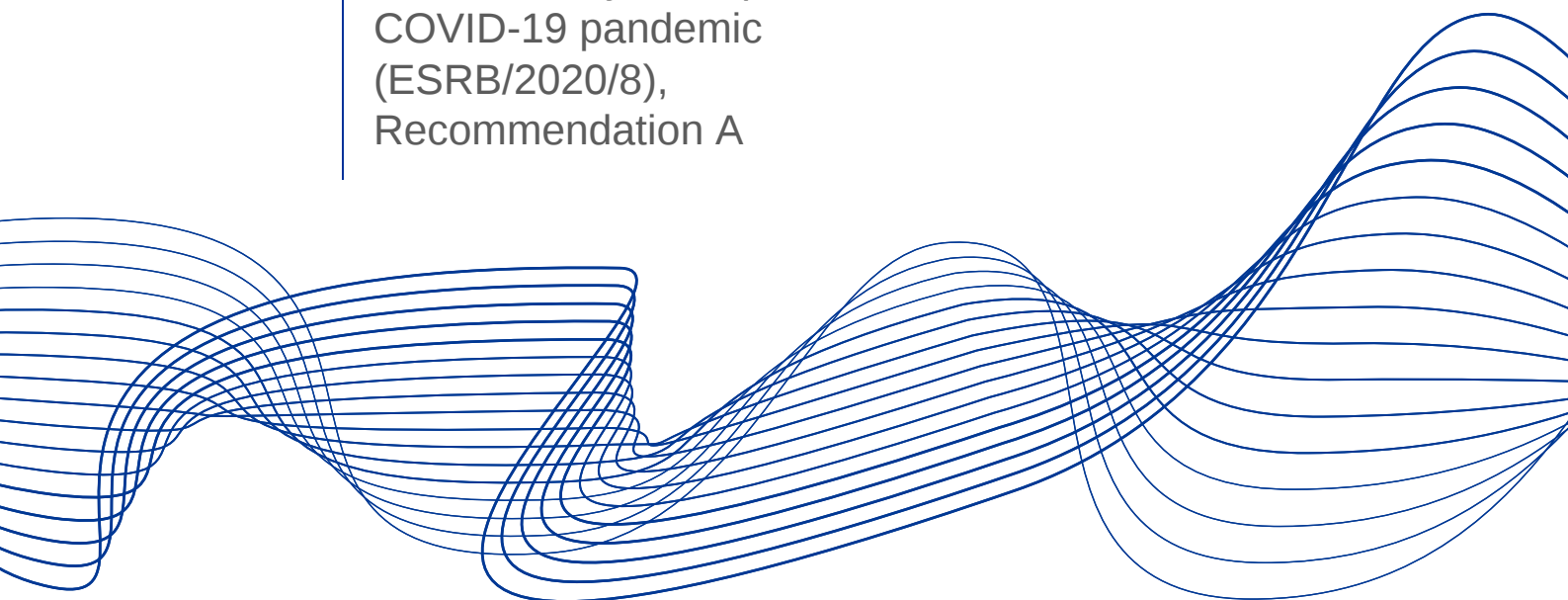


Compliance report

December 2020

Recommendation of the European Systemic Risk Board of 27 May 2020 on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic (ESRB/2020/8),
Recommendation A



ESRB

European Systemic Risk Board

European System of Financial Supervision

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Introduction

This compliance report (hereafter “the report”) provides an assessment of the level of implementation of Recommendation A of the European Systemic Risk Board (ESRB) Recommendation on monitoring the financial stability implications of fiscal measures taken in response to the COVID-19 pandemic (ESRB/2020/8)¹ (hereafter the “Recommendation”) by its addressees – i.e. national macroprudential authorities.²

Recommendations issued by the ESRB are not legally binding, but are subject to an “act or explain” regime in accordance with Article 17 of the ESRB Regulation.³ This means that the addressees of those recommendations are under an obligation to communicate to the European Parliament, the Council, the Commission and the ESRB the actions they have taken to comply with those recommendations or to provide adequate justification for inaction.

Under Section 2.4 of the Recommendation, addressees were requested to provide the ESRB, by 31 July 2020, with a report explaining the measures taken in response to Recommendation A of the Recommendation or to adequately justify any inaction. For the purpose of that reporting, the Recommendation included a standardised follow-up template questionnaire, which was to be filled in and submitted by all addressees. The assessment of addressees’ compliance or justification for inaction was based on their submissions to the ESRB Secretariat using that dedicated template. Other information provided by the addressees during the assessment process was also included in the assessment. This report reflects the implementation status as at 16 October 2020. Addressees’ reports regarding Recommendation B are due by 31 December 2020 and will be assessed in 2021.

Given the nature of the ongoing coronavirus (COVID-19) crisis, a swift overview of the level of compliance with the Recommendation was required. For that reason Section 2, point 6(2), of the Recommendation provides that the methodology set out in the Handbook on the assessment of compliance with ESRB recommendations⁴, which describes the procedure for assessing compliance with ESRB recommendations, will not apply. Instead, the assessment of compliance with this Recommendation was carried using a simplified assessment process to limit the drain on resources while respecting the legislative framework, the principle of good administration and the objectives pursued by the Recommendation. This simplified process included the obligation for the Assessment Team to initiate a remedial dialogue with addressees by giving them the opportunity to provide further comments to improve their grades.

¹ Recommendation of the European Systemic Risk Board of 27 May 2020 on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic (ESRB/2020/8) (OJ C 249, 29.7.2020, p. 1).

² The Recommendation defines a national macroprudential authority as “a national authority with the objectives, arrangements, tasks, powers, instruments, accountability requirements and other characteristics set out in Recommendation ESRB/2011/3 of the European Systemic Risk Board or, where such authority has not been set up, a designated authority in accordance with Chapter 4 of Title VII of Directive 2013/36/EU of the European Parliament and of the Council or Article 458(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council.” This includes the macroprudential authorities of the EEA EFTA countries and the UK as per the Agreement on the European Economic Area and the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community.

⁴ Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (OJ L 331, 15.12.2010, p. 1).

See the “Handbook on the assessment of compliance with ESRB recommendations”, April 2016, on the ESRB’s website.



To perform the assessment, an Assessment Team was set up under the auspices of the Advisory Technical Committee in 2020. The Assessment Team comprised five main assessors and three alternates and was supported by ESRB Secretariat staff (see Annex I for details of its composition).

The assessment was conducted by duly taking into account:

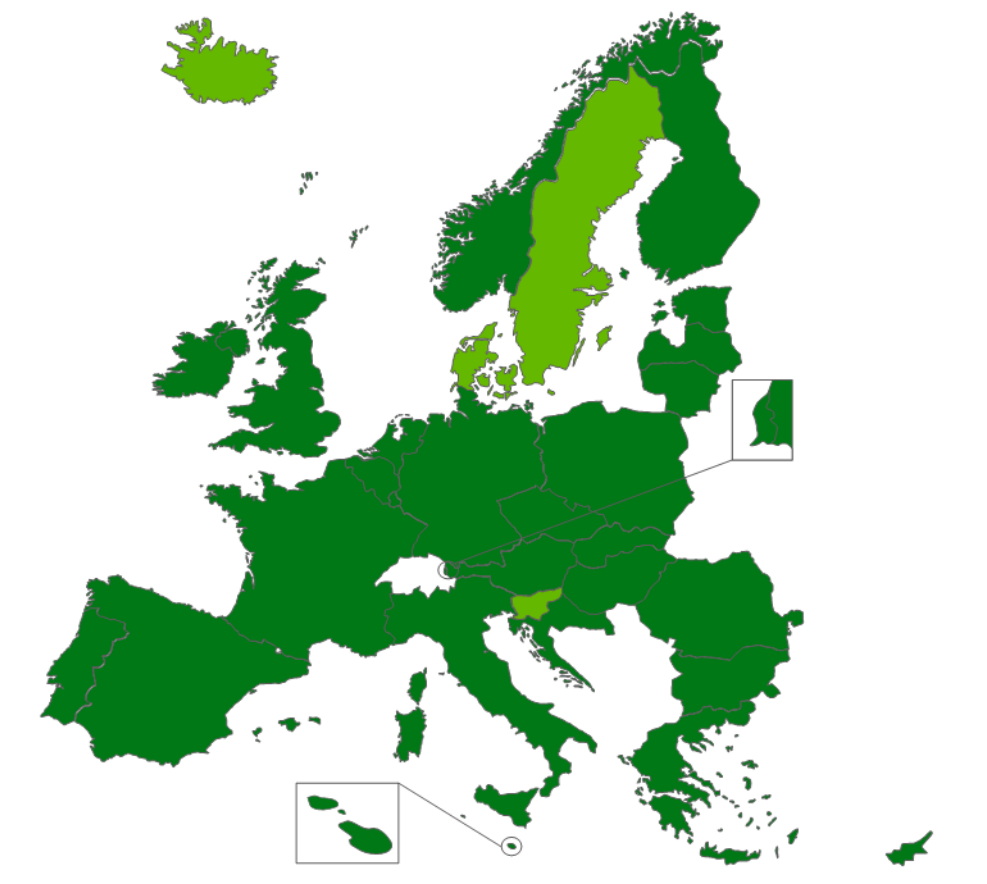
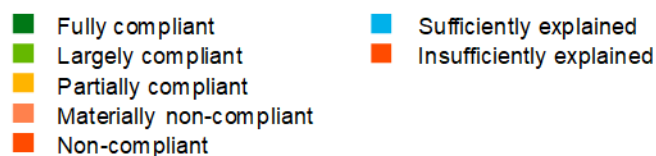
- the objectives of the Recommendation;
- the principles underpinning the “Handbook on the assessment of compliance with ESRB recommendations”;
- the implementation standards prepared by the Assessment Team, which specify the grade to be awarded for each key element of the Recommendation on the basis of the objectives of the Recommendation (see Annex II for details of the implementation standards); and
- the principle of proportionality.

Overall, the addressees were all graded as being either “Fully Compliant” or “Largely Compliant”, as shown in Figure 1.



Figure 1

Addressees' compliance with Recommendation ESRB/2020/8



Note: The figure above shows the overall compliance grade for each addressee.

In the sections that follow, this report will set out: (i) the objectives of the ESRB Recommendation, (ii) the methodology used by the Assessment Team, (iii) colour-shaded tables showing the compliance results of each addressee, (iv) a summary of the level of implementation, and (v) an analysis of the main findings of the Assessment Team.



1 Policy objectives of Recommendation ESRB/2020/8

Following the outbreak of the COVID-19 pandemic, national governments have put in place a number of fiscal measures, including debt moratoria and public guarantee schemes, to protect non-financial corporations and households from the economic downturn caused by the pandemic. Given the high degree of integration of Member States' economies, these national measures can have significant implications for EU-wide financial stability, in particular positive or negative spillovers and cross-border and cross-sectoral implications. Securing financial stability therefore requires close monitoring and cooperation between national macroprudential authorities and national fiscal and supervisory authorities. Against this background, the ESRB considered that it was important to create a comprehensive monitoring of the EU-wide financial stability implications of the fiscal measures taken by national authorities to protect the real economy in response to the COVID-19 pandemic. The Recommendation is a key tool to ensure the necessary data is collected both for domestic and EU-wide monitoring purposes.

The Recommendation aims to create the conditions for a comprehensive monitoring of the EU-wide financial stability implications of the fiscal measures taken by national authorities to protect the real economy in response to the COVID-19 pandemic. To achieve this, on 14 May 2020 the ESRB addressed a letter to the national fiscal authorities of the European Union, encouraging an intensified dialogue from an early stage between the relevant authorities at the national level⁵.

An ESRB working group⁶ was set up to monitor the EU-wide financial stability implications of these measures. In line with its responsibility for macroprudential oversight of the financial system within the European Union, the ESRB started to monitor and regularly discuss these EU-wide financial stability implications. For this purpose, the ESRB working group was established, holding its first meeting on 17 June 2020 and since then reporting regularly to the General Board⁷. Monitoring the EU-wide financial stability implications of such measures requires the reporting of relevant national information by the national macroprudential authorities. The working group therefore has a key role in facilitating the implementation of the Recommendation.

The role of the ESRB is to complement and enhance the monitoring and assessment that is being carried out at the national level by fostering the exchange of experiences and the early identification of cross-border and cross-sectoral issues. At a later stage, it will also take a coordinated view of the approaches to phasing out the measures. The ESRB therefore intends to establish a feedback channel to allow the sharing of information across reporting authorities.

⁵ See the letter dated 14 May 2020 from the ESRB's President to the President and Members of the Economic and Financial Affairs Council, on the ESRB's website.

⁶ See the press release on the ESRB's website.

⁷ See the press releases of 25/06/2020 and 24/09/2020 on the ESRB's website.



The Recommendation consists of two parts and aims to:

- ensure that national macroprudential authorities monitor and assess the financial stability implications of COVID-19-related measures taken by their Member States to protect the real economy, such as debt moratoria, and public guarantee schemes and other measures of a fiscal nature **(Recommendation A)**;
- establish a framework for national macroprudential authorities to conduct regular reporting of the information necessary for the ESRB to monitor and assess the implications of the national measures referred to in Recommendation A for financial stability in the European Union **(Recommendation B)**.

Content and structure of Recommendation A

More specifically, Recommendation A provides:

Recommendation A

National monitoring of financial stability implications of measures taken to protect the real economy in response to the COVID-19 pandemic

National macroprudential authorities are recommended to monitor the design features and uptake of the measures, as well as the possible implications for financial stability, using the following key indicators:

1. design features and uptake of measures: in particular volume; types of financial support (such as debt moratoria, loan guarantees, subsidised loans and equity participations); beneficiaries and eligibility conditions; duration; and information on the use of the measure (e.g. volume and number of applications received and accepted);
2. implications for financial stability: in particular the flow of credit to the real economy; the liquidity, solvency and indebtedness of the non-financial sector; and the financial soundness of the financial institutions, including observed and expected trends in non-performing loans and the ability to meet liquidity and capital requirements.



2 Assessment methodology

The assessment of the implementation of the Recommendation (and thus, of each of the recommendations and sub-recommendations contained therein) has been carried out on the basis of the “act or explain” mechanism, in accordance with Article 17 of the ESRB Regulation.

Under those arrangements, the addressees of the Recommendation can either (i) take action in response to each of the recommendations and inform the ESRB of such action, or (ii) take no action, provided that they can properly justify that inaction. The Assessment Team then analyses the information provided and assesses whether the action taken duly achieves the objectives of each recommendation or whether the justification provided for inaction is sufficient. This analysis results in a final compliance grade being assigned to each addressee.

The assessment was based on the submissions made by the addressees by the reporting deadline specified in Section 2.4 of the Recommendation (i.e. 31 July 2020) and further dialogue between the Assessment Team and addressees in the course of the assessment process. This report reflects the implementation status as at 16 October 2020.

The General Board of the ESRB decided that, for the recommendations adopted in response to the COVID-19 pandemic, the detailed procedure for the assessment of compliance set out in the Handbook on the assessment of compliance with ESRB recommendations should not apply so as to allow addressees and ESRB member institutions to commit their full resources to respond to the significant challenges arising from the pandemic. Nonetheless, to ensure the equal treatment of the addressees and the highest degree of transparency and consistency, the Assessment Team conducted its work in accordance with the following six assessment principles mentioned in Section 4 of the Handbook:

- **Fairness, consistency and transparency** – equal treatment of all addressees throughout the assessment process;
- **Efficiency and appropriateness** of procedures with regard to available resources, while ensuring high-quality deliverables;
- **Four-eyes review** – compliance of each addressee is assessed by at least two assessors who have not been directly involved in assessing the performance of the national authorities they come from;
- **Effective dialogue** – communication with the addressees is essential so as to fill in information gaps on compliance;
- **Principle of proportionality** – actions to be taken by the addressees are country-specific and relative to the intensity of risks targeted by the recommendation in the specific Member State;
- **The ultimate objective** of prevention and mitigation of systemic risks to financial stability in the European Union.

Furthermore, those addressees that did not receive a “Fully Compliant” (FC) grade were given the opportunity to provide further explanation and information. Thanks to the communication channels



established between the Assessment Team and the addressees, the majority of these addressees provided further details during the assessment process, especially in the context of the remedial dialogue. As a result, the Assessment Team upgraded all the authorities that had initially received a lower grade. The results were subsequently cross-checked to prepare the final assessment.

2.1 Assessment criteria and implementation standards, grading methodology and principle of proportionality

The assessment criteria applied in this evaluation are based on best practices established in previous assessments of compliance with ESRB recommendations. The assessment criteria describe the actions that are required of the addressees in order to achieve the objectives of the Recommendation. With this in mind, the Assessment Team took due account of the implementation criteria set out in Section 2(1)(1) of the Recommendation. Grading was then guided by the relevant implementation standards, which specify how different actions or inaction for each sub-recommendation should be reflected in the final grade.

2.1.1 Assessment criteria and implementation standards

While conducting the assessment, the Assessment Team analysed the content/substance of the actions taken by each addressee to assess whether the addressees had complied with all of the elements of the Recommendation.

To ensure a consistent and fair analysis, the Assessment Team created implementation standards against which the responses submitted by the addressees were assessed (see Annex II). The establishment of these implementation standards was based on the three key elements of Recommendation A and the principle of proportionality:

- Point **[1(A)]** of Recommendation A – **monitoring and assessment of measures**;
- Point **[1(A)(a)]** of Recommendation A – **design features and uptake**;
- Point **[1(A)(b)]** of Recommendation A – **implications for financial stability**;
- Section **[2(2)(1)(a)]** of the Recommendation – **principle of proportionality**.

The Assessment Team agreed on the criteria to be applied in the assessment of each element of the Recommendation and the weights allocated to those criteria.

2.1.2 Grading methodology

To assign a grade to each addressee regarding its compliance with Recommendation A, the Assessment Team followed a four-step grading methodology. Such a methodology is necessary to ensure full transparency of the single overall compliance grade and a high level of objectivity in the entire assessment process, while still allowing room for high-quality expert



judgement, which can easily be identified and reviewed to understand the rationale behind the allocation of particular overall grades.

Step I – Each key element of Recommendation A was first assessed and graded on the basis of the assessment criteria, in accordance with the established implementation standards, in terms of the action (FC/LC/PC/MN or NC) or inaction (SE or IE) of each addressee (see Table 1).

The full grading scale is given in Table 1.

Table 1
Grading scale

Grading scale for action	
Fully Compliant (FC)	The addressee complies entirely with the recommendation.
Largely Compliant (LC)	The objectives of the recommendation have been met almost entirely and only negligible requirements are still to be implemented.
Partially Compliant (PC)	The most important requirements have been met; certain deficiencies affect the adequacy of the implementation, although this does not result in a situation where the given recommendation has not been acted upon.
Materially Non-Compliant (MN)	Requirements have only been fulfilled to a degree, resulting in a significant deficiency in the implementation.
Non-Compliant (NC)	Almost none of the requirements have been met, even if steps have been taken towards implementation.
Grading scale for inaction	
Sufficiently Explained (SE)	A complete and well-reasoned explanation for the lack of implementation has been provided; if one or more of the sub-recommendations are intended to address a particular systemic risk that does not affect a particular addressee, such justification/explanation may be considered sufficient.
Insufficiently Explained (IE)	The explanation given for the lack of implementation is not sufficient to justify the inaction.

Step II – Compliance grades were subsequently converted into a numerical grade (see Table 2).



Table 2

Conversion table: compliance grades to numerical grades

Compliance grade	Numerical grade
Action	
FC	1
LC	0.75
PC	0.50
MN	0.25
NC	0
Inaction	
SE	1
IE	0

Step III – These numerical grades were then weighted and aggregated into a single, overall numerical grade for compliance with Recommendation A. In establishing the weights, the Assessment Team took into consideration the importance of each element of Recommendation A in relation to the achievement of the policy objectives of the Recommendation as outlined in Section 1 of this report. To this end, the Assessment Team considered the elements of Recommendation A to be of similar importance and thus gave the first three elements of Table 3 an equal weight. The Assessment Team assigned a lower weight to the principle of proportionality given its more limited influence on the overall achievement of the objective of the Recommendation A. The final weighting determined by the Assessment Team is set out in Table 3.

Table 3

Weights of Recommendation A

Recommendation A	Weights
Monitoring and assessment of measures	2/7
Design features and uptake	2/7
Implications for financial stability	2/7
Proportionality	1/7

Step IV – The overall compliance grade was finally determined by converting the single numerical grade for Recommendation A into a final grade for compliance using a conversion table (see Table 4).



Table 4

Conversion table: numerical grades to compliance grades

Compliance grade	Numerical grade for Recommendation A
FC	[0.90 - 1.00]
LC	[0.67 - 0.90]
PC	[0.40 - 0.67]
MN	[0.158 - 0.40]
NC	[0.00 - 0.158]

The level of compliance was then expressed in colour-coded form (see Table 5).

Table 5

Colour codes for levels of compliance

Positive grades	Mid-grade	Negative grades
FC – Actions taken fully implement the Recommendation		MN – Actions taken only implement a small part of the Recommendation
LC – Actions taken implement almost all of the Recommendation	PC – Actions taken only implement part of the Recommendation	NC – Actions taken are not in line with the nature of the Recommendation
SE – No actions were taken but the addressee provided sufficient justification		IE – No actions were taken and the addressee did not provide sufficient justification

2.1.3 Principle of proportionality

In accordance with Section 2, point 2(1)(a) of the Recommendation, due regard should be paid to the principle of proportionality, taking into account the objective and the content of the recommendation. The prominent relevance of the principle of proportionality required the Assessment Team to take into account the magnitude and the character of the risk targeted when assessing the adequacy of the national frameworks adopted by the addressees so as to achieve the set policy objectives. Therefore, considering the objective and the content of Recommendation A, the Assessment Team examined whether the addressees had monitored the key COVID-19-related measures of a fiscal nature to protect the real economy and assessed the financial stability implications for all financial institutions or only for the significant ones. By the same token, the Assessment Team considered a national authority as “Fully Compliant” (FC) in terms of proportionality also if there was no evidence that it had acted in a disproportionate manner.



2.2 Issues encountered by the Assessment Team

While implementing the methodology described in Section 2.1, the Assessment Team encountered a number of issues.

In the course of its work, the Assessment Team noticed that several responses submitted under Recommendation A referred to the reporting templates used under Recommendation B. While the Assessment Team recognised that Recommendations A and B were highly interconnected, it concluded that their follow-up assessment should be conducted in isolation. Two reasons guided this choice. First, the objectives of Recommendations A and B are distinct: Recommendation A recommends national macroprudential authorities establish a monitoring and assessment framework for the financial stability implications of COVID-19-related measures, whereas Recommendation B calls on national macroprudential authorities to regularly report, to the ESRB, the information necessary for the ESRB to monitor and assess the implications of COVID-19-related measures. Second, the reporting deadlines for the two Recommendations are different⁸, concluding with separate follow-up assessments: in September/October 2020 for Recommendation A and in the first quarter of 2021 for Recommendation B. For these reasons, the Assessment Team decided to contact the respective national authorities to clarify that the two Recommendations should be separately addressed and that information submitted under Recommendation B could not be taken into account for assessing compliance with Recommendation A.

A second issue identified, which was partially related to the first one, was the brevity of the responses submitted by some of the addressees. More specifically, in some cases the Assessment Team called for additional information since the initial responses were either incomplete and/or not relevant to Recommendation A. Taking into account the principle of fairness, the members of the Assessment Team decided to contact all these addressees asking for the necessary information to be provided to conduct the assessment. In particular, the Assessment Team contacted the addressees to request information on the design features and uptake of measures and implications for financial stability.

Finally, a group of addressees⁹ did not manage to comply with the reporting deadline (31 July 2020) of Section 2.4.1 of the Recommendation. However, the Assessment Team, taking into account the unprecedented conditions that affected the smooth functioning of the national institutions, decided not to downgrade them. The rationale behind this decision lies primarily with the fact that most of these addressees replied shortly after the deadline, which, considering the prevailing stressed conditions caused by the COVID-19-related crisis, was deemed acceptable in terms of assessment. Taking into consideration that no severe disruption was caused, it was agreed that late submissions would not be penalised, irrespective of the time of submission.

⁸ See Section 2.4 of the Recommendation.

⁹ Finland, France, Ireland, Iceland and Norway.



3 Assessment results on compliance with Recommendation A

The overall assessment revealed a high degree of compliance with Recommendation A among the addressees¹⁰. This section provides an overview of the overall assessment results for all the addressees (3.1), as well as a more detailed breakdown of the grades attributed for each element of Recommendation A of the Recommendation (3.2).

3.1 Overall grades of the addressees for Recommendation A

As shown in Table 6, 27 countries were assessed as “Fully Compliant” (FC) and the remaining 4 achieved a “Largely Compliant” (LC) grade.

Table 6
Colour shaded table providing overall compliance grades for Recommendation A

Addressees	Overall grade	Addressees	Overall grade	FC	Fully Compliant
Austria	FC	Italy	FC	LC	Largely Compliant
Belgium	FC	Liechtenstein	FC	PC	Partially Compliant
Bulgaria	FC	Lithuania	FC	MN	Materially Non-Compliant
Cyprus	FC	Luxembourg	FC	NC	Non-Compliant
Czech Republic	FC	Malta	FC	SE	Sufficiently Explained
Germany	FC	Latvia	FC	IE	Insufficiently Explained
Denmark	LC	Netherlands	FC		
Estonia	FC	Norway	FC		
Spain	FC	Poland	FC		
Finland	FC	Portugal	FC		
France	FC	Sweden	LC		
Greece	FC	Romania	FC		
Croatia	FC	Slovenia	LC		
Hungary	FC	Slovakia	FC		
Ireland	FC	United Kingdom	FC		
Iceland	LC				

¹⁰ See Annex II for an exhaustive description.



3.2 Detailed breakdown of compliance with Recommendation A

While overall grades on compliance with Recommendation A point to a high degree of compliance, as described in Section 3.1, it is worth noting that a breakdown of compliance with each element of Recommendation A indicates that addressees complied differently with each one (see Table 7 for the detailed grades).

As regards point [1(A)] of Recommendation A, all countries were graded as “Fully Compliant” (FC) since they successfully established national frameworks for monitoring and assessing the financial stability implications of COVID-19-related measures taken by the national governments to protect the real economy. Similarly, all countries reacted positively regarding the principle of proportionality, meaning that, from the AT inferred from all the addressees’ responses, there was no evidence of disproportional action (see element [2(2)(1)(a)] of Recommendation A).

Important grading discrepancies were first observed regarding the design features and uptake (point [1(A)(a)] of Recommendation A) and the implications for financial stability (point [1(A)(b)] of Recommendation A). Nevertheless, the exchange of information that followed the reporting deadline offered the AT the opportunity to upgrade some of the addressees, leading to a more homogeneous overall assessment result.

As far as point [1(A)(a)] of Recommendation A is concerned, namely the design features and uptake, 19 countries were graded as “Fully Compliant” (FC) and 10 as “Largely Compliant” (LC), illustrating a satisfactory implementation of Recommendation A. It is worth noting that two countries – Sweden and Slovenia – received a “Partially Compliant” (PC) grade because of limited data access to the exact uptake of measures of a fiscal nature and the lack of clarity regarding which key indicators are being monitored.

Finally, with respect to point [1(A)(b)], namely the implications for financial stability, 27 addressees were graded as “Fully Compliant” (FC) and the remaining 4 as “Largely Compliant” (LC). The “Largely Compliant” (LC) grade was attributed in those cases where some key indicators were not included (e.g. expected trends in non-performing loans and the ability to meet liquidity and capital requirements, indicators relating to the solvency and liquidity of the non-financial sector) or when the analysis was still underway at the time of the assessment, resulting in a non-comprehensive picture of the key indicators included. Finally, in some cases, the “Fully Compliant” (FC) grade was not assigned because the indicators were mentioned with insufficient clarity on the collection and the analysis of the data.



Table 7

Colour-shaded table providing detailed compliance grades for Recommendation A

Addressees	Recommendation A				Overall compliance grade for Recommendation A
	Monitoring and assessment of measures [1(A)]	Design features and uptake [1(A)(a)]	Implications for financial stability [1(A)(b)]	Proportionality [2(2)(1)(a)]	
Austria	FC	FC	FC	FC	FC
Belgium	FC	FC	FC	FC	FC
Bulgaria	FC	FC	FC	FC	FC
Cyprus	FC	FC	FC	FC	FC
Czech Republic	FC	FC	FC	FC	FC
Germany	FC	FC	FC	FC	FC
Denmark	FC	LC	LC	FC	LC
Estonia	FC	LC	FC	FC	FC
Spain	FC	FC	LC	FC	FC
Finland	FC	LC	FC	FC	FC
France	FC	FC	FC	FC	FC
Greece	FC	FC	FC	FC	FC
Croatia	FC	FC	FC	FC	FC
Hungary	FC	LC	FC	FC	FC
Ireland	FC	LC	FC	FC	FC
Iceland	FC	LC	LC	FC	LC
Italy	FC	FC	FC	FC	FC
Liechtenstein	FC	FC	FC	FC	FC
Lithuania	FC	FC	FC	FC	FC
Luxembourg	FC	FC	LC	FC	FC
Malta	FC	LC	FC	FC	FC
Latvia	FC	FC	FC	FC	FC
Netherlands	FC	LC	FC	FC	FC
Norway	FC	LC	FC	FC	FC
Poland	FC	LC	FC	FC	FC
Portugal	FC	FC	FC	FC	FC
Sweden	FC	PC	FC	FC	LC
Romania	FC	FC	FC	FC	FC
Slovenia	FC	PC	FC	FC	LC
Slovakia	FC	FC	FC	FC	FC
United Kingdom	FC	FC	FC	FC	FC



4 Conclusion

As described in Section 3, the overall compliance with Recommendation A of Recommendation ESRB/2020/8 is significantly high. The assessment reveals that national authorities have established a comprehensive monitoring framework for the financial stability implications of Covid-19-related fiscal measures. By developing their analysis framework to extend the monitoring that they usually conduct, they are able to assess as early as possible the impact of the fiscal support measures on financial stability and consequently to adopt the appropriate measures if deemed necessary.

Compliance with point [1(A)] of Recommendation A is particularly high since all addressees were graded as “Fully Compliant” (FC). This means that all national macroprudential authorities established a highly satisfactory national framework for monitoring and assessing the financial stability implications of COVID-19-related measures taken by the Member States.

With regard to point [1(A)(a)] of Recommendation A, despite greater heterogeneity in terms of grading, the assessment exercise showed a very high degree of compliance, with 19 addressees receiving a FC grade. This was mainly due to the national authorities' extensive monitoring of all relevant features and uptake of COVID-19-related fiscal measures. 10 addressees were graded as “Largely Compliant” (LC), mostly because they did not provide sufficient details on design features and uptakes. Two countries were graded as “Partially Compliant” (PC) because they acknowledged having only partial access to some key indicators mentioned in Recommendation A. In spite of these shortcomings, the AT considers that, overall, all addressees have set up a suitable infrastructure to monitor the design features and uptake of fiscal measures in a satisfactory way.

The compliance assessment regarding point [1(A)(b)] of Recommendation A concerning the implications of fiscal measures for financial stability also reveals a very high degree of compliance. Except for 4 addressees, which were found to be “Largely Compliant” (LC), all national authorities were graded as “Fully Compliant” (FC). The former did not provide sufficient details in their answers on the collection and the analysis of the required key indicators. Overall, however, national authorities monitor financial stability implications of Covid-19-related fiscal measures in a satisfactory way.

Lastly, all national macroprudential authorities have been graded as “Fully Compliant” (FC) with respect to the principle of proportionality Section 2, point 2(1)(a) of Recommendation ESRB/2020/8.

In short, the assessment of compliance with Recommendation A of the Recommendation ESRB/2020/8 reveals that national macroprudential authorities established a comprehensive framework capable of assessing and monitoring financial stability risks stemming from the adoption of COVID-19-related fiscal measures.



Annex I: Composition of the Assessment Team

(approved by the Advisory Technical Committee via Written Procedure ATC/WP/2020/040, 17 September 2020)

Chairperson	Institutions
Vasiliki Nidrioti	Bank of Greece
Assessment Team	
Kadi Kaadu (alternate: Umberto Grosso)	European Central Bank
Benedikt Kolb (alternate: Esteban Prieto Fernandez)	Deutsche Bundesbank
Radu Popa (alternate: Mihai Aliman)	Banca Națională a României
Raquel Vegas	Banco de España
Secretariat	
Emmanuel Karfis	ESRB Secretariat
Ridha Sahli	ESRB Secretariat



Annex II: Compliance criteria and implementation standards

		Positive grades		
		Fully compliant (FC) - Actions taken fully implement the recommendation	Largely compliant (LC) - Actions taken implement almost all of the recommendation	Sufficiently explained (SE) - No actions were taken but the addressee provided sufficient justification
Recommendation A	Monitoring and assessment of measures 1(A)	Addressee established a national framework for the monitoring and assessment of the financial stability implications of COVID-19	The Assessment Team considered this grade as non-applicable.	Addressee explains that no relevant COVID-19 related measures have been taken by their Member State to protect the real economy
	Design features and uptake 1(A)(a)	Addressee uses all key indicators that are relevant for the measures taken by their Member State; use of all key indicators listed in Recommendation A(a) is an indication that all relevant indicators are used	Addressee uses almost all key indicators that are relevant for the measures taken by their Member State	Addressee explains that no relevant COVID-19 related measures have been taken by their Member State to protect the real economy
	Implications for financial stability 1(A)(b)	Addressee uses all key indicators that are relevant for the measures taken by their Member State; use of all key indicators listed in Recommendation A(b) is an indication that all relevant indicators are used	Addressee uses almost all key indicators that are relevant for the measures taken by their Member State	Addressee explains that no relevant COVID-19 related measures have been taken by their Member State to protect the real economy
	Proportionality 2(2)(1)(a)	Addressee provides evidence that they have acted in a proportionate manner. There is no evidence that the addressee acted in a disproportionate manner	The Assessment Team considered this grade as non-applicable.	The Assessment Team considered this grade as non-applicable.



		Mid-grade	Negative grades		
		Partially compliant (PC) - Actions taken only implement part of the recommendation	Materially non-compliant (MN) - Actions taken only implement a small part of the recommendation	Non-compliant (NC) - Actions taken are not in line with the nature of the recommendation	Inaction insufficiently explained (IE) - No actions were taken and the addressee did not provide sufficient justification
Recommendation A	Monitoring and assessment of measures 1(A)	The Assessment Team considered this grade as non-applicable.	The Assessment Team considered this grade as non-applicable.	Addressee does establish a national framework but this framework is not in line with the objective of monitoring and assessing the financial stability implications of COVID-19.	Addressee did not take any action and it did not provide sufficient justification for this inaction.
	Design features and uptake 1(A)(a)	Addressee uses most of the key indicators that are relevant for the measures taken by their Member State	Addressee uses some of the key indicators but omits one or more of those indicators that are material for the measures taken by their Member States	Addressee does use indicators but they are not material for the measures taken by their Member States.	Addressee did not take any action and it did not provide sufficient justification for this inaction.
	Implications for financial stability 1(A)(b)	Addressee uses most of the key indicators that are relevant for the measures taken by their Member State	Addressee uses some of the key indicators but omits one or more of those indicators that are material for the measures taken by their Member States	Addressee does use indicators but they are not material for the measures taken by their Member States.	Addressee did not take any action and it did not provide sufficient justification for this inaction.
	Proportionality 2(2)(1)(a)	The Assessment Team considered this grade as non-applicable.	The Assessment Team considered this grade as non-applicable.	There is evidence that the addressee acted disproportionately.	The Assessment Team considered this grade as non-applicable.



I

(Resolutions, recommendations and opinions)

RECOMMENDATIONS

EUROPEAN SYSTEMIC RISK BOARD

RECOMMENDATION OF THE EUROPEAN SYSTEMIC RISK BOARD

of 27 May 2020

on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic

(ESRB/2020/8)

(2020/C 249/01)

THE GENERAL BOARD OF THE EUROPEAN SYSTEMIC RISK BOARD,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010 on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board ⁽¹⁾, and in particular Article 3(2)(b), (d) and (f) and Articles 16 to 18 thereof,

Having regard to Decision ESRB/2011/1 of the European Systemic Risk Board of 20 January 2011 adopting the Rules of Procedure of the European Systemic Risk Board ⁽²⁾, and in particular Article 15(3)(e) and Articles 18 to 20 thereof,

Whereas:

- (1) The outbreak of the coronavirus (COVID-19) pandemic and the subsequent enforcement of containment measures represent a severe shock to European economies. Debt moratoria, and public guarantee schemes and other measures of a fiscal nature are being put in place by Member States to protect non-financial corporations and households from the effects of the pandemic. While these measures target the non-financial sector, they nevertheless have implications for financial stability.
- (2) The effectiveness of these measures in terms of preserving financial stability will depend on their size and design features. These need to be carefully monitored at the national level so that adjustments can be made in good time, using the flexibility that is provided by the Union's temporary State aid framework to support the economy in the context of the COVID-19 outbreak ⁽³⁾.
- (3) Given the high degree of integration of Member State economies, the various measures implemented by one Member State will have an impact on other Member States through positive or negative spillovers. These spillovers should be taken into account in a comprehensive assessment of the Union-wide financial stability implications of the measures taken by national authorities to protect the real economy in response to the COVID-19 pandemic.

⁽¹⁾ OJ L 331, 15.12.2010, p. 1.

⁽²⁾ OJ C 58, 24.2.2011, p. 4.

⁽³⁾ Communication from the Commission, Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak (2020/C 91 I/01) (OJ C 91 I, 20.3.2020, p. 1), and the related documents on State aid rules and coronavirus available at https://ec.europa.eu/competition/state_aid/what_is_new/covid_19.html

- (4) Ensuring the effectiveness of national measures in securing financial stability requires close monitoring and cooperation between national macroprudential authorities and national fiscal and supervisory authorities, in line with their respective competences. On 14 May 2020 the European Systemic Risk Board (ESRB) addressed a letter to the national fiscal authorities of the Union encouraging an intensified dialogue from an early stage between the relevant authorities at national level ⁽⁴⁾.
- (5) The ESRB is responsible for the macroprudential oversight of the financial system within the Union and contributes to the mitigation and prevention of systemic risks. For this purpose, the ESRB intends to monitor and regularly discuss the Union-wide financial stability implications of the national measures introduced to protect the real economy in response to the COVID-19 pandemic. The ESRB intends to focus particularly on cross-border and cross-sectoral implications. This monitoring should continue only as long as there is a potential impact of these measures on financial stability in the Union.
- (6) Monitoring the Union-wide financial stability implications of such measures will require the reporting of relevant national information by the national macroprudential authorities. Requests by the ESRB for relevant information from those authorities should take into consideration the principle of proportionality and avoid duplication of reporting requirements by focusing on information that is not available from other sources.
- (7) The ESRB intends to complement and enhance the monitoring and assessment that is being carried out at the national level. The aim of the ESRB is to foster an exchange of experiences and the early identification of cross-border and cross-sectoral issues. At a later stage, it will also take a coordinated view of the approaches to phasing-out the measures. For these purposes, the ESRB intends to establish a feedback channel to allow the sharing of information across reporting authorities.
- (8) This Recommendation does not create new reporting requirements for the financial services industry. To obtain information, the ESRB should rely on reporting by national macroprudential authorities of information that has been collected for the purpose of their national monitoring, which in turn would rely on reporting by national fiscal authorities and government agencies engaged in the delivery of the measures. The ESRB should also rely on data collected by its member institutions, in particular the European Banking Authority, the European Insurance and Occupational Pensions Authority, the European Central Bank and the Single Resolution Board.
- (9) This Recommendation is without prejudice to the monetary policy mandates of the central banks in the Union.
- (10) Recommendations of the ESRB are published after the addressees have been informed, and after the General Board has informed the Council of the European Union of its intention to issue a recommendation and having provided the Council with an opportunity to react,

HAS ADOPTED THIS RECOMMENDATION:

SECTION 1

RECOMMENDATIONS

Recommendation A – National monitoring of financial stability implications of measures taken to protect the real economy in response to the COVID-19 pandemic

National macroprudential authorities are recommended to monitor and assess the financial stability implications of COVID-19 related measures taken by their Member States to protect the real economy, such as debt moratoria, and public guarantee schemes and other measures of a fiscal nature. For this purpose, it is recommended that national macroprudential authorities monitor the design features and uptake of these measures, as well as the possible implications for financial stability using key indicators, such as the following.

⁽⁴⁾ See letter dated 14 May 2020 from the ESRB President to the President and Members of the Economic and Financial Affairs Council, available at: https://www.esrb.europa.eu/pub/pdf/other/esrb.letter200514_ESRB_work_on_implications_to_protect_the_real_economy~e67a9f48ca.en.pdf.

- (a) Design features and uptake of measures: in particular the volume; types of financial support (such as debt moratoria, loan guarantees, subsidised loans, or equity participations); beneficiaries and eligibility conditions; duration; and information on the use of the measure (e.g. volume and number of applications received and accepted).
- (b) Implications for financial stability: in particular the flow of credit to the real economy; the liquidity, solvency and indebtedness of the non-financial sector; and the financial soundness of the financial institutions, including observed and expected trends in non-performing loans and the ability to meet liquidity and capital requirements.

Recommendation B – Reporting by national macroprudential authorities to the ESRB

National macroprudential authorities are recommended to regularly report to the ESRB the information necessary for the ESRB to monitor and assess the implications of the national measures referred to in Recommendation A for financial stability in the Union. This should include information necessary to monitor and assess the cross-border and cross-sectoral implications, as made available to national macroprudential authorities through existing reporting arrangements with financial institutions and any additional information made available by fiscal authorities and other government agencies engaged in the delivery of the measures.

SECTION 2

IMPLEMENTATION

1. Definitions

For the purposes of this Recommendation the following definition applies:

- (a) ‘national macroprudential authority’ means a national authority with the objectives, arrangements, tasks, powers, instruments, accountability requirements and other characteristics set out in Recommendation ESRB/2011/3 of the European Systemic Risk Board ⁽⁵⁾ or, where such authority has not been set up, a designated authority in accordance with Chapter 4 of Title VII of Directive 2013/36/EU of the European Parliament and of the Council ⁽⁶⁾ or Article 458(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council ⁽⁷⁾.

2. Criteria for implementation

1. The following criterion applies to the implementation of Recommendations A and B.

- (a) Due regard should be paid to the principle of proportionality, taking into account the objective and the content of each recommendation.

2. The following criterion applies to the implementation of Recommendation B.

- (a) The first report should be submitted by 31 July 2020.

3. Templates for reporting

To ensure the coordination of reporting under Recommendation B, the ESRB will publish relevant templates by 30 June 2020.

⁽⁵⁾ Recommendation ESRB/2011/3 of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (OJ C 41, 14.2.2012, p. 1).

⁽⁶⁾ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

⁽⁷⁾ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

4. Timeline for the follow-up

In accordance with Article 17(1) of Regulation (EU) No 1092/2010, addressees must communicate to the European Parliament, the Council, the Commission and to the ESRB the actions undertaken in response to this recommendation or substantiate any inaction. Communications must be sent in compliance with the following timelines.

1. Recommendation A

By 31 July 2020, the addressees are requested to deliver to the European Parliament, the Council, the Commission and to the ESRB the form in the Annex on the implementation of Recommendation A.

2. Recommendation B

By 31 December 2020, the addressees are requested to deliver to the European Parliament, the Council, the Commission and to the ESRB the form in the Annex on the implementation of Recommendation B.

5. Amendments to the Recommendation

The General Board will decide when this Recommendation needs to be amended. Such amendments include in particular the duration of the monitoring and reporting in Recommendations A and B.

6. Monitoring and assessment

1. The General Board will assess the actions and justifications communicated by the addressees and, where appropriate, may decide that this Recommendation has not been followed and that an addressee has failed to provide adequate justification for its inaction.
2. The methodology set out in the Handbook on the assessment of compliance with ESRB recommendations ⁽⁸⁾, which describes the procedure for assessing compliance with ESRB recommendations, does not apply.

Done at Frankfurt am Main, 27 May 2020.

*The Head of the ESRB Secretariat,
on behalf of the General Board of the ESRB*
Francesco MAZZAFERRO

⁽⁸⁾ Handbook on the assessment of compliance with ESRB recommendations, April 2016, available at https://www.esrb.europa.eu/pub/pdf/recommendations/160502_handbook.en.pdf

Communication of the actions undertaken in response to the recommendation**1. Details of addressee**

Recommendation	
Country of the Addressee	
Institution	
Name and contact details of the respondent	
Date of communication	

2. Communication of actions

Recommendation	Do you comply? (yes/no/not applicable)	Description of actions taken to ensure compliance	Justification for partial compliance or non-compliance
Recommendation A			
Recommendation B			

3. Notes

1. This form is used for the communication required by Article 17(1) of Regulation (EU) No 1092/2010.
2. Each addressee should submit the completed form to the ESRB via the ESRB Secretariat electronically via DARWIN in the dedicated folder or by email to notifications@esrb.europa.eu (The ESRB Secretariat will arrange for the transmission of the communications to the European Parliament, the Council and the Commission, on an aggregated basis.)
3. Addressees are expected to provide all relevant information related to the implementation of the recommendation and the criteria for implementation, including information on the substance and timing of the actions taken.
4. If an addressee only partially complies, it should provide a full explanation of the extent of non-compliance, as well as other details of partial compliance. The explanation should specify clearly the relevant parts of the recommendation which the addressees do not comply with.

Imprint and acknowledgements

This Compliance report is based on the results of the assessment conducted by the Assessment Team and was prepared by:

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For specific terminology please refer to the [ESRB glossary](#) (available in English only).

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