

SUPERVISION REPORT

2021

BANCO DE **ESPAÑA**
Eurosistema



SUPERVISION REPORT

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Foreword by the Governor Pablo Hernández de Cos



Two years after the pandemic first appeared in our lives, the world economy was hit by another extraordinary event: that derived from the invasion of Ukraine by the Russian army. As well as being an extraordinary human tragedy for the Ukrainian people, the consequences of this invasion, albeit difficult to predict, are expected to be global in nature and far-reaching, both geopolitically and in the economic and financial spheres.

This new shock hit the Spanish economy in the context of a gradual recovery, which remained incomplete and uneven by sector of activity, and which continued to be conditioned by the evolution of the pandemic and by continuous upward surprises in inflation. However, the invasion of Ukraine and reaction of Western authorities, resulting in the imposition of unprecedented economic sanctions on Moscow, have introduced enormous uncertainty, with adverse consequences in terms of worsening economic performance and rising inflationary pressures.

The Spanish financial sector is facing this new shock in a situation in which it had recovered the pre-pandemic profitability levels, and in which, as shown by the various exercises carried out by the micro- and macroprudential supervisory authorities described in this Report, its resilience remains generally high. In view of the new shock, although Spanish banks' direct financial exposures to Russia and Ukraine are very small, we will have to closely monitor the effects of the crisis on the institutions and their borrowers, focussing particularly on those business sectors and population groups in which the post-pandemic recovery was slowest or most delayed and, moreover, which are particularly exposed to the economic consequences of the invasion of Ukraine. In this context, institutions will need to remain highly prudent, with appropriate and early recognition of the associated risks, in order to preserve confidence in the sector and facilitate the continued flow of credit to the economy.

More generally, in such an extraordinarily uncertain scenario characterised by the interaction of two such major shocks occurring in succession, it is essential that economic policies respond decisively, provide targeted support to the most vulnerable households, companies and sectors affected, and provide certainty. In particular, the contribution of European supranational policies and their interaction with national policies are fundamental. And the current context is, once again, a crucial reminder of the importance of accumulating in normal times sufficient margin for manoeuvre in all economic policies so that they can be used to mitigate the effects of shocks.

Moreover, as was the case during the pandemic crisis, the war has made Europeans suddenly aware of the need to accelerate European integration if Europe is to be a major player on the global stage, capable of deciding its own future and defending its values. And a key element of this integration is in the financial sphere. Pan-European bond issues to finance the NGEU, together with the issues that may be launched as part of the response to the invasion of Ukraine, are an important step towards the creation of a European safe asset.

Also, a greater degree of integration of the euro area capital markets would promote more risk sharing in the face of asymmetric shocks. And this reinforcement of the eurozone's institutional architecture would be substantially bolstered by the creation of a European Deposit Insurance Scheme and by the establishment of a common framework for the resolution of systemic crises.

Beyond the new challenges that this context introduces to the financial sector, as highlighted in this Report with the description of the various actions taken by supervisors and institutions in the last year, we must continue to tackle decisively the sector's structural challenges, including most notably the growing competition of technology companies, the rise of crypto-assets, the increase in cyber risks and the financial risks associated with climate change.

Indeed, the digitalisation of finance and the emergence of crypto-assets are altering the competitive dynamics and the risks faced by financial intermediaries and their customers. In this environment, public authorities are obliged, on the one hand, to intensify the monitoring, regulation and supervision of the crypto-asset market, properly weighing up the benefits and costs of its use by institutions and citizens; and, on the other hand, as we have already done in a concerted manner at European level and across sectors, we must focus on warnings and on continuous information for users on the risks associated with crypto-asset investment. In addition, the increasing technological complexity of the digitalisation process is leading to both an increase in cyber risks and a greater dependence of institutions on third-party technology services, which means that they must strengthen processes and controls to ensure their operational resilience.

Effectiveness in addressing these challenges will demand, more than ever, a comprehensive and global view which, beyond the central role played by credit

institutions, incorporates all intermediaries —including new market players— as further potential vehicles for the generation or transmission of shocks. This will allow for risks to be appropriately identified and mitigated and a balanced competitive environment to be maintained.

In the area of financial risks associated with climate change, it is crucial that these are adequately reflected in institutions' risk management practices and in the information they provide to the market, and that they are in turn taken into account in both regulations and supervisory practices. Central to this is improving our understanding of the nature and measurement of these risks, for which it is essential to further develop methodologies for scenario analysis and climate risk stress tests.

Along with the emergence of these new structural risks, the recent performance of the European economy has led to the re-emergence of more familiar risks to financial stability, such as those stemming from the performance of the real estate market. House prices are rising, for the euro area as a whole, at their fastest pace since 2005, and in some countries there are signs that they are above their long-term equilibrium value, while mortgage loan standards are deteriorating. In Spain, house prices rose significantly in 2021, and we have seen in recent years a reversal of the correction following the global financial crisis. However, they are close to their long-term equilibrium values, so there are still no clear signs of overvaluation. Nevertheless, we must keep a close watch on the performance of this market and the associated lending, in order to detect at an early stage significant imbalances in prices or relaxations in lending standards that require action before there is an excessive accumulation of risk. In short, we must remain vigilant about the evolution of the Spanish real estate market.

All this without forgetting the ongoing challenge for institutions to maintain customer confidence. A challenge that has proved particularly demanding for certain groups and which has required a rapid response by institutions to offer answers to those people who, with lesser digital skills or with difficulties in accessing new digital channels, require more support and accompaniment in this digital transition. This is a reminder of how phenomena that provide major benefits for society, such as digitalisation in banking, can also generate some transitory costs, which public authorities have to deal with.

The magnitude of the challenges faced by financial institutions highlights, more than ever before, the importance of sound governance. An institution's governing bodies,

in the make-up of which independent members play a fundamental role, must be equipped with mechanisms, information circuits and capacities that enable them to monitor the institution's management in depth, issue opinions and take adequately informed decisions, and outline the strategic lines of future business.

In short, we are once again facing an uncertain and complex economic environment, which requires authorities to monitor risks closely and provide an adequate and timely response that, in the case of the financial sector, allows us to safeguard financial stability as a necessary element for economic growth and the improvement of citizens' well-being.

Pablo Hernández de Cos

Governor of the Banco de España

Interview with the Deputy Governor Margarita Delgado Tejero



Two years into the pandemic, how would you assess the role of the banking sector in this crisis?

In this crisis, the role of banks has been fundamental in maintaining credit to the economy, as well as providing the rest of the financial services in exceptional circumstances. The banking sector has made a positive contribution to sustaining economic activity and maintaining stability, channelling the fiscal and monetary measures adopted by the authorities and ensuring continuity in the provision of banking services. The better starting position from which institutions dealt with this crisis after the major balance sheet repair efforts of recent years and the bolstering of solvency following the implementation of Basel III made it possible to maintain the flow of credit in the most difficult moments.

You say that the strengthening of solvency has enabled the banking sector to contribute to the recovery, but what is the current solvency situation of Spanish institutions?

Spanish institutions' solvency ratios have grown considerably, and the Common Equity Tier 1 ratio rose from 11.8 % in 2014 to 13.7 % in the third quarter of 2021. Not only has the ratio improved, but the basis of calculation is more solidly defined thanks to the Basel III regulatory reforms. But, as supervisors, we must be aware that we still have some way to go in this area. In this respect, the Basel III implementation process needs to be completed, which will lead to greater homogeneity in risk-weighted asset data thanks to the limits and floors imposed on capital requirements.

Although the solvency level of Spanish institutions is still below the average level of institutions in European countries, we should bear in mind that our institutions have a solid business model, generating recurring income, and that they have higher densities of risk-weighted assets due in part to a lower use of internal models.

Lastly, as shown in the European stress tests conducted in 2021, Spanish banking groups presented satisfactory capital levels in the adverse scenario. As I have said, the full implementation of the Basel III framework, with such relevant aspects as the output floor, can help mitigate these differences.

Certainly, government support measures have alleviated the adverse effects of the pandemic, but what are the uncertainties related to withdrawing these measures?

Indeed, financing conditions have been very favourable during the pandemic due to both monetary policy actions and the support made available to businesses and households. This has undoubtedly alleviated their liquidity needs, which has also helped to contain NPLs, while we wait until the economic situation recovers. However, we need to be cautious because not all sectors have fully recovered their activity. As you will recall, Royal Decree-Law 8/2020 allowed for the extension of grace periods for principal repayments and it will not be until the second half of this year that we will see the behaviour of transactions with extended grace periods. So it is important that institutions analyse risks properly and do not release provisions until the uncertainty has dissipated, especially in the sectors most affected by the crisis. In addition, we now have another source of uncertainty, which is geopolitical. In addition to the undesirable consequences of the conflict in terms of human lives, it will undoubtedly also impact on the economy and energy prices. Although the level of direct exposure of Spanish institutions to Russia or Ukraine is not significant, it will be necessary to monitor how this situation evolves and how it impacts on the scenario ahead.

At a time when inflation has reached levels we have not seen for decades, how could an interest rate rise affect banks' profitability?

Credit institutions must be prepared to properly manage all risks, and in this case they must also be prepared to properly manage interest rate fluctuations. Positive interest rates would be the most logical scenario in an environment of financial stability and growth in which resources are allocated in a balanced manner. Spanish institutions are, in general, favourably positioned for rate hikes.

However, in these times of huge geopolitical uncertainty, it is difficult to establish clear scenarios for the evolution of interest rates.

This is why, irrespective of the different scenarios, we must insist on the messages that we supervisors have been giving for years: institutions must improve their efficiency by containing costs, dealing with transformations in their business model —with a focus on digitalisation and financing the economy towards more sustainable models— and diversifying their income sources.

These income sources include fees. How do you think these will evolve?

For some years now, we have been seeing growth in fee income. The increase in the fees charged by institutions is always highly controversial. On the one hand, institutions incur costs for providing these services, so it is logical that they are passed on to their customers, as is the case in the other industries. On the other hand, the charging of these fees is subject to strict regulation and ongoing supervision, and it is based on the premise that fees can only be charged for services actually provided.

What is important is that past errors are avoided and banks comply with the strict rules of conduct to which they are subject. Having robust governance and a responsible banking model, with the commitment of the governing bodies and an organisation-wide approach, is the only way to ensure that customer relations are always responsible, ethical and transparent, thus avoiding reputational damage. This is where the focus must be for both supervised institutions and supervisors.

In recent years there has been growing concern about the effects of climate change, but how does this issue impact the banking sector and how do supervisors expect institutions to include climate risks in their internal management?

Concern about climate change is an issue from which no economic sector, least of all the financial sector, is left untouched. Its effects on the traditional banking risks (credit, market, operational) and on financial stability need to be carefully assessed.

Some analyses carried out under certain scenarios indicate that a significant number of companies would be exposed to climate catastrophes and subject to energy transition risk as a result of the shift towards more sustainable production models. Credit institutions, which are the main channelers of financing in Spain, cannot ignore this fact.

Quantification of the environmental impact is rather difficult because obstacles such as the absence of a global taxonomy and the lack of reliable data still persist. However, there are recent initiatives to improve data availability. I would highlight the European Commission's recent proposal for a corporate sustainability reporting directive, which will increase the availability and accessibility of reliable and comparable data.

Although information is still scarce and not very comparable, we believe that banks need to make the effort to identify the necessary data and collect it from customers. As for the need to integrate data into management, both the Banco de España and the European Central Bank (ECB) have issued expectations setting out the way in which this risk should be included in business models, in strategies and in the internal capital adequacy assessment processes.

Lastly, also at the European level, I would like to point out the commitment of the ECB and the European Systemic Risk Board to raising awareness of climate change issues, in connection with supervisory and financial stability functions. In this respect, it is worth noting that this year the ECB will subject institutions to a stress test on climate risks, which will incorporate profitability metrics and exposures to sectors affected by these risks. This test is intended as a learning exercise, one of the main objectives of which is to improve the capacity of institutions and the supervisor to assess climate risk. Moreover, through the Spanish macroprudential

authority (AMCESFI), the Banco de España participates, together with the other authorities, in the coordination and preparation of what will be the first biennial report on the assessment of the risk to the Spanish financial system stemming from climate change, as provided for in the recent law on climate change and energy transition.

However, I would like to stress that, while the importance of the financial sector in guiding the transformation of the economic model towards a more sustainable one is undeniable, I believe that the ultimate responsibility lies with both governments and the individual actions of us all.

On the other hand, you have also emphasised the need for Spanish banks to continue gaining efficiency. Is there the capacity for more mergers in Spain?

As I pointed out earlier, one of the ways to gain efficiency is to reduce operating costs. The Spanish financial sector has made significant efforts to adjust its structures with mergers, staff reductions and branch closures. After the recent bank concentration processes, it seems that the scope for bank concentration is more limited, although we still do not have high concentration rates compared to other European countries. At the international level, there is a growing trend towards international business acquisitions and, at the European level, there is an increasing possibility of further cross-border mergers. A potential risk of a very large resulting entity would be the so-called Too Big To Fail. However, this risk is mitigated, since we have tools and mechanisms to manage it, such as buffers for systemically important institutions.

In any case, it is up to the institutions to take the initiative. Our role as supervisors is to ensure that the resulting institutions are soundly and sufficiently capitalised, and have a sustainable business plan and adequate risk management and governance systems.

When we talk about mergers and profitability, we cannot fail to mention the entry of new technology sector competitors into the financial sector. How do you think banks should respond to this new threat?

For the banking sector, digitalisation is not an option, but an integral part of its core business. Institutions that lag behind in this area will not be sustainable in the medium term. Investment in digitalisation not only generates efficiency, as I mentioned earlier, but it also provides the potential to improve income and business. Only then will they be able to contend with competition driven by technology giants where innovation provides a competitive edge. In this respect, banks are implementing technological improvements at all stages of the commercial relationship, from customer acquisition to the management of their unforeseen financing needs. A notable feature of the new competitors is that, in general, they

have specialised in the sections of the value chain that bring them the highest returns, such as means of payment, rather than covering the entire banking business.

Supervisors are aware of this new reality and we are therefore supporting the digitalisation of institutions through new projects. In this respect, I would highlight the participation of the Banco de España, together with the National Securities Market Commission and the Directorate General Insurance and Pension Funds, in a controlled testing environment, known internationally as Sandbox, created by the law for the digital transformation of the financial system. It is a safe space in which to test projects involving technology-based financial innovation applicable to the financial system. In it, risks to the financial system and to participants have been mitigated or minimised.

I see digitalisation as a major transformation affecting many sectors, and the financial sector is no exception. In this adaptation process, there are major transition costs that banks will have to take into account in their decisions, and analyse how they affect the various customer segments. In particular, the elderly and groups of people less familiar with digitalisation must receive priority attention. This was embodied in the protocol recently signed by the main banking associations.

You say that the Sandbox allows the risks of innovative projects to be assessed, but what other risks associated with technological innovation would you highlight?

There is no denying the great benefits associated with a more intense use of technology in the banking business. However, this comes with risks that must not be ignored.

The main risks I see are, on the one hand, those associated with cyber risk and, on the other hand, those linked to the outsourcing of processes to third-party providers.

In relation to cyber risk, there has been an increase in the number of cyberattacks directed at financial institutions, their customers and their suppliers. As regards the outsourcing of processes, the main risk is the loss of control over them and, on the other hand, the potential concentration of these services in a small number of providers.

Therefore, this risk is of concern to the authorities. In this respect, the European Commission has a legislative proposal (DORA) on how to improve cybersecurity and operational resilience in the financial sector. This regulation will address measures to mitigate risks associated with technology and the outsourcing of processes and services.

In addition, with the aim of mitigating management risks and boosting the cyber resilience of the financial sector as a whole, in 2018 the ECB published the advanced

cybersecurity testing framework called TIBER-EU, which has been adopted in a large number of European jurisdictions, including Spain.

Lastly, technological innovations are also permitting the development of new products, for example, those based on distributed ledger technology, such as crypto-assets. There is currently a proposal for a European regulation on the issuance and provision of services relating to these products (MiCA), as their growth is becoming systemically relevant and poses a potential risk to financial stability.

For our part, supervisors must distinguish between the activities that involve a way of gaining efficiency, profitability and sustainability and those that might be a source of instability or that are not in line with a responsible banking model.

When we talk about the risks of crypto-assets, their relationship with money laundering comes to mind. What is the Banco de España doing in this respect?

The Banco de España is aware of the money laundering risks involved in the use of crypto-assets and that they should therefore be subject to anti-money laundering and counter-terrorist financing (AML/CTF) supervision. In fact, following international and EU standards, Spanish legislation includes certain categories of crypto-asset service providers that are obliged to comply with AML/CTF rules.

Unfortunately, the activities that require close monitoring to prevent money laundering and terrorist financing are not limited to crypto-assets. Credit institutions are highly exposed to money laundering risk which has a direct impact on their reputation and would be evidence of poor governance and internal control; hence the prudential supervisor's interest in money laundering and terrorist financing issues. It is therefore increasingly important that the AML/CTF authorities and the Banco de España work together. To this end, a new agreement was signed this year between the Commission for the Prevention of Money Laundering and Monetary Offences and the Banco de España, which deepens supervisory cooperation and coordination.

To conclude, almost ten years after the creation of the Banking Union, what is your assessment of how it has evolved? What aspects do you think have improved and what challenges remain?

The creation in 2013 of the Single Supervisory Mechanism and in 2014 of the Single Resolution Mechanism has meant that, within the Banking Union, the same risks and the same type of business model can be treated homogeneously, not only in terms of regulation, but also in terms of enforcement. What would be needed to deepen the current institutional framework? The Banking Union would undoubtedly be strengthened by the creation of a common deposit guarantee fund. With such a fund, in the event of a bank crisis, there would be the backing of a European fund

that would mutualise the risks. The completion of this pillar of the Banking Union would play a key role in boosting cross-border mergers within the Monetary Union. However, no political agreement has yet been reached in the European Union (EU) to have this common deposit guarantee fund.

In addition, we need a more developed and integrated capital market for the EU as a whole, allowing public and private resources to be channelled into projects that promote the transition towards a more sustainable economy. In this respect, among the most recent achievements, I would like to highlight the European harmonisation of covered bond regulations, which was transposed into Spanish law in 2021, and the adaptation of the EU securitisation framework. We are firmly committed to continuing to work towards the achievement of this project, which aims to connect EU companies more closely with investors, improve access to finance for EU companies and increase investment opportunities for retail clients.

Supervision Report: digest

Supervisory functions of the Banco de España	<ul style="list-style-type: none"> • The Banco de España has supervisory powers over credit institutions and over other financial institutions and undertakings related to the financial system operating in Spain. Specifically, it has powers over payment institutions, account information service providers, specialised lending institutions (SLIs), electronic money institutions, mutual guarantee societies, reguarantee companies, currency-exchange bureaux, appraisal companies, certain banking foundations and Sareb (the asset management company for assets arising from bank restructuring). • Microprudential supervision of credit institutions aims to ensure their solvency and liquidity, as well as compliance with prudential regulations. It is carried out within the framework of the Single Supervisory Mechanism (SSM), led by the European Central Bank (ECB) and with the participation of the national competent authorities of each country, including the Banco de España. The Directorate General Banking Supervision (DGBS) is responsible for the tasks relating to this function. • Macroprudential policy is aimed at safeguarding the stability of the financial system as a whole. The Banco de España's Directorate General Financial Stability, Regulation and Resolution is responsible for making the necessary proposals and analyses for decision-making in this area. To this end, it has macroprudential tools provided for in the European regulatory framework and in Spanish legislation. At the Spanish level, the Banco de España participates in the Spanish macroprudential authority (AMCESFI), together with the other two sectoral supervisory authorities: the National Securities Market Commission (CNMV) and the Directorate General Insurance and Pension Funds, as well as with the Ministry of Economic Affairs and Digital Transformation. At the European level, it coordinates with the ECB and the European Systemic Risk Board (ESRB). • The Banco de España is also entrusted with supervising the conduct, transparency and consumer protection of the institutions in its Official Registers. The General Secretariat is responsible for carrying out the tasks necessary for the exercise of this function. • The Banco de España is responsible for the supervision of payment service provision. Three directorates general are involved in the exercise of this function: the DGBS, the General Secretariat and the Directorate General Operations, Markets and Payment Systems. Also, the latter is responsible for overseeing payment systems and instruments and it shares with the CNMV the oversight of the financial market securities infrastructures. • The Banco de España collaborates with the Commission for the Prevention of Money Laundering and Monetary Offences (CPMLMO) and its Executive Service in the area of anti-money laundering and counter-terrorist financing (AML/CTF).
Supervisory and oversight staff	<ul style="list-style-type: none"> • At 31 December 2021, the Banco de España had 844 employees performing supervisory and oversight functions, as compared with 847 employees at 2020 year-end. 49% of supervisory and oversight staff are men and 51% are women.

The Spanish banking sector	<ul style="list-style-type: none"> • The recovery of the financial situation of Spanish banks in 2021 can be seen in many indicators, which are close to or even exceed the levels prior to the outbreak of the health crisis. The total volume of loans extended by Spanish institutions at consolidated level increased again in 2021. • The NPL ratio has remained stable at around 3% since the beginning of 2020. However, it is necessary to remain prudent, given the possibility of further deterioration in loan quality in the near future due to the deferred materialisation in institutions' balance sheets of part of the impact of the COVID-19 crisis. • Profitability recovered significantly in 2021 with respect to the anomalous previous year, when extraordinary write-downs pushed this ratio into negative values. However, the challenge remains to adapt the institutions' structure to the low net interest income and growing competitive pressure in the sector. • The solvency of Spanish banks has maintained its upward trend, and there has been a slight improvement since the second quarter of 2021 due to the positive contribution of earnings and lower risk-weighted assets. The system's average solvency ratios remain, however, below their European peers. • The liquidity coverage ratio of Spanish banks has been on an upward trend since the outbreak of COVID-19, mainly as a result of the monetary policy measures adopted by the ECB due to the pandemic.
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Focal points in 2021 and supervisory priorities for 2022

- The supervisory focal points for the SSM as a whole in 2021 were grouped into four broad areas: credit risk management, the objective of which was the early identification of asset impairment and appropriate credit risk management; the soundness of institutions' capital position, monitoring institutions' capital plans and dividend policies (also, stress tests were conducted at European level); the sustainability of the business model, focusing on the analysis of institutions' strategic plans; and, lastly, governance, with a focus on institutions' crisis management procedures, the prudential impact of money laundering and terrorist financing (ML/FT) risk and the assessment of technological and cyber risk.
- The priorities for the SSM as a whole in 2022 are to address the impacts of the pandemic and promote the banking sector's resilience in the context of exiting the crisis, paying particular attention to the potential deterioration of asset quality; to tackle institutions' structural vulnerabilities through digital transformation and improved governance; and to assess the response to emerging risks, including climate and environmental risk, technology risk and cyber risk.
- Law 7/2020, for the digital transformation of the financial system, created a controlled testing environment in Spain, known internationally as Sandbox. The law provides for two annual cohorts for submitting access requests. In the first cohort, of the applications that were initially assigned to the Banco de España, alone or together with other supervisory authorities, six have finally passed to testing. In the second cohort, of those initially assigned to the Banco de España, only one obtained a favourable prior assessment and is in the negotiation phase of the corresponding protocol.
- The Banco de España and the CNMV, together with the ECB, have worked this year to encourage institutions to make an orderly transition to new benchmark rates, following the disappearance of EONIA (Euro Overnight Index Average) and LIBOR (London Interbank Offered Rates).
- As part of its commitment to improve the financial sector's cybersecurity, the Banco de España has adopted the advanced cybersecurity testing framework TIBER-ES, which is the local adoption of TIBER-EU, published by the ECB. Testing under the TIBER-ES framework enables financial institutions to enhance their cybersecurity capabilities.

Supervision of credit institutions

- Ongoing supervision of significant institutions (SIs) is performed by joint supervisory teams (JSTs) comprising ECB and Banco de España staff. The Banco de España directly supervises less significant institutions (LSIs) according to a common policy laid down by the ECB.
- The most effort-intensive task in the ongoing monitoring of SIs is the supervisory review and evaluation process (SREP), whose findings are used to adopt Pillar 2 decisions (capital and liquidity decisions), as well as to assess the adequacy of their governance and risk controls. While in 2020 the ECB decided, in view of the COVID-19 crisis, to follow a simplified approach in the SREP, the return to relative normality allowed the JSTs to apply the full SREP methodology in 2021.
- The SREP is complemented by other supervisory tasks, such as institution-specific in-depth reviews (deep dives), cross-institutional reviews—which are conducted uniformly for all or several SSM institutions—which in 2021 dealt, inter alia, with the monitoring of coverage for non-performing exposures and with institutions' exposure to sectors vulnerable to the COVID-19 crisis.
- Stress tests originally planned for 2020, but which had to be postponed due to the COVID-19 crisis, were carried out in 2021.
- In 2021, 861 ongoing off-site supervision actions were conducted on Spanish LSIs, the Official Credit Institute, branches of LSIs from other SSM participating countries and other EU Member States, and branches of non-EU credit institutions. The SREP is one of the core tasks of the ongoing off-site supervision of the LSIs, and in 2021 a Pillar 2 capital guidance (P2G) was set for each institution for the first time.
- Ongoing off-site supervision is supplemented with on-site actions, which can take two forms: inspections and model investigations. In 2021, on-site actions continued to be carried out on a remote and online basis, following the model adopted in the previous year due to the pandemic. In the last quarter of the year, occasional visits to institutions were resumed in some actions. In 2021, 15 inspections and 13 internal model investigations were carried out at Spanish SIs and, additionally, 2 cross-border missions were carried out at non-Spanish SIs. As regards LSIs, the Banco de España carried out 6 inspections.
- Both the ECB and the Banco de España decided against extending their previous recommendation on profit distribution—which called on institutions not to distribute dividends or buy back shares, and to be extremely prudent with variable remuneration payments—so that it ceased to be in force from 30 September 2021. However, despite not setting limits, they recommend that banks remain prudent in these decisions.

Supervision of credit institutions	<ul style="list-style-type: none"> • In 2021, the Banco de España participated in 233 suitability procedures for institutions' senior officers. In addition, the ECB launched the so-called "IMAS Portal" to facilitate various procedures (senior officer suitability assessments, passporting notifications, acquisition of qualifying holdings and non-material model changes). In addition, the ECB has published the Guide to fit and proper assessments, with supervisory policies on the requirements for senior officers, and the new questionnaire for suitability assessment, which the Banco de España will adapt to Spanish specificities in the course of 2022. • As a result of its supervisory tasks, the Supervisory Board of the ECB –of which the Banco de España is a member– adopted 528 decisions and actions affecting Spanish institutions. Furthermore, the Banco de España sent 108 letters to institutions containing 373 requirements and recommendations. • During 2021, three AML/CTF compliance review inspections were completed and three more were initiated. In March 2021, a new agreement was signed between the CPMLMO and the Banco de España for the coordination of their respective actions in the supervision and inspection of AML/CTF obligations, which clarifies the Banco de España's role and deepens supervisory cooperation and coordination.
Supervision of other institutions, compliance with vetted access to activity and supervision of payment service providers	<ul style="list-style-type: none"> • The Banco de España has exclusive microprudential supervisory powers over institutions other than credit institutions, on which 399 ongoing off-site supervisory actions were carried out in 2021 under various modalities as well as 3 inspections. • The Banco de España, as the body responsible for overseeing compliance with vetted access to activity, acted in 2021 in 37 possible cases of operations being performed without meeting the conditions of access, including 21 cases of possible non-compliance with vetted access to activity of payment service providers. • In addition to the tasks inherent in the ongoing monitoring of payment service provision, oversight tasks in 2021 were mainly divided between the assessment of authorisation and registration applications —suggestive of a trend towards a payment service provision ecosystem that has ever more participants and is, therefore, ever more heterogeneous— and the verification of compliance with strong customer authentication (SCA) regulations and common and secure open standards of communication.

CHAPTER 3. MACROPRUDENTIAL POLICY

The Banco de España's macroprudential policy actions	<ul style="list-style-type: none"> • In accordance with the prevailing legislation, the Banco de España regularly sets two macroprudential capital buffers to address the build-up of cyclical and structural risks. • In 2021, the Banco de España maintained the countercyclical capital buffer at 0% for credit exposures in Spain. It is not expected to be increased at least until the main economic and financial effects of the pandemic have dissipated. • In 2021, four other systemically important institutions were identified —one less than the previous year as a result of the integration of Bankia, SA into CaixaBank, SA— and their associated capital buffers were set for 2022. • The Banco de España published in 2021 a circular on new macroprudential tools applicable to credit institutions. • The prospective exercise conducted in 2021 by the Banco de España to measure credit institutions' resilience to adverse scenarios shows a high loss-absorbing capacity, albeit with significant differences between institutions.
Macroprudential coordination at national level	<ul style="list-style-type: none"> • As a member of AMCESFI, the Banco de España actively contributed to its activities in 2021, which included the publication of its second annual report, an occasional paper on public support measures in response to COVID-19 and an opinion on the Banco de España's macroprudential measure relating to other systemically important institutions.
ECB macroprudential tasks	<ul style="list-style-type: none"> • The Banco de España participates in the ECB's Financial Stability Committee and Macroprudential Forum. As an SSM authority, in 2021 the Banco de España notified the ECB of its proposed macroprudential measures prior to their adoption and reporting.

CHAPTER 4. SUPERVISION OF INSTITUTIONS' CONDUCT

Conduct-related supervisory activity	<ul style="list-style-type: none">• Supervision of effective compliance with the conduct regulation and discipline legislation establishing bank customer protection measures is essential to preserve public confidence in the banking system and to promote the stability of the financial system.• In 2021, the conduct-related supervisory activity was adapted to new circumstances following the onset of the pandemic and efforts were redirected to ensure appropriate conduct by institutions, in particular in the way they digitally engage with their customers.• Other noteworthy areas of activity in 2021 were consumer credit (with a focus on car financing, overdrafts, responsible lending and marketing of revolving cards), real estate lending, remote marketing of current and savings accounts, transfer of payment accounts (noteworthy in relation to these accounts is a supervisory action to verify the marketing of payment accounts in bank branches), advertising and customer service in bank branches.• In recent years, conduct-related supervisory activity has become more complex and requires new tools and specific information for the supervisor. To this end, in 2021 the Banco de España published the first conduct-related supervisory guide, on customer service departments (CSDs), and a circular on confidential conduct-related information and on the complaints register.
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CHAPTER 5. OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES

Oversight of payment systems and instruments	<ul style="list-style-type: none">• The analysis of incidents experienced in 2020 in TARGET2 services was one of the key activities in 2021 in the oversight coordinated by the ECB. On the basis of the recommendations arising from this oversight, together with the recommendations issued by internal audit and those arising from an independent review, a global action plan was prepared.• In Spain, as in the rest of the euro area, the context of the pandemic has contributed to the acceleration of digitalisation in retail payments. In 2021, remote payments made strong progress and contactless payments have become widespread in the face-to-face environment.• Noteworthy in card scheme oversight in Spain is the reduction of the fraud rate in card transactions, which was 0.023% in the first half of 2021 in terms of number of transactions (compared to 0.032% in 2020). The deployment of SCA in remote card transactions may have contributed to this decline.• The new Eurosystem oversight framework for electronic payment instruments, schemes and arrangements (known as the "PISA framework") was approved in November 2021.
Supervision of Iberpay (National Electronic Clearing System manager)	<ul style="list-style-type: none">• A new regulation of the National Electronic Clearing System (SNCE) was approved at the beginning of 2022, notably updating the settlement procedure for immediate transfers. This procedure has been adapted to the ECB Governing Council's decision of July 2020 to achieve pan-European accessibility of instant payments through the TARGET Instant Payment Settlement service, known as "TIPS".
Oversight of securities infrastructures	<ul style="list-style-type: none">• In 2021, monitoring continued on the implementation of the recommendations arising from the TARGET2-Securities assessment of compliance with the principles for financial market infrastructures of the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions, and those arising from the assessment of the penalties mechanism set out in the Central Securities Depositories Regulation.

CHAPTER 6. EXERCISE OF SANCTIONING POWERS

Sanctions	<ul style="list-style-type: none">• Sanctioning powers, as a corollary of supervisory powers, continued to be exercised in 2021 in the following areas: i) transparency and customer protection, which, as in previous years, accounts for the largest number of sanctioning proceedings initiated, and ii) prudential matters, which include most notably proceedings initiated against appraisal companies.
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Global fora	<ul style="list-style-type: none"> • In 2021, the Financial Stability Board continued to promote international cooperation and the coordination of responses to the pandemic, the identification, monitoring and assessment of financial system vulnerabilities, as well as the implementation and assessment of reforms agreed on in the aftermath of the 2008 global financial crisis. • The work of the Basel Committee on Banking Supervision, chaired by the Governor of the Banco de España, has focused on new strategic priorities, including climate change and the impact of digitalisation, as well as the assessment of the functioning of the Basel III framework and the monitoring of its implementation.
European fora	<ul style="list-style-type: none"> • The work of the European Banking Authority (EBA), which continues to be influenced by the consequences of the pandemic, includes most notably the following: i) that stemming from the CRD/IFD/CRR/IFR capital requirement directives and regulations for credit institutions and investment firms, and from the directive on the restructuring and resolution of both types of institution, BRRD, especially with regard to internal governance and remuneration; and also, from a prudential perspective, the work on securitisations; ii) improvements in the area of reporting and transparency, which will turn the EBA into an integrated EU datahub; iii) preparatory work on the new regulatory framework for crypto-assets (MiCA regulation) and on information and communication technology risk and security risk management (known as "DORA"); and iv) enhanced disclosure of environmental, social and governance risks. • In 2021, the work of the ESRB —the Advisory Technical Committee of which is chaired by the Governor of the Banco de España— focused on the following areas: i) vulnerabilities in the residential real estate sector; ii) regulatory reform of money market funds; iii) mitigation of systemic cyber risk; iv) macroprudential aspects of the low interest rate environment and climate risks; v) post-Brexit equivalence of UK central counterparties; and vi) financial stability implications of fiscal measures introduced to tackle the economic effects of the pandemic.

Banco de España's new regulatory developments	<ul style="list-style-type: none"> • In 2021, the Banco de España published six circulars on the following subjects: i) functioning of the Central Credit Register (Circular 1/2021); ii) official reference interest rates (Circulars 1/2021 and 3/2021); iii) information for determining contributions to the Deposit Guarantee Fund (Circular 2/2021); iv) information for conduct-related supervision purposes (Circular 4/2021); v) new macroprudential tools (Circular 5/2021); and vi) accounting regime for credit institutions and SLIs (Circular 6/2021). It also published supervisory guidance on institutions' CSDs. In addition, Circular 1/2022 on liquidity requirements for SLIs was published in early 2022. • Three circulars are currently in the pipeline, which will cover the following subjects: (i) prudential regime for credit institutions; (ii) reporting obligations applicable to revolving credit; (iii) operational and security risk management and incident reporting related to payment services; and (iv) payment statistics.
Other new regulatory developments	<ul style="list-style-type: none"> • In 2021 there were several notable new developments in the field of prudential regulation. Firstly, the Spanish legislation was adopted transposing the latest amendment to the Capital Requirements Directive (known as "CRD-V") and exercising the options provided for in the amendment to the Capital Requirements Regulation (known as "CRR-II"). In addition, a new directive on credit managers and credit purchasers was adopted. Lastly, the EU adoption of the most recent amendments to the Basel Capital Accord was begun and the proposal for the MiCA regulation was published.



1

SUPERVISION AND OVERSIGHT AT THE BANCO DE ESPAÑA

SUPERVISORY AND OVERSIGHT FUNCTIONS OF THE BANCO DE ESPAÑA



MICROPRUDENTIAL SUPERVISION

Preserve the solvency, liquidity and smooth functioning of institutions, with the ultimate objective of safeguarding the stability of the financial system



MACROPRUDENTIAL POLICY

Safeguard the stability of the financial system as a whole through the prevention and mitigation of cyclical or structural systemic risks and vulnerabilities



SUPERVISION OF CONDUCT, TRANSPARENCY AND CUSTOMER PROTECTION

Ensure that institutions have a conduct culture and governance aimed at protecting banking transparency, to help safeguard user confidence in the financial system and preserve its stability



SUPERVISION OF PAYMENT SERVICE PROVISION

Safeguard security in payment service provision with the objective of promoting an integrated, secure and efficient payment market



OVERSIGHT OF MARKET INFRASTRUCTURE

Ensure the smooth operation of payment systems and instruments, and ensure that the functioning of securities clearing, settlement and registration systems preserve the stability of the financial system as a whole



STAFF

844 employees performed supervisory and oversight functions

Women
51%

Men
49%

1.1 Supervisory and oversight functions of the Banco de España

The Banco de España has supervisory powers over credit institutions and over other financial institutions or undertakings related to the financial system operating in Spain. In particular, it performs a microprudential function aimed at overseeing the solvency of institutions, as well as a macroprudential policy function aimed at safeguarding the stability of the financial system as a whole. It is also responsible for supervising conduct and transparency and the provision of payment services, and for overseeing payment systems. Also, it performs other supervisory functions in collaboration with other bodies, such as the Commission for the Prevention of Money Laundering and Monetary Offences (CPMLMO) and its Executive Service (Sepblac) —in the area of anti-money laundering and counter-terrorist financing (AML/CTF)— and the National Securities Market Commission (CNMV) —in the task of overseeing securities market infrastructure. These supervisory and oversight functions are summarised in Figure 1.1.

Microprudential supervision of credit institutions aims to ensure their solvency and liquidity, as well as compliance with prudential regulations.

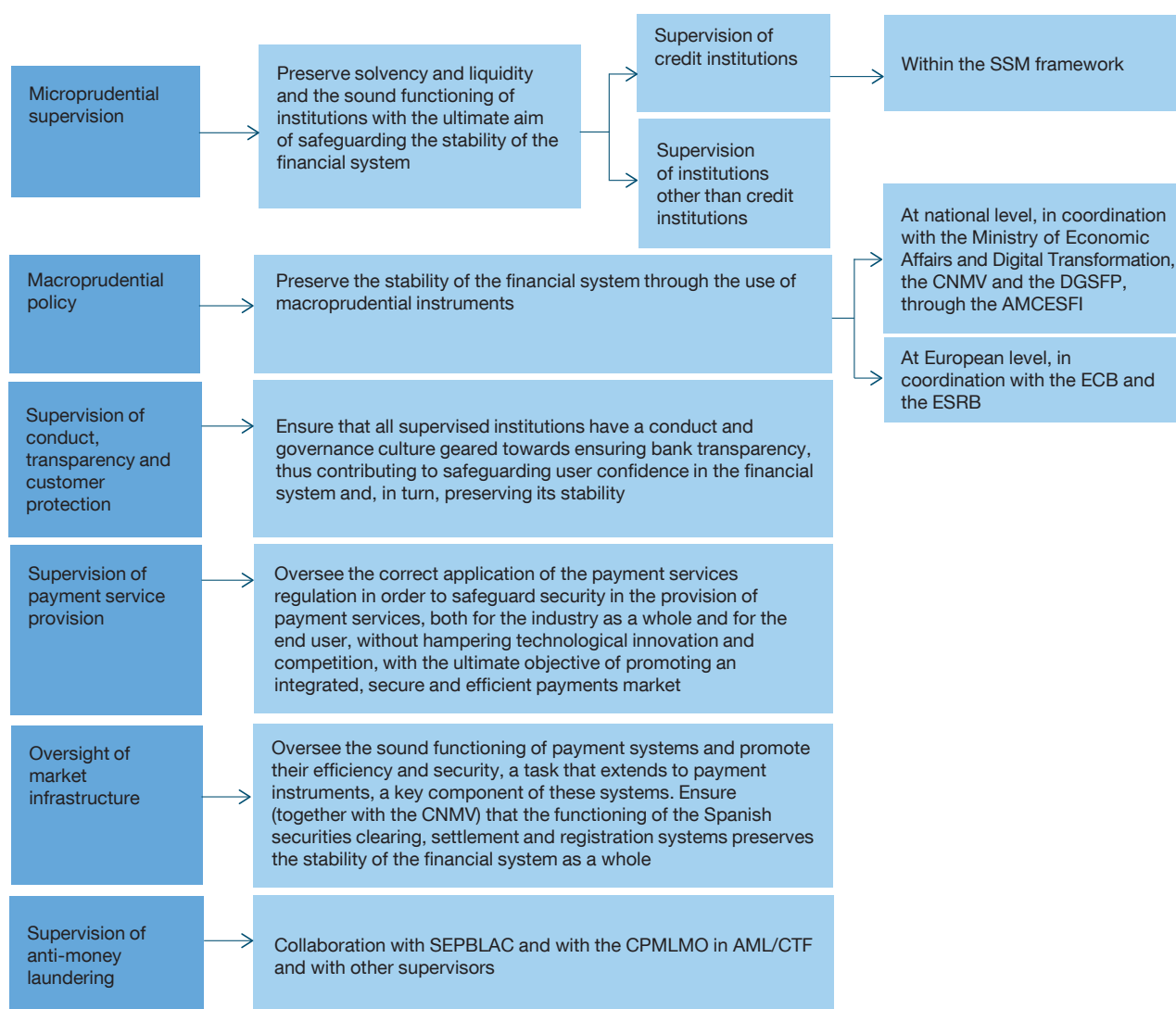
Microprudential supervision of credit institutions is performed within the framework of the Single Supervisory Mechanism (SSM). It aims to preserve financial stability and ensure consistent and standardised supervision among the participating countries. In addition to the euro area countries, Bulgaria and Croatia have been participating in SSM banking supervision since October 2020, having each signed a close cooperation agreement with the European Central Bank (ECB).

Within the SSM, microprudential supervision of credit institutions is exercised jointly by the ECB and the national competent authorities (NCAs) of each country, including the Banco de España. Institutions are classified according to their size or relative importance within each country as significant institutions (SIs) or less significant institutions (LSIs).

The ECB is directly responsible for the supervision of SIs and exercises indirect supervision over LSIs. At the end of 2021, the ECB exercised direct supervision over 115 SI groups, of which 10 were Spanish. For their part, the NCAs have direct supervisory powers over the LSIs for which the ECB carries out indirect supervision (2,186 in total). At the end of 2021, there were 57 less significant institutions or groups in Spain.

Figure 1.1

SUPERVISORY AND OVERSIGHT FUNCTIONS OF THE BANCO DE ESPAÑA



SOURCE: Banco de España.

Outside the scope of the SSM, the Banco de España is also the supervisory authority for institutions, other than credit institutions, that provide services or perform functions related to the financial sector, such as specialised lending institutions (SLIs), mutual guarantee societies (MGs), guarantee companies, appraisal companies, payment institutions (PIs), account information service providers, electronic money institutions (ELMIs), currency-exchange bureaux, banking foundations¹, Sareb (the asset management company for assets arising

¹ Law 26/2013 of 27 December 2013 on savings banks and banking foundations confers on the Banco de España control of compliance with certain rules related to the influence of the banking foundation over the management of the investee credit institution, in the event that the foundation holds an ownership interest of, at least, 30% of the share capital of the credit institution or which allows it to exercise control. Table 2.5 shows the number of both existing foundations and the foundations over which the Banco de España exercises these powers.

from bank restructuring)², the branches of non-EU credit institutions and the Official Credit Institute (ICO)³.

Moreover, the Banco de España has macroprudential policy powers aimed at safeguarding financial stability through the prevention and mitigation of risks and systemic vulnerabilities. To exercise of these functions, the Banco de España has macroprudential tools, which are based mainly on identifying systemically important institutions and determining the associated capital surcharges, setting the quarterly countercyclical capital buffer (CCyB), setting the systemic risk buffer, which can be applied to specific sectoral portfolios, and assessing the possible activation of other measures envisaged both in the European regulatory framework and in Spanish legislation. Following the approval of Circular 5/2021 of 22 December, the Banco de España could also set a sectoral CCyB, limits on the concentration of credit exposures and limits on lending conditions, where it deems appropriate, to safeguard the stability of the financial system.

In addition, the Banco de España participates in the Spanish macroprudential authority (AMCESFI), which aims to identify, prevent and mitigate the development of systemic risk in order to preserve the stability of the Spanish financial system. It participates in the AMCESFI together with the other two sectoral supervisory authorities, the CNMV and the Directorate General for Insurance and Pension Funds (DGSFP), as well as with the Ministry of Economic Affairs and Digital Transformation.

The Banco de España is also responsible for supervising the conduct, transparency and customer protection of institutions registered in the official registers of the Banco de España (credit institutions and other institutions offering certain banking services), for which there are specific transparency and customer protection regulations, including institutions offering their products under the freedom to provide services.

Moreover, the Banco de España is responsible for supervising the provision of payment services, for which there is a specific regulatory framework, the Payment Services Directive 2⁴ (PSD2). This framework regulates payment services and the entities specialised in their provision, and it places special emphasis on operational and security risk requirements.

2 The Banco de España supervises fulfilment of Sareb's sole corporate purpose, in order to identify deviations therefrom jeopardising the attainment of Sareb's overall statutory objectives.

3 The ICO has the legal form of a credit institution, pursuant to Article 1 of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions. However, it is supervised by the Banco de España, since it is excluded from the scope of the SSM under Article 1 of Council Regulation (EU) No 1024/2013 of 15 October 2013.

4 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, transposed into the Spanish regulatory framework by Royal Decree-Law 19/2018 of 23 November on payment services and other urgent financial measures.

It is also responsible for overseeing payment systems and instruments and it shares with the CNMV the oversight of the financial market securities infrastructures.

Another of the Banco de España's functions is in the area of AML/CTF: it collaborates with the CPMLMO and SEPBLAC in the supervision of the AML/CTF obligations of the institutions supervised or registered by it, pursuant to Spanish legislation and the cooperation and coordination agreement entered into with the CPMLMO.

Lastly, the Banco de España exercises supervisory, inspection and sanctioning functions in relation to certain obligations provided for in Regulation (EU) 2016/1011 of the European Parliament; specifically, those referring to compliance with the governance and control obligations provided for in Article 16 of said regulation by the institutions supervised by the Banco de España that contribute data for the preparation of rates by the Banco de España; and also with respect to Articles 28(1) and 29(1) of the aforementioned regulation on the use of benchmark rates in financial agreements by institutions supervised by the Banco de España, in matters of transparency and customer protection.

1.2 Organisation of banking supervision and oversight at the Banco de España

The supervisory function is performed by the Banco de España's different directorates general and departments:

- The Directorate General Banking Supervision (DGBS) is responsible for the ongoing off-site supervision of institutions with regard to their solvency, liquidity and business management, and for the related inspections and review of internal models for calculating capital requirements. It further provides support to the Banco de España's representative on the Supervisory Board (SB) of the ECB. In addition, among other functions, it performs horizontal tasks, such as data exploitation and analysis, supervisory methodology and policy, planning, training, quality function, AML/CTF cooperation, etc. Lastly, it is worth mentioning that the DGBS performs the accounting regulation function for supervised institutions.

In 2021, the DGBS adapted its organisational structure to the changes in the SSM following a recent reorganisation and to the supervisory challenges posed by the COVID-19 crisis. The main change has been the creation of two new groups. The Data Analysis Group was created for bulk data exploitation and the creation of analysis tools (functions previously distributed among various groups). And the Supervisory Strategy and Risk

Figure 1.2

ORGANISATION OF SUPERVISION AND OVERSIGHT AT THE BANCO DE ESPAÑA

DIRECTORATE GENERAL BANKING SUPERVISION	Significant Institution Department I	<ul style="list-style-type: none"> — Ongoing off-site supervision of the three largest Spanish SIs and of the branches and subsidiaries in Spain of European SIs, through the JSTs — Participation in the granting of start-up licences and in other procedures relating to the pursuit of their activities
	Significant Institution Department II	<ul style="list-style-type: none"> — Ongoing off-site supervision of the other Spanish SIs through the JSTs — Participation in the granting of start-up licences and in other procedures relating to the pursuit of their activities
	LSI and Other non-SSM Institutions Department	<ul style="list-style-type: none"> — Ongoing off-site supervision and on-site inspections of: <ul style="list-style-type: none"> • Spanish LSIs • Other institutions outside the scope of the SSM: ICO, SLIs, Pls, account information service providers, ELMs, MGSs, reguarantee companies, currency-exchange bureaux, appraisal companies and Sareb • Other branches and subsidiaries in Spain of foreign institutions — Participation in the granting of start-up licences and in other procedures relating to the pursuit of their activities
	Inspection, Internal Model and Technological Innovation Department	<ul style="list-style-type: none"> — Inspections and internal model investigations of SIs within the SSM — Technology risk inspections of SIs within the SSM and Suptech — Technology risk inspections and internal model investigations of LSIs — Supervision and inspections of AML/CTF procedures
	Horizontal Function Department	<ul style="list-style-type: none"> — Definition of supervisory policies and bank accounting regulation — Stress tests — Supervisory data exploitation and analysis — Identification and assessment of risks from a microprudential standpoint — Supervisory methodology — Analysis and assessment of technology risk — Monitoring of market risk, operational risk and structural liquidity and interest rate risks
	Organisation and Quality Group (Corporate Functions)	<ul style="list-style-type: none"> — Quality control in the supervisory process — Training of DGBS staff — Coordination of DGBS corporate functions
	Deputy Directorate-General of the SSM and Supervisory Strategy	<ul style="list-style-type: none"> — Preparation and monitoring of annual supervision planning — Definition of supervisory strategic planning and second line of defence — Support to the Banco de España representative on the SB — Coordination and management of information received within the scope of the SSM
DIRECTORATE GENERAL FINANCIAL STABILITY, REGULATION AND RESOLUTION	Financial Reporting and CCR Department	<ul style="list-style-type: none"> — Receipt, quality control and forwarding of supervisory information that credit institutions are required to submit to the ECB, within the SSM, and to the Banco de España, in the exercise of their supervision powers and of information from other supervised institutions — Management of the CCR
	Regulation Department	<ul style="list-style-type: none"> — Analysis, definition and monitoring of regulatory policies at the global and European levels — Coordination with the EBA and other international fora and bodies — Development and interpretation of prudential regulation and discipline legislation of institutions supervised by the Banco de España, except in relation to bank accounting, market conduct, banking transparency and customer protection
	Financial Stability and Macroprudential Policy Department	<ul style="list-style-type: none"> — Analysis of financial system risks and vulnerabilities — Formulation of macroprudential policy proposals — Coordination with the AMCESFI and, at the European level, with the ESRB and with the ECB macroprudential function
GENERAL SECRETARIAT	Institutions' Conduct Department	<ul style="list-style-type: none"> — Supervision of market conduct and compliance with legislation on transparency of information and customer protection in the marketing of banking services and products — Definition of regulatory and supervisory policies concerning market conduct
	Deputy General Secretariat	<ul style="list-style-type: none"> — Participation in the assessment of compliance with the suitability requirements of senior officers — Maintenance of the Senior Officer Register — Participation in the granting and withdrawal of institutions' authorisation — Maintenance of the Register of Institutions, Agents and Articles of Association — Management of the single European passport
	Legal Department	<ul style="list-style-type: none"> — Handling of sanctioning proceedings
DIRECTORATE GENERAL OPERATIONS, MARKETS AND PAYMENT SYSTEMS	Payment Systems Department	<ul style="list-style-type: none"> — Ongoing supervision of compliance with legislation specific to Pls, account information service providers and ELMs, except in relation to solvency, conduct and transparency — Supervision of the provision of payment services by payment service providers — Definition of supervisory policy regarding the provision of such services — Supervision of Iberpay, as the management company of the National Electronic Clearing System — Oversight of financial market infrastructures and of payment instruments

SOURCE: Banco de España

Group was created, mirroring the ECB's new Directorate Supervisory Strategy and Risk.

- The Directorate General Financial Stability, Regulation and Resolution (DGFSRR) is responsible for formulating macroprudential policy proposals and performs the analytical work required for decision-making in this area; it also assesses and participates in the development of the regulatory framework applicable to supervised institutions. It is also responsible for receiving and monitoring institutions' supervisory reporting.
- The General Secretariat is tasked with supervising market conduct; participating in the processes of senior officer suitability and of granting and withdrawal of institutions' authorisation; the register of credit institutions; and the handling of sanctioning proceedings.
- Lastly, the Directorate General Operations, Markets and Payment Systems (DGOMPS) is responsible for overseeing financial market infrastructures and payment instruments, schemes and solutions. In addition, it is responsible for the ongoing supervision of payment service providers other than credit institutions (except in relation to their solvency, market conduct and transparency), and of the provision of payment services by all payment service providers.

Figure 1.2 provides greater details of the organisation of the supervisory and oversight functions performed by the Banco de España.

1.3 Supervisory and oversight staff

At 31 December 2021, the Banco de España had 844 employees performing supervisory and oversight functions (compared with 847 employees in 2020). Of these 844 employees, 530 belong to the DGBS, 191 to the DGFSRR, 62 to the Institutions' Conduct Department, 45 to the Deputy General Secretariat and 16 to the DGOMPS.

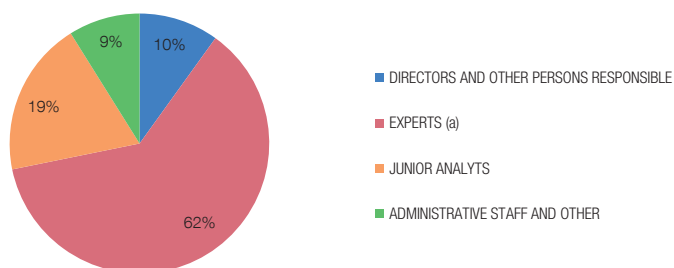
In the DGBS, a selection process for eight inspectors for credit institutions and another selection process for four junior analysts were completed in 2021, both of which were delayed due to the extraordinary situation caused by COVID-19. The DGFSRR also completed a selection process for ten specialists in regulation in January 2021.

The Payment Systems Department increased its staff by adding an expert in regulation and an expert in other supervisory activities in order to further strengthen the tasks to supervise payment service provision and, in particular, to contribute to

Chart 1.1

SUPERVISORY AND OVERSIGHT STAFF (%), BY PROFESSIONAL GROUP 31 December 2021

The predominant group continues to be, within the "Experts" category, inspectors and inspection auditors. The composition of the various groups of staff remained stable with respect to previous years.



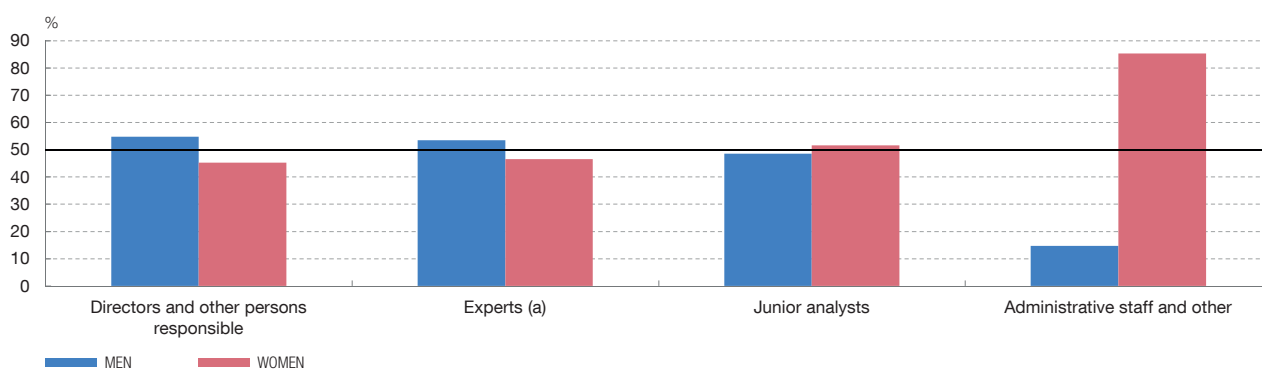
SOURCE: Banco de España.

a Also includes inspectors, degree-level economists, lawyers, inspection auditors and IT auditors.

Chart 1.2

SUPERVISORY AND OVERSIGHT STAFF BY GENDER At 31 December 2021

The proportion of men and women is almost equal in three professional groups; "Directors and other persons responsible". However, there are major disparities in "Administrative staff and other".



SOURCE: Banco de España.

a Also includes inspectors, degree-level economists, lawyers, inspection auditors and IT auditors.

the performance of supervisory actions and the definition of procedures and other organisational matters.

Chart 1.1 shows the distribution, by professional group, of Banco de España employees who carry out supervisory and oversight functions. 49% of supervisory and oversight staff are men and 51% are women. Chart 1.2 shows the distribution of men and women in each of the professional groups within this area.



2

MICROPRUDENTIAL SUPERVISION

MICROPRUDENTIAL SUPERVISION



SUPERVISION OF SPANISH CREDIT INSTITUTIONS

In the SSM, the ECB directly supervises the 10 groups of Spanish SIs, with the participation of the Banco de España, while the Banco de España directly supervises the 57 less significant Spanish groups or institutions



ONGOING OFF-SITE SUPERVISION

The SREP is a core element of the supervisory activity, as it maintains an up-to-date opinion on the situation and risk profile of credit institutions



ONSITE ACTIONS

36 onsite actions were carried out, of which 6 corresponded to LSIs and the rest to SIs

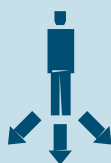
Inspections
22

Model investigations
14



ANTI-MONEY LAUNDERING

3 inspections were completed and another 3 were started



DECISIONS OF THE ECB SUPERVISORY BOARD

528 decisions affecting Spanish credit institutions, the details being as follows:

SIs
282

LSIs
10

General
236



LETTERS AND REQUIREMENTS

108 letters addressed to LSIs and the ICO, containing 373 requirements, recommendations and expectations.
4 letters addressed to institutions other than credit institutions, containing 40 requirements and recommendations

2.1 The Spanish banking sector and supervisory priorities

2.1.1 The Spanish banking sector

At 30 September 2021, the consolidated assets of the credit institutions making up the Spanish banking sector totalled €3,877 billion, of which 89% corresponds to Spanish SIs, 6% to Spanish LSIs and the ICO, and the remaining 5% to subsidiaries and branches in Spain of foreign credit institutions. The banking consolidation process intensified in 2021, with the agreements to integrate Bankia into Caixabank and Liberbank into Unicaja.

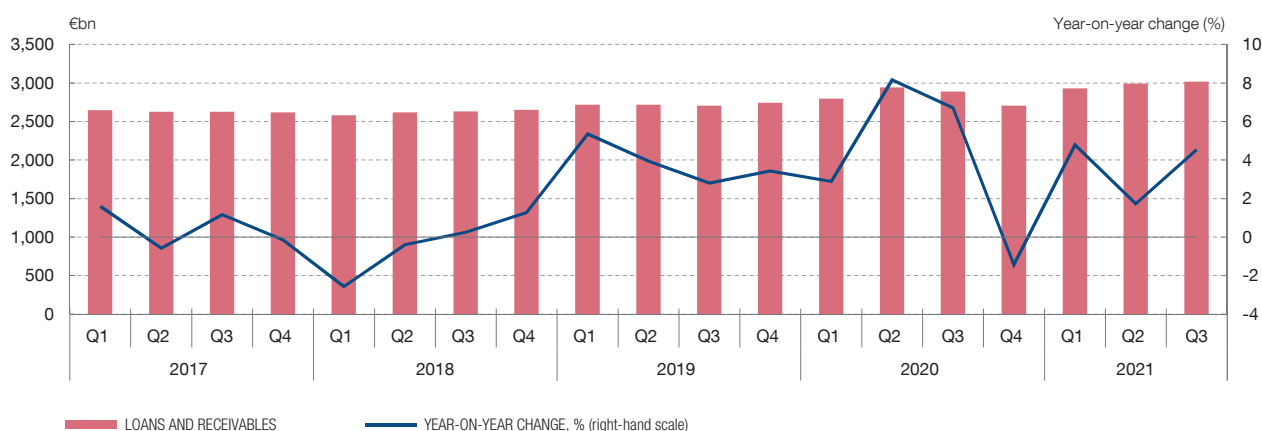
The recovery of the financial situation of Spanish banks in 2021 can be seen in many indicators, which are close to or even better than the levels prior to the outbreak of the health crisis.

The total volume of loans extended by Spanish institutions at consolidated level increased again in 2021 (Chart 2.1). The total loan figure includes loans to central banks, which account for this growth, since loans to non-financial companies and to households scarcely changed (Chart 2.7).

Chart 2.1

LOANS AND CREDIT. DEVELOPMENTS

The volume of loans is growing due to exposures with central banks.



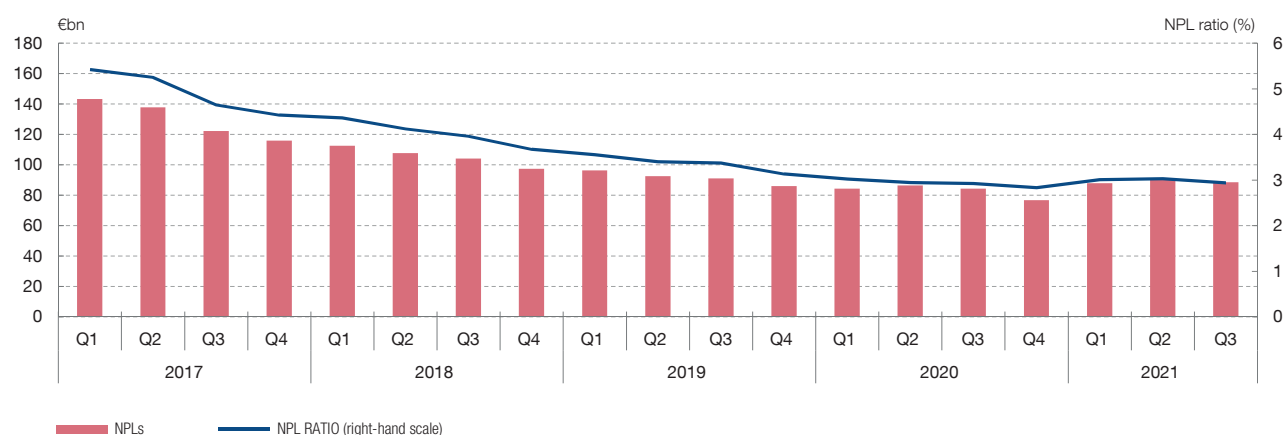
SOURCE: Banco de España (supervisory statistics on credit institutions).

Chart 2.2

NPLs AND NPL RATIO

Slight upturn in NPLs. The ratio appears to have come to a halt, albeit with slight growth excluding central banks.

NON-PERFORMING LOANS AND CREDIT



SOURCE: Banco de España (supervisory statistics on credit institutions).

During the pandemic crisis, the NPL ratio has remained stable at around 3% (Chart 2.2), although it is necessary to remain prudent, given the possibility of further deterioration of these levels in the near future due to deferred materialisation in institutions' balance sheets of part of the impact of the COVID-19 crisis. In any case, the provisions accumulated during the pandemic should mitigate possible loan loss provisions arising from these potential impairments.

Also, profitability recovered significantly in 2021 with respect to the anomalous previous year, when extraordinary write-downs pushed this ratio into negative values (Chart 2.3). However, the challenge remains to adapt the institutions' structure to the low net interest income and growing competitive pressure in the sector.

The efficiency ratio has been quite stable in recent years, including in 2020 (see Chart 2.4). During this period, institutions have managed to offset the progressive decline in net interest income, and the resulting decrease in gross income, by reducing their overhead costs. In 2021, overhead costs rose significantly as a result of the sector's restructuring plans, most notably in the institutions merged in the last year.

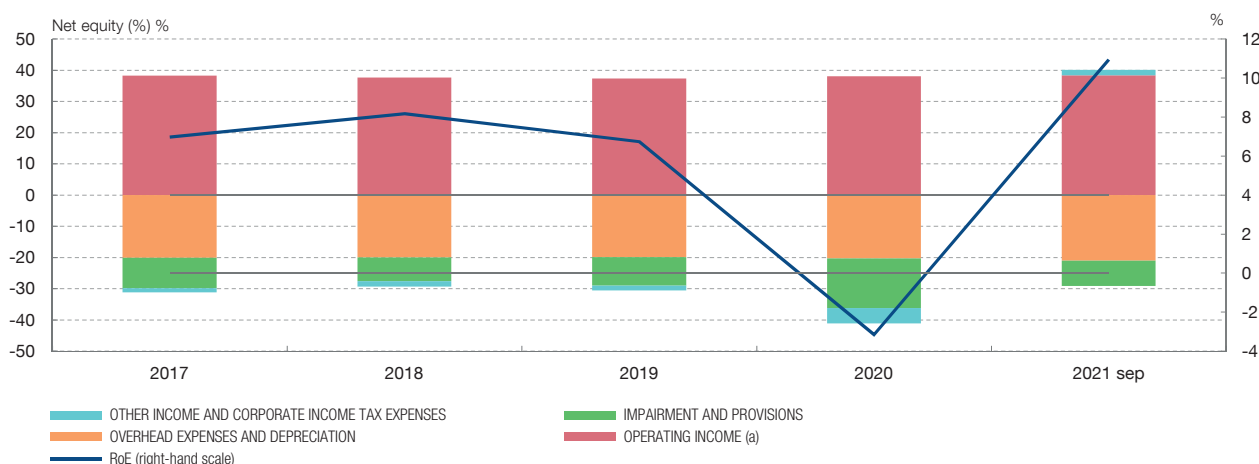
The solvency of Spanish institutions has maintained its upward trend, with a slight improvement since the second quarter of 2021 due to the positive contribution of earnings and lower risk-weighted assets (RWA), partly shaped by corporate operations (see Chart 2.5). The system's average solvency ratios remain, however, below their European peers.

Chart 2.3

RoE BY COMPONENTS. ANNUAL CHANGE

Significant recovery in profitability in 2021, underpinned mainly by the return to pre-pandemic write-downs and to extraordinary income deriving from the mergers of institutions.

RoE - BREAKDOWN BY COMPONENTS



SOURCE: Banco de España (supervisory statistics on credit institutions).

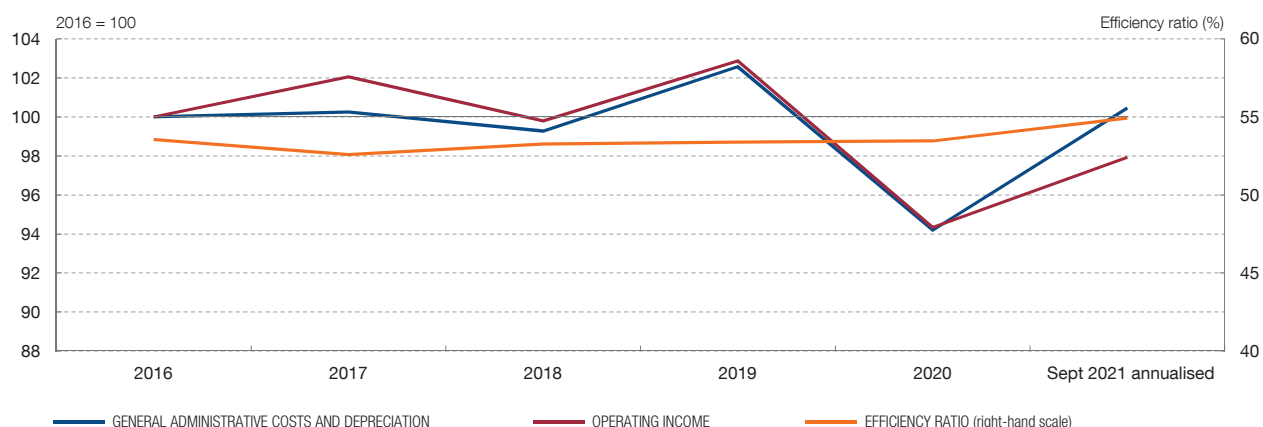
a Operating income is the sum of net interest income, net fee and commission income, net income from financial operations, net exchange differences and other net operating income.

Chart 2.4

ANNUAL EFFICIENCY RATIO

There was an upturn in overhead costs in 2021, causing the efficiency to fall slightly as a result of the sector's restructuring plans, especially at the merged institutions.

EFFICIENCY RATIO AND DEVELOPMENTS IN ITS COMPONENTS



SOURCE: Banco de España (supervisory statistics on credit institutions).

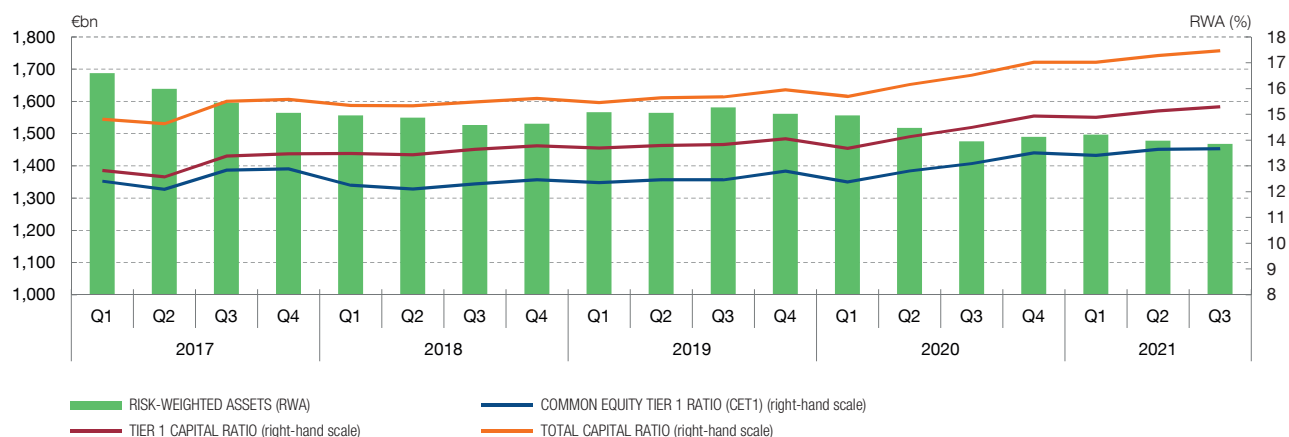
The leverage ratio had a relatively stable performance, with slight downside fluctuations (see Chart 2.6). However, performance since the outbreak of the pandemic in 2020 has been driven by institutions' strong reliance on ECB funding, partially offset, since the third quarter of 2020, by the regulatory changes introduced to mitigate the effects of the pandemic.

Chart 2.5

CAPITAL RATIOS (PHASED-IN)

Slight improvement in solvency in 2021 due to net dividend income and lower RWA, owing in part to the contribution of extraordinary corporate transactions.

CAPITAL RATIOS (TRANSITIONAL DEFINITION)



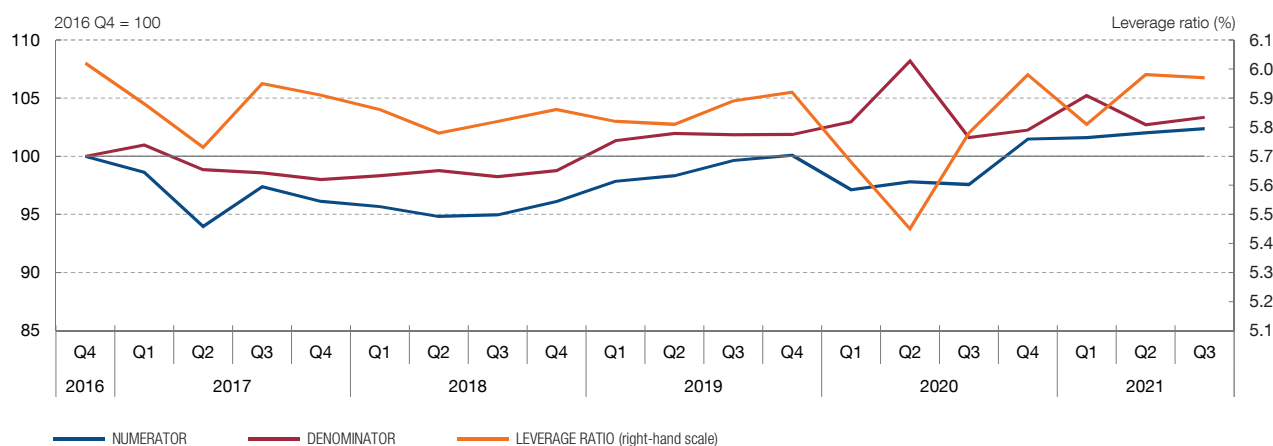
SOURCE: Banco de España (supervisory statistics on credit institutions).

Chart 2.6

LEVERAGE RATIO AND DEVELOPMENTS IN ITS COMPONENTS

Stable leverage ratio. It fell sharply in 2020 owing to the institutions' considerable recourse to the ECB, which was corrected by the introduction of regulatory amendments.

LEVERAGE RATIO AND DEVELOPMENTS IN ITS COMPONENTS



SOURCE: Banco de España (supervisory statistics on credit institutions).

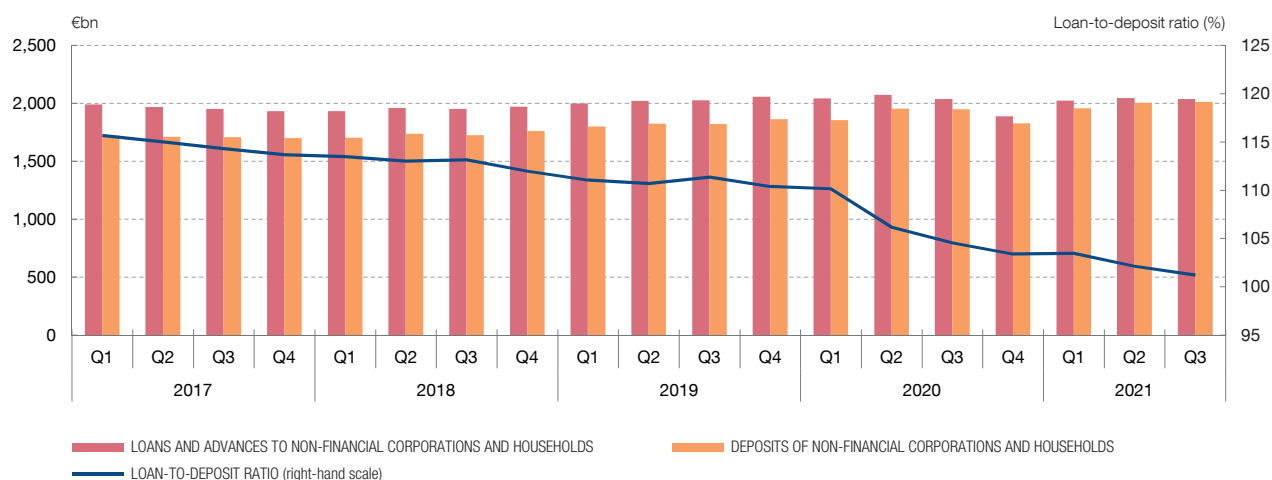
The loan-to-deposit ratio of non-financial corporations and households has been on a steady downward trajectory since 2015, as a result of deposits growing faster than loans. This trend accelerated in 2020 and continued smoothly in 2021 (Chart 2.7).

Chart 2.7

NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS. DEVELOPMENTS IN LOANS AND ADVANCES RELATIVE TO DEPOSITS

The loan-to-deposit (LTD) ratio improved slightly owing to stronger growth in deposits than in loans in the non-financial corporations and households segment.

LOANS AND DEPOSITS, NON-FINANCIAL CORPORATIONS AND HOUSEHOLDS



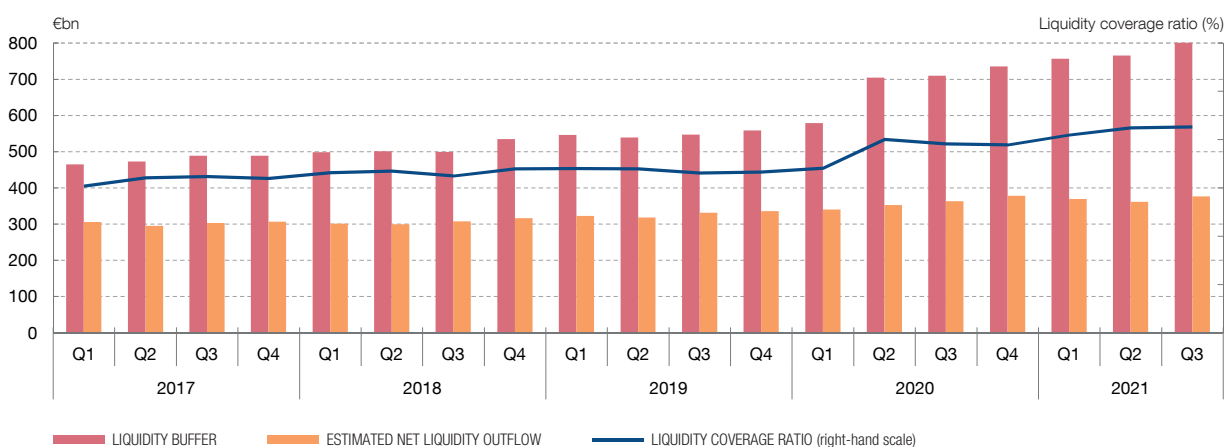
SOURCE: Banco de España (supervisory statistics on credit institutions).

Chart 2.8

LIQUIDITY COVERAGE RATIO

The institutions' liquidity increased owing to the ECB measures in view of the pandemic and to growth in customer deposits.

LIQUIDITY COVERAGE RATIO AND COMPONENTS



SOURCE: Banco de España (supervisory statistics on credit institutions).

The upward trend in Spanish institutions' liquidity coverage ratio since the outbreak of COVID-19 is mainly due to the monetary policy measures adopted by the ECB in view of the pandemic. The most substantial increases in the ratio are associated with the funding windows of the TLTRO-III (Targeted Longer-Term

Refinancing Operations-III) opened in the second quarter of 2020 and the first quarter of 2021. Another element contributing to the increase in the liquidity buffer is the growth in customer deposits, which has outpaced growth in lending since the outbreak of the pandemic (Chart 2.8).

2.1.2 Supervisory focal points in 2021

The ECB, in cooperation with the NCAs, conducts an annual analysis of the sources of risk and vulnerabilities in the banking sector, which form the basis for setting the supervisory priorities for the SSM as a whole. On the basis of the risk and vulnerability analysis¹, the focal points were grouped into four areas:

- 1 Credit risk management. The objective in this area was the early identification of asset impairment and its appropriate management. Banking supervision was focused on reviewing institutions' credit risk management procedures. The monitoring of this risk has been the focus of the main supervisory efforts this year (see Box 2.1 for more details).
- 2 Soundness of institutions' capital position. Given the uncertainty generated by the pandemic and the resulting increase in credit risk, it was considered essential to ensure that institutions had a sufficiently sound capital position and to identify specific vulnerabilities on a bank-by-bank basis in order to adopt early corrective measures where necessary. To this end, work was focused on the adequate monitoring of institutions' capital plans and their dividend policies. In addition, in 2021 stress tests were conducted at the European Union (EU) level, coordinated by the European Banking Authority (EBA).
- 3 Business model sustainability. The low levels of profitability that institutions have been showing in recent years in an environment of low interest rates, low cost efficiency and high competition have been further hampered by the COVID-19 crisis. Thus, supervisory efforts have been focused on reviewing institutions' strategic plans and the measures they have taken to remedy the situation. In addition, given the key role of the development of digitalisation plans, an assessment was carried out on the progress of institutions' digital transformation and its impact on their business models.

Also worthy of note in view of the challenge posed by the digitalisation of the financial sector is the work carried out in the year by the Banco de

¹ For further details, see Banco de España (2021), "[Supervisory priorities in 2021](#)", Section 2.1.2, 2020 Supervision Report.

CREDIT RISK: A SUPERVISORY PRIORITY

Both the Single Supervisory Mechanism (SSM) and the European Banking Authority decided to include credit risk management as the top supervisory priority area for 2021, in view of the possible further deterioration in loan quality resulting from the COVID-19 crisis and the consequent worsening of the macroeconomic environment.

In November 2020, the SSM designed a coordinated strategy geared towards ensuring that institutions have sound management practices in place to identify, measure and mitigate the impact of credit risk, as well as the operational capacity needed to manage the expected increase in non-performing loans.

In particular, the supervisory focus has been on the early detection of asset impairment and an adequate provisioning policy, paying special attention to the economic sectors most vulnerable to the impact of the pandemic, without forgetting the measures already in place to reduce and remove existing NPLs from banks' balance sheets.

To this end, various analysis tasks have been carried out. Letters were sent to significant institutions (SIs) to obtain precise information on their operational capabilities to manage debtors in difficulty and their credit risk identification and measurement practices. With regard to vulnerable sectors, reviews were focused on the hospitality and food service sectors and commercial real estate.

In the framework of the Supervisory Review and Evaluation Process (SREP), the assessment of credit risk has been given priority over other risks, and the corresponding methodological adjustments have been made to better capture the effects of the pandemic.

Lastly, 2021 was the first year in which the SREP has included a demand for higher capital due to the shortfall in relation to supervisory expectations of additional coverage of older non-performing exposures (for more details, see the European Central Bank's "Communication on supervisory coverage expectations for NPEs" of 22 August 2019).

Despite initial fears of an increase in credit risk in the system with the pandemic crisis, the NPL ratio of SIs under SSM supervision continued to fall in 2021, to an average of 2.32% in June 2021, as compared to 2.94% in June 2020. In the case of Spain, the ratio rose slightly to 3.13%¹ in June 2021 (it was 3.02% in June 2020).

Looking forward, credit risk is also among the strategic objectives and priorities set by the SSM for 2022-2024, in which work will again focus on analysing shortcomings in management frameworks, exposures to sectors vulnerable to the pandemic (including commercial real estate) and, as a new development, exposures to leveraged finance and counterparty credit risk.²

¹ Data obtained from *Supervisory Banking Statistics-Second quarter 2021* for the 11 Spanish SIs.

² Access the website from this link (<https://www.bankingsupervision.europa.eu/banking/priorities>).

España and other supervisory authorities in the implementation of the so-called Sandbox (for more details, see Box 2.10 at the end of this chapter).

- 4 Governance. Supervision in this area was focused mainly on monitoring institutions' crisis management procedures and their ability to adapt and to implement these procedures adequately in this situation. Also, the risk management systems' capacity to provide relevant information and data was analysed. In addition, analysis continued on the prudential impact of money laundering and terrorist financing (ML/TF) risk and its relationship with institutions' internal control framework. Lastly, an assessment of

TIBER-ES: A FRAMEWORK FOR STRENGTHENING FINANCIAL SECTOR CYBERSECURITY

In a context in which the provision of financial services is fundamentally digital, it is crucial that financial institutions have an adequate level of cybersecurity. In recent years, as the digitalisation of the sector has progressed, cyber attacks have intensified significantly in terms of volume and sophistication. It should not be forgotten that the financial sector is particularly attractive to various types of attackers, from those seeking illicit economic gain to those seeking to destabilise society.

Therefore, institutions need to be constantly prepared to deal with cyber threats. This means improving not only their protection and detection capabilities, but also the capabilities that enable them to respond effectively to a cyber incident. It should be noted that while technical measures are essential, it is no less important to protect the human factor, which is often successfully exploited by cyber attackers. To this end, institutions must provide training and raise awareness among all their employees on the subject of cybersecurity, including senior management. Lastly, institutions need to establish organisational processes that allow for an agile and coordinated response and ensure the necessary communication.

As part of its commitment to improving the financial sector's cybersecurity, the Banco de España has

adopted the advanced cybersecurity testing framework, TIBER-ES. This framework constitutes the local adoption of TIBER-EU, published by the European Central Bank, and will allow any financial institution or financial market infrastructure operating in Spain to voluntarily undergo a TIBER-ES test. The National Securities Market Commission and the Directorate General of Insurance and Pension Funds are collaborating in the adoption, and the role of the three authorities is to validate that the tests are carried out in line with the framework's requirements.

Testing under the TIBER-ES framework enables financial institutions to enhance their cybersecurity capabilities. These tests, which are conducted by an external provider without the institution's defensive teams being informed, simulate a sophisticated cyber attack on production systems. The objective is for the institution to detect possible weaknesses in the three above-mentioned factors: technical, human and organisational, which could be exploited by a real attacker. While the sophistication of these tests makes them recommendable only for institutions with the highest level of cybersecurity maturity, TIBER-ES aims to be a catalyst to encourage all institutions to improve their capabilities, until they become candidates to undergo this type of test.

technological and cyber risk was carried out (Box 2.2), with a particular focus on risks arising from the outsourcing of services.

Following a similar process, the Banco de España identified the key risks affecting Spanish LSIs and, for these institutions, it focused its work in 2021 on the following issues: i) credit risk management and, in particular, the analysis of the impact of the COVID-19 crisis; ii) the sustainability of business models in an environment of low interest rates, high levels of public debt and high efficiency ratios; iii) as regards governance, the assessment and monitoring of the composition and functioning of management bodies and other committees; iv) the analysis of institutions' capital position and their dividend payment policy; and v) technology risk, cybersecurity and operational resilience.

Lastly, it should be noted that the Banco de España and the CNMV, together with the ECB, continued to work in 2021 to encourage institutions to undergo an orderly transition to new benchmark rates following the elimination of EONIA (Euro Overnight Index Average) and LIBOR (London Interbank Offered Rates). For more details, see Box 2.3.

ELIMINATION OF THE LIBOR/EONIA INTEREST RATE BENCHMARKS

Since the beginning of the year, two of the most globally significant interest rate benchmarks have ceased to be published. These are the EONIA (Euro Overnight Index Average) and the LIBOR (London Interbank Offered Rates) for various currencies (euro, Japanese yen, pound sterling and Swiss franc). The US dollar LIBOR (USD LIBOR) was eliminated for some maturities, while others will continue to be published until 30 June 2023.¹

Interest rate benchmarks reflect the cost of interbank funding and, therefore, they are used in a wide variety of financial contracts and transactions and they are a key component in the functioning of the economy and the financial system. They are used for multiple purposes, such as the pricing and valuation of financial instruments, and institutions' risk management.

The interest rate benchmark reform was promoted by the G20 and the Financial Stability Board, and it was triggered by manipulation attempts and the decline in liquidity in money markets following the 2008 financial crisis.

The new European benchmark regulation (Regulation (EU) 2016/2011 —BMR—), in force since 1 January 2018, establishes the EONIA and Euribor as critical indices. Both have been reformed, albeit with different approaches. In the case of EONIA, it has been replaced by the Euro Short Term Rate² (€STR). The €STR and the recalibrated EONIA (€STR + 8.5 bp) coexisted until 3 January 2022, when the publication of the EONIA ceased. In the case of the Euribor, the methodology has only been improved to adapt it to the BMR, so it will continue to be published.

In addition, in order to ensure legal certainty in contracts, Regulation (EU) 2021/168, which amends the BMR, has introduced a mechanism allowing the European Commission to designate a statutory replacement rate applicable to contracts and financial instruments that do not contain a replacement benchmark and are subject to the law of a European Union Member State.

With regard to banks, the European Central Bank and, in Spain, the National Securities Market Commission and the Banco de España, have been issuing recommendations for banks to carry out an orderly transition, which includes the review of existing contracts, the formalisation of new contracts with the new benchmarks and the consideration of operational, systems, accounting and risk assessment matters and informing customers. In addition, in the second half of 2019, the Single Supervisory Mechanism (SSM) conducted a horizontal analysis of the eurozone banks' degree of preparation to identify good practices³ and intensify the monitoring of the banks lagging furthest behind. In the last quarter of 2021 it conducted a new survey of the institutions with most exposure to USD LIBOR in the SSM. The Banco de España Institutions' Conduct Department performed a supervisory action on multi-currency mortgage contracts indexed to LIBOR.

In Spain, the main benchmark is the Euribor, which is not being eliminated; however, there are still significant challenges relating to the renegotiation of contracts in other benchmarks maturing after 31 December 2021, and potential legal and conduct risks in the renegotiation of retail contracts.

1 The 1-week and 2-month USD LIBOR is eliminated. The overnight USD LIBOR and the 1-month, 3-month, 6-month and 12-month USD LIBOR will continue to be published.

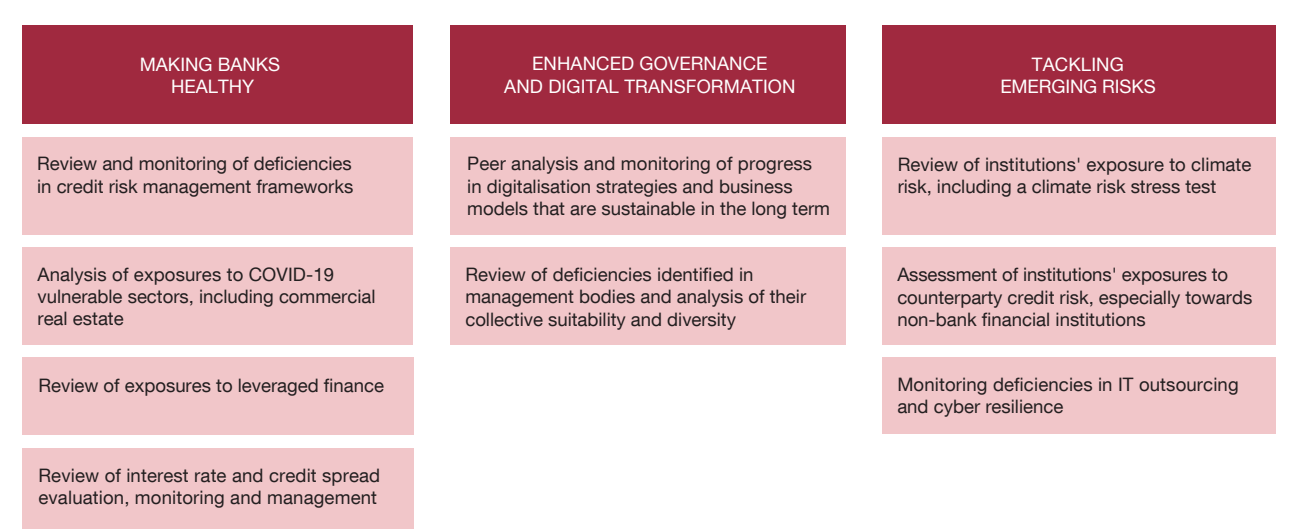
2 The €STR reflects overnight unsecured deposit transactions and it was first published on 2 October 2019 by the ECB, the benchmark administrator.

3 <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.reportpreparationsbenchmarkratereforms202007~bd86332836.en.pdf>.

2.1.3 Supervisory priorities in 2022

Based on an analysis of vulnerabilities in the banking sector and the identification of risks affecting banks, the SSM's supervisory priorities are set for the following time horizon (Figure 2.1). The intensity of the supervisory priorities should be adapted to the situation of each institution.

Figure 2.1
SSM SUPERVISORY PRIORITIES 2022



SOURCE: European Central Bank.

The defined priorities are set against the backdrop of an economic environment of recovery from the pandemic, although several uncertainties remain. While the euro area gross domestic product (GDP) would have reached pre-pandemic levels by the end of 2021, various uncertainties remain. On the one hand, this recovery is heterogeneous across countries, sectors and population groups. On the other hand, there is still uncertainty as to the evolution of the pandemic and various geopolitical risks remain, such as the risk relating to Russia’s invasion of Ukraine. Moreover, the impact of the health crisis on credit quality could materialise to a greater extent once support measures are definitely withdrawn. Lastly, rising public and private debt levels and high market valuations increase vulnerability to potential abrupt shifts in interest rates and financial market corrections.

In this context, the first area of priority is geared towards tackling the impacts of the pandemic and promoting the banking sector’s resilience in the context of exiting the crisis, paying particular attention to the possible deterioration of asset quality once public support measures are withdrawn and the moratoria and grace periods granted expire (Box 2.4), and to possible corrections in market valuations.

The second priority area is aimed at addressing institutions’ structural vulnerabilities through digital transformation and improved governance. Institutions have accelerated their digitalisation plans to cope with the pandemic, serve their customers and handle growing competition from FinTechs and BigTechs. In a context of overcapacity and weak profitability, these initiatives may be an opportunity to increase efficiency and generate new income. In addition, work will

DEVELOPMENTS IN EASING AND STABILISATION MEASURES

In order to tackle and mitigate the economic and social impact of COVID-19, in 2020 most European countries introduced support programmes, such as moratoriums and public guarantees. Also, in the area of supervision, the authorities adopted measures focused on easing capital and liquidity requirements and lightening certain operational burdens imposed by supervision.

In 2021, the granting of moratoriums and of financing to companies with Official Credit Institute (ICO) guarantees was much lower than in 2020, since the latest deadline for granting moratoriums under the European Banking Authority's guidelines was March 2021, and the ICO guarantee programme, while remaining active throughout 2021, had already been largely used up in 2020.

On 30 September 2021, loans that had benefited from moratoria¹ in Spain amounted to EUR 44.1 billion (i.e., 4.3% of total company, household and self-employed portfolios), 89% of the moratoria had expired and their NPL ratio at that date was 10.6%.

In relation to the State guarantees granted in Spain, by September 2021 94% of the initial programme had been completed, representing a liquidity injection of EUR 131.6 billion (69.8% drawn down), of which 73% has been granted to the self-employed and SMEs and the remaining 27% to large companies. Of the total risk, the portion guaranteed by the ICO amounts to EUR 100.2 billion (76.1%). In terms of their accounting classification, ICO exposures continued to have low NPL ratios (2.7% in September 2021), although a significant portion were

Stage 2 exposures (21.1% in September 2021) and they were beginning to show signs of impairment.

In September 2021, 39% of these transactions still benefited from grace periods, most of which expire in mid-2022. Following the extensions of Royal Decree-Law 34/2020, the maturities, which were previously concentrated in mid-2025, have been distributed between 2025, 2026 and 2028, diluting any potential cliff effect.

As regards the easing of prudential requirements, it should be noted that, taking into account the economic and financial performance to date and the gradual return to normality in most banks, no further deferrals are foreseen for the easing measures and decisions implemented in 2020 in response to the pandemic crisis.

The supervisor expects institutions to comply with the overall minimum level of the 100% liquidity coverage ratio from 1 January 2022. However, it will continue to allow banks to operate below Pillar 2 guidance and the combined buffer requirement until at least the end of 2022, without this automatically triggering supervisory action. In June 2021 the supervisor extended until the end of March 2022 the exclusion of certain exposures to central banks from the leverage ratio; however, in February 2022 the European Central Bank announced that it no longer considered it necessary to extend the exclusion beyond 31 March 2022.

As regards institutions' profit distribution policy, in July 2021 the ECB and the Banco de España decided against extending their recommendations aimed at limiting dividend distributions and share buybacks.

¹ Moratorium data relating to significant institutions in Spain, since Common Reporting on moratoria is only reported by these institutions.

continue on improving management bodies' capacities to resolve internal control and data management problems.

Lastly, the third priority area relates to emerging risks. These include climate and environmental risk, counterparty risk, especially vis-à-vis non-bank financial institutions, and IT-related risk.

In addition, the Banco de España identified the risks particularly affecting Spanish LSIs. On this basis, the following six priority areas were established:

- i) credit risk management, especially considering the possible increase in non-performing loans as a result of the health crisis;
- ii) business models and sustainability, in an environment of ever-narrowing margins;
- iii) governance, with the focus on monitoring the measures adopted by cooperatives following the horizontal review carried out;
- iv) capital strength, especially in institutions with high capital concentration or have scant surplus capital over the regulatory requirements;
- (v) technological innovation, with the focus on outsourced core functions; and
- (vi) risks arising from climate change and environmental deterioration.

2.2 Supervision of credit institutions

The ECB assumes direct supervision of SIs and performs indirect supervision of LSIs, in accordance with the division of tasks set out in Figure 2.2. Direct supervision of LSIs incorporated in Spain is the responsibility of the Banco de España.

At the end of 2021 there were 115 significant groups in the SSM, of which, as shown in Table 2.1, 10 were Spanish, accounting for 90.2% of the total banking assets of the Spanish banking system. This table shows that there were 57 LSIs incorporated in Spain, the asset weighting of which was 5.7% of the total Spanish banking system. In addition, Table 2.2 classifies the credit institutions operating in Spain by institution type and details the registrations and deregistrations in the year.

The supervision of both SIs and LSIs is carried out through two complementary channels: ongoing off-site supervision and on-site supervision. The objective of ongoing off-site supervision is to maintain an up-to-date assessment of the institutions' situation and risk profile, and to establish, on this basis and on the basis of their relative importance, the supervisory actions to be carried out and their depth.

In turn, on-site supervision includes inspections and internal model investigations. The inspections allow the verification of any of the elements affecting the institutions by analysing them in greater depth. Internal model investigations relate to the review and, where appropriate, authorisation of the models for calculating the capital requirements necessary to cover credit, counterparty, market and operational risks.

Figure 2.2

DISTRIBUTION OF SUPERVISORY POWERS

	Tasks assigned to the ECB within the SSM	Tasks assigned to the NCAs within the SSM
Supervision of SIs	Direct supervision of SIs	Assistance to the ECB for SIs supervision: participation in JSTs and in on-site inspections
Supervision of LSIs	Indirect supervision of LSIs	Direct supervision of LSIs
Common procedures	The common procedures are the responsibility of the ECB, with proposal by the NCAs: granting and withdrawal of authorisations to/from credit institutions and of authorisations to purchase/sell qualifying holdings in credit institutions	Preparation of proposals for SIs and LSIs
Sanctions	<p>SIs: sanctioning powers in the event of non-compliance with directly applicable EU law, except non-pecuniary penalties and penalties on individuals</p> <p>LSIs: sanctioning powers in the event of non-compliance with an ECB decision or regulation</p>	<p>SIs: sanctioning powers, upon prior examination by the ECB, for non-compliance with national laws transposed from EU directives; for infringements by directors and managers; and for non-pecuniary penalties</p> <p>LSIs: sanctioning powers for other instances of non-compliance, in some cases after prior examination by the ECB</p>
Macroprudential measures	Possibility of tightening certain macroprudential policy measures set by the national authorities, if deemed justified	Initiative to implement macroprudential policy measures in close cooperation with the ECB (and any other European bodies)
Tasks outside the SSM's scope: the Banco de España's powers		
Conduct and transparency	Supervision and sanctioning in the areas of market conduct, transparency and consumer protection of Spanish CIs and institutions other than CIs	
Supervision of other institutions	Supervisory and sanctioning functions regarding the Official Credit Institute and institutions other than CIs: SLIs, PIs, ELMIs, currency-exchange bureaux, mutual guarantee societies, reguarantee companies, appraisal companies, banking foundations, Sareb and branches of third-country institutions	
Money laundering	Cooperation with CPMLMO and SEPBLAC in AML/CTF	
Provision of payment services	Supervision of the provision of payment services	

SOURCE: Banco de España.

The Banco de España contributes significantly to the supervision of Spanish SIs, with a presence in the Joint Supervisory Teams (JSTs) and in inspections and model investigations.

The Banco de España also participates in decision-making affecting credit institutions through its representatives on the ECB Governing Council and on

Table 2.1

SPANISH CREDIT INSTITUTIONS

Data at 31 December

	2020		2021	
	Groups	Assets (%)	Groups	Assets (%)
Significant institutions				
Spanish groups of credit institutions	12	90.7	10	90.2
EU subsidiaries and branches (a)	27	3.8	26	3.6
Less significant institutions				
Spanish credit institutions (b)	59	5.1	57	5.7
Branches of institutions from non-SSM EU countries	2	0.0	0	0.0
Branches of institutions from SSM EU countries (a)	33	0.3	40	0.3
Non-EU branches	3	0.2	4	0.2
TOTAL	136		137	

SOURCES: European Central Bank and Banco de España.

NOTE: The figures for the institutions' assets have been obtained after the data cut-off date.

- a** Two or more branches/subsidiaries are deemed to belong to the same group when they are part of a higher consolidated group, even if the latter is not Spanish.
- b** Including subsidiaries from EU and non-EU countries.

Table 2.2

REGISTER OF CREDIT INSTITUTIONS

Data at 31 December

	2016	2017	2018	2019	2020	2021		
						Registrations	Deregistrations	Year-end
Credit institutions	208	207	198	197	193	10	8	195
Banks	60	59	52	52	51	1	4	48
Savings banks	2	2	2	2	2			2
Credit cooperatives	63	63	62	61	61			61
ICO	1	1	1	1	1			1
Branches of EU credit institutions	77	78	78	78	75	8	4	79
Branches of non-EU credit institutions	5	4	3	3	3	1		4
Controlling companies	4	3	5	6	5		5	0
TOTAL	212	210	203	203	198	10	13	195

SOURCE: Banco de España.

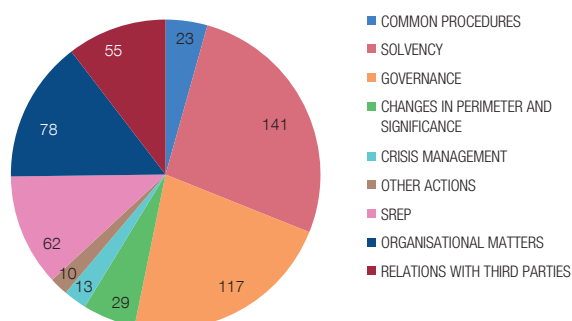
the SB. In 2021, the SB has taken a total of 2,362 decisions, of which 528 affected Spanish institutions, as shown in Chart 2.9. Of the 528 decisions, 282 were addressed directly to Spanish SIs, 10 to Spanish LSIs and 236 were more general decisions, which also affect Spanish entities. These decisions are regularly reported to the Executive Commission of the Banco de España.

Chart 2.9

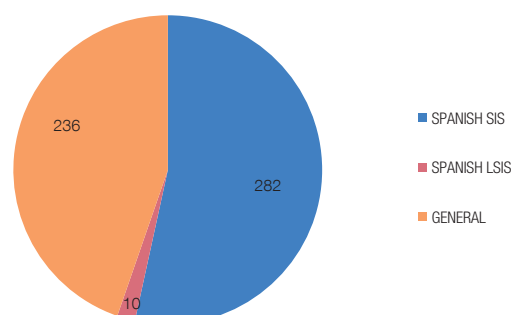
DISTRIBUTION OF THE ECB DECISIONS AND ACTIONS IN 2021 NOTIFIED TO THE EXECUTIVE COMMISSION

In 2021, there was a significant increase in SREP decisions with respect to the previous year, in which a simplified approach was adopted. There was also an increase in decisions linked to relations with third parties and to organisational issues. Lastly, the number of actions in the crisis management area fell, since this area includes the actions relating to the management of COVID-19.

1 BY CATEGORY



2 BY TYPE OF INSTITUTION



SOURCE: Banco de España.

2.2.1 Ongoing supervision of significant institutions

The JSTs are tasked with the ongoing supervision of SIs. The JSTs of Spanish SIs comprise ECB and Banco de España staff and, where appropriate, staff from other NCAs of SSM countries where the institutions operate. Each JST performs its tasks under the coordination of an ECB representative who, in turn, is assisted by a coordinator from the Banco de España.

The Bank participates in the JSTs for the 10 groups of Spanish credit institutions classified as significant pursuant to the SSM's² criteria, and likewise in some of the JSTs for 25 significant banking groups from SSM countries that have a presence in Spain (operating through 4 subsidiaries and 40 branches established in Spain). At the end of 2021, the Banco de España contributed a total of 131 employees to the JSTs of Spanish banks.

As detailed below, prominent among the ongoing off-site supervisory tasks are those related to the Supervisory Review and Evaluation Process (SREP) – the most demanding in terms of effort and time. In addition, the JSTs conduct institution-specific in-depth reviews (deep dives) to analyse the areas that may be of greater supervisory concern or to obtain more in-depth knowledge of specific aspects and verify the functioning of certain policies or procedures.

² Following the two mergers announced in 2020 and completed in 2021 (CaixaBank-Bankia and Unicaja-Liberbank), the number of groups of significant Spanish credit institutions fell from 12 to 10.

A significant portion of resources are also consumed by cross-institutional reviews, which are conducted uniformly for all or several SSM institutions in areas that represent a priority from a supervisory point of view. Also worthy of note in 2021 are the following horizontal reviews, some of which were initiated the previous year:

- Monitoring of NPL coverage and of compliance with the Addendum to the ECB Guidance to banks on non-performing loans.
- In December 2020, Dear CEO letters were sent on the identification and measurement of credit risk in the context of the COVID-19 pandemic, reporting on supervisory expectations for credit risk management and provisioning. Weaknesses identified in the review of institutions' responses have been taken into account in the SREP and institutions have been requested to correct them.
- Analysis of sectors vulnerable to the COVID-19 crisis. A cross-cutting review of the institutions most exposed to the hospitality sector was launched at the beginning of the year and, subsequently, a review was commenced on the commercial real estate sector.
- Analysis of the degree of alignment of institutions' practices with the ECB's *Guide on climate-related and environmental risks* and review of the self-assessment exercise carried out by the institutions (Box 2.5).
- Review of the executive role of the heads of supervised institutions and of existing counterbalancing measures, where appropriate.
- Review of recovery plans, including most notably the assessment of overall recovery capacity, which provides an overview of the extent to which the institution could restore its financial situation after a significant deterioration therein.

Another significant area of activity is the collaboration of JSTs in on-site actions, described in detail in section 2.2.3. The JSTs are involved in the preparation and definition of the objectives of each action, and in the monitoring of shortcomings identified and of implementation of measures to remedy them. It is also common practice for some JST members to form part of the inspection teams, in order to share information and knowledge on the institution.

In addition, there are other tasks, such as: i) processing authorisations; ii) coordination with other supervisors, mainly through supervisory colleges; and (iii) participation in stress tests conducted by the ECB and the EBA.

With regard to the above-mentioned SREP, it is worth recalling that last year the ECB decided, in view of the COVID-19 crisis, to follow a simplified,

SUPERVISION OF CLIMATE AND ENVIRONMENTAL RISKS

Credit institutions face a number of emerging and evolving risks that may materialise in both the short and long term, such as the risks arising from climate change and environmental degradation. Tackling these risks will undoubtedly be one of the main challenges for institutions and supervisors in the coming years.

Therefore, it is essential that institutions assess this situation and have in place adequate mechanisms and procedures to react to these risks, and that the banking supervisor designs and calibrates its supervisory response appropriately.

To this end, both significant institutions (SIs), under the direct supervision of the European Central Bank (ECB), and less significant institutions (LSIs), under the supervision of the Banco de España, have been asked to carry out a self-assessment exercise regarding the degree to which their banking practices match the supervisory expectations on the management of climate risks and risks deriving from environmental deterioration, published in the last quarter of 2020.¹ In the case of SIs, this exercise was supplemented with the submission of implementation plans aimed at improving this alignment.

The aggregate results of the recent assessment carried out by the ECB in collaboration with some national competent authorities (including the Banco de España) have been published in a report in November 2021, which highlights the following messages:

- institutions have made some progress in adapting their banking practices, but most of them are aware that they are in the early stages of development;
- those institutions that have carried out a comprehensive assessment of climate and environmental risks foresee a material impact on their risk profile in the next three to five years, and they identify credit, operational and business model risks as being the most sensitive;
- although institutions have started to take the first steps, especially in relation to transition risks, they still have a lot of work to do in terms of managing risks deriving from climate change.

In addition, under its mandate to assess the possible inclusion of environmental, social and governance (ESG) risks in the supervisory review and evaluation, the European Banking Authority published in June 2020 a report² on how climate and environmental risks should be incorporated into the regulatory and supervisory framework for credit institutions and investment firms.

Finally, the ECB will pursue two main initiatives next year in the area of climate risk supervision: a climate stress test and a thematic review of the assessment of institutions' progress in coming into line with supervisory expectations.

¹ See the “ECB Guide on climate-related and environmental risks”, published in November 2020, and the “Guide to supervisory expectations relating to the risks posed by climate change and environmental degradation”, published by the Banco de España in October 2020.

² See “EBA report on ESG risks management and supervisión”, published in June 2021.

pragmatic and flexible approach. In 2021 the return to relative normality allowed the JSTs to apply the full SREP methodology, as set out in the EBA guidelines (EBA/GL/2014/13) and in the SSM supervisory manuals.

The SREP findings provide a snapshot of where each bank stands with respect to capital and liquidity requirements, and they also make it possible to perform a suitability assessment of their governance and their risk controls. Naturally, this analysis helps determine the appropriate degree of supervisory intensity for each institution as part of the next supervisory review programme, but more importantly, it is through this annual process that the capital requirements (P2R) and

guidance (P2G) are set for the following year. In addition, qualitative requirements are established in line with the situation of each institution.

The so-called “P2R” is a specific Pillar 2 capital requirement that covers the risks which are underestimated or not covered by the minimum capital requirement (Pillar 1). P2R is binding, i.e. any breaches can have legal consequences, e.g. in terms of restricting dividend payments and the payment of interest on certain issues that are eligible for inclusion in capital. The ECB publishes specific P2Rs for each institution under its supervision, so this information has been made public³.

With regard to the methodology followed in the SREP for determining P2R, the ECB introduced several amendments in 2021 to reflect changes made in the Capital Requirements Directive V (CRD-V)⁴ and in EBA guidelines. Greater emphasis has been placed, inter alia, on each institution’s internal capital adequacy assessment process (ICAAP) and on peer comparisons. The coverage shortfalls in non-performing exposures, determined in line with supervisory expectations, were also included in the P2R calculation and, with the aim of improving transparency towards banks, a SREP summary letter was sent for the first time, reviewing the main requirements and areas of supervisory attention identified in the SREP.

The P2G is a bank-specific recommendation that reflects the level of capital that the ECB expects banks to maintain. P2G acts as an additional buffer to ensure that banks withstand a stressed period, but it is not legally binding.

In 2021 the SSM introduced a new approach for determining bank-specific P2G levels, which is based on their periodic stress test results. It is a two-step methodology: i) In the first step, banks are placed in one of four buckets according to the depletion of their capital ratios in the stress test. Each bucket has a corresponding range of P2G, which overlaps with neighbouring buckets. ii) In a second step, supervisors set the final P2G within the range of the bucket, taking into account banks’ individual situations, such as their risk profiles and the year in which their capital reached its lowest point during the stress test⁵.

The stress tests that were originally scheduled for 2020, but which had to be postponed due to the COVID-19 crisis, were carried out in 2021. The EBA exercise includes stress tests on 50 EU credit institutions, 38 of which are supervised by the SSM (Box 2.6). Also, in parallel, and following criteria consistent with those

3 See the website <https://www.bankingsupervision.europa.eu/banking/srep/html/p2r.en.html>.

4 Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers, and capital conservation measures.

5 For more details, see the website <https://www.bankingsupervision.europa.eu/banking/srep/html/p2g.es.html>.

2021 EUROPEAN STRESS TEST

Due to the pandemic, the European Banking Authority's stress test scheduled for 2020 was postponed to 2021. 50 groups of European credit institutions, representing approximately 70% of the European Union banking sector assets, participated in this test. In the case of Spain, four institutions took part: Santander, BBVA, Sabadell and Bankinter. Caixabank did not take part since it was in the process of merging with Bankia.

These tests are intended to assess the banks' resilience to two macroeconomic scenarios — a baseline and an adverse scenario— and they represent a transparency exercise seeking to strengthen market discipline. Compared with previous years, the design of this year's adverse scenario has put further stress on bank balance sheets, following the significant fall in GDP in 2020.

Charts 1 and 2 show the stress test results in terms of phase-in and fully-loaded Common Equity Tier 1 (CET-1).

These results reflect Spanish banks' resilience to the adverse scenario, with satisfactory capital levels despite their higher severity. Spanish banks' fully-loaded CET-1 ratio fell by an average of 290 b.p., less than that of the European banks participating in the stress test taken as a whole (485 b.p.). This is due, among other factors, to the improvement that has been taking place in their balance sheet repair.

As in previous years, no minimum capital thresholds were set. However, the outcome of the adverse scenario served as the basis for determining Pillar 2 Guidance, and the supervisory review and evaluation process also took into account certain qualitative aspects of the conduct of this exercise.

Chart 1
TRANSITIONAL CET1 RATIO ADVERSE SCENARIO

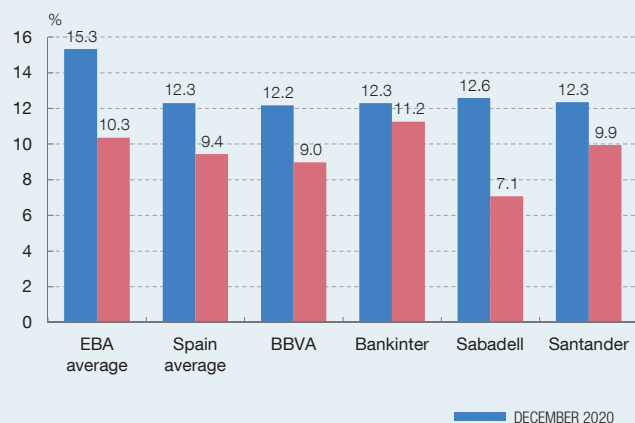
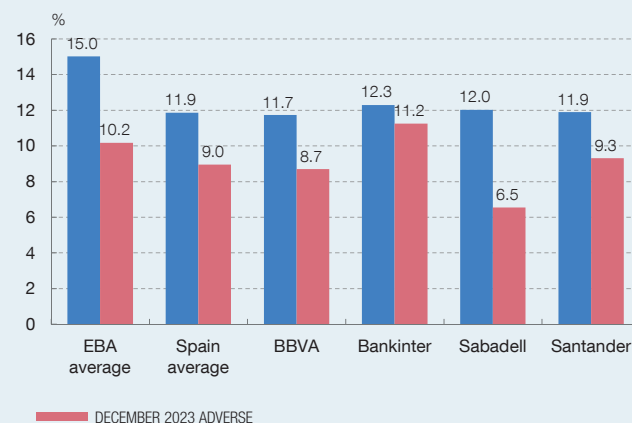


Chart 2
FULLY-LOADED CET1 RATIO ADVERSE SCENARIO



applied in the EBA exercise, the ECB conducted stress tests on a further 51 medium-sized euro-area SIs.

As could be expected, the scenarios applied in the stress tests took into account the effect of the pandemic; thus, the adverse scenario assumes that a prolonged impact of COVID-19 would extend the low interest rate environment.

The results for the adverse scenario show a reduction in the Common Equity Tier 1 (CET1) ratio for the 89 SSM supervised credit institutions included in the

stress tests by -5.2 pp to 9.9% in 2023⁶ and, therefore, it can be concluded that the eurozone banking system shows considerable resilience to such a negative scenario at the aggregate level.

The main capital depletion in the adverse scenario arises from the projected credit losses and the lower net interest and fee income, as well as the impact of credit spread shocks on portfolios measured at fair value.

2.2.2 Ongoing supervision of less significant institutions, non-EU branches and the ICO

The Banco de España is responsible for the direct supervision of Spanish LSIs, while the ECB is responsible for their indirect supervision. The Banco de España likewise performs supervisory functions on the branches of LSIs from other SSM countries and the rest of the EU, along with the branches of non-EU credit institutions. This set of institutions accounts for 6.2% of the Spanish banking system's assets. Chart 2.10 details the weight of each institution type, calculated based on their total assets. The Banco de España also supervises the ICO.

The action plan, which details the following year's supervisory activities, is prepared on the basis of the supervisory priorities. The monitoring tasks were focused on the supervisory priorities set for 2021 which concerned the effects of the crisis on the supervised institutions, paying particular attention to their credit quality and operational risk, especially in relation to cybersecurity and business continuity.

As part of ongoing supervision, each institution's performance is monitored periodically. The monitoring may vary in depth and is conducted in accordance with the principle of proportionality, considering factors such as each institution's risk profile, size, volume of retail deposits and business model. This is based on quarterly alerts using the information in the confidential reporting and the Banco de España's central credit register (CCR) in order to detect potential future problems relating to liquidity, solvency or business model sustainability.

In addition to the recurring aspects that are typically assessed on a quarterly basis (solvency, liquidity, profitability and management and governance quality), this year, in view of the persistence of the COVID-19 crisis, monitoring was bolstered for aspects relating to credit risk and the impact on profitability and liquidity.

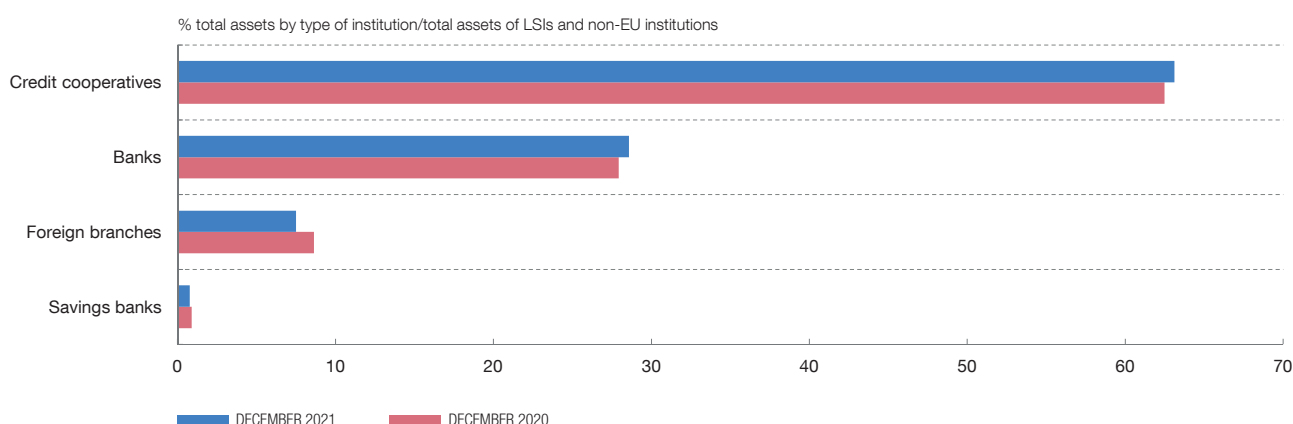
In 2021, quarterly monitoring was conducted for the 57 Spanish LSI groups.

⁶ For further information on this exercise and the results thereof, see the ECB [press release](#) of 30 July 2021.

Chart 2.10

WEIGHT OF THE VARIOUS TYPES OF LSIs AND NON-EU BRANCHES

The asset volume of LSIs and non-EU branches as a whole grew by 21%, with a more pronounced increase in the cooperatives segment, followed by banks, where there was a noteworthy registration of a new banking subsidiary of a Swiss institution.



SOURCE: Banco de España.

NOTE: The figures for the assets of institutions in 2021 were obtained after the data cut-off date.

Other actions as part of ongoing supervision include reviews of external audit reports, internal capital and liquidity adequacy assessment reports and recovery plans, and meetings with the external auditor and with persons in positions of responsibility at the institutions.

As is the case for SIs, the SREP is one of the key tasks of ongoing off-site supervision, and in 2021 a P2G was set for each institution for the first time.

The SREP conclusions take into account the results of the stress test known as the Forward-Looking Exercise on Spanish Banks (FLESB), which is conducted annually by the DGFSRR to assess the resilience of Spanish institutions⁷. Once the related 2021 SREPs had concluded and the institutions' representations had been considered, the Banco de España adopted the 2022 capital decisions for LSIs and the P2G.

The Banco de España has continued to cooperate with other NCAs in the context of the supervisory colleges of LSIs in other SSM countries with subsidiaries in Spain. It participated in a total of three colleges⁸ in 2021, contributing to joint decisions on capital and liquidity requirements.

Since the branches in Spain of institutions with head offices in other EU Member States (including those of countries not participating in the SSM and those of LSIs

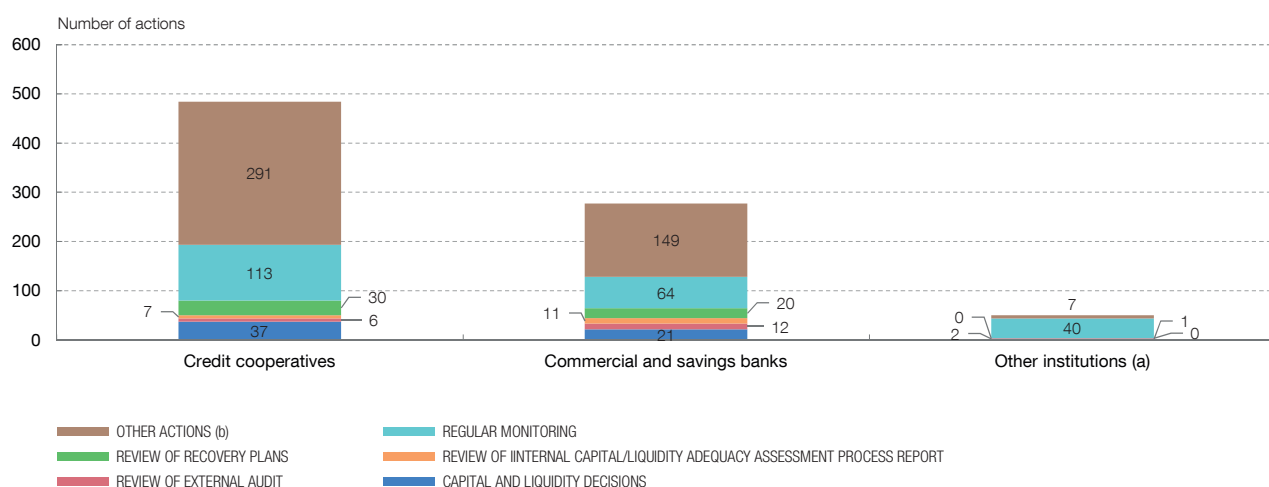
⁷ For a summary of the results of the latest stress tests, see Banco de España (2020), "[Risks to the financial sector and its resilience](#)", Chapter 2, Financial Stability Report, Autumn 2020.

⁸ One of the subsidiaries has become a branch, so there will no longer be a college for it in 2022.

Chart 2.11

NUMBER OF ONGOING OFF-SITE SUPERVISORY ACTIONS AT LSIs, NON-EU BRANCHES AND THE ICO

New developments in 2021 were the reviews in institutions which had been granted larger moratoria and/or State guarantees, the detailed monitoring of the supervision requirements and recommendations, and the transversal review of the decisions on dividend payments, outsourcing and governance and on the analysis of resolution plans.



SOURCE: Banco de España.

a "Other institutions" include foreign branches and the ICO.

b "Other actions" includes meetings with institutions, monitoring of requirements and recommendations, and ad hoc monitoring generally relating to the supervisory priorities defined in the year and to each institution's characteristics, risk profile and performance.

of other SSM countries) are not subject to prudential or liquidity requirements, periodic monitoring of the branch's performance is conducted, meetings are held with the management staff and information is regularly exchanged with the authorities of the branch's home country, under the terms established in Commission Implementing Regulation (EU) No 620/2014 of 4 June 2014 laying down implementing technical standards with regard to information exchange between competent authorities of home and host Member States.

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, external audit reviews and regular meetings with branch management.

In 2021, a total of 861 ongoing supervisory actions for these institutions were undertaken, as detailed in Chart 2.11 by institution type and by supervisory matter.

2.2.3 On-site supervision

On-site supervision supplements the ongoing off-site supervision of institutions. It is carried out by different teams to those tasked with ongoing

Table 2.3

ON-SITE SUPERVISION OF CREDIT INSTITUTIONS. NUMBER OF ACTIONS

	2021		Total
	SIs	LSIs	
Inspections	16	6	22
at Spanish credit institutions	15 (a)	6	21
at credit institutions from other SSM countries	1		1
Model investigations	14	—	14
at Spanish credit institutions	13 (b)	—	13
at credit institutions from other SSM countries	1		1
TOTAL	30	6	36

SOURCE: Banco de España.

a Of which, 12 were led by Banco de España staff and 3 were led by ECB staff.

b Of which, 11 were led by Banco de España staff, 1 by Banco de Portugal and 1 by persons responsible from the ECB.

monitoring, with the aim of reinforcing their independence and the objectivity of the conclusions of their work.

In 2021, inspections and internal model investigations were mainly conducted off-site, using telematic means. From October 2021, the first steps were taken towards a hybrid model of actions, combining off-site work by inspectors with occasional visits to institutions' head offices.

Table 2.3 details the actions carried out in 2021 in which the Banco de España played a major role (i.e., all actions relating to Spanish institutions and the actions relating to institutions in other SSM countries led by Banco de España staff). The Banco de España also participated in an inspection of an SI of another SSM Member State, without leading it.

By type of risk, the 15 inspections conducted on Spanish SIs in 2021 were distributed as follows: 9 were focused on credit risk, and the others on technology risk (3), governance (1), interest rate risk (1) and business models (1).

A very substantial percentage of these inspections — 60%— were part of so-called “campaigns”. The inspections that fall within the scope of a campaign share the same subject matter and type of risk, use a common methodology and tools, and are monitored centrally by ECB teams in which inspectors from national supervisory authorities also participate.

Of the campaigns under way in 2021, the most relevant for Spanish institutions was the one aimed at reviewing the models for estimating mortgage and SME loan loss provisions, within the framework of International Financial Reporting Standard 9. Specifically, seven Spanish institutions were included in this campaign.

Most of the model investigations were focused on credit risk models, while two were focused on market risk. In terms of content, the bulk of missions were aimed at reviewing material changes to models arising from adaptations to the new EBA guidelines (mainly guidelines on the estimation of PD and LGD, and new definition of default) and from the resolution of outstanding obligations arising from the specific internal model review.

Lastly, the supervisory plan for LSIs is approved by the Banco de España's Executive Commission, since they are subject to the Banco de España's direct supervision. However, the ECB is kept apprised of the content of the plan. In 2021, six inspections were performed at LSIs. A further eight are planned for 2022.

The inspections conducted at LSIs during 2021 emphasised the assessment of credit quality, foreclosed assets, governance and solvency, along with IT-related matters. Section 2.2.6 includes information on the content of the letters sent as a result of inspections.

2.2.4 Dividend distribution and variable remuneration policies

Institutions' profit distribution policies must comply with the precautionary principle and be designed to maintain an adequate level of capitalisation at all times. For this purpose, the competent authorities make an annual recommendation on the distribution of profit.

In response to the situation generated by the COVID-19 pandemic, the ECB and the European Systemic Risk Board (ESRB) issued a series of recommendations in 2020 aimed at limiting dividend distributions and share buybacks. In particular, the ECB recommendations were addressed to the significant institutions and groups that it supervises directly. Also, through letters sent to the CEO of each SI, the ECB asked the institutions to be extraordinarily prudent in the payment of variable remuneration. The Banco de España extended these measures to the LSIs.

Against the background of the results obtained in the EU bank stress tests, and of macroeconomic projections pointing to the start of economic recovery, the ECB decided on 23 July 2021 not to extend its previous recommendation on the distribution of profit, so that it ceased to be in force from 30 September. Similarly, the ESRB announced the lifting of its dividend recommendation as of the same date.

Instead of the previous recommendation, on the same date, the ECB published a press release in which, while not setting limits, it recommends banks to remain prudent in their dividend distribution and share buyback decisions, taking into particular consideration the sustainability of their business models. In particular,

the ECB recommends that the impact on capital projections of future loss materialisation after the support measures expire should not be underestimated.

Moreover, the ECB and ESRB statements reiterated the expectation that institutions should adopt a prudent and forward-looking approach in their variable remuneration policies. In particular, the ECB adds that it will continue to assess these policies and their impact on institutions' ability to maintain a sound capital base, as part of its supervisory review process.

In this course of action, on 23 July 2021 the Banco de España also agreed not to extend the limitation on dividend distributions, which had been in force until 30 September, and to extend the ECB's new supervisory expectations to LSIs that are under direct supervision by the Banco de España.

2.2.5 Common procedures, suitability and other procedures

Common procedures are those relating to the authorisation to carry on the activity of credit institutions, the withdrawal of such authorisation and the acquisition of qualifying holdings. They are set out in ECB Regulation (EU) No 468/2014 establishing the framework for cooperation within the SSM between the ECB and NCAs. In these procedures, for Spanish institutions, the Banco de España makes an initial assessment and formulates a draft decision for each specific case. Subsequently, on the basis of this proposal and any additional work it deems appropriate, the ECB adopts a definitive decision. Noteworthy among the rest of the procedures is the suitability procedure.

In this respect, in 2021 the Banco de España participated in the authorisation of credit institutions, submitting two proposals for final authorisation to the ECB. Table 2.4 shows the details of other common procedures and the rest of the procedures on credit institutions in which the Banco de España has participated.

On 27 January 2021, the ECB launched the so-called "IMAS Portal" for both significant and less significant credit institutions. This portal, developed by the ECB in cooperation with the NCAs, was created to respond to the sector's needs and as a step forward in automating and reducing the bureaucracy of other authorisation procedures. Also, the [IMAS Portal](#) is configured as a user interface that allows credit institutions to interact directly with the supervisor and see the status of procedures in real time, thus increasing the transparency of these supervisory actions while reducing operational risk.

Since its entry into operation, the IMAS Portal has been implemented in the following procedures, although the degree of participation of the various NCAs is still uneven:

Table 2.4

PROCEDURES IN RESPECT OF CREDIT INSTITUTIONS INVOLVING THE BANCO DE ESPAÑA

	Total
Qualifying holdings, merger, spin-off and other significant acquisitions	16
Cross-border activity of Spanish credit institutions	71
Branches in the EU	22
Branches in third countries	4
Freedom to provide services	35
Representative offices	10
Cessation of business	
Loans to senior officers	36
Suitability of senior officers (a)	233
Procedures relating to own funds	89
Amendments to articles of association	22
Climate change	55
Communications with other supervisory authorities or institutions	23
Other procedures	41
TOTAL	586

SOURCE: Banco de España.

a Includes 17 suitability assessments on senior officers of mixed financial holding companies.

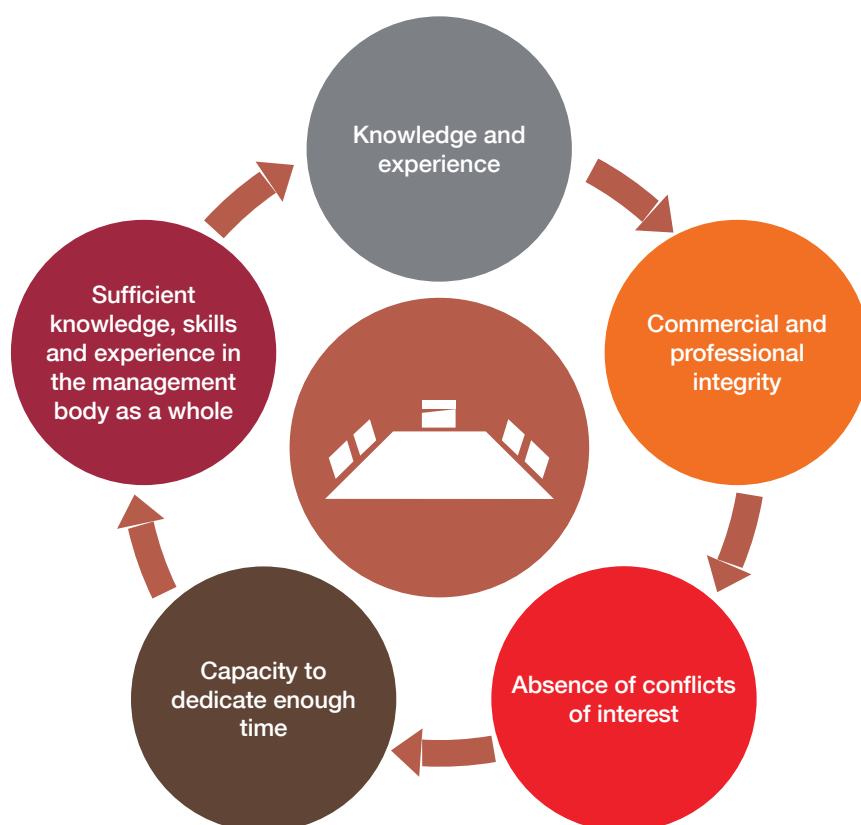
- Senior officer suitability assessments (limited to SIs).
- Passport notifications.
- Acquisition of qualifying holdings⁹ (credit institutions and third parties).
- Non-material model changes (limited to SIs).
- Authorisation for the creation of credit institutions (credit institutions and third parties).
- Voluntary withdrawal of authorisation.
- Approval of financial holding companies and mixed financial holding companies.

On 15 June 2021, as part of the commitment to increase European banking supervision transparency, a public consultation was launched on the “Guide to fit and proper assessments” and the new “Fit and proper questionnaire for senior bank

⁹ These four procedures are not currently available for Spanish institutions.

Figure 2.3

FIT AND PROPER REQUIREMENTS ASSESSED FOR DIRECTORS WITHIN THE SSM



SOURCE: Banco de España.

officials in the SSM”. Subsequently, following review and formal approval by the SB and the Governing Council of the ECB, the Guide and the Questionnaire were published on 8 December 2021.

The Guide seeks to explain in detail the supervisory policies that are applied in assessing the various fit and proper requirements for senior officials in credit institutions (see Figure 2.3). It also aims to reinforce and explain the supervisor’s expectations as to the collective suitability of the management body, and the individual accountability that would be expected of each of its members in this regard. In addition, it describes the process for assessing the suitability of a current senior official in the light of new facts that may affect his or her suitability¹⁰.

10 Without prejudice to the supervision that both the Banco de España and the ECB carry out within the remit of their respective powers, it is important to remember that those primarily responsible for analysing the suitability of senior officers are the institutions themselves or, as the case may be, the applicants or acquirers of qualifying holdings in them, both upon the appointment of the new senior officers and subsequently on an ongoing basis during the exercise of their functions.

The new suitability questionnaire was reviewed to promote greater convergence in the supervision of SSM suitability and to achieve greater efficiency in its processing. As a substantial new development, it is worth noting that the new questionnaire places special emphasis on activities relating to potential ML/TF, and it expressly covers matters such as *gender diversity* and specific knowledge of the management body on *climate-related and environmental risks*.

During the first half of 2022, the new questionnaire will be adapted to national specificities for its subsequent implementation by the NCAs.

2.2.6 Letters

As a result of the above-described supervisory actions carried out in 2021, a total of 108 letters were sent to LSIs and the ICO, with requirements and recommendations made by the Banco de España in the exercise of its supervisory powers. Chart 2.12 provides a breakdown of these letters by type of institution and subject matter. Of these, 57 related to capital decisions, 45 to recovery plan reviews and 6 to inspections.

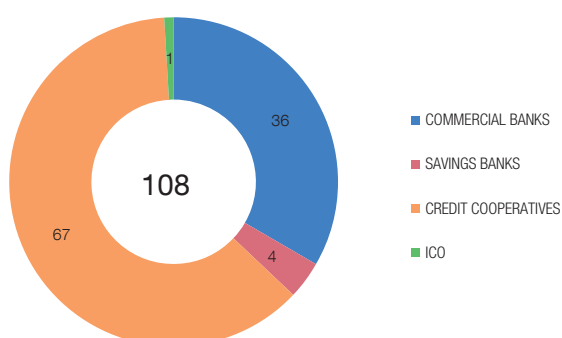
Chart 2.13 shows the breakdown by subject matter of the 373 requirements, recommendations and expectations contained in the 108 letters sent to credit institutions. The requirements notified to LSIs in 2021 largely related to solvency, since all institutions are set a capital requirement level each year; the requirements

Chart 2.12

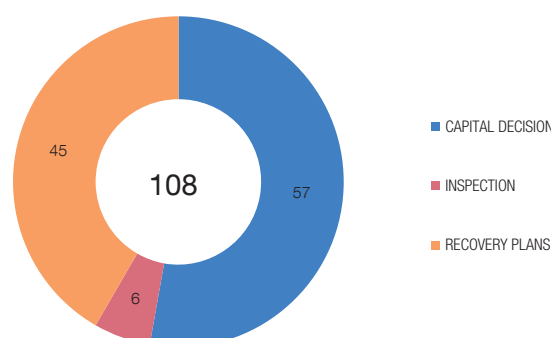
NUMBER OF LETTERS ADDRESSED TO CREDIT INSTITUTIONS

The majority of letters were addressed to credit cooperatives, since this group has the highest number of LSIs. The most common subject matters were capital decisions and recovery plans.

1 BY TYPE OF INSTITUTION (2021)



2 BY SUBJECT MATTER (2021)

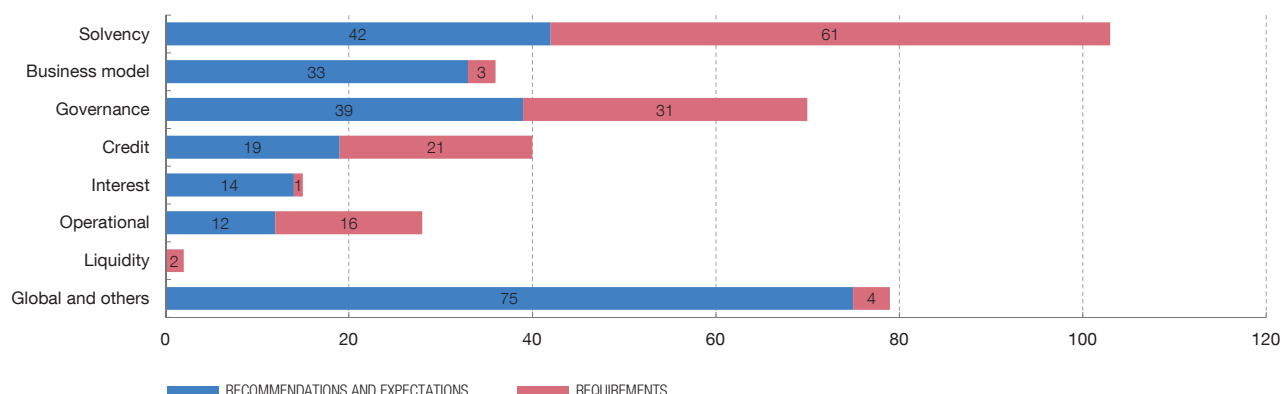


SOURCE: Banco de España.

Chart 2.13

NUMBER OF RECOMMENDATIONS AND REQUIREMENTS NOTIFIED TO CREDIT INSTITUTIONS

By specific areas, the requirements and recommendations on credit risk, solvency and governance stand out.



SOURCE: Banco de España.

NOTE: "Global and others" comprises recommendations set out in 45 letters on recovery plans and in others relating mainly to improvements to internal capital and liquidity adequacy assessment process reports.

also related to improvements to recovery plans and internal capital and liquidity adequacy assessment reports.

Most of the requirements arising from the inspections related to governance, followed closely by credit risk. These governance requirements were issued to improve the composition and functions of committees, internal control and contingency planning. Credit risk requirements related mostly to reclassifications to non-performing, and to the need to increase loan loss provisions and to improve the specific internal controls in place for credit risk.

The bulk of recommendations referred to business models: they advocate an increase in recurring sources of income and adjustments to overhead costs, to ensure the institutions' long-term sustainability.

2.2.7 Other actions

The Banco de España cooperates closely with the CPMLMO and SEPBLAC pursuant to Spanish legislation and the agreement entered into with the CPMLMO in the coordination of their respective supervision and inspection actions, updated in 2021 (Box 2.7).

The supervision and inspection of compliance with AML/CTF obligations was further reinforced in 2021. Three inspections were completed, two of which were

NEW AGREEMENT BETWEEN THE COMMISSION FOR THE PREVENTION OF MONEY LAUNDERING AND MONETARY OFFENCES AND THE BANCO DE ESPAÑA

In Spain, the Commission for the Prevention of Money Laundering and Monetary Offences (CPMLMO) is responsible for steering and promoting the anti-money laundering and counter-terrorist financing (AML/CTF) activities. Its Executive Service, Sepblac, in addition to being the financial reporting unit, supervises compliance with AML/CTF obligations by regulated institutions.

However, the risk of money laundering and terrorist financing is not the exclusive concern of AML/CTF authorities, as it has an impact on other risks to which institutions are exposed, on their solvency and on financial stability as a whole. Therefore, Spanish legislation recognises the need for prudential supervisors and the CPMLMO to cooperate, providing for the possibility of entering into agreements to coordinate their actions. The transposition of the Capital Requirements Directive V reinforces the importance of this cooperation.

It should be noted that the Banco de España and Sepblac have been cooperating closely for many years. The first cooperation agreement was signed in 2005, with successive versions in 2008 and 2013. In March 2021, a [new agreement was signed between the CPMLMO and the Banco de España for the coordination of their respective supervision and inspection actions](#), which clarifies the Banco de España's role and deepens supervisory cooperation and coordination.

On the one hand, the signing of the agreement enables the Banco de España to carry out supervisory functions on

AML/CTF legislation compliance in coordination with Sepblac, which allows synergies to be exploited and contributes to institutional efficiency. The Banco de España's powers in this area are limited to the supervision of certain AML/CTF obligations (due diligence, internal control and reporting) in respect of those regulated institutions under its supervision. In addition, the agreement includes a specialisation principle for the Banco de España, indicating that in supervising compliance with the above-mentioned AML/CTF obligations, it will focus preferentially on the review of the policies and procedures established in the institutions. However, when in the course of its supervisory actions it identifies possible suspicious transactions, it will refer them to Sepblac.

On the other hand, the agreement furthers cooperation between the CPMLMO, Sepblac and the Banco de España. It includes coordination between the Secretariat of the CPMLMO, Sepblac and the Banco de España, both in planning and in inspection work, through the preparation of an annual plan with the inspections to be carried out by all supervisors, previously agreed upon in a coordinated manner and the approval of which corresponds to the CPMLMO; the development of common procedures and deadlines, as well as the possibility of carrying out joint inspections. A fluid exchange of information is also established between the Banco de España, Sepblac and the Secretariat of the CPMLMO. Also, it accommodates the creation of the Single Supervisory Mechanism and it adds provisions in order to structure the growing international cooperation activity.

general inspections, in which compliance with AML/CTF obligations was reviewed in one SI and one LSI (the latter commenced in 2020). The third inspection, with a specific scope, was focused on the review of the internal control systems implemented by an SI to ensure the application of AML/CTF policies to its group abroad. Also, three other general inspections were launched at two LSIs and one SI. All of the inspections were performed remotely, since the restrictions prompted by the COVID-19 pandemic remained in place.

The monitoring actions carried out include the review of compliance with the recommendations and requirements arising from two inspections conducted in previous years and of the degree of compliance with an AML/CTF action plan

established by an SI. In addition, the ML/TF risk profile of credit institutions incorporated in Spain was updated. It should be noted in this respect that the definition of a new methodology for the joint assessment of ML/TF risk was launched in collaboration with SEPBLAC.

Moreover, international cooperation was intensified significantly, in collaboration with SEPBLAC, both through bilateral initiatives with AML/CTF supervisors in other countries and through supervisory colleges. In 2021, the Banco de España and SEPBLAC jointly participated in 53 AML/CTF supervisory colleges of foreign credit institutions, SLIs and PIs operating in Spain, and they established the colleges of 2 Spanish institutions.

As in previous years, the Banco de España continued to participate actively in international and European forums (mainly the EBA's AML SC) and in regulatory initiatives, including most notably the technical contribution to the negotiations on the EU AML/CTF legislative package in July 2021. This provides for, inter alia, the creation of a European AML/CTF authority with direct and indirect supervisory functions, and the coordination of financial intelligence units and a more harmonised EU regulatory framework, including the sixth directive and a new European regulation.

The Banco de España also collaborates with the other national supervisors: the CNMV and DGSFP. With the CNMV, it cooperates in the supervision of consolidated groups, which include both credit institutions and investment firms. Also, in cooperation with the CNMV, it supervises activities related to financial markets. It works in coordination with the DGSFP when a consolidated group of credit institutions includes institutions that are subject to supervision on an individual basis by that body.

2.3 Supervision of institutions other than credit institutions

The Banco de España has exclusive microprudential supervisory powers over the following institutions other than credit institutions that provide financial services or perform functions related to the financial sector: SLIs, mutual guarantee societies (MGSs), reguarantee companies, appraisal companies, PIs, account information service providers, ELMIs, currency-exchange bureaux, banking foundations and Sareb. Table 2.5 lists these institutions.

The legal basis under which the Banco de España supervises these institutions and the approach to the tasks differ from case to case. Although the weight of these institutions in the financial system is not comparable to that of credit institutions, an effective regulatory and supervisory model for these institutions is necessary to promote the fluidity of financial intermediation mechanisms and to generate a climate of trust in financial institutions.

Table 2.5

REGISTER OF OTHER INSTITUTIONS

Year-end data

	2015	2016	2017	2018	2019	2020	2021
Institutions with an establishment	192	194	186	186	187	535	726
SLIs	39	35	31	31	27	26	23
SLI-PIs	5	8	8	8	9	8	9
Branches of financial institutions subsidiaries of EU credit institutions						1	1
Real estate lenders						99	136
Real estate credit intermediaries						234	384
Branches of EU real estate intermediaries						2	2
Mutual guarantee societies	21	21	19	18	18	18	18
Reguarantee companies	1	1	1	1	1	1	1
Appraisal companies	36	37	35	35	32	32	32
Currency-exchange bureaux (a)	13	12	14	14	16	17	16
PIs	43	41	39	40	42	47	49
PIs exempt under Article 14 Royal Decree-Law 19/2018						1	9
Payment service providers excluded under Article 4 of Royal Decree-law 19/2018						3	15
Account information service providers					1	1	1
Hybrid PIs (b)	2	3	3	4			
Branches of EU PIs	12	15	14	12	12	14	7
ELMIs	3	4	5	5	7	9	9
Branches of EU ELMIs	2	2	2	4	8	8	3
Service providers for the exchange of virtual money for fiat money							0
Service providers for the custody of electronic purses							0
Banking foundations (c)	14	14	14	13	13	13	10
Sareb (d)	1	1	1	1	1	1	1
Institutions without an establishment	401	484	556	597	712	833	437
ELMIs	75	112	156	187	242	294	169
PIs	326	372	400	410	454	506	240
Account information service providers					16	33	28

SOURCE: Banco de España.**a** Not including establishments authorised only to purchase currency using euros.**b** Reclassified as PIs.**c** Banking foundations are not registered in the Register of Institutions of the Banco de España. At 31 December 2021, the Banco de España had competence over five of the ten banking foundations.**d** Sareb is not registered in the Register of Institutions of the Banco de España.**2.3.1 Supervision actions**

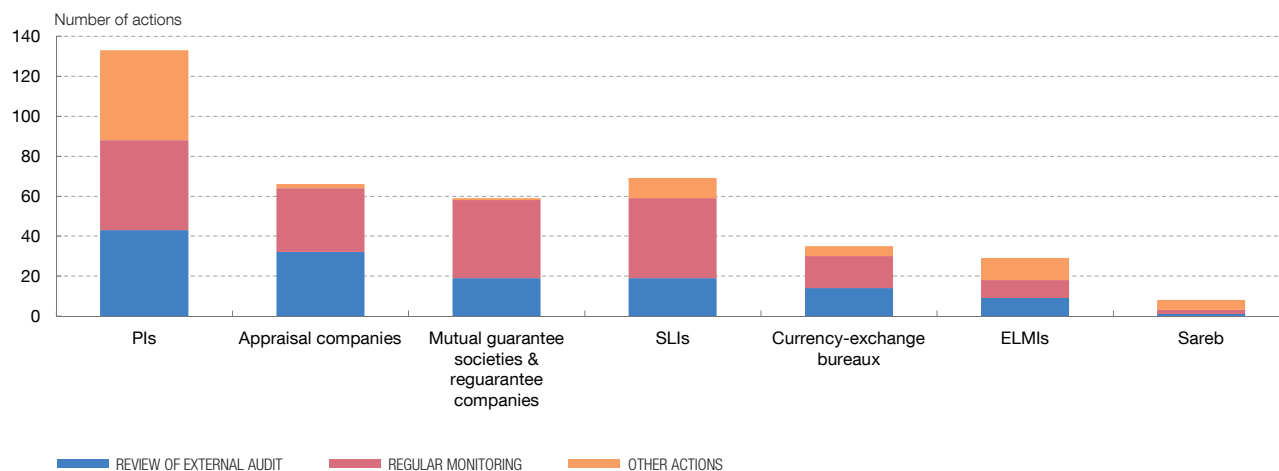
In 2021, 399 ongoing off-site supervision actions were performed by various means: periodic monitoring, external audit report reviews and other actions, as detailed in Chart 2.14.

In addition, a total of three inspections were performed in 2021 - two inspections of appraisal companies and one of an SLI - and another inspection commenced on an

Chart 2.14

NUMBER OF ONGOING OFF-SITE SUPERVISORY ACTIONS AT OTHER INSTITUTIONS

In 2021 there was an increase in the number of actions in PIs, and reviews of the external audit reports of independent SLIs were included.



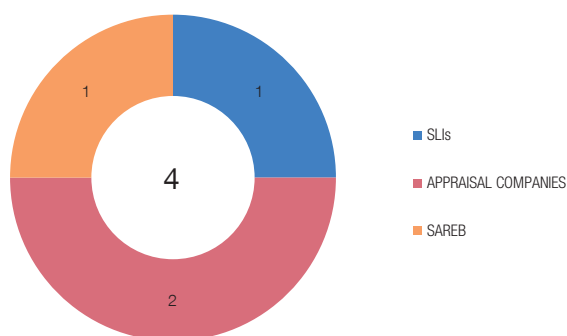
SOURCE: Banco de España.

Chart 2.15

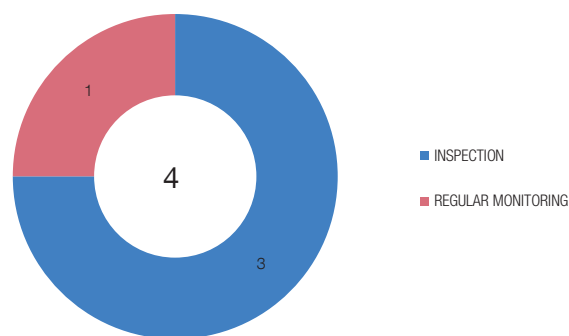
NUMBER OF LETTERS ADDRESSED TO OTHER INSTITUTIONS

Of the letters addressed to other institutions, one relates to the findings of ongoing supervisory actions and the other three relate to inspections.

1 BY TYPE OF INSTITUTION (2021)



2 BY SUBJECT MATTER (2021)



SOURCE: Banco de España.

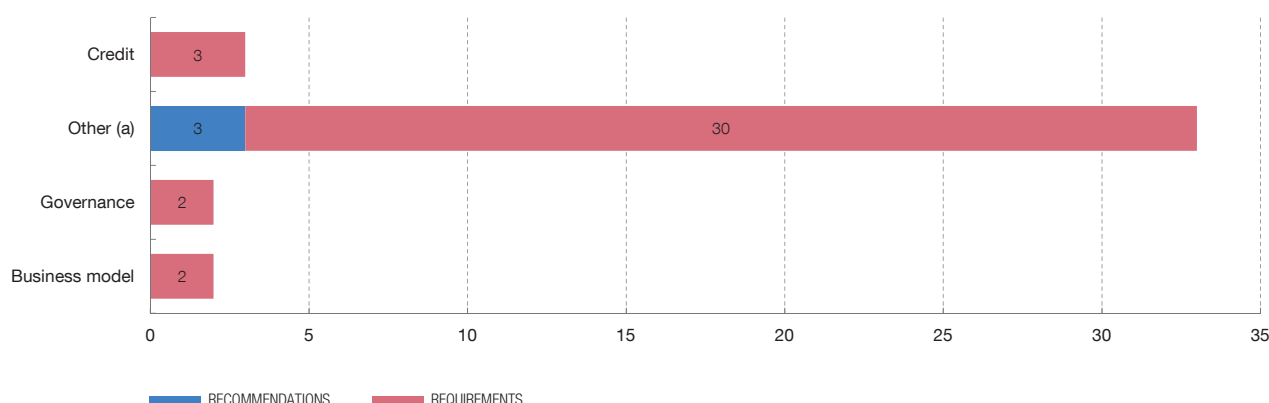
ELMI. For 2022, in addition to continuing with the inspection under way, four more are planned: two at appraisal companies, one at an ELMI and one at a PI.

Following the supervisory actions, four letters were sent to these institutions, addressed to the parties detailed in Chart 2.15. Chart 2.16 shows the number of recommendations and requirements, by area, contained in these letters.

Chart 2.16

NUMBER OF RECOMMENDATIONS AND REQUIREMENTS NOTIFIED TO OTHER INSTITUTIONS

By specific areas, the requirements and recommendations relating to business models and credit risk stand out.



SOURCE: Banco de España.

a "Other" mainly comprises improvements to be implemented in the application of assessment and internal control methodologies. The components of this group are very diverse, in terms of both the size of the institutions and their activity.

2.3.2 Authorisations and other procedures

The Banco de España participates in the granting of start-up licences of institutions other than credit institutions and in other procedures relating to the pursuit of their activities. However, the scope of its involvement is not the same for all types of institutions.

The Banco de España issues a mandatory report on the authorisation of SLIs, MGSs and reguarantee companies, the granting of which is the prerogative of the Ministry of Economic Affairs and Digital Transformation. Also, it is responsible for verifying that payment service providers which state that their activity falls under one of the exclusions contained in Article 4(k) or (l) of Royal Decree-Law 19/2018 meet the necessary criteria.

Thus, the Banco de España is the competent authority for registering, and granting and withdrawing the licenses of, SLIs which provide payment services (SLI-PIs) or which issue electronic money (SLI-ELMIs), ELMIs, PIs, exempt payment service providers pursuant to Article 14 of Royal Decree-Law 19/2018, account information service providers, real estate lenders, real estate credit intermediaries and currency-exchange bureaux. It is also the competent authority for the official recognition of appraisal companies. In addition, it is worth noting the creation in 2021 of the Register of service providers for the exchange of virtual money for fiat money and

the custody of electronic purses¹¹, provided for in the second additional provision of Law 10/2010 of 28 April on AML/CTF. At 31 December 2021, there was no entry in the register of any of these suppliers.

With regard to applications for authorisation and registration of new payment service providers, noteworthy is the relatively low number of applications for the extension of activity with respect to the total number of authorisation and registration applications (with one application for the extension of activity for every nine applications relating to newly created institutions). As a result, the observed trend leads to the consolidation of a payment service provider ecosystem which has ever more participants and, therefore, is increasingly heterogeneous, with an associated increase in the number of institutions to be supervised.

In particular, there has been a substantial increase in applications associated with so-called “payment institutions with low business volume” (legal entities and

Table 2.6

CHANGE IN THE NUMBER OF NON-CREDIT INSTITUTIONS. 2021 VS 2020

	Value at 31.12.2020	Registrations	Deregistrations	Value at 31.12.2021	Change 2021-2020
SLIs	25		2	23	-2
SLI-PIs	8	1		9	1
Branches of financial institutions subsidiaries of EU credit institutions	1			1	0
Real estate lenders	102	34		136	34
Real estate credit intermediaries	256	131	3	384	128
Branches of EU real estate credit intermediaries	2			2	0
Mutual guarantee societies and reguarantee companies	19			19	0
Appraisal companies	32			32	0
Currency-exchange bureaux (a)	17	1	2	16	-1
PIs	47	4	2	49	2
PIs exempt under Article 14 of Royal Decree-Law 19/2018	2	7		9	7
Payment service providers excluded under Article 4 of Royal Decree-Law 19/2018	9	6		15	6
Account information service providers	1	1	1	1	0
ELMIs	9			9	0
Branches of EU PIs	14		7	7	-7
Branches of EU ELMIs	7		4	3	-4
TOTAL	551	185	21	715	164

SOURCE: Banco de España.

a Not including establishments authorised only to purchase currency using euros.

11 The register can be accessed via the Banco de España's electronic office: <https://sedeelectronica.bde.es/sede/es/menu/tramites/autorizaciones-de-entidades-de-credito-y-otros/registro-de-proveedores-de-servicios-de-cambio-de-moneda-virtual-por-moneda-fiduciaria-y-de-custodia-de-monederos-electronicos.html>.

Table 2.7

OTHER PROCEDURES CONDUCTED BY THE BANCO DE ESPAÑA IN RESPECT OF OTHER INSTITUTIONS

Number of procedures in 2021

	PIs	ELMIs	SLIs	Mutual guarantee societies	Appraisal companies	Currency- exchange bureaux	Sareb	Banking foundations	Total other institutions
Qualifying holdings, merger, spin-off and other significant acquisitions	3	3	5		2			2	15
Cross-border activity of Spanish institutions (a)	2,346	54	1						2,401
Branches in the EU	13		1						14
Branches in third countries									0
Freedom to provide services	105	52							157
Agents	2,228	2							2,230
Cessation of business		1	1						2
Suitability of senior officers	61	26	64	32	6	9			198
Procedures relating to own funds	3	3	3	1		3			13
Amendments to articles of association	4	1	10	4					19
Authorisation of management protocol and financial plan								10	10
Communications with other supervisory authorities or institutions			1						1
Other procedures	2		5		1	1			9
TOTAL									2,668

SOURCE: Banco de España.**a** Each daily notification per institution and recipient country is deemed a procedure.

individuals referred to in Article 14 of Royal Decree-Law 19/2018 of 23 November) and payment service providers excluded under Article 4 of Royal Decree-Law 19/2018.

In order to streamline the processing of certain procedures, the Banco de España has adopted as mandatory in 2021 forms that systematise the information to be provided in applications, and it has updated the “Information Guide”¹² to inform applicants of the formalities, requirements and criteria applied in these procedures. Both the forms and the Guide are published in the Banco de España’s Virtual Office.

Also, the Banco de España has joined the “Notifica” platform, to offer interested parties the opportunity to send communications and notifications by electronic means.

In 2021, a total of 185 institution start-up requests and 21 deregistrations were processed, as shown in Table 2.6.

12 See the update of the “Guía informativa para solicitantes de autorización de entidades de pago o de entidades de dinero electrónico, así como de registro de personas físicas o jurídicas prestadoras del servicio de información sobre cuentas o exentas a las que se refiere el artículo 14 del Real Decreto-ley 19/2018” (Information guide for applicants for authorisation of payment institutions or electronic money institutions, and for registration of natural or legal persons providing account information services or exempt according to Article 14 of Royal Decree-Law 19/2018, available in Spanish only).

Similarly, in 2021 a further 2,668 procedures relating to supervisory powers over these institutions were performed, as detailed in Table 2.7.

2.4 Compliance with vetted access to activity

Under Spanish legislation, several financial activities are subject to vetted access to activity, i.e. they can only be carried out by the institutions legally authorised to do so. The Banco de España's functions include overseeing compliance with this legislation, taking action on those seeking to begin operations in the financial market without meeting the conditions of access, whether by conducting activities legally restricted to credit institutions, payment service providers or other types of institutions supervised by the Banco de España, or through the use of generic names restricted to those institutions or any other name that may confuse the public.

In 2021, the DGBS performed supervisory actions relating to 16 legal entities which may have been carrying out restricted activities without authorisation or making undue use of a name pertaining to supervised institutions, the outcome of which could lead to the adoption of penalties.

In addition to the above actions, in the area of payment services, the analysis commenced in 2021 of 21 cases of possible non-compliance with the vetted access to activity established in Article 5 of *Royal Decree-Law 19/2018, of 23 November, on payment services and other urgent financial measures*. Most of these cases concern innovative business models, not always an easy fit within the rules, or certain formal irregularities detected in the activity of commercial establishments which, in reality, operate as agents or distributors in Spain of payment service providers.

2.5 Supervision of payment service providers

As in previous years, a significant portion of the supervisory tasks in 2021 was focussed on assessing compliance with Commission Delegated Regulation 2018/38913 for strong customer authentication and common and secure open standards of communication. The main efforts were geared, on the one hand, towards verifying the completion of the migration to strong customer authentication (SCA) solutions for e-commerce card payments after the end of the supervisory flexibility period mandated by the EBA on 31 December 2020; and, on the other, to take the supervision actions necessary to ensure that account servicing payment

13 Commission Delegated Regulation (EU) 2018/389 of 27 November 2017, supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication.

service providers (ASPSPs), which offer access to online payment accounts to other payment service providers through specific interfaces, have identified and removed potential obstacles to such access, in accordance with the EBA opinions of 4 June 2020¹⁴ and 18 February 2021¹⁵.

In addition, problems reported by payment service providers relating to the proper functioning of the specific interfaces offered by the ASPSPs have been assessed. These problems mainly consisted of one-off outages and deteriorations in the interface service, which, following the corresponding investigations, were addressed with plans to improve technical monitoring and reporting procedures and early resolution of incidents. To a lesser extent, problems have been reported regarding the functionalities offered by specific interfaces and the information they make available to third-party payment service providers, which have been resolved by bringing these functionalities into line with the requirements of Delegated Regulation 2018/389.

Boxes 2.8 and 2.9 further contextualise and explain these supervision activities and their outcomes.

Also in the framework of Delegated Regulation 2018/389, approval was granted for the requests submitted for the application of the SCA exemption in the provision of payment services through two secure corporate payment processes, available only to payers who are not consumers, as provided for in Article 17 of that Regulation.

With regard to other procedures in the area of payment services, in accordance with Article 23 of Royal Decree-Law 19/2018, a significant number of communications were received regarding the delegation of operational functions from specialised payment service providers, in order to verify compliance with the requirements applicable to outsourcing agreements and the governance framework.

In this respect, it is interesting to note two matters observed in the area of outsourcing, both in the authorisation processes and in supervision. On the one hand, payment service providers wishing to provide account information services often opt to outsource the bulk of the technological infrastructure necessary to carry out the activity. On the other, the use of public cloud-based infrastructure, software and services by payment service providers seems to be consolidating.

In addition to the analysis of 21 cases of possible non-compliance with the vetted access to activity (see section 2.4), a further 9 verification actions were initiated

14 EBA Opinion on obstacles under Article 32(3) of the Regulatory Technical Standards on strong customer authentication and common and secure communication (EBA/OP/2020/10).

15 Opinion of the European Banking Authority on supervisory actions to ensure the removal of obstacles to account access under PSD2 (EBA/OP/2021/02).

TOWARDS SEAMLESS PROVISION OF PAYMENT INITIATION AND PAYMENT ACCOUNT INFORMATION SERVICES

The payment initiation and payment account information services offered by payment service providers and, in particular, by providers specialised in the provision of these services (known as “third party payment service providers” or TPPs), are based on access by these providers to payment accounts held by users with account servicing payment service providers (ASPSPs, traditionally credit institutions). This allows the user to order payments through the initiator without needing to have a payment account with the initiator or a payment instrument, such as a card. The account information service allows aggregate information to be consulted on some or all of the payment accounts opened in the user’s name at various financial institutions, making it easier to view and analyse the user’s financial situation.

This access, which requires the prior express consent of the account holder, is most often enabled through specific interfaces, mainly through the development of application programming interfaces.¹

The enabling of these interfaces has required technological developments by the ASPSPs, to allow the provision of payment initiation and payment account information services in an efficient and secure manner. In particular, such interfaces should not present obstacles to users’ access to payment accounts through TPPs, such as preventing the use of credentials issued by ASPSPs to their customers, imposing the manner in

which payment accounts are to be accessed, requiring unnecessary authorisations or registrations from TPPs or imposing additional controls on the consent given by payment service users to the TPPs themselves. In short, the aim is to avoid specific interfaces forcing user experiences that discourage the use of such services, while maintaining security levels.

In order to facilitate the proper functioning of specific interfaces, the EBA published in June 2020 an opinion on obstacles (EBA/OP/2020/10), clarifying which implementations should be considered as an obstacle. As a follow-up to this opinion, in February 2021 it published a further opinion on supervisory actions (EBA/OP/2021/02) to ensure the complete removal of the above-mentioned obstacles to payment account access.

In order to comply with these opinions, several communications were made to the Spanish ASPSPs in late 2020 and early 2021 to identify any potential obstacles and, where appropriate, establish concrete plans to eliminate them. As a result of this exercise, at the end of 2020 the vast majority of Spanish ASPSPs declared that at that date they did not have any of the obstacles identified by the EBA. In the first half of 2021, the remaining ASPSPs completed their respective elimination plans, so that by June 2021 the number of specific interfaces that still had any obstacles was minimal, and the process was definitively completed in September.

¹ *Application Programming Interface (API)*: technology solution that brings together a set of definitions and protocols that are used to develop and integrate application software.

regarding possible regulatory non-compliance, relating mainly to the scope of the right of access to payment account services offered by credit institutions to other payment service providers and the delegation of important operational functions.

In terms of international coordination, in the area of payment service provider supervision, the Banco de España participated actively in the review of the EBA guidelines on major incident reporting under PSD2, which aimed to optimise and simplify the reporting process and resulted in new guidelines (EBA/GL/2021/03), published in June 2021. It has also participated in the interpretation and standardisation of certain concepts and aspects of the rule, both through the EBA’s PSD2 Q&A Network and the EBA Working Group on APIs.

THE IMPLEMENTATION OF STRONG AUTHENTICATION IN CARD-BASED E-COMMERCE

The period of supervisory flexibility regarding the implementation of strong customer authentication (SCA) for e-commerce card-based payments, which was introduced by the EBA in two opinions issued in June and October 2019, ended on 31 December 2020. In the course of this flexibility period, the Banco de España requested that card issuing payment service providers and acquirers of card-based transactions submit their respective SCA migration plans and it closely monitored key SCA migration variables. Also, it held an active and collaborative dialogue with representatives of issuers, acquirers, merchants, card schemes and processing entities, all of which are affected by the migration process, in order to achieve the objectives set within the deadline.

The process's difficulty led some national authorities in Europe to contemplate in the first quarter of 2021 the gradual introduction of implemented strong authentication solutions, either through a staggered requirement for SCAs in transactions of ever smaller amounts or through a flexible application of SCA exemptions. In accordance with the above-mentioned EBA opinion of October 2019, and on the basis of a set of data and indicators obtained

from a significant sample of the European issuer and acquirer market, the EBA prepared a report reflecting the status of migration at the end of April 2021.

This report was published in June 2021, concluding that there was a high degree of European industry readiness for the implementation of SCAs in e-commerce card-based payments. In particular, 98% of cards were ready to apply SCA, and 88% of users and 96% of merchants were signed up to the corresponding SCA solutions. However, as a reflection of the diversity of the players involved, the number of transactions in which these solutions were applied was still relatively low. The report also pointed to the existence of differences between jurisdictions, with some of them showing a certain delay in migration; this situation did not affect the Spanish market, which was in the leading group in the main migration indicators. Also, the report highlighted the reduction observed in fraud rates: around 50% for issuers and 40% for acquirers, indicative of the improved security levels brought about by the implementation of SCA. All of this led to the SCA migration being deemed a general success.

1 Opinion of the European Banking Authority on the elements of strong customer authentication under PSD2 (EBA-Op-2019-06) and Opinion of the European Banking Authority on the deadline for the migration to SCA for e-commerce card-based payment transactions (EBA-Op-2019-11).

DIGITALISATION CHALLENGES: SANDBOX

Law 7/2020, for the digital transformation of the financial system, was approved at the end of 2020. It created, for the first time, a controlled testing space in Spain, known internationally as Sandbox. Sandbox is a safe environment in which to test projects involving technology-based financial innovation applicable to the financial system, and in which risks to the financial system and to participants have been mitigated or minimised. The two fundamental objectives of this law are, therefore, to provide financial authorities with adequate instruments to fulfil their functions in the new digital context and to facilitate innovation in Spain.

The law provides for two annual cohorts to apply to the General Secretariat of the Treasury and International Financing (SGTFI) for access to Sandbox and for any promoter, or group of promoters, whether individuals or legal entities, to apply for entry into Sandbox. The supervisory authorities (Banco de España, National Securities Market Commission and the Directorate General of Insurance and Pension Funds) are responsible for the prior assessment of the project by means of a favourable or unfavourable report according to the criteria set out in Article 5 of this law.¹ In the light of this assessment, the SGTFI publishes the list of projects provisionally admitted to Sandbox. For projects that have received a favourable prior assessment, a process is initiated between the competent authorities and the promoter, the purpose of which is to sign a protocol containing the testing rules and conditions. With regard to the exit regime, the law provides for the possibility of shortening procedures in the event that a licence or authorisation is required for the subsequent performance of the professional activity.

The first call for applications was on 15 December 2020 through an SGTFI resolution, which set the deadline for submitting applications for access between 13 January and 23 February 2021. A total of 66 projects were submitted, of which around two thirds were initially allocated to the Banco de España, alone or together with other supervisory

authorities.² The Banco de España issued a favourable prior assessment with respect to 10 projects, 6 of which finally went on to testing, following the signing of the corresponding protocol. The second call was on 15 June (opening on 1 September and closing on 13 October), and a total of 13 applications were received, i.e. 80% less than in the first cohort. Of these applications, 8 initially corresponded to the Banco de España and 1 obtained a favourable prior assessment and is in the negotiation phase of the corresponding protocol. These fluctuations in the number of applications are to be expected as this is a new tool to which both promoters and authorities must adapt.³

It is worth noting that, regardless of the volume of applications, Sandbox has greatly fostered collaboration among the authorities involved in its operation, which has positive consequences both for the promoters and for innovation in the Spanish financial system. Similarly, in the Banco de España, collaboration among the various supervisory areas has increased notably due to the cross-cutting nature of Sandbox, giving rise to very positive synergies for our institution.

The attached charts show the wide variety of projects that have been analysed by the Banco de España this year. With regard to the projects previously assessed by the Banco de España (alone or together with other supervisors), the promoters belong to various sectors (see panel 1 of the chart), albeit noteworthy the greater weight, in this order, of consultancy firms, FinTechs and banks. In terms of the technologies in projects obtaining a favourable prior assessment (see panel 2 of the chart), distributed ledger technology and artificial intelligence predominate, followed by biometrics/digital identity. This plurality, combined with the large number of projects presented, gives an idea not only of the high innovative capacity of Spanish institutions, but also of their diversity, in terms of both the type of promoter and the technologies used. In this respect, Sandbox emerges as a very timely tool for adapting the

1 The requirements for access are that the project provides a technology-based innovation applicable in the financial system and that it is sufficiently advanced to be tested. In addition, innovative projects must contribute added value in at least one of the following manners: a) facilitating regulatory compliance; b) benefitting financial service users or increase customer protection; c) boosting efficiency of institutions or markets; or d) providing mechanisms to enhance regulation or financial supervision. Also, the supervisory authorities will take into consideration the impact of the project on the Spanish financial system.

2 Some of these projects (around one third) were either rejected by the SGTFI or were finally assigned to other supervisory authorities and, therefore, they were not formally assessed by the Banco de España. As regards the assessed projects, the main reasons for unfavourable assessment were: firstly, the lack of technology-based innovation applicable in the financial system; secondly, that the project is not useful or does not contribute added value with respect to existing uses; and lastly, the project's lack of maturity for testing.

3 The call for the third cohort took place on 22 December 2021. The application submission period will begin on 1 March and will end on 12 April 2022.

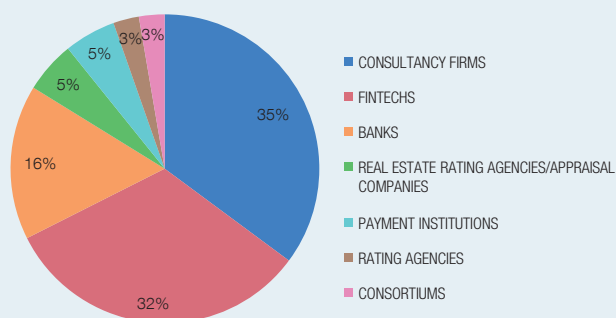
DIGITALISATION CHALLENGES: SANDBOX (contd)

financial authorities' activity to the digital transformation of the financial system. In any case, it should be borne in mind that, since this tool is new, it will need to be adapted and improved. An example of the latter was the publication by the SGTFI of guidelines on access⁴ to the controlled test environment to be applied to projects submitted to Sandbox

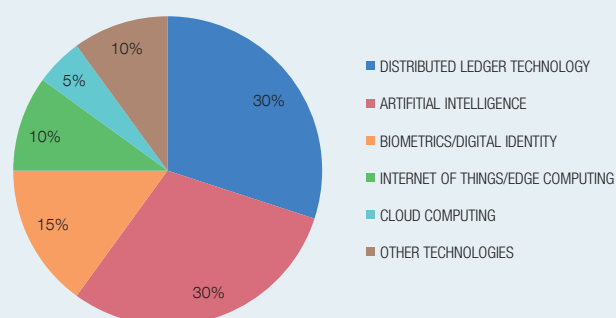
following their publication. These guidelines clarify issues such as the minimum information to be submitted, access requirements, types of communication between promoters and the SGTFI, and Sandbox deadlines. Lastly, the implications of Sandbox access for promoters are also clarified.⁵

Chart 1
PROMOTORS AND TECHNOLOGIES OF SANDBOX PROJECTS ANALYSED BY THE BANCO DE ESPAÑA

1 BY TYPE OF PROMOTOR (PROJECTS ASSESSED)



2 BY TYPE OF TECHNOLOGY (PROJECTS WITH FAVOURABLE PRIOR ASSESSMENT) (a)



SOURCE: Banco de España.

a Projects can use more than one technology. Technologies based on what the promotor reports in its request.

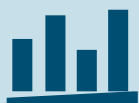
4 Available at <https://www.tesoro.es/solicitudes-para-el-espacio-controlado-de-pruebas>. The first version of these guidelines was published in June 2021. The second version was published in January 2022 for application to projects submitted from the third cohort onwards.

5 In accordance with Article 26 of Law 7/2020, supervisory authorities must include in this report an assessment of the implementation of the innovations tested in Sandbox and which are applicable to the enhanced performance of the supervisory function. However, as the testing of the first cohort has not yet been completed and the second cohort is in the protocol negotiation phase, the above-mentioned information will be included in future editions of this report.



3

MACROPRUDENTIAL POLICY



PERFORMANCE OF SYSTEMIC RISKS

In the customary monitoring of systemic risks through stress tests and indicators, no risk warnings were detected.



MACROPRUDENTIAL TOOLS

Two types of capital buffers are set regularly: CCyB and G-SII/O-SII buffers. Circular 5/2021 foresees three new instruments: i) sectoral component of the CCyB; ii) limits to sectoral concentration; and iii) limits and conditions on the granting of loans.



COUNTERCYCLICAL CAPITAL BUFFER (CCyB)

The CCyB rate was kept at 0% due to the absence of new imbalances in the credit cycle, which, however, continues to be influenced by the economic and financial effects of the pandemic.



SYSTEMICALLY IMPORTANT INSTITUTIONS

One global systemically important institution (G-SII) and four other systemically important institutions (OSIIs) were identified.



AMCESFI

2021 was the third year of activity of AMCESFI, the Spanish macroprudential authority for the financial system as a whole, in which the Banco de España participates.



COORDINATION IN THE SSM

The Banco de España collaborated with the ECB and the SSM national authorities in the following matters: i) analysis of risks to financial stability; and ii) exchange of information on national

3.1 Macprudential tools

Macprudential policy brings together a set of prudential tools designed to mitigate identified systemic risks and vulnerabilities and thus increase institutions' shock-absorbing capacity. The Banco de España regularly monitors systemic risk through a series of indicators and methodologies, such as, for example, stress tests on Spanish banks¹. On the basis of this analysis, the Banco de España regularly sets two macroprudential capital buffers to address the build-up of cyclical and structural risks, respectively: (i) the CCyB; and (ii) the buffers for Spanish global systemically important institutions (G-SII) and other systemically important institutions (O-SII).

Notably, at the end of 2021, the Banco de España completed the implementation of a circular on new macroprudential tools on credit institutions (see Box 3.1)². Also, the European macroprudential framework set out in the capital requirements regulations (CRR and CRD) will be reviewed in the coming months. In order to perform this review of the macroprudential framework, the European Commission has requested advisory reports from the ECB, the EBA and the ESRB.

3.1.1 Stress tests

Since 2014, the Banco de España has been conducting forward-looking exercises to measure the resilience of credit institutions to the hypothetical materialisation of macroeconomic and financial risks. The main objective of these stress tests is to assess Spanish credit institutions' robustness, in terms of solvency, under various macroeconomic scenarios that include assumptions about the evolution of the economy. These exercises are conducted using an analytical tool developed in-house, the so-called FLESB. The FLESB tool employs a top-down³ approach, using highly granular information available from regulatory and supervisory

1 For more details on risk identification indicators, see Banco de España (2021), [How do central banks identify risks? A survey of indicators](#). Banco de España Strategic Plan 2024: Risk Identification for the financial and macroeconomic stability, Occasional Papers, No. 2125.

2 For more information, see the revamped "Financial Stability and Macroprudential Policy" section of the Banco de España website.

3 Each autumn Financial Stability Report shows the results and the main methodological improvements included in the various exercises. Also, the basic structure of the framework can be seen in Banco de España (2013), [Financial Stability Report](#), November.

BANCO DE ESPAÑA CIRCULAR ON NEW MACROPRUDENTIAL TOOLS

The fundamental objective of macroprudential policy is to protect the economy from systemic risk. Given the multidimensional nature of systemic risk and its dynamic nature over time, a broad and varied set of macroprudential tools are needed to tackle it.

Thus, [Circular 5/2021](#), of 22 December, amending Circular 2/2016, implements the three new macroprudential tools introduced into Spanish legislation on credit institutions by Royal Decree-Law 22/2018 and Royal Decree 102/2019: (i) a sectoral component of the countercyclical capital buffer (SCCyB); (ii) sectoral concentration limits; and (iii) limits and conditions on lending and other operations (known as borrower-based instruments (BBI)).

Firstly, the rationale behind the SCCyB is that at certain times most of the systemic risks have been concentrated in exposures to specific sectors. In such cases, aggregate macroprudential tools would be less effective, since they are applied equally to all sectors, and they could even have counterproductive effects, such as a credit shift towards sectors with higher systemic risk, because these tools are not able to alter the relative costs of exposures to sectors with various levels of imbalance. Incorporating an SCCyB is a technical improvement to this buffer, since it enables its application both to exposures taken as a whole and to specific sectors, and even to both at the same time. Its activation for specific sectors will be determined on the basis of a broad range of early warning indicators of

sectoral imbalances in Spain, which are correlated with increases in systemic risk in the financial system.

Secondly, limits on sectoral concentration complement the SCCyB, as their activation curbs growth of concentration in specific sectors more directly than this buffer, as they limit the volume of exposures with respect to total available capital. Instead, the SCCyB would act through disincentives, by making the growth of credit exposure more expensive in terms of capital. Given that concentration is defined in terms of the ratio of sectoral exposure to institutions' Common Equity Tier 1 (CET1) capital, activating a limit would not imply an absolute ceiling on exposures.

Lastly, while the two above-mentioned tools affect both existing and new operations, the setting of limits and conditions on lending and other operations would affect only the flow of new credit, and their expected effect would be a reduction in the implicit risk of each new operation. There is evidence that the application of such limits when there is a general easing of lending standards by banks can help to significantly limit the materialisation of credit losses in subsequent downturns. Thus, the Circular establishes various limits and conditions that can be activated, such as limits on the maximum indebtedness of a borrower depending on several variables (collateral and income, among others), limits on the maturity of operations or minimum principal repayment requirements. These measures may be activated individually or jointly, and they may also be used with other macroprudential instruments.

reporting, and projects the evolution of institutions' balance sheets and income statements based on these scenarios over a three-year horizon.

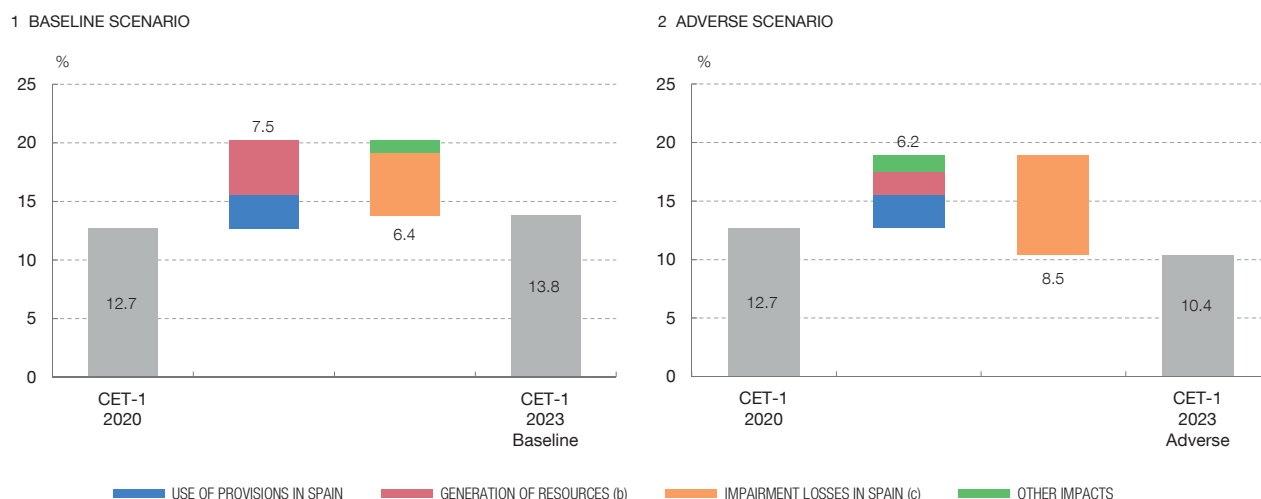
The 2021 stress tests build on the three-year scenarios of the EBA's 2021 stress test⁴. Therefore, they consider a baseline scenario, which reflects the most likely evolution of the economic environment over the year, and an adverse scenario, which envisages the materialisation of the main risks to the EU's financial system identified by the ESRB in relation to the uncertainty as to the evolution of the COVID-19 pandemic. In this exercise, uncertainty about the consequences of the pandemic

4 The scenarios can be found in the EBA [press release](#) of 29 January 2021.

Chart 3.1

FLESB STRESS TESTS. IMPACT ON THE CET1 RATIO (a)

Credit institutions show considerable resilience, despite the relatively high volume of impairment losses in the business in Spain in both scenarios. In the baseline scenario, use of provisions and generation of capital offset impairment losses, while in the adverse scenario, additional impairment losses and lower capacity to generate resources reduce the 2023 CET1 ratio with respect to the starting ratio, albeit above the minimum thresholds required.



SOURCE: Banco de España.

- a The net effect of the positive (negative) flows are indicated by the figure above (below) the corresponding bar. The initial and final CET1 ratios are presented as "fully-loaded". The rest of the impacts include the change in RWAs between 2020 and 2023 and the effect of the ICO guarantees. Aggregate results include both institutions supervised directly by the SSM and by the Banco de España.
- b This variable includes net operating income in Spain and net income attributable to business abroad. Thus, the possible capital generated by the banking group as a whole are compared with the impairment losses in Spain (the focus of these exercises).
- c This variable shows the projection over the three years of the exercise of gross losses due to credit portfolio impairment for exposures in Spain and other types of loss (associated with the fixed-income portfolio, the management of foreclosures and the sovereign portfolio).

remains high, so the FLESB tool has been adapted in two ways. Firstly, it considers the possibility of a latent deterioration in credit quality materialising over the forecast horizon, which did not materialise in 2020 thanks to the positive effect of support measures. Secondly, the effect of these measures is incorporated into the modelling, notably the extension of the ICO guarantee programme. In addition, the granularity of the modelling of the probability of default on loans to business activities is increased to reflect the disparity in the impact of the crisis depending on the borrower's sector of activity.

The aggregate results obtained, presented in Chart 3.1, show the high loss-absorbing capacity of Spanish⁵ credit institutions both in the baseline scenario and in the adverse scenario. Specifically, in the adverse scenario Spanish credit institutions would be able to maintain their CET1 ratio at 10.4%; in the baseline

⁵ The sample of institutions included in this aggregate result covers all SIs and a large portion of LSIs. For further references and for the results by type of institution, see Banco de España (2021), "Risks to the financial sector and its resilience", Chapter 2, Financial Stability Report, Autumn 2021.

scenario, the CET1 ratio would increase to 13.8%. However, it should be noted that there are significant differences among institutions as regards their initial solvency position, their response to various scenarios and the challenges they face in the current economic climate. Therefore, it is necessary that the supervisor continues monitoring in order to check that institutions have sufficient own funds even in the event of the materialisation of adverse scenarios and to assess their resilience in periods of stress.

Additionally, in 2021 the FLESB framework was used to assess the short-term effect, over a three-year horizon, of the costs arising from an energy transition⁶ scenario. Although increases can be observed in the probability of default that are asymmetric by sector and concentrated in sectors with higher emission intensity, these increases are limited, and none of the scenarios presented result in significant capital consumption for institutions. The exercise suggests that the potential impact through economic activity channels for the banking sector of the start of the energy transition would be contained. It is necessary to bear in mind that climate risks are subject to significant uncertainties and, therefore, analytical efforts on these risks must continue.

3.1.2 Countercyclical capital buffer

The Banco de España decided to maintain the CCyB rate at 0% for credit exposures in Spain in 2021 with the expectation to not increase it over a prolonged period, until the main economic and financial effects arising from the pandemic have been overcome⁷. The CCyB is a capital requirement designed to ensure that banks build up an additional capital reserve in financial upturns, when conditions are favourable, which would be released in a subsequent downturn so as to absorb credit losses and help mitigate the contraction in credit flows to the real economy inherent to such adverse situations. The economic recovery following the shock generated by the COVID-19 crisis is proving to be slower and more uneven than initially expected. To avoid undesired procyclical effects, the Banco de España has reiterated its intention not to increase the rate of this instrument, so as to contribute to sustaining the flow of credit and mitigate negative pressures on economic growth.

The recovery in economic activity helped to correct part of the imbalances generated during the pandemic on the set of indicators usually analysed for setting the CCyB, such as the credit-to-GDP gap. The credit-to-GDP gap measures the deviation of the aggregate indebtedness of the economy (credit-to-

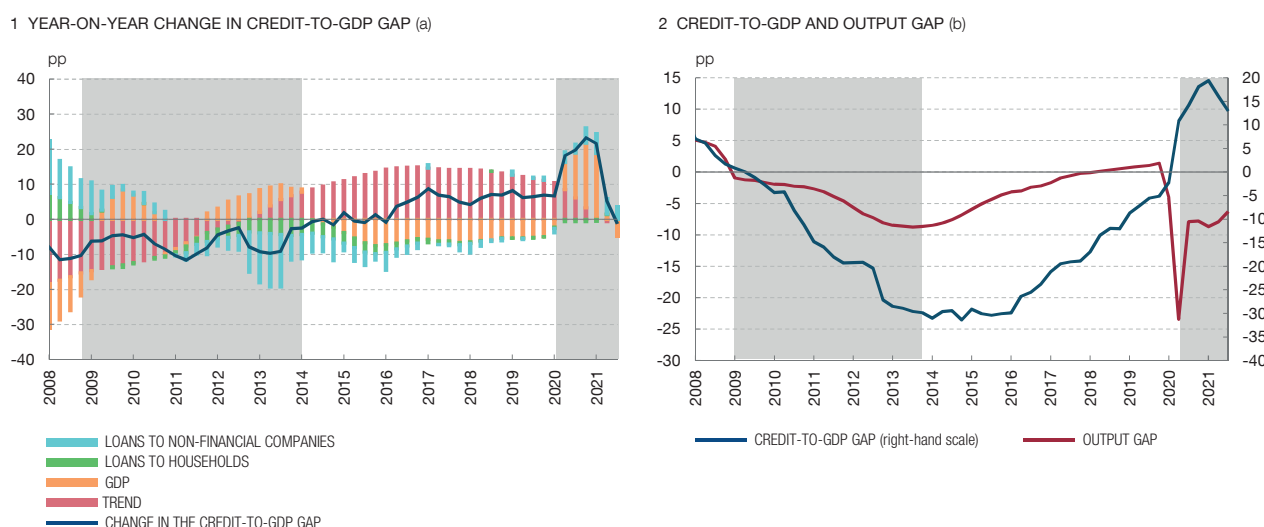
6 For more information, see Banco de España (2021), “[Impact of climate change risks on the banking sector](#)”, Box 3.1, Financial Stability Report, Autumn 2021.

7 See the current CCyB for exposures in Spain together with the macro-financial indicators relevant to the decision, as well as the justification for the measure in the [Excel document available on the Banco de España website](#).

Chart 3.2

CREDIT-TO-GDP GAP AND OUTPUT GAP

The widening of the credit-to-GDP gap was partially corrected in 2021 due to the recovery in GDP, although this indicator is still above the 2 pp threshold. Given the lower informative value of the credit-to-GDP gap in the current climate, it is worth considering indicators on developments in the macroeconomic environment, such as the output gap, for guiding CCyB decision-making.



SOURCE: Datastream and Banco de España.

NOTE: The shaded areas denote a period of systemic banking crisis (the last crisis: 2009 Q1 - 2013 Q4) and the systemic crisis triggered by Covid-19 (2020 Q1 - 2021 Q2).

- a** The solid line represents the year-on-year change, in percentage points, of the credit-to-GDP gap. The latest observation is for September 2021.
- b** The credit-to-GDP gap is the difference between the credit-to-GDP ratio and the trend calculated using a one-sided Hodrick-Prescott filter. The gap is adjusted to adapt its calculation to a shorter cycle duration that is more consistent with the empirical evidence in Spain. To this end, a smoothing parameter of 25,000 is considered. The output gap is the percentage difference between observed GDP and potential GDP. Values calculated at constant 2010 prices. See P. Cuadrado and E. Moral-Benito (2016), "Potential growth of the Spanish economy", Occasional Papers No 1603, Banco de España. The latest observation is for September 2021.

GDP ratio) from a long-term equilibrium trend⁸. This is the main benchmark indicator used in the quarterly reviews of the CCyB under normal conditions, since an increase in this indicator above the 2 pp threshold is a warning sign for potential excessive credit growth. However, during the pandemic this indicator lost some of its informative value because it spiked due to the sharp exogenous fall in GDP.

Therefore, the positive level of this indicator would not be related to the build-up of cyclical risks likely to require the activation of the CCyB. In fact, the economic recovery that started in 2021 has led to a partial downward correction of the credit-to-GDP gap (see panel 1 of Chart 3.2). In these circumstances, it is worth considering other supplementary indicators that provide information on the cyclical position of the economy. For example, the output gap measures the difference between actual and potential growth of the Spanish economy. This indicator shows that the recovery

⁸ This trend is calculated using statistical procedures, using a one-sided Hodrick-Prescott statistical filter.

that started in 2021 still has a long way to go to fully correct all the deterioration accumulated during the pandemic (see panel 2 of Chart 3.2).

3.1.3 Systemically important institutions

Since 2015, the Banco de España has identified the Spanish systemically important institutions each year and has set their macroprudential capital buffers. An institution is deemed systemic —globally or domestically— if, in the event of potential solvency problems, it can have a very adverse impact on the financial system and the real economy. Accordingly, an additional capital requirement is imposed on systemic institutions to reinforce their resilience and incentivise prudent risk-taking and also to correct their potential competitive advantage in the funding market stemming from their systemic nature. Systemic importance is assessed by a set of variables that measure institutions' size, degree of interconnectedness, substitutability of services provided, complexity and cross-border activity.

At 31 December 2021, one G-SII and four O-SIIs had been identified. In July 2021 the Bank of Spain announced the designation of four O-SIIs with their associated capital buffers in 2022⁹, while in December 2021 it announced the identification of one G-SII with its 2023 requirement (see Table 3.1)¹⁰. A noteworthy development with respect to the previous year was that BFA Tenedora de Acciones, SAU ceased to be an O-SII at the end of March 2021, given the integration of Bankia, SA into CaixaBank,

Table 3.1

SYSTEMICALLY IMPORTANT INSTITUTIONS AND ASSOCIATED CAPITAL BUFFERS

LEI code (a)	Institution	Designation	Capital buffer requirement 2021	Capital buffer requirement 2022
5493006QMFDDMYWIAM13	Banco Santander, SA	G-SII and O-SII	1.00%	1.00%
K8MS7FD7N5Z2WQ51AZ71	Banco Bilbao Vizcaya Argentaria, SA	O-SII	0.75%	0.75%
7CUNS533WID6K7DGF187	CaixaBank, SA	O-SII	0.25%	0.38%
SI5RG2M0WQQLZCXKRM20	Banco de Sabadell, SA	O-SII	0.25%	0.25%
549300GTOXFTFHGOIS94	BFA Tenedora de Acciones, SAU (Bankia, SA)	O-SII	0.25% (b)	—

SOURCE: Banco de España.

a The LEI code is the Legal Entity Identifier.

b The requirement for BFA Tenedora de Acciones, SAU was effective until 26 March 2021, the date on which Bankia, SA was consolidated in CaixaBank, SA.

⁹ See the press release of 29 July 2021 “Banco de España updates the list of other systemically important institutions and sets their macroprudential capital buffer rates for 2022”.

¹⁰ See press release “Banco de España designates a Global Systemically Important Institution and establishes its macroprudential capital buffer rate for 2023” of 20 December 2021.

SA. The resulting rise in CaixaBank's systemic importance led to an increase in its associated capital buffer (to 0.375% in 2022 and 0.5% in 2023).

3.2 Macprudential coordination with other authorities in Spain and in the SSM

The Banco de España actively contributes to AMCESFI's regular activities¹¹. AMCESFI performs risk oversight functions for the Spanish financial system, and it has the power to issue opinions, warnings and recommendations on issues of importance to financial stability. The Governor of the Banco de España is Vice-Chair of the AMCESFI Board, and the Deputy Governor, as well as sitting on the Board, chairs its Financial Stability Technical Committee (FSTC). Further, the Banco de España's Director General Banking Supervision and Director General Financial Stability, Regulation and Resolution are ex officio members of the FSTC.

In 2021, AMCESFI published its second Annual Report, an analytical occasional paper and an advisory opinion on a draft macroprudential measure. On 6 October 2021, the First Deputy Prime Minister of the Government and Minister for Economic Affairs and Digital Transformation presented the AMCESFI 2020 Annual Report¹² to the corresponding committee of the Spanish Parliament. It reviews the evolution by sector of the Spanish financial system in 2020, a year marked by the onset of the COVID-19 pandemic. At the technical level, AMCESFI's efforts were geared towards developing its capacity to analyse direct and indirect interconnections between sectors of the financial system, and monitoring public fiscal support measures adopted in response to the pandemic¹³. On the occasion of the 2022 O-SII designation measure, AMCESFI agreed in July to issue a favourable opinion¹⁴ on the proposal communicated to it by the Banco de España.

In the framework of the SSM, the Banco de España collaborates with other national authorities and with the ECB on various macroprudential policy and analysis issues. Through the ECB's Financial Stability Committee (FSC) and its technical working groups, the Banco de España participated in 2021 in discussions on financial stability risks and vulnerabilities, as well as in the implementation of new methodologies on stress tests and measurement of systemic risks related to climate change, among other issues. The work of the FSC is regularly presented to the Macprudential Forum, which brings together members of the SB and the Governing

11 The AMCESFI was created in 2019, by Royal Decree 102/2019 of 1 March, and is configured as a collegiate body attached to the Ministry of Economic Affairs and Digital Transformation, of which the CNMV and the DGSFP also form part.

12 AMCESFI (2021), [Annual Report 2020](#).

13 This issue was the subject of the AMCESFI document "[Analysis of the public support measures adopted in Spain to tackle COVID-19](#)", July 2021.

14 See "[AMCESFI Opinion on the macroprudential measure by the Banco de España on other systemically important institutions \(O-SIIs\) for 2022](#)" of 22 July 2021.

Council of the ECB. As an SSM authority, the Banco de España reported in 2021 on its proposals for quarterly CCyB measures and annual G-SII and O-SII measures. These notifications of national measures are subject to a review process by the ECB's decision-making bodies.



4

SUPERVISION OF INSTITUTIONS' CONDUCT



CONDUCT CULTURE

Governance and oversight of retail banking products.



RESPONSIBLE LOAN

Revolving cards, consumer credit, real estate credit.



CROSS-INSTITUTIONAL ACTIONS

Analysis of various institutions' conduct on a given matter to ascertain the degree of compliance with the organisational and disciplinary rules and to identify best practices. Noteworthy is that relating to remote marketing of current and savings accounts.



SUPERVISORY TOOLS

Supervision guides.
Suptech tools.
Regular reporting, including the new confidential returns on conduct. Visits to bank branches (supervision at the point of sale).



2021 SUPERVISORY ACTIVITIES

175 supervisory actions.
Monitoring of supervisory measures.
Monitoring of institutions.
Special monitoring (advertising, CSDs, claims and consultations).



2021 SUPERVISORY MEASURES

Initiation of 5 sanctioning proceedings.
44 requirements.
23 recommendations.
146 advertising requirements.

Supervision of effective compliance with the banking organisational and disciplinary rules establishing conduct and reporting obligations, as bank customer protection measures, is essential to preserve public confidence in the banking system and to promote the stability of the financial system.

In 2021, supervision was marked by the expectation of recovery to the pre-pandemic situation. There was a gradual normalisation in the performance of supervisory activities to a certain degree, refocusing efforts to ensure appropriate conduct of institutions, in particular with regard to the way in which they relate to customers in the context of taking out banking products and services.

Special attention was paid to the process of digitalisation of institutions and its potential impact on the marketing of banking products and services and on customer relations. Since the start of the pandemic, there has been very substantial growth in banking products and services being taken out digitally. In this respect, there is a constant evolution of institutions' business models and the entry of new operators that provide their services, especially in a digital environment. In view of these new developments, supervision of conduct gains greater significance with the objective of ensuring, at an early stage, that customers receive adequate information that is tailored to the manner in which the service is provided.

4.1 Conduct-related supervisory activity

Following the line of work of previous years, the planned supervisory activity continued in 2021, including both supervisory actions and ongoing monitoring work. Unplanned supervisory needs that arose in the course of the year were also addressed.

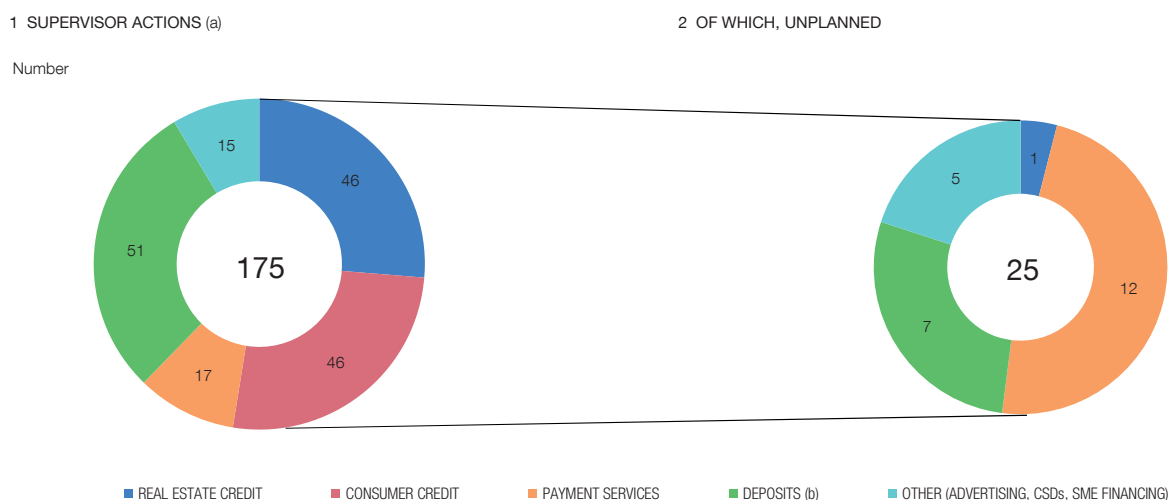
A large part of the supervisory actions, shown in Chart 4.1, have been cross-institutional in scope. This type of action analyses the conduct of various institutions in relation to a specific matter, to ascertain the degree of compliance with organisational and disciplinary rules, identify best banking practices and provide a uniform response to ensure transparency in the sector.

The topics of these cross-institutional supervisory actions have been varied. Noteworthy among these actions, due to their importance, are those related to consumer credit, where the issues analysed included responsible lending practices and policies, loans granted in the form of overdrafts on demand deposits or financing for car purchase (the latter action is described in detail in Box 4.1). Also in relation to

Chart 4.1

CONDUCT-RELATED SUPERVISORY ACTIONS IN 2021 BY SUBJECT MATTER

Supervisory actions were focussed mainly on the areas of activity relating to consumer credit, real estate credit, deposits and payment services.



SOURCE: Banco de España.

a Of these supervisory actions, 98 were initiated before the beginning of 2021.

b Deposits include, inter alia, current and savings accounts.

consumer credit, the review work continued on the measures adopted by institutions following the cross-institutional action on the marketing of revolving cards, which is detailed in Box 4.2, and two inspections of two credit institutions were completed, giving rise to the adoption of the supervisory measures described in section 4.3.

In the area of real estate credit, cross-institutional actions were also carried out. Their objective was to verify the correct application of “floor clauses”, i.e. clauses that set a lower limit on interest rates, the information provided on the interest rates applied and the transparency of new mortgage transactions arranged following the implementation of supervisory measures in previous years.

Similarly, the remote marketing of current and savings accounts and the transfer of payment accounts were verified by means of cross-institutional actions. Institutions’ adequate governance in terms of conduct requires that, regardless of the channel used for marketing products and services, customer relations should always be responsible and transparent. To ensure that this is the case, once the main health restrictions arising from COVID-19 had been overcome, a supervisory action was carried out in bank branches during 2021 to verify compliance with certain obligations on transparency and customer protection in banking services, in particular with respect to payment accounts. Box 4.3 contains information on this matter.

SUPERVISION OF FINANCING FOR CAR PURCHASE

In 2021, a cross-institutional supervisory action was completed, assessing compliance with regulations on transparency and bank customer protection in the area of consumer credit for car purchase, on a representative sample of 14 institutions.

It is common practice that, together with this type of financing, financial institutions offer, either directly or through a network of intermediaries (such as car dealers), other financial products or ancillary services relating to the credit agreement, such as, for example, insurance securing the credit. Institutions also tend to offer discounts on the purchase price of the vehicle for taking out such financing.

The action was focused on examining institutions' common practices, procedures and internal controls in relation to this activity, and it involved an assessment of the degree of compliance with the obligations contained in Law 16/2011 of 24 June on consumer credit agreements, mainly. In particular, special attention was paid to the following matters:

- The content of pre-contractual information and the manner in which this information is provided to customers in accordance with transparency and bank customer protection regulations.

- The adequacy of pre-contractual information in cases in which ancillary products or services are marketed or discounts are offered on the vehicle purchase price.
- Contractual information and customer rights in relation to credit agreements.
- The contractual information being in line with the pre-contractual information.
- Responsible lending.
- Regular information provided to the customer on the products and services taken out.
- Governance of the financing products offered, assessing in particular the suitability of: (i) the design and marketing of these products; and (ii) the functions performed by intermediaries.

The supervisory action was resolved by sending mandatory requirements and recommendations letters to the institutions, and transferring the good practice criteria that guide regulatory action in this area.

Also, the marketing of various types of banking products through digital channels has also been reviewed. The aim is to ensure that the lack of physical interaction does not undermine compliance with transparency and customer protection regulations. Figure 4.1 contains the basic requirements to be fulfilled in the area of remote marketing.

The digital transformation of the banking sector, which is essential for maintaining a viable and sustainable banking business model in the medium and long term, must be carried out respecting best banking practices and ensuring compliance with conduct regulations, in order to avoid impacting trust, which is key to the banking business.

In addition, in 2021 monitoring continued on customer claims and the activity of institutions' customer service departments (CSDs)¹, both of which are important aspects for ensuring the correct conduct of the institutions. It is

¹ For further details, see Banco de España (2021), "Supervision of customer service departments", Box 4.2, 2020 Supervision Report.

IMPLEMENTATION OF SUPERVISORY MEASURES IN THE MARKETING OF REVOLVING CARDS AND NEW REQUIREMENTS

The review of adequate compliance with the transparency and customer protection regulations in the marketing of revolving cards, which was completed in 2020, disclosed the presence of certain incidents relating mainly to compliance with certain obligations of Law 16/2011 of 24 June on consumer credit agreements and Ministerial Order EHA/2899/2011 of 28 October on transparency and customer protection in banking services.

The Banco de España addressed these institutions so that they remedy the deficiencies and weaknesses detected, mainly in relation to:

- The product, the minimum instalments allowed and the omission of the term “revolving” in its marketing.
- The representative example to be included in the advertising information.
- The assistance to be given to the customer, prior to the contract, for its comprehension.
- The content, format and date of delivery of the pre-contractual information document.
- Adequate assessment of the customer's creditworthiness.

The assessment of compliance with the measures requested by the Banco de España has shown that these institutions have carried out a thorough review of their product and marketing procedures. They have also implemented various initiatives to improve the information

provided to customers, such as explanatory documents or videos, loan repayment examples and scenarios or simulators to draw up repayment tables, training courses for employees and prescribers, and the development of new marketing and contracting processes in online banking, among others.

In the same vein, the amendments introduced in the regulations by Ministerial Order ETD/699/2020 of 24 July on the regulation of revolving credit established new requirements for these credits, including, inter alia: i) the inclusion of certain parameters in the representative example of advertising; (ii) the reinforcement of prior assistance on the streets and other places open to the public; (iii) the provision of a document with information additional to the Standard European Consumer Credit Information and new regular information, including the instalment that allows the total amount of credit to be repaid in a year; or (iv) the calculation, in the assessment of the customer's creditworthiness, of instalments that aim to repay annually 25% of the limit of the credit granted.

Lastly, with the imminent amendment of Circular 5/2012 on the transparency of banking services and responsible lending, the Banco de España will establish the criteria and elements to be taken into account for the preparation of: i) the representative example to be provided to the customer together with the Standard European Consumer Credit Information, based on the minimum instalment; and ii) the examples of savings scenarios to be provided to the customer, on a quarterly basis, where the repayment instalment is less than 25% of the limit granted.

precisely the ongoing supervision of the proper functioning of CSDs that made it possible to publish in 2021 the first conduct supervision guidelines on the organisational and operational criteria of the CSDs. It contains the supervisory criteria derived from the experience accumulated in this area since 2015.

Similarly, the supervision of advertising of banking products and services played an important role in 2021². Thus, in the course of the year, particular

² For further details, see Banco de España (2021), “[Supervision of advertising activity](#)”, Figure 4.2, 2020 Supervision Report.

MARKETING OF PAYMENT ACCOUNTS AT BANK BRANCHES

Following the transposition of the new EU regulation into Spanish law in the area of payment services, a new environment for payment accounts, inter alia, has been established. In addition, it is necessary to take into account the statistics on enquiries, complaints and claims received by the Banco de España on this product, which are included in the latest Complaints Report, and the incidents detected in the opening and operation of these accounts.

In the marketing of banking products, and in particular payment accounts, it is especially important that the explanations and clarifications that are given the moment the product is taken out are provided by the staff who deal with customers in the marketing of this product.

In relation to this work, in the last quarter of 2021 a supervisory action was carried out consisting of visits to

bank branches in order to verify that the staff carrying out this work have adequate knowledge and skills. A total of 152 bank branches of 12 institutions were visited throughout Spain, which had been selected in order to obtain as heterogeneous as possible a combination of cities and towns. The aspects reviewed (through interviews with staff who deal with customers) include, inter alia, explanations and documents offered to customers requesting the opening of an account, the transfer of an account, information on basic payment accounts, or explanations on electronic banking.

The visits to branch networks are a tool available to the Banco de España to boost the effectiveness of supervisory work and to reinforce institutions' appropriate culture of conduct, which could be resumed in 2021, following on from the supervisory actions carried out in 2019¹.

¹ For further details, see Banco de España (2020), "Monitoring compliance with transparency obligations at bank branches", Box 4.2, *Report on Banking Supervision in Spain, 2019*.

attention was paid to the way in which institutions have adapted to Banco de España Circular 4/2020 of 26 June on the advertising of banking products and services. To this end, as well as reviewing the advertising of banking products and services disseminated by supervised institutions, the commercial communication policies of various institutions were analysed to verify the implementation of adequate controls to manage risks arising from the advertising activity, all with the aim of ensuring that the advertising received by customers is sufficient, objective and not misleading.

As can be seen, in recent years the conduct-related supervisory activity has become increasingly important and the aspects analysed have broadened. This requires the provision of specific new tools and information by the supervisor.

To this end, Banco de España Circular 4/2021 of 25 November to credit institutions and other supervised institutions on confidential return models relating to market conduct, transparency and customer protection and on the complaints register was published. This Circular incorporates new reporting specially designed to improve knowledge of institutions' business models, their sources of income and the origin of incidents with customers in the course of their activities. The objective is to obtain information to assess institutions' conduct

Figure 4.1

TRANSPARENCY AND DIGITALISATION

TRANSPARENCY IN REMOTE MARKETING		
APPROPRIATE EXPLANATIONS	PRE-CONTRACTUAL INFORMATION	CONTRACTS
<ul style="list-style-type: none"> — Appropriate explanations must be provided regarding the products offered and the process of taking out products remotely. — By means of clear, comprehensive and sufficient information — The information needs to be adapted to the product's marketing channel. Therefore, the availability to customers of data transfer tools must be assessed. 	<ul style="list-style-type: none"> — It must be provided in good time. — Using a durable medium. — With clear and concise language and paying attention to style, to facilitate its reading and comprehension depending on the marketing channel. — And in line with regulatory requirements 	<ul style="list-style-type: none"> — Their content must be consistent with the pre-contractual information and in line with regulations. — Each and every product that is taken out and their specific conditions must be specified in a simple, clear and transparent manner. — The contracts entered into by electronic signature must contain the date, reference and certifying authority.

SOURCE: Banco de España.

profile, which will allow a more precise identification of supervisory priorities in this area. Figure 4.2 outlines the main aspects of this new reporting model.

4.2 Other actions

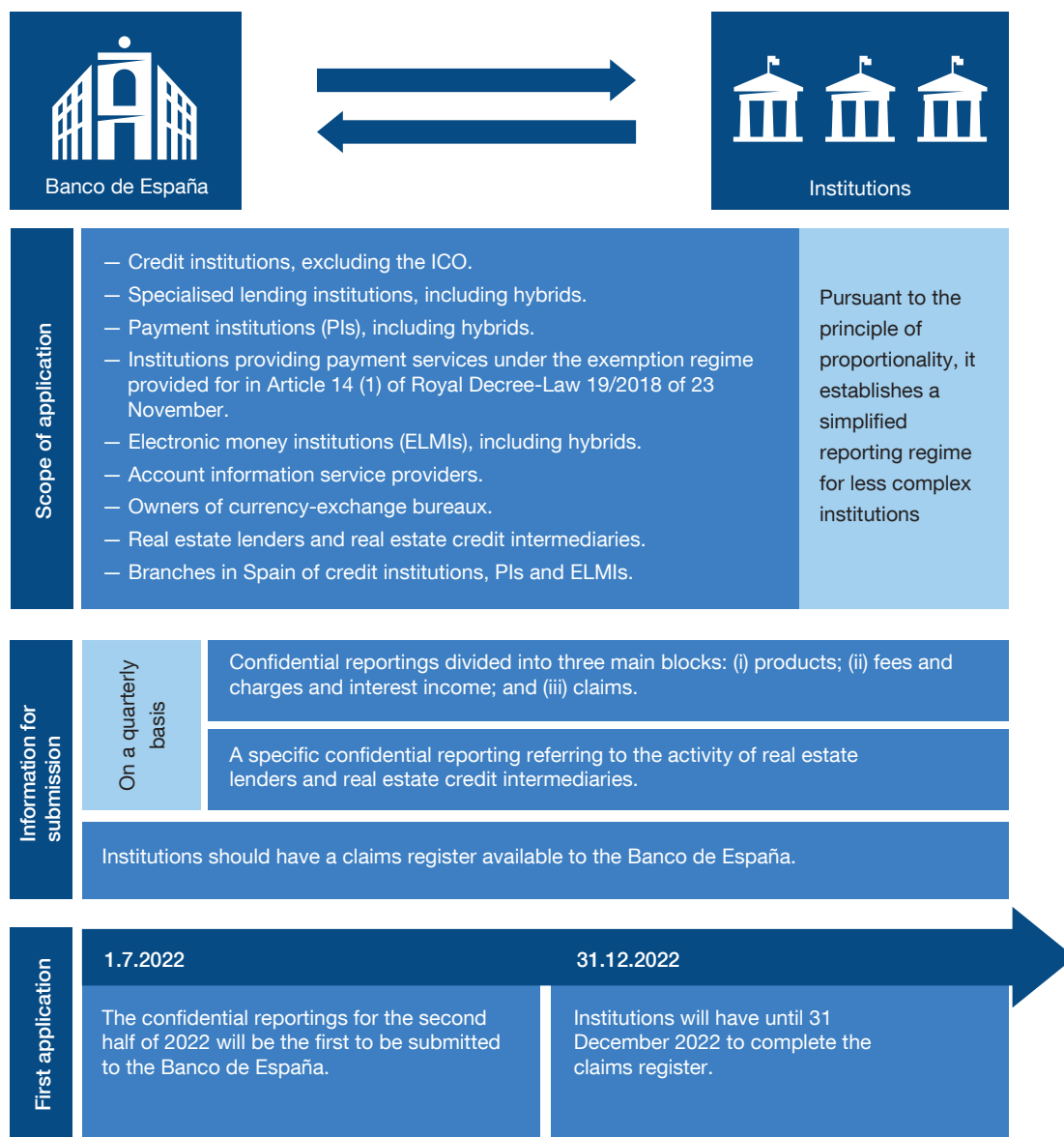
In addition to the above-mentioned actions, in 2021 twelve inspection actions were also carried out to verify the information reported to the Banco de España by the supervised institutions in the “Interest rates on lending transactions in Spain with the resident private sector” reporting included in Annex 9 of Circular 5/2012, with the objective of contributing to the preparation of benchmark indices, and various supervisory measures were adopted.

Also, a further supervisory action was carried out to gather information on consumer exposures affected by the elimination of certain benchmarks (for more information on the elimination of benchmark rates, see Box 2.4). Figure 4.3 contains information on this action.

4.3 Adoption of supervisory measures

Noteworthy among the supervisory measures adopted in 2021 were the initiation of 5 sanctioning proceedings and the issue of 44 requirements. It

Figure 4.2

CONFIDENTIAL REPORTINGS ON MARKET CONDUCT, TRANSPARENCY AND CUSTOMER PROTECTION AND ON THE CLAIMS REGISTER



SOURCE: Banco de España.

should be noted that the two inspections on consumer credit culminated in two requirements letters being sent to resolve the incidents detected and in the initiation of the corresponding sanctioning proceedings due to, among other reasons, the deficiencies found in the marketing of loans and consumer credit and in the information provided to customers relating to the settlement of interest, fees and expenses.

The supervisory work also includes checking effective compliance with the requirements and recommendations issued by the Banco de España in previous

Figure 4.3

ELIMINATION OF LIBOR AND ITS IMPACT ON MULTI-CURRENCY MORTGAGE CONTRACTS INDEXED TO LIBOR

31.12.2021	<p>As from this date, all LIBOR benchmarks in GBP, CHF, EUR and JPY and some in USD (1 week and 2 months) are eliminated. In June 2023 the remaining USD benchmarks will cease to be published.</p>
	<p>In view of the elimination of the GBP, CHF, EUR, JPY and USD LIBOR benchmarks, the supervised institutions must guarantee the continuity of contracts and the protection of customer interests (especially with regard to renegotiating current contracts). To this end, they must:</p> <ul style="list-style-type: none"> — Correctly identify and assess the risks and potential impacts arising from their exposure to LIBOR. — Assess the adoption of any measures that may be appropriate to manage a correct and global transition of their exposures, and make their best efforts to reach agreements with customers to replace LIBOR, especially in cases where the contract does not have an adequate fallback provision.
SUPERVISORY ACTIVITY	<p>The Banco de España carried out a supervisory activity with the aim of gathering information on exposures to consumers affected by the various LIBOR benchmarks.</p> <p>In particular, it has requested that institutions provide information on: i) the volume of exposure of individual consumer customers to the various benchmarks; ii) the applicable replacement provisions; and iii) the strategies or procedures planned for its replacement.</p>

SOURCE: Banco de España.

years. This monitoring work is key to verifying that institutions remedy the shortcomings detected in the supervisory work, thus achieving effective customer protection.

As a result of the supervision of advertising activity, 146 requirements were issued to withdraw or rectify advertising that did not comply with regulatory requirements.

Chart 4.2 provides a breakdown of all the above-mentioned supervisory measures.

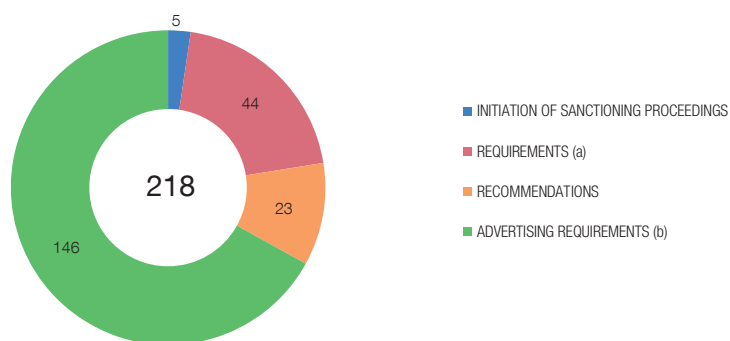
Lastly, in addition to the adoption of the above-mentioned supervisory measures, the supervision of CSDs gave rise to letters being sent to institutions. Specifically, 459 letters were sent in the course of 2021 as a result of the verification of the operating rules of CSDs and suitability assessments of their head officers.

Chart 4.2

SUPERVISORY MEASURES ADOPTED AND ADVERTISING REQUIREMENTS IN 2021

In 2021, as a result of the supervisory actions carried out, 5 sanctioning proceedings were initiated, and 44 requirements and 23 recommendations were issued mainly on matters relating to, inter alia, consumer credit, remote marketing of current accounts and transparency in arranged real estate credit transactions. Additionally, within the framework of the supervisory activity relating to advertising, 146 requirements were issued.

Number



SOURCE: Banco de España.

a The 44 requirements letters contain 416 specific requirements for institutions.

b Of the 146 advertising requirements issued in 2021, at year-end 57 had resulted in the removal of advertising and 77 in the rectification of advertising.



5

OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES



TARGET2 OVERSIGHT

Eurosystem approval of the action plan to address the recommendations stemming from the review of incidents in TARGET2 services



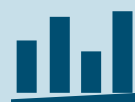
CARD OPERATION OVERSIGHT

Fraud rate in Spain in the first half of 2021: 0.023 % (in terms of number of operations), lower than in 2020 (0.032%)



OVERSIGHT FRAMEWORK

New Eurosystem oversight framework for payment instruments, schemes and arrangements (PISA framework)



PAYMENT STATISTICS

Regulatory and technical work deriving from the new ECB regulation on payment statistics to be approved and applied in the first half of 2022



IBERPAY SUPERVISION

New version of the SNCE Regulation and positive evaluation of 8 operating instructions



OVERSIGHT OF SECURITIES MARKET INFRASTRUCTURES

Monitoring by the Banco de España, as relevant authority in accordance with the CSDR, of the recommendations identified in 2019 in the Iberclear authorisation procedure

Most trade and financial transactions are cleared, settled and registered through financial market infrastructures. Therefore, central banks are entrusted with their supervision and/or oversight.

5.1 Oversight of payment systems and instruments

Payment systems provide essential services to the real economy, offering efficient mechanisms for the payment of any purchase of goods or services. Ensuring the smooth operation of payment systems has traditionally been the responsibility of central banks through their oversight function. This task extends to payment instruments, a key component of these systems, as they enable end-users to transfer funds.

5.1.1 Payment systems

Within the Eurosystem's cooperative oversight arrangements, the Banco de España participates in the oversight of the real-time gross settlement system TARGET2, which is coordinated by the ECB. This system, operated by the national central banks of the euro area countries, has been identified as a systemically important payment system (SIPS). The evolution of total TARGET2 and of the Spanish component is presented in Chart 5.1.

In 2021, one of the key activities in the oversight of this system was the analysis of incidents experienced in 2020 on the platform. In this context, the [report containing the outcome of the independent review](#) commissioned following the major incidents that occurred in TARGET services last year was published on the ECB website. The Eurosystem has developed a comprehensive action plan to address both the recommendations arising from this independent review and those issued for the same incidents by the oversight and internal audit functions. This action plan covers six workstreams, relating to change and release management, business continuity management, failover and recovery tests, communication protocols, governance, and data centre and IT operations.

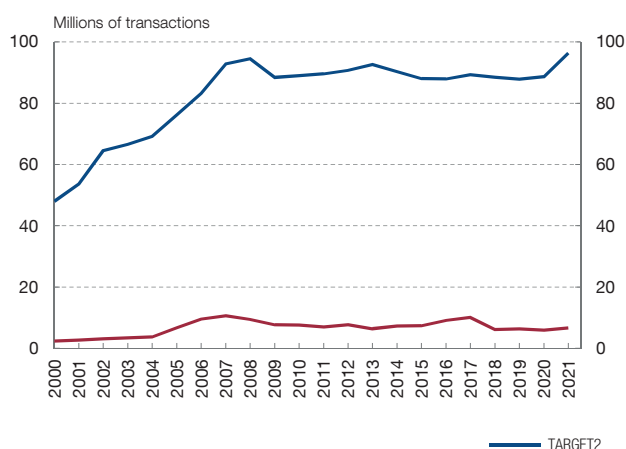
Furthermore, the Banco de España also participates in the cooperative oversight of the other pan-European payment systems. In 2021, oversight activities were focused, on the one hand, on monitoring the recommendations issued for the SIPS operated by EBA Clearing, EURO1 and STEP2, resulting from

Chart 5.1

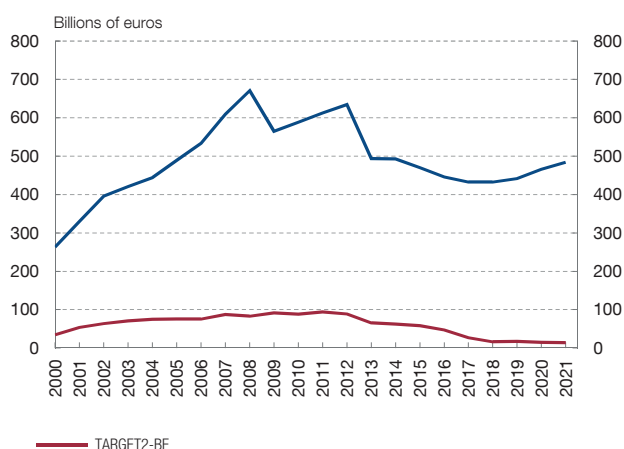
OVERVIEW OF TARGET2 AND TARGET2-BE OPERATIONS

In 2021 the Spanish component, TARGET2-BE, represented 6.9% of the number of transactions processed in TARGET2 and 2.8% of the total value of the transactions.

1 NUMBER OF TRANSACTIONS PER YEAR



2 VALUE OF TRANSACTIONS PER YEAR



SOURCE: Banco de España.

previous assessment exercises —which mainly relate to the implementation of the *Cyber resilience oversight expectations for financial market infrastructures*— and, on the other hand, on the assessment of the new STEP2 settlement system and on a change considered important for EURO1, which affects the functioning of its liquidity pool. With regard to the Mastercard clearing and settlement system¹, a preliminary analysis was performed on the system's compliance with the SIPS Regulation², given its recent identification as a systemically important system.

In the national arena, the Banco de España, as the primary overseer of the National Electronic Clearing System (the SNCE, by its Spanish acronym), managed by Sociedad Española de Sistemas de Pago, SA (Iberpay), monitored the impact of the Coronavirus crisis on the SNCE. Box 5.1 details the effect on this system and, in general, on payment infrastructures and instruments in 2021. In any case, and as Chart 5.2 shows, SNCE operations recovered in 2021, in terms of both the value and number of transactions, mainly as a result of the significant boost of immediate transfers.

In addition, contacts have been held with Iberpay to discuss various issues, in particular those relating to cybersecurity. For example, Iberpay was informed of the

1 Mastercard Clearing Management System, operated by Mastercard Europe, SA, was identified as SIPS in May 2020.

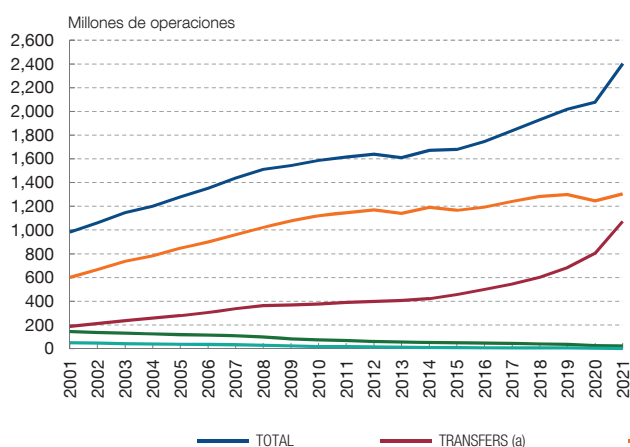
2 Regulation (EU) No 795/2014 of the European Central Bank of 3 July 2014 on oversight requirements for systemically important payment systems.

Chart 5.2

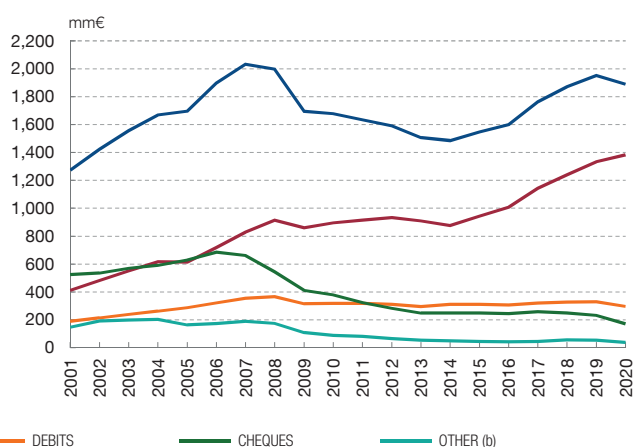
OVERVIEW OF SNCE OPERATIONS

Direct debits account for 54% of the number of transactions processed by SNCE. In terms of value, credit transfers account for the highest share (75% of the total).

1 NUMBER OF TRANSACTIONS PER YEAR



2 VALUE OF TRANSACTIONS PER YEAR



SOURCE: Banco de España, based on Iberpay data.

a Including immediate transfers as from 2018.

b Including bills of exchange and other.

adoption by the Banco de España of the advanced cybersecurity testing framework published by the ECB (TIBER-EU) for the Spanish financial sector (see Box 2.4), in which it will be able to participate on a voluntary basis. These contacts, together with statistical monitoring, form part of the ongoing oversight of the infrastructure.

5.1.2 Payment instruments

As with payment systems, the oversight of payment instruments is also conducted in a cooperative manner in the Eurosystem, applying the same common standards that comprise the Eurosystem's oversight rules. Currently, the Visa Europe, Mastercard Europe³ and American Express card schemes are pan-European payment schemes⁴, as well as the SEPA⁵ payment schemes managed by the European Payments Council (EPC): the transfer scheme (SCT), the instant transfer scheme (SCT Inst) and the direct debit scheme (SDD Core) and business-

3 A scheme is a set of formal, standardised and common rules enabling value between end-users to be transferred by means of electronic payment instruments.

4 It is important to distinguish between Mastercard Europe's role as manager of the card scheme and its role as SIPS operator.

5 SEPA stands for Single Euro Payments Area.

to-business direct debit scheme (SDD B2B). In all these cases, the primary overseer is the ECB, with the exception of Mastercard, where the Central Bank of Belgium leads the oversight team.

In 2021, statistical monitoring on the operation of SEPA payment schemes was conducted, having been strengthened since March 2020 due to the COVID-19 crisis. Recommendations outstanding from previous evaluations were also monitored, and the updates made to its rulebooks by the EPC were assessed. The oversight activities on Visa Europe and American Express were focused on monitoring their evolution during the pandemic and on reviewing their operating rules.

In October 2021, the ECB published its [seventh report on card fraud](#) on its website, with data up to 2019. The report analyses fraudulent transactions involving cards issued in the SEPA area. Among its findings, it highlights that 2019 saw the second lowest percentage of fraudulent card payments since 2007. Specifically, the fraud rate for the SEPA area in 2019, in terms of the value of transactions, stood at 0.036%, which means that for every €10,000 of spending using cards issued by SEPA, there is fraud of €3.6. The same report puts this rate at 0.042% for Spain. In terms of the number of transactions, these fraud rates were 0.024% for the SEPA area and 0.029% for Spain.

On the other hand, and based on the information provided by Sistema de Tarjetas y Medios de Pago, SA⁶, the fraud rate in Spain during the first half of 2021 was 0.023% in terms of the number of transactions, which represents a clear decline with respect to 2020 (0.032%), to which the deployment of the SCA in remote card transactions has undoubtedly made a significant contribution.

The [new Eurosystem oversight framework for electronic payment instruments, schemes and arrangements](#) (known as the “PISA framework”) was approved on 22 November 2021, and it will come into effect one year after its publication. The new framework represents a change in the approach to oversight with respect to the current framework, in order to adapt it to the risks arising from a payment ecosystem in continuous transformation due to innovation and technological changes. In addition, the PISA framework extends the scope of oversight to those payment institutions and services that are becoming increasingly important in the payments environment⁷.

The Banco de España is also the principal overseer of Sistema de Tarjetas y Medios de Pago, SA. It conducts ongoing oversight of the scheme and, in particular, it performs statistical monitoring of its operations, including fraud data. Chart 5.3

⁶ The data refer to transactions with Spanish VISA and Mastercard card schemes.

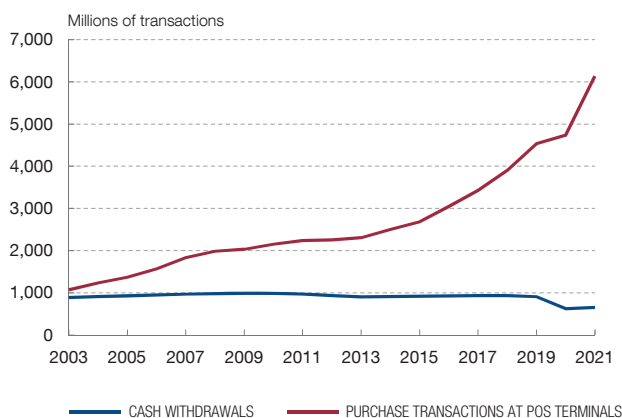
⁷ For more information, see Banco de España (2021), “[The new Eurosystem oversight framework for payment instruments, schemes and arrangements](#)”, Box 5.2, 2020 Supervision Report.

Chart 5.3

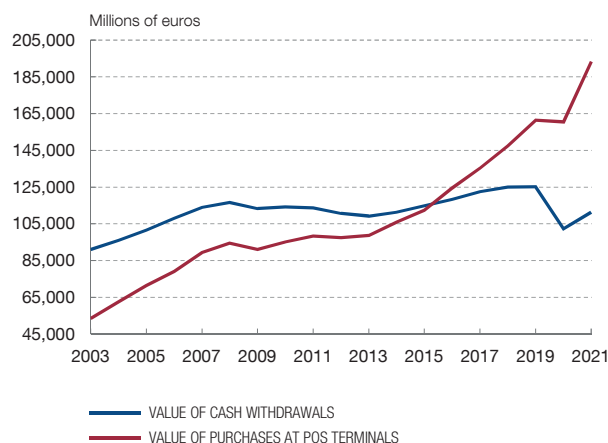
OVERVIEW OF OPERATIONS WITH CARDS

Cash withdrawals continued to fall in terms of number of transactions, which was combined with a very notable increase in card payments in 2021, in terms of both volume and value.

1 ATM CASH WITHDRAWALS AND TRANSACTIONS AT POS TERMINALS



2 VALUE OF ATM CASH WITHDRAWALS AND OF TRANSACTIONS AT POS TERMINALS



SOURCE: Banco de España, based on Sistema de Tarjetas y Medios de Pago data.

NOTE: The levels for 2021 were estimated on the basis of the variable's behaviour in the first three quarters of the year.

shows the recent evolution of card transactions in Spain, which was affected by the COVID-19 crisis, as described in Box 5.1.

Lastly, the Banco de España is preparing a circular implementing certain aspects of the new ECB regulation on payments statistics⁸ (see section 8.2). This regulation obliges institutions to report a much higher volume of information to central banks than at present, which facilitates central banks' oversight and supervisory tasks in the area of payments, in particular with regard to matters such as fraud and new payment services.

5.2 Supervision of Iberpay

The Banco de España is responsible for the supervision of Iberpay, which is entrusted by law with the management of the SNCE⁹. In the exercise of this function, the Bank is empowered to give explicit prior approval to the company's articles of association and the basic operating rules of the systems and services that it manages. For the technical or operational instructions regulating the operating

⁸ Regulation (EU) 2020/2011 of the European Central Bank of 1 December 2020 amending Regulation (EU) No 1409/2013 on payments statistics (ECB/2013/43) (ECB/2020/59).

⁹ Article 17 of Law 41/1999 of 12 November on securities payment and settlement systems.

UPDATE ON THE IMPACT OF COVID-19 ON PAYMENT INSTRUMENTS

In Spain, as in the rest of the euro area, payment infrastructures continued to operate without incidents in 2021, strengthening security and maintaining remote working as the common denominator. The context of the pandemic has contributed to the acceleration of digitalisation in retail payments. Remote payments made strong progress and contactless payments have become widespread in the face-to-face environment. Electronic instruments gained ground over the use of cash as a means of payment. In Spain, there was a strong increase in the number of domestic card purchases from mid-March 2021, which in certain weeks exceeded year-on-year

growth of 40% with respect to pre-COVID-19 baseline levels, with increases of close to 25% in terms of value of card transactions. Instant payments initiated by mobile telephone number saw year-on-year growth of close to 200% in terms of the number of transactions in certain months of the pandemic. On the other hand, the number of ATM cash withdrawals continued to fall year-on-year by up to 35%, with declines in the value of withdrawals of up to 20%. The new payment habits are likely to be consolidated, while, given the experience of previous crises, a reduction in accumulated cash is to be expected once the situation normalises.

procedures of these systems and services, and for the basic rules on the complementary services, the non-opposition of the Banco de España after their approval by Iberpay will be sufficient.

One of the main activities in the supervision of Iberpay in 2021 and early 2022 has been the approval of a new SNCE regulation (see Box 5.2). Furthermore, in 2021 the Banco de España assessed eight operating instructions for the SNCE, which the Bank did not oppose. It also assessed the basic operating rules of a new ancillary service, consisting of a technological gateway between Iberpay and EBA Clearing's payment request service, and a total of five amendments to the basic operating rules of four of the services offered by Iberpay, none of which the Banco de España opposed.

5.3 Oversight of securities infrastructures

Under the Securities Market Law (LMV), the CNMV is entrusted with the responsibility for the supervision of securities infrastructures in Spain and, jointly with the Banco de España, with ensuring the smooth operation of Spanish securities clearing, settlement and registration systems. This shared oversight task, entrusted to them under Article 255 of this Law, is aimed at preserving the stability of the financial system as a whole. Spanish securities infrastructures include the Central Counterparty (CCP), BME Clearing and the central securities depository, Iberclear (which operates the securities settlement system).

In recent years, the activity of the two most significant segments of BME Clearing has been uneven. As seen in Chart 5.4, the clearing activity in the fixed income segment has declined significantly over time, in part owing to the improvement

MODIFICATION OF THE NATIONAL ELECTRONIC CLEARING SYSTEM REGULATION

The National Electronic Clearing System (SNCE), managed and operated by Iberpay through its CICLOM platform, is the Spanish retail payment system. The basic rules of the SNCE are the Regulation, which was amended at the beginning of 2022 in five key areas.

Firstly, the settlement procedure for instant credit transfers was updated due to the adaptations in the SNCE resulting from the decision of the Governing Council of the European Central Bank of 22 July 2020 to achieve pan-European reachability of instant payments through the TARGET Instant Payment Settlement service (known as "TIPS"). The following measures were taken:

- i) All payment service providers adhering to the European Payments Council's SEPA Instant Credit Transfer (SCT Inst) scheme and reachable in TARGET2 must be reachable in TIPS.
- ii) All clearing houses offering instant payment services have to migrate their technical accounts from TARGET2 to TIPS.

Secondly, in accordance with the recommendations of the European resolution authorities, this regulation includes for the first time the procedures for the resolution of institutions, referring expressly to the applicable legal regulation.

The third change is the gradual replacement of the exchange of certain documents in physical format by the exchange of their image. In this respect, the SNCE was created with the aim of making the exchange, clearing and settlement of transactions exclusively electronic. However, the facility for the physical exchange of certain documents, which was a function of the old clearing houses, is still maintained. The pandemic and mobility constraints have highlighted the unquestionable advantages of telematic transmission in terms of speed, reliability and security in commercial traffic. This represents the culmination of the automation process initiated with the creation of the SNCE.

Fourthly, the requirement for a minimum level of activity to be a direct participant in the SNCE was removed. The changes adopted by the system in recent years have significantly reduced settlement risk and, therefore, it no longer seems necessary to maintain such a requirement.

Lastly, following the process of opening up the system initiated in the previous regulation, in order to further facilitate the reachability of payment institutions and electronic money institutions vis-à-vis the SNCE, the geographical scope of origin of such institutions has been extended to the Single Euro Payments Area.

in the financing conditions of institutions, while in the financial derivatives segment the decline was less substantial, both as regards the number of transactions and in nominal terms.

The CCP's financial resources, the liquidity of which is essential in order to swiftly close positions in the event of a member defaulting, come primarily from margins and from clearing members' contributions to the default fund. The liquidity of these resources at BME Clearing is quite high, as can be seen in Chart 5.5, and most of it is deposited in its account at Banco de España. The composition of the CCP's financial resources has remained stable over recent years.

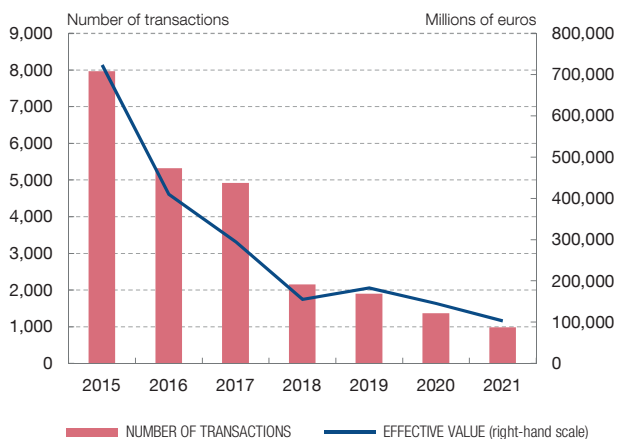
The performance of Iberclear's settlement activity is quite steady in all instruments (see Chart 5.6). For fixed income securities, there are slight increases in terms of value; however, in terms of the number of transactions, there is a decrease in bonds and an increase in short-term securities. The equities settlement activity increased slightly in terms of value, with a slight decline in the number of transactions.

Chart 5.4

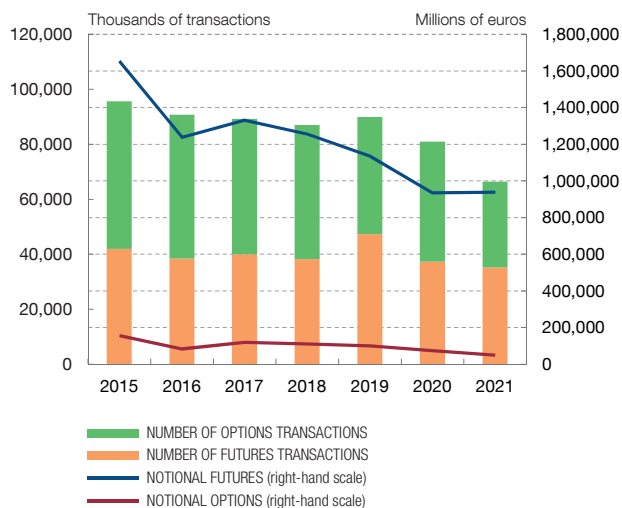
OVERVIEW OF BME CLEARING OPERATIONS

The clearing activity in the fixed-income segment (government bond repos), which in recent years has broadened the range of cleared European sovereign debt, has declined significantly. Also, more gradually, the clearing activity of the financial derivative segment has decreased.

1 CLEARING OF GOVERNMENT BONDS



2 CLEARING OF FINANCIAL DERIVATIVES TRADED IN MEFF

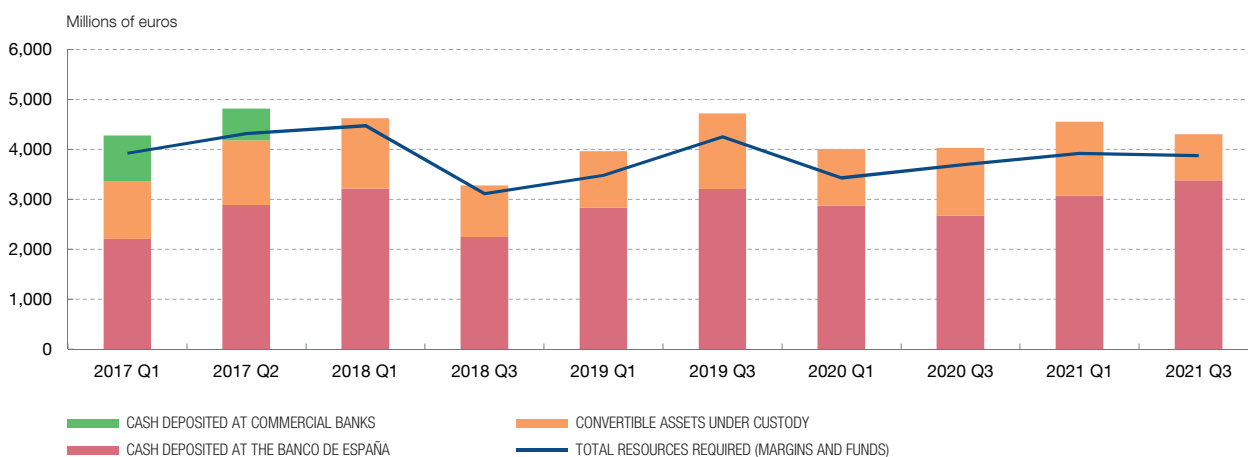


SOURCE: BME Clearing.

Chart 5.5

BME CLEARING. RESOURCES DEPOSITED AND LIQUIDITY

The financial resources of BME Clearing have remained steady over recent years. The liquidity of these resources is quite high, with most being deposited in the BME Clearing account in the Banco de España.

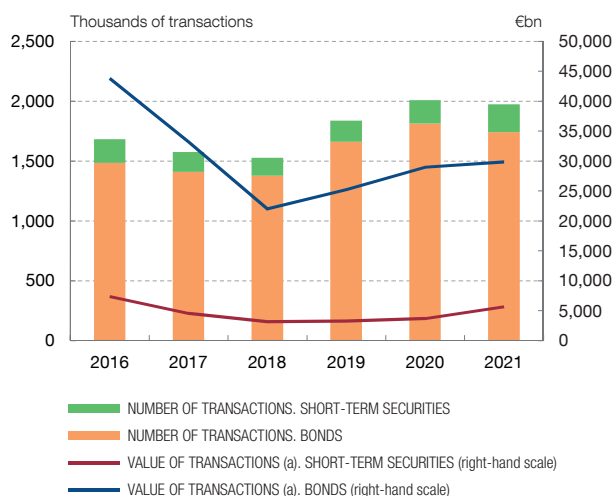


SOURCE: BME Clearing.

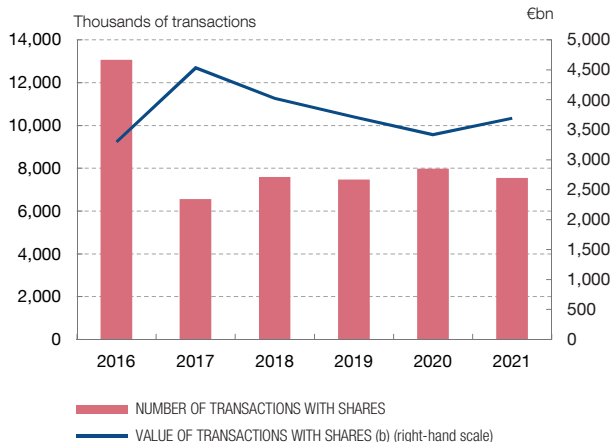
Chart 5.6

IBERCLEAR ACTIVITY DATA. TRANSACTIONS PROCESSED

1 FIXED-INCOME SECURITIES



2 EQUITIES



SOURCE: Iberclear.

a Nominal balances.

b Cash settled.

5.3.1 Activities resulting from national legislation

The Banco de España exercises oversight functions over Iberclear. On the basis of the information provided by Iberclear in accordance with national legislation, the Banco de España carried out in 2021 the assessment of Iberclear's operational risks, of the future establishment of a two-way link with the Swiss central securities depository SIX-SIS and of the activity of the links it maintains with other foreign central securities depositories.

As regards BME Clearing, SAU, the Banco de España has issued four mandatory reports in accordance with Articles 104 and 107 of the LMV. Three of these relate to various amendments to the general terms and conditions of the CCP's fixed income, financial derivatives and energy segments. Also, a mandatory report was issued regarding the authorisation of clearing of products traded on a platform other than MEFF. All the reports were positive.

5.3.2 Activities resulting from European legislation

In addition to its role as overseer, the Banco de España is a relevant authority in the framework of the Regulation on improving securities settlement in the

European Union and on central securities depositories (CSDR¹⁰) on behalf of the Eurosystem, acting as the central bank of issue and the central bank in which post-trading infrastructures clear and settle cash from their operations.

As the relevant authority for Iberclear, in 2021 the Banco de España monitored the recommendations identified in previous evaluation exercises that were pending implementation. Also, it carried out the 2021 annual review and evaluation exercise, which assessed the potential implications of the acquisition of the BME group by SIX¹¹ in June 2020. It was concluded that there were no changes in Iberclear's corporate organisation, reporting lines or risk supervision functions. However, given that consolidation may entail changes in management, such as, for example, in conflict of interest policy, consolidation will also be analysed in the next annual review.

The Banco de España is the Eurosystem's representative in BME Clearing's college of supervisors. As such, it analyses the impact that changes to the CCP may have on its clearing and settlement processes, the arrangements in place for this purpose, the liquidity risk management framework and interdependencies with other market infrastructures. In 2021 there were two significant changes in the CCP that required the issuance of an opinion, in both cases positive, by the college: the introduction of a new type of contract in the energy segment with pricing indexed to the TTF (virtual trading point for natural gas in the Netherlands), and the modification of the way in which the size of the default fund is calculated.

The Banco de España also participates in the Eurosystem's cooperative oversight of the TARGET2-Securities platform. In 2021, monitoring continued on the implementation of the recommendations made in 2019 as a result of the assessment of compliance with the [principles for financial market infrastructures of the Committee on Payments and Market Infrastructures \(CPMI\) and the International Organization of Securities Commissions \(IOSCO\)](#), and on the recommendations arising from the assessment of the penalty mechanism for delays in the matching and settlement of instructions required by the CSDR. As a result, it was concluded that most of the recommendations had already been implemented. Certain outstanding recommendations will be implemented when the consolidation between TARGET2 and TARGET2-Securities takes place, or upon the entry into force of the settlement discipline rules; for the remainder, work on their implementation is ongoing.

10 Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

11 SIX is the parent of a group of companies (SIX Group) that operates the Swiss securities markets infrastructure.



6

EXERCISE OF SANCTIONING POWERS

THE EXERCISE OF SANCTIONING POWERS



COROLLARY OF SUPERVISION

As a corollary of supervisory powers, sanctioning powers continued to be exercised in 2021, a year in which work was carried out on 12 proceedings



PUBLICATION OF SANCTIONS BY THE BANCO DE ESPAÑA

Except in exceptional cases, the sanctions imposed due to serious and very serious offences are published on the Banco de España website



TRANSPARENCY AND CUSTOMER PROTECTION

Area which accounts for the largest number of sanctioning proceedings initiated: five in 2021 to four banks and one branch in Spain of one foreign credit institutions.

Also, the processing of one proceeding initiated in previous years continued



PRUDENTIAL SCOPE

In 2021, three new sanctioning proceedings were initiated, of which two related to appraisal companies and the other to an SLI.

Also, the processing of three proceedings initiated in previous years continued.

Sanctioning powers, as a corollary of supervisory powers, continued to be exercised in 2021, both in the area of transparency and customer protection and in the prudential area. Table 6.1 shows, by subject matter, the proceedings on which work was performed in 2021.

Thus, as in previous years, transparency and customer protection continues to be the area which accounts for the largest number of sanctioning proceedings initiated, with five proceedings opened in 2021, plus another proceeding opened in 2020 which continued to be processed in 2021. The five proceedings opened in 2021 correspond to four banks and the branch in Spain of a foreign credit institution. The sanctions imposed in this area relate to conducts such as including in the loan application document credit lines unrelated to the financing originally intended by the customer, which, moreover, were not clearly and separately disclosed in the pre-contractual information document; or inaccurately submitting the information to be reported to the Banco de España in the “Interest rates on lending transactions in Spain with the resident private sector” reporting contained in Annex 9 of Circular 5/2012.

Noteworthy in the prudential area were the proceedings conducted against appraisal companies and their directors and executives. These are basically due to alleged misconduct relating to their organisation, methodology and quality control procedures and, in general, their internal control mechanisms. Two such proceedings were initiated in 2021. In addition, another proceeding initiated the previous year is still being conducted.

A further two proceedings relate to the same need to ensure, inter alia, the adequacy of internal control mechanisms in this prudential area. One

Table 6.1

NUMBER OF PROCEEDINGS PROCESSED BY SUBJECT MATTER

Data at 31 December

	2021		
	Transparency and customer protection	Prudential	Total
Proceedings processed in 2021	6	6	12
<i>Of which, initiated in 2021</i>	5	3	8

SOURCE: Banco de España.

proceeding which was initiated against a savings bank and its directors and executives was resumed in 2020 after having been suspended due to the concurrence with criminal proceedings in relation to the same facts, and another proceeding was initiated against an SCI in 2021.

It should also be noted that, in the prudential area, the Bank's sanctioning powers have also been extended to the shareholders of an ELMI. The proceeding is justified on the grounds that they acquired a qualifying holding in the institution without complying with the prior notification obligations vis-à-vis the Banco de España.

Lastly, it is worth recalling that, in accordance with Article 115 of Law 10/2014, except in exceptional cases, sanctions imposed by the Banco de España for serious and very serious infringements are published on its website within a maximum of 15 working days from the date on which they become final in administrative proceedings.



7

THE BANCO DE ESPAÑA'S PARTICIPATION IN INTERNATIONAL BANKING REGULATION AND SUPERVISION BODIES

THE BANCO DE ESPAÑA'S PARTICIPATION IN INTERNATIONAL BANKING REGULATION AND SUPERVISION BODIES



INTERNATIONAL BODIES

Participating in international banking regulation and supervision fora is one of the Banco de España's strategic priorities



FINANCIAL STABILITY BOARD

Noteworthy is the work on the following: i) impact of the pandemic, measures adopted and lessons on its effects, fostering international cooperation; and ii) identification, monitoring and assessment of vulnerabilities, including non-bank financial intermediation



BASEL COMMITTEE ON BANKING SUPERVISION

Its priorities include: i) work relating to the impact of the pandemic; and ii) the monitoring of structural trends and risk mitigation (digitalisation, crypto-assets, operational resilience, climate change)



EUROPEAN BANKING AUTHORITY

Its priorities are focussed on the following points: i) the performance of the stress test postponed due to the pandemic; ii) progress in implementing the risk reduction package and in the project to become an integrated EU data hub; and iii) the work in the areas of financial innovation and technological risk, ESG risk and AML/CTF, and the mitigation of the consequences of the pandemic



EUROPEAN SYSTEMIC RISK BOARD

Its work was geared towards the analysis of the housing market, cyber risk, the reform of money market funds and the consequences of Brexit on market infrastructures



OTHER

The Banco de España participates actively in FinCoNet, in the Committee on Payments and Market Infrastructures and in the Network for Greening the Financial System, on climate change

THE BANCO DE ESPAÑA'S PARTICIPATION IN INTERNATIONAL BANKING REGULATION AND SUPERVISION BODIES

Participating in international banking regulation and supervision fora is one of the Banco de España's strategic priorities. The pandemic caused by COVID-19 has forced us to be even more aware of the globalised environment in which banks currently operate, and of the need for the financial system regulatory and supervisory standards to be agreed on in these international fora, which have the capacity to grasp the idiosyncrasies of the multiple jurisdictions in which institutions provide their financial services. Therefore, it is essential to preserve and boost the capacity to influence within these fora.

The main international banking regulation and supervision fora in which the Banco de España participates are presented in Figure 7.1.

Figure 7.1

THE BANCO DE ESPAÑA'S PARTICIPATION IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA

 GLOBAL FORA	 EUROPEAN FORA	 OTHER FORA
<ul style="list-style-type: none">— Financial Stability Board (FSB)— Basel Committee on Banking Supervision (BCBS)	<ul style="list-style-type: none">— European Banking Authority (EBA)— European Systemic Risk Board (ESRB)	<ul style="list-style-type: none">— International Financial Consumer Protection Organisation (FinCoNet)— Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS)— Network of Central Banks and Supervisors for Greening the Financial System (NGFS)

SOURCE: Banco de España.

7.1 Global fora

7.1.1 Financial Stability Board

In 2021, the Financial Stability Board (FSB) continued devoting a significant part of its agenda to issues related to the impact of the pandemic and the response measures adopted, fostering international cooperation and assessing possible lessons on its effects. This work includes the publication of a report on considerations to be taken into account in relation to the extension, adjustment and

Figure 7.2

FSB REPORT ON THE SUPPORT MEASURES IN RESPONSE TO THE COVID-19 PANDEMIC

EARLY WITHDRAWAL VS LATE WITHDRAWAL	FLEXIBLE AND GRADUAL APPROACH	CLEAR, CONSISTENT AND TIMELY COMMUNICATION	THE RESILIENCE AND SOUND FUNCTIONING OF THE FINANCIAL SYSTEM ARE A PREMISE FOR A FLUID TRANSITION
<p>Most authorities believe that the costs of a premature withdrawal of support could be more significant than maintaining support for too long</p> <p>The circumstances are different, but policymakers face similar dilemmas when considering whether to extend, amend or end support measures, with shared objectives</p>	<p>Authorities may adopt a flexible and gradual approach:</p> <ul style="list-style-type: none"> — Targeted measures to the most affected sectors, households and firms (rather than broad and large-scale support) — Application of conditional measures on request by the affected parties (rather than automatic application) — Making the support terms progressively less generous — Sequencing the withdrawal of measures 	<p>Clear, consistent and timely communication about policy intentions can help the economy adapt to them and help reduce the costs associated with withdrawal of measures</p> <p>In times of high uncertainty, the authorities may provide guidance on the conditions under which the support measures would be adjusted or phased out; e.g. by explaining which factors will be taken into account in their decision-making</p>	<p>As public support is progressively eliminated, the capacity of banks and non-financial institutions to handle risks and provide financing will be ever more critical</p> <p>Banks must continue to monitor the financial health of their borrowers as support measures such as debt moratoria are extended, and to provision appropriately for impaired loans</p> <p>Supervisors need to continue to find the right balance of flexibility and sound credit risk management</p>

SOURCE: Banco de España, based on Financial Stability Board data.

withdrawal of support measures adopted depending on the evolution of the pandemic (see Figure 7.2). Also, the FSB has coordinated the preliminary analysis of lessons learned from a financial stability point of view, addressing the resilience of markets and institutions, operational resilience and crisis management preparedness. The report outlines some areas that require further attention, such as the usability of capital and liquidity buffers (see section 7.1.2 for more details), and the importance of effective operational risk management and effective cross-border cooperation.

Furthermore, the FSB has continued with its work plan to address vulnerabilities detected in the non-bank financial intermediation during the market turmoil of March 2020. In 2021, the FSB completed its work of proposals for measures to address vulnerabilities in the money market funds sector. The paper sets out a catalogue of regulatory options (e.g. mechanisms to reduce liquidity transformation) that jurisdictions may implement to tackle the identified risks.

Alongside these developments, the FSB also continued working on identifying, monitoring and assessing vulnerabilities. To this end, the FSB implemented a surveillance framework in 2021 that includes a common terminology and a common taxonomy of vulnerabilities. Noteworthy among the emerging vulnerabilities identified

are those associated with financial innovation, climate change and cross-border payments. In the area of financial innovation, the FSB published a progress report¹ on the implementation of the high-level recommendations for the regulation, supervision and oversight of global stablecoins², which highlights the different approaches taken to date by jurisdictions and identifies a number of areas to guide further work. In relation to climate change, the FSB developed a roadmap to promote and coordinate the many initiatives at the international level. With regard to enhancing cross-border payments, the FSB published a paper to set specific quantitative targets for addressing the related challenges of cost, speed, transparency and access, and a progress report on the implementation of the roadmap published the previous year.

Lastly, in view of the imminent elimination of Libor (part of its rates ceased to be published at the end of 2021), the FSB continued working on facilitating the transition to new benchmarks. Thus, it published a progress report on Libor transition (including identified challenges and risks) and a number of statements to support preparations for this transition.

7.1.2 Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) developed its work programme in accordance with the strategic priorities set for 2021 and 2022 (see Figure 7.3).

The work relating to the impact of the pandemic continued to be an important part of the Committee's agenda. In particular, it published a preliminary assessment report on lessons learned from the effects of the pandemic and the Basel framework. The report focused on analysing the overall resilience of the banking system, the usability of capital buffers, price movements of Additional Tier 1 capital instruments, the usability of liquidity buffers, the impact of the leverage ratio on financial intermediation and the cyclical nature of Basel specific capital requirements. In addition, from a supervisory perspective, the Committee has been monitoring and analysing the credit risk assessment by institutions in the context of COVID-19³.

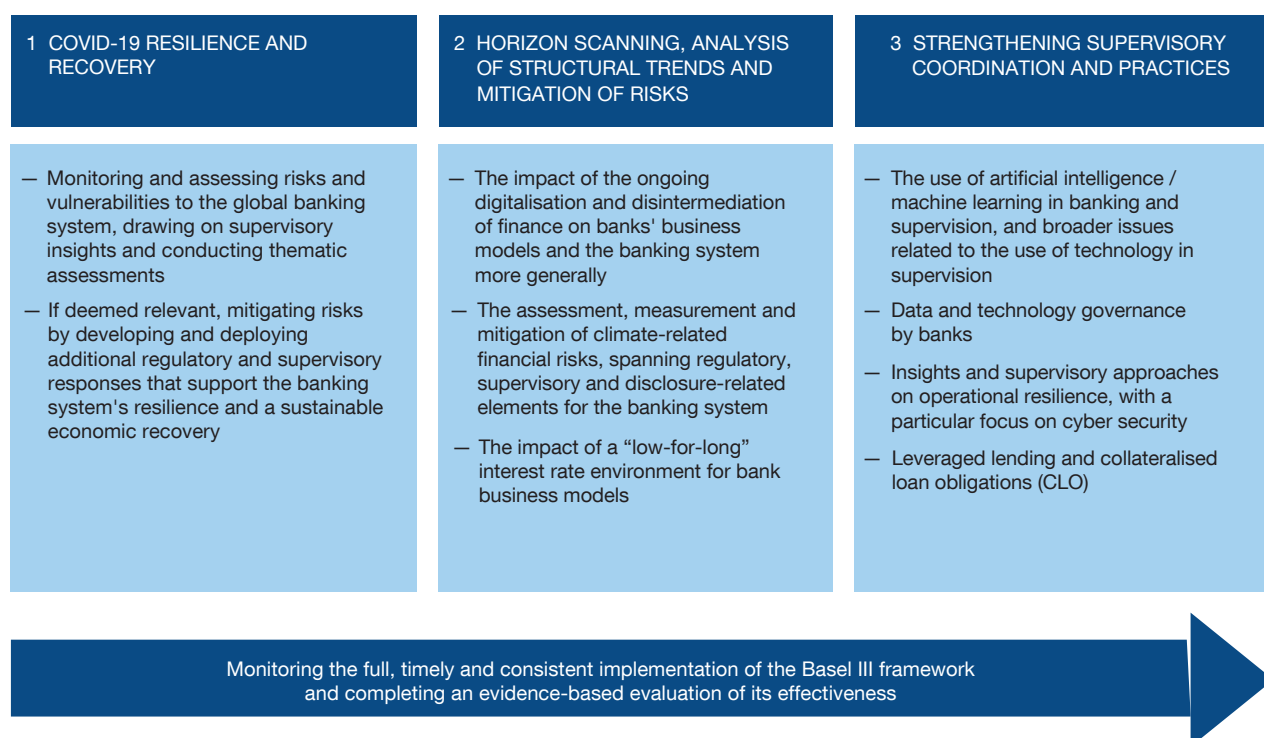
The BCBS has focused part of its work on making progress in ongoing initiatives to mitigate structural risks and trends; among them stands the publication of preliminary proposals for the prudential treatment of banks' crypto-assets exposure (excluding digital currencies issued by central

1 Financial Stability Board (2021), [Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements. Progress Report on the implementation of the FSB High-Level Recommendations.](#)

2 Stablecoins are crypto-assets that link their value to that of a traditional asset or a basket of traditional assets through a stabilisation mechanism ([Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements. Final Report and High-Level Recommendations](#), October 2020).

3 Further information on this issue can be found in the BCBS [Newsletter on Covid-19 related credit risk issues](#).

Figure 7.3

2021-2022 WORK PLAN AND STRATEGIC PRIORITIES OF THE BCBS

SOURCE: Banco de España, based on Basel Committee on Banking Supervision data.

banks). It proposes classifying crypto-assets into two groups on the basis of a number of conditions⁴. Group 1, which would incorporate crypto-assets that fulfil these conditions, would comprise tokenised traditional assets and certain stablecoins⁵. With respect to their prudential treatment, tokenised traditional assets, to the extent that they confer the same level of legal rights as the traditional version of the asset, would be treated as equivalent, while exposures to the stablecoins – a broader case – would be subject to requirements depending on the risk arising from the changing value/loss in value of the underlying assets and the risk arising from the potential default of the redeemer. The proposed prudential treatment for Group 2 crypto-assets is more penalising, applying the 1250% risk weight to these exposures, with no recognition of offsets or hedges.

4 These conditions are as follows: (i) the crypto-asset either is a tokenised traditional asset or has a stabilisation mechanism that is effective at all times in linking its value to an underlying traditional asset or a pool of traditional assets; (ii) legal rights must be clearly defined and legally enforceable; crypto-assets with stabilisation mechanisms must ensure full redeemability at all times; (iii) the network in which the crypto-asset operates must have governance and control mechanisms in place to mitigate the risks of not being able to perform critical functions (issuance, validation, redemption and transfer); and (iv) entities performing redemption, transfer or settlement functions must be regulated and supervised.

5 Traditional tokenised assets are defined as digital representations of traditional assets using cryptography or distributed ledger technology. Stablecoins are crypto-assets that link their value to that of a traditional asset or a pool of traditional assets through a stabilisation mechanism (Basel Committee on Banking Supervision (2021), [Consultative Document. Prudential treatment of crypto-asset exposures](#), June

This consultation was planned as an iterative process, and a second consultative document is expected in mid-2022.

Also, progress has been made on the work of climate-related financial risks and two analytical reports have been published. These show how climate risk factors can be captured within traditional risk categories and thus be reflected in the Basel framework. The Committee is assessing the extent to which the Basel framework adequately recognises these risks and it is considering possible regulatory, supervisory and transparency measures. In this respect, it published a public consultation paper on principles for the effective management and supervision of this risk.

With regard to supervisory practices and coordination, the Committee published the final version of the Principles for Operational Resilience and the revisions to the Principles for the Sound Management of Operational Risk (PSMOR). The first report presents a definition and principles of operational resilience. The revised PSMOR better explains some principles that were not being properly implemented, aligns the text with the Basel III framework and mentions a key source of operational risk, namely technology; it highlights vulnerability to cyber threats. As a complement to these documents, the Committee published a statement emphasising the importance of cyber security and the need for banks to adopt good practices to manage cyber risks.

In addition, the Committee finalised the Pillar 3 transparency requirements of the new Basel framework. In particular, the transparency requirements relating to the new market risk framework (“Fundamental review of the trading book”). It also finalised the new framework for disclosure standards for sovereign exposures, which jurisdictions may adopt on a voluntary basis.

Lastly, with regard to the annual designation of the G-SII list, the Committee modified the methodology review process and the review of the implications of developments relating to European Banking Union. The review process shifts from a three-year review cycle to ongoing monitoring, where proposals for changes in methodology will be based on evidence of material unintended consequences with respect to the Basel framework’s objectives. In the short term, the Committee has agreed to focus on reviewing the implications for the development methodology related to the Banking Union and, in particular, for the treatment of cross-border exposures within the Banking Union.

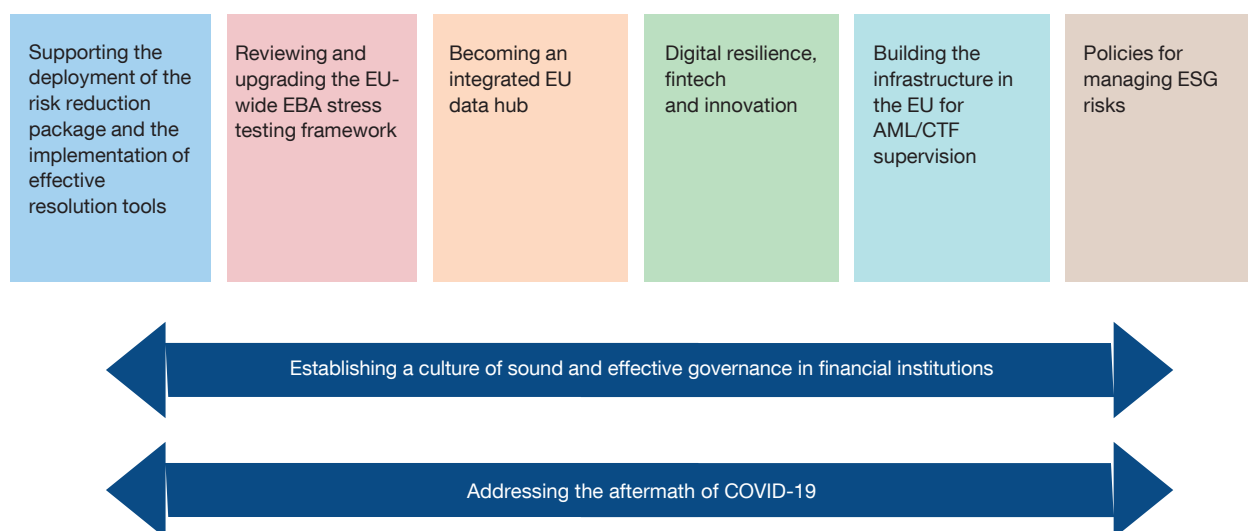
7.2 European fora

7.2.1 European Banking Authority

The EBA’s agenda in 2021 was heavily influenced by the consequences of the pandemic, which led the EBA to reconsider some of its priorities and functions.

Figure 7.4

EBA STRATEGIC PRIORITIES IN 2021



SOURCE: Banco de España, based on European Banking Authority data.

In the end, its agenda was structured around six specific priorities and two horizontal priorities (see Figure 7.4), which determined the direction of its main work.

In relation to the implementation of the risk mitigation package and effective resolution tools, the EBA made progress in fulfilling the numerous mandates stemming from the CRR and the CRD, the directive on the recovery and resolution of credit institutions and investment firms⁶, and the prudential regime for investment firms⁷. These cover a significant number of prudential regulation areas; those referring to internal governance and remuneration are particularly relevant this year, with the completion of the review of the guidelines on sound remuneration policies (EBA/GL/2021/04), the guidelines on internal governance (EBA/GL/2021/05) and the guidelines on the suitability of the members of the management body (EBA/GL/2021/06) to update them and adapt them to the CRD-V. From a prudential perspective, it is also worth noting the work on securitisations (for more details on these developments, see Box 7.1).

As regards the review and improvement of the EU-wide stress testing, the EBA published the results of the stress test postponed by one year due to COVID-19

6 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.

7 Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms.

(see Box 2.6). The 2021 stress test did not undergo major changes in terms of structure, methodology and timelines; however, the EBA is considering the possibility of introducing more far-reaching changes in the future.

In the reporting and transparency area, significant progress has been made towards becoming an integrated EU data hub through the implementation of its European Centralised Infrastructure of Data (EUCLID) platform, which has enabled the EBA to start receiving data from LSIs in 2021, and not only from SIs, as was the case until then. Also of note are the two reports published in 2021 which will make a significant contribution to streamlining the cost associated with supervisory reporting. In the first report, the EBA analyses the costs incurred by institutions to comply with supervisory reporting requirements, and assesses whether they are proportionate to the benefits. It also includes a number of recommendations aimed at reducing reporting costs by around 15%-24%, especially for small and non-complex institutions. In the second report, the EBA analyses the feasibility of the development of a consistent and integrated system for collecting statistical, prudential and resolution data (see Box 7.2).

The EBA continued its work in the market conduct and bank customer protection area. In particular, it published a new edition of its regular Consumer Trends Report on banking products, in which it analyses developments in the supply of banking products and the problems identified. Also, it continued its work to promote common supervisory approaches and practices, focusing on the analysis of the implementation of the Guidelines on remuneration policies for sales staff.

As regards the development of financial innovation and operational resilience in the financial sector, work gained momentum in 2021, following the publication in September 2020 of the European Commission's Digital Finance Strategy. In the context of this initiative, at the request of the European Commission, the three European Supervisory Authorities (ESAs) have been working on the potential regulatory issues and challenges posed by digital platforms and the bundling of services, mixed activity groups and fragmentation of value chains. The EBA also published an analysis on the use of RegTech (regulatory technology), which assesses the associated risks and benefits and makes proposals to support the adoption of these solutions in the EU.

Furthermore, it is worth highlighting the preparatory work being carried out by the EBA, from an operational, regulatory and resource planning point of view, in order to be able to face the challenges in the coming years of implementing the new regulatory framework in the area of information and communication technology risk management, security (the so-called "DORA regulation") and crypto-assets (the so-called "MiCA regulation").

With respect to the coordination and monitoring of the supervision of the fight against ML/TF, the review of the ESAs in 2020 substantially increased

SECURITISATIONS: RECENT REGULATORY AMENDMENTS AND EUROPEAN BANKING AUTHORITY WORK UNDERWAY

The European securitisation framework is set out in Regulation (EU) 2017/2402 (“Securitisation Regulation”) and Regulation (EU) 2017/2401 amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, as well as their implementing rules. In March 2021, as part of the European Union’s post-COVID-19 strategy, a number of amendments were made to this framework through Regulations (EU) 2021/557 and (EU) 2021/558 of the European Parliament and of the Council.

The new developments introduced take as a starting point two European Banking Authority (EBA) reports, and their main objective is to strengthen credit institutions’ capacity to provide financing to the real economy, while ensuring that institutions act prudently. The main amendments relate to the following areas:

- The extension to balance-sheet synthetic securitisations of the Simple, Transparent and Standardised (STS) framework, which already exists for traditional securitisations. Essentially, as long as a synthetic securitisation meets certain criteria, the originator may benefit from preferential prudential treatment in the retained senior tranche.
- The adoption of a series of measures aimed at removing the regulatory obstacles identified in NPL securitisations.

Since its entry into force, by an urgent procedure, at the beginning of April 2021, the EBA has focused its efforts on addressing the many mandates arising from this regulatory amendment. Thus, the mandates to the EBA contained in Regulations (EU) 2021/557 and (EU) 2021/558 are as follows:

- Regulatory Technical Standards (RTS) specifying and, where relevant, calibrating performance-related triggers for STS synthetic securitisations.
- Regulatory Technical Standards (RTS) on risk retention.
- Report on the creation of a specific sustainable securitisation framework.

All of this work is still in the development phase, the most advanced being the work on risk retention. In June 2021, the EBA published for consultation the Draft RTS specifying the requirements for originators, sponsors, original lenders and servicers in securitisations relating to risk retention. This proposal builds on a previous RTS sent by the EBA to the European Commission in July 2018, incorporating a number of new provisions. These new provisions include most notably the specification of the modalities of retaining risk in traditional securitisations of non-performing exposures and the establishment of certain experience requirements for managers retaining risk in such securitisations.

The RTS on synthetic excess spread and the RTS specifying and calibrating performance-related triggers are essential to ensure the proper functioning of the STS framework for synthetic transactions. The EBA is working on both consultation papers, which are most likely to be published during the course of 2022.

Lastly, the EBA is also preparing a report – which may also be published in 2022 – that establishes a specific framework for sustainable securitisations allowing the integration of sustainability-related disclosure requirements into these transactions.

-
- 1 In its report on the STS framework for synthetic securitisation of 6 May 2020, the EBA recommended the introduction of a specific framework for balance-sheet STS securitisations. The EBA Opinion on the regulatory treatment of NPE securitisations published in October 2019, as well as the internationally agreed Basel standards, recommended introducing a specific treatment for the securitisation of non-performing exposures, since it established that the current prudential securitisation framework set out in the CRR resulted in disproportionate capital requirements for this type of exposures, as they do not take into account their specific risk factors.
 - 2 The risk retention requirement is regulated by Article 6 of the Securitisation Regulation, which establishes that the originator, sponsor or original lender of a securitisation must retain on an ongoing basis a material net economic interest in the securitisation of not less than 5%. This requirement seeks to align the interests of the selling parties participating in a securitisation with those of the investors.

the role of the EBA. In 2021, the EBA led the development of policies and promoted their effective and consistent implementation by national authorities. Also, it collected qualitative and quantitative information in order to create a database to promote the exchange of information between national authorities

INTEGRATED SYSTEM FOR COLLECTING STATISTICAL, RESOLUTION AND PRUDENTIAL DATA

In recent years, in particular since the financial crisis, the reporting requirements addressed to the banking industry have grown exponentially, due to the emergence of new user needs. In the current system in Europe, various actors are involved (institutions, authorities, IT providers) and various reporting frameworks (prudential, statistical, resolution, etc.) coexist, including national, European and international requirements. These reporting frameworks have been developed separately to meet different needs at different points in time, which occasionally gives rise to overlaps and duplication of the data required. The industry has requested greater coordination and exchange of information among authorities to avoid duplication of requirements which, in addition, must be submitted with various frequencies, formats and scope of consolidation, and to different authorities.

In response to this situation, Article 430c of Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms gives the European Banking Authority (EBA) the mandate to produce a feasibility report on the development of a consistent and integrated system for collecting statistical, resolution and prudential data. The report should take into account the previous work of the European System of Central Banks (ESCB) on integrated data collection and should include: (i) an inventory of current data requested by competent authorities in their jurisdiction; (ii) the creation of a common dictionary of the data to be collected; (iii) the establishment of a joint committee, including at least the EBA and the ESCB, to design, develop and implement the integrated reporting system; and (iv) the feasibility and possible design of a central data collection point for the integrated reporting system.

For its part, the ESCB has been working since 2016 on the Integrated Reporting Framework (IReF) project, which

aims to integrate the statistical information that the ESCB requires of banks. In the course of 2022 the user requirements and processes of the business part of this project (i.e. omitting IT aspects) will be studied, including the redesign of the ESCB's statistical function. The analysis will be submitted to the Governing Council of the European Central Bank (ECB) at the end of 2022, so that this phase of the project can be approved. From 2023, once the results of the study to be carried out in 2022 are available, and if these are considered adequate, the IT project would continue and a new regulation would be drafted to replace the current regulations of the statistical reports to be integrated.

In response to the indication in the mandate of the above-mentioned Article 430c that the EBA's feasibility report should take into account the previous work of the ESCB, the ECB published its contribution to the study in September 2020. For the ECB, the integration project should be carried out gradually, with two parallel processes during a transitional period. Thus, on the one hand, the integration of statistical reporting would be performed through the IReF and, on the other hand, the supervisory and resolution data would be integrated. These parallel processes would eventually converge in an integrated report in Europe based on a unique data dictionary and unique data model.

The EBA published the feasibility report in December 2021. Noteworthy among its conclusions are that the existence of a unique data dictionary is the cornerstone of the integration project, that the existence of a central data collection platform would increase the efficiency of the system, promoting the exchange and reuse of data, and that strong governance is necessary to favour collaboration and coordination among authorities for the implementation and development of integrated reporting.

and to support the new AML/CTF colleges. This new database will also allow to identify vulnerabilities and to address requests to the authorities to investigate and deal with them.

In sustainable finance, the need to promote better disclosure, governance and management of ESG risks has been pressing during 2021. Under Pillar 2, the EBA published a report on how to incorporate these risks into the management of institutions and into their supervision. It sets out common definitions, their transmission channels and appropriate methodologies for their measurement. It

reaches the conclusion that ESG risks, and in particular climate change risk, materialise through credit institutions' traditional risks.

Additionally, the EBA developed standards on the quantitative and qualitative information that institutions should disclose to the market in relation to sustainability. It has also worked on a voluntary pilot exercise to provide a first quantification of European banks' exposures to climate risk, and it is preparing a discussion paper on the prudential treatment of assets associated with environmental or social objectives.

With regard to its horizontal priorities, the EBA has focused its efforts on establishing a culture of sound and effective governance and good conduct in financial institutions, and it participated actively in monitoring and mitigating the effects of COVID-19 on EU banks, promoting coordinated actions by the competent authorities. With regard to the latter, the EBA intensified the assessment of asset quality, and the monitoring of the use of debt moratoria and State guarantees, to ensure that risk parameters remain reliable and that banks can support the recovery and deal with potential mounting losses.

7.2.2 European Systemic Risk Board

In 2021, the ESRB carried out an ambitious work plan with the support of its Advisory Technical Committee, which is chaired by the Governor of the Banco de España. The ESRB – which brings together central banks and authorities with responsibility for EU-wide banking, securities and insurance regulation and supervision – combined its regular tasks of overseeing risks and vulnerabilities in the financial system and coordinating national macroprudential measures⁸ with various initiatives aimed at strengthening the level of coordination and preparedness for potential future episodes of systemic instability.

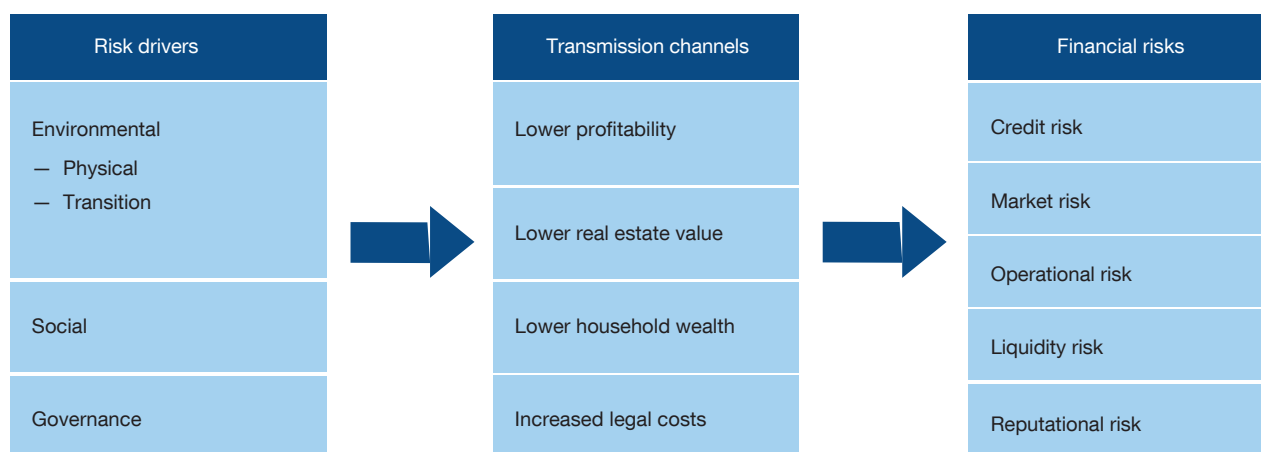
Notably, the ESRB issued the following recommendations⁹ and warnings in 2021:

- Vulnerabilities in the residential real estate sector in Germany and Austria (ESRB/2021/10-11) and in Bulgaria, Croatia, Slovakia, Hungary and Liechtenstein (ESRB/2021/12-16).
- Recommendation ESRB/2021/9 on reform of money market funds, addressed to the European Commission.

⁸ See the [Annual Report 2020](#) and [A Review of Macroprudential Policy in the EU in 2020](#), both of 1 July 2021, as well as the [EU Non-bank Financial Intermediation Risk Monitor 2021](#), of 30 August 2021.

⁹ In addition, the ESRB decided not to extend beyond 30 September 2021 its recommendation on restriction of distributions during the COVID-19 pandemic (ESRB/2020/15).

Figure 7.5

MATERIALIZATION OF ESG RISKS

SOURCE: EBA/REP/2021/18.

- Recommendation ESRB/2021/17 on a pan-European systemic cyber incident coordination framework for relevant authorities.

The ESRB continued working on the various topics addressed in the course of the previous year in relation to the challenges posed by COVID-19 and Brexit.

In particular, the ESRB continued monitoring the financial stability implications of guarantees, debt moratoria and other fiscal public support programmes introduced at the national level to protect the real economy from the effects of the pandemic¹⁰, and it continued to analyse how to contribute to the mitigation of unfavourable developments in insolvency in the non-financial corporate sector¹¹. In addition, the ESRB advised the European Securities and Markets Authority on its analysis of the systemic importance of UK CCPs for the EU financial system.

The ESRB also devoted its attention to structural financial stability issues, in close cooperation with the ECB. In particular, it analysed how the current lower for longer interest rate environment¹² *could be affecting the risks identified for the various sectors of the financial system, and it proposed possible macroprudential policy actions to mitigate their adverse impact in the medium and long term. Also,*

¹⁰ See the report on [Financial stability implications of support measures to protect the real economy from the COVID-19 pandemic](#), of 16 February 2021, and the [Note on monitoring the financial stability implications of COVID-19 support measures](#), of 8 September 2021.

¹¹ [Prevention and management of a large number of corporate insolvencies](#), note of 28 April 2021.

¹² [Lower for longer - macroprudential policy issues arising from the low interest rate environment](#), joint report of the ESRB's Advisory Technical Committee and Advisory Scientific Committee and the ECB's Financial Stability Committee, of 1 June 2021.

the ESRB and the ECB published a joint report¹³ providing a detailed analysis of the estimated impact on sensitive exposures to climate-related physical and transition risks across regions, sectors and firms.

7.3 Other fora

In the conduct and consumer protection area, the Banco de España is a member of the Governing Council of the International Financial Consumer Protection Organisation (FinCoNet) and it participates actively in working groups relating to increasing digitalisation in the marketing of financial products and services, among others. Of particular note is the publication in 2021 of the *Supervisory approaches to customers' creditworthiness assessments* and *Financial Product Governance and Culture* reports. Also, two new lines of work commenced in 2021 relating to exit strategies from COVID-19 debt moratoria and remuneration of sales staff in the marketing of mortgage loans.

The Banco de España also participates in the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS). In 2021, much of the work of this committee continued to focus on the financial system reaction to the measures taken in relation to the pandemic and its impact analysis. In addition, among its priorities, the CPMI focused on analysing the new economic and technological challenges arising from transformation and innovation in the context of payments, clearing and settlement. The committee continued to develop the roadmap agreed by the G20 in 2020 with the aim of improving cross-border payments. In relation to this work, coordination between the CPMI and the FSC was intensified, and progress has been made in the analysis of the different blocks and areas identified, including the analysis of digital means of payment. In general, there has been greater interest in the areas of innovation and development relating to new technologies: noteworthy are the analyses of digital currencies and their economic, regulatory, financial stability, operational and legal impact.

The CPMI also focused its resources on monitoring and analysing the CCPs' risk management framework, given the importance of these institutions to the financial market. The work focused on the analysis of counterparty risk and margining practices and of financial resources and business continuity plans from the point of view of guidance aimed at strengthening the resilience and recovery capacity of these infrastructures.

In the area of sustainable finance and at the global level, noteworthy is the work carried out by the NGFS, the network of supervisors and central banks from across the world,

¹³ [Climate-related risk and financial stability](#), of 1 July 2021.

in which the Banco de España participates. Its many lines of work include the analysis of existing data gaps and the suggestion of possible solutions.

In this respect, in May 2021, a preliminary¹⁴ report was published, suggesting some solutions, such as moving towards a taxonomy of sustainable activities at the global level or the convergence towards a common and consistent set of global disclosure standards. Another important publication in 2021 was the progress report¹⁵, which assesses the progress made by supervisors in relation to the recommendations included in the 2020 guide for supervisors on integrating climate-related and environmental risks into prudential supervision¹⁶. The report concludes that, in general, supervisors have made considerable progress in developing the central banks' own strategies and expectations for institutions. However, not much progress has been made in their implementation.

¹⁴ https://www.ngfs.net/sites/default/files/medias/documents/progress_report_on_bridging_data_gaps.pdf.

¹⁵ https://www.ngfs.net/sites/default/files/media/2021/11/08/progress_report_on_the_guide_for_supervisors.pdf.

¹⁶ https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf.



8

NEW REGULATORY DEVELOPMENTS IN SUPERVISORY MATTERS

NEW REGULATORY DEVELOPMENTS IN SUPERVISORY MATTERS



THE BANCO DE ESPAÑA'S POWERS

The Banco de España prepares circulars implementing higher-ranking regulations, and technical guidelines with criteria, practices, methodologies or procedures for compliance with supervisory regulations.



BANCO DE ESPAÑA'S NEW REGULATORY DEVELOPMENTS

Since January 2021, the Banco de España has published seven circulars and one set of technical guidelines. Noteworthy is Circular 5/2021, which develops certain macroprudential tools.



BANCO DE ESPAÑA DRAFTS IN PROGRESS

There are three draft circulars in progress. One of them will complete the transposition of CRD-V into Spanish law and the other two will implement various payment obligations.



OTHER NEW REGULATORY DEVELOPMENTS AT THE NATIONAL LEVEL

Publication of Royal Decree-Law 7/2021 and of Royal Decree 970/2021, which form the basis of the transposition of CRD-V into Spanish law.



NEW REGULATORY DEVELOPMENTS

Publication of the new Directive on credit managers and credit purchasers.



EUROPEAN PROJECTS

The European Commission published its legislative proposals for: i) finalising the incorporation of Basel III in Europe; and ii) the crypto-asset market regulation.

8.1 Banco de España circulars and guidelines

Since January 2021, the Banco de España has published seven circulars and one set of guidelines, which are presented by subject matter in Figure 8.1.

Figure 8.1

NEW BANCO DE ESPAÑA CIRCULARS AND GUIDELINES, BY SUBJECT MATTER

	SUBJECT MATTER						
	CCR	Benchmark interest rates	Contributions to DGS	Conduct	Macprudential	Accounting	Prudential
Circular 1/2021							
Circular 2/2021							
Circular 3/2021							
Circular 4/2021							
Circular 5/2021							
Circular 6/2021							
Circular 1/2022							
Guidelines on CSD							

SOURCE: Banco de España.

8.1.1 Circular 1/2021

Circular 1/2021 of 28 January 2021 amending Circular 1/2013 of 24 May 2013 on the Central Credit Register and Circular 5/2012 of 27 June 2012 to credit institutions and payment service providers on the transparency of banking services and responsible lending.

The main purpose of this circular is to adapt Circular 1/2013 and Circular 5/2012 to the Revolving Credit Ministerial Order¹. On the one hand, it modifies the functioning

¹ Order Ministerial Order ETD/699/2020 of 24 July 2020 on the regulation of revolving credit and amending Ministerial Order ECO/697/2004 of 11 March 2004 on the Central Credit Register, Ministerial Order EHA/1718/2010 of 11 June 2010 on regulation and control of the advertising of banking services and products and Ministerial Order EHA/2899/2011 of 28 October 2011 on transparency and customer protection in banking services.

of the CCR to improve the information available to lenders for the purpose of analysing the creditworthiness of potential borrowers. On the other hand, it adds new official interest rates that institutions may use as benchmarks in loan and mortgage loan agreements with their customers, such as, inter alia, the benchmark interest rate based on the Euro short-term rate (€STR). Also, it establishes the definition and the procedure for determining new indices.

8.1.2 Circular 2/2021

Circular 2/2021 of 28 January 2021 amending Circular 8/2015 of 18 December 2015 to institutions and branches belonging to the Deposit Guarantee Scheme for Credit Institutions (DGSCI) on information for determining the basis of calculation of contributions to the DGSCI.

The regulations governing the Deposit Guarantee Scheme for Credit Institutions provide that, in the event of insolvency of a credit institution, the funds of investment firm customers held in the investment firm's name on behalf of its customers at the institution for which an insolvency order has been made are also covered. To this end, investment firms must record the balances of each customer on a customer-by-customer basis and report them to the credit institution. Consequently, Circular 8/2015 was amended to include new information on these balances that institutions must submit and make available to the Banco de España.

8.1.3 Circular 3/2021

Circular 3/2021 of 13 May, with regard to the definition of the benchmark interest rate based on the Euro short-term rate (€STR), amending Circular 5/2012 of 27 June 2012 to credit institutions and payment service providers on transparency of banking services and responsible lending.

This Circular adapts the definition of the benchmark interest rate based on €STR in Circular 5/2012 to the new ECB guideline². This guideline describes the methodology used by the ECB in the calculation of the compounded €STR rates and establishes their daily publication. Therefore, the official €STR interest rate of Circular 5/2012 is modified accordingly, and it is now defined by reference to the daily data corresponding to the last business day of the month, for each of the various maturities.

² Guideline (EU) 2021/565 of the European Central Bank of 17 March 2021 amending Guideline (EU) 2019/1265 on the euro short-term rate (€STR) (ECB/2021/10).

8.1.4 Circular 4/2021

Circular 4/2021 of 25 November to credit institutions and other supervised institutions on confidential return models relating to market conduct, transparency and customer protection and on the complaints register.

The circular responds to the need for complete and standardised information of conduct with the definitions and the level of detail and sectorisation deemed necessary for the proper supervision of institutions' conduct. It also requires institutions to make a claims register with predefined content available to the Banco de España.

8.1.5 Circular 5/2021

Circular 5/2021 of 22 December amending Circular 2/2016 of 2 February to credit institutions on supervision and solvency, which completes the adaptation of Spanish law to Directive 2013/36/EU and to Regulation (EU) No 575/2013.

This circular develops certain macroprudential tools provided for by law³. In particular, it includes forecasts on: i) the CCyB requirements applicable to credit institutions' exposures to one or more sectors and total exposures; ii) the establishment of sectoral limits on the concentration of credit institutions or a sub-group of credit institutions; iii) the setting of conditions on the granting by credit institutions of loans and other transactions with the private sector located in Spain.

8.1.6 Circular 6/2021

Circular 6/2021 of 22 December amending Circular 4/2017 of 27 November to credit institutions on public and confidential financial reporting standards and model financial statements, and Circular 4/2019 of 26 November to financial credit institutions on public and confidential financial reporting standards and model financial statements.

This standard amends the accounting circular to credit institutions, mainly to: i) incorporate the simplified treatment of contracts affected by the benchmark interest rate reform; ii) remove the criteria for granting operations to avoid overlaps with new

³ In particular, the tools provided in Articles 45(1), 69 ter and 69 quater of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, and in Article 15 of Royal Decree 102/2019 of 1 March 2019 creating the Spanish macroprudential authority (AMCESFI), establishing its legal regime and implementing certain aspects on macroprudential tools.

EBA guidelines⁴; iii) update the percentages for estimating impairment of debt instruments and foreclosed assets; iv) replace certain statistical statements, in accordance with ECB Regulation (EU) 2021/379⁵; and v) reduce the requirements for branches in Spain of EU credit institutions. Also, it was necessary to amend the accounting circular to SLIs to adapt the references it contains to the circular to credit institutions.

8.1.7 Circular 1/2022

Circular 1/2022 of 24 January to specialised lending institutions on liquidity, prudential rules and reporting obligations, and amending Circular 1/2009 of 18 December to credit institutions and other supervised institutions, in relation to information on the capital structure and non-voting equity units of credit institutions, and on their branches, and on the senior officers of supervised institutions, and Circular 3/2019 of 22 October exercising the power conferred by Regulation (EU) 575/2013 to define the materiality threshold of the obligations.

This circular completes the SLI legal regime by implementing Law 5/2015⁶ and Royal Decree 309/2020⁷. It regulates the liquidity buffer and the structure of SLI funding sources and maturities, building on those of credit institutions, but adapting them to the nature, funding structure and lower liquidity risk of their activities. Additionally, it establishes their solvency and liquidity reporting obligations. It also sets the guarantees required when control of an SLI is to be exercised by non-EU persons; the reporting requirements on the shareholder structure; and the circumstances in which SLIs must draw up the internal capital adequacy assessment report and the Banco de España must conduct the SREP.

8.1.8 *Guidelines on the organisational and operational criteria of the customer service departments of institutions supervised by the Banco de España*

On 19 July 2021, these supervisory guidelines were published, the objective of which is to facilitate the institutions' application of the organisational and operational

4 Guidelines on loan origination and monitoring (EBA/GL/2020/06).

5 Regulation (EU) 2021/379 of the European Central Bank of 22 January 2021 on the balance sheet items of credit institutions and of the monetary financial institutions sector (recast) (ECB/2021/2).

6 Law 5/2015 of 27 April on the promotion of business financing.

7 Royal Decree 309/2020 of 11 February 2020 on the legal regime of specialised lending institutions and amending the Mercantile Registry Regulation, approved by Royal Decree 1784/1996 of 19 July 1996, and Royal Decree 84/2015 of 13 February 2015 implementing Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions.

criteria of their CSDs. Thus, the aim is to ensure that all supervised institutions have a regulatory compliance and governance culture geared towards customer protection and banking transparency and, ultimately, to increase the level of legal certainty.

8.2 Other draft circulars in progress

The Banco de España is currently preparing three circulars on various subject matters, which are shown in Figure 8.2.

A circular, which is being drafted, will affect the content of Circulars 2/2016 and 2/2014, which contain prudential requirements for credit institutions, and also Circular 5/2012, on the transparency of banking services and responsible lending.

The main objectives of this circular are as follows: i) to complete the transposition of CRD-V into Spanish law; ii) to exercise the national options and discretions conferred by Regulation (EU) 2019/876 (CRR-II)⁸; iii) to repeal transitional options that have become obsolete or have been eliminated; and iv) to develop reporting obligations applicable to revolving credit, both in the pre-contractual phase and over the term of the contract.

Also, a circular is being drafted for payment service providers on the management of operational and security risks related to payment services and the notification of serious operational and security incidents.

This circular will develop certain obligations for payment service providers⁹, in particular the obligations to: (i) establish mitigating measures and control mechanisms to manage operational and security risks relating to payment services; (ii) provide, at least annually, an assessment of the above-mentioned risks, measures and mechanisms; and (iii) notify the Banco de España immediately of serious operational and security incidents.

Lastly, a new circular on payment statistics is under preparation, which is essentially justified by the amendments introduced by Regulation (EU) 2020/2011¹⁰.

8 Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.

9 Obligations under Articles 66 and 67 of Royal Decree-Law 19/2018 of 23 November on payment services and other urgent financial measures.

10 Regulation (EU) 2020/2011 of the European Central Bank of 1 December 2020 amending Regulation (EU) No 1409/2013 on payments statistics (ECB/2013/43) (ECB/2020/59).

Figure 8.2

DRAFT BANCO DE ESPAÑA CIRCULARS AND GUIDELINES IN PROGRESS, BY SUBJECT MATTER

SUBJECT MATTER		
Payment services	Conduct	Prudential
<ul style="list-style-type: none"> – Operational and security risk management and serious incidents notification – Payment statistics 	<ul style="list-style-type: none"> – Reporting obligations applicable to revolving credit 	<ul style="list-style-type: none"> – Credit institutions' prudential requirements

SOURCE: Banco de España.

It regulates both the procedure and frequency of statistical reporting to the Banco de España by the reporting agents referred to in Regulation (EU) 1409/2013 and the Banco de España's power to grant exemptions from compliance with statistical reporting obligations.

8.3 Other new regulatory developments

Although the following regulations have not been issued by the Banco de España, Royal Decree-Law 7/2021 of 27 April and Royal Decree 970/2021 of 8 November, which form the basis of the transposition of CRD-V and the exercise of the national options contained in CRR-II, are particularly important. The Spanish legislative framework will be completed with the future amendment of Circulars 2/2016 and 2/2014 discussed in the previous section. These regulations amend, among others, Law 10/2014 and Royal Decree 84/2015. In this respect, noteworthy are the following new developments:

- Necessary approval of financial holding companies and mixed financial holding companies.
- Obligation to incorporate an intermediate EU parent company, in certain cases.
- Incorporation of the new Pillar 2 regime, which is split into a requirement and guidance.
- Possibility of requiring the systemic risk buffer of one or more sub-groups of institutions, for all exposures or for a sub-group of exposures.
- Introduction of restrictions on Tier 1 capital distributions due to non-compliance with the new leverage ratio buffer requirement.

- Adaptation to amendments in remuneration regulations.

In addition, work has started on finalising the incorporation of Basel III into European law. For the time being, the European Commission has published a legislative proposal, which represents the starting point for discussion in the EU (see Box 8.1).

Also, worthy of mention is the new Directive of the European Parliament and of the Council on credit servicers and credit purchasers, which establishes a European framework for both of them. This directive defines the credit manager as a legal person which, in the course of its business, manages and enforces the rights and obligations related to the creditor's rights arising from a non-performing credit agreement, arranged by a credit institution established in the EU, or from the non-performing credit agreement itself, on behalf of a credit purchaser, and which carries out at least one credit servicing activity. The credit servicer must obtain prior administrative authorisation from the NCA.

A credit purchaser is any natural or legal person, other than a credit institution, which purchases rights from a creditor arising from a non-performing credit agreement, or from the non-performing credit agreement itself, in the course of its trade, business or profession. Unlike in the case of the loan servicer, the loan purchaser is not required to obtain administrative authorisation.

The directive contains a number of provisions related to the sale and purchase of loans, such as:

- The obligation of credit institutions to provide the future credit purchaser with the necessary information on the credits being sold.
- The obligation of the buyer to engage a credit institution, other institutions referred to in the directive or a credit servicer to service certain purchased credits.

Finally, the directive includes several rules aimed at protecting debtors of transferred credits, especially if they are consumers.

Lastly, it is worth noting the European Commission's proposal on the markets of crypto-assets. The proposed regulation includes a definition of these assets and incorporates provisions for certain types of assets, for example with regard to their authorisation and supervision, the operation, organisation and governance of crypto-asset issuers or the prevention of market abuse (see Box 8.2).

LAST PHASE OF BASEL III ADOPTION IN THE EUROPEAN UNION

The publication of the European Commission's legislative proposal on 27 October triggered discussions on finalising the incorporation of Basel III in the European Union (EU), which it is proposed will come into force in 2025. The proposal consists of three separate documents:

- Amendment of Regulation (EU) No 575/2013 (CRR-III): constitutes the bulk of the reform, and includes changes to the methods for calculating own funds requirements.
- Amendment of Directive 2013/36 (CRD-VI): while incorporating changes relating to the adoption of Basel III, most of the amendments are not related to Basel III, but seek to improve the supervisory framework for institutions and the harmonisation of the various national regimes.
- Amendment of Regulation (EU) No 575/2013 and Directive 2014/59: both the Regulation and the Directive are amended on issues relating to global systemic institutions with a multiple point of entry (MPE) resolution strategy, and to the indirect subscription of minimum requirement for own funds and eligible liabilities (MREL) instruments in chains of subsidiaries.

I Main amendments introduced by CRR-III

In order to reduce the unwarranted variability and lack of comparability of risk-weighted assets (RWAs) resulting from the use of internal models, it incorporates a number of measures, including:

- Establishment of floors for some components of credit risk models.
- Elimination of the possibility of modelling certain risks or categories of exposures (e.g. operational risk or equities).
- Setting the output floor in capital requirements calculated under internal models: Basel III establishes

a floor at 72.5% of overall RWAs of any institution based on the RWAs that would result from calculating its exposures and risks under the standardised approach. The European Commission's proposal requires this limit at the consolidated level, with a certain distribution among subsidiaries. Also, it provides for a more lax transitional period by allowing a more favourable treatment for certain exposures (e.g. unrated firms or residential mortgages) and leaving open the possibility of this treatment lasting over time.

In addition, other measures, that seek to improve the regulatory framework's risk sensitivity, are included:

- Greater granularity in certain categories of credit risk exposures.
- Introduction of the new approaches to market risk calculation (alternative internal model, alternative standardised and standardised).
- Amendments to the regulation of counterparty risk and credit valuation adjustment risk.

II Main amendments introduced by CRD-VI

The most significant amendments are:

- Temporary freeze of Pillar 2 requirements, and of the buffers for other systemically important institutions and the systemic risk buffer for institutions affected by the output floor.
- Approval by the supervisory authority of certain transactions carried out by a credit institution.
- Harmonisation of the treatment of incoming third country branches, that had been mainly national to date.
- Definition of environmental, social and governance risks and their incorporation into the processes for assessing capital requirements.

¹ Basel III is a set of internationally agreed measures developed by the Basel Committee on Banking Supervision in response to the 2007-2009 financial crisis, with the aim of strengthening the regulation, supervision and risk management of banks.

PROPOSED REGULATION ON MARKETS IN CRYPTO-ASSETS

Crypto-assets are defined as a digital representation of value or rights which may be transferred or stored electronically, using distributed ledger technology or similar technology.

The proposal for the regulation on markets in crypto-assets (the MiCA regulation), published by the European Commission in September 2020 and still under preparation, introduces rules for the following types of crypto-assets:

- Electronic money tokens (EMTs), which are a type of crypto-asset intended to be used as a means of exchange and that purports to maintain a stable value by referring it to the value of a fiat currency that is legal tender.
- Asset-referenced tokens (ARTs), which are a type of crypto-asset, other than EMTs, that purports to maintain a stable value by referring it to any other value or right, or a combination of both, including one or more fiat currencies that are legal tender. The ART issuer must establish and maintain a reserve of referenced assets to maintain the stable value of ARTs.
- Other crypto-assets, other than the above, which are included in the scope of the proposed regulation.

EMTs and ARTs may also be relevant when certain criteria are met or certain thresholds are exceeded (customer base, value of EMTs and ARTs issued, number and value of transactions, etc.).

The proposal contains a number of provisions on the authorisation, supervision, operation, organisation and governance of issuers of the above-mentioned crypto-assets.

Also, it includes rules on the provision of services linked to crypto-assets. These services are:

- Custody and administration of crypto-assets on behalf of third parties.
- Operation of a trading platform for crypto-assets.
- Exchange of crypto-assets for funds or other crypto-assets.
- Execution of orders on crypto-assets on behalf of third parties.
- Placement of crypto-assets.
- Reception and transmission of orders for crypto-assets on behalf of third parties.
- Provision of advice on crypto-assets.
- Management of crypto-asset portfolios.

Also, in relation to the providers of these services, it regulates certain prudential and organisational matters and matters relating to customer information, safeguarding of funds, conflicts of interest and outsourcing.

Lastly, the proposed regulation regulates the supervisory architecture for crypto-assets. In essence, the authorisation of the issuer, the receipt of the white paper relating to the issuance of crypto-assets to be notified by the issuer, and the authorisation of the provision of crypto-asset services are attributed to the national competent authorities (NCAs). The supervision of issuers is also the responsibility of the NCAs, unless the ARTs or MTEs issued are significant, in which case the European Banking Authority and a college of supervisors assume supervisory responsibilities. Lastly, the supervision of crypto-asset service providers is the responsibility of the NCAs.





**INTERNAL AUDIT REPORT
REPORT PROVIDED FOR IN THE CONSOLIDATED TEXT OF THE
SECURITIES MARKET LAW APPROVED BY ROYAL LEGISLATIVE
DECREE 4/2015 OF 23 OCTOBER 2015
2021 REPORT**

1. Introduction

The tenth additional provision of the consolidated text of the Securities Market Law (LMV, by its Spanish initials) approved by Royal Legislative Decree 4/2015 of 23 October 2015 establishes that the Banco de España shall prepare an annual report on its supervisory function, describing the supervisory actions undertaken and procedures followed, permitting information to be gained on the effectiveness and efficiency of these procedures and actions. It also provides that such annual report shall include a report by the internal control body on the conformity of the decisions taken by the governing bodies of the Banco de España with the procedural regulations applicable in each case. This annual report shall be approved by the Governing Council of the Banco de España and sent to the Spanish Parliament and Government.

The Banco de España's 2022 Annual Internal Audit Plan includes the drafting of the report provided for in the LMV, so that it may be included in the Banco de España's Annual Report on its supervisory function, referred to above.

2. Purpose, scope and methodology of the report

This report falls within the bounds of the legal mandate contained in the tenth additional provision of the LMV, which, as indicated above, defines the scope of the report, by reference to three basic elements:

1. The supervisory function of the Banco de España.
2. The decisions taken by the governing bodies in exercise of the supervisory function.
3. The conformity of the foregoing decisions with the procedural regulations applicable.

As regards the reporting period, the report refers to the decisions taken by the Executive Commission in 2021, and the decisions adopted by delegation and notified to the Executive Commission in 2021.

The subject matter of the report relates to the decisions taken, in the exercise of the supervisory function, by the Banco de España's governing bodies within the spheres of competence of the Directorate General Banking Supervision; the Directorate General Financial Stability, Regulation and Resolution; the Directorate General Operations, Markets and Payment Systems; and the General Secretariat.

Regarding applicable regulations, the supervisory powers and procedures set out in Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España and in the Internal Rules of the Banco de España were taken into account, together with those established by the Single Supervisory Mechanism regulations, primarily Council Regulation (EU) No 1024/2013 of 15 October 2013 and Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014. In addition, the Executive Commission of the Banco de España has established, through various agreements, the procedural rules applicable to proposals on matters within the competence of the various Directorates General.

On 2 November 2012, rules were laid down on the reporting of matters to the Executive Commission by all the Banco de España's Directorates General. These rules complement those specific to the aforementioned Directorates General.

Likewise, by means of a Resolution of 10 December 2019, the Executive Commission approved the regime governing the delegation of powers, published in the Official State Gazette No. 311 of 27 December 2019¹, and which provides for the delegation of signature and callback of delegated powers.

To review the decisions adopted by the Executive Commission and the decisions adopted by delegation, random sampling was performed by Directorate General.²

¹ In force since 28 December 2019. The Resolution of 10 December 2019 was subsequently amended by the agreements of 8 September 2020 (Official State Gazette No. 243 of 11 September 2020) and 27 July 2021 (Official State Gazette No. 180 of 29 July 2021) of the Executive Commission of the Banco de España.

² The random sampling was performed by establishing two groups for each Directorate General: one for resolutions adopted directly by the Executive Commission and another for the decisions adopted by delegation of powers.

The work was conducted in accordance with the Internal Audit Manual, which includes the International Standards for the Professional Practice of Internal Auditing, approved by the Institute of Internal Auditors, including those relating to the Code of Ethics.

3. Opinion

In our opinion, the decisions taken by the governing bodies of the Banco de España in 2021 in the exercise of its supervisory function were taken by bodies with sufficient own or delegated powers in accordance with the Internal Rules of the Banco de España and with the provisions laid down by its Executive Commission, and conformed, in all material respects, with the procedural rules applicable in each case.

Madrid, 2 March 2022

Director of the Internal Audit Department

Luis E. Pardo Merino

GOVERNOR OF THE BANCO DE ESPAÑA

DEPUTY GOVERNOR OF THE BANCO DE ESPAÑA

² The random sampling was performed by establishing two groups for each Directorate General: one for resolutions adopted directly by the Executive Commission and another for the decisions adopted by delegation of powers.

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Data cut-off date: 1 February 2022.

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ISSN: 2697-1607 (online)

Depósito legal: M-11127-2022

ACRONYMS AND ABBREVIATIONS

€STR	Euro short-term rate	NPL	Non-performing loans
AMCESFI	Spanish Macroprudential Authority	O-SII	Other systemically important institution
AML/CTF	Anti-money laundering and counter terrorist financing	P2G	Pillar 2 Guidance
ART	Asset-referenced tokens	P2R	Pillar 2 Requirements
ASPSP	Account servicing payment service provider	PD	Probability of default
BCBS	Basel Committee on Banking Supervision	PI	Payment institutions
BigTech	Major globally active firms with a relative advantage in digital technology	POS	Point of Sale terminal
BIS	Bank for International Settlements	PSD2	Payment Services Directive 2
BMR	Benchmarks Regulation	PSMOR	Principles for Sound Management of Operational Risk
CCP	Central counterparty	RegTech	Regulatory technology
CCR	Central Credit Register	RoE	Return on Equity
CCyB	Countercyclical capital buffer	RWA	Risk-weighted assets
CET-1	Common equity tier 1	Sareb	Asset management company for assets arising from bank restructuring (<i>Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria</i>)
CNMV	Spanish National Securities Market Commission	SB	Supervisory Board
CPMI	Committee on Payments and Market Infrastructures	SCA	Strong Customer Authentication
CPMLMO	Commission for the Prevention of Money Laundering and Monetary Offences	SCCyB	Sectoral countercyclical capital buffer
CRD-IV	Capital Requirements Directive IV	SECCI	Standard European Consumer Credit Information
CRD-V	Capital Requirements Directive V	SEPA	Single Euro Payment Area
CRR	Capital Requirements Regulation	SEPBLAC	Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences
CSD	Customer service department	SGTFI	General Secretariat of the Treasury and International Financing
CSDR	Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories	SI	Significant institutions
DGBS	Directorate General Banking Supervision	SIPS	Systemically important payment system
DGFSRR	Directorate General Financial Stability, Regulation and Resolution	SLI	Specialised lending institution
DGOMPS	Directorate General Operations, Markets and Payment Systems	SNCE	National Electronic Clearing System (<i>Sistema Nacional de Compensación Electrónica</i>)
DGSFP	Directorate General of Insurance and Pension Funds (<i>Dirección General de Seguros y Fondos de Pensiones</i>)	SREP	Supervisory Review and Examination Process
EBA	European Banking Authority	SSM	Single Supervisory Mechanism
ECB	European Central Bank	STEP2	Retail payment system
ELMI	Electronic money institution	STS	Simple, Transparent and Standardised
EMT	Electronic money tokens	SupTech	Supervisory technology
EONIA	Euro Overnight Index Average	TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer System
EPC	European Payments Council	TIPS	TARGET Instant Payment Settlement
ESA	European Supervisory Authorities	TPP	Third party payment service provider
ESCB	European System of Central Banks	Bn	Billion
ESG	Environmental, Social and Governance	pb	Basis points
ESRB	European Systemic Risk Board	pp	Percentage points
EU	European Union		
EURO1	Large-value payments system		
FinCoNet	International Financial Consumer Protection Organisation		
FinTech	Financial technology		
FLESB	Forward-Looking Exercise on Spanish Banks		
FSB	Financial Stability Board		
FSC	Financial Stability Committee		
FSTC	Financial Stability Technical Committee		
GDP	Gross domestic product		
G-SII	Global systemically important institution		
Iberpay	<i>Sociedad Española de Sistemas de Pago, SA</i>		
ICAAP	Internal capital adequacy assessment process		
ICO	Official Credit Institute (<i>Instituto de Crédito Oficial</i>)		
ILAAP	Internal liquidity adequacy assessment process		
IOSCO	International Organization of Securities Commissions		
IRB	Interest rate benchmarks		
IT	Information technology		
JST	Joint Supervisory Team		
LGD	Loss given default		
LIBOR	London Interbank Offered Rates		
LMV	Royal Legislative Decree 4/2015 of 23 October 2015 approving the consolidated text of the Securities Market Law		
LSI	Less significant institutions		
MGS	Mutual guarantee society		
MiCA	Markets in Crypto Assets		
ML/TF	Money laundering and terrorist financing		
NCA	National competent authority		
NGFS	Network for Greening the Financial System		