EUROPEAN CENTRAL BANK

BANKING SUPERVISION

ECB-PUBLIC

Andrea ENRIA
Chair of the Supervisory Board

Name of institution
Street
City
Country

cc: NCA

SSM/2019/010
Frankfurt am Main, 9 January 2019

Variable remuneration policy of [parent entity of the group]

Dear Sir or Madam,

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/2019/1[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) and the transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds pursuant to Article 473a Regulation (EU) No 575/2013[3]. 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 the combined buffer requirement) and outcomes of SREP.

In their variable remuneration policy and capital management, institutions are also expected to take into account the potential impact on capital demand due to future changes in the Union's legal,

1 Recommendation ECB/2019/1 of the European Central Bank of 7 January 2019 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 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

regulatory and accounting frameworks. In the absence of specific information to the contrary, the future Pillar 2 requirements and Pillar 2 guidance used in capital planning are expected to be at least as high as the current levels.

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

Yours sincerely,

[signed]

Andrea ENRIA