Top ten issues for directors of commercial banks amid COVID-19
Since the outbreak of COVID-19, commercial banks have assumed social responsibility and fully supported the fight against the outbreak and resumed normal operation, such as providing preferential credit support and reducing business fees for affected customers, opening green channels, enhancing online financial services, and donating funds and supplies. Meanwhile, commercial banks also need to fully assess the impact of the outbreak and take countermeasures, and realize that their governance level plays a particularly important role on this. Here are the top 10 issues (divided by five different categories) concerning directors of commercial banks the most:

**Business operation**

1. **Is business interrupted by the outbreak? What measures have the banks taken to ensure business continuity?**

   Commercial banks need to make an overall assessment of the impact of the outbreak on various businesses and take measures after considering government policies. During the Spring Festival and the subsequent resumption of work in various locations, banks have generally adjusted the business hours of their branches and provided flexible work arrangements, for example, shift operation, business hours adjustment and flexible working hours for employees to cater for business needs and avoid the crowd. Meanwhile, e-banking plays a more important role, and many banks took the initiative to promote their online business. In particular, a number of transactions can be made by using smart devices and online apps amid the rapid technology advancement. Although the outbreak has affected traditional banks to a certain extent, the impact varies among different banks.

   According to relevant regulatory requirements, commercial banks should establish a business continuity management system which their directors should consider:

   - Has any of the business operations of the bank, especially the core business, been interrupted since the outbreak?
   - Is the business interruption handled properly?
   - Are key personnel assigned to perform their duties promptly? Are there any backup staff available?
2 Are business growth indicators affected? What measures have the banks taken to achieve the annual budget targets and is it necessary to adjust them?

The outbreak has significantly affected enterprises in certain industries and regions, conversely, the online retail, online entertainment, health sciences and wellness industries have recorded rapid growth. Its impact on a commercial bank’s annual business growth indicators, in particular, the increase in operating income and profit, will depend on how dynamic is the bank’s business structure and the distribution of customer industries.

In addition, banks have generally adopted measures such as appropriate reduction of loan interest rates and reduction/exemption of service fees to provide financial support to customers to fight the outbreak. How will the relevant measures affect the bank's overall interest margin income and fee income?

Generally speaking, each commercial bank holds its annual meeting at the beginning of the year to implement its performance indicators for 2020. It is yet unsure if the banks' annual budget indicators will be adjusted after the outbreak. In addition to observing which business or business growth indicator have been affected, directors should set responding to crisis as the bank’s high priority, and consider what measures have been taken, or what measures will be taken to adjust the annual performance targets.

Risk management

3 In terms of credit risk, which industries and regions’ have their loan quality affected? What countermeasures have the banks taken to prevent and control corresponding credit risks?

The outbreak has significantly affected the wholesale and retail, hospitality, logistics and mobility, culture and tourism industries and enterprises in Hubei Province and other regions, in particular, small and micro enterprises are under great pressure in their operation. Some small and micro enterprises have suspended their operation and production due to the outbreak, but are still paying wages and rent, causing tight cash flow and subsequently a decline in solvency in the short term and an increased pressure in repayment. Meanwhile, personal housing mortgages, credit cards, personal venture business guarantee loans and other personal loan repayments are expected to be significantly affected. Directors should ask if the banks have assessed the impact on credit asset quality in terms of industry, region and product. And what measures the banks have taken to prevent and control related credit risks.
Have the banks received any negative public opinion related to their response to the outbreak? In terms of reputational risks, what measures have the banks taken to control them during the outbreak?

The media and social-media pay close attention to how various institutions respond to the outbreak, and banks should pay attention to the risk of public opinion which may be triggered as a result of inadequate operations, management and services. For example, have the business premises been properly arranged to avoid the crowd and control the outbreak? Has the public been informed of changes in business hours of the branches and business operations during the outbreak? Are the AI customer service and e-banking running properly? Do customers feel unsatisfied about excessive marketing? Are the staff emotionally stable? Have the banks taken measures in response to the above risks? Are the banks monitoring and properly responding to the negative public opinion that may arise if the countermeasures are not in place?

In terms of compliance risks, given regulators have issued a series of regulatory policies in response to the outbreak, have the banks taken relevant measures in response to regulatory policies?

The People's Bank of China (PBoC), the China Banking Insurance Regulatory Commission (CBIRC) and other regulatory authorities have successively introduced a series of policies to provide financial support to fight against the outbreak.

- Enterprises in the wholesale and retail, hospitality, logistics and mobility, culture and tourism industries, as well as those with promising prospect that are facing difficulties for the time being, in particular, small and micro enterprises, must not blindly draw down, break or oppress loans.
- Those have been severely affected by the outbreak may extend or renew the repayment period after maturity if necessary.
- Measures such as appropriate reduction of loan interest rates, increase of credit loans and long-term and medium-term loans are taken to support enterprises to overcome the impact of the outbreak.
- Local governments and regulatory authorities have streamlined measures based on the status quo to guide banks within their jurisdictions to increase financial support. For example, Zhejiang and Jiangsu provincial regulatory authorities require banks to reduce the comprehensive financing cost of inclusive small and micro enterprises in the province by 0.5 percentage points from last year; the Shanghai regulatory authorities encourage banks in Shanghai to renew the customer loans that will mature before 30 June 2020 if the customers have been significantly affected by the outbreak and have difficulty repaying them, provided that the renewal period will not exceed one year.
Has the bank responded to related policies? How is it performing? Does the compliance risk emerge as a result of failure to implement relevant regulatory policies?

Social responsibility

What measures have the banks taken in fighting the outbreak and fulfilling their social responsibilities? How is the plan disclosed in the social responsibility report?

Performing social responsibility, paying attention to its practice and improving corporate governance are one of the important duties of directors should concern.

► Do they care and protect employees, and implement the outbreak prevention and control policy of the state?

► Do they provide assistance in fighting against the outbreak and support for the resumption of operation and production of small and micro enterprises?

► Directors also need to pay attention to and discuss whether the bank's support and the fulfillment of social responsibility should be included in the annual environmental, social, governance (ESG) report. If so, how are specific information disclosed and quantified?

Financial report

How does the outbreak affect the 2019 financial report? Will the impact be adjusted or not in the annual report? Will the adjustment be disclosed in the annual report, and if so, to what extent?

Banks need to assess the impact of the outbreak on the financial report for 2019 and make appropriate treatments and disclosures, and summarized the outbreak incidents chronologically.

► In late 2019 several initial cases displaying the symptoms of a "pneumonia of unknown causes" were identified in Wuhan.

► On 21 January 2020, the State Council approved COVID-19 to be classified as Class B infectious diseases specified in the "Law on Prevention and Control of Infectious Diseases", and measures for the prevention and control of Class A infectious diseases were adopted.

► From 23-29 January, Wuhan city was put on lockdown and 31 provinces across the country successively initiated a first-level response to major public health emergencies.

► On 31 January, the World Health Organization (WHO) declared the global outbreak of COVID-19 was a Public Health Emergency of International Concern.
The Accounting Standards for Business Enterprises has the following guidelines on filing the financial report.

► Events after the balance sheet date refer to favorable or unfavorable events occurred between the balance sheet date and the date when the financial report is approved for issuance.

► Events after the balance sheet date include adjustment events after the balance sheet date and non-adjustment events after the balance sheet date.

► Adjustment events after the balance sheet date refer to events that provide new or further evidence for a situation that already exists on the balance sheet date, for which the financial statements on the balance sheet date should be adjusted.

► Non-adjustment events after the balance sheet date refer to events that indicate what happened after the balance sheet date, for which the financial statements on the balance sheet date should not be adjusted, but the nature and content as well as the impact on the financial position and operating results of each important non-adjustment event after the balance sheet date should be disclosed in the notes to the financial statements. If an estimate cannot be made, the reason should be provided.

After the outbreak, preventive measures, including restriction of people mobility and suspension of operation and production have created a short-term impact on the real economy, which in turn affected the bank's asset quality and revenue. Relevant measures were taken in January 2020, but the initial cases which gave rise to the outbreak were first identified in December 2019, so banks need to determine whether the outbreak is an adjustment or non-adjustment event after the balance sheet date for the 2019 financial report. If the outbreak is an adjustment event, how will the financial statements be adjusted? If it is a non-adjustment event, is there any disclosure and what should be disclosed?
How do the banks consider the impact of the outbreak in calculating the expected credit loss (ECL), including the impact on the financial report for 2019 and the first quarterly report for 2020?

According to the new Accounting Standards for Financial Instruments, banks not only need to reflect historical information about the impact of current conditions (such as credit loss experience) in the calculation of expected credit loss, but also consider the predicted impact of future conditions. The impact of the outbreak on bank asset quality may lag behind, but based on current historical data alone, it may not reflect the impact of the outbreak on expected credit loss. Directors need to pay attention to whether their bank's existing ECL model takes into account the impact of the outbreak? How does the bank make judgments? Does the bank keep relevant records?

Directors should consider the following:

► Expected credit loss is similar in nature to the fair value measurement on the reporting date because changes in fair value after the reporting date are generally not reflected in the fair value measurement on the reporting date. Therefore, the impact of the Wuhan lockdown after the reporting date and subsequent related outbreak prevention measures on economic activities will generally not be considered as adjustment events to the calculation of expected credit loss.

► However, expected credit loss is a probability-weighted estimate of credit loss on the reporting date. Therefore, to determine the expected credit loss based on a series of expectations on the reporting date, the information available on that date should be used to consider relevant future scenarios that may occur. As a result, based on the information available on the reporting date, the relevant probability of the future scenario that the outbreak is expected to occur will be reflected in the expected credit loss on that day if the impact amount is significant.

Banks need to integrate relevant information through robust processes and appropriate governance procedures, including forecasts of future economic conditions to ensure transparent and consistent application of the measurement requirements for expected credit loss. Banks may consider keeping the following records when making their judgment:

► Basis for determining the impact of the outbreak - if the impact of the outbreak is deemed insignificant, other detailed assessments may not be required based on their importance.

► Determine whether there is a significant increase in credit risk in certain loan portfolios on the balance sheet date as a result of the outbreak, whether the expected loss model needs to be adjusted, and on its basis.

► Determine whether the impact of the outbreak is significant and the basis for proper disclosure is required on the balance sheet approval date.
Has the preparation and audit of the 2019 financial report been affected? Is it necessary to apply to the relevant exchange or regulatory agency for an extension of disclosure of the annual report?

The Board is responsible for the authenticity and accuracy of the company's financial statements, so it is necessary for the Board to communicate with management and auditors to understand whether the preparation of financial reports and audit work have been affected by the outbreak, including whether an application for extension is required.

For H-share listed banks, according to the "Joint Statement in Relation to Results Announcements in Light of Travel Restrictions Related to the Severe Respiratory Disease Associated With a Novel Infectious Agent" (the "Joint Statement") promulgated by the Hong Kong Securities and Futures Commission and The Stock Exchange of Hong Kong Limited (the "Exchange") on 4 February 2020, if listed companies, as a result of the outbreak, will not be unable to publish an announcement of the annual results approved by the auditor within three months after the end of the fiscal year in accordance with the relevant requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, they should contact the Exchange as early as possible to discuss the situation. If preliminary financial results can be provided but the auditor's consent cannot be obtained, the Joint Statement requires the issuer to publish preliminary results without the consent of its auditor within the prescribed period. For the avoidance of doubt, the issuer still needs to consult the Exchange on related matters.

Thereafter, the Hong Kong Financial Reporting Council and the Hong Kong Institute of Directors also issued important recommendations and guidelines for directors. For more details, please refer to the relevant EY thought leadership, Managing disruptions on reporting – explaining the joint statement of the SFC and the Exchange on results announcement during the coronavirus outbreak, and Key analysis for directors and auditors of Hong Kong-listed companies in response to the coronavirus outbreak.

For A-share listed banks, according to the "Notice on Further Strengthening Financial Support to Prevent and Control COVID-19 Infection" jointly promulgated by the PBoC, the Ministry of Finance (MOF), the CBIRC, the China Securities Regulatory Commission (CSRC) and the State Administration of Foreign Exchange (Yin Fa [2020] No. 29 ), if it is difficult for a listed bank to disclose the 2019 annual report on the original appointed date, it may apply to the stock exchange for an extension to make disclosure before 30 April 2020.

For non-listed banks, according to the "Administrative Measures on Information Disclosure of Commercial Banks" promulgated by the former China Banking Regulatory Commission, the annual reports should be disclosed within four months after the end of each fiscal year. If the 2019 annual report is unable to be disclosed by the end of April 2020 due to the outbreak, banks should apply to the relevant regulatory authorities for an extension within the prescribed time.
Development strategy

The outbreak reflects the importance of digital transformation to banks. Is it necessary to re-examine the bank’s current development strategy?

In recent years, many banks have:

► Adopted digital transformation as an important strategy to support their future development or to achieve strategic breakthroughs

► Upgraded system processes by increasing investment in science and technology to improve online business processing

► Leveraged big data, AI and cloud computing technology to expedite innovation of online financial business and the integration of platform scenarios so as to achieve online customer acquisition, precision marketing and intelligent risk control

To avoid the crowd and provide safe and convenient financial services, many banks have switched their offline business to online and encouraged customers to carry out transactions through the Internet, mobile phone and apps. It is worth re-examining if current digital transformation is conducive to positive measures for the banks in response to the outbreak; what other issues and shortcomings the banks should consider and how to solve them; and ultimately if they should adjust the current digital transformation strategy.
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