4 DEVELOPMENTS IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA

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The international committees have continued to work on designing the response to the current financial crisis from the standpoint of improving bank solvency. In the last two years, 2010 and 2011, decisive progress has been made in the design of new international prudential standards on capital and liquidity; the resolution of troubled banks and the specific treatment of systemically important ones, the main substance of which has been determined. Henceforth a new phase is beginning in which the challenge will be to implement consistently and opportunely the new rules on regulation in each country, avoiding regulatory imbalances which might affect the overall effectiveness of the measures agreed upon.

In fact, the depth of the crisis initiated in 2007 – of unprecedented size and complexity – made it necessary to understand the origin, effects and consequences of the problem so as to design an adequate response.

This global response was made with support and political management at the highest level of the G-20. Its agenda for financial reform has the basic aim of reducing systemic risk and making financial institutions more resilient in the face of adverse shocks. The Financial Stability Board (FSB) has played a key role in the development of this response and coordinated the work of numerous institutions and international committees, including most notably in the banking field, the Basel Committee on Banking Supervision (BCBS).

The BCBS published in December 2010 the package of measures on capital and liquidity (known as Basel III) intended to considerably strengthen the financial system as a whole. In 2011 the committee focused its efforts on reducing moral hazard and mitigating negative external factors arising from the existence of systemic institutions; as well as completing proposals in certain areas which had still not been finalised. Thus, in November 2011 it approved the methodology which must be used on one hand, to identify global systemically important banks, known as G-SIBs, and on the other, to determine additional capital levels which will be required from these institutions in order to offset the risks that they impose on the system. The aim is to minimise the probability of G-SIBs becoming bankrupt. Also, incentives are introduced to limit their systemic importance.

This contribution is part of a broader initiative for more stringent treatment of global systemically important financial institutions (G-SIFIs) and was complemented by the FSB's work in the field of resolution in case of difficulties with the approval of "Key attributes of Effective Resolution Regimes for Financial Institutions". Its adoption by the FSB should give rise to far-reaching reforms of the legal systems of the main jurisdictions worldwide to make it possible, if necessary, to wind up this type of institution without it affecting the stability of the financial system, as a whole, and without cost to taxpayers.

In Europe, in addition to beginning the work for the transposition of these global agreements into European legislation, other highly interesting initiatives have been adopted, for example, the changes in the supranational supervisory architecture, with the creation of the European Supervisory Authorities (ESA), and the European Systemic Risk Board (ESRB), whose first year in existence has been extraordinarily active.

Against this backdrop, during its first year of operations, the European Banking Authority (EBA) has aimed to strengthen supervisory transparency and restore market confidence.

ACTIVITY OF SUPERVISORY COMMITTEES IN 2011 (a) TABLE 4.1

Number

	Meetings (b)	Groups
European Systemic Risk Board (ESRB)	22	5
European Banking Authority (EBA) (c)	105	37
General Board	16	1
Standing Committee on Accounting, Reporting and Auditing (SCARA) (d)	20	8
Standing Committee on Financial Innovation (SCFI)	7	3
Standing Committee on Oversight and Practices (SCOP) (e)	13	6
Standing Committee on Regulation and Policy (SCRePol) (f)	45	16
Other	4	3
Groups of the Joint Committee of the European Supervisory Authorities (g)	17	3
Financial Stability Committee (FSC) (h)	10	6
Financial Stability Board (FSB)	43	13
Basel Committee on Banking Supervision (BCBS)	91	37
BCBS	5	1
Accounting Task Force (ATF)	6	5
Policy Development Group (PDG)	49	17
Standards Implementation Group (SIG)	14	8
Other	17	6
Joint Forum	10	3
Association of Supervisors of Banks of the Americas (ASBA)	5	1
Senior Supervisors Group (SSG)	2	1
TOTAL	**305**	**106**

SOURCE: Banco de España.

a The numbers for each committee include the individuals in the groups reporting to the committee and the committee members.
b The number of meetings also includes conference calls by the main committees.
c The EBA officially came into being on 1 January 2011 and has taken over all tasks and responsibilities from the Committee of European Banking Supervisors (CEBS).
d Up to 20.04.2011: Expert Group on Financial Information (EGFI).
e Up to 20.04.2011: Groupe de Contact (GdC).
f Up to 20.04.2011: Expert Group on Prudential Regulation (EGPR).
g Joint groups of the three Supervisory Authorities (Banking, Insurance and Occupational Pensions, Securities and Markets).
h The Financial Stability Committee was established in January 2011 and replaced the Banking Supervision Committee (BSC) of the European Central Bank.

Consequently, in 2011 it repeated the stress tests performed by the CEBS in 2010. Furthermore, in October 2011, in response to the heightening of the sovereign debt crisis in Europe, a recapitalisation exercise was announced which should serve to restore confidence in the banking system.

The ESRB, for its part, has worked on identifying and following up the main risks for financial stability in Europe; on the design of a conceptual framework for the analysis of risks and the instruments required to counteract them; on the assessment of the macro-prudential implications of EU rules soon to be adopted; and lastly, it has used its main policy tools, warnings and recommendations to signal potential risks to financial stability and to propose corrective measures.

The following sections of this chapter describe the work of the international committees of regulators and supervisors in which the Banco de España actively participates, both at global and European level. They also describe the work undertaken jointly by committees of bank, securities and insurance supervisors, as well as the financial stability work carried out within the ESRB and at the ECB and, finally, the work performed by the Association of Supervisors of Banks of the Americas (ASBA).

4.1 Work of the Financial Stability Board (FSB)

The FSB has a mandate from the G20 to promote financial stability. For this purpose, it has been assigned the role of coordinating and directing the work of national financial authorities and the international committees responsible for issuing standards, promoting the effective implementation of financial standards across various jurisdictions and analysing, in coordination with the IMF, the emerging risks in the financial system, by encouraging, if appropriate, the adoption of specific measures.

The following are represented on the FSB at the highest level: the authorities responsible for supervision, financial stability and the Ministers of Finance of 24 countries, including Spain, and the main bodies and international committees with responsibility for the financial sector. Since it was created,[1] the FSB has taken the leading role in the coordination of the reforms of international financial regulation in response to the crisis based on the work of sectoral supervisory committees (like the Basel Committee) or through projects promoted by the FSB itself.

During 2011 marked progress was made which included, most notably, that in relation to the regulatory framework of G-SIFIs, regulation of the “shadow” financial system, reforms of OTC derivatives markets and the review of the implementation of previously agreed reforms in the area of financial institutions’ remuneration practices.

At the Cannes summit held on 4 November 2011, the G20 leaders gave their support to a broad package of measures proposed by the FSB (in coordination with the Basel Committee for G-SIBs) in order to mitigate the risks of G-SIFIs, which are described in detail in Box 4.1.

The strengthening of banking regulation through Basel III and more stringent requirements for systemic banks may create incentives to shift a portion of lending towards sectors with less demanding regulation and without access to the liquidity provided by central banks, i.e. the “shadow” banking system. Consequently, the FSB, following the mandate of the G20 Seoul Summit, prepared a report of recommendations aimed at strengthening the follow-up and regulation of shadow banks in order to adopt, if necessary, the regulatory measures required to avoid regulatory arbitrage and its possible systemic risks. Based on this report, in addition to strengthening the oversight of this sector, various regulatory options are being analysed, either indirect ones, regulating the relationship of banks with these institutions, or direct ones. Noteworthy in the latter case are: the regulatory reform of money market funds and other shadow banking entities; the review of the implementation in the various countries of rules agreed on transparency and the retaining of risk in securitisations; and collateralised borrowing in repo markets and securities lending.

Other important work includes implementing OTC derivatives market reform, which should be completed and introduced in each FSB member jurisdiction by end-2012. The work aims to reduce the opacity and systemic risk generated by these operations on the basis of the interconnections arising from the bilateral trading of these products. For this purpose, particular progress was made in relation to the G20 requirement that all standardised OTC derivative contracts traded should be cleared through central counterparties (CCPs), traded on trading platforms and reported to centralised trade repositories.

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1 The FSB was created by the G20 in 2009 based on the Financial Stability Forum (FSF).

Following the G-20 Seoul summit in November 2010, the Financial Stability Board (FSB) published the framework of reference for addressing systemically important financial institutions (SIFIs). This framework comprises a set of complementary measures which can be grouped into three categories: a) additional requirements to increase systemic institutions' loss absorbency capacity; b) rules and requirements for the resolution of these institutions; and c) recommendations for more intensive and effective supervision. The framework is completed with the need to develop suitable methodologies to identify and categorise these institutions.

In 2011, one of the priority areas of work at international level was, undoubtedly, the development of this framework, especially in the banking sector and for global systemically important banks (G-SIBs).

Methodology for the identification of G-SIBs

The keystone of the work performed was the finalisation of the methodology to identify and categorise banks based on their systemic importance. To this end, the Basel Committee developed the indicator-based measurement approach which considers quantitative indicators grouped into five categories: cross-jurisdictional activity, size, interconnectedness, substitutability and complexity. This quantitative approach, can be supplemented in exceptional cases with supervisory judgement, provided that it is to a very limited degree and subject to international peer review to ensure and guarantee consistency and equality in its application. By using this methodology, each bank is assigned a score which makes it possible to classify it as a G-SIB and assign it to a group based on its systemic importance.

Higher loss absorbency for G-SIBs

Further to the methodology for the identification and categorisation of global systemically important banks (G-SIBs), the Basel Committee, with the backing of the FSB, established a requirement for higher loss absorbency from these institutions which involves a capital surcharge in addition to that demanded by Basel III. This surcharge ranges from 1 % to 2.5 % of risk weighted assets depending on the institution's level of systemic importance. For this purpose, four groups or buckets were created. Likewise, to discourage institutions from increasing their systemic importance a bucket was created, which is currently empty, and permits a surcharge of up to 3.5 % to be applied, if necessary.

Since the aim of this requirement is to ensure that G-SIBs fund a higher proportion of their balance sheets using instruments which strengthen their resilience as a going-concern, following an analysis of the advantages and disadvantages of various instruments, the Basel Committee concluded that the G-SIBs should meet their additional loss absorbency requirement using common equity Tier 1.

Resolution measures for G-SIFIs

In 2011 the Financial Stability Board developed a new international standard *(FSB Key Attributes of Effective Resolution Regimes)* which establishes the responsibilities, instruments and powers that all national resolution regimes should have in order to permit the orderly resolution of distressed institutions by the authorities, without exposing taxpayers to the risk of loss.

Additionally, this standard establishes specific requirements that global systemically important financial institutions (G-SIFIs) – and, within them G-SIBs – will have to comply with. These requirements include the undertaking of resolvability assessments, feasibility and resolution plans and the need to establish agreements to prepare and improve cooperation between resolution authorities in times of crisis.

Recommendations for more intensive and effective supervision

Lastly, as a third block of measures for the treatment of SIFIs, it is necessary to mention a set of measures developed by the Financial Stability Committee for more intensive and effective supervision through the strengthening of supervisory mandates, resources and powers as well as greater supervisory expectation in relation to risk management, data aggregation capabilities, governance and internal controls.

Implementation of the framework for SIFIs

In the banking sector, in November 2011, the Basel Committee and the FSB identified an initial group of 29 global systemically important financial institutions (G-SIFIs),[1] which will have to comply by end-2012 with the specific resolution requirements for these institutions. The list of G-SIFIs will be updated annually and include, in addition to banks, other systemic financial institutions and will be published in November each year.

The additional loss absorbency requirements will initially apply to those institutions identified as G-SIFIs in November 2014. These institutions will have to gradually increase their common equity Tier 1 capital starting in January 2016 to fully comply with the additional surcharge in 2019. These institutions must also meet the supervisory expectations for data aggregation by January 2016.

As we have seen, in 2011 the work on SIFIs centred in particular on the banking sector and on global institutions – "G-SIBs". Next year, it will focus on developing the framework in the insurance sector; extending, in accordance with the G-20's request to the FSB and the Basel Committee, the G-SIBs framework to other systemic banks; and creating adequate mechanisms to ensure the full and consistent implementation of the measures adopted for G-SIFIs and of the changes in national resolution regimes.

1 Initial list of G-SIFIs in alphabetical order (November 2011): Bank of America, Bank of China, Bank of New York Mellon, Banque Populaire CdE, Barclays, BNP Paribas, Citigroup, Commerzbank, Credit Suisse, Deutsche Bank, Dexia, Goldman Sachs, Crédit Agricole Group, HSBC, ING Bank, JP Morgan Chase, Lloyds Banking Group, Mitsubishi UFJ FG, Mizuho FG, Morgan Stanley, Nordea, Royal Bank of Scotland, Santander, Société Générale, State Street, Sumitomo Mitsui FG, UBS, Unicredit Group, Wells Fargo.

Mention should also be made of the publication of a consultation paper on principles for sound residential underwriting practices based on the previous work of the Joint Forum and of the multilateral review of these practices referred to below.

Another increasingly important aspect is the analysis of risks which may affect financial stability in emerging market and developing economies (EMDEs). The FSB in conjunction with the IMF and World Bank published a report of recommendations to facilitate the application of international financial standards, to promote cross-border supervisory cooperation, to adapt the perimeter of regulated activities to the reality of these economies, especially in relation to microfinance, the management of exchange rate risk and the development of local capital markets.

Similarly, through its Standing Committee on Standards Implementation, the FSB exhaustively monitors the reforms in each FSB member country in response to G20 recommendations through peer reviews. In 2011 three thematic peer reviews were published on compensation, risk disclosure practices and mortgage underwriting and origination practices. The FSB also published three country peer reviews (on Spain, Italy and Australia).

It is also important to point out the FSB's work on assessing the vulnerabilities of the financial system at any given time which are used as the basis for the early warning exercises prepared by the IMF and in order to alert authorities so that they may adopt certain decisions.

Furthermore, as a way of extending the scope of its actions to a broader number of jurisdictions, the FSB set up in 2011 the first meetings of the regional consultative groups which include FSB non-member countries in each region that can thus receive first-hand information on the FSB's work.

The broad mandate granted by the G20 to the FSB and its high volume of activities, led the G20 summit in Cannes to request that the FSB review its governance in order to guarantee its independence, increase its capacity and resources while preserving its close links to the Bank for International Settlements (BIS) in Basel.

4.2 Work of the Basel Committee on Banking Supervision (BCBS)

The Banco de España continued to be closely involved in the work of the Basel Committee on Banking Supervision (BCBS). This work continues to respond to the weaknesses in prudential banking regulation which were shown during the crisis and which triggered a wide-scale public-sector intervention to restore financial stability.

December 2010 saw the approval of an important package of measures known as Basel III,[2] which represents a fundamental change in the sphere of prudential banking. In particular, a substantial improvement is required in the quality of eligible capital for covering institutions' exposures and there is a highly considerable increase in capital requirements which will include the creation of countercyclical and capital conservation buffers. Additionally, two important regulatory changes are included, on one hand, institutions are required to comply with a leverage ratio; and on the other, two new liquidity ratios are created in order to cover possible future short-term needs through a buffer of highly liquid assets and to maintain a suitable long-term financial structure. Since they are new, these ratios are subject to a relatively long observation period.

2 See a more detailed description of the contents of Basel III in the 2010 report.

In 2011 the Committee began to analyse their possible effects with the aim of confirming that they meet their objectives and do not have undesired effects, among other areas, on financial stability or banking activity. Half-way through the year, the Committee decided to extend this analysis so as to also assess the effects that the implementation of Basel III may have on institutions' capital ratios. Furthermore, the Committee has published its responses to institutions' most frequent questions about the new regulation.

The Committee particularly emphasised the importance of its measures (not only this new package of rules, but also previous ones) being implemented in all the countries which have committed to implementing them in the appropriate manner (in terms of form and time). Consequently, specific work has begun to assess the effective and consistent transposition of rules into national legislations with an analysis of possible deviations. Furthermore, the practical application of specific matters (beginning with the calculation of asset weights) is being analysed in order to increase convergence in the application of the general Basel framework.

As discussed above, in 2011 in response to requests from the FSB, work has progressed on the treatment of SIFIs, a methodology was devised to determine whether or not a bank is globally systemic and the associated capital surcharges were defined which vary according to systemic importance. Within the framework of supervisory intensity, work was also performed on the implementation of the recommendations made in this respect by the FSB in 2010 and which also led to the revision of the Core Principles for Effective Banking Supervision.

Similarly, noteworthy in 2011 was the following work performed in other spheres. In the area of credit institutions' remuneration policies, a document was published which includes the disclosure requirements that should be included under Pillar III of the Basel framework, and the definitive report on practices on this subject was issued. In the field of the review of the treatment of counterparty risk associated with derivatives, specific proposals were developed which substantially tighten capital requirements associated with this risk. Headway was also made in the prudential treatment of credit institutions' exposures to central counterparties, which are no longer exempt from capital requirements but are subject to them. The essential revision of the treatment of the trading book also continued. The work on securitisations centred on reassessing and reviewing the hierarchy of methods to avoid excessive reliance on ratings. Lastly, noteworthy was the publication[3] of two guidelines on the treatment of operational risk and a consultation paper on the internal audit function in banks. Finally work began in two new areas: capital planning and regulations applicable to "large exposures" in order to review the current recommendations in this connection.

Finally, in 2011 Q4, the Committee began work on "shadow banking" under the coordination of the FSB so as to avoid the tightening of prudential regulations applicable to supervised credit institutions from increasing operations through shadow banking institutions which evade the prudential regulation of credit institutions, although they perform similar activities. The aim of this work is to assess whether it is necessary to adopt more stringent measures on banks' relationships with these institutions.

4.3 Work of the European Banking Authority (EBA)

On 1 January 2011 the Committee of European Banking Supervisors (CEBS) became a European authority (see Box 4.2 of the *2010 Report on Banking Supervision),* and is now called the European Banking Authority (EBA). The Banco de España considers that its

3 The full list of published documents is on the BIS website.

Since the international financial crisis began, many rules, principles and recommendations have been issued by various international bodies, with the result that today the main regulatory tasks have been completed.

However, all these international regulatory efforts will have been in vain, if the new rules do not become fully effective through their appropriate transposition into the various countries' national law.

Recognising this, several bodies have been covering in their work, for some time, the monitoring of the implementation of international financial standards. These bodies include, most notably, the International Monetary Fund and the World Bank with their Financial Sector Assessment Programs (FSAP) and their Reports on the Observance of Standards and Codes (ROSC) and, more recently, the G-20 and the Financial Stability Board (FSB), which are referred to below.

The reviews of the G-20 and the Financial Stability Board

At the highest level of the monitoring structure is the G-20, which is interested in the actual and effective implementation of its resolutions. For this purpose, it has delegated specific review tasks to the FSB, which in October 2011 published the Coordination Framework for Implementation Monitoring (CFMI). The CFMI lays down the principles for coordination between the various international regulators and integrates the current processes of monitoring the G-20 and the FSB's resolutions.

The main objective of CMFI is to ensure that financial reforms are implemented and produce the intended results. The FSB and various standard Setting Bodies (SSBs) work together to achieve this goal: if the matter to be monitored falls solely within the area of responsibility of an SSB and the latter has the resources and methods to undertake the review, it will take primary responsibility in this connection. Otherwise, the bodies of the FSB itself take the initiative.

Since the FSB was created, it has undertaken two types of reviews: progress reports and peer reviews which are related and complement one another. Progress reports are less in depth, higher in number and consume fewer resources than peer reviews. The later may be cross-sectional thematic reviews on various jurisdictions or cover one specific country.

Irrespective of who has primary responsibility and, consequently, of who actually performs the reviews, the findings of the monitoring will be presented to the Plenary of the FSB and subsequently to the G-20.

As for the themes, CMFI distinguishes between two areas of review: "priority" areas with more intensive monitoring and more detailed reporting, the related reports or part of them may even be made public; and other areas which will not be subject to such extensive monitoring. In particular, at present the priority areas are: the transposition of Basel III, OTC derivative market reforms, compensation practices, measures on systemically important financial institutions (SIFIs), resolution frameworks and shadow banking.

Reviews of the Basel Committee on Banking Supervision

As regards the transposition of international regulations on the banking sector, in the same vein as described above, in September 2011 the Basel Committee on Banking Supervision (BCBS) set up a framework to review the consistent implementation by members of its standards. This review will be performed in practice by the Standards Implementation Group (SIG) – a high-level subgroup – which, as it name suggests, covers these matters.

Based on this commission, the SIG designed a three-level review structure to provide an increasingly detailed analysis, as described below.

Level 1 is intended to ensure the countries have formally transposed the agreements by the agreed deadlines. Along these lines, in October 2011, the Committee published the "Progress Report on Basel III Implementation", with a country-by-country analysis of the degree of progress in transposing Basel II, II.5 and III into national rules. The Committee also undertook to update this report annually, the next update being scheduled for April 2012.

Level 2 will seek to ensure consistency between local and international rules. This does not simply mean checking that the rule for adaptation exists, but rather that its content is complaint with the standard. This stage envisages an initial sub-phase of self assessment during which each jurisdiction will fill in a detailed questionnaire and a second sub-phase in which experts from the BCBS and third countries will analyse extensively the actual content of local rules. This will give rise to a report which, once approved by the Committee in consultation with the country in question, will be published on its website. This constitutes the "peer review" phase. The Committee also decided that the initial peer reviews will be of jurisdictions with global SIFIs, specifically the European Union (which will be analysed as one jurisdiction), the United States and Japan, beginning in 2012 Q1.

Lastly, Level 3 attempts to go further and guarantee that local rules produce the desired effects on banking and supervisory practice. On this point, the analyses will not be limited to an abstract study of the rules; rather, it will be checked that the effect of their adoption on real banks and on the supervisor's work is uniform and in accordance with the objective pursued. Specifically, the initial work underway at this level will review the consistency of risk weighted assets in the trading and banking books.

participation in this new authority is a priority within the framework of international supervisory coordination. Aside from participating actively as a member, it chairs several groups which include among others, the main Standing Committee on Oversight and Practices (SCOP).

The transformation of the CEBS into this new Authority has had repercussions on the European financial system and has meant a significant change in the work it must perform since it has assumed a series of new tasks and powers. Perhaps the most important of its new functions is related to preparing a single rule book at European level through the development of regulatory and implementing technical standards which are directly applicable to supervisors and institutions, once they have been approved by the European Commission. In 2011, in the draft proposals for transposition at European level of the new bank solvency regulation (Basel III), the EBA was assigned around 100 technical rules (several of which must be finalised during 2012), in addition to more than twenty guidelines and reports. Other powers assumed by the EBA are its contribution to the coherent and harmonious functioning of supervisory colleges of European cross-border groups and the consistent application by all of them of EU law. Similarly, its powers in relation to the analysis of vulnerabilities in the financial system have been strengthened with the submission of regular reports to the European Parliament and to the ESRB, and its contributions to the reports of the Financial Stability Table of the Economic and Financial Committee, and consumer protection.

In 2011 the EBA repeated the stress tests on a large group of European credit institutions as the CEBS did in 2010. The Banco de España once again participated actively in these tests and practically the whole Spanish banking system was subject to them for the second year running. These stress tests were performed in collaboration with the ESRB, the European Central Bank and the European Commission.

In addition to these tests, one of the EBA's most important initiatives during its first year of existence was the recapitalisation exercise announced in October 2011. The objective of this recommendation, which was included in a set of measures that must be adopted at European level, was to restore confidence in the European banking system in the face of the sovereign debt crisis. This exercise was structured around two measures: firstly, imposing a capital surcharge for sovereign risk (sovereign buffer) and, secondly, requiring a core Tier 1 capital ratio of 9 %. Institutions which took part in the exercise will have to comply with this requirement in June 2012 (they include five Spanish credit institutions). Box 1.1. of this reports explains in detail the stress tests and the recapitalisation exercise.

The EBA continued working, furthermore, on the convergence of supervisory practices through the issuance of guidelines and the provision of technical counselling to the European Commission.

In 2011 the EBA published the guidelines on internal governance of credit institutions and revised the guidelines on common prudential solvency statements (COREP). Furthermore, it published: a consultation paper on guidelines on remuneration in relation to the two exercises which were entrusted to the EBA under CRD III (the first to analyse remuneration policies and practices of European institutions, and the second on reporting in relation to employees who earn more than €1 million); the guidelines on stressed value at risk (stressed VAR); the guidelines on incremental default and migration risk charge (IRC); and the draft technical rule implementing common supervisory statements (based on COREP and FINREP). It also continued to comment on the IASB's work.

Likewise, the EBA issued an opinion in response to the European Commission's consultation in relation to the technical details on a possible European framework for bank recovery and resolution.

In 2011, the EBA continued to conduct the quantitative impact study (QIS), in order to analyse the effects of the proposed banking regulation reforms in relation to capital and liquidity, and to produce the regular joint reports with the ECB's Financial Stability Committee (previously the Banking Supervision Committee) on the impact of the business cycle on the minimum capital requirements established by the new solvency rules.

Other work performed by the EBA in 2011 included the establishment of an extensive database, based on the indicators of the main European institutions, and of the register of authorised institutions in the European Union.

4.4 Joint work by the bank, securities and insurance authorities

In the inter-sectoral arena, the Banco de España continued to be involved both in the international work of the Joint Forum as well as the European work of the supervisory authorities of the banking sector (EBA), the securities sector (ESMA), and the insurance sector (EIOPA), through the Joint Committee of Supervisory Authorities (the "Joint Committee").

The Joint Forum is a global committee of supervisors of the banking, securities and insurance sectors. In 2011 it published the update of the 1999 principles for the supervision of financial conglomerates and a report on asset securitisation incentives from the standpoint of issuers and investors. Similarly, it analysed the common practices in intra-group support at financial conglomerates and encouraged the review and assessment of developments in response to the G20 request to identify the main deficiencies in the regulatory perimeter and the inconsistencies that exist in the international standards for banking, securities and insurance.

The Banco de España has contributed for several years by chairing various working groups and its efforts were acknowledged in March 2012 when it was admitted as a member of the Joint Forum, joining the National Securities Market Commission which is already a member.

At European Union level, with the creation of the European Supervisory Authorities, the Joint Committee began functioning in 2011 and assumed the tasks of inter-sectoral coordination and provided continuity to the work that had been performed until then by the level 3 committees (3L3) and the Conglomerates Committee. The ESAs work through the Joint Committee to ensure consistent supervisory and regulatory practices by means of four main subcommittees. Banco de España representatives sit on: the Sub-Committee on financial conglomerates, which continued to counsel the European Commission in relation to the amendment of the European Directive geared at strengthening the supervision of this type of institutions; the Sub-Committee for the prevention of money laundering; and the Sub-Committee for the analysis of inter-sectoral risks.

The Banco de España also participates in the Senior Supervisors Group which basically comprises bank supervisors and some securities supervisors of countries in which the registered offices of systemically important banks are located. This group is essentially a forum for exchanging supervisory experiences in the realm of these institutions and analyses from a practical viewpoint themes which are important to them. These themes include the counterparty risk associated with derivatives, since this is an indicator of the interconnectedness between large institutions which are the only active institutions in these markets; the suitability and sufficiency of the data with which institutions work internally; the internal definition of institutions' "risk appetite", which conditions their business strategies; and the improvement of their technological infrastructures which should be used to carry out their activities prudently. During 2011, the group worked on matters related to corporate governance and financial innovation, in some cases, through meetings with representatives of these institutions.

4.5 Financial stability work of the European Systemic Risk Board (ESRB)

In 2011 the European Systemic Risk Board (ESRB) also began its activity. The ESRB is the new institution which is responsible for macro-prudential supervision in the EU and its main objective is to prevent and mitigate systemic risk which may affect the EU's financial system. Central banks and supervisory authorities, both at national and European level are part of the ESRB along with the European Commission and the Economic and Financial Committee. The Banco de España, in its double role as a national central bank and supervisor of the banking system is a member of the ESRB. As a central bank, it is also a member with voting rights on the General Board of the ESRB.

Since it began its activity, the ESRB has worked in four fundamental areas: it has engaged in an ongoing debate with other authorities about the macro-prudential implications of EU rules soon to be adopted; it commenced work on creating a suitable conceptual framework for analysing risk and on equipping itself with the necessary instruments to counter such risk, it has continued to monitor the risks and vulnerabilities in the EU's financial system and, lastly it has used its main policy tools (warnings and recommendations) to alert about risks, which it has identified as being potentially systemic, and to propose corrective measures.

In 2011, the ESRB approved three public recommendations, one on the possible risks associated with lending in foreign currency, another on the potential risks of excessive reliance on US dollar-denominated funding by European banks and, finally, a third recommendation on macro-prudential mandates, which establishes guidelines on the content of mandates that should be given to national macro-prudential authorities.

At the beginning of 2011, the Banco de España joined the European Central Bank's Financial Stability Committee which was created to replace the Banking Supervision Committee and has the function of supporting the Governing Council in its financial stability tasks. The Bank has participated actively in all the Committee's work and tasks, in particular in the preparation of half-yearly financial stability reports.

4.6 Work of the Association of Supervisors of Banks of the Americas (ASBA)

The ASBA is a high-level forum in which the heads of the banking supervision and regulation bodies of 35 countries of the Americas are represented. Its main aims are to support the adoption of international standards on regulation and banking supervision practices, to promote technical cooperation between members and to encourage training programmes to support the level of skills in the region.

The Banco de España was a collaborator member of the ASBA from its creation until 2006, when it became the only non-regional associate member, participating actively in the governing bodies of the Association, in its training plans and working groups.

The association's work in 2011 centred on issues which are of more interest to Latin American supervisors: the analysis and effects of the new regulatory framework, macro-prudential supervision and the financial inclusion of unbanked layers of the population. Noteworthy is the diagnosis work in relation to the implementation of the Basel II and Basel III

KEY RISK INDICATORS (KRIs)

BOX 4.3

On 1 January 2011 the new European financial supervision system came into operation. This new system has two pillars: the macroprudential pillar, consisting of the European Systemic Risk Board (ESRB), and the microprudential pillar, formed by national supervisors and the three new microprudential supervisory authorities – the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA).

The principal objectives of the ESRB and the new European Supervisory Authorities include the analysis of system vulnerabilities. One of the instruments used by the ESRB for this analysis is the quantitative information it receives from the three European Supervisory Authorities and the ECB (which provides logistical, analytical, statistical and administrative support to the ESRB).

In the case of credit institutions, to date the flow of quantitative data from the EBA to the ESRB has been condensed into the periodical transfer of a battery of key indicators known as KRIs (Key Risk Indicators). KRIs are a set of 53 indicators which include ratios and growth rates, as well as the aggregates needed to calculate the latter. These indicators seek to assess the solvency, credit risk and credit quality, balance sheet structure and results of the institutions analysed.

KRIs are compiled quarterly. The flow of data goes, firstly from institutions to national supervisors, then from national supervisors to the EBA and, lastly, from the EBA to the ESRB. The sample of institutions analysed comprises 56 consolidated groups from 19 countries, including four Spanish groups. The national supervisors send the data to the EBA “institution-by-institution”, whereas the EBA sends aggregate data to the ESRB. The data are aggregated respecting the confidentiality criteria agreed upon between the European Supervisory Authorities and the ESRB.

The implementation of this periodic data collection in 2011 has not been without challenges. As indicated above, the creation of the European financial supervision system is very recent and therefore, the ESRB, on one hand, and the EBA and national supervisors, on the other, have had to obtain, in a short period of time, the human and technical resources necessary for the data transfer and storage. In addition, they have had to put in place the necessary procedures to ensure the quality of the data and safeguard their confidentiality. These initial problems have been overcome and, as of the date of this report, the ESRB is receiving KRIs and using them for its analyses.

KRIs have been designed on the basis of the data which currently appear in the guidelines on financial reporting statements (FINREP) and on capital requirements (COREP) of the Committee of European Banking Supervisors (CEBS), the predecessor of the EBA. At the request of the ESRB, the scope and the content of the KRI will be revised as soon as the technical implementing standards for the new common FINREP and COREP statements come into force (in principle, in 2013).

To complement the KRIs, the ESRB periodically receives from the ECB the aggregate data on credit institutions included in the “Consolidated Banking Data” (CBD), which have been collected since 2002.

Accords in Latin America which provided the basis to determine the working groups which will deal in 2012 with the assessment of minimum capital levels and liquidity risks. Additionally, a report was published in collaboration with the World Bank on systemic oversight frameworks in the region.

Banco de España decisively supports the meetings and working groups on those issues in which the contribution of its experience may be more valuable, consequently in 2010 it participated in working groups on recommendations for the supervision of financial conglomerates, on management and supervision of liquidity risk and in 2011 the Directorate General Banking Regulation participated in a working group on the regulatory framework of consumer protection.

Worth noting is the training that the Banco de España offers to the officials of ASBA members. In 2011 this training comprised ad-hoc seminars on Pillar II, financial derivatives and market risk; five places were reserved for these officials on most of the internal training courses for employees of the Directorate General of Banking Supervision, they had access to an on-line seminar lasting eight weeks and a face-to-face seminar jointly organised with the CEDDET Foundation on “Risk-based Supervision”.

The ASBA also benefits from other activities organised by the Banco de España for the Centre for Latin American Monetary Studies (CEMLA) and other international bodies.