

3 MACROPRUDENTIAL SUPERVISION



19th century mantel clock. Banco de España collection.

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3.1 Macroprudential instruments

The Banco de España is the national designated authority for application of the macroprudential policy instruments envisaged in the supervisory regulations for credit institutions.¹ The aim of macroprudential policy is to help safeguard the stability of the financial system, by reinforcing its resilience and mitigating systemic risks, ultimately to ensure that the financial sector makes a sustainable contribution to economic growth. For that purpose, the Banco de España carries out continuous identification and monitoring of risks and vulnerabilities in the financial system. The analysis is based on indicators and models developed by the Banco de España, which provide information on the macroprudential policy stance and the possible adoption of measures.²

The main macroprudential instruments available to the Banco de España are the capital buffers. These are Common Equity Tier 1 (CET1) requirements additional to those established under microprudential supervision and are determined as a set percentage of banks' risk exposures. Under current regulations, the Banco de España regularly sets two types of capital buffers to prevent and mitigate different (cyclical and structural) dimensions of systemic risk: the countercyclical capital buffer and the buffers for Spain's global and domestic systemically important institutions.

3.1.1 COUNTERCYCLICAL CAPITAL BUFFER

The Banco de España sets the countercyclical capital buffer (CCyB) for credit exposures in Spain quarterly. The purpose of the CCyB is to ensure that banks gradually build up a capital reserve in financial boom times that may be used to absorb losses when the cycle turns, to help stabilise the flow of credit to the economy. It is an instrument designed to address the time dimension of systemic risks; in this case those arising from excessive overall credit growth.

Since the CCyB was introduced on 1 January 2016 the Banco de España has held it unchanged at 0%. This decision, taken periodically, is based on technical analysis of specific quantitative indicators and on qualitative information and expert judgement. Among the quantitative indicators, the benchmark indicator is the credit-to-GDP gap which measures excess credit growth over GDP with respect to its long-term level. In recent quarters this indicator has stood at levels very distant from the activation threshold.³

3.1.2 CAPITAL BUFFERS FOR SYSTEMICALLY IMPORTANT INSTITUTIONS

Each year the Banco de España updates the list of systemically important institutions and sets their capital buffers. Since 2015 the Banco de España annually identifies global systemically important institutions (G-SIIs) and domestic or national systemically important institutions, formally known as other systemically important institutions (O-SIIs),⁴ establishing capital buffers for each of them.

¹ Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR), Law 10/2014 on the regulation, supervision and solvency of credit institutions, Royal Decree 84/2015 and Banco de España Circular 2/2016.

² For more details, see J. Mencía and J. Saurina (2016), *Macroprudential policy: objectives, instruments and indicators*, Banco de España Occasional Paper 1601.

³ See press release of 20 December 2017, "The Banco de España maintains the countercyclical capital buffer at 0%", and Chapter 3 (Macroprudential analysis and policy) of the Banco de España's *Financial Stability Report*, November 2017.

⁴ For more details, see Box 3.1 (Identification of systemic institutions) of the Banco de España's *Financial Stability Report*, May 2017.

Institution	Designation in 2017	Capital buffer required in 2018	Capital buffer to be required in 2019 (a)
Santander	G-SII and O-SII	0.75%	1.0%
BBVA	O-SII	0.5625%	0.75%
Caixabank	O-SII	0.1875%	0.25%
Sabadell	O-SII	0.1875%	0.25%
Bankia	O-SII	0.1875%	0.25%

SOURCE: Banco de España.

a The buffers indicated for 2019 would be applicable if the related institution were to maintain its O-SII status, and also its current classification, in the 2018 review.

Systemic institutions are those whose failure or malfunctioning would cause severe harm to the financial system and the real economy. This justifies imposing stricter prudential treatment on these institutions than on others, in order to ensure strengthened solvency. Systemic institution buffers take the form of capital surcharges, designed to mitigate and prevent the negative externalities deriving from the size and complexity of the activities pursued by these institutions. In this sense, the buffers seek to address the cross-sectional or structural dimension of systemic risks.

G-SIIs are identified in a coordinated manner at an international level, applying the methodological framework developed by the Basel Committee on Banking Supervision (BCBS) and endorsed by the Financial Stability Board (FSB). The Banco de España participates in both these fora. GSIIIs are identified using quantitative indicators based on the main features of institutions classed under five categories: a) size; b) interconnectedness with the financial system; c) substitutability of the services or financial infrastructure provided; d) complexity; and e) cross-border activity. The G-SII framework also establishes the allocation of a capital buffer requirement based on objective criteria.

The Banco de España uses EBA guidelines to identify O-SIIs, also in line with a framework developed by the BCBS based on essentially quantitative criteria, similar to the G-SII framework. By contrast, for institutions identified as O-SIIs, the capital buffer requirements are determined using the Banco de España's own calibration system which is consistent with the guidelines agreed by the ECB in December 2016 for national authorities within the SSM.

In November 2017 the Banco de España published the list of institutions identified as G-SIIs for 2019 and as O-SIIs for 2018, along with their capital buffers.⁵ The buffer requirements for G-SIIs and O-SIIs are being phased in gradually between 2016 and 2019, with 75% of the requirement to be met in 2018 and 100% in 2019 (see Table 3.1). Under the applicable legislation, if an institution is classed as both a G-SII and an O-SII, the higher of the two buffers will apply. The Banco de España will review the designations of institutions classed as G-SIIs and O-SIIs at the end of 2018.

3.2 Macroprudential tasks in the Single Supervisory Mechanism

In the framework of the Single Supervisory Mechanism (SSM), the Banco de España is in continuous dialogue with the ECB on macroprudential policy matters. In accordance with current legislation, the Banco de España periodically informs the ECB of its proposed

⁵ See press release of 24 November 2017, "Banco de España updates the list of systemically important institutions and sets their capital buffers".

macroprudential measures. Specifically in 2017, the Banco de España submitted to the ECB the quarterly countercyclical capital buffer measures and the annual review of systemic institutions.⁶ This is part of a formal process whereby the ECB scrutinises national macroprudential policies in the euro area. Under the EU SSM Regulation, for certain macroprudential instruments the ECB has the power to tighten the measures applied by national authorities.

The Banco de España takes part in the discussions of the ECB's Financial Stability Committee (FSC), along with other euro area national central banks and supervisory authorities. Through its working groups the FSC aims to foment the analysis of risks and vulnerabilities for financial stability in Europe and facilitate the exchange of information, thus helping to coordinate macroprudential policy measures between national authorities.

The Banco de España is a member of the ECB's Macroprudential Forum (MPF). This is a platform where members of the ECB's Governing Council and Supervisory Board meet quarterly to discuss the situation of the euro area banking system and the impact on financial stability of various regulatory and supervisory initiatives from both a microprudential and macroprudential standpoint.

⁶ The information on systemic institutions must also be submitted to the European Commission, the EBA and the European Systemic Risk Board (ESRB).