

TSI statement on
measures due to the COVID-19 crisis:

**Ensuring
working capital financing
of companies**

Frankfurt am Main, 22 March 2020

In addition to the measures that have already been prepared and adopted to provide and secure liquidity for the economy (deferrals, tax relief, grants, KfW special programme, guarantees, short-time working), the necessary measures for the continuation of existing financing in the area of working capital should be discussed and decided with urgency. Otherwise, due to the short maturities, negative consequences will very quickly arise in the form of financing lines falling due. This would counteract the effect of measures already decided.

Working capital financing: This financing, which is essential for companies, is carried out in a highly collateralised form. It provides liquidity for companies on favourable terms and allows low-risk lending for banks with less strain on capital. Trade receivables, i.e. receivables from deliveries and services, with terms between 30 and 180 days from commercial debtors serve as collateral. The products include factoring, supply chain finance and securitisation, financed both via bank balance sheets and via asset-backed commercial paper.

The following measures in particular are recommended to secure these forms of financing:

1. Regulation on overdue receivables and payment delays

Companies will default on payments very soon due to slumps in sales and tight liquidity, which in the case of receivables-based financing must be reported monthly as 30/60/90-day overdue payments. The consequences desired in normal times include, first, termination rights or obligations on the part of the lender

and, second, a negative rating migration of the financing concerned, the companies, the sectors and the asset class itself.

In order to protect the liquidity and capital of the financing banks and thus maintain the financing capability of the real economy, these procyclical effects and chains of effects must be interrupted.

Necessary action: Temporarily suspend the relevant regulations (i) in the Insolvency Act (avoidance of the obligation to file for insolvency), (ii) in the CRR (avoidance of value adjustments and increasing capital weights) and (iii) IFRS 9 (avoidance of the revaluation of all receivables in an asset class)

2. Securing credit insurance

The integration of a classic trade credit insurance or a specific credit enhancement policy by credit insurers is a regular feature of these financing arrangements. However, if the credit insurers were to quickly and systematically reduce or cancel insurance limits on individual companies or industries, which is a very likely consequence due to the impact of overdue payments outlined above, the working capital programmes would become due or expire within a very short time.

Necessary action: Extend the hedging measures of KfW and the guarantee banks in analogous form to the credit insurers as well.

3. Postpone the entry into force of new reporting obligations (ESMA templates, new securitisation regulation)

Under the new EU Securitisation Regulation, which has been in effect since 1 January 2019, ESMA was requested in mid-2018 to draft new reporting regulations and have them adopted by the EU Commission and EU Parliament. Delays arose due to proposals by ESMA that were alien to the market, partially inapplicable and contradictory. The final version, which was adopted by the EU Parliament only in February 2020, is also prohibitive and expensive for companies and banks.

Necessary action: The adoption in the Official Journal of the EU has not yet taken place and must be prevented immediately, otherwise an immediate suspension of the regulations should be decided.

4. Including ABCP in the collateral framework of the ECB and Eurosystem

In contrast to ABS bonds, ABCPs are not part of the ECB collateral framework. Efforts must be made to ensure that ABCPs are also included in the ECB's collateral framework as a market segment that has been very strongly, uniformly and transparently regulated throughout the EU by the new EU securitisation regulation since 2019. In the medium term, STS should also be made a prerequisite at ABCP programme level. In addition to the collateral framework, ABCPs should also be included directly in the relevant ECB purchase programme (ABSPP).

Conclusion:

The ABCP programmes for working capital financing of real economy companies and the financing of leasing companies are of great importance for the German economy. Their survival depends on the implementation of the above-mentioned measures. At present, their discontinuation would not be compensated by other financing instruments; in the medium term, it would also be a major loss for the financing structure of the German economy.