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## Recommendation on dividend distributions

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In response to the economic uncertainty generated by the COVID-19 pandemic, banking supervisors and regulators continue to pay special attention to credit institutions' dividend distribution and remuneration policies and, in particular, to any impact these policies may have on maintaining a sound capital base.

On 27 July the European Central Bank adopted a new Recommendation (ECB/2020/35) on dividends, which will be extended to 1 January 2021, in which it calls on significant institutions and groups it directly supervises to abstain in 2020 from dividend payouts and from assuming irrevocable commitments to pay them, along with refraining from share buy-backs aimed at remunerating shareholders. National authorities are expected to apply this Recommendation to less significant institutions. As a result, credit institutions are encouraged to continue to adopt measures consistent with the important role they play, providing credit to the real economy in situations of economic uncertainty such as those we are facing.

Along these lines, the Banco de España resolved on 27 July 2020 to extend these recommendations to the less significant credit institutions under its direct supervision.

These measures follow the Recommendation dated 8 June of the European Systemic Risk Board (ESRB) on restraints on dividend payments, share buy-backs and other payouts during the COVID-19 pandemic (ESRB/2020/07).

Specifically, the Banco de España recommends that:

- Until 1 January 2021, less significant institutions should not pay out dividends or assume irrevocable commitments to pay them in 2020. It further recommends that they should not make share buy-backs or adopt any other types of measures to remunerate their shareholders in cash.
- The less significant institutions that are unable to comply with this recommendation because they consider they face legal impediments in this connection shall explain the situation to the Banco de España team responsible for their supervision.

This Recommendation shall be applied on a consolidated level of a less significant institution as defined in point (23) of Article 2 of Regulation (EU) No 468/2014 of 16 April 2014, which establishes the framework of cooperation in the Single Supervisory Mechanism between the European Central Bank and the national competent authorities and the designated

national authorities, and on an individual level of a less significant supervised entity as defined in point (7) of the aforementioned Article, if the institution is not part of a consolidated group of institutions.

Given the temporary nature of this measure, the Banco de España, in accordance with the other European authorities, shall reassess the economic situation and stability of the financial system in the final quarter of the year.