BANCA D'ITALIA
EUROSISTEMA

Press Release

By the Communications Directorate

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The Bank of Italy announces the end of the temporary measures introduced in response to the pandemic, regarding: i) the Liquidity Coverage Ratio (LCR), the Capital Conservation Buffer (CCB) and Pillar 2 Guidance (P2G); ii) the exclusion of some exposures to central banks from the calculation of the financial leverage requirement.

To mitigate the impact of COVID-19 on Italy's banking and financial system and in accordance with decisions taken by the European Central Bank (ECB) regarding significant banks, starting in 2020, the Bank of Italy introduced specific and temporary flexibility measures for some prudential requirements. In particular:

- On 20 March 2020,[1] less significant banks and supervised non-bank intermediaries were permitted to operate temporarily below the target capital levels (Pillar 2 Guidance - P2G) assigned following the Supervisory Review and Evaluation Process (SREP), the Capital Conservation Buffer (CCB) and the Liquidity Coverage Ratio (LCR);
- on 28 July 2020,[2] in light of the ongoing economic uncertainty linked to the pandemic, the banks and non-bank intermediaries under the direct supervision of the Bank of Italy were encouraged to exploit the existing margins of flexibility and it was clarified that the reinstatement of the LCR and CCB/P2G levels would not be required before the end of 2021 and 2022 respectively;
- on 30 June 2021,[3] less significant banks were permitted to exclude some exposures to central banks, up to 31 March 2022, from the measurement of their overall exposure used to calculate the financial leverage ratio.

Now that the most acute phase of the pandemic has passed, and in light of the general conditions of Italy's banking and financial system, together with the improvement in the short-term outlook, the Bank of Italy – in accordance with the decisions taken by the ECB[4] for the significant banks – has determined that it will not extend the temporary measures recalled above for less significant banks and supervised non-bank intermediaries. In particular:

- on **15 March 2022**, the liquidity measure permitting less significant banks to operate below 100% of the liquidity coverage ratio will come to an end;
- the measure on capital buffers, which allowed less significant banks and non-bank intermediaries to operate below the CCB and/or the P2G will not be extended beyond **31 December 2022**;

[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/2020-02/CS_Raccomandazione_politiche_dividendi_ENG.pdf?language_id=1
[3] https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/comunicazioni/com-2021.07.01/index.html
[4] cfr https://www.bankingsupervision.europa.eu/press/pr/date/2021/html/ssm.pr211217~39656a78e8.en.html and https://www.bankingsupervision.europa.eu/press/pr/date/2022/html/ssm.pr220210_1~ea3dd0cd51.en.html

- **31 March 2022** is confirmed as the date until which less significant banks are permitted to exclude some exposures to central banks from the measurement of their overall exposure used to calculate the financial leverage ratio.

The Bank of Italy remains committed to verifying that the dividend distribution policies [5] of the intermediaries are sufficiently prudent, given the uncertainty that continues to surround the macroeconomic outlook.

[5] On 27 July 2021, the Bank of Italy confirmed it had revoked, from 1 October 2021, the Recommendation of 16 December 2020 on the dividend distribution and variable remuneration policies of the less significant banks introduced during the pandemic. At the same time, it confirmed the need for less significant banks to exercise prudence when deciding on dividend distribution policies and share buybacks, carefully considering the sustainability of their business model: https://www.bancaditalia.it/media/comunicati/documenti/2020-02/CS_Raccomandazione_politiche_dividendi_ENG.pdf?language_id=1.