

## 2 ACTIVITY REPORT



Ornamental clock and chime tower on the chamfered corner of Plaza de Cibeles. Main headquarters of the Banco de España.

## 2.1 INTERNAL ORGANISATION AND ADMINISTRATION

### 2.1.1 Human Resources

The Bank employs a total of 3,193 staff, with an average age of 44.63 years, and a proportion of 49.9% of women to 50.1% of men.

As at 31 December 2018, the total number of Banco de España staff was 3,193. In line with the trend observed in recent years, the average age of employees continued to decrease, to 44.63 years by the end of the year, and there was a greater gender balance, with 49.9% of women and 50.1% of men. As Chart 2 shows, it should be noted that, so far this decade, the proportion of total Bank staff that are women has increased by more than nine percentage points, from 40.5% in 2011 to 49.9% in 2018.

Following a strategy aimed at attracting the best professionals and, in an effort to ensure that its employment opportunities reach the broadest possible audience, the Banco de España continues to strengthen the use of digital channels (particularly its website and social media), such as employment portals or LinkedIn, whose corporate website has more than 37,000 followers.

More than 9,200 job applications were received 2018.

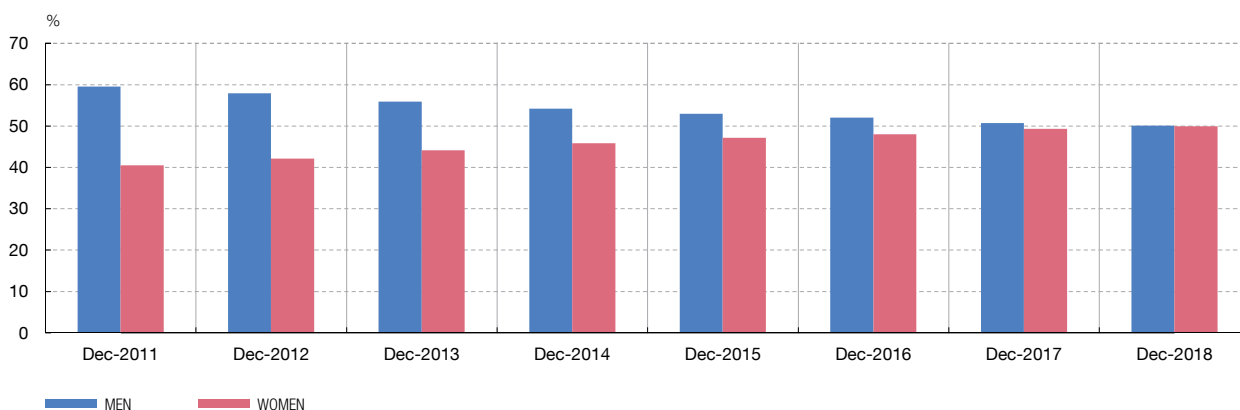
More than 9,200 job applications were received 2018 for the Bank's selection processes for permanent and temporary employees. A total of 269 permanent employees were recruited, of which 100 were administrative staff and employees for various support services, and 169 were managerial staff, mainly senior specialists and specialists.

In 2018, the Bank welcomed 24 professionals from other central banks, and similar organisations. In turn, at year-end, 176 Banco de España employees were working in international organisations.

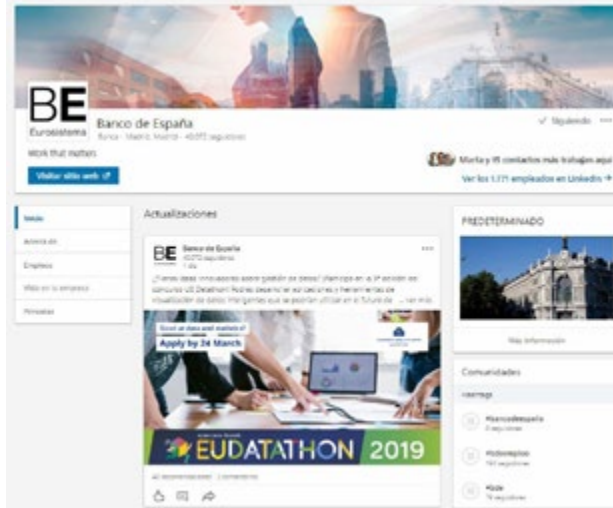
The average time devoted to training per employee amounted to 39 hours for the year as a whole. The Bank has structured its training programme around 16 knowledge areas, ten competencies, seven interdisciplinary skills and three categories relating to health and well-being. Other training processes were reviewed and the Bank collaborated with the Security Service to develop a three-year training plan on physical safety.

STAFF COMPOSITION

CHART 2



SOURCE: Banco de España.



The Banco de España page on LinkedIn.

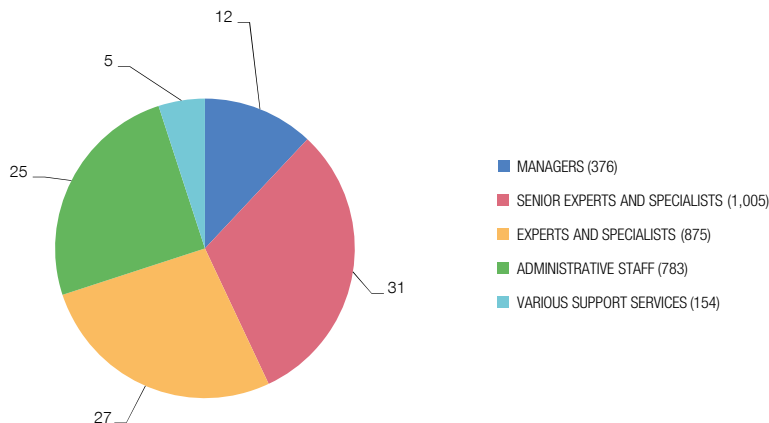
2018 saw the conclusion of the first edition of the management training programmes aimed at providing certain groups with people management tools. In addition, pilot programmes on coaching and mentoring were launched, and workshops were held on the use of innovative and collaborative methodologies in the Bank's projects.

International and internal mobility continued to be promoted, with the publication of existing vacancies, attracting considerable interest among employees.

The implementation of teleworking, using new technologies, was extended to an ever-growing number of employees, and contributed to improving the work-life balance of employees, increasing their motivation and further developing management systems and organisational structures. Since 2017, various teleworking programmes have been

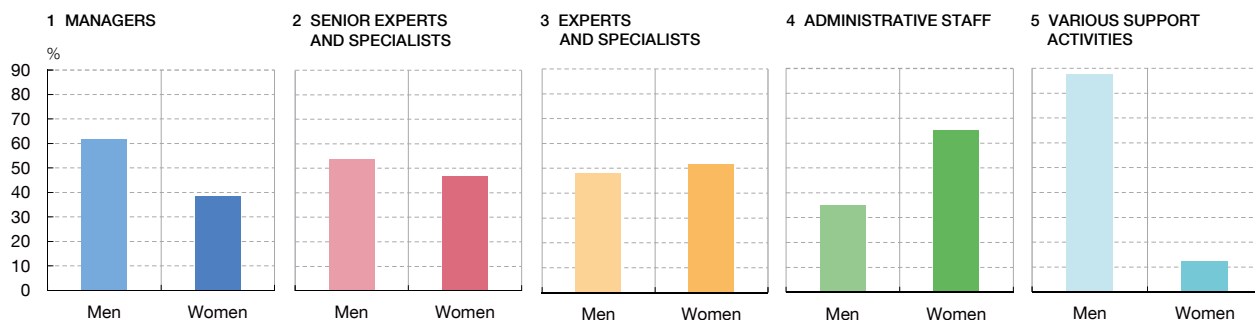


Bank examiners' graduation event (2017-2018).



STAFF COMPOSITION BY GENDER

CHART 4



|       | 1 MANAGERS | 2 SENIOR EXPERTS AND SPECIALISTS | 3 EXPERTS AND SPECIALISTS | 4 ADMINISTRATIVE STAFF | 5 VARIOUS SUPPORT ACTIVITIES |
|-------|------------|----------------------------------|---------------------------|------------------------|------------------------------|
| Men   | 61.70      | 53.53                            | 48.23                     | 34.87                  | 87.66                        |
| Women | 38.30      | 46.47                            | 51.77                     | 65.13                  | 12.34                        |

SOURCE: Banco de España.

implemented in different areas of the Bank. In 2019, they will include more than 350 employees.

The collective labour agreement for Banco de España employees signed in 2018 continued to make progress with the implementation of measures to improve the work-life balance, and more flexible working hours were introduced for some cases, such as single-parent families or families with disabled children.

The staff composition is based on five professional groups.

Lastly, as regards the staff composition by professional groups, Chart 3 shows the current distribution and percentage corresponding to the following: i) individuals in management positions or with responsibility over teams (managerial staff, levels 1 to 9); ii) senior experts and specialists (other managerial staff up to level 9); iii) experts and specialists (managerial staff, levels 10 to 14); iv) administrative staff, and v) various support services. In addition, the breakdown by gender in Chart 4 shows the distribution and percentage of men and women in each of the professional groups.

### 2.1.2 Reorganisation

The following restructuring processes were carried out in 2018:

Organisational changes took place in various directorates general.

The Directorate General Operations, Markets and Payment Systems was reorganised to take on new responsibilities relating to the supervision of payment service providers and the analysis and monitoring of financial innovation. To this end, the Associate Directorate General Financial Innovation and Market Infrastructures was created and the Operations and Payment Systems departments were reorganised.

The Directorate General Economics, Statistics and Research was reorganised to harness synergies and better adapt its structure to its economic and financial analysis and advisory functions. This directorate is currently made up of six departments: the existing Statistics department and five newly created ones.

A further step was taken to bring the structure of the Directorate General Banking Supervision into line with the European supervisory framework, enhancing its relationship with its peers in the Single Supervisory Mechanism (SSM), with other directorates general of the Banco de España and with national supervisory bodies, and strengthening the supervision of less significant institutions. It has been organised around two Associate Directorates General, which coordinate the five departments. The SSM Executive Coordination Service and the Organisation and Quality Division also report to the Directorate General.

The Associate Directorate General Deputy General Secretariat was also reorganised to assume new responsibilities in the areas of authorisations, suitability and register of senior officers, and register of credit institutions, and to improve corporate governance functions, corporate social responsibility, protection of personal data and documentary policy. An Executive Coordination Service and a Governance and Transparency Division have been created for this purpose.

### 2.1.3 Services

In the area of IT systems, the department was reorganised to accommodate the creation of a technological innovation unit, among others, which analyses current market trends, such as the use of artificial intelligence, the cloud and automation techniques, and prepares specific proposals for conceptual trials and innovation projects for 2019.

The Banco de España continued to participate very actively in the IT development of European projects in different areas, in collaboration with other central banks. Also noteworthy was the creation of the ESAP platform, jointly with the Banque de France, to support the development and implementation of different European projects. Additionally, considerable efforts were made to implement technological and organisational measures to improve the capacity for protection against the growing threat of malware and cyber attacks. These efforts will have to continue in the coming years.

The rules and processes applicable in the area of procurement have been adapted.

The entry into force of the new Public Sector Contracts Law (Law 9/2017) of 8 November 2017, which transposes Directives 2014/23/EU and 2014/24/EU of the European Parliament and Council of 26 February 2014 to Spanish law, aims to improve transparency by firmly supporting the principles of good governance. In the case of the Banco de España, this

law has led to the adaptation of a number of its work processes. In this respect, mention should be made of the approval of internal regulations on procurement, in the form of the new Internal Circular 4/2018 and Internal Regulation 5/2018.

Also noteworthy was the active participation of the Banco de España in a number of joint procurement procedures in the framework of the Eurosystem, which is key for performing its functions, with the support of the Eurosystem Procurement Coordination Office (EPCO). The EPCO community is made up of 23 central banks. It also works with other European institutions, such as the Single Resolution Board (SRB), the European Investment Bank (EIB), the European Stability Mechanism (ESM) and the Financial Services and Markets Authority (FSMA).

The restoration of the façades of the Cibeles building was completed in 2018.

On another front, the completion in May 2018 of the project to restore and reinforce the façades of the Cibeles building has provided a detailed map of their state of conservation, which has served as the starting point for drawing up conservation plans for the building's façades and those of some branch offices.

Restoration and refurbishment work on the Library and the areas formerly occupied by the key depository also concluded in 2018. This project, together with the refurbishment of other spaces as part of the renovation project for the ground floor of the Banco de España's Madrid building, by Paredes Pedrosa Arquitectos, was awarded the COAM Prize (Official Association of Architects of Madrid). In addition, it was selected, from among the 23 national and international architectural projects in the Spanish Biennial Exhibition, which recognised the best architectural and urban development projects worldwide in 2018.



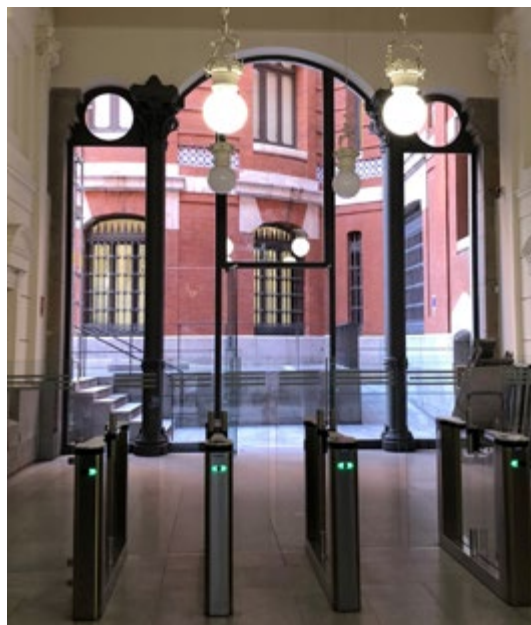
The façades on Paseo del Prado (left) and Calle Los Madrazo (right), seen from Cibeles, following completion of restoration and cleaning work. Main headquarters of the Banco de España.



Reading room in the Library, after refurbishment.

In addition, to improve the quality of the environment, energy efficiency projects are under way in the two Madrid buildings, where more efficient LED lighting systems have been installed and other measures taken to reduce emissions by more than 1,000,000 kg of CO<sub>2</sub>/year through electricity power saving.

Lastly, various measures were taken in relation to the security installations in our buildings. This work mainly affected the access control systems (mechanized corridors in access to buildings and access control gates) and closed circuit television systems.



Access control gates in the Cibeles building.



#### 2.1.4 Branch offices

Renewal of banknote handling and sorting machines continued.

Work continued in 2018 to renew the banknote handling and sorting machines used by the branch offices of the Banco de España to verify the authenticity and condition of banknotes. The long-term project to modernise the machines used in the branches began in 2016. Renewal is still pending in some branches and will be carried out in the coming years. The project includes the installation of automatic banknote weighing and packaging systems, for the handling machines still lacking such equipment.

Work continued in the operational centres of the ancillary deposit system located throughout the country, with an update of the control procedure in 2018 which has expanded the aspects to be reviewed.

In addition to the functions relating to the distribution and processing of cash, the branches also provide support to the different Bank departments, offering the general government and the public decentralised services relating to functions and tasks assigned to the Banco de España. These include the exchange of pesetas for euros, replacement of damaged banknotes and coins, public debt subscription, claims, Central Credit Register reports, collaboration with the Central Balance Sheet Data Office, and financial education and training.

At the end of 2018, there were 440 employees at the Banco de España's 15 branch offices. There is a director in charge of each branch, who represents the Banco de España and is responsible for the infrastructure and administrative and support services. In general, two units report to this director: Cash-Operations, which carries out cash and bank operations, and Financial Control, which audits and accounts for all operations.



Façade of the Badajoz branch office (left). The glass dome of the banking hall in the Bilbao branch (top right). Banking hall of the Seville branch (bottom right).

## 2.2 FUNCTIONS RELATING TO BANKING OPERATIONS

### 2.2.1 Implementation of monetary policy and asset management

In the area of monetary policy, there were no new developments as regards the setting of policy rates or regular operations.

In 2018, the implementation of monetary policy continued to be mostly channelled through the purchase programmes (see Chart 5), in a period characterised by the absence of new developments regarding policy rates and regular operations. As regards targeted four-year liquidity-injection operations (TLTRO II), institutions may make early repayments on a quarterly basis as from June 2018 provided that at least two years have elapsed since the funds were granted. In the euro area as a whole, of a total of €736.6 billion originally allotted in these operations, early repayments amounted to €17.8 billion, only 2.4% of the total. Spain and another six euro area jurisdictions did not avail themselves of this possibility.

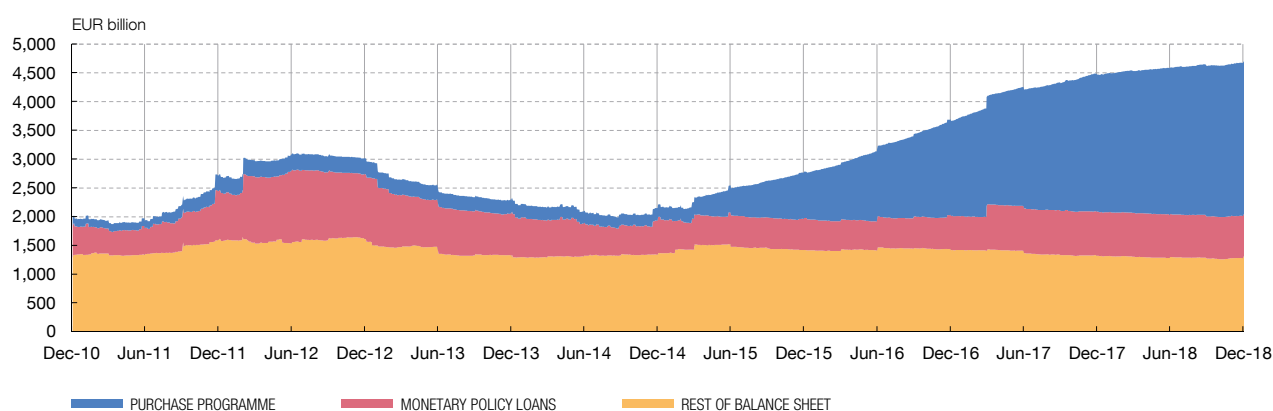
With respect to the programmes, it is worth noting that the monthly target of net purchases fell gradually, while the remaining operational parameters held stable. From January 2018, this target was reduced from €60 billion to €30 billion, and to €15 billion in the last three months of the year (see Chart 6).

The public sector purchase programme (PSPP) continues to be the largest in terms of cumulative volume. As regards private-sector programmes, the corporate sector purchase programme (CSPP) gained weight vis-à-vis the covered-bond purchase programme (CBPP3). Lastly, it should be noted that the smooth functioning of the public sector purchase programme securities lending facility helped to ease the potential tensions in the repo market at quarter and year-ends.

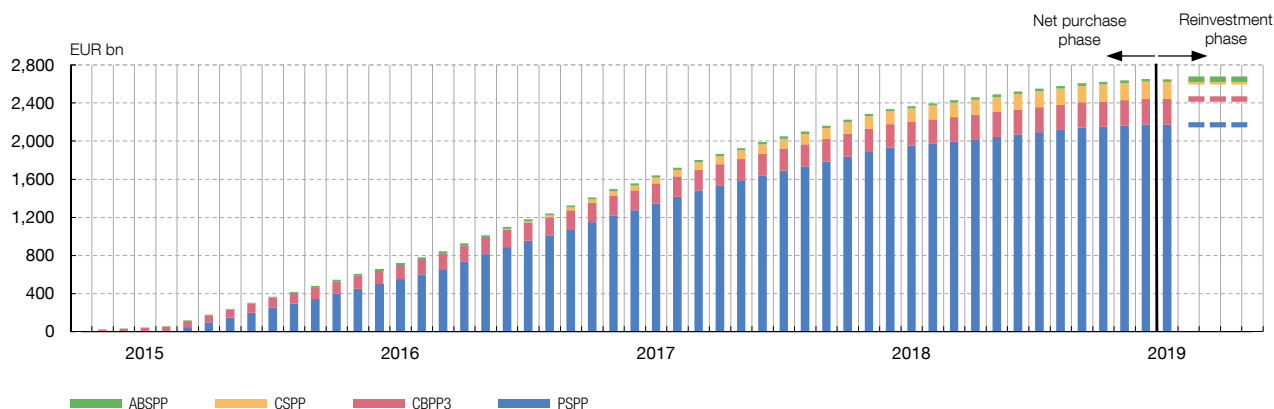
On 13 December 2018 the European Central Bank (ECB) announced the end of net purchases under the various programmes, and the start of a reinvestment phase as from January 2019. This phase, in which the volume of purchases is restricted to the volume of repayments, will continue for as long as necessary to maintain favourable liquidity conditions in the markets and an ample degree of monetary accommodation.

#### DEVELOPMENTS IN THE EUROSISTEM'S BALANCE SHEET

CHART 5



SOURCE: Banco de España.



SOURCE: European Central Bank.

As regards portfolio management, in 2018, the process of diversifying the own portfolios denominated in foreign currencies continued, with the inclusion of new currencies and eligible instruments and issuers. Noteworthy was the investment of a small percentage of reserves in Chinese yuan-denominated portfolios, and the adherence of the Banco de España to the Foreign Exchange Global Code of Conduct. The Bank also continued to undertake other tasks for third parties, such as the management of part of the ECB's foreign reserves and acting as a financial agency in relation to the portfolios of the Social Security Reserve Fund and the Deposit Guarantee Scheme.

### 2.2.2 Management of payments and securities settlement

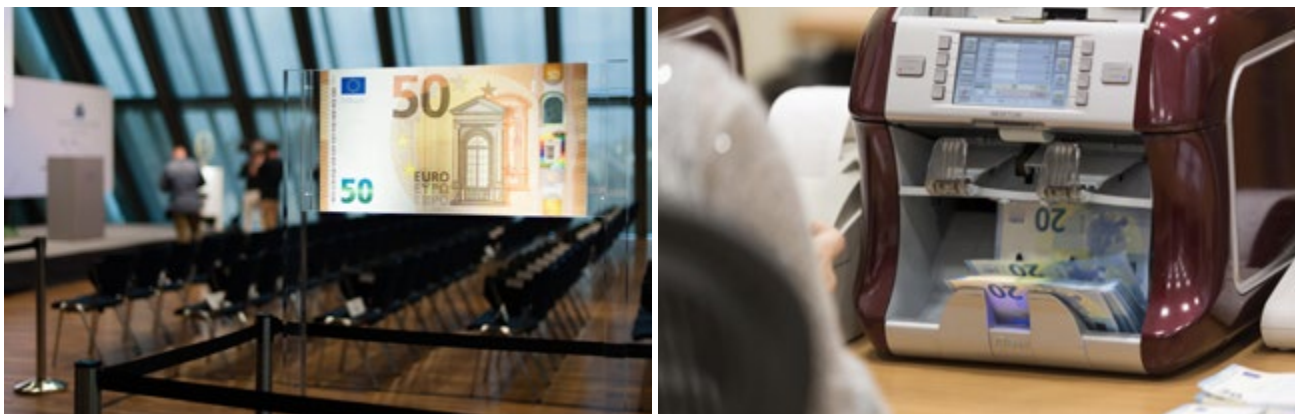
The Spanish financial community finalised the adjustments and tests for the migration to TARGET Instant Payment Settlement (TIPS), the pan-European platform for instant payment settlement operated by the Eurosystem. The migration took place in November, as scheduled, and was led by the Banco de España.

In November 2018, Directive (EU) 2015/2366 on payment services in the internal market was transposed into Spanish law through the publication of Royal Decree-Law 19/2018. This transposition makes major changes to the legal and operational framework of the payments industry. As a result, headway was made in adapting regulations to the new technological changes which allow users to have recourse to new payment services and new agents, in a more reliable way. These changes are reflected in the Banco de España's supervisory function, with the roll-out of new tools and procedures that are adapted to the new, legally stipulated, security requirements.

### 2.2.3 Banknote and coin management

There was demand for 3,020 million banknotes and 1,194 million coins from credit institutions.

The Banco de España, as a member of the European System of Central Banks (ESCB) issues euro banknotes together with the ECB and other national central banks in the euro area. It also puts euro coins into, and withdraws them from, circulation on behalf of the Spanish state. The Banco de España manages the cash cycle in Spain, performing two of its core functions: to guarantee the supply of banknotes and safeguard their integrity when in circulation.



Europa series €50 banknote (left). Banknote counting and sorting machine (right).

In 2018, credit institutions withdrew 3,020 million banknotes from the Banco de España, for an amount of €89,422 million, which they distributed over the counter and through ATMs to meet customer demand. Credit institutions also requested 1,194 million euro coins, of which almost two thirds were of the three lowest denominations.

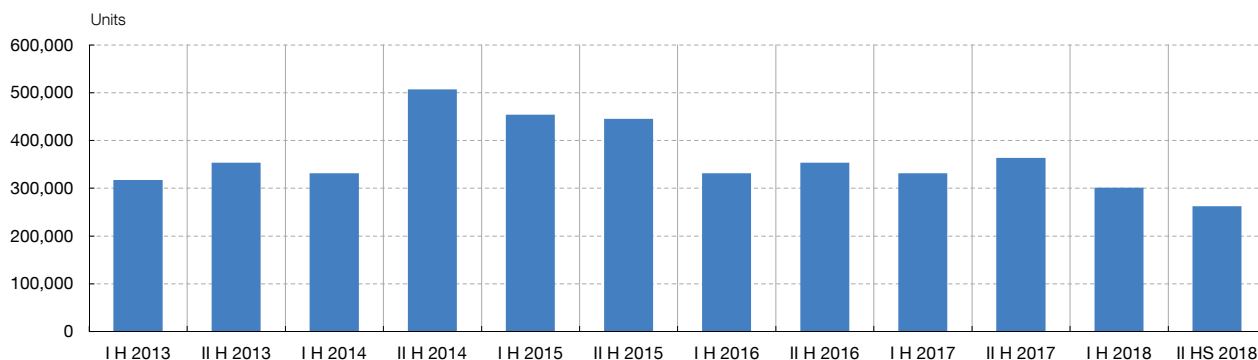
|                                 | 2016   | 2017   | 2018   |
|---------------------------------|--------|--------|--------|
| Millions of withdrawn banknotes | 2,965  | 3,088  | 3,020  |
| Millions of withdrawn euros     | 91,200 | 93,000 | 89,422 |
| Millions of withdrawn coins     | 1,300  | 1,280  | 1,194  |

As part of its task of safeguarding the integrity of banknotes in circulation, the Banco de España verified, using automatic systems, the authenticity and condition of approximately 3,500 million banknotes sent to credit institutions in 2018. In this process, almost a third of the banknotes verified were declared to be unfit to be returned to circulation, and were consequently destroyed.

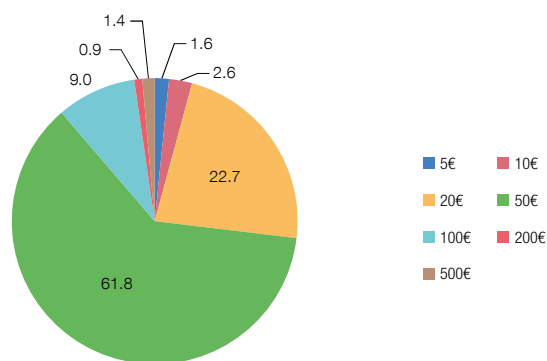
In the fight against euro counterfeiting, an international phenomenon, the Banco de España cooperates not only with the Spanish police and judicial authorities, but also with those of the Eurosystem. In this setting, in the second half of 2018, 262,000 counterfeit banknotes

COUNTERFEITS WITHDRAWN FROM CIRCULATION IN THE EUROSISTEM  
Half-yearly data

CHART 7



SOURCE: European Central Bank.



SOURCE: European Central Bank.

were withdrawn from circulation in euro area countries, a decline of 13% compared with the first half of the year and almost 28% less than in the latter half of 2017. Bearing in mind that there are 22,600 million banknotes in circulation, the probability of receiving a counterfeit banknote is low. As in previous six-month periods, the bulk of counterfeit banknotes (approximately 80% of the total) were €20 and €50 banknotes, the most widely used in commercial transactions.

The Banco de España is aware that training is a powerful weapon in the fight against counterfeiting. Consequently, in 2018, it organised attendance-based and online courses on how to verify the authenticity of banknotes and classify them according to their condition. These courses were aimed at professionals from the sectors most closely involved in cash handling (credit institutions, cash-in-transit security companies and retailers), which are on the front line for detecting counterfeits. Particular attention was paid to courses for young people.

## 2.3 SUPERVISION, FINANCIAL STABILITY AND PREVENTIVE RESOLUTION

### 2.3.1 Prudential supervision

Since the entry into force of the SSM, in November 2014, the largest euro area credit institutions (significant institutions) are directly supervised by the ECB and the remaining credit institutions (less significant institutions) are supervised by the national supervisors.

The ECB directly supervises 12 Spanish banking groups, which account for 91.4% of the Spanish banking system's assets.

At 31 December 2018, the SSM supervised 119 groups of significant institutions, made up of 822 individual institutions, and 3,008 less significant institutions. There are 12 Spanish groups of significant institutions<sup>1</sup>, which account for 91.4% of the Spanish banking system's assets, and 58 Spanish groups or institutions classified as less significant that represent 4.5%. The rest is accounted for by subsidiaries and branches of significant groups in the euro area (3.5%) and by branches of less significant institutions, branches of credit institutions in EU countries not participating in the SSM, and branches in non-EU countries.

The Banco de España headed 22 of the 29 on-site inspections at significant Spanish credit institutions.

The Banco de España contributes to the supervision of significant Spanish credit institutions, both in ongoing monitoring tasks, through the Joint Supervision Teams (JSTs) and in on-site inspections and reviews of the models of these institutions. The Banco de España participates in the JSTs of the 12 groups of Spanish credit institutions classified as significant and in the JSTs of significant foreign banking groups with a strong presence in Spain through subsidiaries and/or branches. The Banco de España provides approximately two-thirds of the staff for the JSTs of the former. In addition, in 2018, 29 on-site actions (inspections and model reviews) were carried out at 29 significant Spanish institutions, of which 22 were led by Banco de España staff, two by ECB staff and five by staff from other SSM Member States. A significant proportion of the staff who participated in the aforementioned on-site inspections were from the Banco de España.

The Supervisory Board of the ECB, in which the Banco de España participates, adopted 1,920 supervisory decisions. The decisions adopted notably included capital decisions resulting from the supervisory review and evaluation process (SREP), which establishes the level of capital required of each institution in 2019.

Other key elements of the SSM's operation are the working groups and expert networks which analyse and develop technical and supervisory policy proposals, with a view to improving the functioning of the Single Supervisory Mechanism. The Banco de España participated in approximately 90% of these groups in 2018.

In 2018, 529 monitoring actions were carried out in relation to less significant institutions.

With respect to the less significant institutions supervised by the Banco de España, 23 banking groups or institutions were subject to ongoing monitoring in 2018. Simplified monitoring (based on a system of alerts) was performed at the remaining 36 groups<sup>2</sup>.

<sup>1</sup> Santander, BBVA, Caixabank, Bankia, Sabadell, Unicaja, Bankinter, Kutxabank, Ibercaja, Abanca, Liberbank and Banco de Crédito Social Cooperativo.

<sup>2</sup> Simplified monitoring actions included a credit institution (Citibank España, SA) that does not appear in the figures for 31.12.2018, since it was deregistered on 27.12.2018.



Danièle Nouy, Chair of the ECB's Supervisory Board, with Margarita Delgado, Deputy Governor of the Banco de España, during her visit to the Bank's headquarters.

A total of 529 supervisory monitoring actions and 12 on-site inspections were carried out. The planned actions also include, apart from the above-mentioned monitoring, more than 300 detailed actions encompassing reviews of internal capital adequacy assessment reports or regular meetings with persons in positions of responsibility at the institutions.

In the case of branches in Spain of institutions with head offices in other EU Member States not under the direct supervision of the ECB (including branches of less significant institutions or groups and branches in EU countries not participating in the SSM<sup>3</sup>), as they are not subject to prudential or liquidity requirements at the branch level, the Banco de España carries out off-site monitoring and regularly exchanges information with the authorities of the home country of the branch, under the terms established in Commission Implementing Regulation (EU) No. 620/2014.

As regards the branches in Spain of institutions with head offices in non-EU countries, the Banco de España's supervision also includes half-yearly monitoring and regular meetings with the branch management. Lastly, the Banco de España exercises supervision of the Official Credit Institute (ICO by its Spanish abbreviation), which has the legal status of a credit institution. Regarding the branches of less significant institutions, the non-EU branches and the ICO, a total of 127 supervisory actions were carried out in 2018.

At the end of 2018, the Banco de España adopted the capital decisions corresponding to less significant institutions. The SREP methodology approved by the ECB's Supervisory Board in January 2018, which envisages a similar arrangement to that for significant institutions, was applied. It is also worth noting that a review was conducted in 2018 of the

<sup>3</sup> The latter (10 branches as at 31 December 2018) are included in the list of less significant Spanish institutions published by the ECB.

first ICAAP (internal capital adequacy assessment process) and ILAAP (internal liquidity adequacy assessment process) prepared following the publication by the Banco de España of its new guidelines on capital and liquidity adequacy.

The table below lists the number of credit institutions “with an establishment” in Spain in the Spanish banking system in 2018. Institutions operating “without an establishment” should also be included.

| Institutions with an establishment in Spain | 2016 | 2017 | 2018 |
|---|------|------|------|
| Banks                                       | 60   | 59   | 52   |
| Savings banks                               | 2    | 2    | 2    |
| Credit co-operative banks                   | 63   | 63   | 62   |
| ICO   | 1    | 1    | 1    |
| Branches of EU credit institutions          | 77   | 78   | 78   |
| Branches of non-EU credit institutions      | 5    | 4    | 3    |
| Controlling companies                       | 4    | 3    | 5    |

The recovery plans of less significant institutions were reviewed.

Within the recovery framework, and as regards the groups of significant institutions, the JSTs completed the 2017 recovery plan review cycle, initiated in the fourth quarter of the previous year. As a result of the assessments, letters were sent to institutions notifying them of the aspects in which they have to improve and, in the case of more serious shortcomings, requesting the remittance of specific action plans to remedy them within a reasonable period of time. As regards less significant institutions, the review of the recovery plans submitted in the fourth quarter of 2017 by entities with reporting obligations was completed in 2018. As a result of the review, where appropriate, letters were sent to the institutions either requesting that the shortcomings detected be remedied by them in the next plan sent or requiring that a new plan be sent within the legally established deadline in the case of significant shortcomings.

A total of 344 monitoring actions and two on-site inspections were performed at institutions supervised by the Banco de España which were not credit institutions.

The Banco de España also has exclusive supervisory powers, outside the SSM context, over institutions other than credit institutions that provide services or perform functions related to the financial sector. In 2018, a total of 344 monitoring actions and two on-site inspections were performed at these institutions.

For information purposes, the table below lists the institutions “with an establishment” in Spain, other than credit institutions, in the Bank’s registers in 2018, by type and business area. Institutions other than credit institutions operating in Spain “without establishment” should also be taken into account.



## YEAR-END FIGURES (a)

|   | 2016 | 2017 | 2018 |
|---|------|------|------|
| Institutions with an establishment  | 172  | 164  | 165  |
| Specialised lending institutions (b)  | 35   | 31   | 31   |
| Mutual guarantee companies  | 21   | 19   | 18   |
| Reguarantee companies   | 1    | 1    | 1    |
| Appraisal companies   | 37   | 35   | 35   |
| Currency-exchange bureaux (c)   | 12   | 14   | 14   |
| Payment institutions  | 41   | 39   | 40   |
| Hybrid payment institutions   | 3    | 3    | 4    |
| Branches of EU payment institutions   | 15   | 14   | 12   |
| Electronic money institutions   | 4    | 5    | 5    |
| Branches of EU electronic money institutions                                | 2    | 2    | 4    |
| Sareb (asset management company for assets arising from bank restructuring) | 1    | 1    | 1    |
| Institutions operating without an establishment                             | 484  | 556  | 597  |
| Electronic money institutions   | 112  | 156  | 187  |
| Payment institutions  | 372  | 400  | 410  |

Source: Banco de España.

- a** The number of institutions also includes those that are non-operational and in the process of deregistering.  
**b** Not including specialised lending institutions that have accredited their status as hybrids, in application of Law 5/2015 on the promotion of business financing (0 in 2014; 5 in 2015; 8 in 2016; 8 in 2017; 8 in 2018).  
**c** Not including establishments only authorised to purchase foreign currency with payment in euro.

Also, an inspection on the prevention of money laundering at Spanish institutions was completed in 2018, together with the fieldwork for another two, while the participation in various international working groups on this subject continued, in collaboration with other directorates general.

In the performance of its different supervisory tasks, the Banco de España sent 115 letters containing requirements and recommendations to credit institutions. Of these, 57 related to capital decisions, 41 to recovery plans, 16 to on-site inspections and one to standard monitoring.

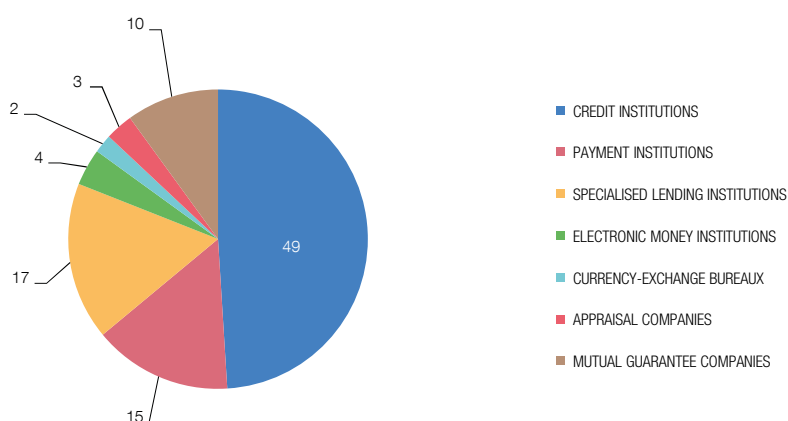
All the information on the supervisory activities carried out by the Banco de España in 2018 is contained in the 2018 *Report on Banking Supervision in Spain*<sup>4</sup>, published on the institution's website. This publication includes a detailed description of the supervisory actions referred to in this, and subsequent, sections, relating to the supervision of market conduct and sanctioning activity. It also contains tables and charts on the actions undertaken with respect to credit institutions and other institutions in relation to which the Banco de España performs supervisory functions.

A total of 488 suitability assessment procedures were conducted for senior officers at supervised institutions.

With respect to the suitability assessment for senior officers of supervised institutions, the Banco de España processed a total of 488 files in 2018, of which 241 related to credit institutions, 49 to mutual guarantee companies, 75 to payment institutions, 82 to specialised lending institutions, 13 to appraisal companies, 18 to electronic money institutions and 10 to currency-exchange bureaux.

<sup>4</sup> [https://www.bde.es/f/webbde/Secciones/Publicaciones/PublicacionesAnuales/MemoriaSupervisionBancaria/18/Documento\\_completo.pdf](https://www.bde.es/f/webbde/Secciones/Publicaciones/PublicacionesAnuales/MemoriaSupervisionBancaria/18/Documento_completo.pdf).

% of procedures conducted



SOURCE: Banco de España.

SUITABILITY ASSESSMENTS, BY TYPE OF INSTITUTION

|                                  | 2016       | 2017       | 2018       |
|----------------------------------|------------|------------|------------|
| Credit institutions              | 294        | 281        | 241        |
| Mutual guarantee companies       | 129        | 85         | 49         |
| Payment institutions             | 64         | 75         | 75         |
| Specialised lending institutions | 54         | 62         | 82         |
| Appraisal companies              | 34         | 23         | 13         |
| Electronic money institutions    | 5          | 19         | 18         |
| Currency-exchange bureaux        | 3          | 5          | 10         |
| <b>TOTAL</b>                     | <b>583</b> | <b>550</b> | <b>488</b> |

There was a significant increase in applications for authorisation of payment institutions.

In 2018, applications for the authorisation of payment institutions and electronic money institutions increased considerably. This increase is partly due to market developments, with the emergence of promoters of new business models offering customers technology-based payment services (commonly known as *fintech*), and also to the impact on the sector of the second payment services directive (PSD2), which guarantees a clear and harmonised regulatory framework. Moreover, Brexit has led to the relocation of many British financial corporations, some of which have opted to move their head offices to Spain. Consequently, 33 applications for authorisation of payment institutions or electronic money institutions were received in 2018, compared with 18 in 2017.

In 2018, the full competence for granting authorisation to such institutions was transferred to the Banco de España. In this connection, the Banco de España aims to speed up and simplify the administrative procedure, without detriment to the legal safeguards or breach of the principles underpinning the procedure. Our institution is therefore working on designing forms that will clearly indicate the documentation that must be submitted. It also holds meeting with the promoters, before they formally submit their application, in order to

ensure that the business model proposed fits into the current regulatory framework and to solve any queries they may have.

### 2.3.2 Supervision of market conduct

In its supervision of institutions' conduct in 2018, the Banco de España continued to develop its strategic commitment to strengthen the stability of the financial system by protecting bank customers and promoting best practices in the sector.

In addition to intensifying supervisory activities that focus on correcting inappropriate conduct, work has been under way to boost institutions' efforts to develop a culture of regulatory compliance at all organisational levels and permeating every stage in the life cycle of banking products and services, from the design stage to that of marketing and management. The compliance culture must essentially be built around respect for customers and their interests and enhancing the transparency of institutions' conduct.

In 2018, the review of a significant proportion of the institutions most active in the granting of mortgage loans and credit was completed, with the supervisor urging these institutions to improve the quality of pre-contractual information offered to customers, and to increase transparency in all the stages of the life cycle of such products. In 2018, in response to the growth in consumer credit in recent years, work focused on ensuring regulatory compliance for this type of lending, especially in the pre-contractual phases, and compliance with the requirements of possible credit intermediaries.

Conduct supervision actions are carried out for operations conducted using digital channels.

As a result of the digitalisation of society, traditional consumer patterns have given way to new technology-based channels. The supervision of conduct also includes actions to ensure that consumers are protected when operating through digital channels.

The table below summarises the supervisory actions carried out in 2018, by area and type.

#### SUPERVISORY ACTIONS RELATING TO CONDUCT IN 2018

##### Number by area

|   | On-site inspections (a) | Off-site inspections (b) |
|---|-------------------------|--------------------------|
| Mortgage  | 33                      | 16                       |
| Consumer credit   | 4                       | 36                       |
| Advertising   | 0                       | 11                       |
| Other (ATMs, SME financial information, customer services, transparency, online channels, payment services) | 1                       | 33                       |
| <b>TOTAL</b>  | <b>38</b>               | <b>96</b>                |

a Of these on-site inspections, 28 began before the start of 2018.

b Of these off-site inspections, 22 began before the start of 2018.

As a result of these activities, the initiation of six sanctioning proceedings was proposed, 72 letters of recommendations and observations and 14 requirement letters were sent, containing 101 specific requirements for institutions.

### 2.3.3 Sanctioning activity

Eleven sanctioning proceedings were initiated and eleven were resolved. Six of the initiated proceedings and nine of those resolved were related to conduct, transparency and customer protection.

In 2018, the Banco de España agreed to initiate six sanctioning proceedings (all against banks), exercising its supervisory powers in relation to institutions' conduct, transparency and customer protection. As a result, infringements were detected regarding the delivery and content of pre-contractual information, the calculation of the APR (which should include all the arrangement and related costs), the charging of fees for early repayment above legal limits or rounding in cases where it is not permitted by regulations. Also, in this area, nine sets of proceedings, all of them brought against banks, were resolved with penalties being imposed. Six of them had been initiated in 2017 and three in 2018.

Sanctioning proceedings were also brought and resolved for infringements in other areas of prudential supervision (such as corporate governance, remuneration policy, internal control, reports to the Banco de España's Central Credit Register and unauthorised activities subject to vetted access), and infringements of sectoral regulations applying to supervised institutions, in particular, payment institutions (effective management and administration in Spain, own funds, the safeguarding of customer funds), currency-exchange bureaux (recording of transactions, performance of unauthorised transactions and book-keeping) and mutual guarantee companies (risk control and monitoring). In this respect, in 2018 five proceedings were initiated against: two banks and the nine directors of one of them; a currency-exchange bureaux and its director; a mutual guarantee company and its 32 directors and managers; and a company engaging in activities subject to vetted access without authorisation and its executive chairman. A further two proceedings initiated in 2017 were resolved, involving a payment institution and its four directors, and a company engaging in unauthorised activities subject to vetted access and its two directors, both resulting in the imposition of penalties on the parties sanctioned. Furthermore, in one of the latter proceedings, the penalties included the disqualification from holding office of the directors and it was resolved that the entity would be temporarily suspended.

Lastly, two proceedings initiated in 2017 were suspended so as not to prejudice the criminal proceedings that were under way for similar events. One of them had been brought against a payment institution and its four directors, and the other against a company and its two directors for using names restricted to credit institutions. In the former case, at the time the proceedings were brought it was agreed to temporarily suspend the payment institution's activities.



Penalties and public reprimands against institutions and their directors for serious and very serious infringements are published on the Banco de España website.

### 2.3.4 Macprudential policy

In 2018, efforts in the area of macroprudential analysis centred on developing new methods and indicators to steer decisions regarding the countercyclical capital buffer (CCyB). Specifically, econometric models were estimated to determine the degree of imbalance in the credit-to-GDP ratio, and the parameters for the estimates were adjusted from their long-term trend to bring them into line with Spain's historical experience of frequency of systemic banking crises. This analysis, together with the information obtained from a map of cyclical vulnerabilities developed by the Banco de España for the financial system, recommended that the percentage of the CCyB be maintained at 0% throughout the year.

Also, the Banco de España conducted the corresponding annual review of Spanish global systemically important institutions (G-SIIs) and domestic systemically important institutions, known as other systemically important institutions (O-SIIs), and confirmed the list of institutions and their associated capital buffers announced the previous year. In 2018, Spain's five systemic institutions were required to have 75% of the fully-loaded capital buffer set for 1 January 2019, when the transitional period for meeting the full requirement expired.

As in previous years, the tool known as "FLESB" (Forward Looking Exercise on Spanish Banks) was used to conduct stress tests at Spanish deposit institutions to assess their resilience to shocks. On this occasion, the exercise served as an internal benchmark for comparison with the stress test exercise performed by the European Banking Authority (EBA), and also to gauge institutions' capacity to cope with the materialisation of the risks identified in the *Financial Stability Report* of May 2018. From a methodological standpoint, the most significant change was the development of an international, more sophisticated, module which better captures the potential impact of risks present in countries in which Spanish deposit institutions operate.

A macroprudential authority for Spain was created, bringing together the Minister for the Economy and Enterprise and the financial supervisors.

Lastly, in the institutional sphere, the Council of Ministers approved Royal Decree 102/2019 on the creation of the Macroprudential Authority Financial Stability Board at the beginning of March 2019, following its announcement and public consultation. This authority, under the acronym AMCESFI, will bring together representatives from the supervisory bodies of financial institutions (Banco de España, Spanish National Securities Market Commission, Directorate General of Insurance and Pension Funds) and the Ministry of the Economy and Enterprise, and will be tasked with "contributing to the stability of the financial system by identifying, preventing and mitigating any circumstances or actions that may give rise to systemic risk". AMCESFI's powers include issuing warnings and recommendations on risks affecting the Spanish financial system. Previously, the Spanish government had approved Royal Decree-Law 22/2018, providing the supervisory authorities with additional macroprudential tools, and empowering the Banco de España to set limits and conditions on lending standards, if the situation so requires.

Resolution plans were drafted for a total of 41 institutions and recovery plans were reviewed.

### 2.3.5 Preventive resolution

In 2018, resolution plans were drafted for a total of 41 institutions (12 significant and 29 less significant), in accordance with the distribution of responsibilities established under the Single Resolution Mechanism (SRM) Regulation, in close collaboration with the Single Resolution Board (SRB), the FROB and other national resolution and supervisory authorities in the euro area. Within this collaboration framework, 49 workshops were organised during

the year, for members of the respective Internal Resolution Teams (IRTs) to discuss aspects relating to the drafting of resolution plans. Also, it should be noted that in 2018, the SRB and the EU resolution authorities outside the euro area signed joint decisions relating both to the resolution plans and to the establishment of MREL targets at consolidated level for the three significant Spanish institutions currently requiring resolution colleges.

Additionally, the recovery plans of significant credit institutions were reviewed jointly with the SRB, as were the recovery plans of less significant institutions received for consultation. Further, the Banco de España updated the list of less significant institutions which may apply simplified obligations.

To promote the effective implementation of Directive 2014/59/EU, the Banco de España participated actively in the development of preventive resolution criteria and strategies as a member of international organisations and fora, notably in the working groups for the definition of criteria for implementation of the SRM and the EBA. Aspects worth mentioning due to their particular significance are: i) the criteria for determining the minimum requirement for own funds and eligible liabilities to absorb losses (MREL); ii) the analysis and development of resolution strategies other than bail-in; iii) participation in the review of the BRRD2; iv) adapting the general principles and best practices for less significant institutions, and v) drafting guidelines on the analysis of the public interest criterion, bail-in operationalisation, asset separation tool and sale of business tool, access to market infrastructures, critical functions, resolvability and coordination with the SRB.

### **2.3.6 Financial and risk reporting**

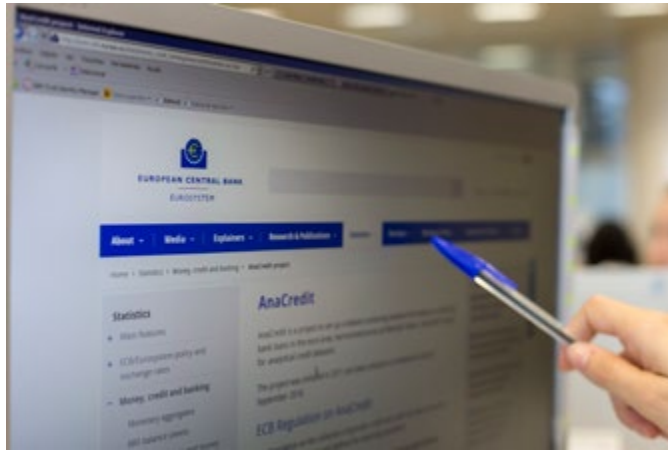
The financial statement formats for credit institutions were updated.

The public and confidential financial statement formats to be submitted by credit institutions to the Banco de España, pursuant to the new accounting rules (Circular 4/2017 of 27 November 2017), came into force on 1 January 2018. This circular updates the accounting regime and financial statement formats of credit institutions, and includes the latest changes in European accounting regulations (adoption of International Financial Reporting Standards 9 and 15). Work was also undertaken to prepare for the publication in 2019 of the euro short-term rate (€STR), based on data collected from the Money Market Statistical Reporting (MMSR) that some credit institutions submit to the Banco de España.

As regards prudential reporting, in 2018 credit institutions started sending reports on exposures to central governments, mainly to provide supervisors with useful information for assessing sovereign risk, and to support the stress-testing exercise and the evaluation of the weighting of these exposures. In addition, institutions began to submit detailed information on the past year's major loss events and, starting with data corresponding to March 2018, the maturity ladder, which reflects the maturity mismatch of an institution's business activities. Lastly, starting with December 2018 data, institutions are required to send information on additional value adjustments for certain positions measured at fair value, in order to comply with the prudent valuation rules established in the regulations. These adjustments are only determined for the purpose of calculating CET1 capital adjustments, if necessary.

In 2018, the Banco de España submitted the initial credit risk data to be sent in the framework of the European project known as AnaCredit.

Following the incorporation into the Central Credit Register (CCR) of the reporting requirements established under ECB Regulation 2016/867 on granular credit and credit risk data ("AnaCredit regulation"), the Banco de España began receiving, in April 2018, new information on counterparties (exposure counterparties, lenders, etc.) and, in May,



Database on individual bank loans in the euro area.

additional data referring to instruments and guarantees. As stipulated by the AnaCredit regulation, in November 2018, the Banco de España sent the first granular credit data to the ECB (as at September). To prepare for the entry into force of AnaCredit, counterparty reference data for the counterparties involved in the instruments to be reported to the ECB were gradually sent over the preceding six months. Additionally, the Banco de España continued participating very actively in the preparatory work for AnaCredit, which in 2018 focused on establishing editing procedures for ensuring data quality and on exchanging information between the ECB and the central banks participating in AnaCredit.

Also in 2018, monitoring tasks were strengthened as regards institutions' compliance with the regulations on reporting to the CCR, the use of data sent by the Banco de España, and their obligations regarding the processing of the claims filed by exposure counterparties on information reported to the CCR.

## 2.4 CLAIMS AND ENQUIRIES RECEIVED FROM BANK CUSTOMERS

In 2018, the number of claims filed by users of bank services fell, compared with the previous year.

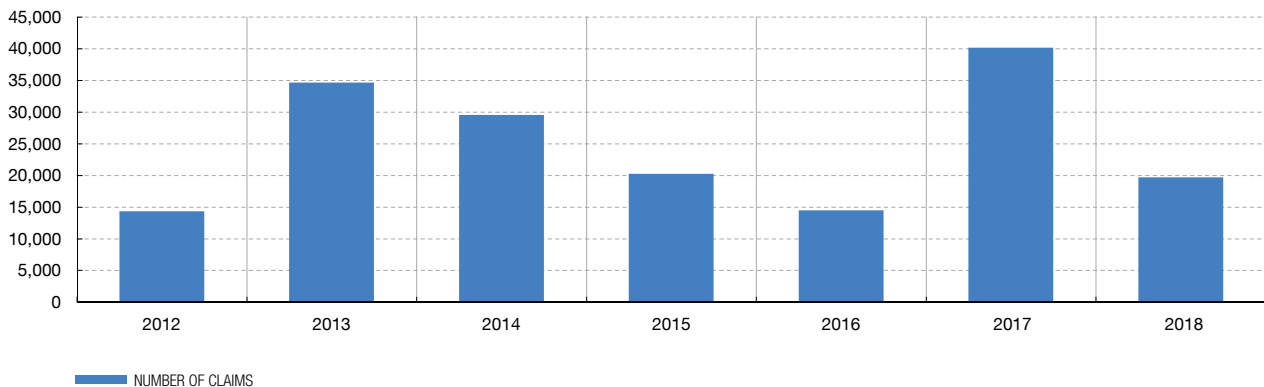
In 2018, the number of claims filed by users of bank services fell substantially with respect to the previous year, to 19,695, compared with 40,170 claims received in 2017, but was higher than in 2016 (14,465). This decrease is explained by the fact that the figure soared in 2017 as a result of the high number of claims filed in connection with the costs involved in arranging mortgages.

This also explains the decline in the number of telephone enquiries received (28,387 in 2018, compared with 39,167 in 2017). A total of 1,672 enquiries were submitted electronically in 2018, compared with 1,889 the previous year.

Work to verify the internal rules applicable to customer services and customer ombudsman departments continued, with the validation of six new sets of rules submitted by institutions, and amendments, both minor and far-reaching, to the contents of a further 47 sets of internal rules.

**CLAIMS FILED IN THE LAST SEVEN YEARS**  
2018 data, provisional as at 31.12.2018

CHART 10

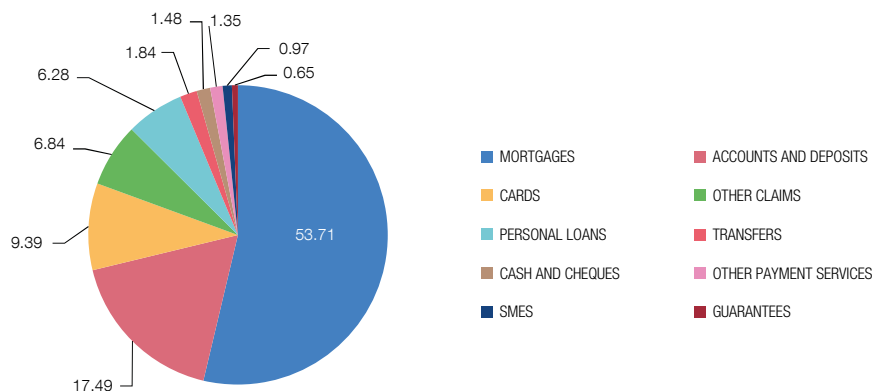


SOURCE: Banco de España.

**TYPES OF CLAIMS**  
Provisional data as at 31 December 2018

CHART 11

% of claims filed



SOURCE: Banco de España.



The Bank Customer Portal registered close to 2.2 million visits. Notably, a new Portal was launched, with new contents, a more attractive design and more user-friendly language. The Portal is also available in English.

In relation to the monitoring and control of advertising there were 309 requests for the withdrawal or rectification of press and Internet advertisements, all of which were handled by the institutions concerned.

## 2.5 REGULATORY CHANGES

In 2018, the Banco de España exercised its external regulatory powers through the approval of two circulars and an amendment to the IRBE.

The following Banco de España circulars were approved in 2018:

- Banco de España Circular 1/2018 of 31 January 2018, amending Circular 5/2016 of 27 May 2016 on the calculation method to be used to ensure that the contributions of institutions belonging to the Deposit Guarantee Scheme for Credit Institutions are proportionate to their risk profile, and Circular 8/2015 of 18 December 2015, to institutions and branches belonging to the Deposit Guarantee Scheme for Credit Institutions, on information for determining the basis of calculation of contributions to the Deposit Guarantee Scheme for Credit Institutions.
- Banco de España Circular 2/2018 of 21 December 2018, amending Circular 4/2017 of 27 November 2017, to credit institutions, on public and confidential financial reporting rules and financial statement formats, and Circular 1/2013 of 24 May 2013 on the Central Credit Register.

Also in 2018, an amendment was approved to the Internal Rules of the Banco de España (IRBE), relating, among other aspects, to: the approval procedure for external Banco de España circulars; the approval of an annual regulatory plan and a regulatory assessment report; control of the effectiveness and ongoing supervision of the Bank's special-purpose entities, and the creation of its own electronic register of agreements signed. In addition, changes were made to the rules regarding the staff representative who attends the meetings of the Governing Council, and the possibility of inviting the Chair of the FROB to participate in the meetings of the Executive Commission in a non-voting capacity, when matters relating to the recovery or resolution of credit institutions are discussed, was also provided for.

New competences relating to the authorisation of payment institutions and to macroprudential tools were conferred on the Banco de España.

Lastly, as mentioned earlier in this report, the Banco de España was notably assigned additional competences regarding the authorisation of payment institutions, pursuant to Royal Decree-Law 19/2018 of 23 November 2018 on payment services and other urgent financial measures, and the setting of limits on the level of indebtedness of banks and the countercyclical capital buffer, and limits on credit exposure, pursuant to the provisions of Royal Decree-Law 22/2018 of 14 December 2018, establishing macroprudential tools.

## 2.6 ECONOMIC ANALYSIS, RESEARCH AND STATISTICS

Economic analysis and research activities, measured in terms of publications issued, took the form of 51 Working Papers, 11 Occasional Papers and 39 articles in anonymously refereed academic and professional journals.

In 2018, 51 Working Papers and 11 Occasional Papers were published. As for external publications, a total of 39 articles were published in anonymously refereed academic and professional journals, and another 23 articles were accepted and are pending publication. A further 17 articles were published in other journals and books, with five pending publication. Mention should also be made of the participation of Banco de España's researchers in international initiatives, such as the joint research conducted annually with the Center for Latin American Monetary Studies (CEMLA) or the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), and in numerous expert seminars and conferences.

In addition, the Banco de España publishes its macroeconomic projections four times a year, based on which it provides its view of the economic outlook over a horizon of around three years. The June and December macroeconomic projections, compiled as part of those published by the Eurosystem for the euro area as a whole, are released separately. In March and September, the projections are published as part of the *Economic Bulletin*, a publication that has been issued quarterly since 2017 and contains the "Quarterly Report on the Spanish Economy", which analyses the most recent developments in the Spanish economy, within the external context. The Bulletin also contains links to the publications released during the related quarter as part of the series of Analytical Articles and Economic Notes. Both series seek to bring the analyses of the Banco de España to the attention of a broad audience, ranging from experts in economic analysis to the general public. In 2018, a total of 35 Analytical Articles and 12 Economic Notes were published.

Research activities encompassed a wide variety of issues, such as the Spanish, euro area or world economies, financial matters, monetary policy, microeconomic research, macroeconomic modelling or financial stability.

Research activities encompassed a wide variety of issues. As regards the analysis of the Spanish economy, research was notably conducted on: Spain's participation in the global value chains; the characterisation of competition levels and business mark-ups, and recent developments; the transmission of economic shocks across different business sectors; analysis of the low relative wage growth; the recent improvement in total factor productivity and its effect on the allocation of credit; the continuing process of import substitution; and the effects of trade protectionism in the form of higher tariff and non-tariff rates. Moreover, work continued on regional analysis, on the measuring and quantification of the macroeconomic effects of uncertainty and on the use of textual analysis and Internet searches to develop short-term economic indicators.



The series of Analytical Articles and Economic Notes seek to bring the analyses of the Banco de España to the attention of a broad public audience.

In the euro area, research efforts notably focused on the determinants of wage and inflation trends, particularly on the interdependence of inflation and the low inflation phenomenon. Analyses also encompassed the progress made in the reform process and correction of macroeconomic imbalances, TARGET balances, the process to review and strengthen governance in the euro area, especially as regards the need to complete the banking union and build a greater fiscal union.

In the international sphere, research centred on issues of global significance, such as developments in world trade, increased global protectionism or Brexit (participating in the Eurosystem's Brexit task force). Other research projects focused on global factors explaining the natural rate of interest in emerging economies, the impact of unconventional monetary policies on productivity, the reasons for the flattening of the yield curve in the United States, the influence of global factors on inflation, the pass-through of exchange rates to inflation, models for the decomposition of oil prices or the determinants of capital flows to emerging economies.

As regards financial issues, research was conducted in 2018 on the credit conditions of corporations throughout the economic cycle, the impact of credit constraints on corporate investment and growth, the decomposition of the yield curve into rate expectations and risk premiums, the effects of unconventional monetary policy measures on credit conditions, the impact of monetary policy on consumption by indebted households, the effects of changes in ECB monetary policy on the external financing of Spanish banks, and investment and financing of Spanish non-financial corporations.

Research in the area of monetary policy centred on the new operational framework in an environment of abundant liquidity, the redistributive effects of monetary policy, the natural rate of interest, links between financial stability and sustainability of sovereign debt, the possibility of central banks issuing digital money, the strategy of issuing government debt at different maturities, and asset encumbrance and its impact on credit.

In the area of microeconomic analysis, there were four notable contributions in 2018. The first models income uncertainty facing households and examines to what extent this risk affects various spending and insurance decisions. Secondly, the spillover of the effects of aggregate demand policies was analysed: on the theoretical side, research was conducted



Seminar on systemic risk measurement, held at the Banco de España.

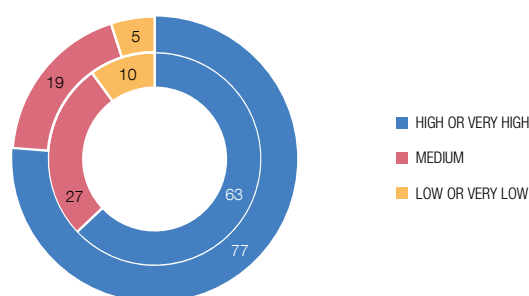


Sculpture titled *Esfera roja* (Red Sphere), by Jesús Rafael Soto, located in the building at Calle de Alcalá, 522, Madrid.

on how the effect of public spending on aggregate output varies depending on the demographic structure of the population, and, on the empirical side, new databases and tools relating to Big Data were developed for the purpose of analysing the role of possible anticipation effects. Thirdly, research continued on the determinants of political decision-making. Lastly, work was under way to assess the impact of financial education programmes in the medium term.

In the area of macroeconomic modelling, 2018 saw the completion of the development and estimation of a general equilibrium model for the Spanish economy, which has been used in areas relating to monetary policy design, the transmission of shocks, the consistency of macroeconomic projections, etc. Turning to microeconomic modelling, microsimulation tools were developed and updated for personal income tax, VAT and special taxes, and for the evaluation of employment policies (contribution bases, minimum wage and unemployment benefits). To analyse other economies, the short-term forecasting models of the euro area were reviewed, as was the estimation of the models for the emerging economies of most significance for Spain. Moreover, work was under way on an empirical model to validate the vulnerability exercises for these economies, and on a model to analyse global spillovers.

In the area of financial stability, research encompassed a number of different areas. The role of banks' capital in the prevention of systemic banking crises and moderation of credit cycles was analysed, and structural models to identify cyclical systemic risk were developed. In addition, the reasons behind banks' decisions regarding their government debt portfolios during bouts of market turbulence, and the impact of interest rates on their profit and loss accounts, were also examined. Work is set to continue on the lines of research already in progress on banks' credit policies and their implications for financial stability, and on the impact of credit constraints on households. Moreover, research is planned on the effect of bank mergers on the credit supply of merged institutions and the implications for customer behaviour.



SOURCE: Banco de España.

Collaboration with the ESCB and ECB continued in the area of statistics.

In the area of statistics, the Banco de España collaborated in 2018 with the ESCB and the ECB in the drafting of a number of regulations to improve the quality of statistical information and cater for the analytical needs of users. They notably include the publication of the Guidelines<sup>5</sup> on the RIAD (Register of Institutions and Affiliates Data, a database which processes information relating to the identification of entities), and approval of the Regulation<sup>6</sup> on pension funds, which will be implemented gradually throughout 2019.

In 2018, the statistical information published by the Banco de España was expanded with: i) the publication of new information on the details of regional government debt securities-holding sectors; ii) the greater detail provided in the information on lending by purpose, with new breakdowns for consumer credit and the corresponding non-performing loans, and iii) the improvement in the publication frequency of statistics relating to appraisal companies. The information made available to users on the financial transactions and positions of the Spanish economy abroad was also enhanced, by starting to provide data on foreign investments in negotiable securities with a breakdown of the non-resident issuing sector. Those data, which are consistent with the portfolio assets of the International Investment Position, are sent to the IMF on a half-yearly basis and can be accessed, together with equivalent data for other countries, on the website of the Coordinated Direct Investment Survey<sup>7</sup>.

The Banco de España's Central Balance Sheet Data Office, which collects information on Spanish non-financial corporations, optimised the processes for data reception from the Mercantile Registries, allowing for another 100,000 corporations to be included in the early release of data, bringing the number to 700,000 at the cut-off date for the receipt of data. Also, in 2018, access to information by analysts and users was improved by updating the software provided free of charge on the Banco de España website (specifically, the "Sectoral Aggregates" software can now be used in multiple browsers and devices).

Work was undertaken on the Spanish Survey of Household Finances and the Financial Competence Survey.

Work continued on two surveys on the Spanish population in 2018. The field work for the 2017 Survey of Household Finances was completed, and progress was made on the task of editing the collected data. The main results are expected to be published at the end of 2019. Those of the Financial Competence Survey were published in the spring of 2018.

<sup>5</sup> [https://www.ecb.europa.eu/ecb/legal/pdf/celex\\_32018o0016\\_en\\_txt.pdf](https://www.ecb.europa.eu/ecb/legal/pdf/celex_32018o0016_en_txt.pdf).

<sup>6</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018R0231&from=EN>.

<sup>7</sup> <http://data.imf.org/?sk=B981B4E3-4E58-467E-9B90-9DE0C3367363>.

The microeconomic data corresponding to the part of the Financial Competence Survey that is comparable to a similar survey by the OECD were made available to researchers, and the same is expected to occur with all microdata in the first half of 2019.

Lastly, in early 2018, the Statistics Department launched a user satisfaction survey, with a view to attaining higher quality standards in the output and dissemination of Banco de España statistics. The results obtained were satisfactory, since 78% of survey participants (almost 600 users) indicated that their general level of satisfaction with Banco de España statistics was high or very high, and 85% expressed a similar level of confidence in these statistics. The level of satisfaction expressed with statistical dissemination was high, although there was more room for improvement in this area. The results of this survey are explained in detail in Statistical Note 8.

## 2.7 ACTIVITIES OF THE BANCO DE ESPAÑA AS A MEMBER OF THE EUROSISTEM AND OTHER INTERNATIONAL ORGANISATIONS

### 2.7.1 *The Eurosystem and other European Union institutions*

The Banco de España is actively involved in the Governing Council and General Council of the ECB, and in the Supervisory Board of the SSM and the Eurosystem's committees and working groups.

In 2018, the Banco de España continued to participate intensively in the activities of the Eurosystem. The Governor attended the regular meetings of the ECB's Governing Council and General Council, in which decisions on monetary policy and the functioning of the Eurosystem are adopted. The Deputy Governor participated in the meetings of the Supervisory Board of the SSM up until the end of his term of office, and the new Deputy Governor has been attending them since she was appointed. At these meetings, the supervisory tasks of the ECB are discussed, planned and executed, and draft decisions on matters of prudential supervision of credit institutions are proposed for approval by the Governing Council through the non-objection procedure.

The Banco de España also continued to be actively involved in the work of the different ECB committees (Monetary Policy, Market Operations, Financial Stability, Statistics, Banknotes, Payment and Settlement Systems, Legal, Risk Management and International Relations) and in their working groups. The issues addressed by these committees and approved by the Governing Council notably included conventional monetary policy measures which translated into maintaining the rate on the main refinancing operations, the marginal lending facility and the deposit facility at 0.00%, 0.25% and -0.40%, respectively. Unconventional monetary policy measures included the conclusion in December of net purchases under the asset purchase programme (APP), whose monthly pace of €30 billion had fallen to €15 billion at the end of September. In addition, the Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time, past the date when the Governing Council starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. Moreover, a time horizon was introduced in the forward guidance on interest rates, with the disclosure that rates were expected to remain at their present levels at least until the summer of 2019, and a contingency factor was added, expressly linking the first increase in the key rates to the sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. However, at its meeting on 7 March 2019, the Governing Council decided to extend the time horizon over which key interest rates are expected to remain unchanged at least until December 2019, and also approved a new series of targeted longer-term refinancing operations (TLTRO-III), to help preserve favourable bank lending conditions and the accommodative monetary policy stance.

With respect to other EU institutions, the Banco de España participated in various working groups and committees. As in previous years, it was represented at the two informal ECOFIN meetings in April and September, and participated in the meetings of the Economic and Financial Committee (EFC) and the Economic Policy Committee (EPC), which addressed, inter alia, future initiatives to complete the Economic and Monetary Union, the Banking Union or the Capital Markets Union. In this connection, mention should be made of the progress made towards strengthening the crisis prevention instruments of the ESM, creating a fiscal backstop for the Single Resolution Fund, and the implementation of risk mitigation measures contained in the so-called "risk package". Also, negotiations



continued regarding the creation of a common deposit guarantee scheme and a cyclical stabilisation function for the euro area as a whole.

### 2.7.2 European Banking Authority

In 2018, the EBA continued to work on prudential regulations and other pan-European projects.

Contributing to the development of the “Single Rulebook” has remained a key focus of the EBA’s work.

In the field of prudential regulation, the EBA practically completed the regulatory process to review internal models, with the publication of technical standards on the specification of an economic downturn. Also central to the work of the EBA was the preparation of its response to the European Commission’s call for advice on the implementation in Europe of the final Basel agreement of December 2017. Also noteworthy was the development of guidelines on outsourcing and the resumption of work to assess the regulatory equivalence of third countries.

The EBA also focused on the following: i) tasks arising from the Council’s action plan to reduce NPLs, including guidelines on the management of non-performing and forborne exposures, guidelines on loan origination, monitoring and internal governance, and the Commission’s call for advice on the impact of using a prudential backstop to counter a provisioning shortfall in the case of new loans that turn non-performing; ii) tasks relating to the correct interpretation and implementation of the PSD2 and its implementing regulations, particularly as regards the regulations on strong customer authentication and secure communication; iii) the publication of its Financial Education Report 2017/2018, and iv) the work associated with the United Kingdom’s departure from the EU, with the publication of two opinions urging the banking industry to be prepared in the event of the United Kingdom leaving the EU without an agreement, and the monitoring of contingency plans and relocation of institutions.



The BIS “Tower” building in Basel (left). Conference hall at the EBA (right).

### **2.7.3 European Systemic Risk Board**

In the European institutional framework, the Banco de España continued to take an active part in the working structures of the European Systemic Risk Board (ESRB).

The ESRB has notably published a number of reports over the past year, one of which focused on the identification of vulnerabilities in the EU commercial real estate market, assessing the appropriateness of macroprudential tools to mitigate the risks associated with this sector. At the request of the EU Council, the ESRB published another report in which it analysed possible macroprudential approaches to prevent systemic risks associated with non-performing loans, based on the preventive use of sectoral capital buffers and limits on lending standards. In 2018, the ESRB issued two recommendations on voluntary reciprocity for macroprudential measures adopted in Belgium and Finland; the Banco de España assessed both measures and, in line with the ESRB's recommendations, decided not to apply equivalent measures to Spanish banks operating in those countries.

### **2.7.4 The Financial Stability Board, the Basel Committee on Banking Supervision and the Bank for International Settlements**

The Financial Stability Board has continued working on assessing the effects of the reforms, reviewing their implementation and monitoring new risks for financial stability.

The Banco de España is a member of the Financial Stability Board (FSB), whose steering committee includes the Governor. The FSB has continued to work on completing the latest regulatory reforms undertaken in response to the international financial crisis. It has focused on evaluating their effects and reviewing their consistent implementation, while continuing to monitor new risks for financial stability. The FSB has completed the first two projects of the new framework for evaluating the effects of the reforms. First, it analysed the reforms on the incentives to centrally clear OTC derivatives, and, second, it evaluated the effects of the reforms on infrastructure finance.

The Basel Committee on Banking Supervision completed the review of the market risk framework, and also concluded, among others, the review of the methodology used for the identification and evaluation of global systemically important banks.

The Banco de España also forms part of the Basel Committee on Banking Supervision (BCBS). Following finalisation of the outstanding Basel III reforms in December 2017, the BCBS has continued to work on various regulatory measures, such as the review of the market risk framework, which was endorsed in January 2019 by its oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS). Also noteworthy was the conclusion of the review of the methodology used for the identification and evaluation of global systemically important banks. Lastly, in line with the FSB, the BCBS has also focused on assessing the impact of the reforms, including, for example, the different aspects relating to the leverage ratio framework.

In March 2019, the Governor, Pablo Hernández de Cos, was elected Chairman of the Basel Committee on Banking Supervision.

Also noteworthy was the election, in March 2019, of the Governor of the Banco de España, Pablo Hernández de Cos, as Chairman of the BCBS for a three-year term, renewable once.

In 2018, the Banco de España joined the Committee on Payments and Market Infrastructures of the Bank for International Settlements.

Finally, it should be noted that, in April 2018, the Banco de España joined the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS). By participating in the CPMI, the Banco de España can be directly involved in the development of global standards for financial market infrastructures and in the analytical discussions on trends in payment systems, particularly as regards financial innovation.