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COVID-19 FAQ 1: What are the general expectations of financial institutions?

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This FAQ offers financial institutions a general overview of what governments, central banks and regulators expect of financial institutions in their jurisdictions in connection with the response to the COVID-19 pandemic.

Unlike during the 2008 global financial crisis, financial institutions are not being viewed as the cause of the financial repercussions stemming from the COVID-19 pandemic. Nonetheless most governments and regulators have made it clear that financial institutions have a key role to play in minimising the economic impact of the pandemic and, under some schemes, are to act as facilitator, ensuring that economic support packages are delivered to targeted businesses and citizens. Frédéric Oudéa, chief executive of Société Générale, has gone as far as describing banks as "*the doctors of the economy*".

Even if the cause and the form of its economic cure are different, with governments and central banks across the globe rolling out monetary and fiscal stimulus measures on a scale not seen since the Second World War, it is perhaps inevitable that banks and other financial institutions will come under increasing governmental, regulatory and public scrutiny to ensure they play their part. The measures announced to date differ by jurisdiction but generally include central bank-backed credit facilities, loan guarantees and grants for severely impacted sectors, such as leisure and hospitality, and aviation. An important and visible litmus test of a bank's approach will be how effectively it continues to lend and the extent of its borrower flexibility and forbearance programmes.

Key expectations in specific jurisdictions

Jurisdiction	General expectations for financial institutions
United States	• Banks and other financial institutions are expected to lend and make accommodations to affected consumers and businesses. • Through emergency legislation, the US Treasury and the Federal Reserve have made unprecedented funds available to banks and other lenders for the purpose of providing liquidity to specific market sectors, such as money market funds, and small- and medium-sized businesses particularly affected by federal and state emergency lockdown actions in response to the COVID-19 pandemic.
European Union	• Eurogroup has prescribed a framework consisting of public guarantee schemes to help corporates borrow. • The European Commission has also allocated the EU budget towards guarantees to the European Investment Fund to incentivise banks to provide liquidity to SMEs and mid-caps. • The European Investment Bank group has proposed to mobilise up to €40 billion of financing. • The European Central Bank ("ECB") has extended liquidity support to the euro area financial system to facilitate bank lending. • The European Banking Authority ("EBA") has extended support to member state initiatives on payment moratoria. In this regard, the EBA has published guidance on application of a prudential framework regarding default, forbearance and IFRS9 and clarified requirements for public and private moratoria that help to avoid automatic reclassification of exposures as forborne or defaulted upon application of general moratoria. • The European Commission has adopted a banking package to facilitate bank lending to support the economy and help mitigate the economic impact of the Coronavirus. The package proposes targeted amendments to EU banking rules (under Capital Requirement Regulation).
United Kingdom	• On 25 March, the Chancellor of the Exchequer, the Governor of the Bank of England, and the CEO of the FCA sent a joint letter to the CEOs of the UK Banks which set out the expectation that banks take all action necessary to ensure that the benefits of the government measures are passed on to businesses and consumers. The letter emphasises that banks are required to maintain and extend lending in spite of the uncertain economic conditions and have an important role to play in the UK response to COVID-19. *See*: Link • Banks will play a pivotal role in three of the government lending schemes – CBILS, CLBILS and BBLS. These schemes will deliver financing to businesses through accredited lenders, who, in return for continuing to lend, will benefit from a government guarantee of 80 per cent (or 100 per cent in the case of BBLS) of the facility amount (subject to a per lender cap).
France	• The French government and governmental agencies expect banks and other lenders to support the French economy by providing funds to French enterprises in order to mitigate the financial consequences of the COVID-19 pandemic.

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	• With respect to financial services providers, the French government and governmental agencies expect market participants to focus their attention on market activities continuity and to ensure a high degree of market integrity.
Germany	• The German Federal Government expects that banks continue to fulfil their role to fund households and corporations in order to reduce the economic impact of the coronavirus crisis. Banks play an important role in the provision of government-guaranteed loans, since state development bank KfW provides the large volume of government-guaranteed coronavirus loans only through banks or other KfW financing partners such as insurance companies.
Italy	• Banks and other lenders are expected to continue providing funds to Italian enterprises in order to mitigate the financial consequences of the COVID-19 pandemic. • Government guarantees will be issued with respect to new bank financing granted to Italian companies, subject to certain conditions. • A key role will also be played by government-owned financial institutions, such as, in particular, SACE S.p.A. (i.e. the Italian export credit agency).
Spain	• One of the main commitments of the Spanish Government is to facilitate access to liquidity to companies. Accordingly, Royal Decree-Law 8/2020 ("RDL 8/2020") was approved on 17 March 2020, containing a number of measures to reduce the impact of the COVID-19 outbreak in Spain (which was subsequently amended to further develop such measures). In particular, RDL8/2020 created a €100 billion line of public guarantees. The purpose of this measure is to assist in maintaining employment levels, provide liquidity to Spanish enterprises and self-employed individuals so that their operations can remain, and avoid having liquidity problems turn into insolvency. • RDL 8/2020 was developed on 24 March 2020, when the Spanish Council of Ministers approved the conditions for an initial €20 billion tranche of loan guarantees to companies, SMEs and self-employed individuals (the "Initial Tranche"). The Initial Tranche was managed by the Spanish Official Credit Institute ("ICO") in collaboration with the relevant financial institutions. See: Client Alert • The amount requested by the financial institutions under the Initial Tranche was rapidly exceeded and the Spanish Government issued a second Tranche on 10 April 2020 for another €20 billion aimed at SMEs and self-employed individuals, which is also being managed by ICO.
Sweden	• The Swedish Government has expressed it expects banks to act with prudent social responsibility, in particular by continuing to lend money, as their business comprises crucial infrastructure and their actions may be decisive for the development of the economy as a whole.
UAE	• In the absence of direct state aid programs, the emphasis is on the liquidity facilities to be made available through UAE banks. On 15 March 2020, The Central Bank of the UAE (the "CBUAE") enacted an AED 100 billion programme named "TESS", short for "Targeted Economic Support Scheme". In brief, (in addition to capital buffer-related relief applicable to banks and zero-cost loans to banks) TESS facilitates the provision of temporary relief from the payment of principal and/or interest/profit on outstanding loans for all affected private sector corporates, SMEs and individuals. TESS does not apply to

Jurisdiction	General expectations for financial institutions
	outstanding loans of government, government-related entities (“GREs”) and non-residents. • In addition, the CBUAE, the Financial Services Regulatory Authority (“FSRA”) of the Abu Dhabi Global Market (“ADGM”) and the Dubai Financial Services Authority (the “DFSA”) of the Dubai International Financial Centre (“DIFC”), have issued joint guidance for banks and finance companies in relation to the application of International Financial Reporting Standard 9.

*Our FIA team has developed the **COVID-19 Regulatory and Legislative Dashboard** as a resource to help affected financial institutions, companies, governments and individuals navigate the local and cross-border complexities of the crisis and the policy response. Please refer to the Dashboard for our periodic updates and insights on the issues addressed in this FAQ.*

*Find out more about the business response to the Coronavirus outbreak: **Coronavirus: Managing business impact and legal risks***.

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