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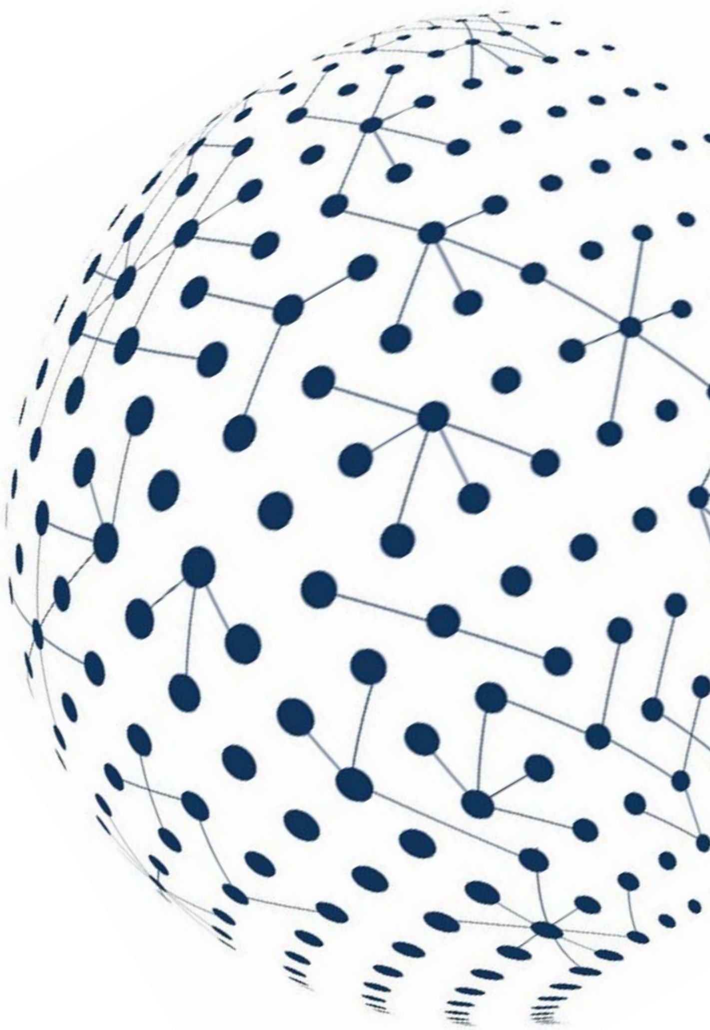
BOARD

COVID-19 Pandemic: Financial Stability Impact and Policy Responses

Report submitted to the G20



17 November 2020

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Executive summary

The COVID-19 shock has put the global financial system under considerable strain. While the core of the financial system entered the crisis more resilient, the COVID-19 shock in March led to severe liquidity stress in the system and unprecedented central bank intervention. The stress in key funding markets highlighted the need to strengthen resilience, including in some parts of non-bank financial sector. These and other lessons from March are being examined as part of the FSB's Holistic Review and will be addressed through the associated workplan.[1]

Since the G20 meeting in July, global financial conditions have overall continued to ease on the back of the decisive policy action taken earlier this year. However, risks to global financial stability remain elevated. Volatility in equity prices has increased recently against the backdrop of a second wave of the pandemic and further containment measures in some regions. Financial conditions may therefore remain vulnerable to sharp shifts in investor sentiment, which might be associated with another round of increased demand for liquidity.

In many jurisdictions the initial recovery from the COVID-19 shock has seen a setback as the pandemic has intensified. This intensification, the necessary government containment measures and uncertainty about the duration of the pandemic are having the effect of increasing vulnerabilities in the non-financial sector. Deteriorating credit quality of non-financial borrowers therefore poses risks to the financial sector.

These vulnerabilities may increasingly affect banks and the supply of financing to the real economy more generally. Bank capital ratios have held up so far and, together with government lending support measures such as loan guarantees, have allowed banks to continue lending. However, as banks face rising loan losses and a worsening in asset quality, they may be tempted to tighten credit conditions. In addition, further credit ratings downgrades could put bond markets under pressure hence reducing the capacity of corporate borrowers to access the market. While downgrades of corporate bonds and leveraged loans have fallen from their peak in March (Graph 3), there is a risk that a deterioration in corporate sector health could lead to sharply rising defaults.

Authorities have kept in place the vast majority of support measures over the past few months. At the same time, the focus of policy action has shifted from the adoption of new measures to extending and adjusting existing policies to make them more targeted and effective as well as adapting them to evolving circumstances.

The evolving nature of the COVID-19 pandemic and the associated economic uncertainties require continued efforts to support financial resilience and ensure a sustained flow of financing to the real economy. Banks' use of bank capital and liquidity buffers will support lending and help absorb losses; a retrenchment of credit or deleveraging would harm the recovery which would, in turn, ultimately harm financial sector resilience. The use of analytical tools such as stress testing is important to inform the assessment of potential solvency risks on financial stability and adjustments in policy responses. Authorities' communication of their expectations of future

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[1] See FSB, *Holistic Review of the March Market Turmoil*, November 2020

policy, at a time when conditions are changing fast and the outlook is uncertain is important to support confidence.

Heightened economic uncertainty and continued elevated risks to financial stability reinforce the case for continued close international cooperation to help maintain global financial stability, keep markets open and functioning, and preserve the financial system's capacity to finance growth.

- Identifying potential vulnerabilities early on is particularly important in an environment of heightened health and economic risks that may lead to strains on the financial system. The FSB will continue to assess and share, on a timely basis, information on financial stability risks from COVID-19, including banks' ability to provide financing to the real economy, functioning short-term funding markets, and the availability of dollar funding globally.

- While the COVID-19 crisis has shown that the G20 financial reforms over the past decade have made the core of the financial system significantly more resilient, it has also revealed that financial vulnerabilities in the non-bank financial sector may amplify adverse shocks and increase financial stability risks. Building on the holistic review of the March market turmoil, and in coordination with the SSBs, the FSB will initiate and coordinate the international regulatory response to strengthen the resilience of the NBFI sector while preserving its benefits.

- Learning from each other is critical for ensuring the effectiveness of policy responses. The FSB will continue to facilitate sharing of information on jurisdictions' policy responses and on their use of tools to design, calibrate and assess policies.

- National authorities' ability to respond effectively to emerging financial stability risks also relies on established, well-functioning mechanisms for cross-border cooperation. The FSB will continue to support crisis management preparedness, including by enhancing cooperation and coordination through crisis management groups and colleges.

- The effectiveness of the policy response to COVID-19 critically depends on measures taken remaining in place as long as necessary. Any unwinding of measures needs to be carefully evaluated and, when appropriate, be applied gradually in order to avert economic and financial cliff effects of the withdrawal or expiration of measures as well as cross-border spillovers. The FSB will discuss the factors to be considered in preparation for an orderly unwinding of support measures, once appropriate, and avoid unintended effects across sectors and jurisdictions.

The FSB Principles have continued to guide national responses to COVID-19. Coordination of the measures taken by jurisdictions has discouraged unilateral actions that could distort the level playing field and lead to market fragmentation. The FSB working with the standard-setting bodies is continuing to monitor the use of flexibility within standard and consistency with standards. Most temporary measures taken to deal with the COVID-19 shock are using the flexibility available in international standards.

Introduction

G20 Finance Ministers and Central Bank Governors, in their Communiqué of 18 July 2020, asked the FSB to continue monitoring financial sector vulnerabilities relating to COVID-19 and coordinating and communicating clearly on regulatory and supervisory measures among its member jurisdictions, international organisations and Standard-Setting Bodies (SSBs). They also reiterated their commitment to the five principles set out in the FSB's report on COVID-19 to the G20 in April 2020, which underpin national and international responses to COVID-19.

This report provides an update on financial stability developments and risks relating to COVID-19 (Section 1); the international policy responses (Section 2); the effectiveness of policies (Section 3); the challenges that lie ahead and the way forward for the FSB (Section 4).

The report draws on information shared by members of the FSB and of its Regional Consultative Groups concerning their recent policy measures. It also draws on discussions with industry participants on the effectiveness of prudential and other financial policy measures taken to date, including experiences with their implementation.[2]

1. Financial stability developments since July

The COVID-19 shock has put the global financial system under considerable strain. While the core of the financial system entered the crisis more resilient, the COVID-19 shock in March led to severe liquidity stress. The stress in key funding markets highlighted financial vulnerabilities, including in non-bank financial intermediation, and prompted unprecedented central bank intervention. These and other lessons from March are being examined as part of the FSB's Holistic Review.[3]

Since the last G20 meeting in July, global financial conditions have generally continued to ease following the decisive policy action taken earlier this year. Corporate bond spreads have continued to fall from the levels they reached in March and corporate bond issuance has been strong (Graph 1, left-hand panel). Inflows to fixed-income investment funds have continued to strengthen, particularly in advanced economies. Portfolio flows to emerging market and developing economies (EMDEs) have remained positive, if subdued, following outflows earlier this year. However, the extent of the easing in financial conditions has varied considerably across countries and sectors. This reflects differences in the spread of the pandemic and associated government containment measures, variation in the extent of jurisdictions' policy support, and the reliance of different economies on different sectors.

Risks to global financial stability remain elevated, however. Another wave of the pandemic in some regions coincided with a tick-up in equity price volatility (Graph 1, right-hand panel). Much of the broader increase in risky asset prices since March has occurred despite falls in corporate earnings, and has been driven by overall declines in risk premia. The outlook for economic growth remains highly uncertain. Financial conditions may therefore remain vulnerable to sharp

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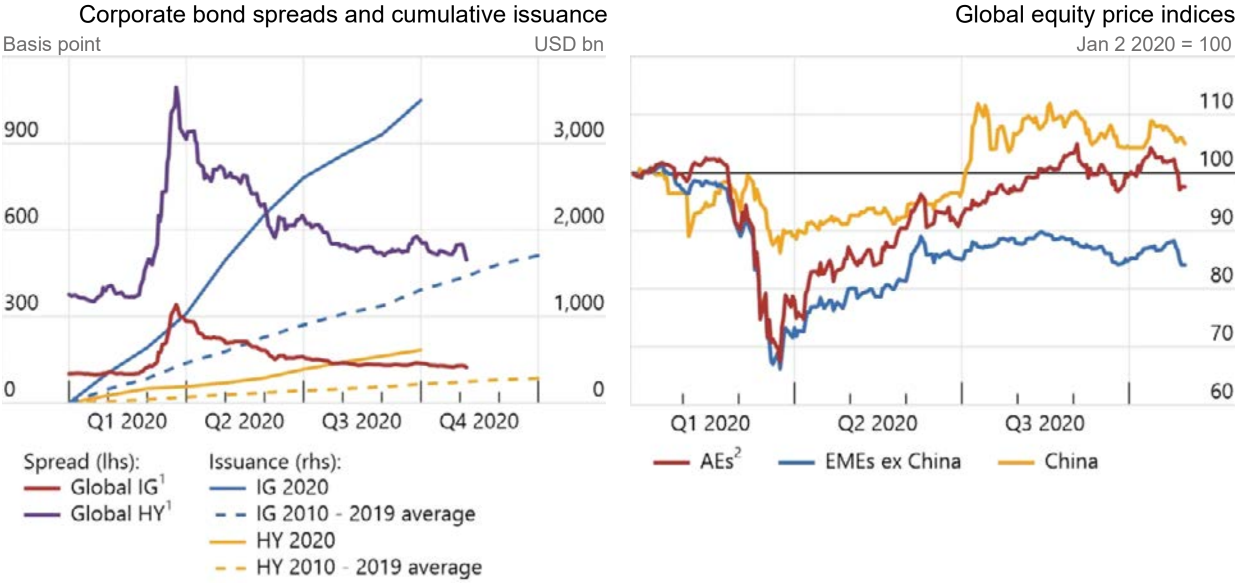
2 See FSB, *Financial policymakers discuss responses to COVID-19 with the private sector*, May 2020.

3 See FSB, *Holistic Review of the March Market Turmoil*, November 2020

shifts in investor sentiment, which might be associated with disorderly moves in asset prices and liquidity strains.

Financial conditions have continued to ease **Graph 1**



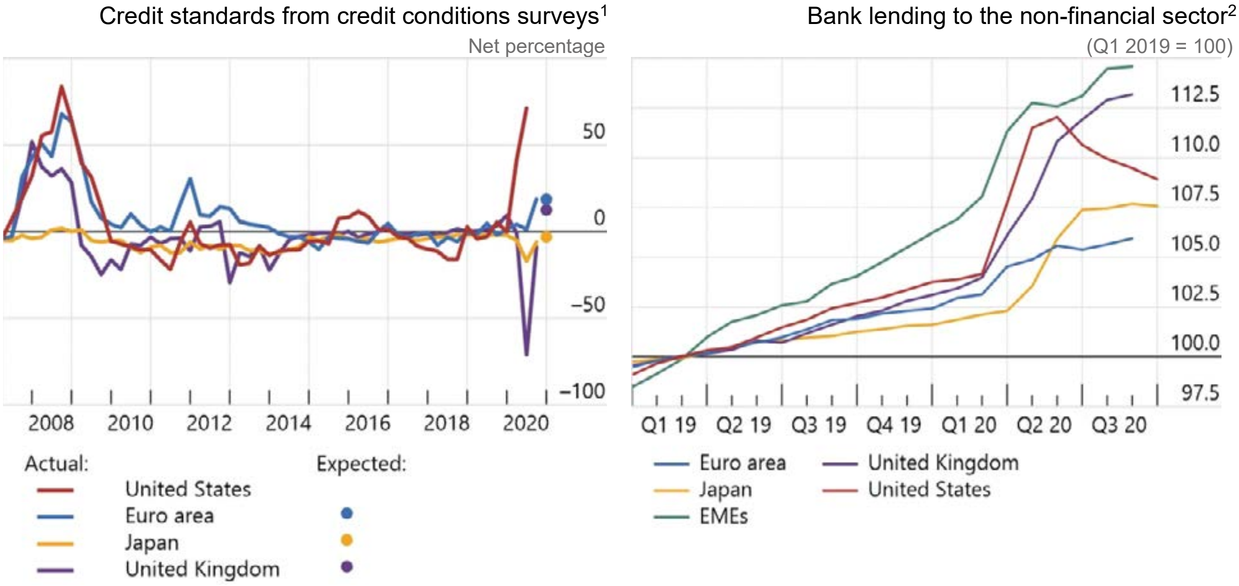
1 ICE BofAML Global Corporate Index and ICE BofAML Global High Yield Index, respectively. Option adjusted spread. 2 MSCI world.
Sources: Bloomberg; Datastream; ICE BofAML indices; FSB calculations.

Deteriorating credit quality of non-financial borrowers poses risks to the financial sector. The intensification of the pandemic, uncertainty as to its duration, and associated necessary government containment measures, are increasing vulnerabilities in the non-financial sector. Reductions in revenues are likely to be the largest in sectors most affected by containment measures (e.g. tourism, travel and entertainment) and those experiencing sharp reductions in supply capacity (e.g. those engaged in labour-intensive manufacturing such as textiles and apparel). Some firms have also been affected by falls in commodity prices, particularly those in the energy sector and those in commodity-exporting countries. The associated reduction in firm revenue, and consequent borrowing by some firms are adding to already high debt levels in parts of the non-financial corporate sector.

Growing vulnerabilities in the non-financial corporate sector may increasingly affect banks. While corporate insolvencies have not increased significantly so far, this is likely due to the government support measures. However, these measures are primarily intended to address liquidity rather than solvency issues and banks have already started to provision for the prospect of higher losses on loans. Provisioning has increased against the backdrop of the intensifying pandemic and the deterioration of economic conditions may worsen profitability and constrain new lending. Some support measures, e.g., public loan guarantees, can mitigate the impact on provisions and profitability, to the extent that they absorb a part of the losses.

Bank capital ratios have held up so far and, together with government lending support measures such as loan guarantees, have allowed banks to continue lending. The results of stress testing exercises completed to date seem to suggest that the largest banks are well capitalised and will remain resilient under a range of recovery scenarios. However, surveys suggest that banks are now tightening credit standards in some jurisdictions, something that has not been seen since the global financial crisis (Graph 2, LH panel). Indeed, bank lending appears to have peaked in some advanced economies (Graph 2, RH panel). To the extent that government guarantees are not in place anymore, if banks face greater loan losses and a worsening in asset quality, they may be tempted to tighten credit conditions further. This may exacerbate the economic slowdown, and have adverse implications for the broader economic recovery.

Bank lending may be peaking **Graph 2**



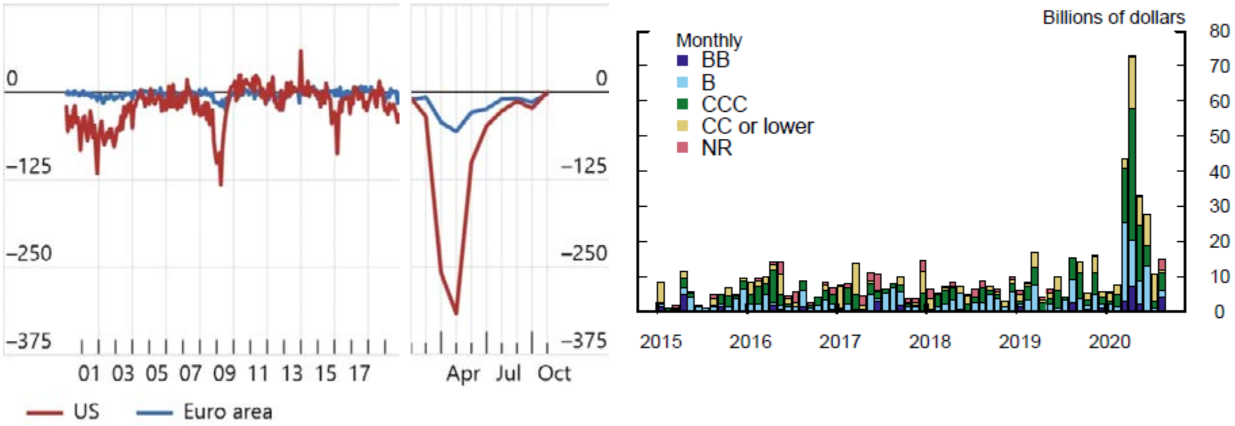
[1] Shows the net percentage of banks reporting a tightening of lending standards where a positive figure indicates a tightening standard. Expected numbers and for the next three months. [2] For EMEs, simple average for Brazil, Indonesia, Mexico, Russia, South Africa and Turkey. Series used for each jurisdiction (seasonally adjusted): For Brazil, loans from financial system to nonfinancial corporations and households (total credit outstanding); for European Monetary Union, money supply, loans to other Eurozone residents except government; for Indonesia, commercial and rural banks' claims on private sector (loans); for Mexico, commercial banks' credit to private sector; for Russia, bank lending, corporate and personal loans; for Turkey, bank lending to private sector; for the United Kingdom, monetary financial institutions' sterling net lending to private non-financial corporations and households; for the United States, commercial banks' loans and leases in bank credit.

Sources: Bank of England; Bank of Japan; European Central Bank; Board of Governors of the Federal Reserve System; national sources; FSB calculations.

Further credit ratings downgrades could put bond markets under pressure. While downgrades of corporate bonds and leveraged loans have fallen from their peak in April (Graph 3), there is a risk that a deterioration in corporate sector health could cause them to increase. Credit ratings are widely used throughout the financial system; including for defining the investment universe of a given investor, defining mandates given to asset managers, and for constructing indices against which asset managers benchmark their performance. This means that a downgrade of a bond from investment grade to high yield could lead to greater sales by investment grade investors, particularly if they are passive investors tracking a benchmark index. These sales could act procyclically in times of stress. In March, the decision to postpone the rebalancing of several major indices – coupled with central bank intervention - may have helped to avoid such effects at the point of greatest market stress, but rebalancing delays may be more challenging in a period of prolonged economic weakness. In EMEs, a downgrade of the sovereign may have knock-on effects as the sovereign rating often sets the ceiling for that of corporate bonds. In turn, this may increase the risk that credit rating downgrades trigger sizeable capital outflows.

Credit rating downgrades **Graph 3**

Long-term Corporate Issuers Upgrades-Downgrades[1] | Leveraged loan downgrade volume by terminal rating[2]



[1] Number of S&P ratings, non-financial corporations' local currency long-term debt rating; foreign current long-term debt rating if previous not available. Data as of 15 October 2020. [2] The sample includes loans in the S&P/LSTA Leveraged Loan Index components. The face value of the loan is used to calculate the total volume. If a loan is downgraded multiple times in a month, it is only counted once and the terminal monthly rating is used. Rating changes within buckets are excluded. Data extend through Aug 2020.

Sources: LCD, an offering of S&P Global Market Intelligence.

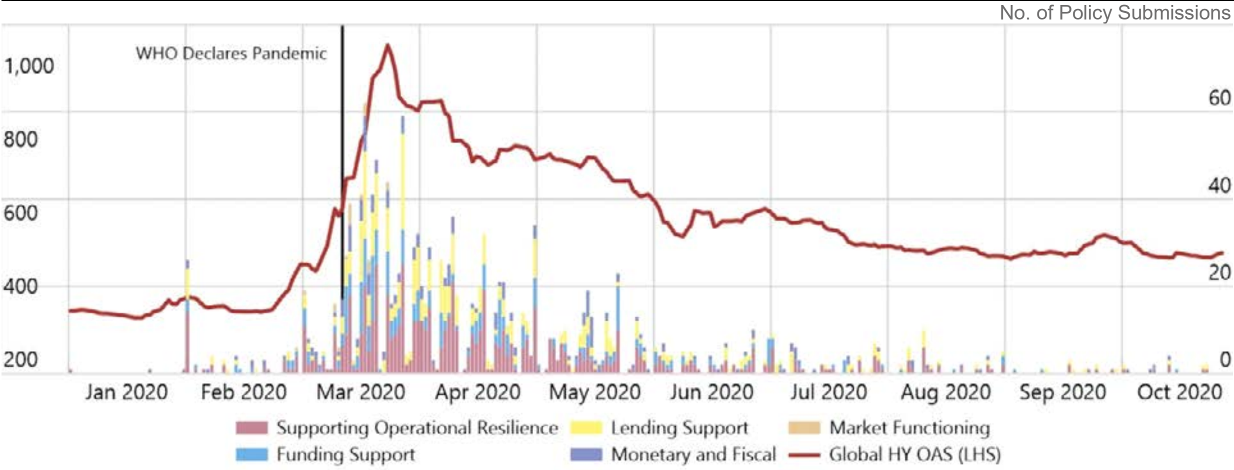
2. The evolution of the international policy response

Authorities have taken a wide range of measures to sustain the supply of credit to the real economy, support financial intermediation, and preserve global financial stability. Such actions include: (1) government guarantees and direct lending, loan restructuring, capital injections and other corporate relief (e.g., direct fiscal transfers or short-term wage subsidies); (2) central bank policy interventions to ease credit conditions and keep markets open and functioning; (3) prudential measures to facilitate the continued flow of credit to the real economy and provide operational flexibility to supervised firms; and (4) actions to support market functioning.

Since July, the focus of policy action in response to COVID-19 has shifted from the adoption of new measures to extending and adjusting existing policies (see the synthesis of policy measures in the Annex for more detail). Authorities are generally keeping policy measures in place, and the adoption of new policy measures has slowed (Graph 4). Many jurisdictions extended or adjusted their support measures in the areas of lending support and liquidity support. Some jurisdictions have unwound specific measures in certain areas. For example, funding support in some jurisdictions has been scaled back or withdrawn; certain temporary prudential relief measures and some of the operational relief that had been granted to firms during the initial turmoil were unwound. However, such actions remained the exception.

New Measures by Type

Number of policy submissions per day vs high-yield credit spreads **Graph 4**



Global HY OAS refers to ICE BofA Global High Yield Index Option Adjusted Spread

Source: Bloomberg, FSB Calculations

Though the nature of COVID-19 policy measures in emerging markets and developing economies (EMDEs) is similar to those in advanced economies (AEs), the degree of government support is markedly lower, and the policy mix is somewhat different. Support amounts to 5.5% of GDP on average in EMDEs and 20% in AEs. Compared to AEs, EMDEs have made less use of measures targeting the banking sector and significantly more use of measures to increase liquidity and facilitate (digital) payments. EMDEs appear to have also relied more heavily on prudential measures that go beyond the flexibility embedded in the international standards, which may heighten risks, especially in economies with already vulnerable systems. These differences reflect specific challenges and constraints that EMDEs face (see next section).

The FSB Principles (Box 1) have guided national responses to COVID-19. Coordination of the measures taken by jurisdictions in response to COVID-19 has discouraged unilateral actions that could distort the level playing field and lead to market fragmentation. The FSB, working with the standard-setting bodies, has continued monitoring the use of flexibility within standards and consistency with standards. Most measures taken to deal with the COVID-19 shock are using the flexibility available in international standards. In a few cases, individual temporary measures have gone beyond the flexibility of those standards.

Box 1: FSB Principles that underpin the official sector response to the pandemic[4]

1. Authorities will, individually and collectively through the FSB and standard-setting bodies (SSBs), monitor and share information on a timely basis to assess and address financial stability risks from COVID-19, so as to maximise the benefit of a global policy response.
2. Authorities recognise, and will make use of, the flexibility built into existing financial standards – including through the use of firm-specific and macroprudential buffers – to sustain the supply of financing to the real economy, to support market functioning and to accommodate robust business continuity planning.

4 FSB, https://www.fsb.org/wp-content/uploads/P150420.pdf#page=13, 15 April 2020.

3. The FSB, SSBs and authorities will continue to seek opportunities to temporarily reduce operational burdens on firms and authorities, so as to assist them in focusing on COVID-19 response. This includes, for instance, delaying implementation deadlines, reprioritising timetables for initiatives in other policy areas, or providing flexibility in technical compliance rules.
4. Authorities' actions will be consistent with maintaining common international standards, given that these provide the resilience needed to sustain lending to the real economy, and preserve an international level playing field. Such actions will not roll back regulatory reforms or compromise the underlying objectives of existing international standards.
5. Authorities will coordinate through the FSB and SSBs the future timely unwinding of the temporary measures taken, to assist in returning financial conditions and firms' operations to normal in a smooth and consistent manner and to maintain financial stability in the longer term.

3. Supporting the effectiveness of policy measures

The evolving nature of the pandemic and the associated economic uncertainty pose new challenges for policymakers. The swift and determined policy response to the COVID-19 shock was effective in easing financial strains and in ensuring the continued supply of financing to the real economy. However, authorities had to design and implement support schemes at unprecedented speed, in unique operational conditions and under extreme uncertainty. In many cases, authorities subsequently had to adjust their initial measures, often by expanding their scope, or reducing the stringency of conditions governing – or streamlining processes for – their accessibility. In the future, liquidity problems may increasingly become solvency problems in the non-financial sector, and the trade-off between speed and efficiency may need to be weighted more towards efficiency, requiring further adjustments and more targeted policy responses.

While the effectiveness of any given measure depends on the specific circumstances in individual jurisdictions, a number of general factors should be taken into account.

- **Monitoring performance to gauge the effectiveness of measures**. In the future, authorities will need to learn lessons about what worked well or less well and to consider the value for money of measures adopted. Jurisdictions are monitoring the performance of credit and solvency support measures along at least two dimensions of take-up: breadth, i.e., the number of recipients benefiting from the measure, and volume, such as the overall amount of support the programmes can grant. Authorities also commonly rely on indicators, such as the amount of financing granted. Many jurisdictions also monitor complaints, which helps authorities to identify potential bottlenecks in delivery. A few jurisdictions have announced that they will monitor repayments, including loan forgiveness, interest and delinquencies. Prudential measures are assessed directly on the basis of their impact on prudential ratios and sometimes indirectly, by monitoring the supply and pricing of new bank credit. As to funding support measures, central banks typically monitor developments in funding conditions and their impact on lending flows. Measures to support market functioning have also usually been assessed by various liquidity, volatility and activity metrics, or trading volumes of certain securities or asset classes.

- **Preserving flexibility to adjust and target policy measures as needed.** Support schemes had to be designed and implemented very rapidly. In the circumstances they might have been initially designed to be too inclusive or too narrow – typically too narrow, in light of experience – and they subsequently had to be amended in order to reach those most affected by the pandemic. For instance, a number of jurisdictions have streamlined application processes for state guarantees and loans to SMEs and standardised loan terms, or taken steps to clarify loan allocation criteria. Authorities have more recently adjusted measures in order to make them more targeted and to adapt them to evolving circumstances. While the implementation of prudential measures generally seems to have met fewer challenges, ensuring effectiveness may be more challenging as it depends on the incentives and behavioural responses of regulated entities, including the willingness of banks to use buffers.

- **Appropriate consideration of macroprudential trade-offs.** What protects the individual bank may not protect the system as a whole. In a systemic stress, each bank may have an incentive to reduce lending in order to preserve its capital, but collectively the financial system and the real economy would benefit from avoiding a credit crunch. The Basel III capital buffers include both microprudential and macroprudential objectives, which may conflict in times of systemic stress when the tension between capital preservation to absorb losses and the desire to maintain or increase lending is most pronounced. Regulators are monitoring banks use of capital buffers closely and continuing to stress their usability.

- **Use of stress tests and scenario analysis to inform policy action.** The evolution of the economy is highly uncertain. In such circumstances it is particularly useful to consider different scenarios for the evolution of the economic and financial conditions across different sectors. Stress testing has proved itself as a useful tool – although not the only one - to help policymakers to assess the effect of potential solvency risks on financial stability and to inform policy responses. For instance, stress testing results in some jurisdictions have illustrated the benefits of banks continuing to provide finance to the real economy. Stress testing can also facilitate credible communication between financial institutions and supervisors as well as external communication, and this can help to maintain and restore confidence, reduce uncertainty, inform firm's risk management. There are several challenges to stress testing and scenario analyses. Any disclosure of adverse stress tests results may need to be accompanied by appropriate communication and supervisory action to help prevent adverse outcomes.

- **Clear communication of policy measures.** Clear communication about the intention of policy measures can support effectiveness. Many supervisory authorities are encouraging banks to use their capital buffers and are communicating their intention to allow banks to rebuild buffers gradually. Clear communication of restrictions on dividend payments can help to avoid any stigma effect from individual banks' actions. Similarly, communication about the policy path can help households and firms to plan their own actions and could thereby boost confidence and investment. While pre-committing may often be challenging in the current uncertain environment, authorities can nevertheless explain the factors that will be taken into account in decision-making.

- **Cross-border cooperation and coordination.** The role of crisis management groups (CMGs) and colleges as mechanisms for sharing timely and granular information has proved essential during the COVID-19 pandemic. CMGs are working well, but authorities should continue to test resolution plans on the basis of simulations and scenario analyses.

Box 2: Challenges for EMDEs in responding to COVID-19[5]

The FSB, working with the World Bank and IOSCO, are considering the particular challenges EMDEs face in their policy responses to COVID-19. Whereas the type of COVID-19 policy measures taken in EMDEs are similar to those in advanced economies (see Section 2), EMDEs are generally subject to greater constraints.

While EMDEs are very diverse, they generally entered the pandemic with a number of vulnerabilities. Many EMDEs face debt sustainability risk and some are already in distress. Much EMDE debt is financed externally, and EMDEs are vulnerable to currency volatility and sudden capital outflows. Their economies are typically less diversified and they are especially vulnerable to shocks to commodity prices, tourism and remittances.

Against this backdrop, EMDE authorities face specific challenges.

- *Fiscal constraints* are, on average, tighter in EMDEs than in advanced economies. In light of extraordinary conditions, some EMDE respondents have turned to monetary financing to finance their relief measures, which may give rise to medium-term risks related to central bank transparency and independence as well as inflation.
- *Countercyclical frameworks* are typically less developed and a number of EMDE respondents have lowered bank capital buffers that were not designed to be countercyclical.
- *Regulators and supervisors* often operate in an environment that is characterised by resource constraints and limited independence. While aggregate data suggest that bank capital is above regulatory minima in many EMDEs, some economies and individual banks appear vulnerable, and the quality of assets and capital ratios may be overstated. Insolvency frameworks are often not well developed, impeding efficient corporate restructurings and liquidations.
- *Operational challenges* meanwhile appear to have been greater in EMDEs. EMDE often have lower and less widespread technological capacities and large informal sectors, which make it more difficult to disseminate financial support quickly and effectively.

EMDEs are particularly exposed to cross-border spillovers. Because of the forceful policy response by advanced economies, EMDEs were not compelled to adopt policies to prevent capital outflows, unlike in previous crises. Measures that support economic activity and employment tend to create positive spillovers in other economies, for example through export demand and remittance channels. In turn, however, these positive spillovers may raise questions about how to avoid negative spillovers if policy measures are adapted or withdrawn in the future.

4. Way forward for the FSB

In many jurisdictions the initial recovery from the COVID-19 shock has seen a setback as the pandemic has intensified. The associated heighted economic uncertainty and continued

5 The findings reported are based on a survey and assessment conducted by the FSB Secretariat, in coordination with the World Bank and the IOSCO Growth and Emerging Markets Committee. It draws on information collected on COVID-19 policy measures and a survey of EMDE jurisdictions.

elevated risks to financial stability reinforce the case for continued close international cooperation to maintain global financial stability, keep markets open and functioning, and preserve the financial system's capacity to finance growth.

4.1. Promoting the resilience of the global financial system

As the COVID-19 situation and its economic consequences evolve, it continues to be a priority to monitor risks to global financial stability. This also includes analysis of the solvency of non-financial corporates and the procyclicality of credit rating downgrades. Assessing the resilience of the global financial system – including banks' ability to provide financing to the real economy, functioning short-term funding markets and the availability of dollar funding globally – also requires an understanding of cross-border linkages. Identifying emerging vulnerabilities early is the precondition for timely and targeted policy action. This is particularly important in an environment of heightened health and economic risks that may lead to strains on the financial system.

- The FSB will continue to assess and share, on a timely basis, information on financial stability risks from COVID-19 and on jurisdictions' policy responses as well as elements that support their effectiveness.

Promoting the resilience of the financial system also involves addressing existing weaknesses. While the COVID-19 crisis has shown that the G20 financial reforms over the past decade have made the core of the financial system significantly more resilient, it has also revealed that financial vulnerabilities in the non-bank financial sector may amplify the impact of adverse shocks and increase financial stability risks. Addressing these issues is a priority.

- Building on the holistic review of the March market turmoil, and in coordination with the SSBs, the FSB will initiate and coordinate the international regulatory response to strengthen the resilience of the NBFI sector, including by taking a systemic risk perspective, while preserving its benefits.

As the pandemic continues to weigh on the global economy, the longer-term implications for growth gain in importance. Excessive indebtedness could cause a debt overhang problem that leads to underinvestment and stagnant consumption. At the same time, there will be structural adjustments in all economies, and unviable firms will need to exit the market in an orderly manner.

- The FSB will assess practical challenges associated with debt overhang and how these could be addressed. FSB members will also discuss the issues related to structural changes and tools that authorities can use to facilitate transition.

4.2. Promoting effective policy responses to COVID-19

In the uncertain and rapidly evolving economic and financial environment, learning from each other is critical for ensuring the effectiveness of policy responses going forward. Sharing experiences of policy measures can help authorities to identify workable policy options faster, and to find effective ways to target their policy measures to support those sectors most exposed to the pandemic. It can also help authorities in EMDEs to meet their specific challenges.

- The FSB will continue to facilitate sharing of information on jurisdictions' policy responses and on their use of tools to design, calibrate and assess policies.
- The FSB, working with the standard-setting bodies, will continue to monitor the use of flexibility within standards and the consistency of policy responses with international standards.

National authorities' ability to respond effectively to emerging financial stability risks also relies on established, well-functioning mechanisms for cross-border cooperation. The FSB has provided a forum for discussing financial stability issues on a frequent basis since the outbreak of COVID-19. Other coordination mechanisms that focus on specific sectors or systemically important institutions are important for ensuring crisis preparedness.

- The FSB will continue to support crisis management preparedness, including by enhancing cooperation and coordination through crisis management groups and colleges.

The effectiveness of the policy response to COVID-19 critically depends on measures taken remaining in place as long as necessary. Any unwinding of measures needs to be carefully evaluated and, if appropriate, be gradual in order to avert economic and financial cliff effects of the withdrawal or expiration of measures. Moreover, an unwinding of measures may come at a moment that is suitable for the domestic economy but not for the foreign economy, cross-border spillovers therefore also require careful consideration. Finally, it is important to have a communication strategy that provides reassurance to market participants that measures will remain in place as long as needed, while guiding expectations about the conditions under which measures would be withdrawn in future.

- The FSB will discuss the factors jurisdictions are considering to prepare for an orderly unwinding of support measures, once appropriate, to seek to avoid any unintended effects across sectors and jurisdictions.

The FSB will provide a further update to the G20 on member authorities' and SSBs' COVID-19 responses, its financial stability risk assessment and its work on the effectiveness of policy responses by April 2021.

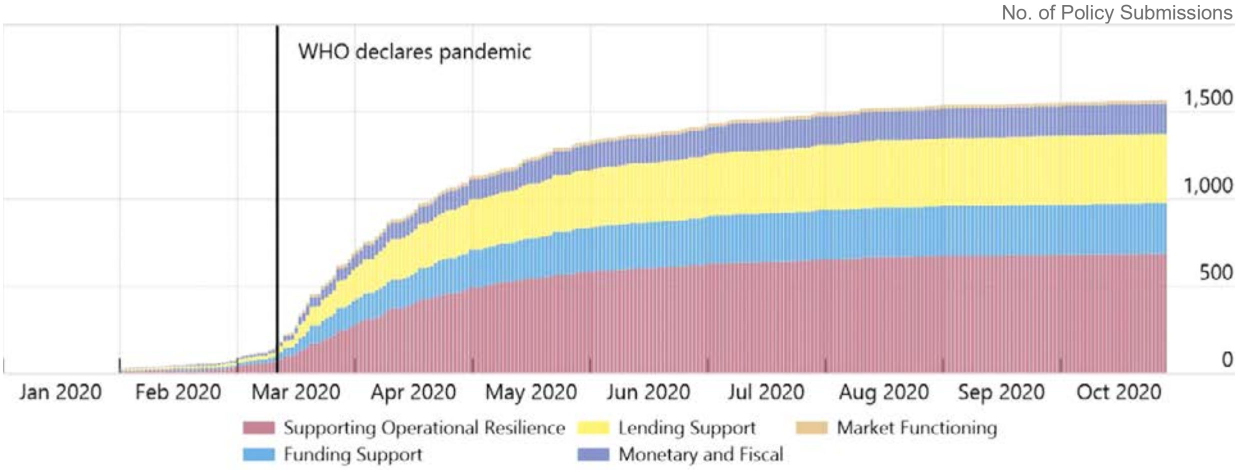
Annex: Synthesis of policy measures taken in response to COVID-19 since July 2020

Overview of measures taken by authorities

FSB jurisdictions are generally keeping in place the wide range of policy measures taken since March, to sustain the supply of credit to the real economy, support financial intermediation, and preserve the functioning and resilience of the global financial system. Broadly, such actions include: (1) government guarantees and direct lending, loan restructuring, capital injections and other corporate relief; (2) central bank policy interventions to ease credit conditions and keep markets open and functioning; (3) prudential measures to facilitate the continued flow of credit to the real economy and provide operational flexibility to supervised firms; and (4) actions to support market functioning. At the same time, a few jurisdictions have reviewed and amended some of the measures (in some cases extending them), or have started the unwinding process.

New Measures by Type (Cumulative)

Number of policy submissions **Graph A1**



Source: FSB Calculations

Since the FSB report to the July 2020 G20 Finance Ministers and Central Bank Governors meeting the pace of notifications of new policy measures by FSB members has slowed down, while notifications of amendments to and unwinding of measures increased slightly (see Graphs 1-3). As of 30 June, FSB members had submitted more than 1,500 entries to the FSB repository of policy measures. By that time, the initial wave of measures was in effect and up to 27 October members made 523 further notifications. Beside notifications of (i) new measures (276)[6], these could be characterised broadly as (ii) extensions of existing policy measures either with or without amendments to the substance (201), or (iii) unwinding of measures[7] (46). These figures, however, do not include time-limited measures that have expired.

6 Of these, 100 were notifications of measures that took effect before 1 July. These have not been considered for the purposes of this note.

7 "Unwinding measure" means positive action to end a policy measure. This is distinct from and does not include measures that contained an expiration date (or sunset clause) that have been allowed to expire. FSB Secretariat is working with members on more structured information on expiry and extension of measures.

Recent developments in policy measures

Authorities are monitoring developments in markets and in the real economy and have adapted policy measures where needed. No new trends are visible within the various categories of measures recently notified. Some authorities have started to unwind some measures, for instance by withdrawing the postponements of certain supervisory activities and reductions of operational burden that proved most useful during the financial turmoil in March and following months. Most other measures remain in place either unchanged or with adjustments to scope or substance.

New measures[8]

Most new policy measures reported by authorities through Q3 2020 focus on additional lending support. Some jurisdictions make this available directly to specific sectors of the economy (AR, ES, HK, IN, MX, RU, SA, TR (also for individual consumers)), while authorities in other jurisdictions encourage banks (further) to lend through new amendments to prudential rules or guidance, for instance on collateral rules, loss-provisioning or risk weighting of certain exposures (AR, AU, BR, EA, IN, IT, MX, RU). In AU, the Australian Securities and Investments Commission (ASIC) has started issuing guidance to firms setting expectations for normalisation. Direct support has also be provided in the form of equity, in order to mitigate the increase in corporate leverage; for instance, ES created a €10bn fund for that goal in July. New fiscal stimulus measures were notified by two jurisdictions (AR, RU).

Several authorities announced new measures to support operational resilience of firms. Two authorities published new supervisory guidance, for instance to banks on effective risk management practices and sufficient operational capacity (EA) and on prudential risk management by payment providers (UK). Other authorities announced new measures to relieve financial or non-financial firms from operational burdens, for instance on content, form or timing of disclosures and filings (AU, AR, IN, JP, RU). Japan published guidance on COVID-19 related disclosures by firms.

Central banks in several jurisdictions took new measures to support funding. One authority notified a new asset purchase scheme for non-bank financial institutions (IN), another expanded the range of eligible collateral for repo operations (AR) and the ECB set up bilateral repo lines with several non-EA central banks to provide euro liquidity.

Extensions of existing measures[9]

A number of measures taken in the initial phase of the pandemic were fixed-term. These measures related mainly to prudential supervisory activity and firms' operational resilience as well as to funding for firms and fiscal measures. Authorities have assessed the need to extend

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8 Section 2 refers to FSB member jurisdictions by the following codes: AR Argentina, AU Australia, BR Brazil, CA Canada, CH Switzerland, CN China, DE Germany, EA Euro area, ES Spain, EU European Union, FR France, HK Hong Kong, ID Indonesia, IN India, IT Italy, JP Japan. KR Korea, MX Mexico, NL Netherlands, RU Russia, SA Saudi Arabia, SE Sweden, SG Singapore, TR Turkey, UK United Kingdom, US United States, ZA South Africa.

9 Sections 2.2 and 2.3 incorporate, besides the regular reporting by FSB members on COVID-19 policy measures, information from a qualitative questionnaire to FSB members.

these measures in the context of the economic and health situation in their jurisdictions. Although most measures were extended, in some cases they have determined that a measure should not be extended and should therefore expire (see section 2.3). Expirations as well as extensions are reported in all categories of measures. Furthermore, some authorities indicate they are reviewing policies as needed, including those that were not time-limited.

Most fixed-term measures in the area of lending support were extended. This included government guarantees (AU, CA, ES, HK, UK), corporate relief measures (AR, BR, CA, DE, HK, NL, TR), prudential measures (AU, BR, CA, CH, EA, MX, RU) or guidance (UK, RU), encouragements to use capital or liquidity buffers (CA, CH, EA, KR, IT, MX, SE) and restrictions on dividends, distributions and bonuses (AU, EA, ES, IT, SG). Similarly, measures targeting restructuring of loan terms were extended in several cases (CN, ES, EU, HK, IT, KR, MX, RU, UK). Some jurisdictions also indicate having prolonged certain fiscal stimulus measures by several months (AU, CA, DE, ES, UK) or opened a second round of support (HK Third round of Anti-epidemic Fund, UK Self-Employed Income Support Scheme). CA indicates that one of its fiscal stimuli (Canada Emergency Wage Subsidy) would be extended until June 2021, with a subsidy rate structure to support active employees that is directly proportional to the revenue losses incurred by employers.

Most updates to central bank measures reported extensions of previous measures. Several authorities extended swap line facilities (BR, KR, MX, SG, TR, US), while others prolonged various market funding programs (BR, KR, MX, US), bank funding programs (MX), foreign currency liquidity facilities (HK, TR), held swap/spot auctions (BR) or continued asset purchase schemes (JP).

A number of authorities have reported extending measures that alleviate the operational burden on firms and/or issuers (AR, AU, IN), and in particular by relieving some regulatory filings by issuers (IN) or extending reporting deadlines (AR). On the supervisory side, several authorities have extended certain measures to relieve firms, such as non-application of enforcement or sanctions on certain violations by firms (RU, TR), continued prioritisation of supervisory activities according to the potential harm (AU) or an extension of the suspension of on-site supervisory visits.

On measures to ensure market functioning, KR reports having extended its short-selling ban and ban on stock buybacks while in the EU holders of a net short position of 0.1% of issued share capital continue to be required to report such positions until 18 December.

Some members reported amendments to prudential rules. KR noted amending a prudential rule for its development bank, while AU reported it had amended its expectations on bank dividend payouts, a funding allowance in the RBA’s Term Funding Facility, a change to the government’s guaranteed loan scheme for SMEs as well as some changes to the published priorities of its insurance supervision. DE had previously suspended the duty to report firms’ insolvencies. The measure has since been modified such that the duty was reinstated for firms unable to serve debts as they fall due (cash flow insolvency) but not for excessive indebtedness (balance sheet insolvency). Unwinding and expiry

Some authorities have started to unwind policy measures, either by not extending time-limited measures[10] or by taking positive decisions to end measures. This was the case for instance for some business continuity measures, relief of firms' operational burden or postponements of supervisory activity that had been adopted during the initial turmoil (EA, JP, MX, RU, SE). Some authorities also did not prolong certain temporary prudential relief measures (CA, RU) or temporary enforcement waivers (RU). On moratoria, the moratorium on consumer loan repayments in DE was not extended and in CA, the special capital treatment which treats deferrals on loan and premium payments as performing loans will cease to apply for deferrals granted after 30 September 30.

Some central banks have unwound the measures they had taken in the area of foreign currency (BR, KR). In some cases, authorities determined that extension of a specific funding support measure was not needed (an SME refinancing programme in RU, government guarantees on bank loans in CH, special central bank lending and discounts in CN). Several fiscal stimuli and corporate relief measures were not extended in the UK as they had been designed to support businesses during lockdown with immediate liquidity. TR unwound the liquidity measures taken via FX required reserves and targeted additional liquidity facility as well as the favourable changes in maturity and pricing of rediscount credits.

[10] Information on expiry of time-limited measures is based on FSB members' replies to a qualitative questionnaire.