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The Systemic Risk Council

www.risikoraad.dkmail@risikoraad.dk

On 18 December 2020, the European Systemic Risk Board (ESRB) issued a new recommendation to relevant national authorities to request financial institutions to refrain from dividend distributions, share buy-backs and variable remuneration. The recommendation applies until 30 September 2021, and amends the previous recommendation expiring at the end of 2020. Any pay-outs should be made with extreme caution and in compliance with regulatory guidelines.

The Systemic Risk Council endorses the ESRB recommendation and encourages Danish institutions to restrict pay-outs that erode their own funds.

The extent of negative pandemic impacts on banks, both in the medium and long term, remains uncertain. As fiscal policy relief packages are phased out and losses in affected industries are realised, banks may face increasing losses and deteriorating credit quality. Therefore, the objective of the ESRB recommendation [\[link\]](#) is to ensure that banks have sufficient own funds to absorb any losses and maintain lending to the economy in the current situation.

Consequently, the Systemic Risk Council encourages Danish financial institutions to restrict dividend payments, share buy-backs and allocation of variable remuneration up until 30 September 2021. Extreme caution should be used in any decisions in this regard, and such decisions should be made in compliance with the guidelines of the Danish Financial Supervisory Authority in this area.

The release of the countercyclical capital buffer earlier this year has given institutions additional lending capacity. The release of the buffer should not be used for distribution of dividends or share buy-backs. Institutions choosing to distribute dividends or buy back own shares must ensure that this does not affect their lending capacity. Moreover, institutions should in their decision to distribute dividends take into consideration the build-up of the countercyclical capital buffer as the economic development normalises.

For further information, please contact mail@risikoraad.dk or *Teis Hald Jensen*, Communications and Press Advisor, on tel. +45 3363 6066.