

Pursuant to the third paragraph of Article 9 of the Macroprudential Supervision of the Financial System Act (ZMbnFS, Official Gazette of the Republic of Slovenia, No. 100/13), Recommendation ESRB/2020/7 (OJ EU 2020/C 212/01) and Recommendation ESRB/2020/15 (OJ EU 2021/C 27/1), the Financial Stability Board (FSB) hereby issues competent supervisory authorities with the following

RECOMMENDATION OFS/2021/1

The FSB has established that the impact of the Covid-19 epidemic on the performance of financial corporations (point 1 of Article 2 of the ZMbnFS) could lead to disruptions in the financial system that could have a serious adverse impact on the functioning of the financial system and on the real sector, particularly in the form of:

- a decline in the capital strength, i.e. the capacity to absorb the capital losses, of financial corporations from the realisation of systemic risks during the time of the Covid-19 epidemic and for a certain period of time thereafter;
- a decline in liquidity in the economy during the time of the Covid-19 epidemic and for a certain period of time thereafter, which will be reflected in a deterioration in the liquidity of financial corporations; and
- limited financing of the economy in the process of economic recovery during the time of the Covid-19 epidemic and for a certain period of time thereafter.

The FSB has established that uncertainty in the economic recovery process in early 2021 remains high, and that the impact of the further evolution of the Covid-19 epidemic on economic growth and the performance of the financial sector is unpredictable. Numerous firms remain directly or indirectly reliant on government support and on fiscal and monetary policy measures.

Amid awareness of the importance of profit distributions by financial institutions in maintaining financial corporations' ability to raise capital on the capital market, thereby ensuring the long-term development of financial institutions and the financial market, we find that the maintenance of sufficiently large capital at financial corporations is a significant factor in ensuring that sufficient financial support is provided to the economy.

In light of the above, the FSB expects a high degree of restraint on the part of financial corporations in making decisions with regard to dividend payments, share buybacks and the payment of variable remuneration to key employees, and expects any payments to neither pose any threat to the stability of their long-term operations nor expose the economic recovery process to additional risks.

The aforementioned adverse impacts of the epidemiological crisis pose an elevated systemic risk to financial stability.

The FSB *recommends* that the supervisory authorities of financial corporations,¹ pursuant to Article 19 of the ZMbnFS, issue a supervisory measure or instrument commensurate with the risks (binding instrument, recommendation, opinion), targeting the restriction of or the exercise of prudence in the payment of dividends for 2019, 2020 and 2021, the restriction of or the exercise of prudence in share buybacks aimed at remunerating shareholders, and the restriction of or the exercise of prudence in the distribution of profits recorded in 2019, 2020 and 2021, and undistributed profits and

¹ The recommendation covers, at a minimum, financial institutions as defined by Recommendation ESRB/2020/7 and Recommendation ESRB/2020/15.

reserves from past years for such purposes, to financial corporations operating in the territory of the Republic of Slovenia under the supervision of the supervisory authorities.

The FSB also recommends that supervisory authorities impose restrictions or exercise prudence in respect of all other financial transactions charged against the profits of supervised financial corporations, where they might endanger the normal provision of support to the economy in the recovery.

The FSB recommends that the competent supervisory authorities consult financial corporations before making any decision on profit distributions.

The FSB will monitor the evolution of systemic risks in the financial sector, and as necessary will tailor the substance and timing of the above recommendation to the situation that evolves.

The recommended measures and instruments adopted by the competent supervisory authorities (Banka Slovenije, the Securities Market Agency and the Insurance Supervision Agency) should contribute to increased resilience on the part of the financial infrastructure to financial shocks, and to the maintenance of financial stability, reducing the chances of disruptions in the financial system that could have serious adverse consequences on the functioning of the financial system and on the real sector.

This recommendation enters into force on 25 January 2021, and remains in force until 30 September 2021. On the day that this recommendation enters into force, Recommendation OFS/2020/1 shall cease to be in force.

Boštjan Vasle
President, Financial Stability Board