**Andrea Enria**
Chair of the Supervisory Board

Mr Sven Giegold
Mr Ernest Urtasun
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 18 May 2021

**Re: Your letter (QZ-024)**

Honourable Members of the European Parliament, dear Mr Giegold, dear Mr Urtasun,

Thank you for your letter on the appropriateness of supervisory powers related to dividends and share buy-backs, 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 20 April 2021.

In March 2020, at the onset of the economic shock associated with the coronavirus (COVID-19) pandemic, the ECB recommended that banks suspend their cash dividends and share buy-backs.[1] This recommendation, which the ECB extended in July,[2] was based on the consideration that, in the environment of heightened systemic uncertainty and stressed economic conditions created by the pandemic, preserving capital was necessary to ensure prudent capital planning and for banks to retain their capacity to support the economy. The recommendation was both exceptional and temporary, and reflected the extraordinary circumstances that the banking sector and supervisors faced at that time.

As you note in your letter, the ECB modified its recommendation in December 2020,[3] calling on banks to remain cautious by keeping their distributions within certain levels. This modification took into account the Eurosystem's updated staff macroeconomic projections for the euro area,[4] which showed a lower level of uncertainty with regard to the economic impact of the pandemic.

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[1] See https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200327~d4d8f81a53.en.html

[2] See https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200728_1~42a74a0b86.en.html

[3] See https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr201215~4742ea7c8a.en.html

[4] See https://www.ecb.europa.eu/pub/pdf/other/ecb.projections202012_eurosystemstaff~bf8254a10a.en.pdf

While challenges remained, forecasts were close to the central scenario used in the ECB's analysis of the banking sector's vulnerability to the pandemic stress. This analysis, carried out in the first half of 2020, had shown that the banking sector was sufficiently resilient to withstand stress of the magnitude we were witnessing.

The ECB's recommendation on dividend distributions is not a legally binding act. It is for banks' management and shareholders to decide what their banks will distribute. But I was pleased with banks' reactions to the recommendation: while we had some difficult conversations with a few banks, all significant institutions have to date followed the recommendation. By doing so, I believe they enhanced their reputation for collective social responsibility during this difficult period for all European citizens.

Against this background and to answer your question, the benefits of introducing new binding powers to restrict distributions need to be weighed carefully against possible drawbacks. Notably, whereas the recommendation the ECB made last year was very explicitly time-bound and made for truly exceptional circumstances, introducing new powers for authorities to impose binding restrictions on distributions might signal that such restrictions could occur more frequently in the future. Considering the importance of distributions in enabling financial institutions to raise capital externally, such a step might negatively affect the long-term sustainability of institutions and markets. Such effects could be particularly pronounced if the EU were to take this step unilaterally, without other major jurisdictions establishing similar powers for their authorities.

We also have to bear in mind that banks' distribution policies are relevant both for the safety and soundness of individual banks and the stability of the financial system. For this reason, we have seen supervisory and macroprudential authorities taking complementary actions during the COVID-19 pandemic. Of course the balance between national and EU-level decision-making differs across the microprudential and macroprudential policy domains, and in a few instances diverging approaches were adopted at the national level. Notably, whereas for significant institutions the ECB's recommendations applied on a consolidated basis so as to maintain a free flow of resources among the different legal entities in banking groups, some national macroprudential authorities found it necessary to restrict distributions by all banks in their countries, irrespective of whether they were subsidiaries of groups headquartered elsewhere in the EU.

These national macroprudential measures may have been motivated by financial stability concerns at the national level, but they can impede the ability of cross-border banks to fulfil their role of enabling private risk sharing across the EU. They can also decrease the resilience of cross-border groups, by limiting their ability to gain strength from the geographical diversification of their risks within the Single Market. Varying national responses also contribute to the complexity of the prudential landscape in the EU, in which banks are still required to navigate a patchwork of different national rules.

In light of this experience, while I do not see a clear and compelling need to equip supervisory authorities with the power to impose blanket and legally binding restrictions, I do see a risk of beginning a legislative process that could ultimately lead to more restrictions on intragroup transferability of resources being imposed at the national level in future crises. Such a process would run counter to other important legislative initiatives aimed at completing the architecture of the banking union.

Based on these considerations, I do not support introducing such discretionary powers at the current time.

Yours sincerely,

[signed]

Andrea Enria