Re: Your letter (QZ-065)

Honourable Member of the European Parliament, dear Mr Garicano,

Thank you for your letter on the ECB’s recommendation on dividend distributions during the coronavirus (COVID-19) pandemic, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 18 November 2020.

As you mention in your letter, on 27 March 2020 the ECB issued a recommendation\(^1\) to banks to refrain from paying dividends until 1 October 2020, which was later extended until 1 January 2021\(^2\). In taking this action, the ECB’s guiding principle has been that, in a period of considerable uncertainty, it is necessary to protect the safety and soundness of each bank as well as the resilience of the financial system within the EU and each Member State.

Later this month we will review whether this recommendation is still necessary, also taking into account the ECB’s latest macroeconomic projections that are expected to be published on 10 December. In conducting this review, we will consider the economic environment, the stability of the financial system and the reliability of banks’ capital planning in view of the COVID-19 pandemic.

In your letter, you ask what measures the ECB would take to ensure compliance with its recommendation in the event that we decide to extend the recommendation beyond 1 January 2021. As I have explained elsewhere, ECB recommendations are not in themselves legally binding requirements.\(^3\) That being said, the

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\(^1\) See press release on 27 March 2020.  

\(^2\) See press release on 28 July 2020.  
  https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200728~1~42a74a0b86.en.html

\(^3\) See transcript of the media briefing on 28 July 2020 (with Q&A).  
ECB engages in supervisory dialogue with banks to follow up on its recommendations. In addition, the ECB can issue binding requirements related to distributions on a bank-by-bank basis and, within the scope of the applicable legal framework, it would not hesitate to do so if the need arose.

You also asked how the ECB will guarantee that financial stability is not jeopardised as a result of banks paying out dividends in the event that it does not extend its recommendation. I would like to recall that the ECB exercises its supervisory functions under the Single Supervisory Mechanism (SSM) Regulation\(^4\) precisely in order to contribute to the stability of the financial system and the safety and soundness of banks. In line with this aim, I would reiterate that the stability of the financial system, together with the economic environment and the reliability of banks’ capital planning, will be a central consideration when we review our recommendation later this month.

Yours sincerely,

Andrea Enria