EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Andrea ENRIA
Chair of the Supervisory Board

ECB-PUBLIC

To the CEO of the Significant Institution

SSM-2020-0315

Frankfurt am Main, 28 July 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 maintenance of a sound capital base. As with dividend distribution policies – see Recommendation (ECB/2020/35)[1] – an institution's variable remuneration policy may have a significant negative impact on its capital base.

The ECB considers that the level of economic uncertainty due to the coronavirus (COVID-19) pandemic remains elevated and that, consequently, credit institutions need to maintain a sufficiently large amount of capital to absorb potential losses and to support the real economy by providing credit to households, small businesses and corporates. In previous interactions with institutions[2] and banking associations the ECB has already advocated that credit institutions adopt a prudent, forward-looking stance when deciding on their remuneration policies, in line with the European Banking Authority's "Statement on dividends distribution, share buybacks and variable remuneration"[3] and with the "Recommendation of the European Systemic Risk Board of 27 May 2020 on restriction of distributions during the COVID-19 pandemic (ESRB/2020/7)"[4].

In its recommendation, the European Systemic Risk Board identifies the principle of proportionality as a key criterion for implementation. The principle of proportionality shall also 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 Recommendation on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/19 (ECB/2020/35).
2 Annual letter on Variable remuneration policy of the Significant Institution, European Central Bank, 21 January 2020.
3 Statement on dividends distribution, share buybacks and variable remuneration, European Banking Authority, 31 March 2020.
4 Recommendation of the European Systemic Risk Board of 27 May 2020 on restriction of distributions during the COVID-19 pandemic (ESRB/2020/7).

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Taking into account these considerations, the ECB expects your institution to adopt extreme moderation with regard to variable remuneration payments until 1 January 2021, especially to identified staff (so-called “material risk takers”), insofar as these payments may result in a deterioration in the amount or quality of total capital for your institution. While doing so, your institution should duly take into account the need to preserve or rebuild a sound capital base, in light of the possible consequences of the COVID-19 pandemic. Therefore, we would expect that your institution consider the extent to which it is possible to reduce the payment of variable remuneration.

In any case, if such a reduction in 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[5].

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

The reputational impact of the payment of variable remuneration in 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 of 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 hamper the overall objectives pursued via the aforementioned measures.

The appropriateness of institutions’ remuneration policies and practices will form part of the supervisory assessment in the monitoring exercise currently under way to examine institutions’ reactions to the COVID-19 pandemic and, as always, within the Supervisory Review and Evaluation Process.

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 regularly informed of any decisions regarding your remuneration policy; stricter supervisory measures may be issued on the basis of institution-specific analyses.

Finally, the ECB will continue to monitor the evolution of economic conditions and may update or amend, as needed, the supervisory expectations conveyed in this letter.

Yours sincerely,

[signed]

Andrea Enria

5 As defined in Article 94(1)(l) CRD.