BANCO DE ESPAÑA
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The Banco de España opens to public consultation a draft circular on the allocation of unused general provisions

The Banco de España has today published, and submitted for consultation to the sectors concerned, a draft circular on the allocation of unused general provisions. The draft circular gives effect to Law 8/2012 on the write-down and sale of real estate assets of the financial sector. Under this legislation, as at 31 December 2013 the Banco de España shall determine the assets to which to allocate the remaining balances of the provisions for real estate development and construction-related loans. Such provisions were set aside for the exposures in Spain classified as standard as at 31 December 2011, in accordance with the above-mentioned Law and Royal Decree-Law 2/2012 on the restructuring of the financial sector.

The administrative process for the approval of the circular commences today with the consultation on the draft. Approval is scheduled for before February 2014, but the draft circular should be borne in mind by credit institutions when preparing their financial statements for 2013.

The draft circular lists the categories of assets to which credit institutions may assign these remaining balances: doubtful assets, foreclosures, equity interests in real estate companies and intangible assets. Credit institutions shall submit to the Banco de España a report on the provisions recorded and applied, along with the reasons why the unused balance set aside for exposures classified as standard, in December 2011, is for exposures that remain in the same category at the close of 2013.

The Banco de España shall inform institutions of the criteria for the proper application of the circular, ensuring that the reallocation of the remaining balances of the general provisions does not lead to an increase in institutions' distributable profits. The Banco de España thereby ensures that institutions are continuing to strengthen their balance sheets.