EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Press release

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ECB Banking Supervision provides further flexibility to banks in reaction to coronavirus

- ECB gives banks further flexibility in prudential treatment of loans backed by public support measures
- ECB encourages banks to avoid excessive procyclical effects when applying the IFRS 9 international accounting standard
- ECB activates capital and operational relief measures announced on March 12, 2020
- Capital relief amounts to €120 billion and could be used to absorb losses or potentially finance up to €1.8 trillion of lending

The European Central Bank (ECB) today announced further measures to ensure that its directly supervised banks can continue to fulfil their role to fund households and corporations amid the coronavirus-related economic shock to the global economy.

The ECB supports all initiatives aimed at providing sustainable solutions to temporarily distressed debtors in the context of the current outbreak. To this end, the ECB has introduced supervisory flexibility regarding the treatment of non-performing loans (NPLs), in particular to allow banks to fully benefit from guarantees and moratoriums put in place by public authorities to tackle the current distress.

First, within their remit and on a temporary basis supervisors, will exercise flexibility regarding the classification of debtors as “unlikely to pay” when banks call on public guarantees granted in the context of coronavirus. The supervisor will also exercise certain flexibilities regarding loans under Covid-19 related public moratoriums. Second, loans which become non-performing and are under public guarantees will benefit from preferential prudential treatment in terms of supervisory expectations about loss provisioning. Lastly, supervisors will deploy full flexibility when discussing with banks the implementation of NPL reduction strategies, taking into account the extraordinary nature of current market conditions.

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In addition, excessive volatility of loan loss provisioning should be tackled at this juncture to avoid excessive procyclicality of regulatory capital and published financial statements. Within its prudential remit, the ECB recommends that all banks avoid procyclical assumptions in their models to determine provisions and that those banks that have not done this so far opt for the IFRS 9 transitional rules.

These measures to mitigate credit risk come in addition to the capital and operational relief measures announced on March 12, 2020. The ECB estimates that the capital relief provided by the possibility to operate below the Pillar 2 Guidance (P2G) and the frontloading of the new rules on the Pillar 2 Requirement (P2R) composition amounts to €120 billion of CET1 capital. This relief is available for banks to absorb losses without triggering any supervisory actions or to potentially finance up to €1.8 trillion of loans to households and corporate customers in need of extra liquidity.

Further details on supervisory measures taken this week and last week are explained in the FAQs.

In close cooperation with other authorities, the ECB Supervisory Board will continue to monitor developments. Measures will be reviewed as and when necessary.

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