UK Regulatory Supervision During the Coronavirus (COVID-19) Crisis

By Dan Hirschovits & Mark Chalmers on March 23, 2020

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The UK's main financial regulators announced a series of measures last week intended to alleviate some of the regulatory burdens facing firms and financial market infrastructures in the wake of the coronavirus (COVID-19) outbreak. These are in addition to initiatives announced by the Bank of England (BoE) and HM Treasury to support the wider economy, which will be discussed in a separate post.

Specifically, the BoE announced on 20 March that it has decided to cancel stress testing in 2020 for major UK banks and building societies. This is to remove the operational burdens associated with stress testing so that lenders can instead focus their efforts on providing credit to households and businesses. The BoE carries out stress testing on an annual basis to assess the ability of banks and building societies to cope under severe market conditions. Following the 2019 stress test, the BoE concluded that the UK banking system was resilient to deep simultaneous recessions in the UK and global economies.

The BoE's decision to cancel stress testing complements measures announced on 11 March to reduce the UK countercyclical capital buffer rate from 1% to 0% of banks' exposures to UK borrowers. The 0% rate is expected to be maintained for at least 12 months. The BoE hopes that cutting the countercyclical capital buffer rate will release up to £190 billion in additional bank lending to businesses. The countercyclical capital buffer is a tool that enables the BoE's Financial Policy Committee to adjust the resilience of the UK banking system. The countercyclical capital buffer is increased when the Financial Policy Committee judges that risks are building up. This means that banks are required to have an additional cushion of capital with which to absorb potential losses, enhancing their resilience and contributing to a stable financial system.

The Prudential Regulation Authority (PRA) made clear its expectation that firms regulated by it (such as banks and designated investment firms) will not increase dividends and other distributions in response to the reduction of the countercyclical capital buffer rate, noting that it will monitor firms' distributions against this expectation. Any proposals relating to potential dividends or share buybacks must be undertaken in a manner consistent with firms' obligations under the PRA's Fundamental Rules to act prudently and to maintain adequate financial resources at all times.

The PRA also announced that it will review its approach for processing applications for individuals performing Senior Management Functions at PRA authorized banks, building societies, credit unions and designated investment firms under the Senior Managers and Certification Regime (SM&CR). The SM&CR requires individuals that are to perform designated Senior Management Functions, such as senior executive managers and directors, to be approved by the PRA. It is expected that the PRA will shortly announce specific measures aimed at reducing the burdens associated with the application and approval process during the coronavirus (COVID-19) crisis.

For its part, the Financial Conduct Authority (FCA) recognized that the coronavirus (COVID-19) outbreak may prevent issuers with securities traded on UK markets from producing accounts for upcoming reporting periods within prescribed timeframes. Although the formal deadlines under the Disclosure Guidance and Transparency Rules remain unchanged, the FCA has encouraged issuers to contact it if they do not believe they will be in a position to meet their ongoing obligations. Issuers are also advised to engage with their auditors and the Financial Reporting Council.

In an unprecedented move, on 21 March, the FCA published an announcement and letter directed to listed companies that are due to publish preliminary financial statements shortly, strongly requesting such companies observe a moratorium on the publication of preliminary financial statements for at least two weeks. The FCA noted that the unprecedented events of the last couple of weeks mean that the basis on which companies are reporting and planning is changing rapidly and, therefore, it is important that due consideration is given by companies to these events in preparing their disclosures. The FCA noted that observing timetables set before the coronavirus (COVID-19) crisis arose may not give companies the necessary time to do this.

One area in which the FCA has made clear there will be limited regulatory forbearance is in relation to firms and persons discharging managerial responsibilities obligations under the EU Market Abuse Regulation (MAR). Subject to limited exceptions, MAR requires issuers with securities traded on UK regulated markets, multilateral trading facilities and organized trading facilities (provided the issuer has approved or requested the trading or admission) to inform the public as soon as possible of inside information. While the FCA recognizes that the coronavirus crisis may create challenges for issuers in convening disclosure committees, they are expected to make every effort to meet their disclosure obligations in a timely fashion.

Persons discharging managerial responsibilities and persons closely associated with them are also expected to continue to report their own account transactions to issuers and the FCA within the timeframes prescribed by MAR. Taken together, these announcements highlight the importance the FCA continues to place on the timely dissemination of information to the market during periods of extreme volatility.

Please see our separate client memorandum "**UK Corporate Finance Update: Coronavirus-related Measures and Guidance**."