



PRESS RELEASE

Madrid, 4 December 2014

Publication of the Financial Stability Journal (number 27)

The Financial Stability Journal (number 27), published today by the Banco de España on its website (www.bde.en), comprises six articles on the following issues:

David Vegara reviews the background of the banking union, analyses the project from a regulatory standpoint and, noticing the existing limitations, takes a favourable view of the regulatory and institutional initiatives undertaken. He concludes with comments on different areas which should be paid close attention in the near future: the use of bail-ins, the application of the principle whereby no creditor should be worse off than in liquidation, the need for inter-institutional cooperation, the problem of backstops and deposit guarantee schemes.

Christian Castro, Ángel Estrada and Jorge Martínez explore the overall characteristics of the Basel III countercyclical capital buffer and its implementation in the EU and analyse a set of potential guiding indicators for Spain. Based on an empirical exploratory analysis of three stress events, they describe various practical and conceptual issues that may arise with the Basel benchmark buffer guide – the credit-to-GDP gap – and study a number of complementary indicators. They find that a broad but manageable set of indicators may help to improve decision-making in relation to this buffer.

Sonsoles Eirea and Manuel Ordás review the regulatory response to the problem of institutions which are "too big to fail". Focusing on the key attributes of effective resolution regimes for financial institutions, published by the Financial Stability Board, they discuss what the main features of a resolution strategy should be for Spain's globally systemic banking groups. In view of the business models, legal and operational structures and management policies of such groups, the authors propose the "multiple point of entry" approach. They conclude by explaining how a resolution might be implemented and discussing the challenges that still need to be addressed internationally for the effective resolution of such institutions.

Jorge Pérez Ramírez examines some common practices in the assessment of banks' solvency, under the principles and assumptions of accounting theory. More specifically, the author assesses the potential limitations of using consolidated accounting statements as compared with individual statements when calculating regulatory solvency ratios. He suggests using market prices of the banks' own funds – the stock market value when the bank is listed – as complementary useful information for solvency assessment in prudential supervision. In each case, the author compares the legal, financial and economic aspects to be taken into account when comparing the different proposals.

Alberto Fuertes and Jose María Serena analyse the vulnerability of firms tapping international capital markets. Based on information on firms from 36 emerging countries in the 2000-2013 period, they conclude that firms' balance sheets are not currently significantly worse than before the crisis. Although firms are less profitable, they have similar leverage and a better liquidity and solvency profile. However, they can access markets under better financial conditions. Finally, beyond this big picture, the authors identify tail risks, such as the increase in the volume of issuances by more overstretched firms.

Pablo Pérez Rodríguez analyses internal (managerial performance assessment) and external (competition in credit markets) factors which impact on credit risk valuation and pricing in lending decisions. He also examines and compares different ways of recognising credit risk in bank loan portfolios through loan loss provisioning and puts forward some proposals which, in his opinion, would give a fairer view of the accounting statements. This work insists on the fact that expected loan losses depend largely on how lending decisions are made.

Reproduction permitted only if the source is cited.