Note: This publication is discontinued.

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EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Andrea ENRIA
Chair of the Supervisory Board

To the CEO of the Significant Institution

SSM-2020-0763

Frankfurt am Main, 15 December 2020

Remuneration policies in the context of the coronavirus (COVID-19) pandemic

Dear Sir/Madam,

The ECB continues to pay close attention to the remuneration policies of the financial institutions under its supervision, and in particular to any impact that such policies may have on the preservation of a sound capital base.

Following the publication of the letter from the Chair of ECB's Supervisory Board on 28 July 2020[1], the ECB has closely monitored the decisions taken on remuneration by the supervised institutions. The ECB takes note of the measures undertaken by several supervised entities to introduce adjustments in their remuneration policies to limit the impact of variable remuneration on their capital base in the context of the COVID-19 crisis.

Even with the improvement in macroeconomic conditions and the reduction of economic uncertainty due to the COVID-19 pandemic since March 2020, the level of uncertainty remains elevated with a continued impact on banks' ability to forecast their medium-term capital needs. Consequently, credit institutions are still expected to primarily focus on maintaining a suitable amount of capital to absorb potential losses and to support the real economy by providing credit to households, small businesses and corporates.

The principle of proportionality shall continue to guide the implementation of the ECB supervisory expectations set out below, as situations vary considerably depending on factors such as the remuneration practice, business model and size of institutions.

[1]Letter on Remuneration policies in the context of the coronavirus (COVID-19) pandemic (SSM-2020-0315) available at https://www.bankingsupervision.europa.eu/press/letterstobanks/shared/pdf/2020/ssm.2020_letter_remuneration_policies_in_the_context_of_the_coronavirus_COVID_19_pandemic.en.pdf?da196e86bcae7c5670b6cb8fd84f7154.

Taking these considerations into account, the ECB reiterates its expectation that your institution will continue to adopt extreme moderation with regard to variable remuneration until 30 September 2021, especially for identified staff (so-called “material risk takers”), insofar as it may negatively affect the amount or quality of your institution’s total capital. While doing so, your institution should duly take into account the need to preserve or rebuild a sound capital base in the light of the possible consequences of the COVID-19 pandemic. Therefore, we expect your institution to consider the extent to which it is possible to limit its variable remuneration.

In any case, if a limitation in the variable remuneration cannot be implemented, your institution should consider whether a larger part of variable remuneration could be deferred for a longer period of time, as well as consider the payment of variable remuneration in instruments[2].

The supervisory expectations reiterated above should not expose your institution to litigation or legal risk. They are therefore not intended to apply in cases where your institution is subject to a legal obligation to pay the variable remuneration.

The reputational impact of the payment of variable remuneration during a global crisis situation should not be underestimated – particularly in the case of large individual amounts – and should be duly considered, also bearing in mind the important role played by financial institutions in tackling the crisis.

Your institution should also not adopt measures that compensate staff for the reduction or loss of variable remuneration, as this would amount to a circumvention of the relevant regulatory provisions and the ECB’s supervisory expectations and would hinder the achievement of the overall objectives pursued via the aforementioned measures.

The appropriateness of institutions’ remuneration policies and practices will form part of the supervisory assessment within the 2021 Supervisory Review and Evaluation Process.

In addition, the ECB will continue to assess the implementation of these supervisory expectations in the ongoing dialogue between your institution and the relevant Joint Supervisory Team under the conditions explained above. Please keep your Joint Supervisory Team informed of any decisions regarding your remuneration policy. Stricter supervisory measures may also be issued on the basis of institution-specific analyses.

Finally, these supervisory expectations are related to the current exceptional circumstances and will remain valid until the end of September 2021. At that time, in the absence of materially adverse developments, the ECB intends to return to assessing banks’ remuneration policies and practices in the context of the normal supervisory cycle.

Yours sincerely,

[signed]

Andrea Enria

[2] As defined in Article 94(1)(l) CRD.