The COVID-19 pandemic has created unprecedented challenges for compliance professionals around the world, including those in the UK. The following is a selection of UK and constituent countries actions as well as news and analysis articles compiled by the Thomson Reuters Regulatory Intelligence editorial staff. The selection includes Regulatory Intelligence and Reuters news coverage. More COVID-19 news and information can be found via the TRRI platform's search facility.

Additional COVID-19 resources are also available on the Thomson Reuters COVID-19 Resource Center.

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1 This COVID-19 Coverage was compiled by Thomson Reuters Regulatory Intelligence editorial staff and other contributors.

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COVID-19 COVERAGE – UNITED KINGDOM

COVID-19 LEGISLATIVE AND REGULATORY ACTIONS

UK ACTIONS

The Statutory Sick Pay (General) (Coronavirus Amendment) (No. 3) Regulations 2020,
Amends Schedule 2 of the Statutory Sick Pay (General) Regulations 1982. Which sets out the categories of persons who are deemed to be incapable of work by reason of COVID-19. Regulation 2 adds a new category of persons, which are defined in the guidance issued by Public Health England.

Coronavirus Act 2020, UK ST 2020 c. 7 (Royal Assent 25 March 2020)
No new actions.

Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 (SI 2020/404)
No new actions.

The Financial Services and Markets Act 2000 (Exemption) (Amendment) Order 2020
No new actions.

The Health Protection (Coronavirus, Restrictions) (England) Regulations 2020
No new actions.

The Tribunal Procedure (Coronavirus) (Amendment) Rules 2020
No new actions.

COUNTRIES ACTIONS

Scotland

The Statutory Sick Pay (General) (Coronavirus Amendment) (No. 3) Regulations 2020,
Regulation 2 adds a new category of persons, which are defined in the guidance issued by the Scottish Ministers.

Coronavirus (Scotland) Act 2020 asp 7 (Royal Assent 6 April 2020)
No new actions.

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Wales

The Statutory Sick Pay (General) (Coronavirus Amendment) (No. 3) Regulations 2020,

Regulation 2 adds a new category of persons, which are defined in the guidance issued by Public Health Wales.

The Health Protection (Coronavirus Restrictions) (Wales) Regulations 2020

No new actions.

Northern Ireland

The Discretionary Support (Amendment) (COVID-19) Regulations (Northern Ireland) 2020, is a draft legislation and not yet in force.

Regulation 2 amends regulation 12 of the Discretionary Support Regulations (Northern Ireland) 2016 (S.R. 2016 No. 270) to provide for a grant for short-term living expenses to assist claimants affected by COVID-19 or who are advised to self-isolate because of it and to exempt such cases from the restriction of only one grant in twelve months.

The Discretionary Support (Amendment No. 2) (COVID-19) Regulations (Northern Ireland) 2020, is a draft legislation and not yet in force.

Regulation 2 amends regulation 15 of the Discretionary Support Regulations (Northern Ireland) 2016 (S.R. 2016 No. 270) to increase the annual income threshold by increasing the number of hours per working week from 40 hours to 45 hours. This will increase the amount of earnings a person can have while still being eligible for discretionary support and aims to provide additional support to those whose income is affected by COVID-19.

The Health Protection (Coronavirus, Restrictions) Regulations (Northern Ireland) 2020

No new actions.

Isle of Man

Emergency Powers (Coronavirus) (Entry Restrictions) (Amendment No. 2) Regulations 2020, this regulation further amends the Emergency Powers (Coronavirus) Regulations in order to permit residents of the Island to return during the Coronavirus Proclamation period under certain conditions.

Emergency Powers (Coronavirus) (Information Sharing) Regulations 2020, the Regulations allow the Council of Ministers to direct that

(a) a Department may share information with another Department or
(b) a Department may require a person specified in the direction to disclose information, for the purpose of facilitating any regulations made under the Emergency Powers Act 1936.

Therefore, a person who shares information in accordance with a direction issued under these Regulations does not breach or commit an offence under the data protection legislation.


Emergency Powers (Amendment) Act 2020, amends the Emergency Powers Act 1936 in order to amend the procedure for emergency regulations, confer jurisdiction on courts of summary jurisdiction generally over offences under the Act, to provide for the imposition
of fixed penalties, for the temporary continuation of emergency regulations at the end of a state of emergency and to make provision postponing local elections until 2021, as well as for connected purposes.

The Health Protection (Coronavirus) Regulations 2020

No new actions.

REGULATORS – COVID-19 UPDATES

UK Regulators

HM Treasury

Covid-19: Temporary Changes to the Statutory Residence Test (9 April 2020)

Rishi Sunak, Chancellor of the Exchequer, has written to the Rt Hon Mel Stride MP regarding a proposed change to the tax legislation to allow skilled individuals to come to the UK and help with the COVID-19 pandemic response. HM Treasury plans to amend the Statutory Residence Test (SRT) to ensure that any period(s) between 1 March and 1 June 2020 spent in the UK by individuals working on COVID-19 related activities will not count towards the residence tests.

For more information see the link here.

HM Treasury and Bank of England Announce Temporary Extension to Ways and Means Facility (9 April 2020)

HM Treasury, together with the Bank of England, has decided to temporarily extend the use of the government’s long-established Ways and Means (W&M) facility. This measure will provide the government with a short-term source of additional liquidity, if necessary, to smooth its cash flow and support the orderly functioning of markets in the context of the Covid-19 outbreak.

For more information see the link here.

Financial Conduct Authority (FCA)

Lending to Small Businesses (14 April 2020)

The FCA has written to CEOs of lending firms regarding continued lending to small and medium enterprises (SMEs) during the ongoing Covid-19 pandemic. The FCA outlines the importance of firms taking steps to ensure that SMEs receive adequate treatment during this period. The FCA notes that as the economy moves out of the current crisis period and into a mid-term model, it is important for prior mistakes regarding SME lending are not repeated.

For more information see the link here.

Insuring SMEs: Business Interruption (14 April 2020)

The FCA written to CEOs in the insurance sector regarding business interruption insurance and the measures that are to be taken to mitigate the economic effects of the ongoing COVID-19 outbreak. In its letter, the FCA outlines the importance of firms acting in a fair and flexible manner, encouraging the clear, accurate, and timely communication of policy change and the reasonable interpretation of policies.
The Pensions Regulator (TPR)

New COVID-19 Pension Guidance Published for Employers (9 April 2020)

TPR has published new guidance detailing how employers can meet their automatic enrolment (AE) duties as they navigate the effects of the COVID-19 pandemic. The guidance, part of TPR’s measures to safeguard pensions through these unprecedented challenges, includes a reminder that employers continue to have automatic enrolment responsibilities. However, employers are reassured that TPR will support them and take a proportionate approach to any enforcement decisions in light of the present pressures.

For more information see the link here.

Financial Reporting Council (UK) (FRC)

Gathering Evidence through Remote Means - April 2020 (14 April 2020)

The FRC has updated guidance for auditors in obtaining sufficient appropriate audit evidence to support auditor's reports in light of travel restrictions. Auditors will need to consider whether there are alternative means of obtaining sufficient appropriate audit evidence. This may require the use of procedures such as greater use of technology. Auditors can consider additional audit procedures that could enable the auditor to obtain sufficient and appropriate evidence.

For more information see the link here.

COVID-19 Update (14 April 2020)

The FRC has developed practical guidance to ensure audit firms can gather sufficient, appropriate audit evidence to support auditor's reports at a time of heightened uncertainty. In its latest update, the FRC clarifies that the accounting and auditing standards on going concern have not changed, and highlights that the FRC has not increased pressure on auditors to be tough. The update also notes that deadlines for publication of audited annual financial reports have been extended by the FCA from four to six months from the end of the financial year.

For more information see the link here.

Jersey Regulators

Jersey Financial Services Commission (JFSC)

Interim Guidance for Examinations - Covid-19 Impact (9 April 2020)

The JFSC has issued guidance for examinations in response to disruptions caused by the coronavirus. The examination processes and timetable has been revised and on-site examinations will be held remotely.

For more information see the link here.

OTHER NEWS AND SUMMARIES

COVID-19: FCA's 'Dear CEO' letter on SME sending leaves no regulatory-wriggle-room for boards, say lawyers
UK regulators have made a pre-emptive strike to ensure senior managers will be in the frame should the emergency funding scheme for small and medium-sized enterprises (SMEs) trigger a fresh wave of misconduct at UK banks.3

Yesterday's letter to chief executives from the Financial Conduct Authority (FCA) effectively consolidates warnings previously given by Andrew Bailey, Governor of the Bank of England, that the COVID-19 crisis must not lead to a repeat of the mistreatment of SMEs by banks that followed the 2008 financial crisis.

"The regulator has today triple-underlined the fact that senior managers' responsibilities extend beyond regulated activities to those activities which fall just outside the regulatory perimeter such as SME lending, if such a principle was ever in doubt," said Lorraine Johnston, counsel in the financial regulation team at law firm Ashurst.

Parham Kouchikali, partner and financial litigator at law firm RPC agreed. "This amounts to a warning to the most senior individuals at banks to ensure that they discharge their lending duties properly, taking account of the package of measures introduced by the government to support SMEs. The FCA clearly does not want 'well documented historic issues in the treatment of SMEs' to be repeated. It is sending a clear message consistent with the SMCR, that it will hold senior managers ultimately responsible and accountable for lending activity," Kouchikali said.

The "Dear CEO" letter makes clear that, while the FCA has adopted considerable regulatory flexibility in the last month to help banks pump money into businesses, each lender is still required to have an identifiable senior manager responsible for SMEs. Chris Woolard, interim chief executive at the FCA, said the regulator expects bank boards to be exercising effective oversight and challenge over these SME-responsible senior managers.

"[The FCA is] clear that a senior manager or managers should already be identified as responsible for lending to SMEs and should be being held to account on their duties by the wider board (and ultimately by the regulator). When normal business resumes, banks have no defence to say that they weren't warned," Johnston said.

Giving evidence to the Treasury Select Committee on April 15, Stephen Jones, chief executive of bank lobby group UK Finance, said he "really, really hoped we will not see anything like the repetition of what happened" in 2008.

"I believe firms' cultures have fundamentally changed," Jones said.

The FCA has also established an SME intelligence unit to keep watch over banks' treatment of their small business customers as the COVID-19 crisis unfolds. The unit will be run by Andrew Wigston, who will report to Jonathan Davidson, executive director of supervision for retail and authorisations, and Sheldon Mills, interim executive director of strategy and competition.

**Slow to lend**

Addressing criticism over the slow distribution of money via the UK Government's Coronavirus Business Interruption Loan Scheme (CBILS), Jones asked the committee for a "few more days of patience" and said banks were working "as hard and as fast as they can". Aspects of the Consumer Credit Act were hampering lenders' efforts to process loans to the smallest SMEs, he said.

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3 Lindsey Rogerson, COVID-19: FCA's 'Dear CEO' letter on SME lending leaves no regulatory wriggle-room for boards, say lawyers, Thomson Reuters Regulatory Intelligence (16 April 2020) at http://go-ri.tr.com/D4Fkb9
Woolard dismissed the idea that the legislation was hindering banks efforts in evidence to the committee; however, the scale and speed at which banks are being asked to deliver the money has presented them with a huge challenge, said Sukh Ahark, partner and corporate banking lawyer at RPC.

"Financial institutions are dealing with an immense volume of applications and none of them will have had protocols set up to deal with the current environment in an efficient and expedited process. Banks have to tread a fine line as they have certain lending criteria to adhere to and if they don’t process these with due diligence, there is a legitimate fear that loans turned bad could be seen as mismanaging taxpayers’ money. That said, banks will need to accelerate their current lending in order to offer relief to businesses, but until these loans are 100% backed by the government, all banks will exercise some caution which may lead to delay," Ahark said.

As of April 15, 6,020 CBILS loans collectively worth £1.1 billion have been issued by the 44 lenders authorised by the British Business Bank. UK Finance said a total of 28,460 formal applications for CBILS loans had been received by its members. Some of these applications have already been declined or withdrawn, although UK Finance was unable to provide a breakdown of rejected applications.

UK Finance also said it would no longer provide a figure for the number of businesses which had registered an interest in CBILS, previously reported as 300,000, because it believed this number included double counting of businesses who have registered an interest with more than one lender, or through multiple channels at the same institution.

**Management information**

It will be important for boards and senior managers to have access to the right management information in the weeks and months ahead as they oversee lending to SMEs. John Byrne, chief executive at Corlytics, a regulatory risk data and analytics company in Dublin, said monitoring complaints data should be an essential part of the information boards consider when carrying out their FCA-mandated oversight.

"Complaints data is the most valuable early warning indicator for firms that something is wrong. Firms that are able to detect a high rate of increase of complaints early and act swiftly, can improve their relationship with clients and avoid poor outcomes with regulators," Byrne said.

The "Dear CEO" letter makes clear that the FCA will itself monitor complaints received by the Financial Ombudsman Service as part of its continuing supervision of SME lenders. SMEs with fewer than 50 staff and a turnover of up to £6.5 million can bring complaints about their banks to the ombudsman, so it will be essential for a board to document any challenge or actions taken should evidence of problems begin to emerge at their institutions.

**COVID-19: Industry raises concern about FCA's limited reach on pinning down rules for accountability**

(Regulatory Intelligence) - A limit to the reach of accountability for those performing senior manager roles kicks in when a non-senior management function (SMF) could take over SMF role during coronavirus crisis but without being subject to its full accountability.
The risk is that such individuals may fail to carry out their new roles to expected standards, a BDO webinar on the impact of the novel coronavirus heard.4

"The fact of being a non-SMF is likely to limit [Financial Conduct Authority] and [Prudential Regulation Authority] reach on this individual down the line," Richard Barnwell, partner at BDO, said, referring to when the crisis was over, at a recent webinar on operational resilience, conduct and prudential hosted by the professional services firm.

Now working from home has become the new normal for banks, thought is already increasing about an exit strategy for the sector, Andrew Rogan, director, operational resilience at UK Finance, told a separate COVID-19 impact webinar yesterday.

During the coronavirus right now, however, the FCA said in a paper for solo-regulated firms that under its 12-week rule, an individual could cover for a senior manager without being approved, and if temporary arrangements last longer than that as a result of the crisis, temporary arrangements could be extended up to 36 weeks.

In a related paper for dual-regulated firms, the FCA and PRA did not specify a 36-week extension allowance. Rather they said: "If the FCA and PRA conclude that the 12-week rule is insufficient to allow firms to respond to temporary SMF absences linked to coronavirus, they will consider additional measures."

"It is not clear at this stage what personal recourse there will be to non-SMFs and therefore there is, of course, a potential risk that these individuals do not carry out their new roles to the expected standards," Barnwell said after the BDO webinar.

**Reasonable steps**

"We anticipate that other SMFs will support such individuals to help them ensure that they are able to demonstrate the reasonable steps they are taking to fulfil their responsibilities. This should include having access the right governance forums and management information," he said.

The FCA and PRA's preference is that absent SMFs' responsibilities should be distributed among the other SMFs in the firm where appropriate, said Simon Collins, managing director, regulatory at Konexo, a division of Eversheds Sutherland.

"If that is not possible and another non-SMF individual is to take temporary responsibility under the 12-week rule, they wouldn't necessarily be approved as an SMF. However, it is likely that such an individual will already be a certified individual and hence be subject to a fit and proper assessment process," Collins said.

"In addition, they will of course be subject to the conduct rules and in particular the rule covering demonstration of due skill, care and diligence. A breach of an individual conduct rule could lead to disciplinary action and sanction of that individual by the firm and the regulators," Collins said.

From the FCA's perspective, this could arise if an individual should fail to act with due skill, care and diligence in performance of his or her temporary SMF functions. In cases involving severe misconduct, the PRA and FCA can issue prohibition orders on individuals, including those who have not been approved as SMFs, banning them from performing any roles they specify in regulated financial services.

The FCA and the PRA declined to comment.

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4 Alex Davidson, COVID-19: Industry raises concern about FCA's limited reach on pinning down rules for accountability, Thomson Reuters Regulatory Intelligence (16 April 2020) at http://go-ri.tr.com/ZyiPZD

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Other conduct risk

First and second lines of defence in banks are coming together in the pandemic to identify potential conduct risk. This is at a time when separately, firms have been asked to take targeted measures relating to credit cards, personal loans and mortgages, meaning conduct risk for firms, with the possibility of poor outcomes greatly increased.

"To identify and mitigate conduct risks which are either increased or a direct consequence of COVID-19, we are seeing first and second lines of defence in firms working closely together as an effective way of both identifying and potentially mitigating such risks," Barnwell said.

"In our view, effective co-ordination between first and second lines is key in any effective risk management framework and for some firms it may be that COVID-19 focuses minds on how important this is," he said.

"This may have a lasting impact on the risk management environment and culture within banks and other financial services sector. But it remains important that there is appropriate separation between first and second lines so that an effective monitoring and control environment is in place," Barnwell said.

COLUMN: Monetary financing, quantitative easing and the COVID-19 crisis

(Regulatory Intelligence) - The Bank of England and HM Treasury have issued a notice to indicate they are extending, temporarily, the use of the government's Ways and Means (W&M) facility, its pre-existing overdraft at the Bank. This will provide a short-term source of liquidity to the government if needed to smooth its cashflows and support the orderly functioning of markets during the novel coronavirus outbreak. The aim is to minimise the impact of the imminent raising of funding in gilt and sterling money markets.5

The government intends to continue to use the markets as its primary source of financing and its response to COVID-19 will be funded fully by additional borrowing through normal debt management operations. Any drawings will, however, be repaid as soon as possible before the end of the year and the Treasury, the Debt Management Office (DMO) and the Bank will continue to cooperate closely to support the orderly functioning of the gilt and sterling money markets.

The Treasury said the W&M account had played a daily role in the government's cash management executed by the Bank, but had fallen away after the DMO had taken over cash management in 2000. It had nevertheless remained available and had been used on a number of occasions since 2000, including in 2008 when it had risen to £19.9 billion.

Monetary financing and runaway inflation

This emphasis on the temporary nature of the W&M initiative accords with new governor Andrew Bailey's views expressed in a recent opinion piece. In this, he defended the proposed raising of the ceiling of the asset purchase facility (APF) against possible charges that they were being used for what he called "monetary financing", a permanent expansion of the central bank balance sheet with the aim of funding the government which had been linked to "runaway inflation."

He also contrasted such activities with some Monetary Policy Committee (MPC) actions which resulted in the creation of central bank reserves but were "not being created with

5 Helen Parry, COLUMN: Monetary financing, quantitative easing and the COVID-19 crisis, Thomson Reuters Regulatory Intelligence (16 April 2020) at http://go-ri.tr.com/SPD1rp
the aim of paying for the government deficit, as under monetary financing, but were a consequence of independent central bank policy actions to deliver monetary and financial stability."

There were two categories of such reserve creating activities, he said. The first was liquidity provision operations which were too short term to have an enduring influence on monetary conditions, but had a short-term effect on the money supply such as the COVID Corporate Financing Facility (CCFF) initiative.

This category also included working "with the Treasury to support the orderly functioning of the gilt and money markets. Short-term operations play an important role in stabilising market conditions and countering any immediate tightening of monetary conditions. These have only a very temporary effect on monetary conditions and are not primarily tools that can be used to achieve the inflation target in the medium term".

This is the category that includes the temporary extension of the W&M facility.

**Temporary monetary financing and quantitative easing**

The other category included operations that were also temporary but were designed to have an impact on monetary conditions in the medium term. Quantitative easing (QE), where the Bank bought bonds through the APF was one example.

He did, however, attack temporary monetary financing which could undermine the Bank’s ability to control monetary conditions over the medium term. Using such monetary financing would damage credibility on controlling inflation by eroding operational independence resulting in an unsustainable Bank balance sheet. It was incompatible with the pursuit of an inflation target by an independent central bank. He claimed that the UK's institutional safeguards ruled out this approach because of:

- the institutional framework allowing the government and BoE to provide economic support in ways that delivered longer-term stability and control of inflation;
- the legal requirement on the MPC to deliver price stability through a 2% inflation target;
- the MPC's flexibility in achieving this goal;
- its requirement to explain if the target was not met;
- the operational independence of the MPC;
- the accountability of each member to parliament;
- the temporary effects of monetary policy on the real economy;
- the inability of monetary policy to increase output above potential in the long term with a concomitant raising of inflation expectations, threatening the 2% target;
- the ability to control the interest rate;
- the ability to vary the quantity of central bank reserves.

**The roles of the Treasury and the Bank of England**

The roles of the Treasury and the Bank of England during the COVID-19 crisis are highlighted in the comparison between the CCFF and the Asset Purchase Facility (PDF). Despite the fact that the CCFF was launched as an initiative of the Treasury and the Bank, the Treasury claimed it as a temporary COVID-19 measure set out by the Rishi Sunak, Chancellor of Exchequer. The predominant role of the Treasury was acknowledged, however, in a letter to Sunak from Bailey, who acknowledged CCFF was a Treasury facility with the Bank providing agency services to the Treasury.

The Treasury would indemnify the Bank for any losses and expenses arising from it; would make the final decision regarding the eligibility of any business for the facility and would be responsible for the risk management framework. This position was reiterated in
Sunak's letter saying he was asking the Bank to operate CCFF on behalf of the Treasury as their operating agent.

In the APF letters, Bailey said the MPC had agreed some monetary policy stimulus measures and he was requesting authorisation to purchase up to a further £200 billion to £645 billion of assets, the majority of which would be UK government bonds financed by the creation of central bank reserves. The government had indemnified the Bank and the APF from any losses arising out of, or in connection with, the facility and requested Sunak confirm that the government would continue to do so. The market notice said the Bank intended to purchase £5.1 billion of gilts spread evenly between short (3-7 years), medium (7-20 years) and long (more than 20 years) maturity buckets.

**Additional corporate bond purchase scheme**

It also stated that the MPC had approved an increase in purchases of sterling corporate bonds financed by central bank reserves. The market notice for the corporate bond purchase scheme (CBPS), launched in 2016, was aimed at lowering yields and reducing the cost of borrowing for companies by triggering portfolio rebalancing into riskier assets by sellers of assets, and stimulating new issuance of corporate bonds. In March 2020, the MPC said it would purchase at least £10 billion of eligible sterling non-financial corporate bonds, taking the stock of purchased corporate bonds to at least £20 billion.

The eligibility criteria contained in the market notice regarding corporate status, material contribution to economic activity, significant employment, UK headquarters, generation of significant revenue, large number of customers in the UK and a number of UK operating sites are similar to those stipulated for applicants in the CCFF Q&A and market notice.

The CBPS market notice said the MPC would keep under review the case for participating in the primary market. Primary market participation is, however, prohibited under of the consolidated version of the Treaty on the functioning of the European Union in the case of government bonds.

**MPC remains in control**

In his opinion piece, Bailey said the crucial point was that the MPC remained in full control of any date and mechanism for the ultimate unwinding of the expansion. The goal was to ensure borrowing costs and spending were consistent with achieving the inflation target and if the expansion of bond buying threatened that goal, the MPC could react.

In February 2009, the MPC said, while it had influenced the economy by changing the interest rate, it could also influence it increasing the supply of central bank money in the economy through additional purchases of government securities. Alistair Darling, the then chancellor, subsequently authorised the MPC to use the APF to purchase UK government debt on the secondary market. This was a new use for the APF which been purchasing commercial paper funded by the issuing of Treasury bills under the Bank's market maker of last resort (MMLR) function within its financial stability field of operation.

The DMO borrows by selling government bonds (gilts) to investors. Under QE the investors then sell those gilts, or their existing gilt holdings, to the Bank. The Bank then credits electronically the reserve accounts of the banks. If, pension fund A banks at Barclays and sells £50 million of gilts, the Barclays account at the Bank of England will be credited with that sum with £50m of new central bank money (clearing bank money held in their accounts at the Bank) which has been electronically created.

The APF operating procedures state that the Bank of England Asset Purchase Facility Fund Limited (BEAPFF), a wholly-owned subsidiary of the Bank incorporated in 2009 to hold the assets purchased under the APF, is the legal counterpart to market transactions and the
Bank acts as agent for BEAPFF. This is similar to the operating procedures in the CCFF scheme.

BEAPFF does not however know the identity of the principal on the other side of these typically anonymous deals. This means the Treasury cannot be sure the extra funds being injected in the form of the purchase price of the gilts have found their way into the UK domestic economy, as opposed to having been injected into the economy of another jurisdiction.

**Treasury and the Bank – independence, authorisation and consent**

Former governor, Mervyn King, said the Bank of England Act gave the authority to set decisions on interest rates to the MPC but if rates got to zero there would need to be coordination between government and the central bank because monetary policy was close to government debt management. With regards to the APF, in the first instance in 2009, the principal aspects of the programme regarding the purchases of, inter alia, commercial paper, had not constituted strictly monetary policy. They had also involved issues concerning the Bank's MMLR function and were related to fiscal policy. It had, therefore, required authorisation by the Treasury.

At that time the Bank's balance sheet had been insufficient to support the APF so there was a need for explicit Treasury backing and the indemnity provided by the Treasury to the Bank had fallen within the field of fiscal policy. Paul Fisher, then executive director of markets, said there had been overlap between the different policies elements involved in the use of the APF.

The Bank operated as an agent for the government upon the first introduction of APF, as in the case of the CCFF, and the issue of treasury bills financed its purchases. This contrasts with CCFF funding, however, which comes from the issuance of central bank reserves. In both cases, however, the government agreed to indemnify the Bank against any losses which precluded viewing the APF as a purely monetary matter. Use of the APF also involves the Bank requiring an indemnity from the Treasury, which indicates that it combines some momentary and some fiscal aspects and which is why the Bank still required Treasury authority.

**Powers of the Treasury to give directions to the Bank**

Section 4(1) of the Bank of England Act 1946 empowers the Treasury to give directions to the Bank, other than in respect of monetary policy and micro-prudential supervision/regulation; section 19 of the Bank of England Act 1998 provides the Treasury, in exceptional circumstances, the power of direction in respect of monetary policy. Such powers have never been used in terms of financial stability and monetary policy.

**EXCLUSIVE: Stay off Zoom, Google Hangouts, Standard Chartered chief tells staff**

(Reuters) - Standard Chartered is the first major global bank to tell employees not to use Zoom Video Communications Inc during the coronavirus pandemic due to cybersecurity concerns, according to a memo seen by Reuters. 6

The message, sent by Chief Executive Officer Bill Winters to managers last week, also warned against using Alphabet Inc's Google Hangouts platform for virtual gatherings.

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6 Anshuman Daga, EXCLUSIVE: Stay off Zoom, Google Hangouts, Standard Chartered chief tells staff, Reuters (15 April 2020) at http://go-ri.tr.com/3TGr4q

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Neither service offers the level of encryption of conversations that rivals like Cisco System Inc's Webex, Microsoft Corp’s Teams or Blue Jeans Network Inc do, industry experts said.

A Standard Chartered spokeswoman declined to comment on a Reuters query on the memo. She said cybersecurity remains a top priority and that staff can use several authorized tools for audio and video conferencing.

The London-based bank is the latest entity to distance itself from Zoom after interlopers exposed security flaws by bursting into strangers’ video chats in the nude, inserting lewd images into presentations or hurling racial slurs at participants.

These "Zoombombing" incidents have rattled all kinds of users, as hordes of business people, students, families and friends flocked to the service to stay connected while isolating during the pandemic. Zoom in March had about 200 million people using its system every day, up from 10 million last year.

Banks have particular worries about cybersecurity because of regulations that can penalize them for exposing customer information, even if inadvertently.

Standard Chartered staff are mostly using Blue Jeans, said two employees who were not authorized to speak on the matter.

The bank joins others ranging from Elon Musk’s SpaceX to New York City’s public school system and governments in Taiwan and Germany in placing restrictions on Zoom. Meanwhile, the U.S. Federal Bureau of Investigation warned Americans of its dangers two weeks ago.

Zoom, founded and headed by former Cisco manager Eric Yuan, last week tapped former Facebook Inc FB.O security chief Alex Stamos as an adviser on safety and privacy concerns to quell the global backlash against its perceived flaws.

Zoom did not immediately respond to a request for comment.

**TRICKY CHOICE**

Choosing a communications provider is tricky for banks, which have to balance security concerns, data-access needs and the preferences of clients and employees, who may wander off to another service outside official channels if rules are too stringent.

Industry workers described a mixed experience with video chats in the age of coronavirus.

Two JPMorgan Chase & Co JPM.N employees said they regularly hold meetings on Zoom and that the bank had not offered any formal guidance about its use.

Some Goldman Sachs Group Inc employees have been holding virtual "pub outings" on Zoom, where they connect after work with a cocktail or beer in hand to chat, a source said. The bank's chief technology officer told staff in an April 3 video that they could use Zoom and Blue Jeans.

Morgan Stanley employees are also allowed to use Zoom, among other options, a source there said. Barclays only uses Zoom if a client requests it, according to a source. People at Wells Fargo & Co and Citigroup Inc said Zoom is not a familiar option at their banks, which rely on other services.

**Pandemic exposing 'cracks' in financial system, bank losses likely': IMF**

(Reuters) - The novel coronavirus outbreak has exposed "cracks" in the global financial system and "will likely" see banks suffer both credit losses and
market losses that will test their reserves, the International Monetary Fund (IMF) warned on Tuesday.\footnote{Pete Schroeder, Pandemic exposing 'cracks' in financial system, bank losses likely': IMF, Reuters (15 April 2020) at http://go-ri.tr.com/kQ5rZK}

The world's largest multilateral lender cautioned that while banks have built up strong capital and liquidity buffers, and passed regular stress tests, since the 2007-2009 financial crisis, the potential for a long and severe downturn will put the firms to the test.

"This crisis presents a very serious threat to the stability of the global financial system," the IMF wrote in its Global Financial Stability Report ahead of its virtual summit with the World Bank in place of its usual spring gathering.

"Today, of course, we are in the very adverse economic scenario ... we do expect that most banks and most banking systems are going to be stable," said Tobias Adrian, the director of the IMF's monetary and capital markets department. "There might be some additional struggles in some banking systems and for some banks around the world."

Measures to stem the spread of the virus have put 16 million Americans out of work, wiped trillions of dollars off global stock markets and could lead to the worst economic crash since the Great Depression of the 1930s, the IMF warned last week.

"The declines in asset prices are expected to lead to losses on banks' portfolios of risky securities, though this could be partly offset by gains on their holdings of safe-haven assets," the IMF said.

Prior to the report's release, JPMorgan Chase & Co and Wells Fargo both reported their quarterly profits steeply fell as the firms set aside billions of dollars in preparation for potentially huge numbers of loans in default.

The IMF flagged that emerging strain in the U.S. commercial real estate sector, as tenants struggle to pay their landlords, were a point of potential stress for banks who account for as much as 70% of lending to that sector.

Companies have been rushing to draw down what the IMF estimated was $10 trillion in unused credit lines at the end of 2019, pressuring banks to eat into their liquidity buffers.

The fall in oil prices is also likely to lead to credit losses among energy lenders, while banks may also take losses on loans to struggling households, the IMF said.

"The longer the sudden stop in economic activity continues, the more likely it is that banks will see credit losses," it added.

Policymakers have already taken "decisive" fiscal and monetary policy steps to soften the impact of the pandemic, the IMF said. In the United States, the Federal Reserve has taken a volley of unprecedented measures to prop up the economy.

But some emerging and frontier economies do not have the firepower of their Western peers and are facing a "perfect storm" as domestic financial stress is compounded by record funds outflows and reduced access to external debt financing.

"This loss of external debt financing is likely to put pressure on more leveraged and less creditworthy borrowers," the IMF warned.

**Pandemic shows investment fund vulnerabilities, G20 watchdog says**
Non-bank financial firms such as investment funds have exhibited vulnerabilities during the coronavirus crisis that may need fixing to help economies recover, a global regulatory watchdog said on Tuesday.³

The Financial Stability Board (FSB), which coordinates financial rules for the Group of 20 (G20) economies, said that although an initial wave of volatility has ebbed, markets remain under great strain and in some cases illiquid.

FSB Chair Randal Quarles said the impact of the coronavirus pandemic on credit markets and investment funds has highlighted potential vulnerabilities and the need to understand the risks and resulting policy implications.

"It is more important than ever to ensure that we can reap the benefits of this dynamic part of the financial system without risking financial stability," Quarles said in a letter to G20 finance ministers and central banks, who are holding a virtual meeting this week.

The FSB said it has set up a group to fine tune work on investment funds and credit markets, which have been a source of conflict between market regulators and central banks in the past over how stringently they should be regulated.

"Shadow banking", which also includes money market funds, hedge funds and private equity, has grown significantly since the financial crisis a decade ago, moving into bank-like activities such as credit as traditional lenders became more risk averse.

Quarles, who is also Federal Reserve vice chair for banking supervision, said FSB members have been involved in intensive, daily information exchanges to coordinate national responses.

Regulators have come under heavy pressure from banks to loosen capital buffers and ease provisioning requirements for bad loans as businesses struggle to stay afloat during lockdowns.

Quarles said the FSB was guiding G20 members on using existing flexibility in global rules, while also preserving collective support for the standards.

"It will become increasingly important to assess the impact of measures taken and to ensure that these policies are effective in the near term, and, eventually, to give a strong basis for deciding on when, and how, to return to more normal operations in the financial sector," Quarles said.

Fallout from the coronavirus crisis has led to speculation that regulators will have to push back an end of 2021 deadline for ending the use of the Libor interest rate benchmark that banks were fined billions of dollars for trying to rig.

The rate is used in contracts like home loans and credit cards worth around $400 trillion globally, and ending its use is one of the biggest challenges faced by markets in decades.

"The financial stability risks that would be associated with an unsuccessful transition away from Libor are as relevant in the current environment as they were before," Quarles said.

The FSB will set out for G20 finance ministers in July the remaining challenges to shifting away from Libor and explore ways to address them, Quarles said.

³ Huw Jones, Pandemic shows investment fund vulnerabilities, G20 watchdog says, Reuters (15 April 2020) at http://go-ri.tr.com/CDl1AX
OPINION: Flexibility in crisis response crucial — not just for firms, but also regulators

Regulators often tell businesses to be flexible and responsive in their approach to compliance and to design internal controls that are commensurate with the size, nature and complexity of their operations. These factors are evolving continually along with market developments. As such, businesses are expected to respond to changes to meet regulatory expectations. A rigid "one-size-fits-all" approach is generally frowned upon.9

Supervisory oversight should do the same, especially during a financial crisis or other systemic risk event. Flexibility allows firms and their regulators to be agile enough to respond to fast-changing market developments and to mitigate financial distress. A slavish adherence to blanket applications of regulatory requirements during a crisis hinders the ability of firms to respond. It may also have the unintended effect of undermining the objectives of any regulatory requirements.

Two relevant examples

The Prudential Regulation Authority (PRA) at the Bank of England recently clarified that it expected UK-regulated banks to do their part to support the regional economy through an anticipated recession. Specifically, the regulator asked banks to shore up capital as a buffer against systemic risk and to facilitate lending to struggling UK businesses and households. The measures are expected to support up to £190 billion in loans, which is 13 times more than the net amount of bank lending to businesses in 2019.

The PRA ordered banks to cancel plans for cash bonuses for senior executives and also asked firms to cease paying dividends to shareholders until the end of this year. The move has stirred up controversy and perhaps even additional legal and financial risk for financial institutions that serve international clients, investors and shareholders.

Out of the five banks that have pledged compliance so far, HSBC and Standard Chartered stand out as the only firms that derive the majority of their revenue in the Greater China region and from North Asian markets such as Taiwan, South Korea and Japan.

HSBC earned almost half of its adjusted revenue from Asia last year. Around one third of its shares are held by retail investors in the region. In comparison, the bank's earnings from Europe comprised slightly more than 30% of its total adjusted revenue for 2019. Likewise, Greater China and North Asia (Hong Kong, Macau, Mainland China, Taiwan, Japan and South Korea) generated the largest share of Standard Chartered's income in 2019 at 40%. Out of these jurisdictions, the bank considers Hong Kong to be its largest market.

As such, the lion's share of revenue for both firms comes from businesses and individual clients situated in Greater China and North Asia, not from the UK. It is uncertain whether relief measures from UK regulators will affect this large swathe of clients, investors and shareholders.

Contentious move

The suspension of dividends has proven so contentious that HSBC is now exposed to litigation risk from retail investors in Hong Kong. A group of shareholders have threatened to sue the bank and force it to hold an extraordinary general meeting (EGM).

9 Helen Chan, OPINION: Flexibility in crisis response crucial — not just for firms, but also regulators, Thomson Reuters Regulatory Intelligence (15 April 2020) at http://go-ri.tr.com/79pSIX

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A newly formed group called the HSBC Shareholders Alliance recently disclosed that it had amassed registered members that accumulatively hold approximately 2% of the bank’s stock, all within one week. Under Hong Kong law, shareholders of a company that hold at least 5% of the total voting rights may require the entity to convene and EGM. A spokesperson for the investor group said that they were optimistic they could meet the threshold. They would also consider legal action, depending on the outcome of an EGM. (Regulatory Intelligence) - Should the bank become embroiled in litigation with shareholders in Hong Kong, it would likely incur significant legal expenses to defend itself for complying with a directive from a financial regulator, the PRA. These costs would further erode the amount of capital available for other purposes.

While UK regulators such as the PRA are primarily concerned with protecting UK markets, policy that harms investors and financial consumers anywhere, not to mention the unintended consequence of adding stress to a bank's capital reserves, seems counterproductive.

Flexibility from the PRA allowing banks to find alternatives to shore up capital would assist regulated firms with sizable markets abroad to better manage stakeholder expectations.

The labour laws around annual leave in South Korea are another example where some flexibility could bring much needed relief to businesses, their employees and the broader economy. In South Korea, labour laws restrict the options available to businesses to manage costs relating to employee leave. Under the Labor Standards Act, employees are not permitted to carry over unused annual leave into the following year; any days remaining at the end of the year simply expire. However, employers are still obligated to pay wages to the employee for the unused leave.

Although South Korea has managed to avoid imposing the stringent lockdown measures seen in many other countries, international and domestic travel have declined drastically due to the continuing novel coronavirus pandemic. Social distancing and remote working arrangements have further disincentivised employees from taking leave to go on vacation during this time.

If and when pandemic response measures are relaxed in South Korea, businesses will have to contend with scenarios where large numbers of employees could take leave within similar time frames, creating business continuity issues, or a situation where employers may have to pay out significant sums to compensate a high number of employees who have not used up their annual leave by the end of the year. Both scenarios could place added financial burdens on businesses that are already struggling to cope with economic fallout from the pandemic.

A third option, mandating employees to take leave while they are working from home during a pandemic, is unpalatable but may be the only prudent option available in the absence of regulatory flexibility.

**Biggest burden on financial firms**

Financial services firms are likely to be the most burdened by these restrictions. At a time when banks are facing pressure to reduce layoffs, bonuses and executive compensation, the regional obligation to pay out employees for potentially large amounts of unused leave could undermine the efforts to shore up capital. Business could try to lobby for a one-time exception to allow employees to carry over leave into 2021; however, it is not clear how receptive regulators may be.

Businesses, particularly financial institutions, are facing expectations from regulators to soften the economic pain of the pandemic; however, without flexibility, financial regulators
may find that their policies are having the unintended effect of undermining their overall crisis management efforts.

**UK banks expect to lend more to business as COVID-19 crisis deepens**

(Reuters) - British banks expect to lend more to businesses but curb mortgage and consumer lending over the next three months as the country feels the economic effects of the coronavirus, a Bank of England survey showed on Thursday.¹⁰

The quarterly survey, conducted between March 2 and March 20, showed growing concern from banks about the outlook as the impact of COVID-19 became more stark over the period.

“Overall availability of credit to the corporate sector was unchanged for all business sizes in Q1 but was expected to increase for all business sizes in Q2,” the BoE said.

Britain’s government has launched a 330 billion-pound government guaranteed lending scheme to support businesses through the economic shutdown it ordered to slow the spread of the coronavirus.

The BoE survey showed businesses’ demand for credit the highest since they were first asked about this in 2007.

**Most small UK companies have no pandemic insurance – watchdog**

(Reuters) - Most insurance policies bought by smaller companies do not cover for disruption caused by the coronavirus pandemic, Britain’s Financial Conduct Authority said on Wednesday.¹¹

Britain is in lockdown, with many companies shuttered and millions of people furloughed as the country heads for a deep recession.

The FCA said most company insurance policies only gave basic cover, with no obligation to pay out in relation to the COVID-19 pandemic.

“While this may be disappointing for the policyholder, we see no reasonable grounds to intervene in such circumstances,” FCA interim chief executive Christopher Woolard said in a letter to heads of insurers.


¹¹ Huw Jones, Most small UK companies have no pandemic insurance – watchdog (15 April 2020) https://uk.reuters.com/article/health-coronavirus-britain-insurance/most-small-uk-companies-have-no-pandemic-insurance-watchdog-idUKL5N2C31FP

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“In contrast, there are policies where it is clear that the firm has an obligation to pay out on a policy. For these policies, it is important that claims are assessed and settled quickly.”

Such valid claims should be paid as soon as possible, such as by starting with an interim payment, as many insurers were already doing, Woolard said.

“If you disagree with doing so, we would like you to send to us the grounds for reaching that decision including how you believe it represents a fair outcome for customers. Your firm’s decision is likely to help inform our assessment of its culture,” Woolard said.

UK banks have ample funds to help pandemic-hit economy: BoE’s Woods

(Reuters) - Britain’s banks have enough funds to keep lending to the economy even under the deep recession scenario outlined by a government watchdog, Bank of England Deputy Governor Sam Woods said on Wednesday.12

The BoE has allowed banks to tap 23 billion pounds ($29 billion) of their capital buffers to support up to 190 billion pounds of lending, well above a net lending to companies of 16 billion pounds last year, Woods said.

“We go into this with a well capitalised banking sector,” Woods told a meeting of parliament’s Treasury Select Committee.

It was “not at all obvious” that the scenario outlined by the Office for Budget Responsibility on Tuesday was worse overall for banks than last year’s BoE stress test for lenders, Woods said.

The OBR said Britain’s economy could shrink 35% during the three months to June due to coronavirus shutdowns, then bounce back sharply afterwards, giving an overall economic hit for the year of about 13% - still the largest in more than 300 years.

“Banks have ample capacity from a capital point of view,” Woods said.

A “huge support package” from the state also reduces the hit on the banking system, Woods said.

Sarah Breeden, executive director for bank supervision at the BoE, said Britain’s biggest companies have drawn tens of billions of pounds on credit lines from their banks, but they have yet to spend it.

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“In the near term, for largest companies that risk of default does not feel very immediate,” Breeden said. “The shock hasn’t yet hit in scale,” she said.

Britain’s banks are offering loans under a government-backed scheme to help businesses stay afloat during the national lockdown, but it is unclear if all of the companies will survive.

“The capital treatment for these loans is strong enough to cover the losses that should arise in the normal way from making loans of this kind,” Woods said.

Lawmakers also sought reassurances that banks were not profiting from the crisis.

“I find it very hard to believe that the banks will profit from this crisis, I think it’s a question of how significant will the losses be,” Stephen Jones, chief executive of UK Finance, a trade body for banks, told the lawmakers.

**INSURANCE HIT**

Britain’s insurers have taken a hit from large falls in financial markets which they have “broadly weathered quite well”.

The hit has left insurers with a coverage ratio, a measure of ability to service debt and obligations, of 130-160%, down by up to 20 percentage points, Woods said.

The BoE is now checking whether insurers have enough capital to cover policy claims for disrupted travel and interrupted business.

“We think we have that covered in capital requirements and provisions, but you never know until a thing flows through completely,” Woods said.

The BoE is also checking on the “painful” impact of downgrades to bonds held by insurers to make sure these are covered, Woods added.

**Bank of England COVID-19 lending to large firms reaches 7.6 billion sterling**

(Reuters) - Bank of England lending to large companies, via purchases of commercial paper they issue, has reached 7.6 billion pounds ($9.5 billion), up from 5.5 billion pounds last week, Deputy Governor Sam Woods said on Wednesday.13

The BoE typically releases data for its Covid Corporate Financing Facility (CCFF) each Thursday, but Woods gave an extra update to members of parliament’s Treasury Committee who asked him about the BoE’s response to the coronavirus crisis.

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One in nine UK mortgages helped by payment holidays

(Reuters) - British banks and other lenders have provided payment holidays for one in nine mortgages as part of a push to help households whose finances have been impacted by COVID-19, UK Finance, an industry group, said on Tuesday.\textsuperscript{14}

As of April 8, more than 1.2 million mortgage borrowers had been offered a payment holiday by their lender, up from just over 392,000 on March 25, it said.

"For the average mortgage holder, the payment holiday amounts to 260 pounds per month of suspended interest payments, with many benefiting from the option of extending the scheme for up to three months,“ UK Finance said.


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