

The EBA continues to call on banks to apply a conservative approach on dividends and other distributions in light of the COVID-19 pandemic

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In its 12 March statement, the EBA urged banks to follow conservative distribution policies and use capital for ensuring the continuous financing of the economy. Banks in the European Union have been able to continue supporting businesses and mostly remained with strong levels of capitalisation. However, given that the COVID-19 crisis and the uncertainty on its impact on the economy are likely to continue, with possible further deterioration of asset quality metrics over the next quarters, the EBA urges banks to refrain from distributing capital outside the banking system when deciding on dividends and other distribution policies, including share buybacks, unless extreme caution is applied.

Banks envisaging any dividends or other distribution should carefully take into account the resulting impact on the capital trajectory. The supervisory dialogue with banks in this context should, in particular, consider banks' income generation capacity based on prudent projections, to ensure that banks retain ample resources to withstand a possible further deterioration of asset quality while continuing to support the economic recovery and the financing of households and corporates.

Continuing to apply conservative distribution policies is fundamental to ensure the preservation of sound capital levels within the European banking sector and forms the basis to provide the needed support to the economy. The EBA also considers that ensuring the efficient and prudent allocation of capital within banking groups remains crucial and should be monitored by competent authorities. Capital distributions within a banking group should serve the need to support the local and the broader European economies as well as to ensure the proper functioning of the Single Market, particularly crucial in this time of crisis.

Taking into account that the stressed conditions are likely to continue in 2021, the variable remuneration of material risk takers^[1] for the performance year 2020 should be set at a conservative level. To achieve an appropriate alignment with risks stemming from the COVID-19 pandemic a larger part of the variable remuneration of material risk takers should be deferred for a longer period and a larger proportion should be paid out in instruments. Competent authorities should continue to monitor banks' remuneration policies, in particular to ensure that they are consistent with an effective risk management and long-term interest of the bank.

The EBA will promote coordination among competent authorities as appropriate to ensure a level playing field within the EU.

[1] Staff, whose professional activities have a material impact on the institutions risk profile.