POLICY RESPONSES TO LIMIT THE IMPACT OF COVID-19: FISCAL, MONETARY AND SECURITIES MARKET REGULATIONS*

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*Views expressed in this paper are personal not related to IICA

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Executive Summary

I. FISCAL MEASURES

The Group of Twenty (G20) economies have been swift in announcing sizeable fiscal stimulus packages, these economies have committed to provide 3.5 percent of GDP on average through revenue and spending measures, in response to the pandemic.

Advanced economies (such as Australia, France, Germany, Japan, the United Kingdom, and the United States) have introduced massive packages of public sector liquidity support, including loans and guarantees.

Australia for example announced spending measures (A$ 188 billion) which offers Tax-free cash payments to eligible small businesses to continue operations; wage subsidies for small businesses to keep their workers; payments to lower income Australians, including pensioners, and other social security support recipients. Deferred payment of tax liabilities for up to 4 months without incurring interest or penalties.

EU invoked the European Stability Mechanism (ESM) to provide Pandemic Crisis Support (based on existing precautionary credit lines) up to 2 percent of 2019 GDP, in addition to this relatively large automatic stabilizers, discretionary measures taken by member states amounted to 3.1 percent of EU-27 GDP. EU also activated the general escape clause in the EU fiscal rules, which allowed the member countries to run deficits in excess of 3 percent of GDP which gives them more fiscal space to effect stimulus packages and increase govt. spending.

France for example announced measures amounting to 2.7 percent of 2019 GDP to provide for short-time work scheme, health measures and the solidarity fund for small firms along with early reimbursements of tax credits. *Germany* on the other hand used a combination of debt financing of a supplementary budget of EUR 156 billion (4.5% of GDP), government guarantee to small firms and economic stabilization fund for large companies.

UK announced a whole set of measures providing additional funding for the health services, measures to support businesses including property tax holidays, and direct grants for small firms and enhanced contribution to social security programmes, these will lead to around £ 48.7 billion outlay by the government.

Japan announced one of the most comprehensive stimulus package called the Emergency Economic Package Against COVID-19 amounting to JPY 117.1 trillion (21.1 percent of GDP). It provides cash handouts to every individual and affected firms, concessional loans from public and private financial institutions and deferral of tax payments and social security contributions.

Korean government announced direct and financial stabilization plan amounting to about 8 per cent of the GDP. Policy measures introduced by *China* focused largely on providing relief to the industries affected, measures like tax deferrals, exemptions and financing plans totalling to about 2.5 per cent of GDP.

USA was amongst the first major economies to come out with large economic relief packages in March, US allocated $2.3 trillion (around 11% of GDP) for Coronavirus Aid, Relief and Economy Security Act ("CARES Act"), this sum would be used for tax, spending, and liquidity-support measures, including unemployment assistance to households, payroll tax deferral, and pay check protection for small and medium-sized enterprises.

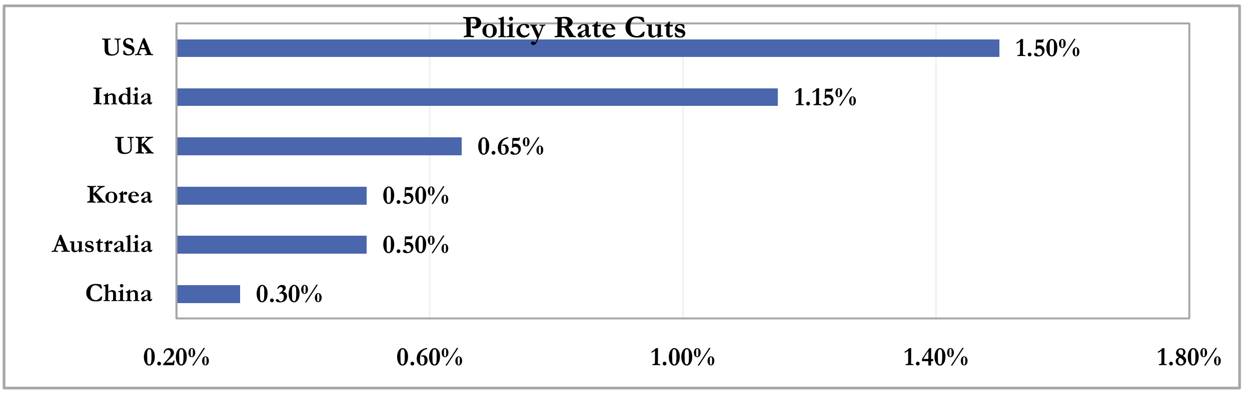
India announced its fiscal measures in two tranches with first tranche promising INR 1.7 trillion rupees (USD 23 billion) for households and businesses and a second more enhanced tranche of measures targeting businesses (about 2.7 percent of GDP) and expanding support for poor households, especially migrants and farmers (about 1.5 percent of GDP).

II. MONETARY POLICY MEASURES

Most of the G20 countries with the exception of Japan and EU members opted for accommodative monetary policy measures to support the economy. Many central banks chose a combination of Open markets operations, targeted long-term repo operations, asset purchasing programmes and liberal lending to local governments.

In addition, Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, Bank of Japan and the Swiss National Bank announced enhanced provisions for maintaining US dollar funding market liquidity via the standing US dollar liquidity swap line arrangements.

The Policy Rate Cuts since March 2020 by various countries is summarized in the chart below:



III. SECURITIES MARKET REGULATORY RESPONSES TO ADDRESS MARKET VOLATILITY AND DISRUPTIONS:

a) **Many regulators and exchanges adopted new or utilized existing measures to reduce market volatility and disorderly market functioning:** These include temporary trading halts (in US, India, Singapore and many EMDEs exchanges), price support, eliminating naked short-selling operations (in the E. U). Temporary prohibition on short selling (in Malaysia and France, Italy and several other European Countries). (Table 1)

b) **The COVID-19 crisis posed a significant operational risk, business and market continuity.** Responses commonly seen so far include: regulatory relief, for example, extension of submission deadlines on financial reporting (almost all regulatory bodies extended this relief); simplification of or waiving regulatory requirements (in China, Malaysia, United States); and business continuity plans, such as remote services. (Table 3)

c) **Measures on targeted market disclosure, financial reporting, and valuation have also been put in place to ensure investors are informed of the impact of COVID-19 on listed issuers:** Financial Stability Board and IOSCO in its Statement on Importance of Disclosure about COVID-19 recommended that there should be timely and high-quality information about the impact of COVID-19 on issuers´ operating performance, financial position and prospects. Some regulators have started to require or recommend proper disclosures on impacts of COVID-19 (China, European Union, India, United States, UK, and others).

Most of the advanced as well as emerging market markets faced increased volatility as the impact of COVID-19 pandemic spread across the globe. There was flight of money as most of the foreign investors chose to invest in safe haven assets like gold and treasury bills. This capital outflow had significant impact on the currency valuation of emerging market countries versus US dollar. Most of the currencies deteriorated against the dollar. (Annexure *1: Figure 2*)

After sharp declines in February and March, equity markets have rallied back, in some cases to close to their January levels. (*Annexure 1: Figure 1*) This is rebound was as a result of strong support shown by central banks by way of asset purchase and liquidity measures. The market sentiment is betting on optimism for sharp future recovery in the economy.

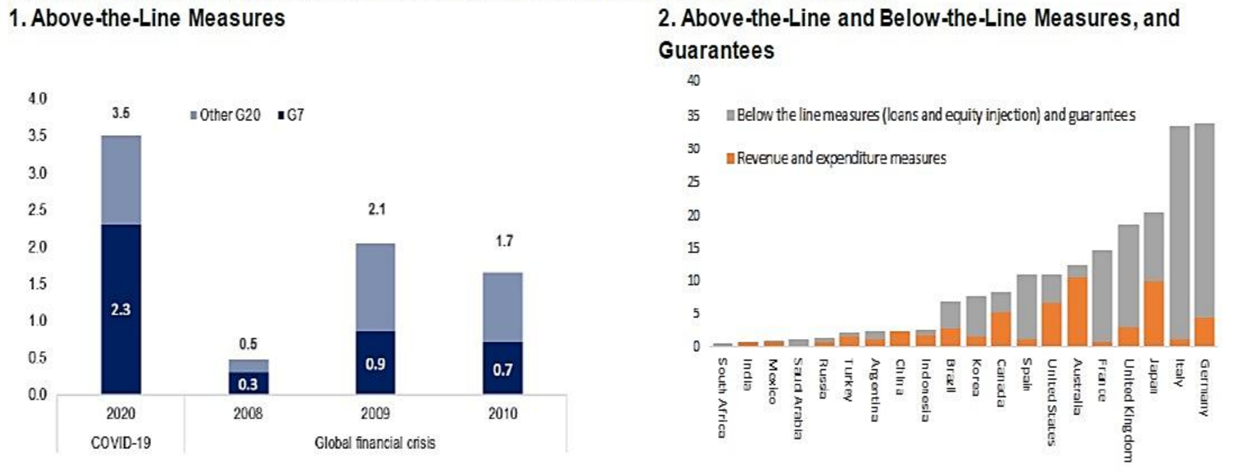
Fiscal and Monetary Measures taken by governments to limit the impact of the COVID-19 pandemic

The rapidly worsening risk sentiment has prompted a series of central bank rate cuts, liquidity support actions, and, in a number of cases, large asset purchase programs—which will help partially offset the tightening in financial conditions. Moreover, several central banks have activated bilateral swap lines to improve access to international liquidity across jurisdictions. *(IMF, World Economic Outlook, April 2020)*

At the global level, spending and revenue measures amount to $3.3 trillion and loans, equity injections, and guarantees total $4.5 trillion. *(IMF, Fiscal Monitor, April 2020)*

The Group of Twenty (G20) economies have provided sizeable fiscal support through revenue and spending measures of 3.5 percent of GDP on average, as of April 8, 2020, in response to the pandemic. This amount is higher than the stimulus during the global financial crisis that began in 2008 as shown in the figure below:

Figure 1.1. G20 Fiscal Response to the COVID-19 Pandemic and the Global Financial Crisis
(Percent of G20 GDP, left panel; percent of national GDP, right panel)
Countries are providing sizable fiscal support in response to the COVID-19 pandemic.



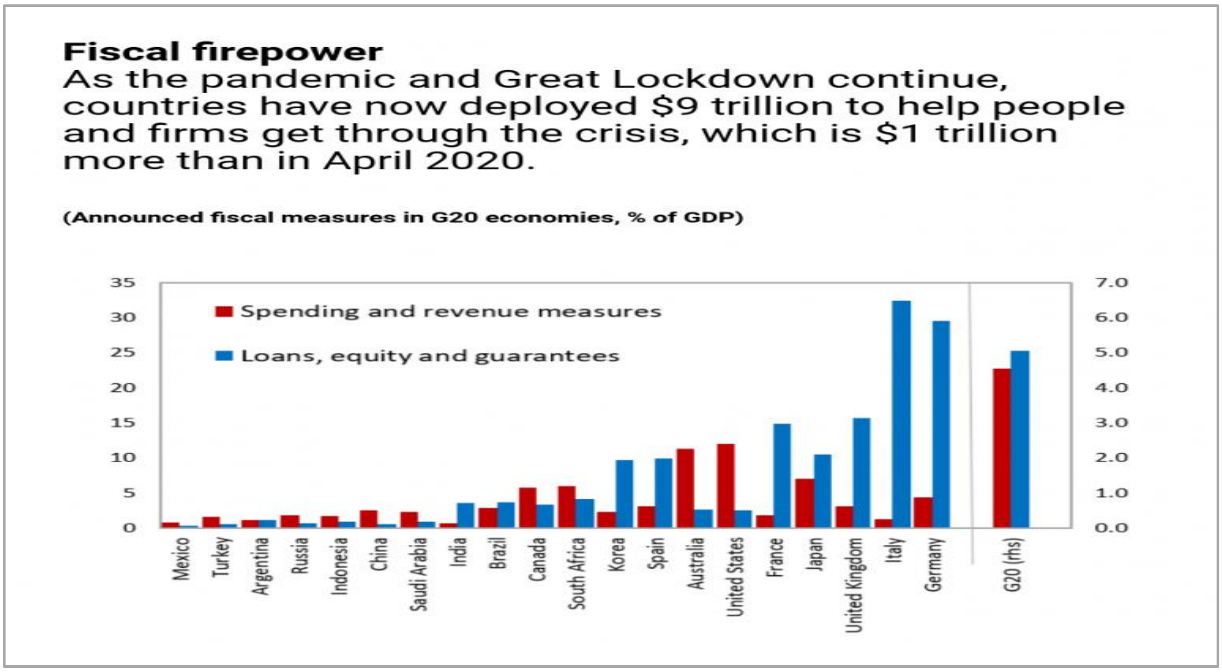
Sources: IMF 2009a; IMF 2009b; national authorities; and IMF staff estimates as of April 8, 2020.

Source: IMF, Fiscal Monitor, April 2020.

With interest rates already at the lower bound in many countries, the conventional rate cuts offer limited scope for countering recession. Therefore, most advanced and emerging market economies chose an accommodative monetary policy stance with aggressive fiscal stimulus packages.

In recent times, many economies have taken sizeable and targeted discretionary fiscal actions in order to offset the effects of the shock brought about by the pandemic. Fiscal measures tailored for specific circumstances are being increasingly introduced by major economies.

The *IMFs Fiscal Monitor*, *April 2020*, has estimated the global fiscal support stands at about $9 trillion. The breakdown looks like this: direct budget support is currently estimated at $4.4 trillion globally, and additional public-sector loans and equity injections, guarantees, and other quasi-fiscal operations (such as non-commercial activity of public corporations) amount to another $4.6 trillion. The Chart below shows the fiscal measures taken by G20 and their share in GDP of the respective countries.



Source: IMF Fiscal Monitor, April 2020

This note summarizes the key policy measures taken by 10 advanced and emerging market economies across the world to tackle the threat posed by COVID-19 spread, *which include fiscal stimulus packages, regulatory and monetary policy measures to boost the confidence and stability of the economy.*

1. AUSTRALIA

Australian Government announced overall fiscal measures of total direct spending across Commonwealth and State Governments amounting to A$208.7billion (10½% of GDP). Of this the spending measures (A$ 188 billion) which offers Tax-free cash payments to eligible small businesses to continue operations; wage subsidies for small businesses to keep their workers; payments to lower income Australians, including pensioners, other social security and veteran income support recipients, and eligible concession card holders.

Fiscal measures taken by the govt. include deferred payment of tax liabilities for up to 4 months without incurring interests or penalties for late payment. These have been complemented by asset write-offs; accelerated depreciation deductions to support investment; tax relief for specific sectors like airline and tourism businesses.

Under a Coronavirus SME Guarantee Scheme, government will guarantee 50 percent of loans (up to AUS $40 billion) offered by local lenders to SMEs.

The monetary policy measures are summarized as follows:

1. A reduction in the cash rate target to 0.25 per cent (from 0.5 per cent);
2. The introduction of an A$90billion (4.5% of GDP) term funding facility for the banks, to extend support for credit to small and medium-sized businesses, and
3. Allocation of AUD15billion (0.7% of GDP) to the Australian Office of Financial Management to invest in wholesale funding markets;

2. CHINA

The policy measures taken by China were more industry focused with many tax and tax deferral announcements. An estimated RMB 2.6 trillion (or 2.5 percent of GDP) of fiscal measures or financing plans have been announced, of which 1.2 percent of GDP are already being implemented. Key measures include:

(i) Increased spending on epidemic prevention and control;

(ii) Accelerated disbursement of unemployment insurance;

(iii) Tax relief and waived social security contributions;

(iv) Exemption of a wide range of consumer services from VAT on a nationwide basis, and

(v) Easing the tax burden for firms in the most vulnerable regions and sectors, including transportation, tourism, and hospitality services.

The People's Bank of China provided monetary policy support to the market by taking the following measures:

a) reduction of the 7-day and 14-day reverse repo rates by 30 and 10 bps, respectively, as well as the 1-year medium-term lending facility rate by 30 bps;

b) targeted RRR cuts by 50-100 bps for large- and medium-sized banks that meet inclusive financing criteria which benefit smaller firms, an additional 100 bps for eligible joint-stock banks, and 100 bps for small- and medium-sized banks in April and May to support SMEs

c) liquidity injection of RMB 3.27 trillion (gross) into the banking system via open market operations, (reverse repos and medium-term lending facility),

d) expansion of re-lending and re-discounting facilities by RMB 1.8 trillion to support manufacturers of medical supplies and daily necessities micro-, small- and medium-sized firms and the agricultural sector at low interest rates,

e) reduction of the interest on excess reserves from 72 to 35 bps, and

f) policy banks' credit extension to micro- and small enterprises (RMB 350 billion).

3. *EUROPEAN UNION*

The European Commission's package of about €540 billion (4 percent of EU27 GDP) includes:

a) allowing the European Stability Mechanism (ESM) to provide Pandemic Crisis Support (based on existing precautionary credit lines) up to 2 percent of 2019 GDP for each euro area country (up to €240 billion in total) to finance health related spending;

b) providing €25 billion in government guarantees to the European Investment Bank (EIB) to support up to €200 billion to finance to companies, with a focus on SMEs (which augments previously agreed guarantees of €40 billion for the EIB's on-lending activities), and

c) creating a temporary loan-based instrument (SURE) of up to €100 billion to protect workers and jobs, supported by guarantees from EU Member States.

The European Commission also activated the general escape clause in the EU fiscal rules, which allows them to run deficits in excess of 3 percent of GDP and suspends the fiscal adjustment requirements for countries that are running a deficit of more than their medium-term objective. In addition to relatively large automatic stabilizers, discretionary measures taken by member states amount to 3.1 percent of EU-27 GDP. The ECB provided the following monetary policy support:

i. Additional asset purchases of €120 billion until end-2020 under the existing program;

ii. Providing temporarily additional auctions of the full-allotment, fixed rate temporary liquidity facility at the deposit facility rate and more favorable terms on existing targeted longer-term refinancing operations (TLTRO-III) between June 2020-21, and

iii. An additional €750 billion asset purchase program of private and public-sector securities (Pandemic Emergency Purchase Program, PEPP) until end-2020, an expanded range of eligible assets under the corporate sector purchase program (CSPP), and relaxation of collateral standards for Euro system refinancing operations.

4. FRANCE

In addition to the economic relief packages announced by European Commission and ECB:

i. France announced a fiscal package for households and firms, as well as the healthcare sector, costing around EUR 16.5 billion, i.e. 0.7% of 2019 GDP, this will be distributed amongst short-time work scheme (EUR 8.5 billion), health measures (EUR 4.5 billion) and the solidarity fund for the self-employed and smallest firms.

ii. Implementation of an exceptional State guarantee mechanism for new liquidity loans granted by credit institutions between 16 March and 31 December 2020 to companies registered in France (within the limit of EUR 300 billion).

iii. Specific guarantees for export insurance and credit insurance could also reach EUR 12 billion. Postponement of social and fiscal deadlines and the early reimbursements of tax credits will reach EUR 48.5 billion (2.0% of 2019 GDP).

5. GERMANY

i. Germany triggered the clause for exceptional circumstances in the debt market, this allows debt financing of a supplementary budget of EUR 156 billion (4.5% of GDP) to cover response measures and an estimated reduction in revenues of EUR 33.5 billion (1% of GDP) including the additional EUR 156 billion from the supplementary budget 2020.

ii. Small Firms have been extended 100% government guarantee worth up to 25% of 2019 revenue, ranging from EUR 500,000-800,000.

iii. An economic stabilization fund for larger companies which will provide EUR 600 billion for recapitalization, guarantees for corporate liabilities, and a credit authorization to the KfW for refinancing purposes.

6. INDIA

The central government announced INR 1.7 trillion rupees (USD 23 billion) aimed at ensuring that families belonging to poor and lower to middle income groups have income and food security during the period of containment. Further, state governments too have announced various welfare measures in this regard.

In the fiscal package announced by the government it has committed:

i. To pay employee provident fund contributions on behalf of employees and employers for the next three months for small firms;

ii. Amend pension regulations to allow workers to draw up to 75% for their contingency expenditure non-refundable advance or three months of wages in advance, whichever is less. This is intended to benefit 48 million workers,

iii. In a relief to small and medium enterprises facing the threat of insolvency because of COVID-19, the threshold for invoking insolvency has been raised 100-fold to INR 10 million, and

iv. During May 13-17, the Finance Minister announced new measures targeting businesses (about 2.7 percent of GDP), expanding support for poor households, especially migrants and farmers (about 1.5 percent of GDP), targeted support for the agricultural sector (about 0.7 percent of GDP), and some expansion of existing programs providing work opportunities to low-wage laborers (about 0.2 percent of GDP).

v. Key elements of the business-support package were various financial sector measures for MSMEs and non-bank financial companies; liquidity injection for electricity distribution companies; and a reduction in up-front tax deductions for workers. Additional support to farmers will mainly be in the form of providing concessional credit to farmers, expansion of food provisioning scheme.

The Monetary Policy Committee of the Reserve Bank of India delivered a 115-basis points reduction in the policy repo rate and announced an accommodative stance of monetary policy.

The central bank also announced several liquidity measures to combat the adverse impacts of covid-19, including:

i. long-term repo operations targeted to reduce banks' cost of funds for up to INR 1 trillion;

ii. simultaneous purchase and sale of securities under open market operations;

iii. reduction in the cash reserve ratio requirements and exemption from cash reserve ratio (CRR) requirements to incentivize lending to specific sectors;

iv. targeted long-term repo operations, with the objective of making it easier for non-bank financial companies (which tend to lend more to small business and informal workers than banks) and micro-finance institutions to raise money;

v. moratorium on debt-servicing of all term loans outstanding including working capital loans for 3 months;

vi. RBI has also introduced a special liquidity facility for mutual funds of INR 500 billion in order to ease the liquidity pressures on MFs, and

vii. increased the temporary loans limit of states by 60% from an already increased 30% (announced on 1 April 2020), providing states with an additional channel to borrow from the RBI, instead of relying on additional market borrowings.

7. JAPAN

The Government of Japan adopted the Emergency Economic Package Against COVID-19 of JPY 117.1 trillion (21.1 percent of GDP).

This package aims to achieve the following objectives: protect employment and businesses, regain economic activities after containment, rebuild a resilient economic structure. The above is being effected by cash handouts to every individual and affected firms, deferral of tax payments and social security contributions, and concessional loans from public and private financial institutions.

Bank of Japan announced set of measures to maintain the smooth functioning of financial markets (notably of U.S. dollar funding markets) and incentivize the provision of credit.

These include targeted liquidity provision through an increase in the size and frequency of Japanese government bond purchases, special funds-supplying operation to provide loans to financial institution to facilitate financing of corporates, an increase in the annual pace of BoJ's purchases of Exchange Traded Funds (ETFs) and Japan-Real Estate Investment Trusts (J-REITs), and a temporary increase of targeted purchases of commercial paper and corporate bonds. The government expanded the volume of concessional loan facilities (interest free without collateral) primarily for micro, small and medium-sized business affected by COVID-19.

Bank of Japan in coordination with the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve and the Swiss National Bank announced enhanced provisions for maintaining US dollar funding market liquidity, by lowering the pricing on the standing U.S. dollar liquidity swap arrangements by 25 basis points.

8. KOREA

Direct measures amount to 0.8 percent of GDP (approximately KRW 16 trillion, including a supplementary budget for KRW 11.7 trillion).

Bank of Korea (BOK) has taken several measures to ensure continued accommodative monetary conditions and facilitate financial system liquidity. These include:

i. lowering the Base Rate by 50 basis points, from 1.25 percent to 0.75 percent;

ii. making unlimited amounts available through open market operations (OMOs); expanding the list of eligible OMO participants to include select non-bank financial institutions;

iii. expanding eligible OMO collateral to include bank bonds, certain bonds from public enterprises and agencies, and government-guaranteed MBS issued by KHFC; and

iv. purchasing Korean Treasury Bonds (KRW 3.0 trillion).

A financial stabilization plan of KRW 135 trillion (7.1 percent of GDP) was announced with the following features:

a) To expand lending by banks to SMEs, small merchants, mid-sized firms, and large companies, including emergency lending, partial and full guarantees, and collateralization of loan obligations;

b) a bond market stabilization fund to purchase corporate bonds, commercial paper, and financial bonds;

c) financing by public financial institutions for corporate bond issuance through collateralized bond obligations and direct bond purchases;

d) short-term money market financing through stock finance loans, BOK repo purchases, and refinancing support by public financial institutions

e) an equity market stabilization fund financed by financial holding companies, leading financial companies, and other relevant institutions; and

f) Creation of a special purpose vehicle to purchase corporate bonds and commercial paper.

9. UK

United Kingdom, extended the following tax and spending measures: (i) additional funding for the NHS, public services and charities (£14.7 billion); (ii) measures to support businesses (£27 billion), including property tax holidays, direct grants for small firms and firms in the most-affected sectors, and compensation for sick pay leave; and (iii) strengthening the social safety net to support vulnerable people (by nearly £7 billion) by increasing payments under the Universal Credit scheme as well as expanding other benefits.

In addition to the above various monetary policy measures were also undertaken to support the economy which was already under stress due to post-Brexit adjustments, key measures undertaken include:

i. reducing Bank Rate by 65 basis points to 0.1 percent;

ii. expanding the central bank's holding of UK government bonds and non-financial corporate bonds by £200 billion;

iii. introducing a new Term Funding Scheme to reinforce the transmission of the rate cut, with additional incentives for lending to the real economy, and especially SMEs;

iv. Bank of England Covid Corporate Financing Facility which, together with the Coronavirus Business Loans Interruption Scheme, makes £330 billion of loans and guarantees available to businesses (15 percent of GDP), and

v. Together with central banks from Canada, Japan, Euro Area, U.S., and Switzerland, further enhancing the provision of liquidity via the standing US dollar liquidity swap line arrangements.

10. USA

US government announced its most comprehensive stimulus/relief package in early March to cushion the impact of the COVID-19 on the economy.

It announced an estimated US$2.3 trillion (around 11% of GDP) Coronavirus Aid, Relief and Economy Security Act ("CARES Act"), it allocates this sum for tax, spending, and liquidity-support measures, including pandemic unemployment assistance to households, payroll tax deferral, and pay check protection for small and medium-sized enterprises.

Another US$484 billion for Pay check Protection Program and Health Care Enhancement Act which will help small businesses that retain workers, loans and guarantees to assist small businesses and support hospitals to build capacity.

On the monetary policy front several measures were announced including Federal funds rate cut by 150bp in March to 0-0.25bp; Purchase of Treasury and agency securities and expanded overnight and term repos;

Federal Reserve also introduced facilities to support the flow of credit, in some cases backed by the Treasury using funds appropriated under the CARES Act. The facilities are: (i) Commercial Paper Funding Facility; (ii) Primary Dealer Credit Facility; (iii) Money Market Mutual Fund Liquidity Facility (MMLF); (iv) Primary Market Corporate Credit Facility; (v) Secondary Market Corporate Credit Facility; (vi) Term Asset-Backed Securities Loan Facility; (vii) Pay check Protection Program Liquidity Facility (PPPLF); (viii) Main Street Lending Program; and (ix) Municipal Liquidity Facility.

In order to support the domestic mortgage market (Fannie Mae and Freddie Mac) measure for assistance to borrowers were announced, which includes mortgage forbearance for 12 months and waiving related late fees, suspending reporting to credit bureaus of delinquency related to the forbearance, suspending foreclosure sales and evictions of borrowers for 60 days, and offering loan modification options.

Regulatory Responses taken by Securities Market across the world

The impact of the COVID-19 outbreak on the international and domestic markets has been severe, with sharp falls observed across equity, debt and commodity markets. The early signs of stress were visible since end of February as the oil prices led market correction swept across the global markets.

This was followed by investor flight from emerging and developing markets looking for safe haven as the impact of the pandemic began to unravel. Investors exited their positions in riskier assets and turned towards safer assets like gold, US Treasuries, etc.

The oil prices which initially fell due to supply shock soon faced demand decline too, as containment measures imposed across countries led to significant lowering of demand for oil.

Implied volatility spiked across asset classes, in some cases to levels last seen during the global financial crisis. (Global Financial Stability Report (*GFSR*), April 2020). However, markets pared back some of the losses more recently as decisive policy actions to contain the fallout from the pandemic managed to stabilize investor sentiment. Asset-management companies faced with redemption pressures attempted to sell assets to cover them. Reduced asset valuations posed a significant challenge for market participants, such as money market mutual funds, particularly for those where investments are marked to market. In addition, the significant volatility and decline in price transparency is also contributing to reduced investor confidence.

Major Central Banks contributed substantially in easing the liquidity conditions by opening of additional credit lines, introducing asset purchasing schemes, FX swap lines and rate cuts. These swift measures had an important role to revive the investor confidence in many jurisdictions. As a result, there was significant rebound in the asset prices in the risk markets. Many markets regained the higher levels seen in January this year (Figure 1). Portfolio outflows from emerging markets have also stabilised with some countries beginning to see modest inflows.

The recovery in the markets seems unaffected by the economic conditions, it has been observed that despite signs of economic downturn, the capital markets soared while the forecast for economic growth predicted long drawn recovery and sharp contractions. The future stability of the market depends on the overall containment of the pandemic, further the extent of the support offered by central banks will be tested as the recovery pace is expected to be slow.

Domestic factors like underlying financial vulnerabilities especially arising from the debt market may influence the sentiments of the capital markets.

The Financial Stability Board's is actively cooperating with international regulatory bodies to maintain financial stability during market stress related to COVID-19, based on the board's principles it has worked on the following:

i. regularly sharing information on evolving financial stability threats and on the policy measures that financial authorities are taking;

ii. assessing financial risks and vulnerabilities in the current environment; and

iii. coordinating policy responses to maintain global financial stability, keep markets open and functioning, and preserve the financial system's capacity to serve households and businesses confronting COVID-19 and thereby finance the resumption of growth.

Similarly, in this regard, Board of the International Organization of Securities Commissions (IOSCO) also issued a public statement highlighting the importance to investors and other stakeholders of having timely and high-quality information about the impact of COVID-19 on issuers´ operating performance, financial position and prospects.

Further in the *Statement on Importance of Disclosure about COVID-19*, IOSCO:

- Reiterates the importance of disclosure of the impact on amounts recognized, measured and presented in the financial statements.

- Highlights the importance of transparent and complete disclosures, noting that in an environment of heightened uncertainty, disclosures should be entity-specific and transparent, particularly when involving significant judgments and estimates.

- Restates that in the current environment, it is important that issuers are mindful of the elements of reliable and informative non-GAAP measures.

- Notes that interim financial information will require more robust disclosures of material information and management's response to the changing circumstances.

- Reminds auditors of their responsibilities to report on Key Audit Matters (KAM), including how the auditor addressed the matters.

- Encourages issuers to balance the flexibility provided by regulators extending the period to file financial information with the responsibility to provide timely and comprehensive financial information that includes reasonable and supportable judgments.

Securities Market Regulators and exchanges across the world are adopting various measures to address the market volatility and disruptions caused due to the COVID-19 outbreak. Regulators across the globe are actively engaging with each other and the global bodies to coordinate their actions.

Country wise Regulatory relief can be broadly classified under:

i. *Measures taken to limit market fluctuation:* Trading halt, price support, restrictions on short-selling. This includes more transparency on short-selling or temporary prohibition of short-selling. Suspension of redemption of mutual funds and temporary capital control.

ii. *Market disruption / Business continuity:* This include extension of submission deadlines, simplification of or waiving regulatory requirements regulatory requirements. And introduction of business continuity plans, such as remote services.

iii. *Market disclosure, financial reporting, and valuation:* Some regulators have started to require or recommend proper disclosures on impacts of COVID-19.

As a result of these actions aimed at containing the fallout from the pandemic, investor sentiment has stabilized in recent weeks. Strains in some markets have abated somewhat and risk asset prices have recovered a portion of their earlier declines. Sentiment continues to be fragile, however, and global financial conditions remain much tighter compared to the beginning of the year *(GFSR, April 2020 and Annexure 1).*

A. MEASURES TAKEN TO LIMIT MARKET FLUCTUATION

According to the *GFSR, April 2020*, deviations from fair value had reached extreme levels across multiple countries and sectors, before adjusting sharply in late February and March. In equity markets, price-earnings ratios had reached the highest levels since the global financial crisis prior to the COVID-19–induced sell-off. The IMF staff's fundamentals-based assessment of equity price misalignments suggests that equity valuations had become increasingly stretched since the October 2019 GFSR, with the extent of overvaluation approaching historically high levels in several countries in the last quarter of 2019. Hence, the unwinding of stretched asset valuations likely exacerbated the sell-off.

The measures taken by various countries to manage the heightened market volatility ranged from banning short selling to keeping status quo with only existing safeguards like trading halts in place.

Table 1: Market Disruptions and Volatility Measures taken by Select Countries

Category	**Country**	**Details**
Market Disruptions and Volatility	US	Trading Halts via Market Wide Circuit breakers.
	EU	European Union (EU) regulated market to notify the relevant national competent authority (NCA) if the position reaches or exceeds 0.1% of the issued share capital after the entry into force of the decision ESMA provided positive opinion on short-selling ban by securities regulators of a number of EU countries, including: Italian Consob for a three-month emergency short selling prohibition. French AMF10, Belgian FSMA, Greek HCMC, for a one-month emergency short selling prohibition.
	India	Trading halt triggered market closure on several occasions to reduce market volatility. In addition, SEBI revised the Market Wide Position Limit (MWPL) derivatives for certain volatile stocks and enhanced margin rates for volatile and Non-F&O Stocks; Revised position limits in equity index derivatives (futures and

		options); Introduced 15 minutes cooling period before flexing of price bands for stocks.

Category	Country	Details
Market Disruptions and Volatility	China	Measures were adopted to support market players to rollover the stock pledged agreement, to avoid mandatory liquidation for clients of margin trading and short selling and to offer certain extension for clients to pay in additional margin deposit.
	Korea	Imposed short selling ban and trading halt. Established a KRW10.7 trillion stock market stabilization fund funded by Financial holding companies, 18 leading financial companies and other relevant institutions including the Korea Exchange.
	Malaysia	Temporary suspension of intraday short-selling and regulated short-selling.
	Australia	ASIC issued directions on 15 March 2020 (under the ASIC Market Integrity Rules (Securities Markets) 2017) to nine large equity market participants, requiring those participants to limit their number of trades executed each day until further notice, this was revoked in May 2020 after stabilisation of trading activity.
	Singapore	Trading Halts via already existing circuit breaker mechanism.

	UK	Short Selling Regulations restricts uncovered short sales in shares to prevent 'naked' short selling, which could harm market integrity and disrupt settlement. Investors need to notify when they hold a net short position that equals or exceeds 0.1% of the issued share capital of the company and each time the position increases or reduces by 0.1%.

B. <u>MARKET DISCLOSURE, FINANCIAL REPORTING, AND VALUATION</u>

Regulatory measures taken by various countries in respect of *market disclosure, financial reporting, and valuation*, relief in market disclosure was mainly given to the non-essential regulatory requirements that do not have a material impact on investor protection. Country-wise summary of the relief measures is as follows:

1. United States of America

- Commission recognized that public companies and other market participants are facing challenges in meeting the reporting and proxy delivery requirements of the federal securities laws in a timely manner. For this reason, the Commission has given exemptions to cover filings due during the period March 1, 2020 to July 1, 2020.

- The Division of Trading and Markets under SEC will, subject to certain conditions, not take enforcement action with respect to any failure to comply with the paper format submission requirement or manual signature requirement of the Impacted Paper Submissions for the period from and including March 16, 2020, to June 30, 2020.

- SEC provided registered transfer agents and certain other persons temporary exemptions from specified provisions of the exchange act and certain rules thereunder till June 30, 2020.

- SEC has granted a temporary conditional exemption from broker registration under Section 15 of the Securities Exchange Act of 1934 for *registered municipal advisors* to address disruption in the municipal securities markets because of the COVID-19 pandemic. The temporary conditional exemption permits registered municipal advisors to solicit banks, their whollyowned subsidiaries and credit unions in connection with direct placements of securities issued by their municipal issuer clients, subject to the requirements set forth. Further Municipal Issuers are encouraged to provide information regarding the impact of COVID-19 on Operations and Financial Condition.

- Securities and Exchange Commission ("Commission") has adopted temporary final rules to facilitate capital formation for small businesses impacted by coronavirus disease 2019 (COVID-19). The temporary final rules are intended to expedite the offering process for smaller, previously established companies directly or indirectly affected by COVID-19 that are seeking to meet their funding needs through the offer and sale of securities pursuant to Regulation Crowdfunding. The amendments are effective from May 4, 2020, through March 1, 2021.

- With regards to the Reg BI [1]and Form CRS[2], firms should continue to make good faith efforts around operational matters to ensure compliance by June 30, 2020, including devoting resources as necessary and available considering the circumstances.

- Securities and Exchange Commission announced the formation of an internal, cross-divisional COVID-19 Market Monitoring Group, this group will assist the Commission in (1) Commission and staff actions and analysis related to the effects of COVID-19 on markets, issuers, and investors—including its Main Street investors, and (2) responding to requests for information, analysis and assistance from fellow regulators and other public-sector partners.

- Public companies are advised to be mindful of their established disclosure controls and procedures, insider trading prohibitions, codes of ethics, and Regulation FD and selective disclosure prohibitions to ensure to the greatest extent possible that they protect against the improper dissemination and use of material non-public information. Likewise, broker-dealers, investment advisers, and other registrants must comply with policies and procedures that are designed to prevent the misuse of material non-public information.

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[1] Reg BI establishes a new standard of conduct for broker-dealers and their associated persons when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer.

[2] Form CRS and its related rules require SEC-registered investment advisers and SEC-registered broker-dealers (together, "firms") to deliver to retail investors a brief customer or client relationship summary that provides information about the firm.

Collectively, these regulatory actions bring the legal requirements and mandated disclosures for broker-dealers and investment advisers in line with reasonable investor expectations, while preserving retail investor access (in terms of both choice and cost) to a variety of investment services and products

- Comment period on certain proposed actions like amendments and policy revisions which were set to expire in March were extended till May 1, 2020.

2. *ESMA (European Securities and Market Authority)*

- *Market disclosure* – issuers should disclose as soon as possible any relevant significant information concerning the impacts of COVID-19 on their fundamentals, prospects or financial situation in accordance with their transparency obligations under the Market Abuse Regulation;

- *Financial Reporting* – issuers should provide transparency on the actual and potential impacts of COVID-19, to the extent possible based on both a qualitative and quantitative assessment on their business activities, financial situation and economic performance in their 2019 year-end financial report if these have not yet been finalised or otherwise in their interim financial reporting disclosures.

    - ESMA has recommended no supervisory actions from NCAs for a period of 1-2 months regarding the publication of annual and semi-annual fund report.

    - Postpones first phase SFTR (Securities Finance Transactions Regulation) from 13 April to 13 July 2020. Competent authorities are not expected to prioritise their supervisory actions towards counterparties, entities responsible for reporting and investment firms in respect of their reporting obligations under SFTR.

    - Postponed publication of annual non-equity transparency calculations and best execution reports (MiFID).

- *Fund Management* – asset managers should continue to apply the requirements on risk management and react accordingly.

3. *UK*

- Extension of 2 months and 1 month for filing annual and semi-annual fund reports, respectively. FCA does not intend to change the usual deadlines for reporting transparency information to them under the AIFMD Level 2 Regulation (Regulation 231/2013/EU).

- Firms to continue with regulatory data, record calls, prevent market abuse risks. Supervisory flexibility over best execution reports (MiFID, Markets in Financial Instruments Directive) until the end of June. Supervisory flexibility over 10% depreciation notifications to clients (MiFID) until the end of September.

- Depositary notification of suspension and daily drops of NAV >10 %.

- In order to help companies, raise equity capital in these difficult circumstances, the Pre-Emption Group (PEG), an industry body comprised of listed companies, recommended that investors, on a case-by-case basis, consider supporting issuances by companies of up to 20% of their issued share capital on a temporary basis, rather than the 5% for general corporate purposes with an additional 5% for specified acquisitions or investments, as set out in the Statement of Principle.

- To address the challenges faced by issuers and to alleviate the time constraints imposed by the notice period during this difficult period, we are proposing temporarily to modify our Listing Rules on a case by case basis, subject to certain conditions being met.

- Extend the closing date for responses to our open consultation papers and calls for input until 1 October 2020.

4. China

A regulatory relief clause (Clause 20) was part of a joint notice by five ministries/commissions. Stock Exchanges issued further guidance on the regulatory relief, including extension of release of annual report/performance reports; relaxation of requirements on board meetings

China introduces various measures which includes easier fund raising, fast track registration in some cases and offering financing incentives to companies from worse-hit region and to those contributing to epidemic control. Some of the measures introduced in co-ordination by several agencies include:

- Regarding IPO, refinancing, bond issuance and M&A, fast track review or registration will be provided to companies registered or based in Hubei Province, enterprises playing a key role in the fight against the virus, or if the financing purpose is to prevent and control the epidemic. Refinancing rules has also been revised to be more market-oriented and supportive of the real economy.

- Guiding more social funds to manufacturers of important medical supplies and related R&D companies, by providing fast track to the registration of private equity funds and venture capital targeted at the medical and healthcare industries.

- Securities and fund management institutions are encouraged to strengthen capital and provide quality financial services for enterprises in the worse-hit areas.

- Listed companies, securities and futures companies are being called upon to assume their social responsibilities in supporting medical R&D, supply logistics and delivery, and the construction and preparation of designated hospitals.

5. India

- Securities and Exchange Board of India, SEBI has granted relaxations from compliance stipulations specified under the SEBI Listing Obligation and Disclosure Requirement Regulations, extension of timeline for certain filings, exemption from certain submissions, extension of timeline for holding AGMs, and others. The submission of quarterly/half yearly/financial results for the FY ended 31st March 2020 is extended up to July 31, 2020.

- Temporary relaxation of compliance requirements for Mutual Funds by extending deadlines by a month;

  i) extension of reporting (e.g. half year audited financials, disclosure of commissions) due dates and;

  ii) postponing implementation of certain policies (i.e. review of investment norms for unlisted bonds & sector limits, risk-management framework on liquid assets).

- The requirements with respect to sending a hard copy of the statement containing salient features of all the documents and providing hard copy of annual reports on request have been dispensed with for listed entities who conduct their AGMs during the calendar year 2020.

- Recognized Stock Exchanges have been advised not to take any penal action against such entities for whom the deadline to comply with Minimum Public Shareholding requirements falls between the period from March 01, 2020 to August 31, 2020 in case of non-compliance during the said period.

- Certain relaxations have been also given for service of the letter of offer and/or tender form and other offer related material to shareholders for open offers and buy-back tender offers opening up to July 31, 2020 subject to certain conditions.

- Certain relaxations from provisions in respect of Rights Issue and Fast Track Further Public Offer (FPO) have been granted, have been provided, for issues that open on or before March 31, 2021.

- Due to serious challenges faced by the corporate sector in the wake of developments related to COVID - 19, SEBI decided to relax the pricing methodology for preferential issues by listed companies having stressed assets and exempt allottees of preferential issues from open offer obligations in such cases, with immediate effect. The said option in pricing shall be available for the preferential issues made between July 1, 2020 to December 31, 2020.

- Entities have been encouraged to evaluate the impact of the CoVID-19 pandemic on their business, performance and financials, both qualitatively and quantitatively, to the extent possible and disseminate the same.

- Deferring penal provision for non-collection or short collection of margins by brokers, submission of various reports by trading members, and extension of reporting timeline for various reports till June 30, 2020.

- In addition, various fees like broker turnover fee, filing fees on offer documents for Public issue, Rights issue and Buyback of shares has been halved, for specified time periods.

6. Japan

- Regarding the disclosure of the documents based on the Financial Instruments and Exchange Act (annual securities report, internal control report, quarterly securities report, semi-annual securities report), if they cannot be submitted by the deadline due to unavoidable reasons triggered by the impact of the COVID-19 infection, such as making it impossible to continue the auditing of Chinese subsidiaries, an extension to the submission deadline according to the approval of the head of your local Finance Bureau or its branch office may be granted.

- To stabilise the market, Bank of Japan intervened in the market by directly purchasing units of ETFs and REITs.

C. MEASURES RELATED TO BUSINESS CONTINUITY

Some of the key Business continuity related measures undertaken by select countries is summarised as follows:

Table 2: Business continuity related measures taken by Select Countries

Category	Country	Details
Business continuity	US	SEC is committed to providing prompt, targeted regulatory relief and guidance to issuers, investment advisers and other registrants impacted by COVID-19 to facilitate continuing operations, including in connection with the execution of their business continuity plans (BCPs); Monitoring the functioning, integrity, resiliency of securities markets with a focus on operations system integrity and BCPs of US securities clearing houses, exchanges, other market utilities and key market participants.
	EU	Firms to apply their contingency, including deployment of business continuity measures, plans to ensure operational continuity in line with regulatory obligations.
	India	Capital and debt market service as notified by the Securities and exchange Board of India shall be exempted from closure. The entities are encouraged to adopt remote working as much as possible, in order to fulfil the continued operational requirements. SEBI and RBI amended trading hours of various Capital and RBI regulated markets.
	Japan	• Financial institutions are requested to make appropriate efforts to secure necessary business continuity based on the viewpoint of maintaining financial functions that support economic

		activities and protect customers. • In addition, the exchanges are also requested to take appropriate measures to continue necessary operations from the standpoint of maintaining market functions.

Category	Country	Details
Business continuity	Australia	ASIC will temporarily change its regulatory work and priorities to allow it and regulated entities to focus on the impact of COVID-19. This is set to include the deferral of some activities and redeployment of staff to address issues of immediate concern, including maintaining the integrity of markets and protecting vulnerable consumers.
	Singapore	All financial institutions will continue to operate, although with reduced staffing on their premises, in line with MOH's advisory on maximising telecommuting.
	UK	(i) The FCA is working closely with the financial services sector to ensure it is responding effectively to the Covid-19 (coronavirus) outbreak and expects all firms to have contingency plans in place to deal with major events. (ii) This includes assessments of operational risks, the ability of firms to continue to operate effectively and the steps firms are taking to serve and support their customers. (iii) Such controls need to continue to effectively protect against the unlawful disclosure of inside information in working from home arrangements in the same manner as in an office environment. Market participants may, for example, consider reviewing the availability or the application of controls for

		restricting access to inside information on secure IT systems and how staff access to inside information can be remotely supervised.

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Annexure 1

Figure 1: Index movement of select global indices.

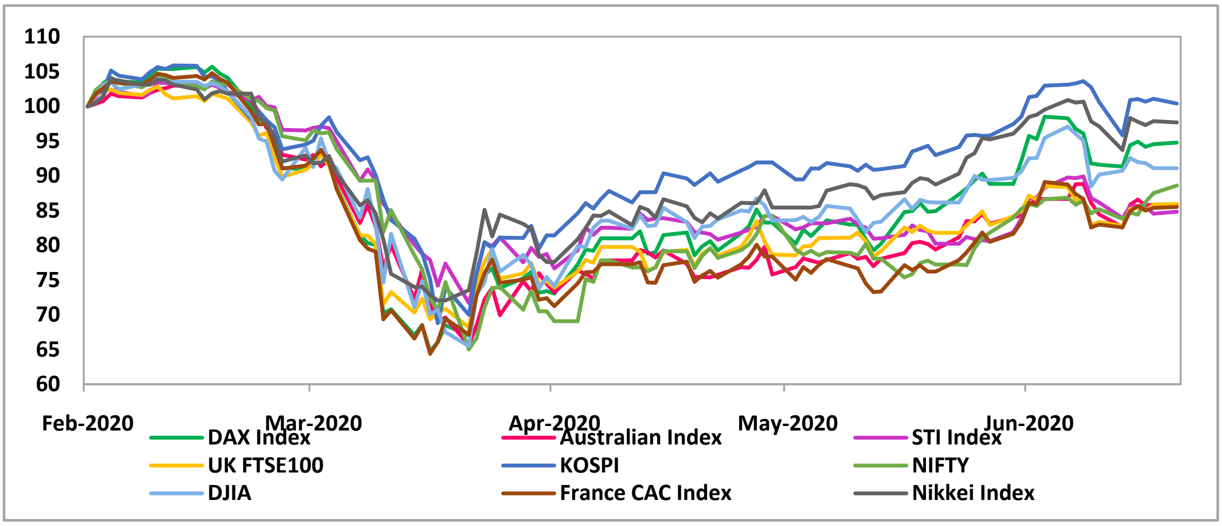


Figure 2: The surge in demand for US dollars to cover collateral positions precipitated a depreciation of most currencies versus USD (USD vs INR and EM Currencies)

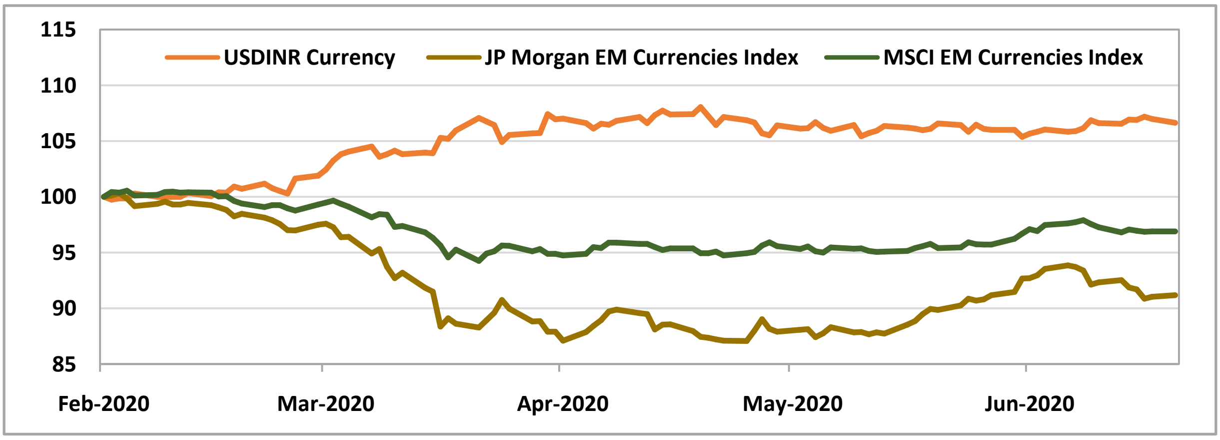
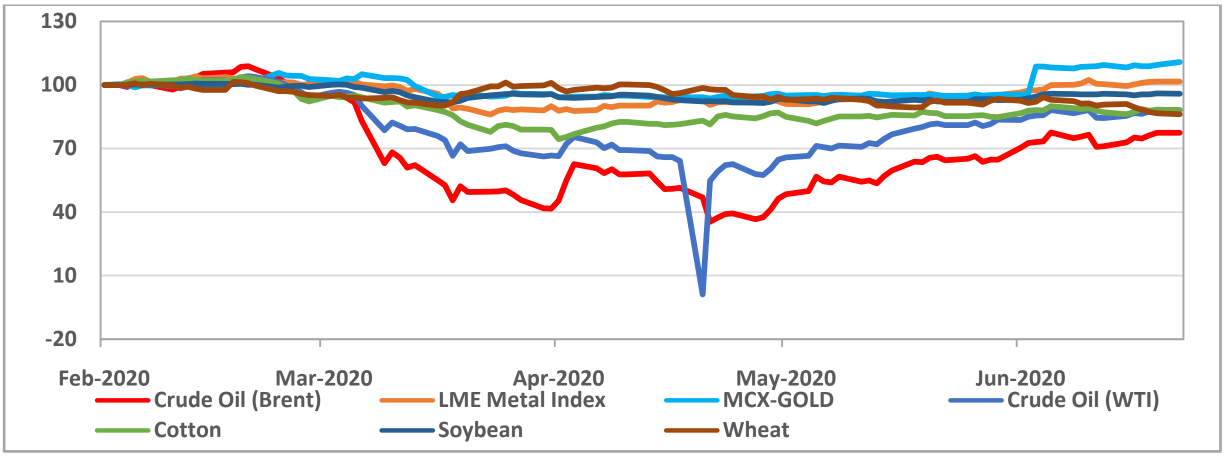


Figure 3: Movement in Select Commodities across the globe


130
100
70
40
10
-20
Feb-2020
Mar-2020
Apr-2020
May-2020
Jun-2020
Crude Oil (Brent)
LME Metal Index
MCX-GOLD
Crude Oil (WTI)
Cotton
Soybean
Wheat