ICSA
INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

Financial Market Responses to COVID-19

Report of the Emerging Markets Committee

BROKERS FORUM

Chair

AMIB | ASCO | anmi | Korea Financial Investment Association | TCMA | SA

with contributions from

AFMA | JSDA Japan Securities Dealers Association | NZFMA

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ICSA
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ABOUT ICSA

Founded in 1988, ICSA is the global organization of securities industry associations representing firms across the world including East and West Asia, Latin America, North America, and Europe.

ICSA is the only true representative of the global securities industry.

ICSA provides members with market intelligence, a stronger voice, and increased impact by

- serving as a forum to understand developments, exchange views and practices, and collaborate to work for better global capital markets

- advocating appropriate regulatory policies, regulations, and initiatives across jurisdictions to promote efficient and well-functioning securities markets and the flow of cross-border capital

- assisting regulators and government authorities in understanding the global, consolidated, and non-biased position of the industry as it relates to proposed policy and regulatory reform

As IOSCO brings together the world's securities regulators and develops and implements internationally recognized standards for securities regulation, ICSA is ideally suited to work closely with them to provide market perspectives and positions. ICSA has built relationships with the Financial Stability Board, the Basel Committee on Banking Supervision, and the OECD.

Consultation responses and research published by ICSA can be found on dedicated sections of its website www.icsa.global .

Financial Markets and the COVID-19 Pandemic

Financial markets have remained open and are operating effectively, if imperfectly, in difficult conditions as the impact from COVID-19 is felt. There is uncertainty about the scale and duration of the economic impact and about the virus itself and the effectiveness of measures to contain it. This has impacted the qualitative performance of financial markets but they continue to substantively serve their core economic functions. Investors can trade and manage risk, governments are able to borrow, and companies are able to raise equity, albeit in a less efficient manner in some instances.

The regulatory reform measures for banks and financial markets that were put in place in the aftermath of the global financial crisis have increased the resilience of the global financial system, including with banks having more capital and liquidity than previously.

Financial institutions have faced increased operational risks, as their staff are dispersed, working from home and BCP sites as well from the normal office arrangements.

Most financial markets experienced a significant widening of bid-ask spreads, with turnover also declining in most markets other than equities. Government bond markets were notably affected as investors sought to rebalance portfolios.

Financial system business continuity plans have generally worked well to date but the COVID-19 impacts will test the operational resilience of financial institutions and related infrastructure more broadly. Operational capacity has been reduced, which is already impacting market functioning, and the chance of technology failures or cyber-attacks has increased.

Governments have taken measures to support the provision of credit to businesses and households. The measures vary across jurisdictions and include:

- Authorities have encouraged banks to use their capital and liquidity buffers.
- Central banks have provided substantial liquidity to banks and supported government bond markets;
- Governments have offered guarantees on business loans, direct grants and tax relief;
- Governments and central banks have taken steps to support equity markets and related products.

<u>Recent Global Body Announcements</u>

The commitment by the Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) to act to ensure that capital markets continue to function throughout this difficult period in an open and orderly manner has provided a helpful framework for the actions by domestic regulators and government authorities to address practical issues that arise in their local context.

20 March – **FSB** stated that its members, including the international standard setting bodies, are cooperating to coordinate action, including financial policy responses in their jurisdictions, to maintain global financial stability, keep markets open and functioning, and preserve the financial system's capacity to finance growth.

20 March – **BCBS** stated its suspension of consultation on all policy initiatives and postponement of outstanding jurisdiction assessments for 2020 under its Regulatory Consistency Assessment Program.

27 March - **BCBS** announced the implementation date of certain Basle III standards, including the revised market risk framework, have been deferred by one year.

2 April – **FSB** made a statement on actions required to ensure continuity of critical financial services inputs to support market functioning and the provision of credit to households and businesses.

3 April - **BCBS** and **IOSCO** extended the deadline for completing the final two implementation phases of the margin requirements for non-centrally cleared derivatives, by one year. This will provide additional operational capacity for firms to respond to the immediate impact of COVID-19.

Global Perspectives
Financial Markets Regulator Responses

While the specific situation of national and regional capital markets differs markedly, there are common elements in the response to COVID-19.

The first priority has been to ensure that the financial markets remain open and capable of operating effectively. Recent supporting statements by the FSB and IOSCO were helpful in this regard.

In many jurisdictions, this has required the designation of financial markets as essential services. FSB's public statement on 2 April is widely appreciated because it specifically draws attention to third-party providers who deliver core services to financial entities. Experience has been that this has not always been understood at the outset which has presented temporary problems. The related initiative by FSB members to engage with national and local authorities will help ensure that this important feature is understood more widely.

Another priority has been to ensure that the regulatory compliance remains feasible under COVID-19 operating arrangements. The considered response by many regulators to practical issues across a range of areas, including tax and AML as well as securities regulation, is welcome and has not compromised core control requirements.

More generally, the adjustment of timeframes by authorities and regulators for policy consultations and implementation of agreed reforms has freed up operational capacity to respond to COVID-19.

With respect to the operation of securities markets, there is a notable distinction between the recent performance of debt and equity markets and each required different policy responses. While many equity markets recorded very high turnover, debt markets have in contrast experienced lower liquidity and dislocation. Consequently, central banks and authorities have taken steps to restore balance to bond markets, while significant portfolio adjustments by investors. They have also provided valuable support at the short end of the market. In relation to equities, there have been initiatives in a number of jurisdictions to temporarily speed the flow of capital to business though placements and other issuance.

So, the COVID-19 situation is one where effective engagement, dialogue and cooperation between industry participants and government authorities has been vital – there are just so many practical, detailed issues to be overcome. Effective communication and cooperation have been a feature of this relationship across a range of jurisdictions. This is something to build on as we navigate the crisis.

More broadly, the pathway towards a coordinated global response that FSB is pursuing is equally important, as is the contribution of the standard setting bodies towards this objective. Looking to the future, it will require well targeted and proportionate regulation to support economic recovery and growth.

ICSA PUBLIC STATEMENT: 30 March 2020

THE IMPORTANCE OF EFFECTIVE FINANCIAL MARKETS DURING THE COVID-19 OUTBREAK

Financial markets are critical infrastructure for the global economy. The markets continue to serve the needs of participants to raise capital, manage investments, access cash and manage risk that affects both retail and institutional investors. The market price formation process provides vital information to decision makers in the business, financial and government sectors.

As nations restrict personal mobility to help contain the spread of COVID-19 with the resulting consequences for economic activity, it is vital that any steps taken continue to recognise the need for financial market participants to provide the services that are necessary for the continued functioning of the financial markets and the financial system more broadly. As part of that, jurisdictions must clearly deem necessary financial services staff as 'essential' and ensure that they can access their sites of work to maintain critical functions.

The financial system comprises financial institutions (including banks, securities broker-dealers, investment managers, insurance funds and pension funds), financial markets and the associated infrastructure required to support their activities. These components operate in a tightly integrated manner; for instance, financial markets provide an essential mechanism for banks to raise funds used to provide loan finance to business and household clients. Financial markets also provide the capability for banks to transfer risk between themselves and accept risk from their clients. The efficiency of the financial system depends on how well this occurs in practice; both in terms of practical cohesion of the various types of operations within the system and through containment of systemic risk.

Effective financial markets will help to ensure the maintenance of business and investment activity during the COVID-19 outbreak, support investor confidence and provide a base for economic recovery once the pandemic is contained.

ICSA welcomes the commitment given by IOSCO's Board in its statement on 25 March 2020 to ensure that capital markets continue to function throughout this difficult period in an open and orderly manner to enable all participants to price and transfer risk across all traded asset classes.

ICSA commends the work by the Financial Stability Board, in conjunction with international standard setting bodies, to coordinate action to maintain global financial stability, keep markets open and functioning, and preserve the financial system's capacity to finance growth.

COUNTRY NOTES

Note: The following Country Notes were prepared during the period from April to mid- May 2020.

India

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General COVID-19 Situation

India's COVID-19 numbers seem low as compared to the peers given the size of India's around 1.3 billion population. A major reason for this is the "complete national lockdown" with effect from 25 March. As on 15-April, the COVID-19 pandemic numbers in India were:
- Infected - 11,438
- Deaths – 377 (Source: Government of India)

Financial Services as Essential Services

The lockdown is extensive - includes complete shutdown of almost all commercial activities including flights (international plus domestic), trains (local plus inter-city) and severe restrictions on movement. Only people associated with essential services are expected to leave their residence(s) during this lock down period.

The Indian Financial Sector is exempt from the lock down restrictions. The list of entities includes:

a) The Reserve Bank of India and its regulated financial markets and entities like banks, payment system operators and standalone primary dealers.

b) The Securities Market Regulator, i.e. Securities and Exchange Board of India (SEBI) and capital and debt market services as notified by SEBI like Stock Exchanges, Clearing Corporations, Depositories, Custodians, Mutual Funds/ Asset Management Companies, Stockbrokers, etc.

Personnel related to financial markets faced the initial teething troubles:
- Lack of public transport has made travel cumbersome for office executives
- Clients are unable to transfer funds to the stockbrokers due to inability to reach banks where online banking facilities are not available
- Fear of health risk in the mind of the personnel and their family members/ neighbours

However, much of the work has shifted to Work-from-Home (WFH) format and the participants have quickly adapted to the new reality and the demands of the time.

Capital Market Developments

Market Operations

The Indian secondary markets have continued to function normally. The following table provides the market timings:

Table: Indian Capital Markets timings pre and during lockdown period

Exchange Traded Market Timings	Before lockdown	During lockdown	Remarks
Equity Markets	9 AM to 3.30 PM	9 AM to 3.30 PM	No change
Commodity Markets	9 AM to 11.30 PM	9 AM to 5 PM	Trading hours reduced
Currency Markets	9 AM to 5 PM	9 AM to 5 PM	No change

It may be noted that except for Commodity Derivatives, no market timings have been changed in the secondary markets.

Regulatory Measures

SEBI vide circular dated 20 March took, inter alia, the following measures:

a) Reduced the Market Wide Position Limit (MWPL), i.e. maximum limit of open interest in stock derivatives and introduced position limits in equity index derivatives (F&O)
b) Increased the rates of margin for certain stocks in Cash Market
c) Relaxed many reporting deadlines and provided additional time to market participants to meet with the compliance timelines.

Price Movements and Activity

The data displaying movement of benchmark Indian indices and Indian secondary market turnover are attached as Annexure A. the broad observations are:

a) Benchmark indices have fallen up to 20% (Annexure A – Chart 1 and Chart 2)
b) Cash market turnover have remained buoyant (Annexure A – Chart 3)
c) Turnover of Currency Derivatives, Equity Derivatives and Commodity Derivatives have seen significant falls. (Annexure A – Charts 4 to 8)

Annexure A - CHARTS (1 Mar 2020 to 13 April 2020)

Chart 1: Benchmark index – S&P BSE Sensex

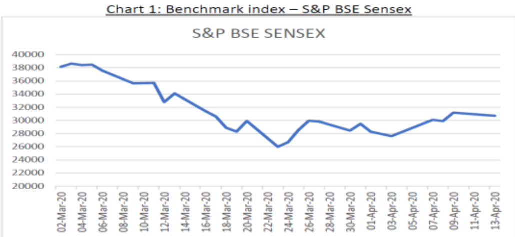


Chart 2: Benchmark index – Nifty50

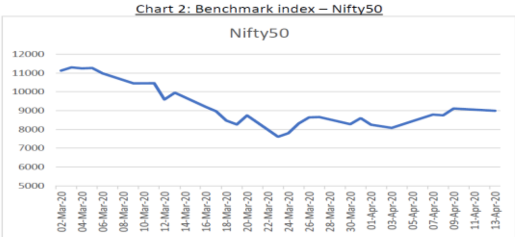


Chart 3: Cash Market (CM) Turnover

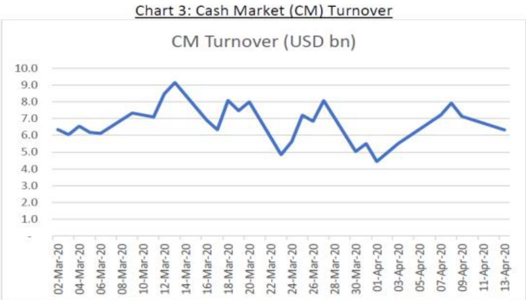


Chart 4: Currency Derivative (FO) Market Turnover

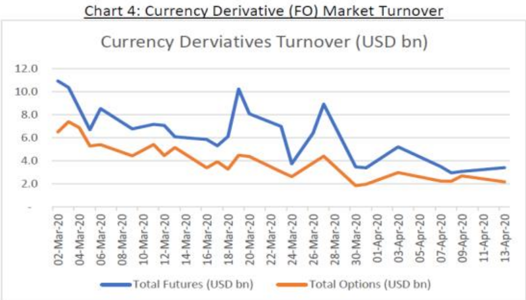


Chart 5: Equity and Index Future(s) Turnover

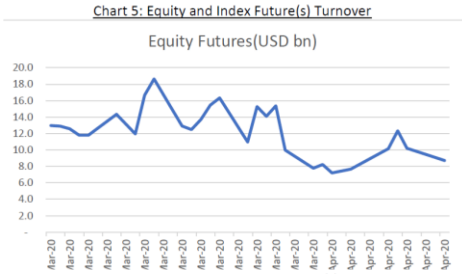


Chart 6: Equity and Index Option Derivative(s)Turnover

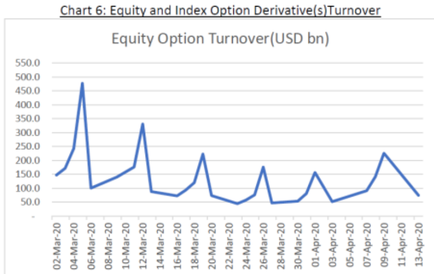


Chart 7: Commodities Futures Turnover

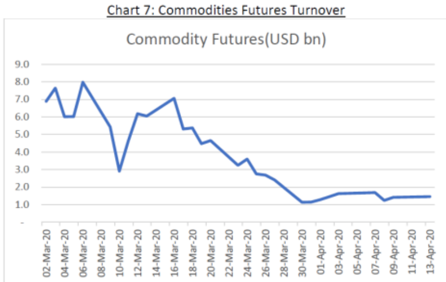
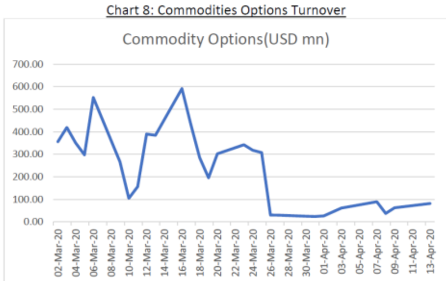


Chart 8: Commodities Options Turnover



ts):

a. Source(s) for Chart 1 to Chart 8 are the website(s) of the respective exchanges
b. Data in INR has been converted to USD at the rate of 1 USD = 76 INR
c. In case of Option Contracts across different market segments, "Turnover" represents "Notional Turnover"

Korea

Korea Financial Investment Association

Economic Situation

(1) Unlike in the past where the last two economic downturns have started within the financial system, the COVID-19 crisis is starting in the real economy and the damage could trigger not just a financial crisis but a global economic recession.

- A slowdown in consumption, production and investment, disruption of the global supply chain and reduction of international trade could result in a sharp contraction in the real economy.
- Without the slowing down of the spread of the virus and a pickup in demand in the real economy, the crisis could be prolonged.

(2) The impact on those who are especially vulnerable such as small business owners and SMEs could spill over to the overall economy, threatening all economic players.

- While major corporations and banks were at the epicenter of the financial crises in the past, small business owners will be the first to be hurt by the pandemic.
- Rather than putting in place targeted measures such as the restructuring of companies or the financial system, extensive support measures are needed.

(3) There's too much uncertainty in terms of the scale and depth of the economic downturn that may unfold in the near future.

- The disruption in the real economy caused by a sharp decline in demand, together with significant uncertainty in the financial market could exacerbate the economic downturn.
- Considering the uncertainty surrounding the impact of the COVID-19 outbreak, the responses should be not only preemptive and bold but also prudent and long-sighted.

Equity Market

As with global equity markets, the KOSPI experienced enormous volatility and a high level of transactions as the COVID-19 pandemic triggered an economic recession worldwide. A summary of movements is:

- KOSPI: 2,277pt (20 Jan) → 1,987pt (28 Feb) → 1,439pt (19 Mar) → 1,754pt (31 Mar) → 1,823pt (7 Apr)
- KOSPI Volatility Index (VKOSPI): 19.3 (31 Jan) → 33.8 (28 Feb) → 48.6 (31 Mar)
- The average daily trading value for KOSPI: KRW 4.9tn (2019 average) → KRW 8tn (2020 average)
- The average daily trading value for KOSDAQ: KRW 4.3tn (2019 average) → KRW 6.7tn (2020 average)

An interesting feature of Korea's experience was that while foreign investors' net selling of stocks in the Korean market amounted to KRW 12.9tn as of March, retail investors recorded a net purchase of KRW 12.7tn. Young investors in their 20s and 30s actively sharing investment information online were the major driving force behind the net purchase of stocks by individual investors, with the number of active security accounts reaching a record high of 30.59 million.

*Net purchase of retail investors in 2020: KRW 6.3tn (Jan) → KRW 6.0tn (Feb) → KRW 12.7tn (Mar)
*Investor deposits: KRW 27.3tn (end-2019) → KRW 31.2tn (end-Feb, 2020) → KRW 43.1tn (end-March, 2020).

Government measures to stabilize the financial market

KOFIA has made a range of suggestions to the government focused on four main areas: the stock market, bond market, short-term money market and the tax system.

The Government has announced the following measures:

- Purchase high quality CPs and corporate bonds by establishing a KRW 20tn bond market stabilization fund.
- Support the issuance of bonds for companies facing difficulties due to the COVID-19 outbreak through the Korea Credit Guarantee Fund (about KRW 6.7tn).
- Support the refinancing of bonds for middle-market companies and big corporations through a takeover program by the Korea Development Bank (KRW 2.2tn).
- Direct purchase of KRW 1.9tn worth of bonds (Rated A or higher, investment-grade bonds issued as refinancing bonds by companies that recently experienced a credit downgrade due to the impact of COVID-19) by the Korea Development Bank.
- Purchase of high-quality corporate bonds in priority over other securities by the Korea Development Bank and the Industrial Bank of Korea and support refinancing of companies facing a temporary credit crunch (downgraded from A1 to A2) (KRW 2tn).
- Provide KRW 2.5tn of stock finance loans for securities companies through the KSFC.
- Unlimited repo market financing by the Bank of Korea (total purchase of KRW 8.71tn as of April 13).
- Launch of a KRW 10.7tn stock market stabilization fund.
- Increase the cap for call borrowings of securities companies and raise the limit on call loans for asset management companies.

Mexico

Mexico General Situation

The Mexican authorities have reported 38,324 confirmed cases and 3,926 deaths as of May 12, 2020. To delay the spread of the coronavirus, the government declared a health emergency and is implementing a range of measures, including travel restrictions, social distancing, closure of schools and shutdown of non-essential activities until May 30, 2020. On April 5, President Lopez Obrador outlined his government's policy priorities to combat the economic effects of COVID-19, including more health spending and strengthening of the social safety net.

The government announced that it would: **1)** ensure that the Ministry of Health has sufficient resources and does not face red-tape, and sufficient supply of medical equipment and materials; **2)** advance pension payments to the elderly; **3)** accelerate the tender processes for public spending to ensure full budget execution; and **4)** consider setting-up a Health Emergency Fund to request additional resources from Congress, that could reach up to 180 billion pesos (0.7 percent of 2019 GDP).

Besides higher health spending and strengthening of the social safety net, the plan includes measures like: **1)** frontloading of social pension and disability payments by four months; **2)** accelerating procurement processes and VAT refunds; **3)** lending up to 25 billion pesos to SMEs; **4)** liquidity support by development banks; **5)** some workers accessing loans against their social security accounts. In addition, the government announced **1)** public housing credit institute covering three months of workers' debt (defer further six months for those let go); **2)** lending of 25 billion pesos for small businesses who has not fired workers or reduced salaries since the outbreak. The week of April 19 the President further announced an austerity program for public expenditures including wage reductions and a hiring freeze in order to free up 2½ percent of GDP to finance additional health expenditures and priority investment.

Financial Services as Essential Services

On 31 March, the Government determined that financial services are essential services, these are banking, insurance, securities market and other financial institutions which are deemed to be essential services and exempt from the directive to close. Also included are third parties that collaborate with financial entities to provide services.

Equities Market

The Mexican equities market has continued to operate without disruption despite exceptional volatility particularly since March.

Central Bank Supporting Actions

Banco de México's Governing Board approved several measures aimed at supplying MXN and USD liquidity to the banking system, improving the functioning of domestic financial markets and fostering their sound development:

1. Reduction of the Monetary Regulation Deposit (DRM) by 50 billion pesos.
2. Adjustments to the Ordinary Additional Liquidity Facility interest rate.
3. US dollar auctions.
4. Collaboration with the Ministry of Finance to strengthen the Government Debt Market Makers Program.
5. Increasing liquidity during trading hours to facilitate the optimal functioning of financial markets and payment systems.
6. Extending the securities eligible for the Ordinary Additional Liquidity Facility (FLAO, for its acronym in Spanish), foreign exchange hedging program operations, and USD credit operations.
7. Extending the counterparts eligible for the Ordinary Additional Liquidity Facility (FLAO, for its acronym in Spanish).
8. Government securities term repurchase window.
9. Temporary securities swap window.
10. Corporate Securities Repurchase Facility (FRTC, for its acronym in Spanish).
11. Provision of resources to banking institutions to channel credit to micro, small-, and medium-size enterprises and individuals affected by the COVID-19 pandemic.
12. Collateralized financing facility for commercial Banks with corporate loans, to finance micro, small- and medium-size enterprises.
13. Swaps of government securities.
14. Foreign exchange hedges settled by differences in US dollars with counterparts not domiciled in the country, to be traded during hours when Mexican markets are closed.

Detail of each measure can be seen at the following web pages:

https://www.banxico.org.mx/publications-and-press/other-announcements/%7BE626A744-436D-2495-0969-3582C9571361%7D.pdf

https://www.banxico.org.mx/publications-and-press/other-announcements/%7B6F7FECBA-44CB-6AA5-4E4B-269DDBD9B5A8%7D.pdf

Mexican Banking and Securities Commission (CNBV)

Among the different measures adopted by this financial authority aimed at the securities market, the following stand out:

1. In the period from March 23 to May 30, 2020, deadlines are suspended regarding hearings, and procedures that are in progress, are carried out or must be carried out before the Commission, also considering the obligations regarding prevention of operations with resources of illicit origin and financing of terrorism.

Likewise, the periods referring to the various requests for authorization of new entities or new registrations are suspended.

The authorizations given to persons acting as investment advisors that expire during the contingency period, will be extended for the same period that the reference suspension lasts.

2. The President of the Commission is empowered to modify or temporarily withdraw those legal provisions issued for Financial Institutions and persons subject to supervision by the Commission, which are necessary to provide the administrative facilities required, without prejudice to participation that, in each case where appropriate, and corresponds to the other financial authorities.

Likewise, the President of the Commission may determine authorizations that may be granted in an expedited or conditional manner, as well as the relaxation of the corresponding requirements, in order to meet operational or market needs, the adoption of measures to mitigate risks derived from the actual situation. current or those acts intended to maintain the stability of the financial system and the stock market.

3. The Commission issued a recommendation to banking institutions to refrain from:

(a) Agree on the payment to the shareholders of dividends from the multiple banking institution, as well as any mechanism or act that implies a transfer of capital benefits to them or assume the irrevocable commitment to pay them in respect of the fiscal years of 2019 and 2020, including the distribution of reserves. In the event that the multiple banking institution in question belongs to a financial group, the measure will include the holding company of the group to which it belongs, as well as the financial entities or companies that are part of said group.

(b) Carry out share buybacks or any other mechanism tending to reward shareholders.

Any banking institution or financial group that intends not to follow this recommendation must give written notice to this Commission, within the next 7 business days, signed by its CEO, explaining the reasons why it determines not to comply with it. Said decision and its reasons shall be made public.

Taiwan

General Context

Taiwan so far has seen a fairly small number of confirmed cases of COVID-19 infection compared with its regional neighbors Hong Kong, Singapore, and especially South Korea and Japan. Businesses in Taiwan are contributing to the effort to ensure safety and social stability by implementing a variety of disease prevention measures, in many cases going above and beyond the government's basic recommendations. For instance, many companies are requiring that employees and visitors have their temperature taken before entering the premises. In most cases, those with a temperature above 37.5 degrees are asked to return home until their fever has abated.

The situation in Taiwan remains relatively under control, and the kind of panic that is all too common during a pandemic has been absent. However, the high degree of uncertainty has made it increasingly difficult for most people to maintain an attitude of outright optimism.

Stock Market

Speaking after Taiwan's stock market plummet on 19 March amid the escalating COVID-19 pandemic, President Tsai asked the public to maintain confidence, saying government funds are ready to prop up financial markets and industries impacted by the infectious disease. In additional, the National Financial Stabilization Fund is holding a high-level meeting to discuss the matter. The government is closely monitoring the financial market and will be ready to intervene with resources. The government is taking action to stabilize the financial market, added the incumbent president. This year alone, the government has prepared a budget of more than US$28 billion to be allocated to investment and purchasing, said Tsai.

The legislature has also passed a special budget of US$1.93 billion to be poured into industries facing financial difficulty because of the pandemic, said the president, adding the government has an additional US$1.3 billion funds ready for use if necessary.

Corporate Governance

As COVID-19 has been spreading rapidly throughout the world, Pursuant to Article 36 of Securities and Exchange Act, about 1,950 TWSE-listed, TPEx-listed, or Emerging-Stock Companies are required to hold annual shareholder meetings before the end of June. These meetings are usually held indoors, which increases the risk of infection and is highly concerned by the authority. To protect shareholders' rights and ensure that shareholder meetings take place smoothly with disease prevention measures, Taiwan Depository & Clearing Corporation (TDCC) has invited and conferred with stock affairs association, stock transfer agencies, representatives of listed companies, and peripheral organizations on March 4, 2020 for "Disease Prevention Operating Guideline for Shareholder Meetings" (please see the attached), which serves as corporations' reference for shareholder meeting arrangements during disease prevention period.

The aforementioned disease prevention guideline is based on both "Guidelines for large-scale public gatherings in the wake of the COVID-19 outbreak" by Taiwan Centers for Disease Control and stock affairs operating practices. The guideline covers venue facility arrangement prior to the shareholder meeting, path planning and disease prevention operating principles on the day of the meeting, and supportive measures as well as backup plans for the change of the meeting venue due to the disease. In addition, shareholders who attend face-to-face meetings shall wear masks and agree to have their temperatures taken. If there are any shareholders with forehead temperature above 37.5 °C or ear temperature above 38 °C, they shall agree to enter the quarantine area designated by the corporation and are advised to rest at home or seek medical treatment. The corporation is also obligated to clearly specify these disease prevention measures in the meeting notice so that shareholders can have a complete understanding of these measures.

The authority requires that every corporation adhere to the aforementioned operating guideline and regulate these shareholder meeting details ahead of time to conclude the meeting successfully. TDCC indicates that the content of the guideline is dependent on the announcement of Taiwan Centers for Disease Control and is subject to rolling adjustment.

Under such a dire pandemic outbreak, the authority again appeals that all TWSE-listed, TPEx-listed, or emerging-stock companies actively promote e-Voting among shareholders. Through e-Voting, shareholders don't have to attend face-to-face meetings in person and thus reduce the risk of infection. Meanwhile, the adoption of e-Voting is regarded the same as physical attendance, and shareholders' rights are equally protected.

Thailand

As of May 12, 2020, there have been 3,017 confirmed COVID-19 cases. Among the confirmed cases, 2,798 patients have recovered and return home, and 56 patients have died. A State of Emergency was instituted effective Mar 26 – May 31, under which nationwide curfew from 10 pm. – 4 am. is effective, all international passenger flights to Thailand are banned, school are prohibited from teaching and conduct mass activities.

Covid-19 has impacted Thailand's important tourism and manufacture-exporting sectors particularly hard. The Bank of Thailand is currently projecting a 5.3 percent contraction in economic activity in 2020.

Fiscal and Monetary Policy Response Package as of May 12, 2020

Measure 1:

Market liquidity enhancement to stabilize the corporate bond market

In order to stabilize the corporate bond market by providing liquidity backstop to ensure its continued functioning, the Bank of Thailand will establish the Corporate Bond Stabilization Fund (BSF) to provide bridge financing to high-quality firms with bonds maturing during 2020-2021, at higher-than-market 'penalty' rates.

Eligible corporate bonds/issuers must meet a number of criteria including (i) be at least an investment grade, (ii) have raised the majority of their funding needs through other means such as bank loans or capital increase, (iii) have a clear long-term financing plan, and (iv) meet other conditions as set out by the BSF's investment committee. In addition, if the issuers simultaneously offer secured bonds to the general public, the bonds that the BSF will invest in must also be secured with collaterals no inferior than those pledged on the bonds sold to the general public.

Measure 2:

Soft loans to support liquidity for SMEs with a credit line not exceeding USD 16.13 million, with a concessional interest rate of 2% per annum and interest-free for the first 6 months.

The Bank of Thailand will provide soft loans of USD 16.13 billion at 0.01% interest rate per annum to financial institutions for 2 years. Financial institutions will then on-lend to SMEs at a concessional rate of 2% per annum. SMEs that are eligible for this measure must (i) operate domestically, (ii) are not listed in the Stock Exchange of Thailand or the Market for Alternative Investment (MAI), (iii) have a credit line with a financial institution not exceeding USD 16.13 million, and (iv) still have a performing loan with normal repayment status or arrears of less than 90 days (non-NPL) as of December 31, 2019. The maximum drawdown for the soft loan is 20% of the loan outstanding as of end-December 2019. Interested SMEs can apply for soft loans at their banks.

Measure 3:

Loan payment holiday of 6 months for all SMEs with a credit line not exceeding USD 3.23 million, to provide the much-needed liquidity to the SMEs.

SMEs with a line of credit with a commercial bank or a specialised financial institution not exceeding USD 3.23 million are automatically eligible to pause payments of both principal and interest for 6 months. This payment holiday will not be considered as a missed payment and thus will not impair credit history.

This measure will provide some relief such that SMEs will have more cash on hand to support their businesses and meet necessary expenses, especially wages.

Measure 4:

Reducing the FIDF fee to ease the loan interest burden of businesses and households.

The Bank of Thailand will halve the rate of contribution from financial institutions to the FIDF from 0.46% of deposit base to 0.23% per annum for the period of two years. This is intended for financial institutions to immediately pass on such cost savings to businesses and households by further reducing their loan rates.

In order to effectively implement the above mentioned measures to support SMEs and stabilize the corporate bond market, two Emergency Decrees are instituted as follows:

1. Emergency Decree on Financial Assistance to Small and Medium-sized Enterprises Affected by Coronavirus Pandemic, and

2. Emergency Decree on Provision of Liquidity Support to Stabilize the Corporate Bond Market.

These two Emergency Decrees are authorized the Bank of Thailand to manage liquidity and direct funds to the affected target groups. The Decrees also put in place a mechanism that allows the government to indemnify for losses that may arise in the future in connection with these measures. This mechanism is necessary during this period of heightened economic uncertainty caused by the COVID-19 pandemic. The two Decrees also enhance the Bank of Thailand's policy toolkit enabling the Bank of Thailand to readily and promptly deploy additional measures to support SMEs and ensure stability of the corporate bond market.

Turkey

Country Background Note - Turkey

General COVID-19 Situation

The COVID-19 disease was confirmed to have reached Turkey on March 11. As of 11 May 2020, the total number of confirmed total cases in the country is over 140,000 of which 3,800 have died. The Turkish government has introduced several measures including social distancing rules, curfews (for the elderly and the youth), temporary curfews (during weekends and national holidays), and travel bans along with quarantines for returning nationals, and the closures of schools/universities, stores, and entertainment venues. On 14 April 2020, the Minister of Health announced that the spread of the virus in Turkey has reached its peak in the fourth weak and started to slow down. As those efforts to counter the virus bear their fruit, a gradual "normalization" program was announced in early May, aiming at lifting some restrictions until June. In that context, certain retail shops and malls opened in the second week of May.

Financial System

TCMA has been working with the Capital Markets Board of Turkey, Borsa Istanbul group, and other related authorities and entities to ensure the orderly functioning of the capital markets, while caring for the safety of customers and employees.

Financial system infrastructure has been resilient. Borsa Istanbul group, including the CCP and the settlement system, have maintained their operations during the outbreak.

The Capital Markets Board of Turkey has taken several measures to keep the orderly functioning of the markets. The measures taken include:

- Business continuity measures: working part time, splitting shifts, remote access facilities have been enabled for investment firms starting from March 23. Furthermore, investment firms were allowed to receive customer orders via alternative electronic means.
- Postponement of reporting and disclosure deadlines.
- Ban on short selling starting from February 28.
- With respect to margin trading, investment firms were allowed flexibility in implementing margin requirements starting from March 23.
- In Borsa Istanbul markets, circuit breakers were tightened starting from March 13.

Within the scope of measures taken due to the COVID-19 pandemic, dividend distributions are limited according to the Law on Reducing the Effects of the Novel Coronavirus (COVID-19) Pandemic on Economic and Social Life published in the Official Gazette on April 17. Accordingly, companies cannot distribute any dividend that is more than 25% of their net profit as an agenda item of their general assembly meetings for the 2019 financial year.

Central Bank Policies

On March 17, the policy rate was reduced by 100 basis points from 10.75% to 9.75%, and then further to 8.75% on April 22. In addition to the rate cut, a set of measures aiming at providing banks with flexibility in Turkish lira and foreign exchange liquidity management, and at securing the credit flow to the corporate sector and the cash flow of exporting firms were announced in March and April. In that regard, swap auctions range was widened to include gold and euro, in addition to USD; and asset-backed securities and mortgage-backed securities were included in the collateral pool.

Market Developments

Borsa Istanbul markets continued to operate without disruption despite increased price volatility.

In the equity market, the monthly trading volume started the year on an upward trend in Jan-Feb, nearly doubling the annual monthly average recorded in the whole 2019. Although, the trading volume declined by around 1/3 in March, it recovered again in April. In Jan-Apr 2020, the trading volume on the equity market by 115% in Turkish lira terms y-o-y. The IPO market was already weak, and only one IPO took place in January. On the investor side, the number of investors in equities has increased by around 20% to 1.4 million by the end of April, compared to end-2019. It is important to point out that the number of equity investors was stagnant around 1 million during most of the last decade, and started to rise moderately starting from 2018.

In the fixed income market (please note that OTC trades are also reported to Borsa Istanbul), which is dominated by public sector bonds, the trading volume rose by 54% y-o-y in Turkish lira terms in Jan-Apr 2020. On the corporate bonds side, while the number of new issues declined by 12% in the first four months, the issued amounts only declined by 4% y-o-y.

Similarly in the futures market, trading volumes which were strong at the beginning of the year remained strong after the outbreak as well and rose by 61% y-o-y in the first four months of the year.

COUNTRY NOTES:

Additional Contributors

Note: The following Country Notes were prepared in April 2020.

Australia

General COVID-19 Situation

In Australia, the spread of COVID-19 is moving in a more contained rate than many other advanced economies, but financial markets have moved with their global counterparts.

Therefore, Australia has not had to restrict business activity and personal mobility to the extent that it has been necessary to the treatment of financial services as 'essential services'. (Indeed, to date the Government has taken the approach of restricting 'non-essential' services.)

The Australian financial system enters this period in a strong starting position, with banks well capitalised and more liquid. The level of household debt and elevated housing prices are long standing risks for the Australian financial system. Business leverage is generally at a low level.

Financial System

Financial system infrastructure has been resilient to date. CCPs and securities settlement facilities and payment systems, have maintained their operations, despite a large share of staff working from home and sharply higher trading volumes. They have also effectively managed large fluctuations in variation margin.

The financial market impacts of COVID-19 are significant and while price volatility is common across markets, some operational impacts are specific to particular markets. For instance, the technical market issues pertinent to the interest rate and equities markets are different, reflecting the mechanism for government support to the economy, amongst other things.

The Council of Financial Regulators (which includes the financial regulators}, stated its members stand ready to deal with problems firms may encounter in complying with the law due to the impact of COVID-19. The relevant authorities have responded positively to the financial markets industry requests for clarification of regulatory expectations under the COVID-19 conditions and the provision of relief.

AFMA, as the financial markets industry body, has established lines of communication with regulators, including ASIC, APRA, AUSTRAC and ATO, in order to ensure the industry is collectively well-placed to efficiently address any matters requiring attention. This has led to a range of clarifications and relief measures covering practical matters such as voice recording, regulatory reporting, taxation and AML measures.

Bond Markets

The Australian government securities (AGS) market has at times been severely dislocated, reflecting the same forces affecting US Treasuries. Corporate term debt markets have been significantly impaired.

Spreads in the AGS market were many times higher at their peak than they in 2019, as market depth evaporated at times. Conditions have since improved as a result of measures implemented by the Reserve Bank, particularly direct purchases of AGS and semi-government bonds.

The primary driver of dislocation in financial markets has been the changed economic outlook, which triggered a material reduction in risk appetite. However, the impact on markets was amplified by various investment strategies that were predicated on being able to quickly liquidate AGS when needed; more generally, the discount applied to illiquid assets over recent years has been very low.

This resulted in a wide range of investors simultaneously seeking to sell their AGS to meet client redemptions or margin calls on derivatives, creating a one-sided market at times. Reserve Bank purchases of AGS addressed these issues by increasing available liquidity and ensuring the AGS market was no longer one-sided. Domestic short-term bank debt markets have been more resilient than offshore and liquidity has generally been present.

The Reserve Bank has intervened to achieve a target for the yield on 3-year Australian Government bonds of around 0.25 per cent. Macroeconomic policy measure, as the government bond yield is a benchmark rate for the economy. The 3-year maturity influences funding rates across much of the Australian economy.

As part of the Government's response, one of its agencies will invest $15 billion in structured finance markets used by smaller lenders, including non-banks and smaller banks. This involves making direct investments in primary market securitisations and in warehouse facilities.

Managed and superannuation funds have required additional liquidity to fulfil member requests to redeem or reallocate assets and to make variation margin payments but they have, to date, been able to accommodate this. The decline in liquidity of some assets held by fund managers has been most notable for fixed income. For some superannuation funds, in particular those with many young members working in industries heavily affected by the pandemic, the new early release option may cause a large liquidity drain.

Equity Market

The Australian equity market fell sharply and credit spreads widened significantly as investors found it difficult to price the anticipated shock to the economy. Reflecting the uncertainty and unwinding of various market positions, fixed income markets, including for government and corporate debt, have at times lacked liquidity.

ASIC issued directions on 16 March under its Market Integrity Rules to a number of large equity market participants, requiring them to limit the number of trades executed each day until further notice. This was in response to record trade volumes, which placed intense pressure on the operational process required to complete transactions. There was no disruption to market operations, although there was a significant backlog of work required to be undertaken over one weekend by the exchanges and trading participants after exceptional volumes on 13 March.

On 31 March, ASX announced that, recognising that many listed entities will need to raise capital urgently to sustain them as the effects of the COVID-19 pandemic become apparent; it has introduced temporary emergency capital raising measures. This includes a temporary a temporary uplift in the 15% placement capacity in its rules to 25%, subject to there being a follow-on accelerated pro rata entitlement offer or SPP offer.

On 31 March, ASIC announced that it is giving temporary relief to enable certain 'low doc' offers (including rights offers, placements and share purchase plans) to investors, even if they do not meet all the normal requirements. This is to assist companies that need to raise funds from investors urgently because of the impact of COVID-19.

Japan

Japan Securities Dealers Association
JSDA

General COVID-19 Situation

Confronting the unprecedented difficulties caused by COVID-19, JSDA and the Japanese securities industry have been working together with the government and other related authorities and entities to curb the pandemic as soon as possible, while maintaining the functions of the securities market as a critical infrastructure of our society and paying due attention to the safety of customers and employees.

JSDA has also made a number of responses to the COVID-19 outbreak. You can see some major responses outlined on the JSDA's dedicated website to the outbreak (http://www.jsda.or.jp/en/key-issues/covid19response.html). The external links on this site also feature the measures taken by the Japanese government, Financial Services Agency and Japan Exchange Group.

Financial Services as Essential Services

On 7 April, the Government declared a state of emergency in seven prefectures (which was extended to all of Japan on 17 April) and announced a record economic stimulus package. Following the declaration, in the financial sector, a considerable portion of employees are now working from home, but the operations of banks, securities firms, asset managers as well as exchanges have been maintained. People can continue to receive necessary financial services including bank and securities transactions. (See the Statement by Minister for Financial Services - https://www.fsa.go.jp/en/announce/state/20200407.html).

Central Bank Supporting Actions

The Bank of Japan (BOJ) judged appropriate to enhance monetary easing through:

(1) the further ample supply of funds by conducting various operations including purchases of Ja panese government bonds (JGBs) and the US dollar funds-supplying operations,
(2) measures to facilitate corporate financing including the introduction of a new operation, and
(3) active purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-R EITs).

The BOJ is taking these measures with a view to doing its utmost to ensure smooth corporate financing and maintaining stability in financial markets, thereby preventing firms' and households' sentiment from deteriorating. See the BOJ's statement on 16 March –
https://www.boj.or.jp/en/announcements/release_2020/k200316b.pdf

Equities Market

The Japanese equities market has continued to operate without disruption despite exceptional volatility particularly since March (The exchanges in Japan have price limits for each index and issue. But there is no circuit breaker system covering the whole market like in the US.). The BOJ, as part of the enhanced monetary easing measures noted above, purchased substantial amounts of ETFs, particularly in March and April so far - See the BOJ's data available at https://www3.boj.or.jp/market/jp/menu_etf.htm

Bond Market

In the bond market, while there were some cases in which a corporate bond issuance was postponed or where corporate ratings were downgraded, the market has continued to operate to a large degree without problem.

New Zealand

Financial Services as Essential Services

New Zealand moved to Level 4 alert on 25 March, meaning that only essential services will be permitted to remain open at a central place of business. The Government determined that financial services are essential services. These are banking, insurance and other financial institutions which are deemed to be essential services and exempt from the directive to close (see RBNZ announcement). The Government later announced a step back to Level 3 alert from 27 April.

Capital Market Developments

RBNZ is ensuring banks can access enough cash to keep lending at low interest rates and providing additional channels for banks to keep funding corporate clients (Corporate Open Market Operations) – see https://www.rbnz.govt.nz/covid-19. RBNZ conducts open market operations where just Corporate and Asset-Backed eligible securities will be acceptable as collateral on a two name basis. The Corporate OMO is seen as temporary, to support market functioning. This operates in a similar manner to the Bank's regular OMOs.

RBNZ is keeping long-term interest rates down by buying $30bn of government bonds on the secondary market. It is also purchasing $3 billion of Local Government Funding Agency (LGFA) debt as part of this programme. This takes the total size of the Large Scale Asset Purchases programme to $33 billion over 12 months.

As a generalisation markets have continued to function albeit somewhat distressed prior to the RBNZ announcing its QE program. The RBNZ prior to this crisis was on the record as saying they would not participate in a QE program, they were forced to change their mind in light of the fiscal demands created by COVID-19. As such, given the large bond issuance announcement, buying interest in the bond market disappeared. At a NZFMA Board meeting attended by senior RBNZ staff, market function was discussed and the end result was an announcement regarding `Large Scale Asset Purchase Program', affectively QE. This ensured that the `real money' investors stayed in the market and some normality was restored.

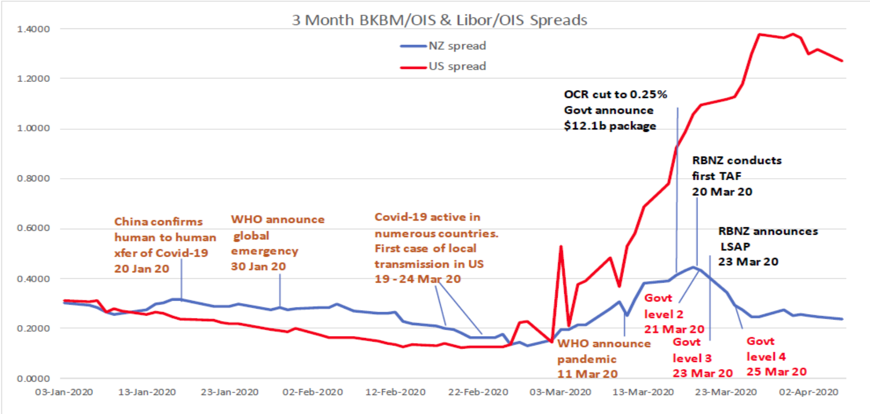
On the equity market, NZX announced on 19 March a lift in equity capital raising capacity to help NZX listed companies weather the impacts of COVID-19, along with measures to allow greater flexibility in the timeframes for financial reporting.

Market Developments

Bank liquidity is not under any stress as the cash flowing through from the RBNZ's asset purchases has given banks record level of cash. This is evidenced by the chart below showing BKBM versus OIS spread, which have at times blipped but has remained relatively narrow especially when compared with Libor/OIS. This has also meant that bank bill markets are quiet due to the lack of funding demand.

The key issue for markets is to keep the `real money' investors participating in the market, as without their participation, the fiscal program required to support the economy would be in question. The RBNZ will have to be careful to maintain confidence in that market balancing their participation but ultimate withdrawal from their QE activities.

RBNZ has taken actions focused on maintaining funding liquidity. Some of the programs were introduced during the GFC but others are first time initiatives. The view from the market is that the RBNZ has performed its role well during this period.


3 Month BKBM/OIS & Libor/OIS Spreads
NZ spread
US spread
1.4000
1.2000
1.0000
0.8000
0.6000
0.4000
0.2000
0.0000
03-Jan-2020
13-Jan-2020
23-Jan-2020
02-Feb-2020
12-Feb-2020
22-Feb-2020
03-Mar-2020
13-Mar-2020
23-Mar-2020
02-Apr-2020
China confirms human to human xfer of Covid-19 20 Jan 20
WHO announce global emergency 30 Jan 20
Covid-19 active in numerous countries. First case of local transmission in US 19 - 24 Mar 20
WHO announce pandemic 11 Mar 20
OCR cut to 0.25% Govt announce $12.1b package
RBNZ conducts first TAF 20 Mar 20
RBNZ announces LSAP 23 Mar 20
Govt level 2 21 Mar 20
Govt level 3 23 Mar 20
Govt level 4 25 Mar 20