

24 December 2020

## Circular to Credit Institutions on the Restriction on Dividend Distributions or Share Buy-Backs and Variable Remuneration

On 2 April 2020, the MFSA issued a [Circular](#) to inform credit institutions of the application thereto of the ECB [Recommendation ECB/2020/19](#), which recommended that, in light of the economic shock brought about by the COVID-19 pandemic, and at least until 1 October 2020, no dividends are paid out and no irrevocable commitment to pay out dividends is undertaken by credit institutions. Pursuant to this, the MFSA extended the applicability of this restriction by means of the [Circular](#) dated 28 July 2020, which was issued further to the ECB's adoption of [Recommendation ECB/2020/35](#), extending the application of the previous Recommendation until 1 January 2021.

Having regard to the ongoing macroeconomic challenges resulting from the COVID-19 pandemic, the ECB has now further revised its recommendations through the publication of the [ECB Recommendation on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/35 \(ECB/2020/62\)](#) (the 'ECB Recommendation'), issued on 15 December 2020. The ECB Recommendation now advises credit institutions to exercise extreme prudence when deciding on or paying out dividends or share buy-backs aimed at remunerating shareholders. Consequently, the ECB Recommendation requires credit institutions to consider refraining from distributing any cash dividends or conducting share buy-backs, or to limit such distributions, until 30 September 2021.

With respect to remuneration policies in the context of the COVID-19 pandemic, the ECB also issued a [letter to Significant Institutions](#), reiterating its expectations that credit institutions act with extreme moderation on variable remuneration. This expectation is also applicable until 30 September 2021.

The MFSA is hereby announcing that the ECB Recommendation shall also apply in its entirety to all credit institutions licensed in terms of the Banking Act (Chapter 371 of the Laws of Malta) from today and at least until 30 September 2021. This is also consistent with [Recommendation ESRB/2020/15 of the European Systemic Risk Board \(ESRB\)](#), adopted on 15 December 2020.

Consequently, credit institutions which intend to pay dividends or buy back shares are now expected to contact their respective supervisor within Banking Supervision to discuss whether the level of the intended distribution is prudent.

Additionally, the MFSA deems it necessary that all credit institutions are guided by the contents of the above-mentioned letter to banks issued by the ECB.

The MFSA will continue to follow the ECB and the ESRB's recommendations, whilst further evaluating the economic situation, and consider whether further guidance is advisable after 30 September 2021.