

# 5

## OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES



### TARGET2 OVERSIGHT

Most of the milestones of the Eurosystem's action plan in response to incidents in TARGET have been completed



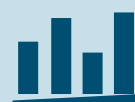
### SNCE OVERSIGHT

Iberpay, the SNCE operator, completed the migration of the Bizum instant transfer operation from a deferred net settlement model to a real-time gross settlement model



### CARD TRANSACTION OVERSIGHT

Fraud rate (in amounts) of card transactions on the Internet: 0.14% in the first half of 2022 (0.21% in 2020). Decline due, among other factors, to the implementation of the SCA



### PAYMENT STATISTICS

Payment service providers and payment system operators successfully completed the first reporting under the new ECB Regulation 2020/2011



### OVERSIGHT FRAMEWORK

In accordance with the PISA framework, the Banco de España has identified the institutions subject to oversight. It now shares the leadership with the ECB in the monitoring of pan-European card scheme American Express



### MONITORING OF SECURITIES INFRASTRUCTURES

Monitoring of BMEC, especially the energy derivatives segment due to the sharp increase in prices and their volatility; and verification of the implementation of recommendations issued to Iberclear in the framework of the CSDR

Most trade and financial transactions are cleared and settled through financial market infrastructures. Due to the role they play and the importance of their proper functioning for the financial system as a whole, central banks are tasked with their oversight and, in some cases, their supervision.

## 5.1 Oversight of payment systems and instruments

Ensuring the efficiency and smooth functioning of payment systems is a responsibility of central banks, which also includes oversight of the payment instruments with which end users securely transfer funds.

### 5.1.1 Payment systems

**The Banco de España participates in the Eurosystem's cooperative oversight of the real-time gross settlement system TARGET2, which is led by the ECB.** TARGET2 is operated by the national central banks of the euro area countries, and it is identified as a systemically important payment system in accordance with the SIPS Regulation<sup>1</sup>.

The evolution of TARGET2 and of the Spanish component (TARGET2-BE) is presented in Chart 5.1. In 2022, the number of transactions in TARGET2-BE grew by 3% with respect to the previous year and represented almost 7% of all transactions processed in TARGET2. In terms of value, the growth of the Spanish component was more pronounced, reaching 21%, which accounts for 3% of the total value of TARGET2 transactions, which grew by 18% in 2022. In general, the dynamism of the value in TARGET2 and TARGET2-BE is explained by the interbank component, partly due to the transfer of balances to the technical accounts of the new settlement model used by STEP2, which is based on a prior contribution of funds<sup>2</sup>.

**Regarding the status of the system, on 30 June 2022 the Governing Council of the ECB took note of the first action plan progress report<sup>3</sup> prepared by the Eurosystem**

1 Regulation (EU) No 795/2014 of the ECB of 3 July 2014 on oversight requirements for systemically important payment systems.

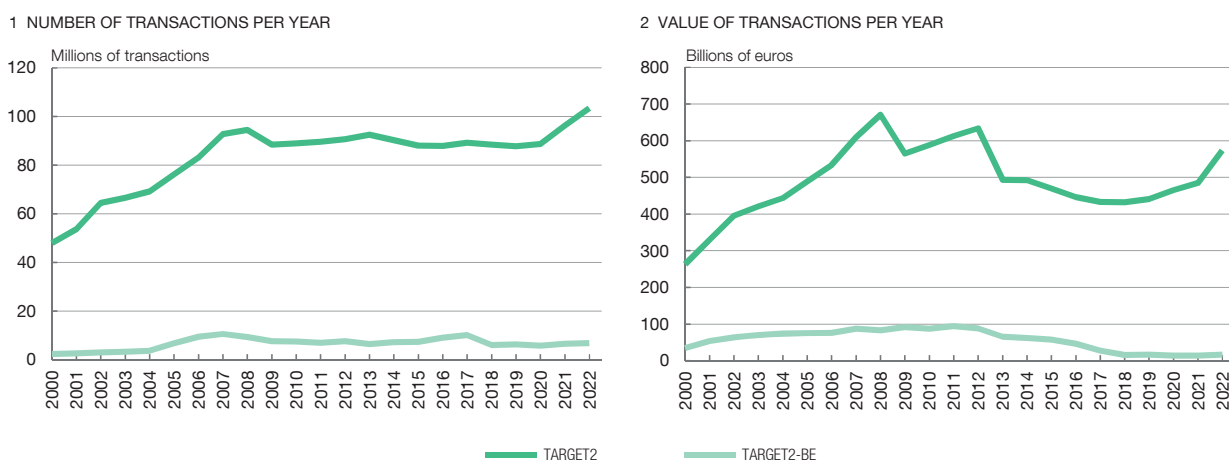
2 Continued Gross Settlement

3 The action plan covers six workstreams, relating to change management, business continuity management, recovery tests, communication protocols, governance, and operation of data centres and IT systems.

Chart 5.1

**OVERVIEW OF TARGET2 AND TARGET2-BE OPERATIONS**

In 2022 the Spanish component, TARGET2-BE, represented 6.6% of the number of transactions processed in TARGET2 and 2.9% of the total value of the transactions.



SOURCE: Banco de España.

to implement the various recommendations issued by an external auditor and by the oversight and internal audit functions in response to the incidents experienced by the TARGET services in 2020.

**By the end of 2022, most of the milestones of the action plan had been completed and the remaining actions will be finalised in the first quarter of 2023, since they are linked to the entry into operation of the consolidation of TARGET2 and TARGET2-Securities.**

The launch of the consolidation project was rescheduled to 20 March 2023, with a view to giving users more time to complete their tests in a stable environment. The decision took into account the importance and systemic nature of TARGET services, especially considering the current geopolitical conditions and the volatility of financial markets.

**The Banco de España also participated in the cooperative oversight of the other pan-European systemically important payment systems (SIPS).** Thus, with regard to Mastercard, work was carried out on the first full SIPS assessment of the Mastercard Clearing Management System. With regard to EURO1 and STEP2, which are both SIPS operated by EBA Clearing, the oversight activities were focused on monitoring the recommendations aimed at mitigating the fraud risk related to access points in EURO1, as a large-value payment system, and the recommendations stemming from the assessment of the new STEP2-CGS settlement model, the migration of which was completed on 11 July 2022.

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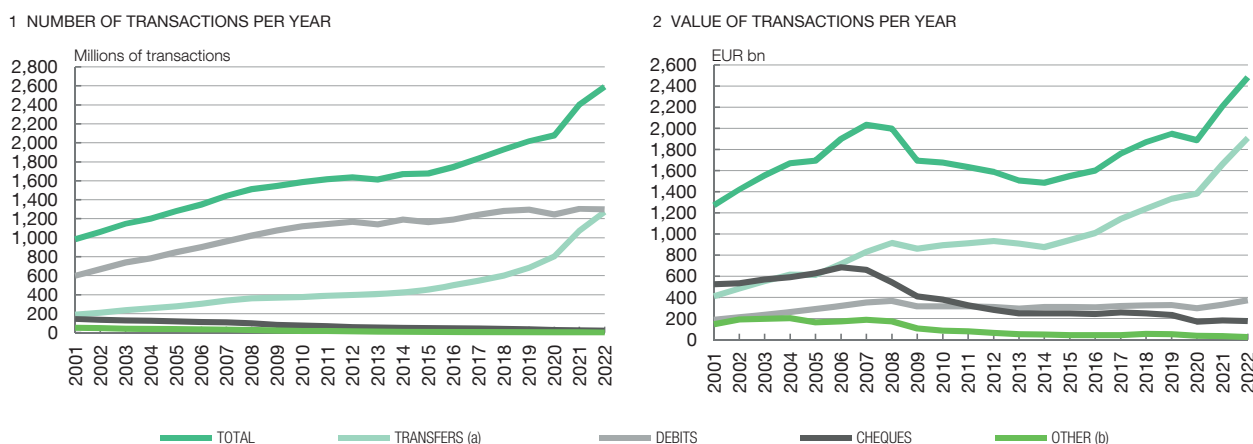
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Chart 5.2

**OVERVIEW OF SNCE OPERATIONS**

SNCE operations in 2022 maintained the dynamic that was seen in 2021, with annual growth of 7.9 %. In terms of value, growth was sharper as a result of the inflationary process in the year.



SOURCE: Banco de España, based on Iberpay data.

a Including instant transfers as from 2018.

b Including bills of exchange and other.

**At the national level, the Banco de España is responsible for the oversight of the National Electronic Clearing System (SNCE), the national clearing house managed by Sociedad Española de Sistemas de Pago, SA (Iberpay).** Chart 5.2 shows the evolution of the transactions of the various SNCE subsystems in 2022, in terms of both number of transactions and value. As shown in the Chart, the SNCE's operations in 2022 maintained the same dynamic as in 2021, with annual growth of 8% in terms of the number of transactions, as a result of the momentum observed in credit transfers and, in particular, instant credit transfers, which grew by 39% in 2022. This growth in instant credit transfers may be due, among other factors, to the decrease in cash transactions, whose weight in the Spanish economy, according to SPACE<sup>4</sup> data, fell from 84% in 2019 to 66% in 2022, and not so much to a substitution effect of ordinary credit transfers, which grew by 5% in 2022. In addition, in 2022 the SNCE completed the migration of the Bizum payments from a deferred net settlement model to a real-time gross settlement model.

In contrast, payments with cheques continue to decline, with a 13% reduction in 2022 in terms of transactions. Direct debits fell by 0.4% in 2022, partly reflecting economic uncertainty. The behaviour of the different SNCE subsystems in terms of value does

4 Study on the payment attitudes of consumers in the euro area (SPACE). [https://www.ecb.europa.eu/stats/ecb\\_surveys/space/html/index.en.html](https://www.ecb.europa.eu/stats/ecb_surveys/space/html/index.en.html)

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not introduce any change with respect to that indicated for the number of transactions, although the growth in 2022 was more pronounced, as a consequence of the inflationary process this year, which means, for example, that the value of transactions processed in the SNCE grew by more than 12%, compared with the 8% increase in the number of transactions indicated above.

**As part of the oversight of Iberpay, the annual risk monitoring report was analysed, based on the global risk management framework.** The conclusion was that its risk management model meets the objective of having risk management policies, procedures and systems in place to identify, measure, oversee and manage the range of risks that the infrastructure faces.

### 5.1.2 Payment instruments

The Eurosystem oversight framework for electronic payment instruments, schemes and arrangements<sup>5</sup> (the PISA framework), which entered into force in November 2022, sets out oversight expectations for the sound risk management of retail payments and their supporting infrastructures, complementing existing regulations. The Banco de España shares the leadership with the ECB in the monitoring of American Express as a pan-European card scheme. Furthermore, it participated in the joint oversight groups, under the leadership of the ECB, for the scheme managed by Visa Europe and for the SEPA<sup>6</sup> payment schemes managed by the European Payments Council relating to credit transfers (SCT), instant transfers (SCT Inst) and direct debits (SDD Core, SDD B2B). Ongoing oversight of these schemes included statistical monitoring and the evaluation of updates to their operating rules in 2022.

**The Banco de España is also responsible for the oversight of Sistema de Tarjetas y Medios de Pago, SA (STMP) and it monitors its operations.** Chart 5.3 shows the recent evolution of domestic card transactions. On the one hand, there was a recovery of pre-pandemic levels of activity, and a clear difference between the growth in 2022 in the number of card payments, which was almost 23%, and the growth in cash withdrawals, which was close to 4% in the same year. This difference was also observed in terms of value, albeit to a somewhat lesser extent, as the value of card payments grew by around 22% in 2022, and the value of cash withdrawals by 7%. The similar growth rate observed in the number and value of card purchase transactions, in a high inflation environment, is partly a consequence of the offsetting effect in terms of average value per transaction, as a result of the shift from

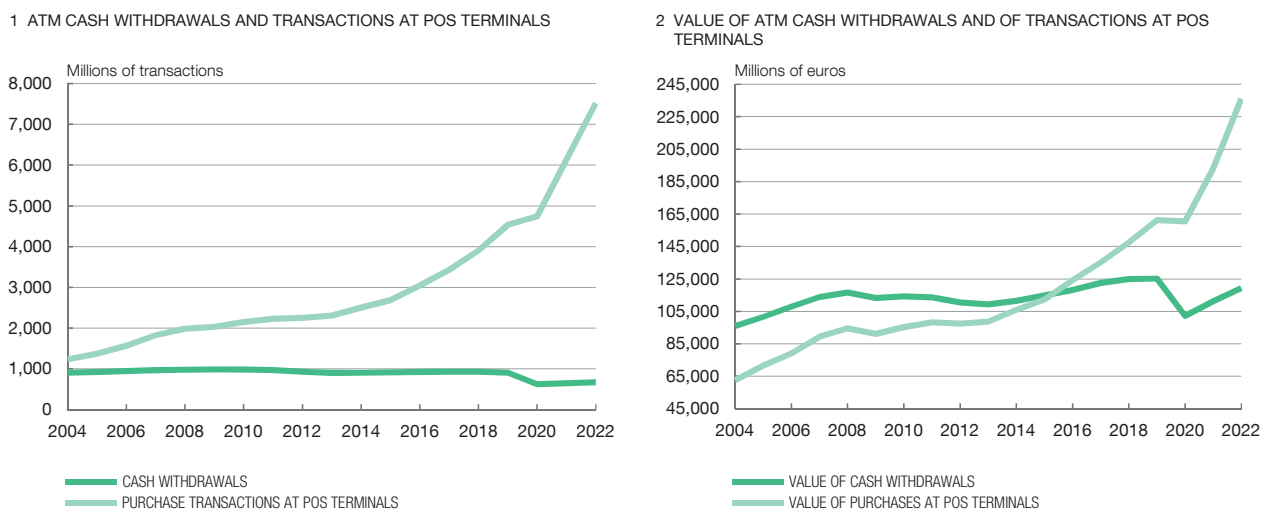
5 For more information, see Banco de España. (2021). "Box 5.2. The new Eurosystem oversight framework for payment instruments, schemes and arrangements". *In the 2020 Supervision Report - Banco de España*. [https://www.bde.es/f/webbde/Secciones/Publicaciones/PublicacionesAnuales/MemoriaSupervisionBancaria/20/recuadro\\_5.2.pdf](https://www.bde.es/f/webbde/Secciones/Publicaciones/PublicacionesAnuales/MemoriaSupervisionBancaria/20/recuadro_5.2.pdf)

6 SEPA stands for Single Euro Payments Area.

Chart 5.3

### OVERVIEW OF OPERATIONS WITH CARDS

The disparity in growth of card payments and cash withdrawals continued in 2022 in terms of both volume and value.



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

NOTE: The levels for 2022 were estimated on the basis of the variable's behaviour in the first three quarters of the year.

transactions previously made with cash, which tend to be of a lower average value, to card transactions.

Based on information from STMP<sup>7</sup>, the fraud ratio for transactions with cards issued in Spain in the first half of 2022 was 0.025%, in terms of number of transactions, as compared with 0.021% in 2021, which represents a slight deterioration in the performance of this variable. However, fraud ratios remain significantly lower than in 2020 (0.032%) thanks to the widespread use of strong authentication in remote card transactions. This effect is more evident when analysing fraud in internet-based transactions, where the fraud rate fell from 0.15% in 2020 to 0.13% in the first half of 2022. This decrease is even more pronounced in terms of value, since the fraud rate fell from 0.21% in 2020 to 0.14% in the same period in 2022.

**Lastly, in 2022 the Banco de España approved the Spanish legislation implementing the regulation on payment statistics<sup>8, 9</sup>.** This regulation, which is discussed in Box 5.1, requires central banks to gather a large amount of information on payment transactions, which facilitates central banks' oversight and supervision tasks.

7 Data referring to transactions with Spanish cards corresponding to the Visa and Mastercard schemes that are processed by Spanish infrastructures.

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 For further information, see section 8.1.2.

## BOX 5.1

### PAYMENT STATISTICS REGULATION

The European Central Bank (ECB) needs statistical information on payments and payment systems in order to fulfil the task of promoting the smooth operation of payment systems in the European Union (EU) assigned to it by the EU Treaty. The collection of statistics enables the ECB to effectively understand and monitor the evolution and degree of integration of payment systems and payment markets in the Member States; it provides the most significant users and the general public with a comprehensive overview of the payments world in Europe in terms of volumes, amounts, services, providers and systems; and, lastly, it provides support for the adoption of policy decisions of the European System of Central Banks in the area of payments. To this end, Regulation (EU) 1409/2013 on payment statistics was approved, which establishes that the ECB, in cooperation with the national central banks (NCBs), will collect information on payments and payment systems. Mandatory for euro area Member States and voluntary for all other EU Member States, it was subsequently amended by ECB Regulation (EU) 2020/2011, which was implemented in 2022.

The ECB has been collecting payment statistics since 2000, but since the adoption of the Regulation, with the assistance of the NCBs, it has received and disseminated more comprehensive information on an annual basis for the years 2014 to 2021. The amendment of the Regulation in 2020 has greatly expanded the statistical requirements, so that it has been adapted to the evolution of payments in recent years. Moreover, information on fraud observed in the various payment instruments is required, as well as more detailed and frequent statistical information on card payments with a breakdown by merchant category code and country, which is very useful for the compilation of balances of payments.

1 EBA/GL/2018/05.

In order to simplify the reporting obligations of payment service providers, the amendment of the Regulation contains the requirements set out in Directive (EU) 2015/2366 on payment services in the internal market — the revised Payment Services Directive (PSD2)— on fraud data reporting, integrating the data provided for in the European Banking Authority (EBA) guidelines<sup>1</sup>. This makes it easier for authorities to agree on the submission of a single data flow from reporting agents. Thus, the ECB will be able to share with the EBA the fraud data received, avoiding double reporting by payment service providers. Another new development introduced by the amendment of the Regulation is the frequency of information. There is a shift from annual information to quarterly information (information which, among other purposes, allows for the improvement in the preparation of certain items in the Balance of Payments) and half-yearly information (information on payments and fraud).

Banco de España Circular 2/2022 of 15 March on rules for the submission of payment statistics by payment service providers and payment system operators, and Technical Application 1/2022 that implements it, constitute the implementation for Spain of Regulation 2020/2011. Under the umbrella of this new regulation, information has been received, processed and reported to the ECB for the first three quarters and the first half of 2022. As the volume of statistical requirements is very high, the implementation of the new regulation has involved a significant effort not only for the institutions that are obliged to report, but also for the Banco de España, the other NCBs and the ECB. This effort will be passed on to the information users when it is disseminated by both the ECB and the Banco de España.

## 5.2 Supervision of Iberpay

**The Banco de España is responsible for the supervision of Iberpay<sup>10</sup>, which is entrusted by law with operating the SNCE.** 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 Iberpay

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



manages. Also, the technical or operating instructions regulating the operating procedures of these systems and services, together with the basic operating rules on the complementary services, must be communicated to the Banco de España following their adoption, and in this case the non-opposition of the Banco de España is sufficient for their entry into force.

**Among the tasks carried out in Iberpay supervision in 2022, the Banco de España assessed eight operating instructions for the SNCE, which the Bank did not oppose.** The main changes they introduced are as follows: i) the adaptation of the technical and operating rules of the SNCE subsystems to the new developments introduced by the new SNCE regulation, which came into force in February 2022 and which establishes, inter alia, the obligation that all instant transfers processed through the SNCE be settled through the use of the technical account held by the Banco de España in TIPS on behalf of Iberpay; ii) the replacement of the physical exchange of documents by the exchange of images through the SNCE; and iii) the launch of the first use in the subsystem of SEPA payment requests by the SNCE.

**Also, assessments were performed on a total of three amendments to the basic operating rules of two of the services offered by Iberpay,** corresponding to the account portability service and the account ownership confirmation service, and the Banco de España did not oppose any of them.

## 5.3 Oversight of securities infrastructures

**Under the Securities Market Law (LMV), the CNMV is tasked with 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.** The objective of this task is to preserve the stability of the whole financial system. The infrastructures subject to shared oversight are the central securities depository, Iberclear (which operates the ARCO securities settlement system) and the Central Counterparty, BME Clearing (BMEC).

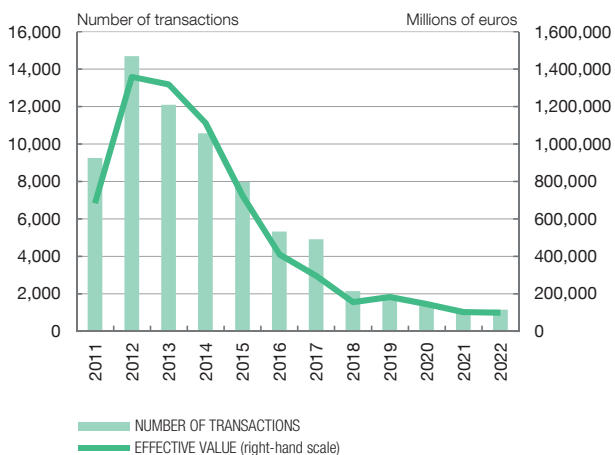
**With regard to BMEC's activity, the evolution of the two most significant segments, fixed income and financial derivatives, has followed a downward trend in recent years,** as shown in Chart 5.4. Clearing activity in the fixed income segment has declined significantly in recent years due in part to the improvement in institutions' funding conditions. The rise in interest rates in 2022 led to a slight increase in the number of transactions cleared and a smaller decrease than in previous years in terms of the value cleared. In the financial derivatives segment, both the nominal value and the number of contracts decreased, except for the number of options contracts, which increased very slightly.

Chart 5.4

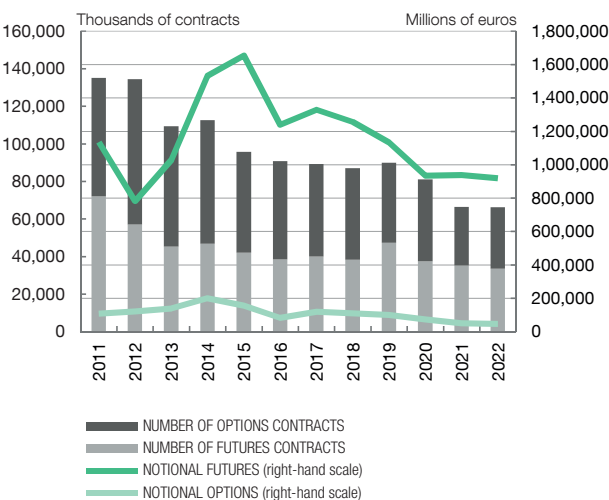
**OVERVIEW OF BMEC OPERATIONS**

The clearing activity in the fixed-income and financial derivatives segment has followed a downward trend in recent years.

1 CLEARING OF GOVERNMENT BONDS



2 CLEARING OF FINANCIAL DERIVATIVES TRADED IN MEFF

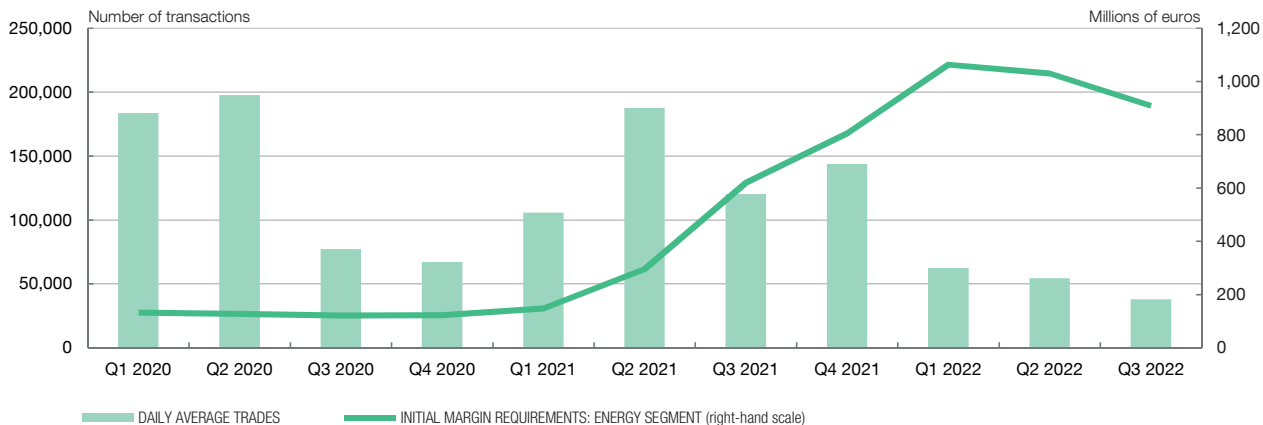


SOURCE: BMEC.

Chart 5.5

**BEHAVIOUR OF THE BMEC ENERGY SEGMENT**

Initial margin requirements increased significantly from the third quarter of 2021.



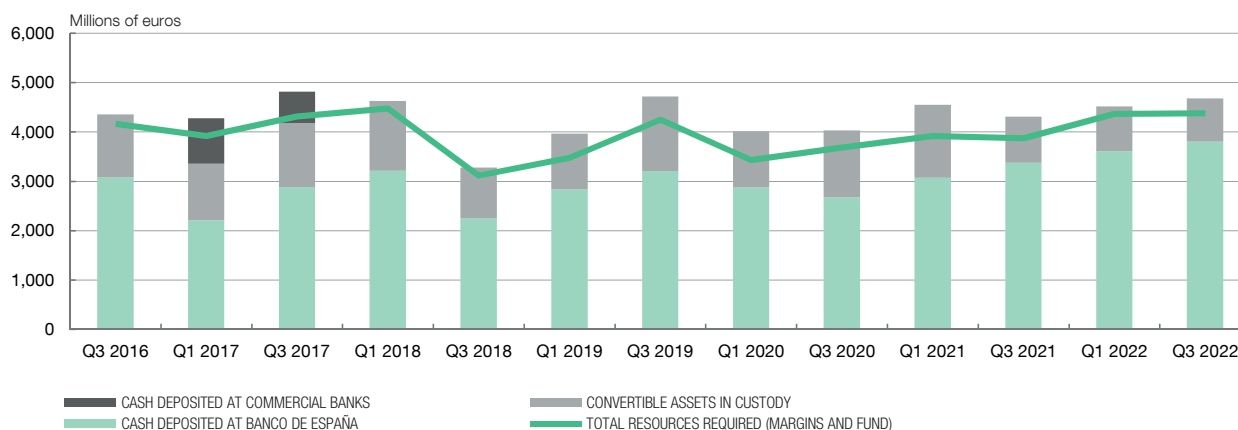
SOURCE: BMEC.

Regarding the energy segment, as shown in Chart 5.5, it is worth noting that in 2022 there was a strong increase in initial margin requirements, despite the significant drop in activity, measured in terms of the average daily volume of trades. This may be largely due to the sharp increase in both energy prices and volatility since the fourth quarter of 2021, which has been aggravated by the Ukraine war and the resulting tensions in energy markets. The Banco de España has closely monitored the performance of the energy segment.

Chart 5.6

### BMEC. RESOURCES DEPOSITED AND LIQUIDITY

The composition of BMEC's financial resources has remained stable in recent years. Liquidity is quite high and most of it is cash deposited with the Banco de España.

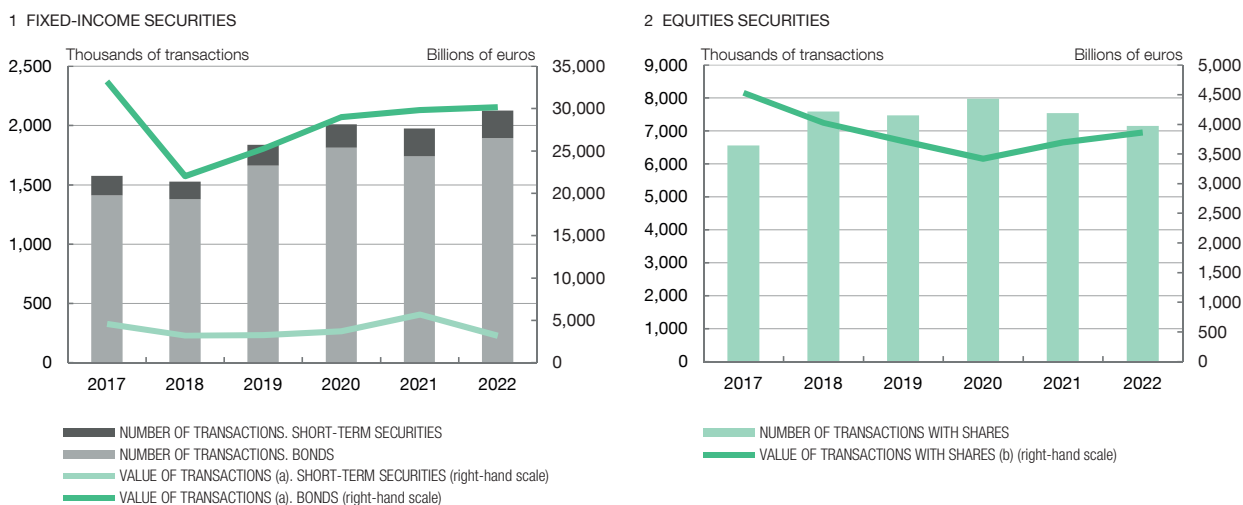


SOURCE: BME Clearing.

Chart 5.7

### IBERCLEAR ACTIVITY DATA. TRANSACTIONS PROCESSED

In general, the Iberclear settlement activity maintains the trend of the last few years, although it is worth noting the slight growth in value of long-term fixed-income and equities securities settled.



SOURCE: Iberclear.

- a Nominal balances.
- b Cash settled.

**BMEC's financial resources stem mainly from margins and contributions from its clearing members to the guarantee fund.** The composition of BMEC's financial resources has remained stable in recent years, and its liquidity is quite high, as can be seen in Chart 5.6, most of which is cash deposited with the Banco de España.

**As for Iberclear, the performance of its settlement activity varies depending on the type of instrument** (see Chart 5.7). For fixed income securities, there was an increase in the value settled for long-term securities and a decrease for short-term securities. In terms of the number of transactions, in 2022 there was a slight increase in bond transactions and there was a certain degree of stability for short-term securities. The equities settlement activity increased slightly in terms of value, with a decline in the number of transactions.

**The Banco de España also participates in the Eurosystem's cooperative oversight of the TARGET2-Securities platform.** In 2022, 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 Regulation<sup>11</sup>. As a result, it was concluded that most of the recommendations had already been implemented. Certain of these implemented recommendations were implemented on the entry into force of the settlement discipline rules on 1 February 2022, as set out in Articles 6 and 7 of the CSDR. The objective of these latter recommendations is to improve settlement efficiency by reducing the number of trades not completed by the intended settlement date through incentives and the establishment of a sanctioning regime, which will improve the functioning of financial markets. Other recommendations will be implemented when TARGET2 and TARGET2-Securities are consolidated<sup>12</sup>. Work continues on the implementation of the remaining recommendations.

### 5.3.1 Activities resulting from national legislation

On the basis of the information provided by Iberclear, in accordance with Article 73(2)(e) of Royal Decree 878/2015<sup>13</sup>, the Banco de España carried out the assessment of Iberclear's operational risks, of the two-way link it established with the Swiss central securities depository SIX-SIS and of the activity through the links it maintains with other foreign central securities depositories, without any issues being identified that require action by the institutions. Activity relating to the links has increased, both when Iberclear acts as the investor central securities depository and when it is the issuer central securities depository.

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

12 Scheduled for 20 March 2023.

13 Royal Decree 878/2015 of 2 October on clearing, settlement and registration of tradable securities represented by book entries, on the legal regime of central securities depositories and central counterparties and on transparency requirements for issuers of securities admitted for trading on an official secondary market.

**As regards BME Clearing, SAU, the Banco de España has issued four mandatory reports in accordance with Articles 104 and 107 of the LMV.** One of these relates to the amendment of the internal rules<sup>14</sup> and another relates to various amendments to the general terms and conditions<sup>15</sup> of the fixed income and equities segments. Also, a mandatory report was issued regarding the authorisation of clearing of products traded on a trading platform<sup>16</sup> other than MEFF and another on the authorisation of an agreement with a new central securities depository<sup>17</sup>. All the reports were favourable.

### 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 CSDR Regulation 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 2022 the Banco de España took responsibility for monitoring the recommendations identified in previous evaluation exercises in the framework of the CSDR that were pending implementation. It also carried out the annual review and assessment exercise for 2021, in which the integration between BME and SIX continued to be assessed.

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14 New BMEC investment policy.

15 Entry into force of Commission Delegated Regulation (EU) 2018/1229 on regulatory technical standards on settlement discipline.

16 Signing of an agreement with the IRS Tradeweb EU V.B. trading platform.

17 SIX SIS Ltd.