

25 March 2020

Circular to credit and financial institutions on the EBA's clarity on the application of the prudential framework in light of coronavirus (COVID-19) measures

Reference is made to the [Malta Financial Services Authority \(MFSA\) Circular](#) issued on 13 March 2020 on temporary capital and operational relief provided to credit institutions in reaction to the impact of COVID-19, wherein the MFSA referred credit institutions to the [European Banking Authority \(EBA\) statement](#) on actions to mitigate the impact of COVID-19 on the EU banking sector.

Further to this statement, and in ensuring the consistency and comparability in risk metrics across the EU banking sector, the EBA has today issued another statement to explicitly clarify interpretative aspects on the functioning of the prudential framework, specifically with respect to the classification of loans in default, the identification of foreborne exposures, and their accounting treatment. The MFSA is therefore bringing the content of this statement by the EBA to the attention of all credit and financial institutions (as applicable in terms of licensable activities). The above-mentioned issues, together with the EBA's statement on consumer issues and postponement of ongoing EBA activities, are briefly outlined below.

The application of the prudential framework regarding Default, Forebearance and IFRS9 in light of COVID-19 measures

In acknowledging and endorsing the measures taken by national governments and EU bodies to address adverse impacts of COVID-19 through the provision of general moratoria, the EBA clarifies the implications of moratoria on the prudential and accounting treatment of the exposures. However, it emphasises that it is vital for the classification of exposures to accurately and timely reflect any deterioration of asset quality. With respect to the accounting treatment, the EBA also states that when applying the IFRS9 international accounting standard, credit and financial institutions are expected to use judgement and distinguish between borrowers whose credit standing would not be significantly affected by the current situation in the long term, from those who would be unlikely to restore their creditworthiness.

The EBA particularly clarifies that generalised payment delays addressed to all borrowers do not lead to any automatic classification in default, forbore or unlikeliness to pay. Individual assessments of the likeliness to pay should be prioritised using the institution's risk-based approach and are to be done in a careful manner.

Consumer and payment issues in light of COVID-19

The EBA stresses the need to adopt appropriate measures to ensure the protection of consumers by calling on credit and financial institutions to act in the interest of consumers, particularly when engaging with customers regarding temporary measures for consumer and mortgage loans in identified cases. All measures granted by institutions must be in compliance with the relevant EU

legislation. Credit and financial institutions are responsible for ensuring full information disclosure, highlighting any potential changes or costs and clarifying applicable terms and conditions when granting such measures. These temporary measures should not have automatic adverse impact on the customers' credit rating. The EBA notes the importance of credit and financial institutions' careful consideration of any new charges specifically introduced in relation to contingency measures and any cross selling of products to consumers.

Lastly, the EBA refers to the importance of the orderly functioning of payment services across the EU banking sector, especially during this period. Therefore, it recommends the use of contactless payments and encourages consumers and merchants to take sanitary measures and consider all payment options when paying in-store.

Further actions to **support banks' focus on key operations**

The EBA has also reviewed its ongoing activities which require the input of credit institutions in the coming months, and has decided to delay deadlines of ongoing public consultations by two months, to extend the remittance date for funding plans data and to extend the remittance date for the Quantitative Impact Study (QIS) based on December 2019 data, amongst others.

The full EBA statement on the application of the prudential framework regarding Default, Forebearance and IFRS9 in light of COVID-19 measures can be accessed through this [link](#).

The full EBA statement on consumer and payment issues in light of COVID-19 can be accessed through this [link](#).

For a full account of the further actions taken by the EBA to support banks' focus on key operations, kindly view the EBA information through this [link](#).