

REPORT ON BANKING SUPERVISION IN SPAIN
DIGEST

Supervisory functions of the Banco de España and their internal distribution

- The microprudential supervision of credit institutions — under the SSM — and of other financial institutions focuses on the risk profile and solvency of each individually considered bank. The Directorate General Banking Supervision (DGBS), both through its departments entrusted with the direct supervision of banks and through its horizontal departments and groups, performs this function. The proper functioning of supervision calls for significant coordination across all these departments.
- Macroprudential policy is geared to safeguarding the stability of the financial system as a whole and is under the control of the Directorate General Financial Stability, Regulation and Resolution (DGFSRR).
- The supervision of market conduct and transparency, aimed at protecting bank customers, is entrusted to the General Secretariat.
- The supervision of the provision of payment services and of institutions specialising in their provision is aimed at promoting an integrated, safe and efficient payments market. The Directorate General Operations, Markets and Payment Systems (DGOMPS) is tasked with these functions and with the oversight of payment systems and of financial market infrastructures.
- In the anti-money-laundering and counter-terrorist financing area, the Banco de España co-operates with the Commission for the Prevention of Money Laundering and Monetary Offences and the Executive Service of this Commission (CPBCIM and SEPBLAC, respectively, by their Spanish names).

Areas of attention and supervisory priorities

- For SSM significant institutions (SIs), credit risk (with particular attention to the monitoring of plans to reduce non-performing exposures and their provisioning, and to the review of lending standards) and risk management (focusing on the revision of models for calculating own fund requirements, on the management, control and mitigation of technological risk, and on the review of the ICAAP and of the ILAAP) were at the centre of supervisory concerns in 2019. The supervisory priorities for 2020 are grouped under the following objectives: to continue the balance sheet repair, to strengthen future resilience and to pursue Brexit-related work.
- The focus for less significant institutions (LSIs) in 2019 was the business model and profitability; monitoring credit risk; risk governance; and capital adequacy. The supervisory priorities for 2020 are the assessment of banks' business models and their sustainability over time; the follow-up of strategies for reducing non-performing loans (NPLs) and foreclosures; the analysis of lending standards; the assessment of internal and external governance, and of risk management and control; and the surveillance of operational risk in its technological and legal facets.

Supervision of credit institutions

- Ongoing supervision of SIs is performed by the Joint Supervisory Teams (JSTs), which comprise staff from the European Central Bank (ECB) and the Banco de España. For the LSIs there is ordinary or simplified monitoring, depending on risk profile, size, volume of deposits raised on the retail market and business model.
- The task requiring most effort in ongoing monitoring is the SREP, whose conclusions are used to adopt Pillar 2 decisions (capital and liquidity decisions). This task requires a common methodology be set in place. In this connection, the Banco de España participates actively in the ECB working groups in order to define common supervisory methodologies and policies.
- Rounding off ongoing supervision are on-site actions, inspections and model investigations. This year Bank staff have participated in 34 on-site actions at SIs and 11 inspections at LSIs. With regard to such actions, supervisory planning for 2020 envisages cross-border “campaigns” (as they are known, these being actions of similar scope at different banks) and cross-border actions (inspections in which the officer in charge and, at least one other member of the team, are from an NCA other than that from the country in which the bank being inspected is located).
- Both the ECB and the Banco de España have recommended banks adopt a conservative and prudent dividend distribution and variable remuneration policy, with the aim that they retain at all times an appropriate level of capitalisation.
- The Banco de España participates in what are known as “common” procedures (authorisation to engage in banking activity, withdrawal of such authorisation, and procedures in respect of acquisitions of qualifying holdings), formulating a proposed decision on the basis of which the ECB adopts a firm decision. The Banco de España (in the case of LSIs) and the ECB, in close collaboration with the Bank (in the case of SIs), supervise compliance with the suitability regime for senior officers of credit institutions. In 2019, the Banco de España participated in 179 senior officer suitability procedures.
- The cycle of 2018 recovery plan assessments has concluded, and the Bank participated in the resolution plan consultation process.
- In recent years interest has increased concerning banks’ externalisation of services. In 2019, the European Banking Authority (EBA) published guidelines on the externalisation of services. The Banco de España has set up a permanent team and committee dedicated to this area. They provide an across-the-board view for the whole of DGBS and contribute to setting criteria for assessing these projects.
- As a consequence of its supervisory activity, the ECB Supervisory Board — in which the Banco de España participates — took 243 decisions specifically affecting Spanish SIs, and there were a further 225 decisions of a more general nature also affecting them. The Banco de España sent 110 letters to banks with 383 requirements and recommendations.
- The year 2019 saw the strengthening of the internal function for the supervision and inspection of money-laundering and terrorism-financing risk. Numerous international initiatives aimed at improving the global framework in this area were developed and completed.
- In 2019, the DGBS developed a quality improvement methodology to contribute to the ongoing enhancement of its supervisory work.

Supervision of other institutions, compliance with vetted access to activity and supervision of the provision of payment services

- The Banco de España has microprudential supervisory competences in respect of specialised lending institutions, mutual guarantee and reguarantee companies, appraisal companies, payment institutions, electronic money institutions, currency-exchange bureaux, account information service providers, banking foundations and Sareb. There were 310 remote monitoring actions under various forms and 3 inspections in 2019.
- The Banco de España oversees compliance with vetted access to banking activity, acting in respect of those that seek to operate in the financial markets without fulfilling the access conditions.
- The Second Payment Services Directive (PSD-2) has necessitated a step-up in the assessment of operational and security risks associated with payment services. Among other measures, the Directive requires strong customer authentication to ensure the security of payment services and safeguards for users. It will further require credit institutions to have interfaces to enable safe and effective access by payment services providers to their payment accounts.

CHAPTER 3.

MACROPRUDENTIAL POLICY

The Banco de España's macroprudential policy instruments	<ul style="list-style-type: none">• The Banco de España identifies and monitors the risks and vulnerabilities of the financial system as a whole. To mitigate these risks, it has the tools envisaged under the attendant prudential regulations (CRR/CRD), which were revised in 2019 to provide supervisors with greater flexibility.• The Bank is preparing a new Circular which will enable it to use the new macroprudential tools made available to it through national legislation.• In 2019 the Banco de España set the countercyclical capital buffer at 0%. It further identified five systemically important institutions (one of which systemically important at the global level) and set their associated buffers.
National macroprudential policy	<ul style="list-style-type: none">• Creation of the new macroprudential authority, AMCESFI, attached to the Ministry of Economic Affairs and Digital Transformation. It comprises Spanish regulatory authorities and prudential supervisors, namely the Banco de España, the National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Funds (DGSFP). It monitors and analyses systemic risk factors and is empowered to issue warnings, opinions and recommendations to its members.

CHAPTER 4.

SUPERVISION OF INSTITUTIONS' CONDUCT

Ongoing oversight and supervisory actions	<ul style="list-style-type: none">• The supervision of conduct is outside the SSM sphere and affects all institutions registered at the Banco de España and some that operate in Spain without an establishment. The aim is to identify and correct inappropriate conduct and promote a culture of conduct and appropriate governance.• Supervisory activity in 2019 focused increasingly on consumer credit, with particular attention to revolving credit cards. Other key areas of activity were mortgage lending (including floor clauses), payment services, advertising and the impact of digitalisation on the marketing of bank products through new channels.• To take supervisory action to the point of sale and thus promote a compliance culture at banks, there were visits to 189 offices of 12 credit institutions to verify banking transparency obligations at the point of direct contact with the customer.
--	---

CHAPTER 5.

OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES

Oversight and supervision of payment systems and instruments	<ul style="list-style-type: none">• Oversight and supervision are different and complementary functions. While the aim of supervision is to verify compliance with the regulations, oversight focuses on assessing those aspects that affect efficiency and safety as a result of the potential resulting impact on both the infrastructure itself and on the financial system as a whole.• As the main overseer of the SNCE, the Banco de España has monitored the implementation of the cyber resilience strategy and of the security measures for reducing fraud.• Within the Eurosystem, the Banco de España participates in overseeing TARGET-2, EURO1 and STEP2, along with the other central banks that use these payment systems, whose main overseer is the ECB. The new requirements under the SIPS Regulation were assessed in 2019.
Supervision of Iberpay (SNCE manager)	<ul style="list-style-type: none">• The Banco de España authorises Iberpay's articles of association and amendments thereto, and its basic operating rules. It also assesses the technical instructions regulating the operations of the SNCE. In 2019, 14 operating instructions were analysed by the Bank, none of whose adoption was opposed.
Securities infrastructures	<ul style="list-style-type: none">• The Banco de España oversees the sound functioning of securities clearing, settlement and registration systems, a responsibility it shares, by law, with the CNMV.

CHAPTER 6.

EXERCISE OF SANCTIONING POWERS

Sanctions

- Most sanctioning activity concerned compliance with transparency and customer protection regulations. In the prudential area, sanctions were imposed on an LSI and a mutual guarantee company, and on their managers and directors, respectively, in the area of corporate governance, remuneration (the LSI) and internal control (both). The ECB also instructed the Bank to initiate proceedings against an SI.

CHAPTER 7.

THE BANCO DE ESPAÑA'S PARTICIPATION IN INTERNATIONAL BANKING REGULATION AND SUPERVISION BODIES

International activity

- Participation in international banking supervision and regulation fora is part of the Bank's strategic priorities. The work of the Financial Stability Board (FSB) in 2019 focused on setting post-crisis reforms in place, on assessing their effects and on identifying emerging risks. As to the Basel Committee on Banking Supervision (BCBS), the Governor of the Banco de España was appointed as its new chairman in March 2019. This appointment comes at a most significant time for the Committee; after concluding the Basel III post-crisis reforms, it will focus on assessing the effect of these reforms and their effective implementation, on tackling the emerging vulnerabilities in the global banking system and on promoting rigorous supervision.
- Turning to the EBA, its work in 2019 included most notably: the response to the Commission's request for advice on the implementation of the Basel III reforms in the EU; continuation of the work arising from the Commission's action plan on NPLs; and the work on sustainable finance, consumer protection, and financial innovation and payment services.

CHAPTER 8.

NEW REGULATORY DEVELOPMENTS IN SUPERVISORY MATTERS

New regulatory developments

- In 2019 the key legislative change for prudential supervision was the amendment of the Capital Requirements Regulation and Directive (CRR and CRD-IV).
- The Banco de España published 4 circulars in 2019: i) on determining the bases of calculation of contributions to the Deposit Guarantee Scheme for Credit Institutions (DGSCI); ii) on transparency; iii) on the materiality threshold for credit obligations past due; and iv) the accounting circular for specialised lending institutions. In addition, it published supervisory guidelines for the use of automated valuation models. In January 2020, it published the Circular on the Central Credit Register.