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For more details, please read ACRA's overview titled [The spread of COVID-19 and the fall in oil prices are worsening the economic situation and the creditworthiness of Russian issuers](#) dated March 17, 2020.

Implementation of the Bank of Russia's support measures is extremely important for preserving stability in the banking system

An overview of regulatory support measures for the banking sector

On March 20, 2020, the Bank of Russia approved a number of measures to support the population, the economy, and the financial sector of Russia amid the COVID-19 pandemic ([available in Russian](#)). The coronavirus and the slump in oil prices have worsened the economic environment and had a negative impact on the financial stability of banks. In ACRA's opinion, measures proposed by the regulator will mitigate the effects of the current negative events on the capital of credit institutions and support their lending activities in the unfavorable economic environment. At the same time, the significance of measures varies depending on business specifics of individual credit institutions and on the extent of changes taking place in the economy.

The set of regulatory measures covers all key risk factors banks face and includes, among other things:

- Changes in the accounting treatment of securities to be effective until January 1, 2021. In particular, equity and debt securities purchased prior to March 1, 2020, may now be recorded at fair value as of March 1, 2020, while debt securities purchased in the period from March 1 to September 30, 2020 may be recorded at fair value as of the purchase date. This regulation allows banks to avoid recognizing losses from revaluation of investments, which should offset the negative effects of increased volatility in the financial markets on their capital adequacy.
- Terms for irrevocable credit lines (ICLs) used to comply with the short-term liquidity ratio N.26 (N.27) were eased until April 1, 2021. The respective fees were lowered from 0.5% to 0.15%. The procedure for calculating the maximum ILC amount has been also revised to give more flexibility to systemically important credit institutions in managing their liquidity amid increased volatility. Considering the substantial liquidity surplus observed in the banking sector, this regulation is largely preventive as it reduces potential risks of deteriorating liquidity position of banks.
- Transactions in six foreign currencies (US Dollar, Euro, Pound Sterling, Swiss Franc, Japanese Yen, and Chinese Renminbi) may now be added to statutory ratio calculations (excluding net FX position amount (limit)) at the official exchange rate of the Bank of Russia as of March 1, 2020. This regulation will be in effect from March 1 to September 30, 2020 and should help banks stay compliant with the statutory ratios. At the same time, the Bank of Russia's policy in the last four to five years to reduce FX exposure of banks has proved to be efficient in helping to protect them from asset quality deterioration and, therefore, from lower capital adequacy and liquidity.
- With regard to restructured loans to small and medium-sized enterprises (SMEs), banks now may avoid downgrading their loan servicing quality assessments regardless of the borrower financial standing assessment as well as avoid downgrading financial standing assessment of SMEs when making loan loss

provisions. This regulation will be in effect until September 30, 2020. These measures are particularly valid for banks focused on SME loans as the unfavorable economic environment may have a significant negative effect on this segment resulting in loan delinquencies. In addition, the Bank of Russia will provide RUB 500 bln for refinancing SME loans with specialized banks, which is also a substantial support initiative for the banking sector.

- With regard to consumer loans, banks may now avoid recognizing it as restructured when making loan loss provisions, applying macroprudential add-ons to such loans as well as avoid increasing loan loss provisions for such loans if borrower's financial standing or loan servicing quality deteriorate (subject to official confirmation of a positive COVID-19 test). These measures will be in effect until September 30, 2020. It is worth noting that a substantial effect on capital adequacy from these measures is unlikely as the number of COVID-19 positive borrowers in loan portfolios of banks is currently low. However, the importance of this regulation may increase if the spread of the virus accelerates.
- Lowering risk add-ons for mortgage loans and loans under construction co-funding agreements issued prior to April 1, 2020, which would enable banks to continue issuing loans while lowering pressure on their capital adequacy.
- Postponing some regulatory changes covering application of the provisioning procedure for M&A deals and coming into effect of large credit risk concentration ratio (N30) until September 30, 2020 and January 1, 2022, respectively.
- Postponing consideration of the differentiated approach to systemic importance capital buffers until 2021 as well as extending the deadline for reporting internal arrangements for capital adequacy assessments and the respective results (both on an individual and consolidated basis) as of January 1, 2020 until September 30, 2020.

In ACRA's opinion, implementation of the above measures by the Bank of Russia will help the Russian banking sector to navigate the current stage of the economic cycle. However, it is hard to evaluate the potential length of the current unfavorable period at this time, and therefore, ACRA does not rule out that the effective period of the above regulations may be extended until the economic environment in Russia and globally stabilizes. In addition, if crisis developments intensify, the Bank of Russia may be required to provide additional support to the banking industry.

For more details, please read ACRA's overview titled [New requirements for systemically important credit institutions to improve financial system stability and creditworthiness of largest banks](#) dated February 11, 2020.

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