



## PRESS RELEASE

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### Publication of the Financial Stability Journal (issue 33)

The Financial Stability Journal (issue 33), published today by the Banco de España on its website ([www.bde.es](http://www.bde.es)), comprises six articles on the following issues:

**Carmen Alonso Ledesma** assesses from the legal standpoint the guidelines on the corporate governance of credit institutions (GL/2017/12 and GL/2017/11) that the EBA, in compliance with the mandate conferred upon it by the Directive known as CRD IV, published in September earlier this year to specify those aspects the Directive had left unspecified and which were essential for a proper interpretation and application of the requirements made in it. In her assessment the author ponders, first, on the broad objectives to enhance corporate governance, which it is sought to attain with a prolific list of recommendations on the application of the general rules on good governance; and further, the extra burden accommodating such recommendations may entail for institutions. On balance, there are different conclusions for the different recommendations.

**Álvaro Menéndez and Maristela Mulino** analyse the changes in the degree of financial fragility of the non-financial corporations' sector in the Spanish economy between 2007 and 2015 (the latest available year) on the basis of the exposure to risk. The study presents information on potentially vulnerable firms and measures of fragility, differentiating on the basis of firm size and sector of activity, and assessing the relative significance of these companies, both in terms of employment and of the debt accumulated by them. The results show that the number of firms classified as potentially vulnerable, according to the criteria used, grew significantly during the crisis and fell in the years of economic recovery, although in 2015 fragility levels were still above those prevailing pre-crisis. Moreover, greater vulnerability is observed to be concentrated among SMEs and, especially, in the construction sector. Given the continuation of the recovery over the two years following the cut-off date for the data used, the decline in fragility will foreseeably have continued into this more recent period.

**Rafael Repullo and Jesús Saurina** summarise the general aim and content of the First Financial Stability Conference, jointly organised by the Banco de España and CEMFI last May in Madrid. Participants at the conference included Mario Draghi, the President of the European Central Bank, and Luis M. Linde, the Governor of the Banco de España. With the ultimate objective of promoting research and debate on matters of relevance to financial stability, the Conference was structured around six sessions in which 12 papers were presented and discussed. These tackled subjects such as the role played by macroprudential tools, the instruments available for addressing systemic risk, the trade-offs between different policy options and the efficiency of prudential policies in boosting credit growth in

periods of economic weakness. In the Conference a prominent place was occupied by the panel, chaired by Javier Suárez, in which the book published by the Banco de España and authored by Jesús Saurina and Carlos Trucharte – “*The countercyclical provisions of the Banco de España, 2000-2016*” – was presented and submitted for debate. The last three articles of this edition of the FSJ are dedicated to the presentation by the authors of the book and to the comments they received from Pedro Duarte Neves and Richard Herring.

**Jesús Saurina** and **Carlos Trucharte** refer expressly to the encouragement and inspiration received from the Governor, Luis M. Linde, in preparing it. They emphasise the differing ups and downs that the countercyclical provisions pioneered by the Banco de España, long before the macroprudential regulation of credit institutions had been mooted, had to overcome. Their presentation highlights the moderating role this instrument fulfils in the credit expansion phase by obliging institutions to set aside provisions linked to such growth and, above all, the effectiveness they showed in the recession years in preventing even greater credit contractions than those that finally came about. The authors also underscore the inspiring role of the provisions in the countercyclical capital buffer established by the Basel Committee in 2010 and they consider that, with some qualifications, the instrument may also be considered as a forerunner of the expected-loss concept for the calculation of loan provisions within the framework of IFRS 9.

**Pedro Duarte Neves** highlights the innovative nature of a provision that seeks to recognise credit risk from the very moment credit is granted, and he analyses Spanish provisions in comparative terms with other, subsequent macroprudential instruments, such as the countercyclical capital buffer and the new provisioning framework introduced by IFRS 9. In addition to references to technical questions about the means of calibrating the formula for calculating the provisions, the author underscores the role played by Spanish countercyclical provisions in restricting credit growth, their effect on banks’ lending practices and standards, and their effectiveness as a macroprudential instrument.

**Richard Herring**, in the article closing this edition of the FSJ, presents the results of a paper which is original in that it examines the countercyclical provisions from the three-pronged perspective of the management of credit institutions, accounting regulations and regulatory instruments. In the first case, the author establishes a suggestive connection between provisions and so-called disaster myopia. The accounting perspective enables him to relate countercyclical provisioning to the concept of loss and its recognition in accounting statements and, in general, in the relationship between provisions and capital. Finally, the author assesses the use of the countercyclical provisions in stress test exercises and as part of the regulatory initiatives set in train under the aegis of macroprudential policies.

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