CORONAVIRUS

Banks 'must scrap dividends, share buybacks and bonuses'

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Banks should ensure that they have sufficient reserves to cope with an economic crisis, say former officials

Banks should immediately scrap dividends and share buybacks and consider withholding bonuses so that they have sufficient reserves to fight the economic damage caused by coronavirus, according to former regulators.

If banks show that they are not splashing cash on shareholders and executives they should be allowed to eat into the capital buffers they have built up since the financial crisis to support lending to businesses, the group added.

The views came from the Systemic Risk Council, made up of former senior regulators and policymakers around the world. It issued a statement to finance ministers and central bank governors in G20 countries on ways to contain the financial and economic consequences of the health crisis.

Banks “should be ready to suspend bonuses to a thick layer of senior and other highly remunerated staff in order to maximise their capacity to lend”, the council said. While their finances may be robust now, “if the crisis lasts into next year, credit supply and the economy will be held back by distributions allowed during the current year”.

Central banks and governments should support the actions of lending banks with wide-ranging actions including agreeing to fund essential businesses, which may not be able to obtain loans, and increasing the scope of liquidity schemes to let more businesses raise enough finance, it said.

Sir Paul Tucker, former deputy governor of the Bank of England and chairman of the council, said: “At this stage it will be difficult for economic policymakers to get ahead of events, but obviously they must strive to do so.”

The scale of their actions needed to be on a dramatic scale, he said. “Policymakers must plan for the type of interventions not seen outside of major wars. The goal should be to head off a protracted depression and to enable essential services to do their jobs, even while for too many families tragedy cannot be avoided.”

Other members of the SRC include Jean-Claude Trichet, former president of the European Central Bank, Sheila Bair, former chairwoman of America’s Federal Deposit Insurance Corporation, and Brooksley Born, former chairwoman of the US Commodity Futures Trading Commission.

Governments should provide direct aid to businesses and households that get into distress, and banks should be able to use loans to businesses as collateral to access central bank facilities, the council said.

Central banks should encourage use of discount windows to access funding, historically done by banks only reluctantly because of fears that it would stigmatise them and lead to a run on their shares and debt. Discount windows should be opened to other financial institutions and central banks should be prepared to buy a wide range of private securities, the council added.

Sir Paul said that while extraordinary measures were required, they came against a backdrop of companies that were weaker than they should be. “The financial system has entered the crisis with over-levered trading markets and many over indebted companies around the world, but the lessons from that must wait.”