

## Recommendation on dividend distributions and variable remuneration

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The latest Eurosystem macroeconomic projections for the period 2021-2023 signal that the economy started to recover in the second quarter and that the recovery will continue in the second half of the year and throughout the projection horizon. Against this background, in a new [Recommendation on dividend distributions \(ECB/2021/31\)](#), on 23 July the European Central Bank (ECB) decided not to extend its previous Recommendation (ECB/2020/62), in which it called on significant institutions and groups under its direct supervision to exercise extreme prudence on dividends and share buy-backs. As a result, Recommendation ECB/2020/62 will cease to be valid after 30 September 2021. The ECB indicates that it will assess each bank's capital, dividend distribution and share buy-back plans in the context of the normal supervisory cycle.

On the same date, the ECB also published a press release recommending that banks continue to exercise prudence in their dividend distribution and share buy-back decisions, taking into special consideration the sustainability of their business models. Specifically, the ECB recommends that banks do not underestimate the potential impact on capital projections of the future materialisation of credit losses once the support measures are no longer in force.

Furthermore, the ECB reiterates in the aforementioned press release its expectations that significant institutions adopt a prudent and forward-looking approach in their decisions on remuneration policy. The ECB adds that, as part of its supervisory review process, it will continue to assess remuneration policies and their impact on banks' ability to maintain a sound capital base.

In keeping with this course of action, on 23 July the Banco de España decided not to extend its recommendation (in force until 30 September)<sup>1</sup> and to apply the ECB's above-mentioned supervisory expectations to the less significant credit institutions that are directly supervised by the Banco de España.

Specifically, the Banco de España expects less significant institutions to:

- Continue to exercise prudence in dividend distribution and share buy-back decisions. The Banco de España plans to continue assessing these decisions as part of the supervisory dialogue with each institution.

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<sup>1</sup> The recommendation in force until 30 September 2021 calls on banks to refrain from paying dividends, conducting share buy-backs and adopting any other type of measure to make cash pay-outs to their shareholders, or to limit such remuneration so that it is below 15% of cumulated 2019-2020 profits and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio. Also, up to 30 September, the Banco de España expects no interim dividends to be paid out of 2021 profits.

- Consider the impact of paying variable remuneration on their ability to maintain a sound capital base.