BANCA D'ITALIA
EUROSISTEMA

Comunicato Stampa

DIFFUSO A CURA DEL SERVIZIO COMUNICAZIONE

Rome, 28 July 2020

Update of the Bank of Italy's Recommendation on dividend distribution and variable remuneration policies and clarification regarding the end of the flexibility granted on maintaining capital and liquidity buffers during the COVID-19 pandemic

In its Press Release dated 20 March 2020, the Bank of Italy announced it would allow less significant banks and non-bank intermediaries to operate temporarily below the level of Pillar 2 Guidance (P2G), the capital conservation buffer (CCB) and the liquidity coverage ratio (LCR).[1]

Subsequently, on 27 March 2020, the Bank of Italy published a Recommendation in which it called on the less significant banks to refrain from distributing dividends, taking any irrevocable commitments regarding the payment of dividends and making share buybacks until 1 October 2020. The same Recommendation recalled the need to adopt a prudent and farsighted approach on remuneration policies.[2]

Both communications were designed to permit banks to support firms and households and to strengthen their capacity to absorb potential losses in an orderly fashion.

Given the persistent economic uncertainty linked to the COVID-19 pandemic, the Bank of Italy deems it necessary to update the indications provided last March.

1. Distribution of dividends and variable remuneration

In line with the provisions of the Recommendation of the European Systemic Risk Board of 27 May 2020 on restriction of distributions during the COVID-19 pandemic[3] and of the analogous

[1] https://www.bancaditalia.it/media/comunicati/documenti/2020-01/Deadlines-extension-COVID-19.pdf?language_id=1;
[2] https://www.bancaditalia.it/media/comunicati/documenti/2020-01/cs-dividend-policy-reccomendation.pdf?language_id=1;
[3] https://eur-lex.europa.eu/legal-content/IT/TXT/?uri=uriserv:OJ.C_.2020.212.01.0001.01.ITA&toc=OJ:C:2020:212:TOC

Divisione Stampa e relazioni esterne - Banca d'Italia
e-mail: stampabi@bancaditalia.it

Recommendation of the European Central Bank published on 28 July 2020,[4] the Bank of Italy recommends that, until 1 January 2021:

a) less significant banks: 1) refrain from distributing dividends for the financial years 2019 and 2020 (including the distribution of reserves) and from making any irrevocable commitment to pay out dividends for the same financial years; 2) refrain from making share buybacks aimed at remunerating shareholders.

b) investment firms subject to the CRR/CRD IV capital requirements (as defined in the Bank of Italy's Communication of 31 March 2014, published in the Supervisory Bulletin No. 3, March 2014): 1) refrain from distributing dividends for the current financial year (including the distribution of reserves) and from making any irrevocable commitment to pay out dividends for the current financial year; 2) refrain from making share buybacks aimed at remunerating shareholders.

The restriction on the payment of dividends refers solely to cash payments, which have the effect of lowering the level and quality of Common Equity Tier 1.

Intermediaries that do not intend to comply with this Recommendation should contact the Bank of Italy immediately to explain the underlying reasons and to enable the necessary assessments.

As with dividend distribution policies, it is recommended that the less significant banks and investment firms subject to the CRR/CRD IV rules adopt an extremely prudent approach until 1 January 2021, also with reference to variable remuneration policies. It is therefore recommended that intermediaries reduce the variable component of pay to the extent necessary to preserve or replenish a solid financial base or – if this solution is not deemed feasible – to consider increasing the percentages and deferral of the variable component or to make greater use of financial instruments instead of cash. Moreover, intermediaries should not adopt measures aimed at eluding these recommendations. The actions to be undertaken must be adequately assessed by the intermediaries themselves, also in relation to any legal risks that could arise.

The appropriateness of the policies adopted will be evaluated as part of the annual Supervisory Review and Evaluation Process (SREP). The Bank of Italy will continue to monitor the situation and will assess the advisability of issuing any further communication on dividend distribution or remuneration policies after 1 January 2021.

2. Flexibility on the use of buffers

In line with ECB communications, the Bank of Italy continues to encourage banks and non-bank intermediaries under its supervision to use their capital and liquidity buffers in order to absorb losses in an orderly fashion and to support the flow of credit to households and firms.

[4] https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200728_1~42a74a0b86.en.html.

The Bank of Italy will therefore not request the replenishment of the capital buffers before the end of 2022 and of the LCR before the end of 2021; these dates can be postponed, if necessary, in relation to developments in the macroeconomic outlook, financial stability and the credibility of the plans to build up the buffers again.

If, in the meantime, it is deemed appropriate to raise the level of capital under Pillar 2 Guidance for some intermediaries, they will be given the time necessary to attain the new levels.