MFSA MALTA FINANCIAL SERVICES AUTHORITY

Circular

30 September 2021

Circular to Credit Institutions on the Lifting of the Restriction on Dividend Distributions or Share Buy-Backs

Announcement

The MFSA is lifting the restrictions on dividends that banks can pay shareholders that were implemented as part of the measures to manage the impact of the COVID-19 pandemic on the financial system. The restrictions will be lifted as from 1 October 2021. This is in line with ECB and ESRB decisions in this regard (namely: the ECB Press Release which was published on 23 July 2021 and the ESRB Press Release, issued on 24 September 2021). The restrictions supported the financial resilience of banks so they could continue to support lending to the real economy through the period of the pandemic. Reduced uncertainty and the resilience acquired means that the MFSA can lift these restrictions.

The MFSA reminds credit institutions that they should remain prudent when determining levels of dividends and share buy-backs. They should take decisions informed by their stress testing, capital plans and business model sustainability evaluation. Furthermore, credit institutions should continue to adopt a prudent and forward-looking approach when deciding on remuneration policies.

Background

The MFSA Circular dated 24 December 2020 informed credit institutions that the ECB Recommendation on dividend distributions during the COVID-19 pandemic and repealing Recommendation ECB/2020/35 (ECB/2020/62) was applicable to all credit institutions licensed in terms of the Banking Act (Chapter 371 of the Laws of Malta) until 30 September 2021. This Recommendation stipulated that credit institutions shall exercise extreme prudence when deciding on or paying out dividends or share buy-backs aimed at remunerating shareholders. Pursuant to the afore-mentioned Circular, credit institutions were also informed that they were expected to contact their relevant supervisor within Banking Supervision in order to discuss whether the level of any intended distribution was prudent. This was also consistent with Recommendation ESRB/2020/15 of the European Systemic Risk Board (ESRB), adopted on 15 December 2020.