



EUROPEAN COMMISSION
DIRECTORATE-GENERAL FOR FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL
MARKETS UNION

Director General

Brussels

fisma.ddg.d.1(2020)2700608/MK

[Redacted text block]

Subject: Your letter of 31/03/2020 on Trading Book Capital Covid-19 Issues

Dear [Redacted]

Dear [Redacted]

Thank you for your letter dated 31 March 2020 in which you share with us a number of issues as regards the prudential framework for trading book positions in light of the severe market volatility observed since the beginning of the COVID-19 pandemic.

First of all, let me stress that the Commission welcomes the efforts of European banks to help households and businesses in managing the economic shock that stems from the COVID-19 pandemic. To support those efforts, the Commission clarified in its Interpretative Communication published on 28 April certain aspects of the application of the accounting and prudential frameworks for banks. With the same goal in mind, it also adopted a legislative proposal with targeted changes to the prudential framework for banks.

I take note of the fact that banking activities other than lending are also affected by the current economic shock. In light of the significant increase in the level of volatility observed across financial markets, my staff has been working closely with the European Banking Authority and the European Central Bank over the last weeks to assess the impacts of this shock on the prudential framework applicable to trading book positions.

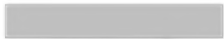
As a result of this work, European authorities have recently taken actions to mitigate this impact.

First, the European Central Bank (ECB) published a decision on 16 April to use the regulatory flexibility set out in the Capital Requirement Regulation to reduce on a temporary basis the capital requirements for market risk for banks directly supervised by the ECB.

Subsequently, the European Banking Authority (EBA) published a statement on 22 April outlining a number of actions to mitigate the impact of the severe market volatility on the market risk prudential framework. One of these actions recommends the Commission to postpone the start of the reporting requirement under the new market risk rules introduced by the last banking package. As you know, the start of the reporting requirement depends on the publication of the Delegated act on market risk adopted by the Commission in December 2019 in the Official Journal of the EU. We are currently assessing the appropriate timing for that publication and will communicate our conclusion in due course.

The Commission services will continue to pay attention to the evolution of the situation in financial markets and we will assess with the EBA and the ECB whether additional actions at Union level would be necessary.

Yours faithfully,


(e-signed)

Contact:

Cc: