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NEWS FROM THE ECB

Banking supervision – ECB publishes speech by Elizabeth McCaul on bank boards and supervisory expectations

3 December 2020 – The European Central Bank (ECB) has published a speech by Elizabeth McCaul, Member of the Supervisory Board of the ECB, delivered at the Florence School of Banking & Finance Online Seminar.

In particular, Ms McCaul observed that:

- Governance is one of ECB Banking Supervision’s key areas of supervisory focus, stating that while “*Undeniable progress has been made in Europe since 2015 with regard to bank governance...there is still plenty of room for improvement*”. Ms McCaul identifies a number of issues, including that risk data aggregation is still deficient in many banks, and that the accuracy and timeliness of internal reporting needs to be enhanced.
- In 2021, ECB Banking Supervision expects to publish a revised guide on fit and proper assessments to clarify its expectations on the suitability of bank directors. An online portal will be set up for banks to submit their applications for prospective directors to make the process more efficient and accessible.
- The EU legal framework applicable to fit and proper assessments is still fragmented, which reflects the varied implementation of the Capital Requirements Directive (2013/36/EU) (CRD IV) across Member States. Fully harmonised fit and proper criteria and increased clarity on the process is required to ensure a level playing field. Ms McCaul states that, ideally, this would be introduced by a directly applicable EU regulation.

Speech by Elizabeth McCaul, Member of the Supervisory Board of the ECB, on bank boards and supervisory expectations is [here](#).

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COVID-19 and dividends – ECB urges banks to further delay or limit dividends until September 2021

15 December 2020 – The ECB has published a recommendation to credit institutions on dividend contributions during COVID-19, which revises its previous recommendation published on 27 March 2020. The ECB is recommending that banks should consider not distributing any cash dividends or conducting share buy-backs, or at least limiting such distributions, until 30 September 2021.

The ECB explains that in light of COVID-19 disruptions, banks that intend to pay dividends or buy back shares need to be profitable and have robust capital trajectories. Dividends and buy back shares need to remain below 15% of banks' cumulative 2019-20 profit and not higher than 20 basis points of the Common Equity Tier 1 (CET1) ratio, whichever is the lower. Banks should discuss with their Joint Supervisory Teams whether the level of intended distribution is sufficiently prudent and should refrain from distributing interim dividends out of their 2021 profits.

Alongside this recommendation, the ECB has also published a letter to banks reiterating its expectation that banks will continue to adopt extreme moderation in respect of variable remuneration until 30 September 2021, particularly for staff identified as 'material risk takers'. These expectations are not intended to apply where a bank is subject to a legal obligation to pay variable remuneration. However, banks should also not adopt measures that compensate staff for the reduction or loss of variable remuneration as this would circumvent the regulatory provisions and the ECB's supervisory expectations.

ECB recommendation on dividend distributions in light of COVID-19 is [here](#).

Press release is [here](#).

ECB letter on remuneration policies in the context of COVID-19 is [here](#).

FAQs including details of further supervisory measures taken in light of COVID-19 is [here](#).

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Digital euro – ECB publishes letter to European Parliament members

22 December 2020 – The ECB has published a letter from its President, Christine Lagarde, to European Parliament members in response to certain questions posed by them in relation to the introduction of a digital euro, namely:

1. whether transactions in digital euro would be managed in a centralised or decentralised system;
2. what the possible international spill-over effects of a digital euro are, both within and outside the EU; and
3. what the role of commercial banks will be in a digital euro system and the possible impact on their provision of credit.

In response to each of the questions posed, the ECB's letter indicates that:

1. the ECB is exploring both options of a centralised or decentralised system, although no decision has yet been made;
2. the international spill-over effects of a digital euro, both within and outside the EU, is an important part of the ECB's analysis and open dialogue is taking place on this with the central banking community, public authorities and international bodies; and
3. a digital euro, as outlined in the ECB's 'Report on a digital euro' published in October 2020, should be made available on an equal basis in all euro countries through supervised intermediaries and be integrated with existing payment systems. It would be designed as a means of payment and not a form of investment, thereby avoiding the associated risks of a large shift from private money (for example, commercial bank deposits) to the digital euro, and could not restrict banks' ability to grant loans that would be disbursed by crediting deposit accounts of loan recipients.

The correspondence follows the publication of the ECB's 'Report on a digital euro' and the opening of a public consultation and questionnaire, which was open to responses until 12 January 2021.

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ECB letter to European Parliament members is [here](#).

Report on a digital euro is [here](#).

Digital euro webpage is [here](#).

Supervised entities - ECB publishes updated list of supervised entities

28 December 2020 – The ECB has published its list of supervised entities updated as of 1 November 2020. The ECB also explains the changes in the list since the previous update.

List of supervised entities is [here](#).

Changes to the list is [here](#).

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NEWS FOR THE SINGLE SUPERVISORY MECHANISM (SSM)

No items.

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NEWS FOR THE SINGLE RESOLUTION MECHANISM (SRM)

Mergers and acquisitions – SRB publishes guidance for banks

7 December 2020 – The Single Resolution Board (SRB) has published guidance outlining its expectations for how banks engaging in mergers, acquisitions and other corporate transactions can ensure resolvability. As laid out in the SRB’s Expectations for Banks (EFB) policy, any bank engaging in M&As or other corporate transactions should contact the SRB to detail their intentions, which allows the SRB to identify any resolution concerns on time.

In the SRB’s view, *“Bank consolidation, if well designed and well executed, can enhance banks’ resilience and profitability, thus strengthening resolvability”*. The SRB’s resolvability expectations for banks are grouped under four headings:

- maintaining a sufficient level of loss-absorption and recapitalisation capacity;
- integrating information systems to meet data requirements;
- strengthening operational continuity in resolution and access to financial market infrastructure (FMI) services; and
- rationalising legal structure after the operation.

SRB expectations for ensuring the resolvability of banks engaging in mergers, acquisitions and other corporate transactions is [here](#).

Webpage is [here](#).

Press release is [here](#).

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Single Resolution Board – MREL Dashboard

9 December 2020 - The Single Resolution Board (SRB) has published a first MREL dashboard which will be followed by regular quarterly reports. The dashboard is designed to give a comprehensive overview of the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) across the banks under the SRB's remit.

MREL dashboard is [here](#).

Webpage is [here](#).

Single Resolution Board – Final valuation data set published

11 December 2020 – The SRB has published its standardised data set to ensure the availability of “minimum needed data” to support a robust valuation for bank resolution. This follows the publication of its 2019 Framework for Valuation which provided independent valuers with an indication of the SRB's expectations around the principles and methodologies for valuation reports. The SRB has been collaborating with the EBA to standardise the data set.

SRB Valuation Data Set Instructions is [here](#).

SRB Valuation Data Set Explanatory note is [here](#).

Feedback Statement in Response to the Consultation on the SRB Valuation Data Set is [here](#).

Press release is [here](#).

Single Resolution Board – 11th Industry Dialogue

14 December 2020 - The SRB held its 11th Industry Dialogue on 14 December 2020. The Industry Dialogue brings together representatives from EU-level and national banking federations and their associates from Banking Union participating Member States, representatives from National Resolution Authorities, the European Commission, European Parliament and the European Central Bank. Presentations and discussions concerned MREL.

SRB presentation on MREL is [here](#).

SRB presentation on the 2021 resolution planning cycle is [here](#).

SRB presentation on the Single Resolution Fund is [here](#).

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Permission regime for the reduction of eligible liabilities – SRB issues update

18 December 2020 – The SRB has updated its approach to the prior permission regime for the early calling, redeeming, repaying or repurchasing of eligible liabilities instruments by banks. This anticipates the deadline for institutions to comply with the intermediate MREL targets set under the Single Resolution Mechanism Regulation ((EU) 2019/877) (SRM II), which is 1 January 2022.

New MREL eligibility criteria applied to liabilities that qualify for MREL from 28 December 2020.

SRB Guidance is [here](#).

Press release is [here](#).

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If you would like to discuss any of the developments in this update, or any other financial regulatory matter, please contact one of the following or your usual EFIG contact.

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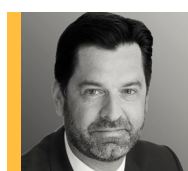
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