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SENSITIVE*: Cabinet Dombrovskis

NOTE FOR THE ATTENTION OF EXECUTIVE VICE-PRESIDENT VALDIS DOMBROVSKIS VIA MICHAEL HAGER, HEAD OF CABINET

Subject: Proposals for urgent actions on COVID-19 related financing issues: Mobilising the financial sector, society, the EU and Member States during the crisis

INTRODUCTION

The EU is taking a number of actions to help tackle the major economic crisis in the context of fighting the COVID-19 outbreak, most recently a package of 2 April on using every available Euro for the Coronavirus response.[1] Most of the measures at EU-level have so far been focussing on providing and enabling public support. Moreover, the ECB and the Commission have been providing relief for the financial sector in a number of ways. In particular, the European Commission, the European Central Bank, the European Banking Authority and the European Securities Markets Authority have clarified the interpretation of regulatory requirements for financial institutions in the current exceptional circumstances. The Commission also urges banks to follow up on the recommendations from supervisory authorities to refrain from making distributions during this period and use the freed capital to keep credit flowing to the economy instead, and will issue an interpretative communication on the banking and accounting framework.

However, public (EU and Member States) funds are limited and it is therefore necessary to use them in a targeted and strategic manner, in order to mobilise private investors and achieve maximum impact. This, combined with the ability of the financial sector to respond and act more rapidly than the public sector has traditionally, strengthens the case for fully mobilising the former in order to support the response to the current crisis.

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[1] https://ec.europa.eu/info/sites/info/files/using_every_available_euro.pdf

The main objectives of the actions proposed here are to complement the actions already taken by **mobilising the financial sector to help EU businesses and citizens weather the crisis** by ensuring continuous funding of businesses and households, to reinforce solidarity and to contribute to filling the massive funding needs resulting from this crisis.

The financial sector must be part of the solution, rather than being yet another aggravating factor, as was the case in the past**.** This is a time for the financial sector to think and act in convergence with the interests of society and the real economy, and to avoid short-termism.

It must play a central role – together with the public sector – in helping companies and citizens, as well as the economy as whole, weather the crisis. Above all, it must act responsibly along key principles of minimising the potential economic fallout, and protecting firms and citizens. The response of the financial sector can and must be a European one, avoiding national fragmentation and uncoordinated action, supporting all Europeans indiscriminately.

We must explore all possible measures that would reinforce the financial sector's ability to serve as an effective buffer and an effective transmission channel and provide continuous funding to (i) maintain businesses continuity, (ii) to support citizens who are struggling; and (iii) to finance solutions to the crisis itself.
The EU/EC can assist the financial sector by guiding their actions and by providing the right framework that will encourage financial institutions and investors to act. Predictability, coordinated action and trust are crucial not only for financial markets but for the entire economy.

To this end, this note presents:

I. Key **problems** to be addressed, both over the short-term and the medium- to long-term;
II. A selection of **proposals for urgent action** with immediate positive impact within 1 week and 2 months (focus).

We are seeking your agreement to move ahead with the proposals for urgent action set out in section II. Reference to these actions could usefully be included in the Communication scheduled for adoption by the College next week.

With a view to informing work on the recovery strategy, FISMA is also pursuing further work on actions for the medium and long term as set out in section III and will get back to you with further detail shortly.

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I. KEY PROBLEMS TO BE ADDRESSED

The measures set out in this note aim to tackle some of the following key issues that are preventing the financial sector from fulfilling its role of funding the real economy in Europe:

Short-term:

- Liquidity shortages are resulting in funding problems for many businesses, including an increased risk of insolvency. Especially SMEs are facing the danger of going out of business.
- Capital markets under extreme stress are making little contribution to alleviating businesses' funding needs.
- Cross-border activities may be put at a disadvantage if Member States focus on national activities and take uncoordinated actions.
- Administrative bottlenecks at national level may impede funding from moving as rapidly as is necessary.
- Differences in the responses of national public and financial sector responses risk leaving some of our citizens behind.
- Different levels of development of contactless and remote payments, which facilitate the implementation of social distancing.

Medium- to Long-term:

- Lack of stable funding (non-debt related) for companies (especially SMEs) to finance their activity and to invest in innovation (including digitalisation)
- Retirement income may shrink due to prolonged period of "work suspension" or loss of jobs
- Rise in non-performing loans will impact the financial system
- Few viable projects/companies where to invest due to the poor financial condition of companies (including SMEs)
- Due to uncertainty over the geographical evolution, duration and depth of the crisis, investors are hesitant to invest
- Due to uncertainty over the impact this crisis will have on demand, companies are hesitant to launch new projects
- Few big projects to attract big global investors as the possibility to put them in place - due to scarcity of funding – would lower. This could even worsen if the "think national first" idea spreads.
- Economic recovery may be uneven across the EU if the financial sector does not evenly support the whole EU economy
- Economic activity may remain below its potential if there is insufficient confidence in the resilience of the economy to future pandemics

II. PROPOSALS FOR URGENT ACTIONS WITH IMMEDIATE POSITIVE IMPACT

Complementing what has already been done to alleviate capital and reporting requirements for financial institutions, the EU could in addition work on **two strands which could have impact within 1 week and 2 months**:

1. Brokering commitments for responsible action, pledges and direct financial support from the **financial sector** during the crisis across the EU (see No. 1 below)
2. Making use of platforms to mobilise **society** on COVID-19 related financing issues across the EU (see No. 2 below)

The proposed urgent actions are as follows:

- Work towards a commitment ("EU Code of Responsible Conduct") of the financial sector to support European citizens and businesses in this crisis
- Invite financial institutions to make pledges of what specific actions they commit to taking, in order to help fight the pandemic – "COVID Resilience Pact"
- Mobilise direct financial support to help fight the pandemic
- Establish a new or expand the existing EU open-access data platform to provide investors with a centralised overview of unmet urgent financing needs related to fighting the pandemic
- Launch an EU-wide crowdfunding campaign to promote solidarity and engagement among citizens across the EU to support the most vulnerable parts of society
- Establish a web-based platform to promote innovative solutions aimed at addressing the operational challenge of getting available funds to businesses in need

These urgent actions are also summarised in tabular format with timelines and relevant actors in Annex I to this note.

1. BROKERING COMMITMENTS FOR RESPONSIBLE ACTION, PLEDGES AND DIRECT FINANCIAL SUPPORT FROM THE FINANCIAL SECTOR DURING THE CRISIS ACROSS THE EU

1.a. Work towards a commitment ("EU Code of Responsible Conduct") of the financial sector to support European citizens and businesses in this crisis

The Commission, in coordination with the ESAs, should reach out to the European financial sector and propose a joint commitment to help bridging the liquidity and funding squeeze of European businesses and citizens, which would complement respective initiatives at national level in order to ensure **a comprehensive approach across Europe**, and focus in particular on **maintaining cross-border financing**.

A large number of public measures have already been taken to maintain credit, and to avoid that missed payments have lasting effects, so that economic activity can resume smoothly after the virus has been defeated, and **the financial sector needs to take responsibilities to support this aim**. Individual firms and national associations in cooperation with national authorities have taken a number of steps in this direction, but these vary across Member States and often focus on financing of businesses located *within* these Member States. It will be key to ensure that the European financial sector as a whole, across Member States, and including banks, non-bank lenders and institutional bond investors, plays its part, including in particular with regard to existing cross-border financing flows. Issues are arising not only in the banking sector, but also in **insurance** (credit, health insurance) **and capital markets** (e.g. SMEs defaulting on due bond payment; triggering of Credit-Default-Swaps). While the Commission does not have the means to force actors to do this, it can persuade them by appealing to their responsibilities as beneficiaries of the Single Market. It should also point out the various public sector efforts to support financial markets and the financial sector in this crisis and in previous crisis. We could for instance try to obtain commitments from the industry to:

- Maintain investment in and credit and credit lines to businesses and households as before the crisis and extend additional credit to cover crisis-related cash-flow shortfalls wherever this can be reconciled with applicable fiduciary duties;
- Consider offering general deferral of debt service and other easing such as reduction in fees to citizens and businesses significantly affected by the infection or by public measures to prevent the spread of the infection;
- Reassure citizens that employers with business models that were viable before the crisis will still be viable thereafter;
- For insurance, consider a generous reading of contract clauses to ensure that COVID-19 -related costs can be covered (e.g. in health insurance or insurances for companies).
- Consider permanently updating loan and bond documentation to exclude any triggers of early repayments or interest step-ups or other deterioration in conditions for obligors during a pandemic;
- Ensure no discrimination in treatment of borrowers regardless of their Member State of residence or establishment.

The Commission should coordinate with all relevant stakeholders and initiatives. A **Joint Forum,** also involving all relevant public authorities**,** could be established to regularly follow up to this commitment.

Although fighting an urgent battle, financial intermediaries could be put at very useful service for the economy by reminding businesses to behave in a socially responsible manner and strive to use the funding received in a way to maximise their potential to keep employment.

As for other (non-financial) **companies**, they could also make commitments to strive to preserve jobs in the face of the crisis. They could commit not to pay bonuses or to reduce the amount of bonuses payed. Those that have the possibility could commit to support the urgent demand linked to the health crisis. In exchange they could get broad publicity and recognition, so that it would pay off for them to act in the interest of society if after the crisis consumers are thankful and reward those firms. Further actions are proposed below to help EU companies that try to help meet urgent healthcare needs to have immediate access to finance: (see: section 2.a).

Political and market feasibility:

As to the market and political feasibility of this approach, while some colleagues have pointed to the limited track record of the financial sector behaving responsibly, a number of respective initiatives have already been taken by individual firms and at national level. There is also a challenge here that consists in the need to reconcile, on the one hand, our expectations for a responsible behaviour with, on the other hand, the responsibilities of financial intermediaries to their shareholders and end investors (such as fiduciary duties). Clearly, commitments need to be worded in a way that emphasises both angles. Nevertheless, there is no insurmountable conflict between the perspectives as all investors will ultimately be worse off if the financial sector cannot coordinates a supportive approach to the economy and cuts back lending and investment in an uncoordinated way. Our support in brokering commitments may therefore be well-received by many intermediaries. We could also help intermediaries by communicating the rationale of such commitments to end-investors, which themselves have limited or no immediate influence on investment decisions of intermediaries but will rightly insist later on in shareholder meetings and the like on the duties of intermediaries' management.

Moreover, this action should leverage on several initiatives by the private sector trying to coordinate and promote positive actions by the sector itself, in particular the UN sponsored Principles for Responsible Investment (PRI) and Principles for Responsible Banking (PRB). On 27 March, the PRI issued a call on its signatories for immediate investor actions responding to the COVID-19 Coronavirus crisis, covering seven areas.[2] Other important initiatives are being developed and going to be announced shortly.

We propose that the EVP Dombrovskis, in coordination with the European Supervisory Authorities, and the ECB/SSM, could reach out to European associations asking them to undertake specific commitments like the ones set out above.

Suggested next operational steps:

Such an initiative could be kick-started with a letter by the EVP (see a first draft in Annex II of this note) to key financial sector associations.

1.b. COVID Resilience Pact – Invite financial institutions to make pledges of what specific actions they commit to taking, in order to help fight the pandemic

This initiative would complement and go beyond the "EU Code of Responsible Conduct" presented above by mobilising the financial sector to finance needs resulting from this crisis, alongside the public sector. Inspired by the Climate Action Pact model, the Commission can establish a COVID-Resilience Pact calling upon the financial sector to make **pledges.** This initiative would create an EU-wide framework allowing all financial market actors individually to announce and publicly commit to **specific and concrete measures and actions in the future** (not only now). Such measures and actions would translate the adherence to the general concept of "core responsibilities" presented above into practice and make a rapid substantial contribution to the efforts fighting this crisis.

Possible examples of pledges include:

- insurers pledging to develop accessible products covering epidemics (apparently not covered by existing products) or to develop a reinsurance for unemployment insurance etc.;
- insurers pledging to increase coverage of medical care, where appropriate supported by public support, for compensating for Coronavirus-related expenses;
- institutional investors pledging to specific actions -which would be in convergence with the interest of society and the real economy, avoiding short-termism-, yet being fully reconcilable with their financing obligations / fiduciary duty, for example by participating in schemes assisting in a coordinated economy wide response and recovery;
- financial market actors (going beyond banks) announcing not to distribute dividends in order to conserve their capital and liquidity buffers to strengthen their capacity to support companies and households[3].

Practically, DG FISMA can establish a functional e-mail address to which financial market actor would sent their pledges, which we could then publish on a dedicated website and possibly even a dedicated twitter account.

Political and market feasibility:

Politically, this initiative should be welcomed; no particular challenges are expected. This initiative would strongly reinforce the perception of EU value added to mobilise action across the EU in a coordinated fashion.

Market wise, Annex IV lists examples of pledges, calls for action and other initiatives taken by the industry so far. Most individual actors, frontrunners in the market, who have already pledged will welcome this initiative as it will only increase the profile of their pledges This will turn will hopefully inspire others to follow the suit. An informal testing of few individual firms (both that have made announcements as well as those who have not) **confirmed their interest and support** for this initiative.

1.c. Mobilisation of direct financial support to help fight the pandemic

Going beyond the specific pledges by financial institutions as referred to in section 1.b, the Commission can launch new initiatives to mobilise private funds, where financial market participants – banks, insurers, pension funds etc.- as well as philanthropists would be encouraged to contribute to directly finance or co-finance projects with a tangible positive impact on society across all EU Member States (health care, minimising negative social impacts).

First, The Commission can create a **list of companies** carrying out economic activities **or** implementing **initiatives and projects that are crucial to fighting the COVID-19**

[3] Being inspired and going beyond the banking sector and any supervisory measures already taken or recommendations made. In this context, please refer to the announcement by the ECB/SSM on 27 March, asking banks not to pay dividends at least until October 2020.

crisis. The list will be made public together with comprehensive information on the existing funding channels. The list can be used to identify projects that would qualify as part of Corona-themed investment funds.

Second, the Commission can promote private financing of those projects and initiatives at EU level through the following initiatives:

a) For projects and initiatives already attractive for investors, we may **bring together private investors and project promoters**, businesses, or other private initiatives in need of funding **through the dedicated matchmaking facility** proposed under section 2.a. of this note;

b) for projects and initiatives that may require a stronger financial or other incentive(s) to attract private investment, we can explore blending as an option to make a very targeted and strategic use of limited amounts of public funds to mobilise larger-scale financing from partner financial institutions and the private sector.[4] **Blending could be successfully be utilised to support the scale-up of initiatives in order to combat the ongoing COVID-19 crisis.** The EU's as well as Member States' contribution could come in forms of grants, financial instruments, risk-sharing instruments, guarantees, the provision of risk capital, or a mixture thereof. Accordingly, it would be desirable that **any future public sector measures** (budgetary subsidy, guarantee, state aid, tax, procurement etc.) are not taken in isolation. Instead, any such measures should, –where possible- **explicitly consider how** they can incentivise positive behaviour and **mobilise further contribution / financial support by the financial sector** towards funding urgent needs stemming from this crisis. This fundamental principle can considerably increase the effectiveness of the public policy response.

Examples of possible initiatives that could be supported either through blending or matchmaking might entail the following:

- **To top up the fund of the Emergency Support Instrument**, together with the contributions from Member States and other stakeholders, set up to support **the needs of European health systems.** This initiative announced in the Commission's Communication Coronavirus Response on 2 April is a collective European effort to save lives and support each other.[5] More specifically, private sector might help finance the efforts to scale, distribute and analyse COVID-19 tests. This could help meeting the objective that every EU citizen can be tested when needed (even if every day).[6]

[4] Selected Commission services already carry out blending operations, including for instance DEVCO, NEAR, and ECFIN. These blending operations are implemented in the context of the EU Blending Framework.

[5] The proposal will allow for flexible, fast and direct support across two broad priorities. The first is helping to manage the public health crisis and securing vital equipment and supplies, from ventilators to personal protective gear. This could also provide medical assistance to the most vulnerable, including those in refugee camps. The second area of focus would be on enabling the scaling up of testing efforts and treatments.

[6] Whereas in the short run tests are part of the urgent medical needs, also on the longer term, the only way to restart the economy safely, in particular in large metropolitan areas, if employees know every morning if they have been infected, simply as symptoms are too delayed.

- To complement the Coronavirus Response Investment Initiative, to create and contribute to a new **EU Corona Solidarity Investment Fund** – combining both private and public funding that could be used, among others, also for **supporting workers who have lost their jobs** as a result of the Corona virus crisis.[7]

- There are many other examples that might be considered for this purpose, including more generalised **EU Corona funds** that are invested in companies across the EU that are either carrying out functions generally critical for the smooth functioning of the economy or companies that are contributing to solving the health aspects of this crisis.
  The Commission can work in close cooperation with the financial market actors on developing criteria and guidance for developing such funds.

Operationally, to facilitate the mobilisation of funds by the private sector, **DG FISMA can create a dedicated website that provide an overview of the different opportunities to contribute**, depending on the nature of the funding needs, goals, and terms of the private sector engagement.

c) The Commission should encourage the uptake and promote a greater use of various EU **Corona-impact dedicated capital market instruments**, where appropriate, with appropriate incentives designed at MS and/or EU level. Two relevant types of capital market instruments exist today: (i) Social Bonds and (ii) Social or Health Impact Bonds. Social Bonds are bonds where the use of proceeds finance social projects, usually following ICMA's Social Bond Principles. Social Bonds targeted at COVID 19 tend to finance areas such medical research and development of vaccines, medical equipment, and specific projects designed to alleviate unemployment generated by the crisis. Recently, several multilateral developments, including EIB, have issued such social bonds targeting COVID 19. Social or Health Impact Bonds are financial instruments where the return of the bond depends on predetermined measurable social / health outcomes, on the basis of an impact reporting framework.
   - In the next 4 weeks, the Commission could – in close cooperation with Member States - outright develop specific **guidelines and principles for such bonds**, while leveraging on the established market practice (such as ICMA's Social Bond Principles). This could take the form of a **Commission Communication on EU Corona Impact Bond Standard**.
   - Going beyond 4 weeks, the Commission could explore support issuances of **social bonds target COVID19** and following a market-standard by:
     - offsetting the extra costs of issuing such bonds over regular bonds through a limited time **grant programme.** Similar support schemes for green bonds exist in several Asian countries.[8]

[7] This Fund could comprise a variety of funding instruments following the example of the Just Transition Mechanism (JTM).
[8] For example in Singapore: https://www.mas.gov.sg/schemes-and-initiatives/sustainable-bond-grant-scheme

    - developing a **guarantee scheme** to guarantee parts of tranches of such bonds. A particular emphasis in these efforts should be put on the EIB, to see what role they can play and whether the EIB could issue or sponsor issuance these bonds. As regards the hierarchy of creditors, it would be important to develop options, where the national public sector does not feature on the top and would be at least be on a par with financial market actors/banks.
    - by **subsidizing** a part of the return if the specific pre-determined health or social impact is achieved. This would make it more attractive for issuers to issue and for investors to invest in these instruments.
- Finally, DG FISMA can also -in cooperation with DG ECFIN- support the ESM in moving to implement a substantive COVID-19 social bond program, and encourage other relevant European issuers to do the same. FISMA can explore more widely the potential of these bonds for European MDBs, National Promotional Banks, regions and major cities.

Political and market feasibility:

Politically, mobilising support from private funds to complement public interventions should be welcomed, drawing from the experience from the sustainable finance agenda. This initiative would strongly reinforce the perception of EU value added to mobilise action across the EU in a coordinated fashion.

Market wise, this action **would accelerate the ongoing efforts and the scale of the contributions** by financial market actors to meeting urgent financing needs arising from this crisis. A greater clarity for investors about the various opportunities, including for blended instruments, would be very welcomed, as well as a guidance on the criteria of the instruments with a positive health care / social impact.

2. MAKING USE OF PLATFORMS TO MOBILISE SOCIETY ON COVID-19 RELATED FINANCING ISSUES ACROSS THE EU

2.a. Establishing or building on any existing EU open-access data platform to record unmet urgent financing needs related to fighting the pandemic, with regards to medical care[9]

To help address the health emergency, open-access data platforms (new or qualified existing ones - something like a ‘database’) should **list projects with unmet urgent financing** needs related to fighting the pandemic in the EU.[10]

The platform(s) would collect and list calls for finance with a short description of the project to be financed, the products to be produced or services to be provided and how that would help address the health crisis. It could possibly also list urgent demand for certain products and services. This way companies could see where there is unmet demand not only nationally, but **throughout the EU**. They could try to adjust their production lines to meet those needs. Adjusting production lines might require financing. Companies could publish their calls for financing on the qualified platform(s) that financial intermediaries could respond to directly, by contacting the project promoter.

This action is similar to the European Investment Project Portal (EIPP), which is the existing EU matchmaking facility for project promoters and investors and managed by DG ECFIN and the EIB. It should be explored whether that platform could be used to implement this action swiftly, inviting financial market participants addressed by actions under section 1 above to use this platform for finding projects to finance.

This initiative aims to address information problems, provide economies of scale, and promote EU solidarity. As the health crisis proceeds with different speeds in different Member States, **EU-wide coordination of meeting needs might be beneficial to all**. **The capacity to produce certain goods might be located in one Member State, the demand for these goods in another, and the capacity to finance the project in a third EU Member State**. Also, the demand in one country might alone not be worth to finance a new project, but the demand of several Member States could make it an economically viable project.

In practice, we could explore if this could be implemented in the framework of an existing platform of the Commission (DG ECFIN, DG GROW).

[9] This action has a potential to expand its scope to broader financing needs later.

[10] The platform could be used during the health crisis exclusively to list projects to meet urgent healthcare needs. Once the health emergency is over and we get into the recovery phase, the platform could be opened up to the financing needs of companies affected by the crisis. In the recovery phase, if policymakers agree that projects with employment creation and greening should get priority / preferential access to finance, this platform – beside other existing channels – could help to implement that.

Political and market feasibility:

This action should be welcomed by political actors as well as market participants as it is not controversial and can accelerate **ongoing efforts** to meeting urgent financing needs arising from this crisis by helping to match quicker financial market actors and companies with unmet financing needs. If an existing platform can be used, that would imply faster implementation of this action.

Suggested next operational steps:

A group of colleagues from the relevant units would discuss with other DGs possible synergies, and develop a concrete concept, within a week.

2.b. Launch an EU-wide crowdfunding campaign to promote solidarity and engagement among citizens across the EU to support the most vulnerable parts of society

The Commission would coordinate a **joint action among existing crowdfunding platforms** to mobilise the financial and non-financial sector and citizens to contribute, alongside the public sector, to limiting the negative impact of the crisis on the most vulnerable citizens ***across the EU***, as well as on very small businesses and self-employed most affected by the lockdown. The Commission could help organise and coordinate the effort of platforms adhering on a voluntary and best-effort basis to **launch an EU-wide crowdfunding campaign (or promote social lending/instrument issuance) on their portals.** Such coordination efforts shall include the design of the campaign and the most effective marketing strategy to maximise support, but also considerations on how to ensure that contributions can come in from all Member States, as not all platforms may have full coverage of the EU.

Another important aspect is how to channel the proceeds within the EU in a fair manner, taking into account the needs on the ground and the urgency of the action across Member States. Therefore, the initiative would also require coordination with no-profit organisations and local government agencies to ensure that the aid is delivered on the ground in the most cost-effective way. Participating platforms will not charge any fee and bear all the costs of operations.

This initiative **would allow all EU and non-EU citizens, including philanthropists, foundations and companies, to contribute to help fight the crisis**. Donations would contribute to finance several compartments of the society with a single purpose: to support those who are most in need because of the crisis.[11] Giving to the initiative the EU quality stamp / label would create trust and so the conditions for sizeable contributions to come in.[12]

[11] Such as low-income groups in general, but in particular the elderly who are already now feeling the brunt of social isolation and inability to get access to everyday items they may need. This could also cover workers who lost their jobs as a result of the Coronavirus crisis.

[12] There are already ongoing grassroots initiatives, initiated by community leaders, such as for instance direct payments to freelancers of colour in the US, who have lost their income stream as a result of the crisis. Similar problems can arise, especially for poor families, freelancers and the self-employed in the EU, especially in countries where austerity measures have significantly increased inequality. One example is the UK (similar problems exist in many EU MS), where school closures already put more than 1 Million school children at risk of malnourishment, as they were relying

It would launch **a strong signal of solidarity not only at a national and local level but also EU solidarit**y to affected populations across Member States. While the borders are physically closed for the movement of people, the capital should keep flowing at least for those suffering the most!. Finally, the European Commission (together with the EIB, perhaps) could consider the co-funding of the aid, using part of the EU funds dedicated to grants for instance.[13]

Political and market feasibility:

Politically, this initiative should increase a perception of a value added of the EU action.[14]

Market feasibility of this proposal is currently being informally discussed with the industry. A preliminary contact with the European Crowdfunding Network, which represents a large part of the industry, **was very positive** and the association will now liaise with its members to test the waters. But more contacts, especially with donation-based platforms, will have to be established in the coming weeks.

Suggested next operational steps:

A team lead by B1 will develop a detailed concept / feasibility note within the course of a week.

The Commission would also need to commit resources to prepare the EU-wide campaign, not just in terms of coordination with platforms and no-profit organisations, but also in the preparation of videos in all EU languages and content for the campaign to be in operation in the coming weeks (up to one month). Coordination with other DGs is also important to ensure that all the necessary resources are being mobilised.

2.c. Establish a platform to promote innovative solutions aimed at addressing the operational challenge of getting available funds to businesses in need

Keeping the financing of Europe's businesses going is a major operational challenge both for public institutions and the financial sector. While the availability of resources is important, it is equally essential to find practical and operational solutions in order to get liquidity in time especially to SMEs and the self-employed, but also to keep citizens who are in dire need afloat.

At the same time, many firms in Europe's financial sector are deploying many innovative ideas to help keep the financing of Europe's businesses going. For example, fintechs are developing solutions to help banks quickly process millions of requests for guaranteed loans. Data-driven innovative solutions can help identify firms, which are in the most urgent need of financial support to keep going.

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on free school meals. In many cases, these meals cannot be provided by families, who are struggling financially. However, scaling up such initiatives, in order to support individuals who are struggling, could be hugely beneficial.

[13] For the medium to long term, depending on the ambition, the Commission might also consider setting up a dedicated EU-wide COVID crowdfunding platform, which would however take a bit longer than the action described here.

[14] We have launched discussions on whether and how to use crowdfunding platforms and their networks as distribution channels for public (incl EU) sources of funding – the political feasibility of which needs yet to be tested. This will be covered in the upcoming note covering measures with a medium to long term positive impact.

The Commission could set up a **web-based platform** on which market operators could share information about the problems they are facing and the **best practice solutions**, which they are offering in order to address the financing squeeze arising from COVID-19 for businesses. This would contribute addressing the **administrative and operational bottlenecks which may impede funding from moving as rapidly as is necessary**. To the extent any such projects require guidance on their regulatory status under EU law, the Commission could offer jointly with the ESAs a fast track procedure to provide regulatory guidance.

Political and market feasibility:

This initiative would follow the example of similar initiatives taken by the private sector in other areas and jurisdictions (eg *startupsagainstcorona*.com). It could be easily implemented by the Commission and promoted via the existing Digital Finance outreach network.

Suggested next operational steps:

Unit B5 is working with unit A3 on implementing this initiative on the FISMA website.

Annex I – SUMMARY OF PROPOSALS FOR URGENT ACTION

		ACTION	Action (What would COM deliver concretely?)	Who (FISMA only or joint work with other DGs?/which FISMA units affected)	Addressee	Tentative timeframe to have impact (1 week/1 month/3 months)	Problem addressed by the proposal (health crisis/liquidity for businesses and citizens/vulnerable persons) and significance added value	Workload (limited/manageable/ high)	Financial resources required? (no/below EUR 20 000/significant)
1. BROKERING COMMITMENTS FOR RESPONSIBLE ACTION, PLEDGES AND DIRECT FINANCIAL SUPPORT FROM THE <u>FINANCIAL SECTOR</u> DURING THE CRISIS ACROSS THE EU	**1.a.**	**Joint Commitment on Principles of Responsible COVID-action for European Banking, Insurance, and Capital Markets**	Draft, agree and publish a EU Code of Responsible Conduct	FISMA (various units)	All financial market participants	1 month	liquidity for businesses and citizens/vulnerable persons – if financial sector engages, significant added value	Manageable	None
	1.b.	**COVID Resilience Pact**	Invite companies and financial institutions to make pledges of what specific actions they commit to taking, in order to help fight the pandemic	FISMA (A1, A3, B2, B5) with other DGs and DG COMM	All financial market participants	1 month	Health crisis/ liquidity for businesses and citizens/vulnerable persons Depending on the scale of the pledges, the added value can be significant. In addition, a strong signal of responsibility and contribution to the societal needs, alongside the public sector, inspiring others to follow the suit – hopefully launching a wave of significant commitments, which would reassure businesses, reduce anxiety	Manageable	Below EUR 20k

	1.c.	**Mobilisation of direct financial support**	- Create a list of companies carrying out relevant projects and initiatives to qualify as part of Corona-themed investment funds. - Promote Corona-themed investment funds at EU-level through public statements (not enough time to create a label). - Explore blending in order to incentivise investors to support these types of initiatives and projects, where they may not be immediately attractive to private investors.	FISMA with other DGs, in particular ECFIN, EMPL, JUST, SANTE, EIB, ESM, ESAs	Asset managers Institutional investors Banks EIB, ESM	1 month	Health crisis / liquidity for businesses and citizens/vulnerable persons – if financial sector engages, significant added value	Manageable, but this will depend on the scale of the project, if it is rolled out.	- For the bulk of the actions ,resources are limited to operational resources deployed by Commission services. - For action related to blended instruments, the resources that will ultimately be used to implement these solutions will depend largely on the availability of EU funds to crowd in private investment for this purpose, as well as the appetite for doing so.
2. MAKING USE OF PLATFORMS TO MOBILISE <u>SOCIETY</u> FOR COVID-19 RELATED FINANCING ISSUES ACROSS THE EU	**2.a.**	**Establishing or building on any existing EU open-access data platform to record unmet urgent financing needs related to fighting the pandemic, with regards to medical care**	- Make publicly available the list of companies looking to raise funding for relevant projects (projects that qualify as addressing urgent needs linked to the Corona virus). - Invite financial market participants to select from those projects what they could finance or co-finance. - For projects that are not profitable investments and that have not been selected by philanthropic donors, explore which other forms of blended or public funding could be used.	FISMA (B2, B4)	- Companies with relevant corona action projects looking to raise funding - Philanthropists (private individuals or companies with sufficient resources to help) - Financial market participants - National and EU actors managing public spending programmes	If implemented within the existing EIPP platform, less than 1 month		Depends on which EU spending programmes might be used, but should be manageable with current resources (plus extra 1 or 2 FTE?).	Should be manages from existing resources and spending programmes

	2.b.	**Reinforce solidarity and engagement among citizens across the EU through crowdfunding platforms**	Launching an EU-wide crowdfunding campaign by coordinating a joint action among existing crowdfunding platforms to promote projects (issuance of social lending / instruments) limiting the negative impact of the crisis on the most vulnerable citizens, very small businesses and self-employed most affected by the lockdown across the EU	- FISMA (B1, A3) - DG COMM	- Existing crowdfunding platforms - All financial and non-financial actors - Citizens	Up to 1 months to organise (translations needed), 1 month to fundraise.	liquidity for businesses and citizens/vulnerable persons – if citizens engage, significant impact Apart from that, a strong signal of solidarity, not only at a national and local level but also EU solidarity across borders	Manageable	Below EUR 20k
	2.c.	**Keeping Finance Going – exchange of best practices and regulatory guidance platform**	- Set up a web-based platform on which market operators could share information about the problems they are facing and the best practice solutions - Award a prize for the most innovative solutions	- FISMA (B5, B4, A3)	- Fintechs / innovative firms - All market operators	1 week	liquidity for businesses and citizens/vulnerable persons – impact difficult to measure, but very easy to implement	limited	Below EUR 20k

Annex II

First draft of a letter from the EVP Dombrovskis to the presidents of major European associations:

EBF
ESBG
EACB
EAPB
EMF-ECBC
EFBS (European Federation of Building Societies)
EFAMA
AFME
Insurance Europe

ICMA and associations supporting Principles for Responsible Investment and Principles for Responsible Banking are interested in this kind of initiative. They are global in scope; to be discussed if we would want to address them in the same or a separate letter.

Dear…

The rampant coronavirus pandemic impacts the European economies in unprecedented ways. The European governments and the European Institutions have intervened in a number of ways to mitigate this impact. Nevertheless, citizens and businesses go through grave uncertainties, notably linked to the remaining risks of spread of the virus and the duration of the health precautionary measures.

The continued availability of credit and equity from banks and markets is one important concern, as is the affordability of debt service when household income and business revenues are hit. Moreover, citizens and businesses must be able to rely on quick and seamless insurance cover for any direct or indirect losses that they have insured or wish to insure for. I note with great satisfaction that the ECB and our European Supervisory Authorities have communicated decisive measures and important messages to the financial sector, which provide important breathing space to the sector and will facilitate it playing its part in alleviating the concerns of citizens and businesses. These measures show that our regulatory framework contains enough flexibility to respond to complex situations. Coordinated measures, or in the case of bank supervision in the Euro area, single measures, also show that collective European action is much more effective and has a broader positive impact than dispersed uncoordinated measures.

In this context it is also important that industry is given the time to properly prepare to the introduction of new standards and that it has the proper space to contribute to policy-making. We are working with our international partners to ensure that the global response is consistent. I welcome the decision by the Basel Committee that defers the Basel III implementation to increase operational capacity of banks and supervisors to respond to Covid-19]. As I mentioned publicly, this will allow us to adapt our own calendar.

I have also extended the duration of public consultations, both the ongoing ones and the three very important ones that we have just launched, because I really want to makes sure Stakeholders have the necessary time to make contributions under the challenging circumstances. The corona crisis reminds us how dependent we are on the environment and human solidarity, how important social responsibility of business is and what a key role digitalisation plays – from business continuity to public safety. Our public consultations provide you with an opportunity to give an input on these theme into our policies sand I can only encourage you to make the best use of that opportunity.

Needless to say, also the fight against the virus itself requires the support and solidarity of the European financial sector: this fight can only be won with the full commitment and close cooperation of public and private actors.

On this basis, I believe that it would be extremely reassuring for Europe if its financial industry as a whole clearly stated its commitment to do what it can to support citizens, businesses and the public sector. I am well aware that there are already certain commitments from individual firms and national associations. I welcome them wholeheartedly. However, this crisis is unprecedented in scale and necessitates a broader, coordinated commitment.

In particular, I would welcome the European financial sector commit to maintaining investment, credit and credit lines to households and businesses wherever it can be reconciled with your fiduciary duties. I hope you could also commit to extending additional credit to cover crisis-related cash-flow shortfalls, and, where not already required legally, to offer general [, interest-free (to be assessed if this goes a little far)] deferral of debt service and to offer other easing such as reduction in fees to citizens and businesses significantly affected by the infection, by infections of their staff or by public measures to prevent the spread of the infection. Our citizens deserve reassurance that employers with business models that were viable before the crisis will still be viable thereafter, acknowledging of course that there will be some unavoidable change to business models after the crisis.

As to insurance, you should consider continuing to make any cover quickly and seamlessly available as before the crisis [, and at unchanged pricing, (to be assessed if this goes a little far)] while taking a fair reading of insurance contract clauses to ensure that COVID-19 related costs will be covered (e.g. in health insurance or insurances for companies).

I am sure you recognise the important responsibility that the European financial sector has towards citizens and businesses in the Single Market. Not least, because our financial sector derives its strength from that same Single Market. It should thus go without saying that I expect you will not discriminate in your commitments and practice against any of your borrowers or clients regardless of their Member State of residence or establishment. I feel it should also follows from the responsibility of the financial sector towards the European society that you avoid discretionary distributions of earnings and reserves to investors and carefully consider variable remuneration when and where they could be detrimental to its support to citizens and businesses. I believe the messages given by EBA and EIOPA in this regard are very pertinent.[15]

[15] https://www.eiopa.europa.eu/content/eiopa-statement-dividends-distribution-and-variable-remuneration-policies-context-covid-19_en

https://eba.europa.eu/sites/default/documents/files/document_library/News%20and%20Press/Press%20Room/Press%20Releases/2020/EBA%20provides%20additional%20clarity%20on%20measures%20to%20mitigate%20the%20impact%20of%20COVID-19%20on%20the%20EU%20banking%20sector/Statement%20on%20dividends%20distribution%2C%20share%20buybacks%20and%20variable%20remuneration.pdf

I would be very happy to enter into a dialogue with you about these ideas and what more the European financial sector could do to support citizens and businesses in these times and beyond as we wish to ensure the swift recovery of our economy. In that respect, I am sure there are specific pledges your member firms could make to support key measures and projects in support of citizens' health as well as of economic resilience and recovery. Measures that favour resilience in the future also deserve consideration, for instance improvements in financial contracts, such as automatic payment deferrals or deferrals of credit events in derivatives documentation in case of a future declared pandemic.

I am sure you will rise to the challenge that this crisis poses and will play your important part in allowing us all to leave these daunting times behind ourselves.

Yours sincerely

Annex III – possible actions for further work for the medium and long term

We are currently working on exploring a number of ideas for the medium term (3-12 months) by which the EU could provide additional financial and regulatory support for the financing of the recovery. A first brainstorming within the DG has brought forward ideas in the following areas:

- Measures to further promote Securitisation
- Making it easier for SMEs and companies to raise funds by way of a simplified "SME solidarity prospectus"
- Measures under the Market Abuse and MiFID investor protection frameworks to prepare a more enabling regulatory environment post-crisis
- Targeted adjustments of the prudential framework with a view to facilitating financial institutions' activities to finance the recovery
- Measures on the application of fiduciary duty requirements by institutional investors and asset managers and the upcoming requirements for the suitability test
- An EU Sovereign Fund that buys equity, EU strategic projects and private financing & global dimension
- Promoting best practices and developing a toolkit for Member States to ensure liquidity to companies and households

Moreover, as we start to emerge from this crisis, the Commission will need to adjust its flagship financial sector policies. This concerns in particular the Capital Markets Union, Banking Union, digital finance, retail payments strategy, sustainable finance etc. We will need to make sure that these flagship priorities not only fit into the latest context and challenges, but in the first place that they accelerate the recovery from the crisis. We are starting a broader reflection on these adjustments to be able to reap all key opportunities.

<u>Annex IV – Examples of existing pledges / initiatives / calls for actions by the industry</u>

On the one hand, coalitions of investors have called for action, including:

- A new investor coalition, led by Domini Impact Investments, the Interfaith Centre for Corporate Responsibility (ICCR), and the Office of the New York City Comptroller, has been launched under the "Investor Statement on Coronavirus Response". 195 investors, representing USD 4.7trn have already signed the statement calling investee companies to protect employees, customers and suppliers through the current Covid-19 crisis. https://www.iccr.org/investor-statement-coronavirus-response
- The PRI have issued a guide on "How responsible investors should respond to the Covid19 Coronavirus crisis" highlighting immediate actions to take: https://www.unpri.org/covid-19
- SRI investors are reshaping their sustainability-themed investment strategies in facing the crisis, some of them specifying response to Covid-19 must be done in alignment with the SDGs.
- The IGCN believes that the answer to the crisis resides in long termism… https://www.icgn.org/sites/default/files/Viewpoint%20GNIA%20Global%20Market%20Updates%20AGMs%20March%202020_2.pdf

Other initiatives identified:

- https://impaxam.com/wp-content/uploads/2020/03/Investor-statement-on-coronavirus-response-26-03-20.pdf?pwm=3921
- There will be a Global Statement – and regional ones, so one for the EU – from investors. This is work in progress.

On the other hand, on lenders/ borrower side, please note:

- Covid-19 related bond issuances: Issuers, mainly SSAs, have started issuing Covid-19 related bonds (some of which under the Social Bond format): International Finance Corporation (IFC), The Bavarian Government, The Republic of Austria, Inter-American Development Bank (IADB, or IDB), African Development Bank (AfDB), Nordic Investment Bank (NIB), and European Investment Bank (EIB) are among the issuers of such bonds (see the recap attached).
- ICMA / Green Bond Principles has published the following press release and Q&A on the recourse to Social Bonds to finance emergency response measures:

  https://www.icmagroup.org/News/news-in-brief/green-and-social-bond-principles-with-icma-underline-relevance-of-social-bonds-in-addressing-covid-19-crisis-and-provide-additional-guidance/

  https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Social-Bonds-Covid-QA310320.pdf