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

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

INTERNATIONAL BODIES

Participating in international banking regulation and supervision fora is a strategic priority for the Banco de España

FINANCIAL STABILITY BOARD

Noteworthy is the work on: i) strengthening the non-bank financial intermediation sector; ii) analysis and monitoring of vulnerabilities associated with digitalisation and climate change; and iii) monitoring implementation and effects of reforms

BASEL COMMITTEE ON BANKING SUPERVISION

Progress was made on: i) prudential treatment of cryptoassets; ii) recognition of the Banking Union in the identification of G-SIBs; iii) holistic approach to addressing financial risks stemming from climate change; and iv) assessment of functioning of Basel framework

EUROPEAN BANKING AUTHORITY

Its priorities included: i) maintaining the prudential framework for supervision and resolution; ii) strengthening the EU-wide stress testing framework; iii) consolidating EUCLID; iv) digital resilience, FinTech and financial innovation; and v) AML/CTF. Also, it had two horizontal priorities: i) ESG risks framework; and ii) COVID-19 monitoring and mitigation

EUROPEAN SYSTEMIC RISK BOARD

It issued for the first time a warning about vulnerabilities in the financial system. In the commercial real estate market, it approved an ambitious recommendation driven by cyclical and structural considerations

OTHER

Banco de España actively participated in FinCoNet, the Committee on Payments and Market Infrastructures and the Network of Central Banks and Supervisors for Greening the Financial System on climate change

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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, and one of its objectives is to boost its influential capacity 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
- Financial Stability Board (FSB - Basel Committee on Banking Supervision (BCBS)	- European Banking Authority (EBA) - European Systemic Risk Board	- International Financial Consumer Protection Organisation (FinCoNet) - Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) - Network for Greening

SOURCE: Banco de España.

7.1 Global fora

7.1.1 Financial Stability Board

The Financial Stability Board (FSB) is a body that is responsible for promoting international financial stability and, to this end, it coordinates national financial authorities and international standard-setting bodies. In 2022, it continued its analysis of the COVID-19 effects and its corresponding response measures, and of the implications of Russia's invasion of Ukraine. Also, it published two reports analysing the withdrawal of the measures adopted during the pandemic and highlighting the significance of the reforms backed by the G20 following the Global Financial Crisis.

In addition, the FSB continued to monitor risks associated with the non-bank financial intermediation (NBFI) sector, publishing a progress report (see Box 7.1), and it continued to analyse the vulnerabilities associated with structural changes, in particular vulnerabilities related to financial innovation and

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Box 7.1

FINANCIAL STABILITY BOARD'S INITIATIVES IN PROGRESS ON NON-BANKING FINANCIAL INTERMEDIATION

Since the 2008 Global Financial Crisis, the Financial Stability Board (FSB) has been working to understand and address the risks associated with non-bank financial intermediation. In this area, the FSB includes all the activities (liquidity transformation, maturity transformation, leverage, etc.) that entail risks similar to banking risks, but which are not subject to similar regulation and supervision to those of banks and lack of access to central bank liquidity. Based on this definition, the FSB developed a methodology based on economic functions to determine which non-bank financial intermediaries carry out this type of credit intermediation[1]. The objective was to have a reliable estimate of their relevance, their evolution, their specific potential risks and their interconnections with the rest of the financial system and, in particular, with banks.

As part of its work in this area, the FSB published, in November 2022, a progress report describing the work done on strengthening the non-bank financial intermediation sector in 2021 and 2022, whose findings were taken into consideration to develop proposals in five work areas(see Figure 1). The work of the FSB and international regulators has focused on the areas that contribute the most to the build-up of liquidity imbalances and their amplification in times of stress.

The proposals being worked on redefining pre-existing tools in the microprudential and investor protection areas. Their use to mitigate potential systemic risks will be analysed and the need for additional tools will be assessed. In addition, the FSB will continue to oversee developments in this sector, to strengthen the detailed analysis in certain areas and to monitor the systemic risk using the data that is already available.

Figure 1
FSB'S INITIATIVES IN PROGRESS ON NON-BANKING FINANCIAL INTERMEDIATION

Money market funds (MMFs) and short-term funding markets	Compile and take stock of the MMF measures adopted in the various jurisdictions Assess the effectiveness of MMF reforms from a financial stability perspective Carry out work with IOSCO to enhance short-term funding markets
Liquidity risk management in openended funds (OEFs)	In collaboration with IOSCO: — Revise the 2017 recommendations on liquidity mismatch in OEFs — Initiate a pilot programme to close data gaps in relation to OEFs' liquidity mismatch, the use of liquidity management tools and its potential impact on financial stability — Organise a workshop on experiences among authorities in the design and use of stress tests
Margining practices	In collaboration with the BCBS, the CPMI and IOSCO, monitoring of the work on: — Transparency in centrally cleared markets — Liquidity preparedness and liquidity disclosures — Data gaps in regulatory reporting — Variation margin processes — Responsiveness of initial margin models to market stresses
Leverage	In consultation with IOSCO, assess and address vulnerabilities associated with the sector's leverage
Developing a systemic perspective for the regulation of the NBFI sector and policies to address systemic risk	Enhance its assessment of vulnerabilities in the NBFI sector, report on implementation of G20 reforms, publish a Global Monitoring Report Publish a report with the main findings of initiatives implemented and the proposals to address systemic risk

SOURCE: Banco de España, based on Financial Stability Board data.
NOTE: Money market funds are open-ended collective investment vehicles managed with the objective of providing returns associated with money market rates by investing primarily in short-term money market instruments. Open-ended investment funds are collective investment vehicles that offer their investors the right to redeem their shares on a frequent (usually daily) basis. Margins are the collateral collected by one counterparty to absorb losses in the event of default of the other counterparty.

1 See, for example, "Box 2.2. Annual exercise by the FSB on non-banking financial intermediation". *Financial Stability Review - Banco de España,* Spring 2020. https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinancera/20/ficheros/IEF_2020_1_Rec2_2.pdf

climate change. With regard to financial innovation, it published a report examining the acceleration of the digitisation of retail financial services during the pandemic and various reports on cryptoassets that emphasise the risks of the absence of adequate regulation. The FSB continues to work on recommendations for the regulation of markets for this type of instrument and on updating pre-existing recommendations for global stablecoins[1]. In the cybersecurity area, it is working on fostering convergence in cyber-incident reporting. As regards financial risks stemming from climate change, the progress report on the roadmap established by the FSB itself was published, as well as high-level recommendations to promote consistency in regulatory and supervisory approaches, one report on climate scenario analysis and two reports on financial sector disclosure of information on these risks.

Lastly, the FSB continued its regular monitoring of the implementation and effects of reforms, publishing progress reports on the data gaps initiative, on the transition from LIBOR to risk-free reference rates, on the effectiveness of the recommendations issued in 2017 for open-ended investment funds and on the implementation of OTC derivatives market reforms.

7.1.2 Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision, which is currently chaired by the Governor of the Banco de España, is the international body responsible for setting global standards for the prudential regulation of internationally active banks, while acting as a forum for cooperation on banking supervisory matters. In recent years, the Committee has analysed developments related to cryptoassets. Following two consultation documents, at the end of 2022 it published the prudential treatment of banks' exposures to these assets (see Box 7.2).

The Committee has continued working on the financial risks arising from climate change from a regulatory, supervisory and disclosure perspective. Thus, it published principles for the effective management and supervision of these risks and, on the regulatory side, it published a series of clarifications about how these risks may be captured in the current Basel framework (see Box 7.4).

In the context of the assessment of the Basel reforms, the Committee published two additional reports. Firstly, a report on the usability and cyclicality of the framework, which shows indications of a positive relationship between banks' capital headroom and lending. Given the findings of this report, the longer-term impacts

1 Stablecoins are cryptoassets 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).

BOX 7.2

PRUDENTIAL TREATMENT OF BANKS' EXPOSURES TO CRYPTOASSETS

In December 2022, the Basel Committee on Banking Supervision (BCBS) approved the global standard for the prudential treatment of banks' exposures to cryptoassets, whose implementation will start on 1 January 2025.

Banks will have to classify cryptoassets into two broad groups, which will determine their regulatory treatment for the purposes of calculating capital requirements. In general, this classification distinguishes, from among all the cryptoassets, those which are tokenised traditional assets or those which are issued by an issuer subject to capital and liquidity regulation and supervision and that have an effective stabilisation mechanism, minimising redemption risk, provided that they are also subject to the other conditions summarised in Figure 1.

Thus, cryptoassets that meet the full set of classification conditions (see Figure 1) will form part of Group 1 (see Figure 2), which includes, as indicated above, tokenised traditional assets (Group 1a) and stablecoins with an effective stabilisation mechanism, whose issuer is regulated and supervised (Group 1b). Their regulatory treatment is essentially based on the existing Basel framework. In addition, it is left to the competent authorities´ discretion to establish an add-on to cover possible operational weaknesses related to the new infrastructure used.

All cryptoassets —including tokenised traditional assets and stablecoins— that do not meet the classification conditions will form part of Group 2. To the extent that they incorporate more risk than Group 1 cryptoassets, the framework considers a new and more demanding capital treatment, that includes a limit on the banks' exposure to these cryptoassets.

Within this Group 2, cryptoassets that meet a number of market criteria (existence of regulated financial products that have the cryptoasset as the underlying, high capitalisation, liquid market and sufficient price data) will be allowed to determine capital requirements by netting the net credit and debit position (Group 2a). For the cryptoassets that do not meet any of these market criteria (Group 2b), the exposure will be determined without the possibility of carrying out hedging operations and with the application of a 1250% risk weight, thus being the group that receives the highest capital requirement.

In short, the approved standard provides a global regulatory framework that promotes responsible innovation and seeks to preserve financial stability.

In any case, the BCBS will continue to review certain aspects of the standard, given the brief experience with these instruments and their rapid evolution. Also, the BCBS work plan foresees further assessment of banks' progress in relation to cryptoasset markets, including their role as issuers of stablecoins, risk management practices as custodians of cryptoassets and possible interconnections. In addition, the Committee will continue to cooperate with other international standard-setting bodies and the Financial Stability Board in order to ensure a consistent global treatment of cryptoassets.

of the pandemic, ongoing geopolitical events and the possibility of new risks emerging, the Committee stresses the importance of the prudent build-up and use of buffers by banks to soften the impact of shocks. In a newsletter, it highlighted the benefits of the authorities' ability to set a positive countercyclical capital buffer on a voluntary basis even in situations where no build-up of systemic risk is detected (i.e. positive cycle-neutral CCyB). Secondly, it published a general evaluation report on the functioning of the Basel framework. It is the first holistic evaluation of the impact and efficacy of the reforms implemented, and evaluates whether it has increased bank resilience and reduced systemic risk, while examining certain unintended consequences, notably on lending and capital costs.

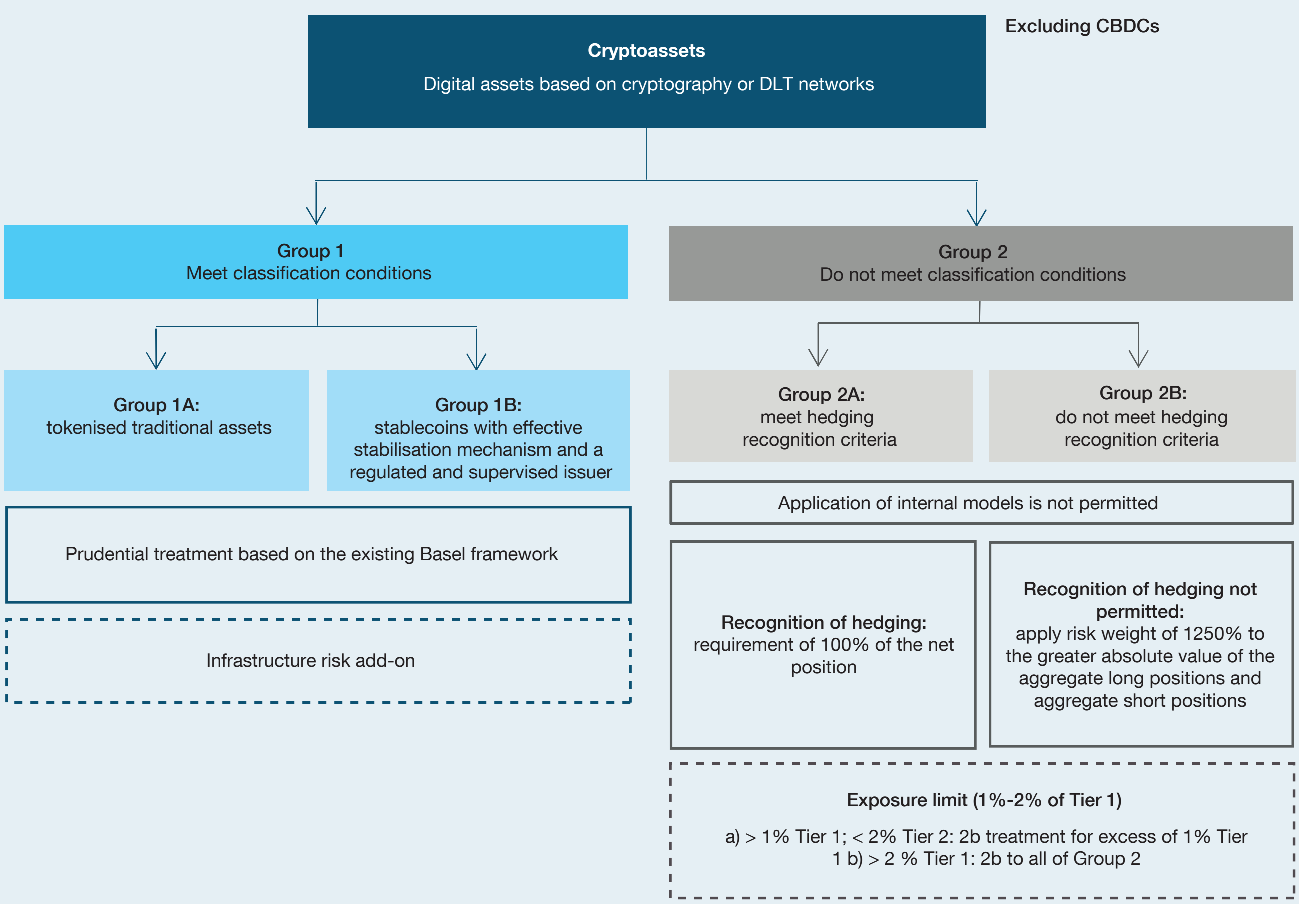
In relation to medium-term structural changes and vulnerabilities affecting the banking system, it has continued working on banks' interconnections with

Box 7.2
PRUDENTIAL TREATMENT OF BANKS' EXPOSURES TO CRYPTOASSETS (cont.)

Figure 1
1 CLASSIFICATION CONDITIONS OF BANKS' EXPOSURES TO CRYPTOASSETS

Classification condition 1	— **Tokenised traditional assets:** cryptographic representations of traditional assets with the same level of credit and market risk as the traditional form of the asset. The stabilisation mechanism requirement does not apply — **Stablecoins:** a stabilisation mechanism is required, that is effective at all times in linking its value to a traditional asset (or a pool of assets), and the issuer must be regulated and supervised and subject to capital and liquidity requirements
Classification condition 2	— All cryptoasset rights and obligations arrangements are **clearly defined and legally enforceable** in all the jurisdictions where the asset is issued and redeemed — Banks must ensure that the arrangements are properly documented — At all times the arrangements must ensure full transferability and settlement • Stablecoins **must ensure full redeemability**
Classification condition 3	— The functions of the cryptoasset and the network on which it operates are designed to mitigate and manage any material risks that could impair its transferability, redeemability or settlement — **The key functions are well defined:** operational structure, degree of access, roles of the nodes and consensus mechanism — **Traceability:** all transactions and participants are traceable
Classification condition 4	— Entities that execute settlement, transfer, custody or redemption functions or manage reserve assets **are regulated and supervised** (or subject to appropriate risk management standards)

Figure 2
2 CRYPTOASSET CLASSIFICATION GROUPS



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

the NBFI, highlighting the wide range of direct and indirect channels through which banks may be exposed to the NBFI. The Committee agreed to continue monitoring NBFI developments and to assess the supervisory implications.

The Committee completed the specific review of the cross-border exposures treatment within the European banking union on the methodology for G-SIIs. The review entails a parallel measurement of an institution's systemic importance through the 66% reduction of cross-border exposures within the banking union. This adjustment is an acknowledgement that the SSM and SRM are fully operational, and that the establishment of the third pillar of the banking union is still pending: the common European deposit insurance scheme. The new additional measurement of systemic importance may result in the reclassification of an institution to a lower tier (but in no case in delisting) and does not affect the scoring of institutions outside the banking union.

On the other hand, in the area of proportionality, the Committee published voluntary high-level considerations to facilitate the implementation of Basel in a homogeneous, simple manner, proportionate to the size, complexity and business model of the institutions and the characteristics of each country's banking system.

7.2 European fora

7.2.1 European Banking Authority

The EBA is an authority that works to ensure effective and consistent prudential regulation and supervision in the European banking sector. The Banco de España participates in its working groups and decision-making committees, and it is represented on the Board of Supervisors and the Management Board by the Director General of Financial Stability, Regulation and Resolution.

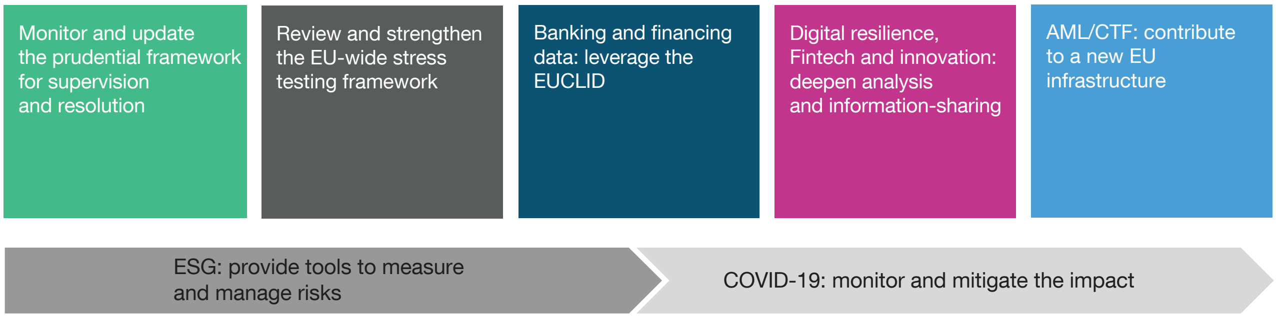
The 2022 EBA work programme was developed around five vertical and two horizontal strategic priorities (see Figure 7.2).

The first strategic priority encompasses the EBA's work related to the prudential framework, supervision and resolution. In the area of prudential regulation, it developed technical standards, guidelines and reports that complete the risk reduction package approved by the European Council and the European Parliament in May 2019. This year, those works related to the interest rate risk in the banking book (IRRBB) have been particularly relevant, with the publication of a regulatory package[2] that will be

2 Composed of the regulatory technical standards on the IRRBB standardised approach, the regulatory technical standards on supervisory outlier tests and the updated guidelines on IRRBB and credit spread risk arising from non-trading book activities (CSRBB).

Figure 7.2
THE EBA'S STRATEGIC PRIORITIES IN 2022

The EBA's priorities were established taking into account the co-legislators' current and expected mandates and the tasks stemming from the EBA´s founding regulation.



SOURCE: European Banking Authority.

subject to enhanced monitoring, and to securitisations, with the preparation of various technical standards and reports that will increase legislative certainty and contribute to the development of this market in Europe. Lastly, it is worth mentioning the publication of the first mandatory Basel III monitoring report.

In the area of supervisory convergence, it published revised guidelines on common procedures and methodologies for SREP. The main objectives were the incorporation of the amendments introduced in CRD-V/CRR-II, their alignment with other EBA guidelines and standards, and the incorporation of supervisory best practices identified by the EBA in the ongoing process of monitoring and assessing supervisory convergence.

In the resolution area, it developed, inter alia, three key guidelines to improve the resolvability and preparedness of institutions: resolvability guidelines, transferability guidelines and guidelines to institutions and resolution authorities on resolvability testing, published for consultation. The EBA continued to monitor the compliance with the minimum requirement for own funds and eligible liabilities (MREL), analysing its impact on institutions, markets and the ability of institutions to access those markets.

With regard to the second of its priorities —the development of EU-wide stress tests— the EBA worked on the design of the methodology for the 2023 stress test. This exercise, which will incorporate, for the first time, top-down elements in the analysis, was started in 2023 with the publication of macroeconomic scenarios. Its results will be published by the end of July 2023.

In its third priority, related to banking and financial data, the EBA continued to consolidate its data infrastructure, the European Centralised Infrastructure

Box 7.3

OPINION OF THE EUROPEAN BANKING AUTHORITY ON THE REVIEW OF DIRECTIVE (EU) 2015/2366 ON PAYMENT SERVICES IN THE INTERNAL MARKET (PSD2)

PSD2 regulates the provision of payment services across the European Union (EU) and applies since 13 January 2018. Article 108 of PSD2 requires the European Commission to report on the application and impact of this regulation to the European Parliament, the Council, the European Central Bank (ECB) and the European Economic and Social Committee. To this end, the Commission submitted a call for advice to the European Banking Authority (EBA). The findings were set out in an opinion of 23 June 2022 (EBA/Op/2022/06) and a report (EBA/REP/2022/14). The EBA observes that, overall, the implementation of PSD2 has contributed to reducing fraud and enhancing competition among providers. Nevertheless, the EBA also sees areas for improvement, which include, but are not limited to, the following:

a) Scope and definitions: it proposes clarifying the nature of certain payment services, various key concepts and definitions, and some of the exclusions from the scope of PSD2. Also, it proposes recasting PSD2 and Directive 2009/110/EC on electronic money into a single legal framework.

b) Licensing of payment institutions and supervision of payment service providers: it proposes reviewing the prudential framework, applying a simplified recovery and wind-down framework to significant payment and e-money institutions, enhancing the role of the EBA central register, distinguishing between services provided under the right of establishment and those provided under the freedom to provide services, assessing the merits of introducing consolidated group supervision, and addressing various issues related to the payment institution authorisation process.

c) Rights and obligations: it proposes certain rules on the blocking of funds of the payment service user by its provider. It also suggests clarifying several issues related to the providers' liability regime. Lastly, it proposes adjusting the legal framework to the specific nature of instant payments.

d) Strong customer authentication (SCA): the EBA proposes clarifying the regulatory treatment of merchant-initiated transactions and transactions excluded from the scope of SCA.

e) Access to and use of payment accounts data in relation to payment initiation and account information services: it proposes exploring the possibility of having a common application programming interface in the EU. Also, it suggests requiring account servicing payment service providers to offer a dedicated interface for third-party providers' access, and clarifying aspects related to the sharing of data between the former and the latter.

f) Access to payment systems and to accounts held with a credit institution: it proposes introducing criteria to justify refusing or terminating access to the credit institutions' accounts by a payment institution or a credit institution.

g) Enforcement of PSD2: it proposes introducing mechanisms that reinforce the position of the competent authorities to require the removal of barriers to access payment accounts by third-party providers. It also suggests introducing a centralised database on administrative sanctions and supervisory measures.

for Supervisory Data (EUCLID) to turn it into an integrated EU-wide data platform.

With regard to the work related to its fourth priority —cyber resilience, digital finance and financial innovation— it is worth mentioning the reports published in the framework of the European Commission's Digital Finance strategy. In collaboration with the other two ESAs, it submitted the response to the Commission's call for advice on the regulatory challenges posed by digital platforms and bundling of services, mixed activity groups and fragmentation of

Box 7.4

PRINCIPAL PRUDENTIAL INITIATIVES IN THE AREA OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK

Set forth below is a description of the principal prudential initiatives developed over the course of 2022 by the Basel Committee on Banking Supervision (BCBS), the European Banking Authority (EBA) and the European Commission, which follow a holistic approach to address the treatment of environmental, social and governance (ESG) risk in the prudential framework, within the scope of their respective mandates. However, it is important to note that many studies and reports have been prepared on this subject, both in global fora, such as the Network for Greening the Financial System or the Financial Stability Board (FSB) and in European institutions, such as the European Central Bank or the European Systemic Risk Board[1].

After publishing two major analytical reports on the financial risks stemming from climate change[2] in 2021, the BCBS concentrated its efforts in 2022 on assessing whether measures need to be taken in the area of banking supervision, regulation and disclosure.

In the area of supervision, in June 2022 the BCBS published high-level principles for the effective management and supervision of climate-related risks[3]. These principles, addressed to institutions and supervisors, were designed taking into account the principle of proportionality and they cover aspects such as corporate governance, internal controls and the assessment and management of climate-related financial risks. The BCBS expects the principles to be implemented by jurisdictions as soon as possible and it will establish a mechanism to assess the progress made. On the regulatory side, in December 2022 the BCBS published a question and response paper[4] clarifying how climate change may be captured in the various standards of the existing Pillar 1 framework. These clarifications are intended to promote consistent interpretation of how to address climate risks, and should in no way be interpreted as changes to the aforementioned standards. Lastly, in the area of disclosure, the BCBS is working in coordination with the International Sustainability Standards Board and other international bodies to improve the quality and granularity of climate risk information provided to the market.

At the European level, in 2022 the EBA continued to develop the mandates received in CRD-V/CRR-II on how to incorporate ESG risks into prudential banking legislation.

In February 2022, the EBA published the final report[5] of implementing technical standards on disclosures on ESG risks, addressed to large banks which have issued securities for trading. Implementing Regulation 2022/2453[6] of December 2022 is based on the EBA's ITSs and contains a set of templates with qualitative and quantitative information on the ESG risks (essentially climate change risk) to which institutions are exposed. In the first half of 2023, credit institutions subject to these standards will start disclosing the first data sets on this matter.

In relation to Pillar 1, in May 2022 the EBA published the discussion paper[7] analysing whether a dedicated Pillar 1 treatment for exposures related to assets or activities substantially associated with environmental objectives would be justified. The paper analyses various elements of Pillar 1 in detail, explaining the advantages and disadvantages of possible changes. Also, the report emphasises that it takes a risk-based approach, i.e. that prudential requirements should reflect the risk profiles of exposures. It is expected to be finalised by the EBA in the second quarter of 2023.

Lastly, in the banking package published in October 2022, the European Commission explicitly incorporates sustainability in the Pillar 2 framework, in line with the recommendations received from the EBA a year earlier.

1 https://www.bde.es/bde/es/secciones/sobreelbanco/sostenibilidad-medioambiental/foros-internacionales/foros-internacionales-de-los-que-es-miembro-el-banco-de-espana.html
2 Climate-related risk drivers and their transmission channels y Climate-related financial risks – measurement methodologies
3 https://www.bis.org/bcbs/publ/d532.htm
4 https://www.bis.org/bcbs/publ/d543.pdf
5 https://www.eba.europa.eu/eba-publishes-binding-standards-pillar-3-disclosures-esg-risks
6 https://www.boe.es/doue/2022/324/L00001-00054.pdf
7 https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Discussions/2022/Discussion%20paper%20on%20the%20role%20of%20environmental%20risk%20in%20the%20prudential%20framework/1031947/Discussion%20paper%20on%20role%20of%20ESG%20risks%20in%20prudential%20framework.pdf

Box 7.4
PRINCIPAL PRUDENTIAL INITIATIVES IN THE AREA OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK (cont.)

Other relevant amendments regarding ESG risks refer to the extension of disclosure requirements to all credit institutions, taking into account the proportionality principle, or the clarification —through a recital— of the possibility of using the systemic risk buffer to address these risks.

value chains[3]. In the same context, it published a report on non-bank lending, analysing its evolution, benefits and risks, and possible measures to mitigate those risks. Also, it analysed the use of technology applied to supervision and it continued with preparatory developments to address the mandates of the Digital Operational Resilience Act (DORA) and the Markets in Cryptoassets (MiCA) regulation.

In the area of AML/CTF, its fifth strategic priority, it contributed to the negotiations of the EU's new AML/CTF legislative package, among other legislative texts. Also, it issued guidelines on the internal governance of the AML/CTF function and digital customer onboarding[4]. Moreover, it launched the EuReCA database, which collects information on material AML/CTF shortcomings detected in institutions.

It is also worth noting the work on conduct and bank customer protection and on payment services. In the conduct area, it developed indicators of potential causes of consumer harm, it carried out a review on fees and charges and it published its report on banking consumer trends. In addition, it published an opinion in the framework of the MCD[5] review and a warning —together with the other ESAs— to consumers about the risks of cryptoassets. As for payment services, it published an opinion on the review of the Payment Services Directive (PSD2) (see Box 7.3).

In relation to its horizontal priorities, the EBA continued working on developing a relevant environmental, social and governance (ESG) framework for banks (see Box 7.4) and on monitoring the impact of COVID-19. With regard to the monitoring of COVID-19, it published a summary report on the evolution of the measures taken to mitigate the impact of COVID-19 on the European financial sector. Lastly, in relation to the Ukraine crisis, the EBA contributed to ensuring the proper implementation of the

3 See the joint ESAs report (ESA/2022/01), in which they make a number of cross-sectoral recommendations with the objective of ensuring that the EU's regulatory and supervisory framework for financial services remains fit-for-purpose.

4 Guidelines on policies and procedures in relation to compliance management and on the role and responsibilities of the AML/CTF compliance officer under Article 8 and Chapter VI of Directive (EU) 2015/849 (EBA/GL/2022/05), and guidelines on the use of remote customer onboarding solutions under Article 13(1) of Directive (EU) 2015/849 (EBA/GL/2022/15).

5 Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property.

EU sanctions regime and, furthermore, monitored the potential impact of the crisis on banks' balance sheets.

7.2.2 European Systemic Risk Board

The Banco de España is a member institution of the ESRB, which is entrusted with the macroprudential oversight of the EU financial system in order to mitigate and prevent risks to financial stability. The General Board of the ESRB brings together the heads of central banks and authorities with responsibility for banking, securities and insurance regulation and supervision from across the EU. The Banco de España's Governor and Director General Financial Stability, Regulation and Resolution participate in the General Board[6]. In 2022, the ESRB re-elected Pablo Hernández de Cos for a second term as Chair of its Advisory Technical Committee, which is the main permanent advisory and support structure for the ESRB's General Board and Steering Committee[7].

The ESRB regularly monitors systemic risks and assesses national macroprudential measures[8], with initiatives aimed at developing analytical advances and increasing the level of preparedness for systemic events. Last year the ESRB's work was carried out in an environment marked by increased and more intense financial stability risks —induced or amplified by factors such as the war in Ukraine and high and persistent levels of inflation—. The ESRB also devoted its attention to relevant structural financial stability issues commenced in previous years in the climate change and cyber risks area[9]; it completed an advisory report to the European Commission for the review of the macro-prudential framework in EU banking legislation[10]; it prepared the macro-financial scenarios for the EBA stress tests[11]; and

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6 Pablo Hernández de Cos (voting member) and Ángel Estrada (non-voting member), respectively.

7 See "Pablo Hernández de Cos reappointed as Chair of the Advisory Technical Committee of the European Systemic Risk Board", Banco de España press release of 30 June 2022. https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/22/presbe2022_55en.pdf

8 See *2021 Annual Report* (https://www.esrb.europa.eu/pub/pdf/ar/2022/esrb.ar2021~8c51ab2011.es.pdf) and *EU Non-bank Financial Intermediation Risk Monitor 2022,* both of 15 July 2022 (https://www.esrb.europa.eu/pub/pdf/reports/nbfi_monitor/esrb.NBFI_Monitor.20220715~a623f2329b.en.pdf?ed03941fc3d33c62acf8f2628b9ccb98).

9 See *The macroprudential challenge of climate change* (https://www.esrb.europa.eu/pub/pdf/reports/esrb.ecb.climate_report202207~622b791878.en.pdf?e0b611d79c3a324077d7515df273f56c), joint report of the ESRB and ECB of 26 June 2022, and *Advancing macroprudential tools for cyber resilience,* ESRB of 14 February 2023 (https://www.esrb.europa.eu/pub/pdf/reports/esrb.macroprudentialtoolscyberresilience220214~984a5ab3a7.en.pdf).

10 See *Review of the EU Macroprudential Framework for the Banking Sector - Response to the call for advice* (https://www.esrb.europa.eu/pub/pdf/other/esrb.reviewmacropruframeworkcfa.220331~5d81cb2173.en.pdf?7263115b46a985b4481328afd3f2326d) and *Review of the EU Macroprudential Framework for the Banking Sector - Concept Note,* both of 31 March 2022 (https://www.esrb.europa.eu/pub/pdf/reports/esrb.reviewmacropruframework.220331~65e86a81aa.en.pdf?a2ea3c6aed8c9611911384c73dbaf937).

11 See *Macro-financial scenario for the 2023 EU-wide banking sector stress test,* 31 January 2023. https://www.esrb.europa.eu/mppa/stress/shared/pdf/esrb.stress_test230131~c4980ac646.en.pdf?c7cfb48ad419a42008f60d4b08cd8786

it published its first three-yearly report on monitoring systemic risks in the EU securitisation market[12].

It is worth noting that the ESRB issued, for the first time in 2022, a warning to all EU Member States about vulnerabilities in the financial system. Warning ESRB/2022/7 of 22 September warned of increased risks to financial stability in the EU and the likelihood of (extreme) tail-risk scenarios materialising. The risks highlighted relate to: (i) a deterioration in the macroeconomic outlook and a tightening of financing conditions; (ii) a sharp correction in asset prices; and (iii) a deterioration in asset quality and profitability outlook of financial institutions.

As a result of several years of monitoring and analysis of the commercial real estate market, the ESRB approved an ambitious recommendation driven by a number of cyclical and structural considerations. Although the situation and specific conditions of this segment of the real estate market vary widely across the EU, Recommendation ESRB/2022/9 of 1 December calls on all the relevant national authorities and the ECB to: (i) refine the regular monitoring of associated systemic risks; (ii) promote prudent financing conditions for activities related to this sector; and (iii) adopt, if deemed necessary, macroprudential measures to increase the resilience of financial institutions.

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 various working groups in this area. These working groups deal with sales incentives in the marketing of mortgage loans; the impact of remote working on supervision after the COVID-19 pandemic and the use of SupTech tools in this context; and the supervisory implications of non-traditional financial institutions (such as BigTech or FinTech) offering financial services, especially payments. It is worth noting the 2022 publication of the report on supervisory challenges related to increased digitalisation in the marketing of financial products and services, especially payment services.

The Banco de España also participates in the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS). In this area, in 2022 the Banco de España continued the CPMI's work on the G20 roadmap for the cross-border payments programme, and contributed to the assessment and design of improvements in payment services related to infrastructure

12 See *Monitoring systemic risks in the EU securitisation market* of 1 July 2022. https://www.esrb.europa.eu/pub/pdf/reports/esrb.report_securisation.20220701~27958382b5.en.pdf?94c1fd978e974454f65a21c399f44ff8

aspects and on the regulatory framework and applicable policies. In 2022, work had also continued on the analysis of the application of the CPMI and IOSCO principles for financial market infrastructures to stablecoins, and of central counterparty matters related to margining or recovery and resilience policies. Also, the CPMI had worked on market infrastructures monitoring to verify the sound functioning and management of these infrastructures and it continued providing support to the FSB on initiatives to strengthen the resilience of non-bank financial intermediaries.

In the sustainable finance area and on a global scale, it is worth highlighting the work carried out by the Network for Greening the Financial System, that is a network of supervisors and central banks from across the world, in which the Banco de España participates. Throughout 2022, it continued to delve into issues on which it has been working since its creation, such as the development of climate change scenarios for supervisors or the study on the possible existence of a risk differential between green and non-green assets. Regarding the latter, in May 2022 it published a report[13] showing that there is still no clear evidence of a possible risk differential between green and non-green exposures. Also, it was recognised that the use of forward-looking tools is a key area for measuring the impact of climate change on banking risks, despite the many challenges involved.

13 https://www.ngfs.net/sites/default/files/medias/documents/capturing_risk_differentials_from_climate-related_risks.pdf