

LUXEMBOURG CENTRAL BANK TAKES MEASURES IN THE CONTEXT OF THE CORONAVIRUS PANDEMIC

The Luxembourg Central Bank has adopted new regulations and published a communication on its website regarding the notification of interest for first time participation by banks in the monetary policy operations in the context of the financial support measures taken by the European Central Bank as a response to Covid-19 pandemic. More recently, it has also issued a Communiqué, together with the CSSF, on ESRB's Covid-19 related policy actions regarding implications for investments funds.

BCL AND CSSF COMMUNIQUÉ OF 5 JUNE 2020

The Luxembourg Central Bank (BCL) and the CSSF issued a communiqué to remind industry participants that the European Systemic Risk Board (ESRB) has discussed beginning of May 2020 a first set of policy actions in 5 priority areas identified to address the impact of Covid-19 on the financial system from a macroprudential perspective.

These actions constitute a comprehensive set of policy measures that apply to different sectors of the financial system as well as across countries, and address the areas of market illiquidity, downgrades of corporate bonds, guarantee schemes and other fiscal measures, dividend payment restraints and margin call induced liquidity risks.

In their communiqué, the CSSF and BCL draw particular attention to the following ESRB's policy actions that are related to and have implications for investment funds and their activities:

- ESRB's recommendation of 6 May 2020 on liquidity risks in investment funds, in which the ESRB has recommended that ESMA coordinates with national competent authorities to undertake a focused piece of supervisory engagement with those investment funds having significant exposures to corporate debt and real estate assets;
- ESRB's public statement of 13 May 2020 on the use of liquidity management tools by investment funds with exposures to less liquid assets, in which the ESRB has emphasized the importance of the availability and timely use of liquidity management tools by fund managers, especially in times of stressed market conditions; and
- ESRB's issues note of 11 May 2020 on liquidity in the corporate bond and commercial paper markets, the procyclical impact of downgrades

Key aspects

- BCL issued a Communiqué on on ESRB's Covid-19 related policy actions regarding implications for investments funds.
- BCL implemented the ECB Guideline of 7 May 2020 aiming at mitigating the adverse impact on Eurosystem collateral availability of potential rating downgrades resulting from the economic fallout of the Covid-19 outbreak.
- BCL adopted a regulation to clarify haircuts applying to specific types of eligible assets and debt instruments.
- BCL is implementing financial support measures taken by the ECB in the context of Covid-19.
- Banks interested in taking part in ECB monetary policy operations in Luxembourg for the first time are requested to notify the BCL.

This briefing speaks as of 8 June 2020.

and implications for asset managers and insurers, in which the ESRB has examined how large-scale downgrades of corporate bonds can have an impact on the broader financial sector with the objective of assisting policymakers to better evaluate the risks associated with downgrades including the negative impact they could, among other disruptive effects, have, via/through the potential sale of such assets by financial institutions on market liquidity, particularly in the high yield corporate debt segment.

REGULATION 2020 / N° 28 OF 18 MAY 2020

The BCL has adopted a new Regulation 2020 / N° 28 of 18 May 2020 to amend BCL Regulation 2014 / N° 18 of 21 August 2014 implementing European Central Bank (ECB) Guidance of 9 July 2014 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2014/31), to reflect the amendments made to the latter by the ECB Guideline of 7 May 2020 (ECB/2020/29). These new measures aim at mitigating the adverse impact on Eurosystem collateral availability of potential rating downgrades resulting from the economic fallout of the Covid-19 outbreak. The new BCL regulation therefore provides new provisions on admission of certain marketable assets and issuers eligible on 7 April 2020 and specifies valuations haircut levels applied to certain types of eligible marketable assets.

REGULATION 2020 / N° 27 OF 20 APRIL 2020

The BCL has adopted a new Regulation 2020 / N° 27 of 20 April 2020 amending BCL Regulation 2014 / N° 18 of 21 August 2014 which implements ECB Guidance of 9 July 2014 on additional temporary measures relating to Eurosystem refinancing operations and eligibility of collateral (ECB/2014/31). In order to reflect recent decisions adopted by the ECB in response to the Covid-19 pandemic, this new regulation provides a list of haircuts applying to specific types of eligible assets and debt instruments.

IMPLEMENTATION OF ECB'S MEASURES

The recent measures taken by the ECB (such as attractive EUR funding facilities, USD backstop funding and substantial collateral easing measures) are intended to ease strains in global funding markets and to help mitigating the effects of such strains on the supply of vital credit to households and businesses facing severe disruptions.

In this context, the Luxembourg Central Bank stressed that:

- the ECB's measures will benefit the Luxembourg financial community;
- it ensures the seamless implementation in Luxembourg of all financial support measures enacted by the ECB in response to the Covid-19 pandemic; and
- it has taken the necessary measures to ensure business continuity in the areas of monetary policy operations, collateral management, payment systems, liquidity supervision and the distribution of banknotes and coins.

PARTICIPATION IN THE BCL'S MONETARY POLICY OPERATIONS

The BCL further requests all banks interested in taking part in its operations for the first time, and which may not be familiar with the BCL's monetary policy operations, to provide BCL with advance notification.

This expression of interest, together with an explanation of the motivations and all other relevant information, must be addressed to the Governor of the BCL (via mail to direction_generale@bcl.lu, copy to polmon@bcl.lu) and followed by a formal letter signed by two members of the Executive Board of the interested institution. Such early and comprehensive information is aimed at facilitating the administrative and technical preparations in these times of heightened market and operational stress

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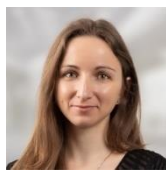
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