
31 March 2020

Statement on dividends distribution, share buybacks and variable remuneration

The European Banking Authority (EBA), in its 12 March statement, urged banks to follow prudent dividend and other distribution policies, including variable remuneration, and use capital for ensuring continuous financing to the economy.

Many competent authorities have accordingly communicated to banks general expectations or engaged in bilateral dialogues in order to limit or refrain from dividend distribution and share buybacks.

The EBA supports all the measures taken so far to ensure banks maintain a sound capital base and provide the needed support to the economy. The EBA also emphasizes that the capital relief resulting from the measures adopted by competent authorities in response to COVID 19 crisis are to be used to finance the corporate and household sectors and not to increase the distribution of dividends or make share buybacks for the purpose of remunerating shareholders.

The EBA, acknowledging that some banks have already communicated a postponement of their decisions, urges all banks to refrain from dividends distribution or share buybacks which result in a capital distribution outside the banking system, in order to maintain its robust capitalisation. Banks should revert to their competent authorities in case they consider themselves legally required to pay-out dividends or make share buybacks. The EBA also considers that ensuring the efficient and prudent allocation of capital within banking groups is 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.

Furthermore, competent authorities should ask banks to review their remuneration policies, practices and awards to ensure that they are consistent with and promote sound and effective risk management also reflecting the current economic situation. Remuneration and, in particular, its variable portion 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 could be deferred for a longer period and a larger proportion could be paid out in equity instruments.