EUROPEAN CENTRAL BANK

BANKING SUPERVISION

ECB-PUBLIC

DANIÈLE NOUY
Chair of the Supervisory Board

Frankfurt am Main, 13 December 2016

Variable remuneration policy

To: The management of significant banks

The ECB pays close attention to the dividend and remuneration policies of the financial institutions under its supervision, and in particular any impact that such policies may have on an institution maintaining a sound capital base. As with dividend distribution policies – see Recommendation ECB/2016/44[1] – an institution's variable remuneration policy may have a significant impact on its capital base.

We underline the need to adopt a prudent, forward-looking stance when deciding on your institution's remuneration policy. We urge you to duly consider the potentially detrimental impact of your institution's remuneration policy on its maintaining a sound capital base, especially taking into account the transitional requirements set out in Directive 2013/36/EU[2] (CRD IV). Hence, when making an award of variable remuneration, including the use of malus and clawback arrangements, under your institution's remuneration policy, we recommend that you apply a policy that is consistent with a conservative – at a minimum, a linear – path towards your fully-loaded capital requirements (including combined buffer requirements) and outcomes of SREP. All other things being equal, the capital demand[3] resulting from the 2016 SREP can be expected to remain broadly stable.

Please keep your Joint Supervisory Team regularly informed of any decisions regarding your remuneration policy.

Yours sincerely,

[signed]

Danièle Nouy

1 Recommendation ECB/2016/44 of the European Central Bank of 13 December 2016 on dividend distribution policies (not yet published in the Official Journal).

2 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

3 Capital demand is composed of Pillar 1 requirements, Pillar 2 requirements, capital conservation buffer and Pillar 2 guidance. Irrespective of the phasing-in of the capital conservation buffer, credit institutions should also expect to have positive Pillar 2 guidance in the future.

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