial stability in the debt markets, in particular in the government bond markets, and to safeguard the monetary policy transmission mechanisms.
2. **providing liquidity to the banks and adjusting the rules on collateral for accessing liquidity-providing operations.** European banks therefore have more liquidity at their disposal and at more favourable conditions.
3. responding with the measures taken by the ECB Banking Supervision. To avoid a credit crunch, **the ECB has eased the requirements on capital held by European banks, the classification of non-performing loans and the accounting rules.**

Furthermore, on 12 March 2020 the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility remain unchanged at 0.00%, 0.25% and -0.50% respectively. The Governing Council expected the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

The PEPP has significantly increased the ECB balance sheet which has now reached a fresh all time high at €5,282.9bn:

Due to the crisis, also other Central Banks have significantly increased their balance sheets, and please find below the Central bank balance sheets as % of GDP from selected countries (Bank of Japan – BoJ, Federal Reserve (US) – Fed, ECB, and Bank of England – BoE):



ECB has extended review of its monetary policy strategy until mid-2021

- On 2 April 2020, the Governing Council of the ECB decided to extend the timeline for the review of its monetary policy strategy. According to the ECB, in the current situation, the decision-making bodies and staff of the ECB and the national central banks of the Eurosystem are focusing all their efforts on addressing the challenges posed by the coronavirus pandemic. **The conclusion of the strategy review will therefore be postponed from the end of 2020 to mid-2021.**
- Owing to the health measures in place across the EU, including lockdowns of public spaces and rules prohibiting gatherings in several euro area countries, the listening events of the ECB and the Eurosystem's national central banks – originally planned for the first half of 2020 – are now intended to take place during the second half of 2020. The annual ECB Forum on Central Banking in Sintra has been postponed to 10-12 November 2020.
- The ECB continues to invite euro area citizens to submit their written proposals and comments about the ECB's monetary policy strategy via the dedicated online ECB Listens Portal. **The deadline for submissions has been moved to the end of August 2020.**

3. Financial markets

a. What has happened so far?

- **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.

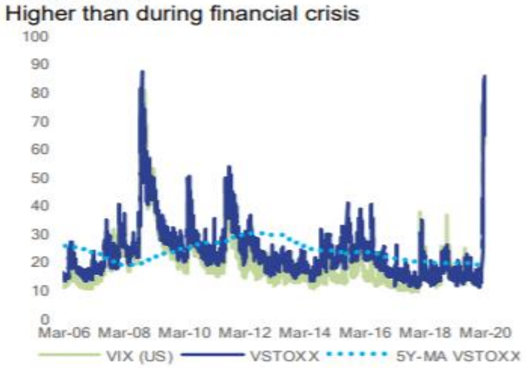
- **Sovereign bonds:** EA markets saw sharp increases in spreads up to 466bps to multiyear highs, before decreasing after ECB interventions mid-March (R.4).

- **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

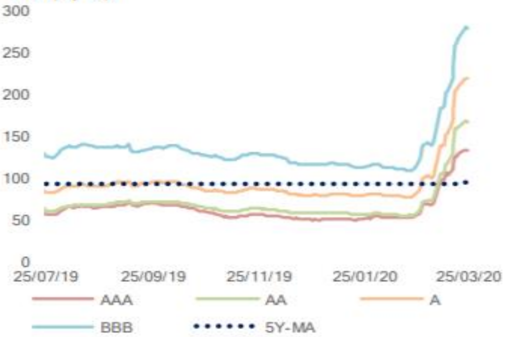
Note: Equity prices, 20/02/2020=100.
Sources: Refinitiv Eikon, ESMA.

R.2
Equity volatility
Higher than during financial crisis



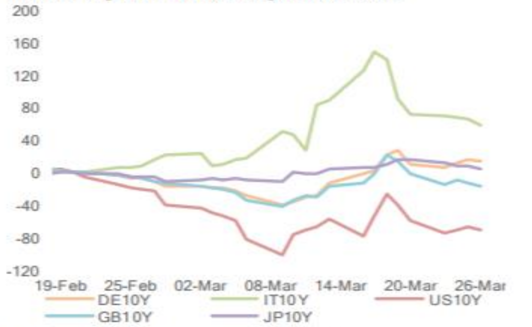
Note: Implied volatility of EURO STOXX 50 (VSTOXX) and S&P 500 (VIX), in %.
Sources: Refinitiv Datastream, ESMA.

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.

Source: ESMA risk dashboard

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.

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 even banks were showed sound solvency position ahead of the Corona crisis (Risk Dashboard covering Q4 2019).

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 and following the recommendation of the EBA and ECB, SSM supervised banks 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. In addition several supervisory actions have been postponed by the EBA and by local supervisors (stress test exercise has been postponed to 2021).

European authorities and national governments proposed and already adopted additional measures in the form of general moratoria of payment obligations to support borrowers affected by the crisis.

Banks are also required to take measures to preserve their capital position following prudent dividend and other distribution policies, including variable remuneration.

The Basel Committee has decided to postpone the implementation of the outstanding Basel III standards to January 2023. 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. The Basel Committee also announced a deferral of the final implementation phases of the margin requirements for noncentrally cleared derivatives, which will benefit the OTC derivative positions of pension funds.

Insurers

Insurers are likely to face progressively difficult conditions in the immediate future, both in terms of navigating challenging market conditions and in maintaining operations, while taking steps to protect employees and customers. In this sense, EIOPA calls national competent authorities to be flexible regarding the timing of 2019 supervisory reporting and public disclosure. In addition, EIOPA will limit its requests of information and the consultations to the industry to essential elements needed to monitor the impact of the current situation in the market. EIOPA is also extending the deadline of the Holistic Impact Assessment for the 2020 Solvency II Review by two months and considers the implementation of specific tools foreseen in the Solvency II framework to mitigate risks and impacts to the sector. Insurance companies are required to take measures to preserve their capital position following prudent dividend and other distribution policies, including variable remuneration.

Short selling

The practice of short selling is often blamed for exacerbating volatility during times of stress. With the purpose to contain the volatility of the financial market, ESMA has decided to lower the threshold for the obligation to notify a short-sell position for a period of 3 months. Currently there is a requirement in Europe that net short-sell positions of more than 0.2% must be notified to the national market supervisor. It has now been decided at ESMA level that this notification threshold will be lowered to 0.1%. Many countries decided to go further and announced a short selling ban for a delimited period (France, Italy, Spain, Belgium and Greece).

Credit Rating Agencies

ESMA has intensified its interactions with rating agencies to understand how they are responding to the COVID-19 crisis. ESMA notes that CRAs should avoid deepening the coronavirus crisis by quick-fire downgrades of countries and companies as the pandemic pushes economies into recession.

b. Recent developments

- **EBA provides further guidance on the use of flexibility in relation to COVID-19 and calls for heightened attention to risks**
  EBA povides further clarity on how additional flexibility will guide supervisory approaches in relation to market risk, the Supervisory Review and Evaluation Process (SREP), recovery planning, digital operational resilience and ICT risk and securitisation. At the same time, the EBA notes the need for stringent attention by supervisors and financial institutions in relation to key risks in these areas.

- In its analysis of the initial impacts of COVID-19 on European Capital Markets, **AFME** concluded that **European capital markets have continued to operate well and serve their function during times of stress**.
  - Issuance of investment grade corporate bonds surpassed 50bn Euros in the first week of April; this was also the highest weekly amount ever issued in Europe. French companies have been particularly active.
  - Non-financial corporates have also rapidly increased secondary equity offerings in an effort to raise cash buffers and withstand business closure for several weeks.
  - Encouragingly, markets have continued to play their role in providing liquidity, price formation, timely clearing and settlement procedures, capital allocation and helping investors manage their portfolios. Equity trading rose 94% YoY in March-20, corporate bond trading increased 31% YoY in Q1 2020, and FX spot trading rose 61% YoY in March-20.

- **Bank of England Governor Andrew Bailey** says that if the coronavirus outbreak worsens, even UK banks with strong balance sheets could face a "breaking point." Bailey says that he is "very sensitive that we don't get back into a situation we are still trying to clear up after the last crisis." Europe's banks are expected to have to set aside billions for potential loan losses as well as take profit hits because of the coronavirus crisis when they start reporting results over the next two weeks, reports Reuters. UniCredit became the first big European bank to try to quantify the impact of the coronavirus, setting aside 900 million euros ($977 million) to cover potential loan losses stemming from the outbreak, reports Bloomberg.

- **European Central Bank officials** have held high-level talks with counterparts in Brussels about creating a eurozone bad bank to remove billions of euros in toxic debts from lenders' balance sheets, reports the Financial Times. The plan to deal with debts left over from the 2008 financial crisis is being pushed by senior ECB officials, who worry the coronavirus pandemic will trigger another surge in non-performing loans (NPLs) that risks clogging up banks' lending capacity at a critical time.

- Several EU **trade associations** had written a joint letter to Commissioner Paolo Gentiloni to ask for reporting obligations relating to the EU's 2018 update of its cross border tax directive (DAC6) to be deferred until 2021.

- **EBF, AFME, ISLA, AGC, ECSDA, SMPG, ESBG, ASSOSIM, AFTI, EACB and EI** sent a joint letter to the European Commission to support a 12-months delay in the implementation of the Shareholder Right Directive II.