

Communication

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your correspondent:

Catherine Terrier
phone +32 2 221 45 32
Catherine.terrier@nbb.be

Coronavirus measures - Expectations regarding dividend policy and remuneration policy as of 2 January 2021

Scope

Belgian (mixed) financial holding companies and credit institutions which are not subject to direct supervision by the European Central Bank¹.

Summary/Objective

In the light of the coronavirus crisis (COVID-19), the Bank has already issued two communications on what it expects in terms of dividend and remuneration policy from credit institutions and (mixed) financial holding companies under its supervision. Following the recent statements and recommendations by the EBA, the ECB and the ESRB, the Bank hereby reiterates its expectations on these two points, with effect from 2 January 2021.

¹ The list of institutions under direct supervision by the ECB can be consulted at the following link:
<https://www.bankingsupervision.europa.eu/banking/list/who/html/index.en.html>.

Dear Sir or Madam,

In the context of the coronavirus crisis (COVID-19), the Bank has already issued two communications² stating its recommendations on dividend and remuneration policy to credit institutions and (mixed) financial holding companies under its supervision. Both communications followed on from the previously formulated statements and recommendations of the European Banking Authority ("EBA"), the European Central Bank ("ECB") and the European Systemic Risk Board ("ESRB") on the same subject.

In view of the fact that the coronavirus crisis has not yet subsided, the various European supervisory authorities are closely monitoring the impact of this crisis on the financial sector. As indicated in the previous communications, financial institutions must continue to hold sufficient capital to manage systemic risks and are expected to contribute to the recovery of the economy. Thus great caution should still be exercised.

Consequently, the EBA, in its communication of 15 December 2020, reiterated its call for credit institutions to maintain a prudent policy with regard to the payment of dividends and other distributions, including variable remuneration (see annex). Furthermore, on 15 December 2020 both the ECB and the ESRB issued a new recommendation on credit institutions' dividend policy for the period from 2 January 2021 to 30 September 2021 (see annex).

In this context, we would like to draw particular attention to the second recital of the ECB recommendation, which reads as follows:

"Even with the improvement in macroeconomic conditions and the reduction of economic uncertainty due to the COVID-19 pandemic since 27 March 2020, the level of uncertainty remains elevated with a continued impact on banks' ability to forecast their medium-term capital needs. Given the ongoing public support measures and considerable delay of the impact of the economic fallout on the balance sheets of credit institutions, the full effect of the COVID-19-related economic shock on the banking sector may not have yet fully materialised. This persisting uncertainty calls for extreme prudence in the distribution policies and practices of credit institutions. Therefore, the ECB sees the need to encourage credit institutions to continue to refrain from making dividend distributions and share buy-backs. In any event, it is of the utmost importance that credit institutions in their deliberations on dividend distributions and share buy-backs should be guided by their internal capital generation capacity viewed on a forward-looking basis, and the upcoming impact of the economic fallout on the quality of their exposures and capital. In addition, the ECB generally considers that it would not be prudent for those credit institutions in those deliberations to consider making a distribution and share buy-backs amounting to more than 15% of their accumulated profit for the financial years 2019 and 2020, or more than 20 basis points in terms of the Common Equity Tier 1 ratio, whichever is lower."

The ECB therefore makes the following recommendation:

1. The ECB recommends that until 30 September 2021 significant credit institutions exercise extreme prudence when deciding on or paying out dividends or performing share buy-backs aimed at remunerating shareholders.
2. Credit institutions that intend to decide on or pay out dividends or perform share buy-backs aimed at remunerating shareholders should contact their joint supervisory teams, as part of their supervisory dialogue, to discuss whether the level of intended distribution is prudent.
3. This Recommendation applies on a consolidated level of a significant supervised group as defined in point (22) of Article 2 of Regulation (EU) No 468/2014 of the European Central Bank (ECB/2014/17) and on an individual level of a significant supervised entity as defined in point (16) of Article 2 of Regulation (EU) No 468/2014 (ECB/2014/17), if such significant supervised entity is not part of a significant supervised group.

² Communication NBB_2020_011 of 1 April 2020 – Expectations regarding dividend distribution policy in the context of the management of the coronavirus (COVID-19) and Communication NBB_2020_33 of 30 July 2020 – Coronavirus measures - Extension of the recommendations in Communication NBB_2020_011 and expectations regarding remuneration policy.

In accordance with point III of the aforementioned ECB Recommendation, the Bank has also decided to apply this Recommendation mutatis mutandis to credit institutions under its supervision from 2 January 2021 until 30 September 2021.

In addition, the Bank considers the own funds margin available above own funds requirements, taking into account each institution's specific risk profile and the level of uncertainty, is an important assessment factor.

The bank hereby requests institutions to notify their intentions in terms of dividends to the supervisory authority by 15 January 2021.

Finally, specifically with regard to remuneration policy, in this communication the Bank also wishes to reiterate its earlier recommendation to moderate variable remuneration, in particular for persons whose professional activities have a significant impact on the institution's risk profile³, as explained in Communication NBB_2020_ 33 of 30 July 2020.

The Bank is closely monitoring further developments following the measures taken in the context of COVID-19 control and will communicate to the institutions concerned any changes to the expectations expressed in this Communication.

A copy of this communication is addressed to your institution's accredited auditor(s).

Yours faithfully,

Pierre WUNSCH
Governor

Annexes - only available at www.nbb.be:

1. *Recommendation of the ESRB of 15 December 2020 amending Recommendation ESRB/2020/7 on restriction of distributions during the COVID-19 pandemic (ESRB/2020/15)*
2. *Recommendation (ECB/2020/62) on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/35*
3. *EBA's communication of 15 December 2020: The EBA continues to call on banks to apply a conservative approach on dividends and other distributions in light of the COVID-19 pandemic*

³ I.e. the "Identified Staff".