
TO : Cyprus Investment Firms

FROM : Cyprus Securities and Exchange Commission

DATE : 7 July 2020

CIRCULAR No : C397

SUBJECT : Recommendation 2020/07 of the European Systemic Risk Board (ESRB) on restriction of distributions during the COVID-19 pandemic (the 'Recommendation ESRB/2020/7')

The Cyprus Securities and Exchange Commission (the 'CySEC') wishes, with this circular, to inform the Cyprus Investment Firms ('the CIFs') that the ESRB issued on 27 May 2020 the [Recommendation 2020/07](#) on restriction of distributions during the COVID-19 pandemic (the 'Recommendation ESRB/2020/7'). More specifically:

1. The Recommendation ESRB/2020/7 recommends that **at least until 1st January 2021** the relevant authorities request financial institutions under their supervisory remit to refrain from undertaking any of the following actions:
 - (a) make a dividend distribution or give an irrevocable commitment to make a dividend distribution;
 - (b) buy-back ordinary shares;
 - (c) create an obligation to pay variable remuneration to a material risk taker.
2. The COVID-19 crisis has developed rapidly from a dramatic medical emergency into a severe economic shock, which has the potential to evolve into a systemic financial crisis. It is neither certain for how long this crisis will last, nor how severe it may be. It is clear that there is a need for financial institutions to maintain a sufficiently high amount of capital to mitigate systemic risk and contribute to economic recovery.
3. Restriction of distributions (e.g. dividends, bonuses, and share buybacks) can enhance the resilience of the financial sector and reduce the risk of failures of financial institutions due to COVID-19 related risks.
4. The ESRB considered it necessary to issue a recommendation to ensure that financial institutions across the financial sector that may pose a risk to financial stability maintain high levels of capital.

5. Investment firms are included in the list of financial institutions under Recommendation ESRB/2020/7, as they play an important role in market functioning and may present similar risks to banks.

CySEC, after taking into consideration all the above mentioned, decided to adopt Recommendation ESRB/2020/07 and urges CIFs that that have been recognized as Other Systemically Important Institutions (OSIIs) to refrain from any of the actions mentioned in point 1 above.

Yours sincerely

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Chairman, Cyprus Securities and Exchange Commission