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[News from the EU financial supervisors]

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[EBA provides clarity to banks and consumers on the application of the prudentia…]

- The EBA calls for flexibility and pragmatism in the application of the prudential framework and clarifies that, in case of debt moratoria, there is no automatic classification in default, forborne, or IFRS9 status.
- The EBA, nonetheless, insists on the importance of adequate risk measurement and expects institutions to prioritise individual assessments of obligors' likeliness to pay when possible.
- Consumer protection remains a priority and financial institutions should ensure full disclosure and act in the interest of customers, with no hidden charges or automatic impact on credit ratings.
- Well-functioning payment services are vital at this time, and contactless payments should be stepped up to the threshold allowed under EU law.

Following its call on 12 March 2020 to Competent Authorities to make use of the full flexibility provided for in the existing regulation, the European Banking Authority (EBA) issued today a second statement to explain a number of additional interpretative aspects on the functioning of the prudential framework in relation to the classification of loans in default, the identification of forborne exposures, and their accounting treatment. These clarifications will help ensure consistency and comparability in risk metrics across the whole EU banking sector, which are crucial to monitor the effects of the current crisis. The EBA also reminds financial institutions of their consumer protection obligations, temporarily lifts some reporting obligations for payment service providers (PSPs), and calls on PSPs to raise their contactless payment thresholds to the legal limit.

The EBA supports the measures taken and proposed by national governments and EU bodies to address the adverse systemic economic impact of the coronavirus in the form of general moratoria. The statement clarifies the implications of moratoria on the prudential and accounting treatment of the exposures, but reiterates that it is crucial that the classification of exposures accurately and timely reflects any deterioration of asset quality.

In particular, the EBA clarified that generalised payment delays due to legislative initiatives and addressed to all borrowers do not lead to any automatic classification in default, forborne or unlikeness to pay. Individual assessments of the likeliness to pay should be prioritised.

The EBA also highlighted that when applying the IFRS 9 international accounting standard, institutions are expected to use a certain degree of judgement and distinguish between borrowers whose credit standing would not be significantly affected by the current situation in the long term, and those who would be unlikely to restore their creditworthiness. The European Securities and Markets Authority (ESMA) also issued a Statement with further guidance on the accounting implications of the economic support and relief measures adopted by EU Member States in response to the COVID-19 crisis.

Whilst ensuring flexibility on the prudential side to support generalised payment delays, the EBA emphasised there is no flexibility in relation to consumer protection. The EBA called on all lenders to act in the interest of consumers. In particular making sure that customers fully understand the implications of taking up any measures, without hidden charges and that such new terms should not have automatic adverse impacts on the customer's credit rating.

The EBA finally noted the importance of orderly payments services during this period, recommended the use of contactless payments up to EUR50 and encouraged consumers and merchants to take sanitary measures and consider all payment options when paying in-store.

Further actions to support banks' focus on key operations

As a follow-up to its decision to support banks' focus on key operations and to limit any non-essential requests in the short term, the EBA has reviewed all ongoing activities requiring inputs from banks in the next months and decided:

- To extend the deadlines of ongoing public consultations by two months;
- To postpone all public hearings already scheduled to a later date and run them remotely via teleconference or similar means;
- To extend the remittance date for funding plans data; In coordination with the BCBS, to extend the remittance date for the Quantitative Impact Study (QIS) based on December 2019 data.