



## MONETARY AND CAPITAL MARKETS

### Special Series on Financial Policies to Respond to COVID-19

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## Supervisory Actions and Priorities in Response to the COVID-19 Pandemic Crisis

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*This note focuses on the actions and priorities that supervisors should consider in planning their medium- and long-term response to the unfolding COVID-19 crisis and complements IMF's Monetary and Capital Markets Department advice on crisis communication and regulatory adjustments. The COVID-19 pandemic has introduced market stress, volatility, and a protracted state of uncertainty for financial institutions and their supervisors.<sup>2</sup> Supervisory authorities have responded to the initial wave of the pandemic by, among other approaches, reprioritizing their focus and actions. However, as the outlook remains highly uncertain and new waves of the pandemic with adverse economic impacts cannot be ruled out, supervisors will need to continue adapting their work programs. This note is intended for supervisors in the banking sector, but several recommendations also apply to insurance and securities sectors.<sup>3</sup>*

**The COVID-19 pandemic has severely impacted both supervisors and financial institutions alike.** The financial sector in many countries was stronger in terms of capital and liquidity in early 2020 than at the start of the 2008 global financial crisis. The stress has been severe, however, primarily because of worsening economic conditions that risk undermining financial stability, raising concerns for business continuity, credit, and liquidity

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<sup>2</sup> This note should be read in the context of Adrian Tobias and Aditya Narain. 2020. "Maintaining Banking System Safety amid the COVID-19 Crisis." *IMFBlog*, March 31.

<sup>3</sup> This note complements the notes on financial policies of this *Special Series on COVID-19*, in particular: "Banking Sector Regulatory and Supervisory Response to Deal with Coronavirus Impact (with Q and A)," "Regulatory and Supervisory Response to Deal with Coronavirus Impact: Securities Market," and "Regulatory and Supervisory Response to Deal with Coronavirus Impact: The Insurance Sector."

risk and affecting supervisory actions and priorities. Additional challenges, such as, for some, prolonged remote working arrangements have stressed the capacity of information technologies and increased cybersecurity risks.

**In this complex situation, appropriate regulatory and supervisory tools and techniques are essential.** As past crises revealed, even though countries were operating under the same set of global rules, the effectiveness of supervision was a key factor in explaining why some countries were more affected than others.<sup>4</sup> This note discusses how ongoing supervision can be effective in the current pandemic environment.

**This note is targeted at all supervisors regardless of the phase of the crisis their financial sectors are facing.** The COVID-19 crisis may exhibit recurring waves, requiring supervisors to be adaptable. Economic activity and the consequences for the financial sector during the pandemic are influenced by the physical restrictions and also economic support measures introduced in each jurisdiction. Accordingly, the scope for, and framing of, the supervisory responses will be different depending on the severity of the restrictions and the impact on the economy and financial sector. Annex I provides an example of how this note could be applied by supervisors under different situations during a pandemic-like crisis.

**This note focuses on five areas that require careful attention from supervisors.** Although the adaptability of supervisors differs across jurisdictions, this note draws out commonalities on which to focus. The note does not provide an exhaustive list of prescriptive measures to be taken by authorities. Practical solutions will vary across countries, depending on local institutional arrangements, legal systems, maturity and robustness of the financial systems, market practices, and the concrete circumstances that the crisis has taken in each jurisdiction. The focus of this note is not on crisis management per se, or potential bank resolution, but on the necessary ongoing supervisory activities in a highly stressed environment. The note does not make recommendations on processes within financial institutions. It complements advice given on the appropriate regulatory and supervisory responses to deal with the impact of the pandemic while maintaining the balance between financial system soundness and sustaining economic activity.

- **Supervisory prioritization.** Flexibility is key: supervisors will need to continuously reassess priorities based on evaluation of risks and likely impact. Decisions will be guided by ensuring timely early intervention as needed and supporting business continuity. Effective prioritization will depend on strong leadership and effective internal collaboration to identify institutions requiring priority attention, and sequencing policy work and supervisory activities. Planning should take account of practical constraints that may be imposed due to public health measures and the feasibility of alternatives such as remote working options. Policy priorities should focus on issues emerging from the crisis, such as the impact of deteriorating economic conditions on credit portfolios, liquidity pressures, and challenges arising from the impact of and removal of temporary government supporting measures. Nonessential supervisory activities might be reduced or postponed, while others such as offsite monitoring are intensified. The importance of some activities, such as stress testing and onsite inspections, will not change but will require a different operational modality given the constraints.
- **Enhanced monitoring and timely corrective measures.** Existing data requirements may need to be updated, and specific reports might need a higher frequency to support enhanced supervisory monitoring. Continuous communication with boards and senior management will be important, while maintaining supervisors' independence and refraining from participating in institutions' business decisions. Flexible approaches will be needed to ensure that supervisors have access to relevant and accurate information,

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<sup>4</sup> Viñals, J., and others. 2010. "The Making of Good Supervision: Learning to Say 'No.'" IMF Staff Position Note SPN/10/08, International Monetary Fund, Washington, DC. <https://www.imf.org/en/Publications/IMF-Staff-Position-Notes/Issues/2016/12/31/The-Making-of-Good-Supervision-Learning-to-Say-No-23799>.

considering that information needs may change as the pandemic evolves and that the economic and financial impact are likely to stay very uncertain for some time. For example, information on loan restructuring and behavior while moratoria are in place will be an early information need, while data on nonperforming loans (NPLs) will be critical at a later stage once effects on borrowers' creditworthiness materialize. Supervisors need to remain abreast of cases requiring corrective actions.

- **Deepened cooperation and coordination with key domestic and cross-border policymakers.** Interagency crisis committees provide an institutionalized platform, where so established. While ad hoc arrangements may be needed, memoranda of understanding, colleges, and other formal and informal arrangements for cooperation that may be in place also provide a clear organizing structure. In this context, supervisors' operational independence needs to be protected in case of pressures to implement short-term solutions that can create longer-term financial stability problems. Ensuring clear documentation of actions and decisions will maintain the audit trail and will strengthen supervisors' governance and accountability.
- **Effective communication and disclosure.** These are pillars of financial stability and trust in crisis times, and the extensive time horizon of uncertainties associated with the pandemic puts a premium on clear messaging from the authorities. Updated communication strategies should consider all stakeholders and a wide array of outreach channels. A consistent message needs to be agreed on with other authorities.<sup>5</sup>
- **Conduct risk and consumer protection.** Maintaining consumer confidence in the system is vital. Transparent and consistent conduct supervision and consumer protection policies support consumer confidence and the goals of prudential supervision. Many new "COVID-19" prudential policies have included elements of consumer protection, such as rescheduling of loans or insurance premiums. Other forms of conduct risk such as fraud, money laundering, and terrorist financing can also be amplified by the crisis, and although these topics are out of scope of this note, they need to be addressed by supervisors.

**Management of cybersecurity risk is another key area, which is also discussed in this Special Series on COVID-19.**<sup>6</sup> Many financial institutions and authorities have moved to remote work arrangements and new access arrangements may increase the vulnerability of systems and data.

## SUPERVISORY PRIORITIZATION

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**Senior management will need to develop a strategic approach to reprioritize the supervisory actions according to the uncertain economic conditions and operational constraints imposed by the pandemic.**

The immediate step, which many jurisdictions will have completed within the first few weeks of the pandemic, is to launch a diagnostic review. The purpose of this review is to identify key risks and vulnerable institutions as well as the supervisory processes and activities that could be postponed or reduced. A strategic response can be based on this review, though, depending on time availability, some supervisory actions may be necessary before a full review can be concluded. Supervisory attention will need to focus on systemwide risks, as well as the systemically important, vulnerable, and those institutions under a recovery plan or any form of regulatory forbearance. Vulnerable institutions should continue to be determined by assessing solvency, cash flow, business models, and exposures to sectors or activities impacted by the crisis. Supervisors should consider the

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<sup>5</sup> Basic principles for public policy communication in systemic financial crises are elaborated in the note, "[Special Series on Financial Policies to Respond to COVID-19: Public Communicating during a Financial Crisis.](#)"

<sup>6</sup> See, "[Special Series on Financial Policies to Respond to COVID-19: Cybersecurity of Remote Work During the Pandemic.](#)"

expected evolution of economic conditions under different scenarios and their potential implications for the financial sector to help shape medium-term priorities.

**The issues facing supervisors will shift during the phases of the crisis.** After the immediate stress of the peak of the crisis, from a public health perspective supervisors should reflect on issues that will have a deeper mid- to long-term structural impact on banks' stability. Immediate responses generally focus on issues such as sufficiency of liquidity, adequacy of capital, and the activation of crisis committees and tools. However, supervisors need to broaden their focus to the long-term impact of the crisis on institutions' balance sheets, business models, and market structures or market practices. Such analysis will have to take into account, for example, any government measures to support the economy or central bank special facilities as well as fragilities in the economy. The supervisory horizon must incorporate the current impact on the financial system and estimate possible future developments, including the eventual withdrawal of any support measures to the economy or the financial sector. When recovery begins, supervisors need to focus on restoring capital and liquidity positions of financial institutions.

**Given that the crisis will evolve, supervisors need to ensure their strategic response adapts to changing conditions and is subject to continual review and reprioritization as necessary.** Although the duration of the pandemic is uncertain, there will likely be periods when restrictions are eased or lifted. Onsite supervisory activity will have periods when it is suspended, but also periods when some activity is possible, and supervisors will need to consider whether there are alternative options to verify information. In contrast, while offsite supervision might be less affected, analysis will have to take into account if aspects of supervisory reporting have been suspended or delayed. Even when restrictions are fully lifted, it is advisable to further review priorities to inform the resumption of the full program of supervisory activities. Furthermore, the strategic response needs to be continuously updated to reflect, for example, evolving expectations on the real economy, government support measures (including moratoria), and the need to deal with large volumes of non-interest paying, rescheduled, and delayed payment loans.

**To support the supervisory strategy and ensure timely actions, a clear decision-making process will be needed.** To be as effective as possible, supervisors should review, clarify, and streamline delegation of tasks and internal reporting taking account of new (virtual) communication channels as necessary. At a minimum, staff will need clear internal guidance on how to recognize when an issue needs to be escalated and what the escalation process is. Supervisory priorities for early corrective measures may need to be adapted to the crisis, as new issues will emerge. That said, preexisting cases must still be monitored and acted on.

**Ensuring effective internal coordination and collaboration requires strong leadership within the supervisory agency with appropriate oversight by its Board.** Effective leadership is possible where internal structures and arrangements deliver effective information sharing to steer decision-making. Information technology (IT) solutions can support effective collaboration and confidential information sharing among relevant staff on as-need-to-know basis. However, IT tools may need some enhancements or adjustments to be effectively used in the remote mode. Confidential information will be even more sensitive during crisis periods, so greater care in circulation is advisable. Management information systems (MIS) and procedures should support the decision-making process while maintaining an audit trail.

**Supervisors will need to focus on the particular challenges that arise due to remote working, which may span a long period.** Not all jurisdictions will be able to launch remote working protocols, but where this is

possible,<sup>7</sup> considerations to be taken into account include (1) access of staff to essential IT equipment (internet connection and IT devices); (2) readiness of staff and institutions to communicate through secure channels; (3) access of staff to databases and confidential information in secure form; (4) access to tools supporting remote collaboration; (5) adjustments to decision-making processes so that they remain effective and efficient. In elaborating remote working arrangements, supervisors should also assess the capacity of financial institutions to operate remotely and adjust supervisory requests and communication accordingly.<sup>8</sup>

**The pandemic has exacerbated the need for supervisors to develop forward-looking tools such as stress testing to effectively adjust their policies.** Government-supporting measures and the regulatory flexibility used by supervisors have played an important role in reducing the economic impact of the pandemic. However, a slow recovery would exacerbate the need to assess intertemporal trade-offs and the consistency of policy measures across different phases of the crisis. To adjust policies effectively, it is key to have appropriate instruments to assess these trade-offs, including a comprehensive stress testing program that can provide a sense of the potential time profile of losses, assess the vulnerabilities of each bank and factor in and evaluate different policy options.

**Physical onsite supervision will be reduced or curtailed by the crisis, but some options may be open to supervisors.** Concretely, the scope of options will depend on the availability of IT resources. In the most favorable conditions, IT solutions can allow secure remote processing of the data and digitized information (including for instance loan files) and supervisors can complement this work with remote interviews and meetings. If IT options are unavailable, a modified (targeted) onsite examination program should be launched when this is feasible. Based on the experience gained with new modalities of work, some supervisory practices may shift permanently depending on jurisdiction-specific challenges.

## ENHANCED MONITORING AND CORRECTIVE MEASURES

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**Supervisors have two main channels for up-to-date, accurate information: (1) direct contact with the supervised institutions and (2) enhanced supervisory reporting.<sup>9</sup>**

*Direct contact with boards and senior management*

**Regardless of whether the system or individual institutions face severe stress, it is advisable for the supervisor to have as close and open dialogue with institutions as is practical.** Concerns and issues not captured in data sets can be picked up through this contact, including through an intensified dialogue with boards and senior management. However, the supervisor will have to deal with constraints as most meetings will be virtual. The supervisor should agree with institutions on the most convenient and secure solution.<sup>10</sup>

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<sup>7</sup> The need to develop the ability to work remotely applies to all areas mentioned in the note, for example, cooperation in interagency groups or bodies.

<sup>8</sup> For a general framework on how financial institutions should prepare for operating under crisis conditions, see “[Special Series on Financial Policies to Respond to COVID-19: Pandemic Preparedness for Financial Institutions.](#)”

<sup>9</sup> Supervisors should also continue to consider data on financial markets and the real economy, including macroeconomic analyses.

<sup>10</sup> For details on cybersecurity issues, see “[Special Series on Financial Policies to Respond to COVID-19: Cybersecurity of Remote Work During the Pandemic.](#)”

**Supervisors will be unable to be in close touch with all institutions on an equal basis; a risk-based triage will be needed to focus the supervisory attention.** Also, remote-working practices can be challenging to ensure an interactive dialogue with institutions. Institutions will vary considerably in their ability to respond to new data requests, so advance warning of new demands is important. As noted above, when lockdown measures are eased, meetings with senior management and additional necessary data should be sought.

### *Supervisory reporting*

**To face the pandemic crisis, supervisors may need additional information.** Supervisors must decide what information is required, how granular and how frequent it should be and from which institutions. There is no single correct data set or format that can be specified ex ante because specific needs must be determined on a case-by-case basis. For banking supervision, important areas of attention are liquidity risk, credit risk, foreign exchange (FX) risk, and market risk. Some specific suggestions include the following:

- **Liquidity risk.** Supervisors should ensure that all institutions are able to provide data on a daily basis if needed. Monitoring and analysis should include vulnerable issues, such as market illiquidity, volatility, and deterioration in issuers or counterparts. Forward-looking reporting is advisable, for example 10 days' projection of expected transactions that will result in significant changes to an institution's liquidity position. Supervisors may need more granular data to analyze intragroup liquidity flows in close cooperation with other sectoral supervisors. In addition, supervisors should check there is access to granular information on banks' assets to assist the central bank in establishing appropriate conditions for liquidity facilities.
- **Credit risk.** Supervisors need to focus on exposures with a potentially significant adverse impact on financial institutions or the economy (for example, large borrowers, large newly classified loans, modified and restructured loans, significant sectoral and geographical concentrations, exposures to strategically important corporates or sectors which might trigger contagion across the economy). Supervisors should collect granular data to understand the impact of government measures (for example, guarantees, moratoria, regulatory easing) if they are imposed, and when they are potentially lifted. Reports and metrics designed to identify potential nonviable restructuring (for example, evergreening) are essential, and a close watch should be maintained on the emergence of delinquency, problem assets, and NPLs.<sup>11</sup>
- **FX risk.** Emerging markets and low-income economies can be especially sensitive to FX risk. Granular data should be requested on FX risk exposures, including, where available, the natural or financial hedging of such exposures by the borrowers. This will help review hedging strategies of institutions and contribute to banks' understanding of the effect of risk management strategies of their major nonfinancial clients and their access to foreign currencies on their financial soundness.
- **Market risk.** Market risks affect all institutions and countries. Emerging and low-income economies may consider themselves largely shielded from market risk, but they are often exposed to risks such as those associated with government bonds, and other interest rate- and FX-linked financial instruments, that might be volatile in a crisis and can impact institutions' capital and clients' investments. Content and frequency of data requests should reflect local conditions and any temporary policy measures.

**In designing supervisory reporting, the following general principles may be useful:**

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<sup>11</sup> See also "[Special Series on Financial Policies to Respond to COVID-19: Treatment of Restructured Loans for FSI Compilation.](#)"



- **Common templates.** These may be based on existing formats or tailored templates. Depending on the circumstances, supervisors may seek standardized reporting across firms, or, bearing in mind that firms might be unable to respond quickly, accept internal management information. The approach will depend on the specific circumstances of each jurisdiction and on how urgent and fast-moving a situation is.
- **Frequency of reporting.** Some risk indicators will change more frequently than others, requiring supervisory judgement. For example, as noted above, in some cases, there may be a need for daily liquidity monitoring. By contrast, data on restructured and reclassified loans would not need to be so frequent.
- **Requiring additional information.** Some factors may need to be monitored systemwide while others may be relevant only to a sector or a subset of firms. Some firms may not need to supply much additional information on a more frequent basis, but systemic firms and firms already identified as vulnerable almost certainly will need to. Such decisions have to be made in the light of the local context and the particular issues that are emerging. Supervisors should have the power to request more information and should not hesitate to do so. However, supervisors must avoid overwhelming either the banks' capacity to provide, or their own capacity to process this information. Banks must maintain operational capacity to cope with additional workload. Also, supervisors should avoid the reputational risk of obtaining vital information that is then overlooked. More-targeted requests can be used to supplement initial information if it is insufficient for supervisory needs. Enhancements in IT technologies can be very helpful in this regard. Enhanced monitoring can also facilitate the use of new and alternative data sources, such as big data.<sup>12</sup>
- **Reducing certain regulatory reporting, or placing it on a longer cycle, to ease reporting pressures.** In a crisis, some information may be less critical, and it may be helpful to support the institutions' reporting functions so that they are freed up to focus on more vital information.
- **Continue to adapt monitoring during and after the crisis.** Information needs are likely to change during and after the crisis. For example, greater details on portfolios subject to restructuring measures will be increasingly important as temporary moratoria and support measures are lifted and underlying credit risks come into sharper relief. Enhanced reporting requirements should be phased out only gradually.

#### *Corrective measures*

**In designing the strategic response to the pandemic including when and if corrective measures may be necessary, supervisors need to consider legacy and structural issues which may now deepen.** These issues may include, for instance, pre-existing high NPL levels, evergreening of credit, FX issues, and the liquidity or the credit quality of local government bonds.

**Special attention needs to be paid to weak financial institutions, regardless of whether concerns are due to the pandemic or are longstanding.** Supervisors may need a range of corrective measures, reflecting specific circumstances. Supervisors must always request remedial action plans from the firm and closely monitor plans to restore solvency, cash-flow, and franchise value. The timing of corrective actions can be critical, and some authorities have more legal discretion to act in this regard than others. A corrective regime that can quickly trigger a loss or suspension of a banking license might jeopardize multiple institutions at the same time in the context of current system wide stress. Automatic triggers for early corrective measures should be revised or removed, if feasible to avoid accelerating the failure of an institution or triggering a systemic crisis,

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<sup>12</sup> Nontraditional data sources can be valuable. See [“Special Series on Financial Policies to Respond to COVID-19: Ensuring Continuity in the Production of External Sector Statistics during the COVID-19 Lockdown.”](#)

and to allow enough time to remedy a deteriorating situation.<sup>13</sup> Supervisors should not refuse or be slow to take action, but they must make a judgement on the best course of action.

## DEEPENED COOPERATION AND COORDINATION NATIONALLY AND INTERNATIONALLY

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**Supervisors should activate or establish mechanisms for enhanced coordination and cooperation with other national and foreign financial authorities.** They must be ready to flexibly reflect challenges of new modalities of work in cooperation and coordination. Given that for internationally active financial institutions or groups some supervisory measures can have cross border effects, supervisors are encouraged to intensify interactions with foreign home and host supervisory counterparts to keep open channels of communication and coordinate their actions, where needed.<sup>14</sup> Other stakeholders involved in enhanced cooperation, at a national level, may include the central bank, deposit insurance, policyholder protection funds, investor compensation schemes, the macroprudential authority,<sup>15</sup> and the ministry of finance. All these institutions can benefit from information sharing and coordination of their steps, to fulfill their mandates. Cooperation should not affect the respective individual mandates of the institutions involved, as set out in national laws and regulations.

**An interagency coordination group or body, comprising the national financial authorities empowered to take decisions, should be a central coordination mechanism.**<sup>16</sup> Regulatory architecture differs across jurisdictions and various multi-agency committees have powers whereas others focus only on exchange of information and views. Existing structures should be used if they have a sufficient mandate and an appropriate level of representation of major policymakers to respond to the challenges of this crisis.

**All national and foreign financial authorities will expect timely notification of circumstances that may require their action.** Such actions could include the provision of systemic liquidity, use of public funds, and the adoption of measures toward weak and failing financial institutions. Crisis periods can test normally well-functioning relationships and it is important that all parties respect and maintain their respective mandates and responsibilities. Data and information sharing between supervisors of globally systemically important financial institutions and those of domestically systemically important financial institutions is a crucial precondition for effective supervisory actions. Establishing IT solutions to share updated supervisory actions and data—where permissible by the duty of confidentiality and other legal obligations—has also proved valuable for supervisors' effective coordination and cooperation with other national policymakers.

**The supervisor may be called on to support legislative initiatives by providing advice and data.** In doing so, supervisors' technical independence should not be compromised by political considerations. If financial support is extended to banks' borrowers by the government, coordination will be needed between the government and supervisors as well as with relevant industry associations to operationalize the support. Also, where rapid legislative actions are needed to strengthen supervisors' legal powers, or extend their flexibility in taking actions, supervisors should escalate any necessary supportive work.

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<sup>13</sup> “COVID-19: Regulatory and Supervisory Implications for the Banking Sector: A Joint IMF-World Bank Staff Position Note.”

<sup>14</sup> Typically, information and data sharing are key areas for cross-border cooperation.

<sup>15</sup> If the designated macroprudential authority is outside the supervisory agency, maintain clear coordination and communication. Greater urgency in decision-making and response to macroprudential recommendations may be necessary.

<sup>16</sup> SGN Macroprudential Policy IMF November 2014. <https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Staff-Guidance-Note-on-Macroprudential-Policy-PP4925> .



## EFFECTIVE COMMUNICATION AND TRANSPARENCY

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**Credible communication is critical in maintaining confidence in the system, throughout the crisis period.** A broad communication strategy, aimed at the general public, market professionals, domestic and foreign/international stakeholders, supported, if feasible, by a dedicated team, will help to: (1) identify key stakeholders; (2) consider when, how, and by whom to deliver clear messages and periodic updates, about the system and individual institutions, including steps planned or taken by supervisors; (3) determine outreach channels, for specific groups of key stakeholders; and (iv) coordinate and interact with other authorities.

**The communication strategy needs to be adapted to the different phases of the crisis, in both content and intensity.** At the outset of the crisis, it is important to send strong, but realistic messages on the resilience of the system and the readiness of authorities to support financial stability through their actions. While early communication should be aimed at a wide range of stakeholders, in the subsequent stages it will be important to provide more analytical information and tailor messages to the multiple stakeholders. Supervisors should also keep in mind that the reputation of supervision and the financial system is built up during a long period of time, and that clear, authoritative, published information on the health of the financial system and on the outlook, risks, and policy actions to address the risks could support this goal significantly.

**National financial authorities need to maintain a regular information flow among each other and communicate with a single voice to outside parties.** Interactive communication with market professionals and a broader range of other stakeholders<sup>17</sup> should be used as a sounding board to better detect emerging vulnerabilities not yet visible in the supervisory data and to understand macrofinancial interlinkages, which can later translate to liquidity or solvency issues of supervised firms.

**Firms also have a role to play in terms of disclosure and providing meaningful information to stakeholders.** Institutions' public disclosures—including prudential information under Pillar 3—should not be suspended but they can be revisited and revised, if needed at a later date when better quality information becomes available. Timely and accurate disclosures are designed to promote trust in the system: and can be expanded or limited (for example, because of availability of data) but never abandoned.

## CONDUCT RISK AND CONSUMER PROTECTION

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**Conduct risk and consumer protection is an important component of ensuring that critical confidence in the system is maintained.** Prudential supervisors need to pay attention to conduct and consumer issues both to support consumer confidence, and thus reduce contagion risks, but also to identify prudential concerns which might be signaled by violations in conduct and consumer protection regulations. High or increasing levels of violations may, for example, indicate poor data control, or weaknesses in risk management or governance.

**Coordination among the relevant national authorities is essential.** Throughout the crisis period consumer protection should remain in place, engagements with consumers be transparent, and market practices be fair. Prudential authorities should support their peer authorities as needed, considering that measures taken in conduct supervision have direct consequences for prudential supervision, and prudential supervisory actions should be reflected in the consumer protection guidance. For instance, loan-restructuring measures agreed with banks will be more efficient if supported by consumer protection recommendations applied across the industry. The relevant supervisors are recommended to issue, and monitor compliance with, guidance for firms in dealing

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<sup>17</sup> Typically, users of financial services and their associations, including professional organizations of corporates.

with their customers. Ideally guidance and monitoring should be in consultation with prudential supervision as conduct supervisors may be able to identify early signals of issues that may later translate into prudential concerns. Authorities should ensure straightforward access to up-to-date essential information and advice on consumer rights and protection, which will help promote stable consumer behavior. Equally, authorities should coordinate the consumer protection and prudential perspectives and be ready to act to enforce breaches of consumer laws and regulations.

## ANNEX I. SUPERVISORY ACTIVITIES AT DIFFERENT STAGES OF THE HEALTH CRISIS

Supervisory Activities at Different Stages of the Health Crisis			
	Lockdown	Gradual Reopening	Recovery
<b>Supervisory prioritization</b>	<ul style="list-style-type: none"> <li>· Reassess supervisory priorities, on the basis of the evaluation of risks and likely impact.</li> <li>· Focus on systematically important, vulnerable institutions (by assessing solvency, cash flow, business models, and exposures).</li> <li>· Adapt supervisory priorities and actions regarding early corrective measures as new issues arise.</li> </ul>		<ul style="list-style-type: none"> <li>· Resume regular supervisory activity.</li> <li>· Set strategy, including the timing, of the phase out of regulatory relief.</li> <li>· Apply additional focus on asset quality and rebuilding capital and liquidity buffers.</li> </ul>
	<ul style="list-style-type: none"> <li>· Postpone some activities (for example, nonessential policy work or licensing).</li> <li>· Reduce/suspend onsite examinations but maintains close contact with financial institutions through virtual means.</li> <li>· Strengthens offsite activities.</li> <li>· Enhance focus on liquidity and solvency of the institutions; restricting dividend payment and other capital outflows if necessary.</li> <li>· Review, clarify, and streamline delegation of tasks and internal reporting, taking into account of new (virtual) communication channels as necessary.</li> <li>· Implement enhancements or adjustments to IT.</li> </ul>	<ul style="list-style-type: none"> <li>· Resume regular modality of supervisory activities, focusing on major issues.</li> <li>· Organize targeted onsite examinations.</li> <li>· Perform deeper analysis of mid-term/long-term impact on balance sheets, business models, and market structures practices.</li> </ul>	
<b>Enhanced monitoring and timely corrective measures</b>	<ul style="list-style-type: none"> <li>· Intensify dialogue with boards and senior management.</li> <li>· Adopt additional reporting: Credit risk—granular data focused on exposures with a potentially significant adverse impact on the financial institutions and economy (for example, largest borrowers, largest newly classified loans, modified and restructured loans). FX risk—granular data, including natural or financial hedging of borrowers. Market risk—tailored to the particular circumstances, in emerging markets typically government bonds/interest rate financial instruments</li> <li>· Adjust corrective measures, reflecting legacy issues, focusing on weak financial institutions and major issues (for example, loan classification and provisioning).</li> </ul>		
	<ul style="list-style-type: none"> <li>· Monitor the impact of the regulatory relief measures and loan restructuring activities.</li> <li>· Adjust the frequency of reporting, or/and drops certain regulatory reporting.</li> <li>· Adopt additional reporting: Credit risk—focus on the impact of regulatory measures adopted for the time of lockdowns (for example, moratoria). Liquidity risk—daily data to reflect on market illiquidity, volatility, and deterioration in issuers or counterparties.</li> </ul>	<ul style="list-style-type: none"> <li>· Monitor the phase out of the regulatory relief measures.</li> </ul>	
<b>Deepened cooperation and coordination</b>	<ul style="list-style-type: none"> <li>· Activate or establish mechanisms for enhanced coordination and cooperation with other foreign and national financial authorities, including national interagency coordination body.</li> <li>· Timely notification of circumstances that may require action of respective national and nondomestic financial authorities, including the provision of systemic liquidity, use of public funds, and the adoption of measures toward weak and failing financial institutions.</li> <li>· Support legislative initiatives by providing advice and data.</li> </ul>		
<b>Communication and disclosure</b>	<ul style="list-style-type: none"> <li>· Adapt communication strategy to the different phases of the crisis, in both content and intensity.</li> <li>· Maintain regular information flow among national authorities and communication with a single voice to outside parties.</li> </ul>		
<b>Conduct risk and consumer protection</b>	<ul style="list-style-type: none"> <li>· Ensure critical confidence in the system is maintained: measures taken in conduct supervision have direct consequences for prudential supervision, and prudential supervisory actions should be reflected in the consumer protection guidance.</li> </ul>		

