

Press release – COVID-19: Revised rules to encourage banks to lend to companies and households



On Tuesday, MEPs approved new rules to temporarily ensure favourable conditions for banks in order to support credit flows to companies and households and absorb losses, mitigating the severe economic consequences of the COVID-19 pandemic and the enforced confinement.

With a view to striking a balance between a robust and stable banking system and securing much-needed credit for the EU economy, MEPs agreed to apply specific changes to the capital requirements regulation (CRR), which will have to be coherently applied in the EU. Banks will have to monitor the effects of the pandemic on their balance sheets, pay close attention to non-performing loans and apply know-your-customer standards.

The adopted changes include:

- Extension by two years of the transitional arrangements for IFRS 9 (international accounting standard) and further relief measures (capital add back) will ensure that banks can further provide credit to the real economy.
- Alignment of minimum coverage requirements for non-performing loans guaranteed by the public sector with those guaranteed by official export credit agencies.
- Deferred application of the leverage ratio buffer (leverage ratio is a ratio between a bank's capital and its exposures) by one year to January 2023 – this further allow banks to increase the amount of funds they would be able to loan.
- Advanced application of a more favourable prudential treatment of loans to pensioners or employees with a permanent contract that are backed by

the borrower's pension or salary.

- Advanced application of both, the SME and infrastructure supporting factors, which allows for a more favourable prudential treatment of certain exposures to SMEs and infrastructure, ensuring credit flow to SMEs and supporting infrastructure investments.
- Banks will no longer be required to deduct certain software assets from their capital, supporting an accelerated digitalisation of the banking sector.
- Liquidity measures provided by central banks in a crisis context will be effectively channelled by banks to the economy.

In order to support funding options in non-euro member states fighting the consequences of the COVID-19 pandemic, the Economic and Monetary Affairs Committee reintroduced transitional arrangements related to preferential treatment for when governments and central banks are exposed to bonds denominated in currencies of non-euro member states and prolonged transitional with respect to their treatment under the large exposure limits.

Taking into account the extraordinary impact of the COVID-19 pandemic and the extreme levels of volatility in the financial markets leading to increased yields for public debt and in turn to unrealised losses on banks' holdings of public debt, MEPs agreed to introduce a temporary prudential filter to calculate losses accumulated since 31 December 2019 and to neutralise their impact.

Next steps

The text was adopted with 41 votes to 16 and 2 abstentions.

The plenary session vote on the CRR quick fix will take place next week, on Friday 19 June.