

I

(Resolutions, recommendations and opinions)

RECOMMENDATIONS

EUROPEAN CENTRAL BANK

RECOMMENDATION OF THE EUROPEAN CENTRAL BANK

of 17 January 2020

on dividend distribution policies

(ECB/2020/1)

(2020/C 30/01)

THE GOVERNING COUNCIL OF THE EUROPEAN CENTRAL BANK,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 127(6) and Article 132 thereof,

Having regard to the Statute of the European System of Central Banks and of the European Central Bank, and in particular Article 34 thereof,

Having regard to Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions ⁽¹⁾, and in particular Article 4(3) thereof,

Having regard to Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014 establishing the framework for cooperation within the Single Supervisory Mechanism between the European Central Bank and national competent authorities and with national designated authorities (SSM Framework Regulation) (ECB/2014/17) ⁽²⁾,

Whereas:

Credit institutions need to continue preparing for a timely and full application of Regulation (EU) No 575/2013 of the European Parliament and of the Council ⁽³⁾ and Directive 2013/36/EU of the European Parliament and of the Council ⁽⁴⁾, and prepare for the expiration of the transitional period provided by the Regulation (EU) 2017/2395 of the European Parliament and of the Council ⁽⁵⁾ to mitigate the potentially significant negative impact on Common Equity Tier 1 capital resulting from expected credit loss accounting under IFRS 9 in a challenging macroeconomic and financial environment, which exerts pressure on credit institutions' profitability and, as a result, on their capacity to build up their capital bases. Moreover, while credit institutions need to finance the economy, a conservative distribution policy is part of an adequate risk management and sound banking system. The same method that was set out in Recommendation ECB/2019/1 of the European Central Bank ⁽⁶⁾ should be applied,

⁽¹⁾ OJ L 287, 29.10.2013, p. 63.

⁽²⁾ OJ L 141, 14.5.2014, p. 1.

⁽³⁾ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

⁽⁴⁾ Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

⁽⁵⁾ Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State (OJ L 345, 27.12.2017, p. 27).

⁽⁶⁾ Recommendation ECB/2019/1 of the European Central Bank of 7 January 2019 on dividend distribution policies (OJ C 11, 11.1.2019, p. 1).

HAS ADOPTED THIS RECOMMENDATION:

I.

1. Credit institutions should establish dividend policies using conservative and prudent assumptions in order, after any distribution, to satisfy the applicable capital requirements and the outcomes of the supervisory review and evaluation process (SREP).
 - (a) Credit institutions are required to satisfy the applicable minimum capital requirements ('Pillar 1 requirements') at all times. This includes a Common Equity Tier 1 capital ratio of 4,5 %, a Tier 1 capital ratio of 6 % and a total capital ratio of 8 % as provided for by Article 92 of Regulation (EU) No 575/2013.
 - (b) Moreover, credit institutions are required to satisfy at all times the capital requirements that are imposed by the decision following the SREP in application of Article 16(2)(a) of Regulation (EU) No 1024/2013 and which go beyond the Pillar 1 requirements ('Pillar 2 requirements').
 - (c) Credit institutions are also required to satisfy the combined buffer requirement as defined in Article 128(6) of Directive 2013/36/EU.
 - (d) Credit institutions are also required to satisfy their required 'fully loaded' ⁽⁷⁾ Common Equity Tier 1 capital ratio, their Tier 1 capital ratio and their total capital ratio by the applicable full phase-in date. This refers to the full application of the abovementioned ratios after application of the transitional provisions and the combined buffer requirement as defined in Article 128(6) of Directive 2013/36/EU. The transitional provisions are set out in Title XI of Directive 2013/36/EU and in Part Ten of Regulation (EU) No 575/2013.
 - (e) Credit institutions that decided to apply the arrangements set out in Regulation (EU) 2017/2395 during the transitional period are also required to satisfy their 'fully loaded' Common Equity Tier 1 capital ratio by the end of the transitional period provided by that Regulation.

These requirements are to be met on a consolidated, and if applicable, on a sub-consolidated level, as well as on an individual basis unless the application of prudential requirements has been waived on an individual basis, as provided for in Articles 7 and 10 of Regulation (EU) No 575/2013.

2. With regard to credit institutions paying dividends ⁽⁸⁾ in 2020 for the financial year 2019, the ECB recommends that:
 - (a) Category 1: Credit institutions that (i) satisfy the applicable capital requirements as referred to in paragraph 1(a), (b) and (c); and (ii) have already reached their fully loaded ratios as referred to in paragraphs 1(d) and 1(e), as applicable, as at 31 December 2019 should distribute their net profits in dividends in a conservative manner to enable them to continue to fulfil all requirements and outcomes of the SREP even in the case of deteriorated economic and financial conditions;
 - (b) Category 2: Credit institutions that satisfy the applicable capital requirements as referred to in paragraph 1(a), (b) and (c) as at 31 December 2019, but have not reached their fully loaded ratios as referred to in paragraphs 1(d) and 1(e), as applicable, as at 31 December 2019 should distribute their net profits in dividends in a conservative manner to enable them to continue to fulfil all requirements and outcomes of SREP, even in the case of deteriorated economic and financial conditions. Furthermore, they should in principle only pay-out dividends to the extent that paragraph 1(d) is also fulfilled and, at a minimum, a linear ⁽⁹⁾ path towards the required fully loaded capital requirements as referred to in paragraph 1(e) and outcomes of the SREP is secured;
 - (c) Category 3: Credit institutions in breach of the requirements referred to in paragraph 1(a), (b) or (c) should in principle not distribute any dividend.

⁽⁷⁾ All buffers at fully loaded levels.

⁽⁸⁾ Credit institutions may have various legal forms, e.g. listed companies and non-joint stock companies such as mutuals, cooperatives or savings institutions. The term 'dividend' as used in this recommendation refers to any type of cash pay-out that is subject to the approval of the general assembly.

⁽⁹⁾ In practice, this means that for the remainder of the transitional period, credit institutions should in principle retain at least the pro rata amount per year of the gap towards their fully loaded Common Equity Tier 1 capital ratio, their Tier 1 capital ratio and their total capital ratio, as referred to in paragraph 1(e).

Credit institutions that are not able to comply with this Recommendation because they consider themselves legally required to pay-out dividends should immediately contact their joint supervisory team.

Credit institutions in categories 1, 2, and 3 as referred to in paragraph 2(a), (b) and (c) are also expected to meet Pillar 2 guidance. If a credit institution operates or expects to operate below Pillar 2 guidance, it should immediately contact its joint supervisory team. The ECB will review the reasons why the credit institution's capital level has fallen, or is expected to fall, and will consider taking appropriate and proportionate institution-specific measures.

In their dividend policy and capital management, institutions are also expected to take into account the potential impact on capital demand due to future changes in the Union's legal, regulatory and accounting frameworks. In the absence of specific information to the contrary, the future Pillar 2 requirements and Pillar 2 guidance used in capital planning are expected to be at least as high as the current levels.

II.

This Recommendation is addressed to significant supervised entities and significant supervised groups as defined in points (16) and (22) of Article 2 of Regulation (EU) No 468/2014 (ECB/2014/17).

III.

This Recommendation is also addressed to the national competent authorities and designated authorities with regard to less significant supervised entities and less significant supervised groups as defined in points (7) and (23) of Article 2 of Regulation (EU) No 468/2014 (ECB/2014/17). The national competent and designated authorities are expected to apply this Recommendation to such entities and groups, as deemed appropriate ⁽¹⁰⁾.

Done at Frankfurt am Main, 17 January 2020.

The President of the ECB
Christine LAGARDE

⁽¹⁰⁾ If this Recommendation is applied to less significant supervised entities and less significant supervised groups that consider themselves unable to comply because they regard themselves legally required to pay out dividends, they should immediately contact their national competent authorities.