
EUROPEAN BANKING NEWSLETTER

JULY 2020

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We are pleased to announce the launch of our European Financial Institutions Blog, which provides updates on legal and regulatory developments affecting financial institutions operating across Europe.

Please click [here](#) to access it and subscribe for new Blog alerts. Future editions of this newsletter will also be hosted on the Blog.

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NEWS FROM THE ECB

ECB publishes its Monetary Policy Decisions

4 June 2020 - Following its June 2020 meeting, the Governing Council of the European Central Bank (ECB) has announced a number of monetary policy decisions, including an increase in the pandemic emergency purchase programme (PEPP) by €600 billion to a total of €1,350 billion and an extension of the horizon for net purchases under the PEPP to at least the end of June 2021.

Furthermore, net purchases under the asset purchase programme (APP) will continue at a monthly pace of €20 billion, together with the purchases under the additional €120 billion temporary envelope until the end of the year. The Governing Council also announced that the interest rate on the main refinancing operations, as well as the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.50% respectively.

Press release is [here](#).

Transition from EONIA to the €STR - ECB publishes Recommendation on voluntary compensation for legacy swaption contracts affected by the CCP discounting transition to the €STR

16 June 2020 - The ECB industry-led working group on euro risk-free rates has published a Recommendation on the voluntary exchange of compensation by counterparties for legacy swaption contracts affected by the transition of central counterparty discounting from the euro overnight index average (EONIA) to the euro short-term rate (€STR), which is planned for around 27 July 2020. This follows the ECB's consultation on the matter in March 2020.

The working group states that while the modalities for implementing voluntary compensation may vary, it has decided not to recommend one approach as market feedback did not clearly single out a preferred option. There was also no consensus around the scope of the swaption contracts to be compensated. The working group intends to share additional information with market participants on what appear to be the most feasible and preferred

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options to assist them in making their own decisions. The working group also stresses that any agreement between counterparties to make adjustments to their contracts or exchange compensation would be entirely voluntary.

ECB Recommendation on the voluntary exchange of compensation by counterparties for legacy swaption contracts affected by the CCP discounting transition from EONIA to the €STR is [here](#).

Press release is [here](#).

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NEWS FOR THE SINGLE SUPERVISORY MECHANISM (SSM)

ECB report publish report on credit underwriting standards

10 June 2020 - The ECB has published a report on banks' credit underwriting standards entitled 'Trends and risks in credit underwriting standards of significant institutions in the Single Supervisory Mechanism'.

The report is based on data on new lending by banks from 2016 to 2018 and highlights some areas for improvement in banks' lending standards. The report further notes that in times of economic downturn or stress, such as the current crisis caused by COVID-19, adequate lending standards and risk-based pricing become even more important as losses materialise.

The report further underlines that ECB Banking Supervision considers proper credit underwriting to be a key element of the stability of significant institutions in the euro area.

Press release is [here](#).

Report is [here](#).

ECB Banking Supervision's approach to climate risks – Keynote speech by Andrea Enria, Chair of the ECB Supervisory Board, at the European Central Bank Climate and Environmental Risks Webinar

17 June 2020 - Andrea Enria, Chair of the European Central Bank (ECB) Supervisory Board, has delivered a speech on the supervision of climate related risks for banks. He states that, although methodologies for estimating the magnitude of climate-related risks for banks are still being developed, the expectation is that these risks are likely to be significant. Mr Enria notes that forward-looking supervision will be important and calls on banks to start developing their capacity to manage climate-related and environmental risks.

Mr Enria also draws attention to the draft ECB guide on the management and disclosure of climate-related and environmental risks which was published on 20 May 2020, inviting banks and other stakeholders to provide their feedback by the end of September 2020. The speech also notes that, once the guide is finalised, banks will be expected to assess whether their

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current practices are safe and prudent in the light of supervisory expectations and highlights that banks are expected to start taking action now. Mr Enria further notes that the ECB will enter into a supervisory dialogue with banks as of next year (2021) in order to discuss practices that diverge from expectations and to examine banks' plans to address these gaps.

Keynote speech by Andrea Enria, Chair of the Supervisory Board of the ECB, on ECB Banking Supervision's approach to climate risks is [here](#).

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NEWS FOR THE SINGLE RESOLUTION MECHANISM (SRM)

The future of European banking regulation in the aftermath of COVID-19 - speech by Sebastiano Laviola, Member of the SRB Board

2 June 2020 - Sebastiano Laviola (member of the Single Resolution Board (SRB)) has delivered a speech on the future of European banking regulation in the aftermath of COVID-19.

He states that, while banks are more resilient than they were ahead of the 2008 financial crisis, there remains uncertainty over the severity of the crisis, the length of any potential recession and the speed of the recovery. He notes that COVID-19 is likely to cause significant losses and will put pressure on banks' profitability. In particular, he expects that non-performing loans will increase substantially, notwithstanding all the support measures taken by competent authorities. He calls on institutions to use the current environment as an opportunity to improve profitability, enhance cost efficiency and accelerate digitalisation.

He also states that ongoing regulatory reforms should not be delayed in light of COVID-19 and that the current crisis emphasises the need to address some of the remaining gaps in the European regulatory framework, such as the completion of the Banking Union and Capital Markets Union. He also comments that the current crisis shows the need for decisive action towards harmonisation in order to avoid ring-fencing and fragmentation along national lines.

Speech by Sebastiano Laviola (Member of the SRB Board) on the future of European banking regulation in the aftermath of COVID-19 is [here](#).

Risk Reduction Measures Package – EBA publishes letter to the European Commission on the submission of technical standards

12 June 2020 - The European Banking Authority (EBA) has published a letter, dated 12 June 2020, from José Manuel Campa (Chair of the EBA) to John Berrigan (Director General for Financial Stability, Financial Services and the Capital Markets Union at the European Commission) on the submission of technical standards under the Risk Reduction Measures Package.

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The Risk Reduction Measures Package comprises the implementation of the fifth Capital Requirements Directive (EU) 2019/878 (CRD V), the second Capital Requirements Regulation (EU) 2019/876 (CRR II), the second Bank Recovery and Resolution Directive (EU) 2019/879 (BRRD II) and the second Single Resolution Mechanism Regulation (EU) 2019/877 (SRM II).

The letter sets out the amended expected dates for the EBA to submit technical standards for:

- CRD V: The deadlines have moved from June 2020 to March 2022;
- CRR II: The deadlines have moved from December 2019, March 2020 and June 2020 to various points in 2020, 2021 and 2022; and
- BRRD II: The deadlines have moved from June 2020 to December 2020.

The letter also states that there will be a delay to the submission of the initial margin model validation technical standards under the European Market Infrastructure Regulation (648/2012/EU) (EMIR), which are now expected in June 2021.

EBA letter from José Manuel Campa (Chair of the EBA) to John Berrigan (Director General for Financial Stability, Financial Services and the Capital Markets Union at the European Commission) on the submission of technical standards under the Risk Reduction Measures Package is [here](#).

SRB publishes its 2019 Annual Report

30 June 2020 - The SRB has published its 2019 Annual Report, detailing the progress made in promoting financial stability through Europe's banking resolution framework.

The report notes that, during 2019, the SRB further strengthened and updated the resolution plans for the banks under its remit based on the most recent MREL policy and other resolution policies, while at the same time incorporating the first provisions of the Banking Reform Package. It also highlights the delivery of the Expectations for Banks document, which was a key deliverable for 2019 and built on the 'Resolution Planning Manual'.

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We have unrivalled coverage of regulatory developments in the EU, which enables us to provide pure regulatory advice on the interpretation and application of EU directives and regulations. We also have strong connections with the best financial institutions lawyers in the United States, Asia and South America.

Our many years of experience of advising a diverse range of major financial institutions allows us to offer the most incisive advice available.

If you would like to discuss any of the developments in this update, or any other financial regulatory matter, please contact one of the following or your usual EFIG contact.

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BONELLIEREDE

Stefano Micheli
stefano.micheli
@belex.com



HENGELER MUELLER

Dirk Bliesener
dirk.bliesener
@hengeler.com



BONELLIEREDE

Giuseppe Rumi
giuseppe.rumi
@belex.com



HENGELER MUELLER

Christian Schmies
christian.schmies
@hengeler.com



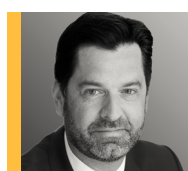
BREDIN PRAT

Didier Martin
didiermartin
@bredinprat.com



SLAUGHTER AND MAY

Jan Putnis
jan.putnis
@slaughterandmay.com



BONELLIEREDE

Matthieu Pouchepadass
matthieupouchepadass
@bredinprat.com



SLAUGHTER AND MAY

Ben Kingsley
ben.kingsley
@slaughterandmay.com



DE BRAUW

Mariken van Loopik
mariken.vanloopik
@debrauw.com



URÍA MENÉNDEZ

Pedro Ravina
pedro.ravina
@uria.com



DE BRAUW

Pete Lawley
pete.lawley
@debrauw.com



URÍA MENÉNDEZ

Carlos Costa Andrade
carlos.andrade
@uria.com

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