Bank of England announces supervisory and prudential policy measures to address the challenges of Covid-19

This statement follows the announcement by the Bank of England setting out measures to respond to the economic shock from Covid-19 from its three policy committees on 11 March 2020.

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The Bank of England ('Bank') and Prudential Regulation Authority ('PRA') are today announcing a number of measures aimed at alleviating operational burdens on PRA-regulated firms ('firms') and Bank-regulated financial market infrastructures ('FMIs') in the wake of the Covid-19 outbreak. These measures will provide flexibility to help firms and FMIs maintain their safety and soundness and deliver the critical functions they provide to the economy.

The steps include:

Cancellation of the Bank's 2020 annual stress test – the annual cyclical scenario (ACS)

The decision to cancel the 2020 stress test for the eight major UK banks and building societies is intended to help lenders focus on meeting the needs of UK households and businesses via the continuing provision of credit.

This is in line with the 11 March 2020 measures, which included a decision by the FPC to reduce the UK countercyclical buffer (CCyB) rate to 0% of banks' exposures to UK borrowers with immediate effect. The Financial Policy Committee (FPC) and the Prudential Regulation Committee (PRC) expect that all elements of banks' capital and liquidity buffers can be drawn down as necessary to support the economy through this temporary shock.

Our 2019 stress test showed that the UK banking system was resilient to deep simultaneous recessions in the UK and global economies that are more severe overall than the 2008 global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs.

Amendments to the biennial exploratory scenario (BES) timetable

Liquidity: The Bank had been due to publish the results of the 2019 BES on liquidity in mid-2020. To alleviate burdens on core treasury staff at banks, the Bank has paused this exercise until further notice.

Climate risk: The Bank published a discussion paper on the 2021 BES on the financial risks from climate change on 18 December 2019. The Bank will take stock of the responses as well as the evolving situation with a view to announcing the way forward for this exercise in the summer.

Bank statement on IFRS 9 and Covid-19

The Bank and the PRA recognise the importance of IFRS9 as a forward-looking measure of losses that were previously not considered in IAS39.

The Bank and PRA also note the high levels of uncertainty around how Covid-19 will affect the economy. Under the Capital Requirements Directive, the PRA can consider whether firms' provisioning under applicable accounting standards is flowing through into its regulatory capital position in an appropriate way. The PRA reminds firms that the forward-looking information they use to incorporate the impact of Covid-19 on borrowers into the expected credit loss (ECL) estimate needs to be both reasonable and supportable for IFRS9 purposes. Given the sudden onset of the virus, the PRA believes there is little such information available as yet, and regards the preparation of reliable and detailed forecasts as difficult. If firms believe they can make such forecasts, the PRA expects firms to reflect the temporary nature of the shock, and fully take into account the significant economic support measures already announced by global fiscal and monetary authorities.

In particular, any such forecasts should take into account the relief measures – such as repayment holidays – that will be made available to enable borrowers who are affected by the Covid-19 outbreak to resume regular payments. Our expectation is that eligibility for HMG's policy on the extension of mortgage repayment holidays should not automatically, other things being equal, be a sufficient condition to move participating borrowers into Stage 2 ECL.

The Bank continues to consider the potential interaction of Covid-19 with IFRS9, including through discussion with relevant bodies domestically and internationally. We expect to provide further guidance to firms regarding our approach next week, with a view to helping them act consistently in the face of the prevailing uncertainty.

Postponement of the joint Bank / Financial Conduct Authority (FCA) survey into open-ended funds

The planned survey covering c.300 funds has been delayed until further notice, with a subsequent impact on the FCA consultation that would have followed.

The Bank and PRA have also identified a number of other prudential measures that we plan to adapt in order to alleviate operational burdens on firms and FMIs at the current time. These have been informed by internal analysis and discussions with firms and other stakeholders.

With respect to supervisory engagement with firms and FMIs:

Supervisory programmes for individual firms and FMIs: Bank and PRA supervisors will review their work plans so that non-critical data requests, on-site visits and deadlines can be postponed, where appropriate. This includes pausing the skilled persons Section 166 reviews relating to the reliability of banks' regulatory returns that were announced in October 2019. In doing so the PRA will have regard to the flexibility provided under the relevant regulatory regimes, for example in the Capital Requirements Regulation and Solvency II.

This will allow supervisory engagement to focus on the most important matters relating to financial stability, the safety and soundness of firms, and protection of policyholders, including the impact of Covid-19. In doing so, we will continue closely to coordinate our supervisory work on Covid-19, wherever possible, with the FCA and other authorities.

Senior Manager Function (SMF) applications: The PRA will review its approach for considering and processing applications with a view to reducing the burdens involved during current events.

The Bank and PRA will also review its programme of regulatory change. Where appropriate, we will postpone non-critical work at the current time to allow firms and FMIs to focus on their safety and soundness, the protection of policyholders and delivering their functions. In terms of immediate steps:

Operational Resilience Policy Development: The deadline for responses to the current Bank and PRA consultations on "Building Operational Resilience: Impact tolerances for important business services" and the PRA consultation on "Outsourcing and third party risk management" will, in line with the FCA, be extended to 1 October 2020.

Internal Ratings Based (IRB) models: Banks which use the IRB (credit risk modelling) framework are implementing a programme ('the EBA roadmap') that aims to improve the consistency of credit risk modelling across the sector. Proposals on the final phase were published in Consultation Paper (CP) 21/19 'Credit Risk: PD and LGD estimation' on 18 September 2019. Implementation of the proposals related to the Definition of Default, Probability of Default, and Loss Given Default estimation, will be delayed by one year to 1 January 2022. The move to 'hybrid' IRB models will also be delayed until the same date, 1 January 2022. Firms using the standardised approach to credit risk will also benefit from a delay to changes they need to make as part of guidelines on definition of default.

Financial Services Regulatory Initiatives Forum (RIF): The RIF has been established to help regulators identify and manage peaks in operational demands on firms and FMIs resulting from regulatory initiatives and to ensure firms and FMIs have an early and clearer understanding of them. The Bank, PRA, FCA and other authorities have now agreed that the first meeting will take place as soon as possible in April 2020 to assist co-ordination of the regulatory initiatives. Publication of the Regulatory Initiatives Grid after that meeting will ensure that industry has full sight of a coordinated future work plan as early as possible in light of Covid-19.

Basel 3.1: The Government has announced that it will be introducing legislation that will enable the implementation of Basel 3.1 in the UK and HM Treasury anticipates a central role for UK regulators in designing and implementing Basel 3.1 requirements that will apply to firms. The PRA acknowledges that the existing Basel timetable may prove to be challenging, and is coordinating internationally to ensure that implementation will happen alongside other major jurisdictions. The PRA will advise the government on the legislative approach accordingly.

Notes to editors

1. Bank of England measures to respond to the economic shock from Covid-19: 11 March 2020
2. The results of the 2019 stress tests of UK banks and building societies
3. Discussion Paper: The 2021 biennial exploratory scenario on the financial risks from climate change Discussion Paper
4. Financial Stability Report December 2019: Vulnerabilities in open-ended funds
5. Letter from Sarah Breeden and David Bailey 'Reliability of regulatory returns' : 31 October 2019
6. Bank of England Senior Managers Regime
7. Bank, PRA and FCA consultation on "Building Operational Resilience: Impact tolerances for important business services": 5 December 2019
8. Consultation Paper 21/19 Credit risk: Probability of Default and Loss Given Default estimation: September 2019
9. Joint statement from the FCA, BoE, PRA, CMA, PSR on the launch of the Financial Services Regulatory Initiatives Forum (RIF): 11 March 2020
10. Financial Conduct Authority and Bank of England statement on joint review of open-ended funds: 16 December 2019

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