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Publication of the *Financial Stability Review* (Issue 34)

Issue 34 of the *Financial Stability Review*, published on 31 May 2018 by the Banco de España on its website (www.bde.es), presents the following articles:

"Completion of the Basel III post-crisis reforms: overview and analysis of key features", by Rebeca Anguren, Christian Castro and Danae Durán

In December 2017, the Basel Committee published the final revisions to the Basel III framework with the aim of reducing the high variability observed in risk-weighted assets. To this end, substantial changes were made to several regulatory standards, including the two available approaches (the standardised approach and the internal ratings-based approach) for credit risk, the leverage ratio, and the operational risk and credit valuation adjustment frameworks. In addition, an aggregate floor to risk-weighted assets based on the standardised methods was added, which provides a robust, risk-sensitive backstop compared with the requirements obtained under internal approaches. In parallel, the Basel Committee completed its review of the prudential framework applicable to sovereign exposures, without changes to the current treatment at this stage. The article provides a description of all these developments, along with detailed explanations of their key features, rationale and workings.

"Bank branch closure and access to cash in Spain", by Concha Jiménez and Helena Tejero

From 2008 to 2017, the number of bank branches in Spain has declined by 17,873 to 27,706, owing both to the consolidation of the banking system and its efficiency improvement-oriented policy. That said, in 2017 Spain continued to be one of the euro area countries with the highest number of branches per inhabitant. At the end of that year, 4,109 municipalities – in which 2.7% of the Spanish population live – lacked a branch. The closure of bank branches does not necessarily entail the financial exclusion of part of the population, as there are alternative means for access to banking services, such as the use of electronic banking. However, the branch network adjustment hinders access by the population to cash, which banks seek to remedy by promoting other access facilities such as off-site ATMs and mobile branches. As a result, the proportion of the Spanish population lacking nearby cash-access points is estimated at approximately 1.96% of the national total.

“Banking concentration and competition in Spain: the impact of the crisis and restructuring”, by Paula Cruz-García, Juan Fernández de Guevara and Joaquín Maudos

This article analyses recent developments in banking concentration and competition in Spain, focusing on the impact of the recent restructuring and consolidation of the industry, with information at the provincial level. The concentration indicators presented show that, in principle, concentration has increased since 2008, although when in the calculation of net income regard is had to the cost attributable to credit risk, the final conclusion is that such income is not substantially different from that existing pre-crisis. Furthermore, market concentration at the national level masks very different concentration situations provincially, where banking concentration levels are particularly high in some cases. Accordingly, the analysis of banking concentration and competition should take into account the relevant geographical market, which is generally closer to the provincial than the nationwide level.

“Financial stability consequences for the expected credit loss model in IFRS 9”, by Antonio Sánchez

The article presents the approach for the accounting of credit losses by banks defined by International Financial Reporting Standard 9 (IFRS 9), in force since 1 January 2018. The new model aims to reflect in current financial statements expected future credit losses, unlike the previous model it has replaced, where accounting was based on incurred losses. Overall, the more extensive recognition of expected credit losses as and when they arise will contribute favourably to financial stability. However, the paradigm shift in accounting for credit losses calls for reflection on other supervisory instruments such as supervisory stress tests and the use of simple credit risk-estimation models. It likewise poses the advisability of better and more harmonised disclosures by banks, the monitoring of how the new provisions evolve over the cycle and ongoing interaction between accounting standards and the regulatory framework.

“Sovereign bond-backed securities as European reference safe assets: a review of the proposal by the HLTF-ESRB”, by Javier Mencía and María Rodríguez-Moreno.

A High-Level Task Force (HLTF) of the European Systemic Risk Board (ESRB) has recently put forward a proposal aimed at increasing the supply of low-risk financial assets in Europe through the securitisation of national euro area sovereign debt. This article reviews the proposal from different angles, including regulatory and financial stability considerations, and current market practices relating to safe assets. The authors conclude that the proposal has some positive elements that could help foster financial integration in the euro area, although it poses challenges relating to financial stability in times of stress. Against this background, it is recommended that future steps to develop the project should better acknowledge its attendant pros and cons.

“The risk of climate change and financial institutions: international challenges, measures and initiatives”, by José Manuel Marqués and Luna Romo

The 2015 Paris Agreement acknowledged the need to mobilise financial flows towards investments supportive of a low-greenhouse-gas-emissions economy and that are environmentally beneficial, what is known as “green finance”. The authors explain the debate on the new demands climate change places on the financial system as a whole and on the banking system in particular, so that they may join the

fight to minimise damages and support preventive initiatives. An analysis is made of the extent to which the financial markets and banks acknowledge and act in consequence of the risks to which climate change exposes them, and the public and private responses triggered by the fight against it. The main national and international measures geared to improving the perception of climate risk and to helping financial markets and intermediaries identify green projects are also reviewed. The authors conclude that climate change has not been fully taken on board by the financial sector and they identify several obstacles preventing the mobilisation of funds for green projects, although the overall assessment at the international level reveals favourable developments in this respect.

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