

**STANDARDS FOR
THE CENTRAL BANK OF THE UAE'S
TARGETED ECONOMIC SUPPORT SCHEME (TESS)**

**Terms and Conditions for all Banks and Finance Companies under the
jurisdiction of the Central Bank of the UAE**

Effective from 15 March 2020

OBJECTIVES

The Targeted Economic Support Scheme (TESS) to contain the repercussions of the COVID-19 pandemic is designed to:

(1) facilitate the provision of temporary relief from the payments of principal and/or interest/profit on outstanding loans for all affected private sector corporates, SMEs and individuals¹. The TESS does not apply to outstanding loans of government, government-related entities (GREs) and non-residents;

(2) facilitate additional lending capacity of banks, through the relief of existing capital buffers; and

(3) outline expectations and the actions to be taken under the TESS by all banks and finance companies operating in the UAE.

The CBUAE mandates that banks and finance companies who avail of the assistance under the TESS shall comply with these Standards in both words and spirit, which would lead to achieving the overarching policy objectives of the scheme.

PART 1: TESS ZERO COST FACILITY

1. Definitions

In these Terms and Conditions, unless otherwise specified:

1.1 “CBUAE” means the Central Bank of the UAE, i.e., the monetary authority of the UAE under Decretal Federal Law No. (14) of 2018

1.2 “AED” means Dirham, the national currency of the UAE

1.3 “USD” means the United States Dollar

1.4 “MMD” means the Monetary Management Department of the CBUAE

1.5 "Eligible Counterparty" means all banks and finance companies licensed to operate in the UAE and required to maintain reserve requirements with the CBUAE as per the Decretal Federal Law No. (14) of 2018.

1.6 “Eligible Collateral” means Certificates of Deposit, both conventional and Islamic (CDs/ICDs), issued by the CBUAE or collateral eligible under the CBUAE’s

¹ As defined in BRF 1 (Items 8.2 and 8.3)

IMLF/CMF. The terms CDs/ICDs/IMLF/CMF are terms used in relevant CBUAE regulations which are published on the CBUAE website.

- 1.7 “Collateral Value” means the market value of Eligible Collateral after applying any haircuts, as determined by the CBUAE or the triparty agents Euroclear and Clearstream that may be applicable. In case of CDs/ICDs will mean the nominal face value of the collateral submitted unless otherwise specified by the CBUAE through a notice to all Eligible Counterparties.
- 1.8 “Zero Cost Facility” (ZCF) is the collateralized CBUAE liquidity facility being provided to Eligible Counterparties under CBUAE’s TESS. Funds borrowed under the ZCF will be priced at zero interest/profit rate and Eligible Counterparties are expected to pass on the benefits of such a no cost liquidity facility, at the minimum, to their clients who have been identified to be eligible as per these Standards.
- 1.9 “Limit”, denominated in AED, is the ZCF credit line allocated to each bank based on its market share in total loans to private sector corporates, SMEs and individuals. Loans to government, government-related entities (GREs) and non-residents are not eligible.
- 1.10 “ZCF Window” is every Wednesday of the week during the term of this facility.
- 1.11 “Triparty Agents” for CBUAE will be either Euroclear or Clearstream, as per the choice of the Eligible Counterparties.

2. Eligibility for Usage of the ZCF

- 2.1 Drawing on ZCF funds is open to all Eligible Counterparties.

3. ZCF Conditions

- 3.1 ZCF funds will be provided against Eligible Collateral.
- 3.2 ZCF funds will be provided for maturity periods not exceeding the expiry date of this facility referred to in Clause 6.5.
- 3.3 The total amount of ZCF funds to be lent in aggregate to all Eligible Counterparties will not exceed AED 50 billion.
- 3.4 A designated limit will be determined for each Eligible Counterparty based on their respective market share for the sectors being supported by this Targeted Economic

Support Scheme. The total amount of ZCF funds lent to each Eligible Counterparty shall not exceed this limit. The designated limits will be communicated to each corresponding Eligible Counterparty.

- 3.5 The limit for each Eligible Counterparty shall be proportional to the counterparty's share in the total lending of Eligible Counterparties to private sector corporates, SMEs and individuals as of 31 December 2019. Non-Performing Loans as per CBUAE loans classification (CBUAE Circular 28/2010) shall be excluded from the computation of each Eligible Counterparty's limit both from the numerator and denominator.
- 3.6 ZCF funds will be disbursed to Eligible Counterparties on a weekly basis as per Clause 5.0 in this document. Each Eligible Counterparty shall specify the amount and the period of the loan within the constraints specified in Clauses 3.2, 3.4 and 3.5.
- 3.7 Eligible Counterparties are mandated to provide evidence to the CBUAE that ZCF funds are being used to facilitate provision of temporary relief from payments of principal and interest on outstanding loans for their corresponding customers benefitting from the TESS. Eligible Counterparties shall provide such evidence no later than two (2) working days following the last disbursement.
- 3.8 On or before the second working day following each disbursement, Eligible Counterparty shall submit to the CBUAE, the AED amount per each underlying portfolio where holiday deferral relief has been granted and implemented. The submission will need to be signed-off by the head of each Eligible Counterparty's Compliance / Control Function confirming that the submission is accurate and as per CBUAE's policy expectations. This submission will be on the attached ZCF Funding Relief Form (Annex A) and will be emailed by the Eligible Counterparty to the email address specified in Clause 7.1. Eligible Counterparties shall provide CBUAE with a hard copy of the ZCF Funding Relief Form (Annex A) duly stamped and signed by an authorised signatory.
- 3.9 As an exception, on the first two disbursements of the ZCF, Eligible Counterparties may borrow funds corresponding to relief from payments provided between 2 January 2020 and 15 March 2020.
- 3.10 Non-compliance by an Eligible Counterparty to abide to the obligations stipulated in Clause 3.7 for any disbursement will result in CBUAE imposing a penalty rate of 10% p.a. for the period and the disbursed amount for which the Eligible Counterparty was non-compliant.

4. Collateral Eligibility

4.1 The maturity of the posted Eligible Collateral to access the ZCF shall be equal to or beyond the maturity date of the liquidity draw down by the concerned Eligible Counterparty.

5. Operational Procedures

CD/ICD Collateral –

5.1 The ZCF window will open between **09:00 hours and 15:00 hours** UAE time **every Wednesday** of the week. Should the day in question coincides with a banking holiday, then the following business day will be a good day for this facility.

5.2 Within the window period referred to in Clause 5.1, any Eligible Counterparty requesting to draw on its ZCF limit shall approach the MMD via the Thomson Reuters dealing line or an authenticated SWIFT message conveying its interest in borrowing a specified amount.

5.3 The said amount will be as per the conditions referred to in Clause 3.0 above and the concerned Eligible Counterparty will be held responsible for maintaining compliance with these Standards at all times through the period of this borrowing.

5.4 The Eligible Counterparty can access ZCF funds for any tenor limited to the expiry date of this scheme.

5.5 ZCF funds, as per the collateral value, requested under each draw down will be credited to the Eligible Counterparty's Current Account held at the CBUAE on the next value date.

5.6 The Eligible Counterparty will have to furnish the CBUAE with the identification details of the submitted collateral. All documentations and procedures required by the CBUAE, as published in its regulations referred to in Clause 1.6, will need to be followed by Eligible Counterparties.

5.7 It is the Eligible Counterparty's responsibility to ensure that collateral value and maturity are in line with the CBUAE requirements and the draw down requested. Any failure to meet these requirements shall result in the draw down being annulled by the CBUAE.

- 5.8 The CBUAE will not issue any confirmation for the blocking of the eligible collateral posted by the borrowing bank – these actions will be automatic on every draw down and will be reversed once the ZCF borrowing matures.
- 5.9 On maturity date, the CBUAE will debit the Eligible Counterparty's Current Account held at the CBUAE with the value of the maturity amount at zero cost. Maturing ZCF deals can be rolled at any ZCF window day as long as the maturity date of the rollover is up to or less than the expiry date of this facility.
- 5.10 Eligible Counterparty, carrying on the whole or part of their businesses and activities in compliance with Islamic Shariah, will need to back these borrowings by a commodity Murabaha through the CBUAE's CMF platform.

IMLF/CMF Collateral –

- 5.11 Eligible Counterparties looking to use IMLF/CMF collateral shall follow the prescribed procedures agreed upon with Euroclear and Clearstream, respectively, and contained in the CBUAE guidelines with regards to IMLF and CMF. All documentations and procedures required by the CBUAE, as published in its regulations referred to in Clause 1.6, will need to be followed by Eligible Counterparties.
- 5.12 The CBUAE will amend the tenor guidelines with the Triparty Agents to ensure that funds are disbursed to borrowing Eligible Counterparties as per the requirements of the ZCF.
- 5.13 The ZCF funds will be credited to the Eligible Counterparty's Current Account held at the CBUAE on T+1 basis subject to the triparty agent having confirmed collateral receipt.
- 5.14 Should the daily value of the posted collateral in question go below 100% of the funds borrowed under the ZCF, then Triparty Agents shall ask for further Eligible Collateral or cash (AED or USD) as and when necessary during the borrowing period. This is to ensure adequate collateralization due to the mark-to-market daily variations of submitted collateral. Inability to do so will trigger an unwind of the specific borrowing and a debit will be automatically made to their respective current account held at the CBUAE.

6. Other Terms and Conditions

- 6.1 The CBUAE will, at any time, be entitled to suspend/revoke the ZCF or amend these Terms and Conditions. This includes varying the cost of drawings for obtaining AED funds and deposit rates and restricting/denying Eligible Counterparties access to the

ZCF or applying any restrictions/conditions on the borrowings under this facility, as and when deemed necessary by the CBUAE.

6.2 The CBUAE reserves the right to reject supporting evidence provided by the concerned Eligible Counterparty at any time.

6.3 The CBUAE reserves the right to retain the Eligible Collateral in case of a default or bankruptcy.

6.4 If there is conflict between the provisions of Part 1 of these Standards with any provisions in any previous standards, issued by the CBUAE, the provisions of these Standards shall prevail to the extent of its objectives.

6.5 Part 1 of these Standards shall be effective from 15 March 2020 until 15 September 2020.

7. Contact Information

7.1 The official communication and dealing lines are as follows:

Telephone lines	02 - 665 2232; 02 - 666 6245 02 - 665 6118
Swift Address	CBAUAEAA
Thomson Reuters dealing code	CBEM
CBUAE Email for submission of relief documentation	TESS@cbuae.gov.ae

7.2 Any intimation over the phone has to be confirmed via Swift or over the Thomson Reuters dealing line to be construed as completion and confirmation of the requested ZCF transaction.

PART 2: TESS CAPITAL BUFFERS RELIEF (applicable only to banks)

8. Capital Buffers

8.1 The Capital Conservation Buffer stays at 2.5%, but banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective from 15 March 2020, for a period of 1 year.

- 8.2 The Domestic Systemically Important Banks (D-SIBs) buffer remains. D-SIBs are allowed to use 100% of their D-SIB buffer without supervisory consequences, effective from 15 March 2020, for a period of 1 year.
- 8.3 Restrictions on maximum distributable amount (MDA) will be temporarily suspended.
- 8.4 The Targeted Economic Support Scheme, including the capital buffers relief, shall be utilized for the extension of credit facilities in the UAE only.
- 8.5 Capital buffers relief is to be used as a temporary tool to provide credit consistent with prudent lending principles, to avoid a spirally negative impact of a 'credit crunch'.
- 8.6 The CBUAE will be monitoring banks to ensure that the use of the capital buffers is in line with these Standards.
- 8.7 CBUAE only suspends the mechanical restriction of distributions as a consequence of a breach of the capital buffer requirements, including potential mechanical restrictions of Additional Tier 1 coupon payments. The decision does not suspend the requirement for banks to acquire CBUAE approval for dividend distributions.
- 8.8 If there is conflict between the provisions of Part 2 of these Standards with any provisions in any previous standards, issued by the CBUAE, the provisions of these Standards shall prevail to the extent of its objectives.
- 8.9 Part 2 of these Standards shall be effective from 15 March 2020 until 15 March 2021.

PART 3: TESS REQUIREMENTS REGARDING ACTIONS TO BE TAKEN BY BANKS AND FINANCE COMPANIES

9. Actions to be Taken by Banks and Finance Companies

- 9.1 In response to the above measures, the CBUAE directs banks and finance companies to take the following steps to provide relief to their customers affected by COVID-19:
- (a) Banks and finance companies are directed to offer payment deferral relief for a period up to 6 months on instalment of loans/financing (principal and/or interest/profit) to their respective private sector corporates, SMEs and individuals affected by COVID-19.
 - (b) The maturity of these loans/financing may be extended by the period of the relief and repayment schedules to resume as normal following the expiration of the temporary relief period.

- (c) CBUAE expects that the IFRS 9 staging and classification under CBUAE Circular 28/2010 of customers receiving relief under TESS shall normally remain unchanged during the period of the scheme, not downgraded.
 - (d) Banks and finance companies, in collaboration and coordination with Al Etihad Credit Bureau (AECB), shall ensure that the credit risk profiles of customers receiving the relief are not adversely affected in regard to the TESS program.
 - (e) The CBUAE recommends that banks and finance companies provide additional financing at reduced rates during the relief period to their private sector corporates, SMEs and individuals, including, but not limited to, working capital relief, granting new credit lines, re-scheduling of loans and reducing fees and commissions.
 - (f) The CBUAE directs banks and finance companies to participate actively in this temporary relief scheme in order to gain direct access to the zero cost loans and advances to be extended by the CBUAE.
 - (g) Banks and finance companies shall remain responsible for their credit decisions and retain sound credit standards.
 - (h) Banks and finance companies shall not charge customers receiving relief under the TESS program any fees/penalties/interest in connection to the payment deferral relief, and shall not increase interest rates for customers benefiting from this scheme. Banks and finance companies shall not apply any late payment fees and shall ensure that any automated fees charged by their systems are reversed within 30 days.
- 9.2 Banks and finance companies should tag, within the core systems, customers to which relief has been implemented, as well as, the effective date of the relief implementation.
- 9.3 Banks and finance companies should maintain a list of all customers to whom any relief is provided, differentiating between private sector corporates, SMEs and individuals. Banks and finance companies shall obtain and document relevant evidence of the manner in which the customer is directly or indirectly affected, to qualify for the scheme as per the TESS Funding Relief Form (Annex A).
- 9.4 Banks and finance companies shall provide sufficient evidence as requested by CBUAE two (2) days after the disbursement of funds as per Clauses 3.7 and 3.8
- 9.5 Banks and finance companies should avoid using this relief scheme to assist existing defaulted (Stage 3 and classified under CBUAE Circular 28/2010) customers, those customers that are not adversely affected, non-resident customers, or government related entities (GREs). This will be strictly monitored by the CBUAE.

- 9.6 The CBUAE shall be notified of any relief provided to exposures that are more than 10% of the bank's capital as at 31st December 2019.
- 9.7 If there is conflict between the provisions of Part 3 of these Standards with any provisions in any previous standards, issued by the CBUAE, the provisions of these Standards shall prevail to the extent of its objectives.
- 9.8 Part 3 of these Standards shall be effective from 15 March 2020 until 15 September 2020.

