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COVID-19: Updates on regulatory and supervisory responses in Asia Pacific

Asia Pacific Centre for Regulatory Strategy

Dear colleagues and clients,

This email provides an overview of the regulatory and supervisory responses to COVID-19 in Asia Pacific from 22 May – 4 June.

Regulators in our region have responded in a number of ways and we have broken these categories up into five main categories, also used by the International Institute of Finance (IIF):

- Capital

Click to navigate:

- Liquidity
- Provisioning, definition of default and non-performing loans (NPL) related measures
- Consultations / implementation timetables
- Other (reporting, stress testing, conduct, etc.)

Asia has been managing the impact of COVID-19 for the best part of six months. As we reach the half-year mark and some economies begin to reopen, it is appropriate to reflect on the 'new normal' we find ourselves in. In the coming months, we will see stocktakes by firms, regulators, and their respective leaders as we begin to switch gears from crisis management to recovery. Across the world, supervisory responses have been largely aligned – either as immediate measures to restore stability in the short-term or a reprioritisation of supervisory programmes/agendas for the mid to long-term. In general, such measures tend to:

- Relax some prudential and conduct requirements
- Increase focus on operational resilience and liquidity risks, and scrutiny of conduct risk hotspots
- Reprioritise, delay or cancel some regulatory initiatives, including consultations

As we explored in our 2020 Asia Pacific Regulatory Outlook, regardless of the level of international consensus, there will always be a certain amount of nuance in approach within jurisdictions. With Asia Pacific leading the way out of physical and economic lockdown (or in some cases bypassing it all together), supervisors will be looking to one another for lessons learned. We may also begin to see how decisions taken by supervisors in London or New York have shaken out for firms and supervisors in Singapore or Hong Kong SAR, or vice versa. One caveat of course is that the severity of the pandemic, the nature and impact of supervisory interventions, as well as the pre-existing market and regulatory conditions have made each

Others (Reporting, stress testing, conduct, etc.)

jurisdiction's experience unique and will be important to bear in mind.

What regulatory measures have been taken thus far

Below we have compiled a brief comparative analysis of major themes of regulatory responses globally and how they are playing out in different jurisdictions.

Prudential requirements relaxed (or clarified) to ensure banks can maintain lending, including steps taken to preserve capital and increased scrutiny of liquidity and credit risk/expected loss

- Banks directed to use capital and liquidity buffers (although guidance differs across regions). CCyB reduced to 0% in UK and EU, and to 1% in HK; supplementary leverage ratio relaxed in US; NSFR relaxed for loans maturing in less than 6 months in SG.
- Treatment of loan forbearance under IFRS9 / CECL clarified; supervisory flexibility on classification of loans.
- Banks requested / required to reduce capital distributions; and (in the US) incorporate COVID scenarios in stress testing (i.e. CCAR).
- Heightened supervisory engagement and enhanced reporting requirements for liquidity across regions.
- Injection of liquidity by central banks around the world.

Certain wholesale conduct requirements modified and scrutiny of conduct risk hotspots enhanced

- Modification/clarification of some conduct requirements under MiFID II to reflect realities of remote working, including call taping and best execution; recognition of challenges in applying new tick-size regime; and postponement of Phase 1 reporting obligations on securities financing transactions (SFTs) and publication dates for annual non-equity transparency calculations and quarterly SI data.

- Restrictions on short-selling imposed in EU (which have now expired without extension, or been terminated (Italy)).
- UK, EU reinforced expectation of the ongoing fair treatment of customers. Firms are being encouraged to exercise flexibility and ensure communications are clear and transparent. In UK, FCA has introduced a package of temporary measures to support mortgage and consumer credit customers experiencing payment difficulties.
- Heightened supervisory focus on providing customers with timely and accurate information in HK, SG and AU.

Reprioritisation, delay or cancellation of regulatory initiatives, including consultations, to ensure banks have sufficient operational capacity to focus on present challenges

- BCBS postponed implementation of Basel 3.1 to 2023. The European Commission has not extended the implementation dates of most measures in CRD5/CRR2, but has proposed delaying the leverage ratio G-SIB buffer. The EC has also proposed to bring forward the application date of certain measures where there is a potential capital benefit.
- BCBS/IOSCO postponed implementation of final two phases of initial margin requirements for non-centrally cleared derivatives.
- 2020 stress tests cancelled in UK and EU, but not in the US. SG has completed its stress tests.
- Reduction in non-critical supervisory activities in all regions: consultation deadlines extended; consultation on operational resilience paused by BCBS; US Troubled Debt Restructurings (TDR)/loan modifications and CECL implementation/reporting delayed; deadlines

extended for a number of proposals (broker-deposit rule, modifications to the Volker rule).

Increased focus on operational resilience

- Initial focus on banks' ability to relocate operations. In APAC in particular, resilience and security of WFH arrangements, online access for customers and supply chain management are now being examined closely.

And what lies ahead

As with any crisis, actions taken by governments or regulators will yield differing results and levels of success. In short, some things will have worked well, others perhaps less so. As the peak of the crisis begins to recede, it is natural that regulators will do a stocktake of the 'new normal'. The foci of such stocktakes may vary across jurisdictions, depending on the local contexts.

Taking Singapore as an example, MAS would likely incorporate lessons from COVID-19 into upcoming guidance, including its Technology Risk Management Guidelines, Business Continuity Management Guidelines and Outsourcing Notice.

MAS has also continued to encourage technology transformation and greater adoption of analytics through various grants and support schemes for fintechs and financial institutions. Pushing ahead with its efforts to promote the fair, ethical, accountable and transparent use of AI in financial services, MAS is partnering with industry to develop fairness metrics on credit risk scoring and customer marketing.

Finally, it is clear that certain areas that may not have been directly impacted by the pandemic remain on MAS' regulatory programme. For example, ESG initiatives were noticeably absent from announced delays and deferrals of regulatory initiatives. In fact, MAS has set up a Green Finance and Asset Management division, tasked with ‘the development of green finance capabilities and solutions across the financial sector’.

As supervisors conduct their stocktakes, it is also clear that the financial industry will play an important role in the recovery from this crisis. This ‘new normal’ presents an opportunity for industry to engage collaboratively both within the market and directly with regulators to share insights to enhance the resilience of the financial system going forward.

The ACRS will be providing updates on a biweekly, best-efforts basis. We would like to express our sincere gratitude to all our regular contributors from around the region who lend their expertise and insight to support the creation of this newsletter.

(The lists below are compiled on a best-efforts basis and are not exhaustive.)

Best regards,
The ACRS co-leads – Nai Seng Wong (SEA), Jessica Namad (China), and Shiro Katsufuji (Japan)

Other useful resources

We would like to highlight to our readers research from the International Monetary Fund (link) and the IIF (link), which we believe to be invaluable resources for tracking developments both in our region and abroad.

As well, our colleagues in our sister centre in EMEA have published a number of insightful deep-dives on the impacts to financial services by COVID-19 here.

For more financial services and non-financial services industry updates, Deloitte's central repository for COVID-19 information can be found here.

Capital

JP JFSA	**27 May**	**Amendment to the "Act on Special Measures for Strengthening Financial Functions"**

Link

In the second supplementary budget for FY2020, the Japanese government has secured funds to strengthen regional banks' financial intermediary function to support cash flow and promote the equity financing of companies. Furthermore, as a pre-emptive action to deal with the impact of COVID-19, the JFSA is deliberating on strengthening regional banks' financial intermediary function through government capital injection in the following ways:

- Committing adequate financial capabilities for government capital injection
- Submitting a bill which extends the deadline for regional banks to request government capital injection by four years from 31 March 2022 to 31 March 2026, and encourages regional banks affected by the impacts of COVID-19 to request government capital injection by easing collateral conditions (e.g. those regional banks are exempted from the obligation of setting specific management goals with respect to improvement in profitability and efficiency)

Liquidity

IN RBI	**23 May**	**COVID-19 Regulatory Package / Reduction in Marginal Standing facility rate, Policy Repo Rate and Reverse Repo Rate under the Liquidity adjustment facility (LAF) / 'Voluntary Retention Route' (VRR) for Foreign Portfolio Investors (FPIs) investment in debt – relaxations / Large Exposures Framework – Increase in Exposure to a Group of Connected Counterparties / Pre-shipment and Post-shipment Export Credit – Extension of Period of Advance**

Link

The RBI has released a package of measures aimed to support individuals and firms during the extended lockdown due to COVID-19.

- Rescheduling of payments – term loans and working capital facilities: In view of the extension of lockdown and continuing disruption on account of COVID-19, all commercial banks and financial institutions are permitted to extend the moratorium by another three months (i.e. from 1 June 2020 to 31 August 2020) on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans). Accordingly, the repayment schedule for such loans as well as the residual tenor, will be shifted across the board. Interest shall continue to accrue on the outstanding portion of the term loans during the moratorium period.

- **Working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD")**: Lending institutions are permitted to allow a deferment of another three months, from 1 June 2020 to 31 August 2020, on recovery of interest applied in respect of all such facilities. Lending institutions are permitted, at their discretion, to convert the accumulated interest for the deferment period up to 31 August 2020, into a funded interest term loan, which shall be repayable not later than 31 March 2021.
- **Working capital facilities sanctioned in the form of CC/OD to borrowers:** If borrowers are facing stress on account of the economic fallout of the pandemic, lending institutions may, as a one-time measure, (i) recalculate the 'drawing power' by reducing the margins until 31 August 2020. However, in all such cases where such a temporary enhancement in drawing power is considered, the margins shall be restored to the original levels by 31 March 2021; and/or, (ii) review the working capital sanctioned limits up to 31 March 2021, based on a reassessment of the working capital cycle.

The above measures shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19.

Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures.

Link

Foreign portfolio investors (FPI) that have been allotted investment limits between 24 January 2020 (the date of reopening of allotment of investment limits) and 30 April 2020 will be allowed an additional time of three months to invest 75% of their committed portfolio size (CPS). For FPIs using the additional time, the retention period for the investments (committed by them at the time of allotment of investment limit) will be reset to commence from the date that the FPI invests 75% of their CPS.

Link

Given the difficulty and uncertainty faced by corporates in raising funds from markets (banks in particular) due to the COVID-19 pandemic, banks' exposure to a group of connected counterparties will be increased from 25% to 30% of the eligible capital base of the bank. This is a one-time measure; the increased limit will be applicable up to 30 June 2021.

Link

The RBI has permitted the period of realisation and repatriation of the export proceeds to India to be increased from nine months to fifteen months from the date of export in respect of exports made up to 31 July 2020 and also to increase the maximum permissible period of pre-shipment and post-shipment export credit sanctioned by banks from one year to fifteen months, for disbursements made up to 31 July 2020.

HK	**HKMA**	**29 May**	**Enhancement Measures to 80% and 90% Guarantee Products under**

		SME Financing Guarantee Scheme

Link

HKMC Insurance Limited (HKMCI), a wholly-owned subsidiary of the Hong Kong Mortgage Corporation Limited, announced that, the enhancement measures to the 80% and 90% Guarantee Products under the SME Financing Guarantee Scheme as included in the second round of the Anti-epidemic Fund announced by the Hong Kong SAR government in April 2020 will take immediate effect as of 29 May.

The measures include raising the maximum loan amount of the 80% and 90% Guarantee Products and extending the eligibility coverage to listed companies in Hong Kong SAR, and will last for 12 months. In addition, both the existing guaranteed loans and new applications are eligible for an interest subsidy for a maximum period of 12 months, the payments of which will start to be made by the end of June 2020.

SG MAS	**3 June**	**Additional Loan and Cashflow Support for Landlords and Businesse Affected by COVID-19**

Link

The Ministry of Finance , the Inland Revenue Authority of Singapore , Enterprise Singapore , and MAS announced a package of measures to support landlords that may face cash flow constraints as a result of providing relief to tenants as proposed under the COVID-19 (Temporary Measures) (Amendment) Bill (“COVID-19 Amendment Bill”). The package of measures will help landlords with their existing loan commitments, and ease their cashflow needs. The new measures complement relief measures announced by the Ministry of Finance, MAS, and the financial industry earlier.

KR FSC	**3 June**	**Korean government proposes KR₩ 4.7 trillion in additional financial support**

Link

The Korean government approved the 3rd supplementary budget proposal at a cabinet meeting on June 3, which includes KR₩ 4.7 trillion in additional funding for various financial support programs. This supplementary budget proposal needs to be passed at the Korean national assembly.
The COVID-19 financial support measures include:

- KR₩ 1.5 trillion in emergency loans for small-scale businesses and SMEs
- KR₩ 3 trillion in capital injection to help provide emergency liquidity for key industries and businesses
- KR₩ 17.5 billion in microfinancing programs for individuals with low income and low credit histories
- KR₩ 50 billion in capital injection to the Korea Asset Management Corporation to help establish a corporate asset purchase program

JP BOJ SMEs	**22 May**	**The BOJ introduces a new fund to support**

Link

The Bank of Japan held an extraordinary Monetary Policy Meeting and decided to introduce an additional JP¥ 30 trillion to support SME financing.

Provisioning, definition of default and NPL-related measures

IN RBI	**23 May**	**Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets**

Link

The RBI has announced a relaxation of timelines for accounts due for review from 1 March 2020 to 31 August 2020. Accordingly, the residual review period shall resume from September 1, 2020, upon expiry of which the lenders shall have the usual 180 days for resolution.

CH PBOC	**1 June**	**Notice Concerning Expanding Credit Loan Support to Micro and Small Enterprises**

Link

The PBOC has committed to purchasing up to CN¥ 400 billion (approx. US$ 56.31 billion) in bank loans made to micro and small enterprises (MSE's) in 2020.

The PBOC issued the "Notice Concerning Expanding Credit Loan Support to Micro and Small Enterprises" on 1 June, announcing that it would purchase up to 40% of the financial inclusion MSE loans made by regional banks during the period from 1 March to 31 December 2020.

"Regional legal banks" that qualify for the purchases will include municipal commercial banks, rural village commercial banks, rural village cooperative banks, rural county banks, rural village credit societies and private banks that are ranked grades 1 to 5 by the Chinese central bank.

The PBOC will establish a "financial inclusion micro and small enterprise credit loan support plan," to provide CN¥ 400 billion in funds, and then use special purpose vehicles (SPV) to execute credit support plan contracts with regional legal person banks, in order to provide discounted funding support to such lenders.

Consultations / implementation timetables

IN SEBI	**22 May**	**Extension on Implementation of Circular on 'Margin obligations to be given by way of Pledge/Re-pledge in the Depository System' / Extension on Implementation of provision regarding Power of Attorney**

Link

In view of the situation arising from the COVID-19 pandemic and lockdown imposed by the Indian government, representations received from the depositories and clearing corporations, as well as the fact that changes to systems and additional software development are still in progress, SEBI has decided to extend the implementation date of the specified guidelines issued with respect to margin obligations to be given by way of pledge/re-pledge in the depository system from 1 June 2020 to 1 August 2020.

Link

In view of the situation arising from the COVID-19 pandemic, the lockdown imposed by the Indian government, as well as representations received from stock brokers and stock broker associations regarding difficulty in implementing this provision during the lockdown situation due to work in progress by market infrastructure institutions, SEBI has been decided to extend the implementation date of the Extension on Implementation regarding Power of Attorney provision from 1 June 2020 to 1 August 2020.

Others (reporting, stress testing, conduct, etc.)

IN SEBI	**22 May**	**Regulatory measures introduced by SEBI to continue in view of ongoing uncertainty /**

Link

Due to the uncertainty arising from COVID-19 and the resultant fear of economic slowdown, measures have been implemented since 23 March 2020 with the objective of ensuring orderly trading and settlement, effective risk management, price discovery, and the maintenance of market integrity will continue to be in force until 25 June 2020

JP JFSA	**25 May**	**Statement by the Minister for Financial Services on the complete lifting of the state of emergency responding to the spread of COVID-19 / Statement by Minister for Financial Services on the second supplementary budget and financial support to the SMEs**

Link

The Minister for Financial Services encouraged financial institutions to continue to take appropriate actions to address COVID-19, and to maintain financial support functions, even after the lifting of the state of emergency for all areas of Japan.

Link

The Minister for Financial Services encouraged financial firms to support SMEs, by, for example, maintaining the pre-COVID ratings for well capitalised borrowers, and to regard stable borrowing as debt capital in the assessment of borrowers.

AU ASIC	1 June	Easing access to financial advice during COVID

Link

To help more people access financial advice during the COVID-19 pandemic, ASIC has introduced temporary relief measures for advisers so they can provide more people with financial advice; ASIC has delayed regulatory work so advisers can spend more time providing financial advice to clients; and, provided information on how advisers can take advantage of available technology to provide financial advice.

CH PBOC	2 June	Guidance opinions concerning further strengthening micro, small and medium-sized enterprise financial services

Link

On 2 June the PBOC issued the "Guidance Opinions Concerning Further Strengthening Micro, Small and Medium-sized Enterprise Financial Services".

The Opinions were drafted by the PBOC in collaboration with other central government authorities, including the CBIRC among others.

According to PBOC, the Opinions provide 30 policy measures that cover seven areas including:

1. Implementation of loan support policies for MSME's resuming work and production following COVID-19
2. Improving the ability of commercial banks to provide financial services to MSME's
3. Reforming and improving the external policy environment and incentive and restraint mechanisms
4. Employing the financial support role of a multi-tier capital market
5. Strengthening the creation of an MSME credit system
6. Optimising the local financial environment
7. Strengthening organisation and implementation

Key measures for the Chinese banking sector as proposed by the Guidance Opinions include:

- National banks playing a "leading role" by providing internal transfer pricing benefits of no less than 50 basis points
- The big five state-owned banks achieving growth in financial inclusion micro and small enterprise loans of at least 40%
- The development and policy banks making use of CN¥ 350 billion in special loan quotas, and supporting the resumption of work and production by MSME's via discount rates

- Commercial banks increasing the weighting of financial inclusion integrated assessment of branch banks to at least 10%
- Commercial banks significantly increasing credit and loans for micro and small enterprises
- No principal repayment: for the continuation of certain loans

KR FSC	**2 June**	**Review of the current status of the COVID-19 financial support for businesses and households / FSC to work on turning crisis situation into opportunity for digital innovation**

Link

FSC Vice Chairman Sohn Byungdoo held the 6th financial risk assessment meeting on 2 June to review the current status of the COVID-19 financial support for businesses and households.

The Vice Chairman stated that the South Korean financial markets have largely stabilised due to the measures taken by the government. However, there still remain risk factors, and the government will continue to closely monitor markets while implementing its market stabilization measures. As decided on 28 & 29 May, the South Korean government will promptly provide support to businesses through a corporate bond underwriting program, while providing liquidity to help businesses maintain their competitiveness. The government will also expedite the preparation for the effective operation of the key industry stabilization fund and special purpose vehicle to help most heavily affected industries as well as businesses with lower-rated bond.

As of 29 May, a total of KR₩ 117.3 trillion (1.42 million cases) in loans and guarantees as well as loan and guarantee extensions were provided to the SMEs and small-scale businesses that have been hit by the COVID-19 pandemic.

2020 KOREA Fintech Week – South Korea's second global fintech expo was held virtually from 28 May, has provided opportunities to develop strategies on fintech and digital finance. Participation from more than 150 businesses showcasing their innovative products and services has helped to advance capabilities. The government will work to turn this pandemic-induced situation into an opportunity for digital innovation.