The impact of Covid-19 extends beyond the banking sector into the securities sector, where markets are experiencing extreme volatility. Abnormally high volumes of transactions are creating challenges for trading platforms. Disclosure requirements for issuers are particularly important given the potentially significant implications of the pandemic for company earnings. With respect to corporate governance, companies face practical problems in organizing general meetings of their shareholders. Business continuity planning and operational resilience become particularly relevant in the current circumstances, with clients needing to make use of a firm’s services increasing precisely at a time when a firm’s operations may be adversely affected by the pandemic. Working from remote locations raises additional cybersecurity risks for all market participants. Volatility and/or illiquidity in certain asset classes coupled with high levels of redemptions may make it difficult for fund managers to meet their ongoing obligations to unitholders. Finally, regulators need to provide clear information to investors with no experience of severe market conditions or actions taken in crises.

Covid-19 is affecting the whole financial sector, including capital markets, intermediaries and infrastructures across the world. The most visible impact so far has been on the markets, where countries are experiencing strong downward pressure on prices, and significant volatility, resulting in several market resilience measures being deployed by most trading venues. We welcome markets making effective use of the tools they have available (e.g., circuit breakers, volatility controls, trading suspension mechanisms, etc.) to ensure orderly trading conditions. But regulators are also having to deal with disclosure and reporting delays and other logistical problems affecting issuing companies and supervised institutions. Many regulatory and supervisory authorities have issued statements or guidelines on how to deal with the impact of the outbreak, as well as more specific measures intended to restore orderly functioning of markets and limit disorderly drops in prices (e.g., short selling restrictions). This note aims to provide some broad policy views on the appropriate regulatory and supervisory response by securities regulators in dealing with the impact of Covid-19 on capital markets.

1 These notes reflect evolving IMF staff views; are intended for internal circulation and do not necessarily represent the views of Management or the Board of the IMF. These notes are updated periodically and the most current version can be downloaded from the MCM COVID-19 page or from the authoring Division.
Overall, regulators need to take a proactive, flexible, and transparent approach to ensure that they can react quickly and adapt to changing circumstances, particularly through prompt and clear communication of measures. In a challenging environment, where they may be constrained by resources or be under a business continuity plan themselves, regulators should ensure strong channels of communication with the industry, markets, and infrastructures to allow swift identification of any development that may warrant urgent attention. Regulators should be ready to use all their powers to support the underlying objectives of securities regulation: investor protection; fair, efficient and transparent markets; and financial stability. They also need to provide clear and prompt communication to investors and markets regarding any measures taken to minimize uncertainty. Regulatory actions should be as transparent as possible.

TRADING

Increased volatility, prolonged downward price movements and high trading volumes are putting a strain on markets. Continuous communication among regulators, trading platforms and traders is key to ensure any measures put in place remain adequate and investors are appropriately informed.

a. For circuit breakers, volatility controls, and other market resilience measures to be effective, they need to be well calibrated, clearly defined, and appropriately communicated. All affected parties need to have clarity on what the rules are, when they would be triggered and how and when the rules would be lifted. Calibration of the measures needs to take into account the specificities of the markets and market players (e.g., normal levels of volatility, market depth, etc.) so that trading halts are triggered only when it is necessary to promote orderly trading. Communication of these measures is also paramount to help ensure continuous trust in the authorities and the markets. The market must recognize that these measures are there to ensure orderly trading conditions and are not seeking to avoid sharp market re-pricing.

b. When adopting temporary restrictions, such as on the use of short selling, authorities should consider the potential negative impact on liquidity and price discovery, and ensure that they are justified to support market confidence and financial stability. The restrictions should only be implemented within a predictable and reliable framework and for no longer than absolutely necessary.

c. Regulators may also need to consider other ad-hoc market resilience measures as the situation evolves (e.g., restrictions on trading volumes if pressure on infrastructures and intermediaries is too strong), depending on the characteristics of the markets they supervise, and they should ensure these are also promptly and clearly communicated.

d. Market participants should be encouraged to examine their trading algorithms to ensure they are operating appropriately in present circumstances and are not unnecessarily adding to market pressures.

e. Authorities should consider mandatory closures of exchanges and other trading platforms only as a last resort if all other available policy measures have proved ineffective and disorderly trading cannot otherwise be curtailed. It is crucial to identify potential knock-on effects of such closures (e.g., a sudden rush by investors to withdraw money from banks if they no longer have access to capital markets) and work with other relevant authorities in the jurisdiction to ensure a coordinated approach. Any such closures should be clearly communicated and subject to
ongoing review. It is also important that the criteria for reopening of exchanges be set out in advance to provide as much clarity as possible to investors and other market participants.

Some regulatory requirements may be more difficult to apply in the current context due to activation of business continuity plans. Authorities may wish to consider showing flexibility in their expectations for these requirements. For example, a requirement for continuous recording of oral communications between key trading personnel might be replaced by temporary permission for written records of communications to be used. It would nevertheless be important for comprehensive information on the relevant communication to be maintained so that firms and authorities are still able to exercise their oversight duties appropriately.

**DISCLOSURE AND REPORTING**

A challenging aspect of the Covid-19 outbreak for issuing companies is that relating to disclosure obligations, including on the risk to and impact of the outbreak on companies’ business. While full and prompt disclosure is critical for the fairness and efficiency of markets, it is extremely difficult for companies to make reliable judgments on the duration of the pandemic and the potential impact on their business.

a. Regulators may consider providing guidance to issuers on how they should address the impact of Covid-19 on their businesses, as well as the measures they are taking to mitigate its effects, to provide investors with as reliable and clear information as possible. This should include any relevant factors such as government support, guarantees or other backing measures that may be available. As the circumstances are fluid, both issuers and regulators should take account of the fact that this disclosure may need to be updated more frequently than other material change reporting; multiple reports should not be assumed to mean improper initial reporting.

b. At the same time, the outbreak may pose practical challenges for timely disclosure and reporting of regulatory filings (annual reports, financial statements) due to travel restrictions, staff shortages and service provider limitations, among others. Regulators may need to come up with approaches that provide needed flexibility to companies in complying with regulatory requirements while ensuring transparency to investors (e.g. providing grace periods or deadline extensions for filing provided enough information is made available to investors through other means). Flexibility on timing for the release of information may be particularly desirable where it allows material information on the impact of the pandemic on a given company’s operations to be disclosed in a more comprehensive manner. Extensions of filing deadlines for other issuer documents, such as updated prospectuses, should also be considered. Similar considerations may also apply to routine disclosure and filing requirements for intermediaries and trading platforms.

c. Regulators should be ready, however, to continue strong enforcement of market abuse rules and remind companies to carefully consider the impact of Covid-19 on their business, operations and revenues to assess whether such information constitutes inside information. Companies should be reminded of the importance of strict compliance with insider trading regulations to prevent the misuse of the information.
CORPORATE GOVERNANCE

Authorities should seek to ensure that companies continue to apply robust corporate governance standards while recognizing that flexibility may be required in the current circumstances. General meetings are an important opportunity for a company to inform their shareholders, and for those shareholders to hold company management to account. Where significant corporate changes are proposed, it may be mandatory to obtain consent at a meeting of shareholders.

a. In light of restrictions on large gatherings and similar measures put in place in many countries, regulators may wish to consider reminding companies of the options that are available to replace physical meetings (e.g., through use of technology). Where possible, regulators should be flexible regarding the preconditions that might otherwise apply to the use of these technological alternatives.

b. Waivers of by-law or prior notice requirements should be considered. Similarly, authorities may find it appropriate to allow companies some flexibility in the timing of their shareholder meetings.

BUSINESS CONTINUITY

Authorities should monitor the implementation of contingency plans of major firms and key financial infrastructures. Maintaining daily contact with systemically relevant institutions and market infrastructures will be key to understand how firms are operating under crisis management plans and to provide information concerning industry trends and dynamics relating to the impact of the outbreak. This should allow regulators to better understand operations at the firm and industry level and react promptly if needed to respond to requests for guidance from firms or to take further market resilience measures. Regulators could also consider reviewing business continuity plans of relevant institutions to make sure they are appropriate to maintain operational continuity in line with regulatory obligations under the Covid-19 outbreak scenario.

Cybersecurity risk management processes should be reinforced at all market participants and regulators. Many operations of market participants and regulators have moved offsite, often to people’s homes, raising higher risks of cybersecurity breaches and exposure to cybersecurity attacks. Data security processes should be reexamined and reinforced as necessary. All affected parties should remain vigilant in their surveillance regarding cyber threats and take steps to reduce the risk of breaches.

FUND MANAGEMENT

Regulators should monitor market developments and identify those that could affect fund managers’ ability to meet their ongoing obligations to unitholders. The disclosure challenges for funds are similar to those identified above for other issuers, and regulators should apply similar responses.

a. A significant challenge for funds in the current environment is the application of their risk management frameworks, particularly those relating to liquidity management. It is important for authorities to ensure that risk management frameworks are being applied in a robust and effective manner.

b. Regulators should support the availability of the widest possible set of liquidity management tools (e.g., gates/deferred redemptions, swing pricing, side pockets etc.) and encourage fund
managers to make full use of the available tools where it would be in the interests of unitholders to do so.

c. Depending on the asset classes within the portfolio, a fund manager may face particular difficulty in obtaining timely, reliable valuations. Authorities should monitor developments of this kind and seek to provide clarity to fund managers on their expectations, including on the circumstances in which use of liquidity management tools, including a (temporary) suspension of redemptions, may become appropriate.

d. Authorities may consider providing additional flexibility around lending by asset management companies to affiliated funds and/or between funds. Such measures may be appropriate if they reduce the risk of fire sales of portfolio assets. Regulators should ensure that:

   i. there are clear limits on the amount that can be borrowed by a fund as a percentage of its net asset value;

   ii. they are informed of the use of such additional flexibility by fund managers in advance; and

   iii. the relevant governing body of the fund has given its approval in advance.

COMMUNICATION WITH INVESTORS ON POTENTIAL INCREASED SOURCES OF VULNERABILITY

Regulators should be providing clear messages to retail investors on the issues related to the current crisis. Many retail investors may have no experience with severe market downturns and high volatility. Regulators need to be pro-actively delivering guidance to investors on these issues and the actions being taken to manage them. In particular, regulators need to ensure the reasons for measures such as circuit breakers are clearly explained to investors, lest confusion result in more trading pressure. The public also needs to be warned to be extra careful in their dealings to avoid becoming victims of Covid-19-related fraudulent schemes.