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OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES



TARGET2 OVERSIGHT

Eurosystem approval of the action plan to address the recommendations stemming from the review of incidents in TARGET2 services



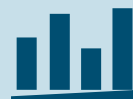
CARD OPERATION OVERSIGHT

Fraud rate in Spain in the first half of 2021: 0.023 % (in terms of number of operations), lower than in 2020 (0.032%)



OVERSIGHT FRAMEWORK

New Eurosystem oversight framework for payment instruments, schemes and arrangements (PISA framework)



PAYMENT STATISTICS

Regulatory and technical work deriving from the new ECB regulation on payment statistics to be approved and applied in the first half of 2022



IBERPAY SUPERVISION

New version of the SNCE Regulation and positive evaluation of 8 operating instructions



OVERSIGHT OF SECURITIES MARKET INFRASTRUCTURES

Monitoring by the Banco de España, as relevant authority in accordance with the CSDR, of the recommendations identified in 2019 in the Iberclear authorisation procedure

Most trade and financial transactions are cleared, settled and registered through financial market infrastructures. Therefore, central banks are entrusted with their supervision and/or oversight.

5.1 Oversight of payment systems and instruments

Payment systems provide essential services to the real economy, offering efficient mechanisms for the payment of any purchase of goods or services. Ensuring the smooth operation of payment systems has traditionally been the responsibility of central banks through their oversight function. This task extends to payment instruments, a key component of these systems, as they enable end-users to transfer funds.

5.1.1 Payment systems

Within the Eurosystem's cooperative oversight arrangements, the Banco de España participates in the oversight of the real-time gross settlement system TARGET2, which is coordinated by the ECB. This system, operated by the national central banks of the euro area countries, has been identified as a systemically important payment system (SIPS). The evolution of total TARGET2 and of the Spanish component is presented in Chart 5.1.

In 2021, one of the key activities in the oversight of this system was the analysis of incidents experienced in 2020 on the platform. In this context, the [report containing the outcome of the independent review](#) commissioned following the major incidents that occurred in TARGET services last year was published on the ECB website. The Eurosystem has developed a comprehensive action plan to address both the recommendations arising from this independent review and those issued for the same incidents by the oversight and internal audit functions. This action plan covers six workstreams, relating to change and release management, business continuity management, failover and recovery tests, communication protocols, governance, and data centre and IT operations.

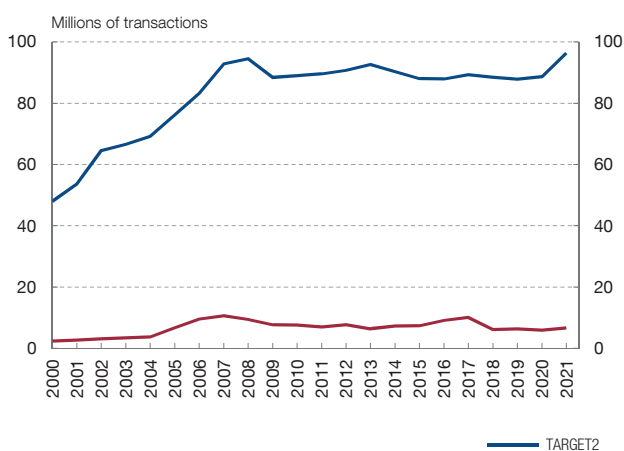
Furthermore, the Banco de España also participates in the cooperative oversight of the other pan-European payment systems. In 2021, oversight activities were focused, on the one hand, on monitoring the recommendations issued for the SIPS operated by EBA Clearing, EURO1 and STEP2, resulting from

Chart 5.1

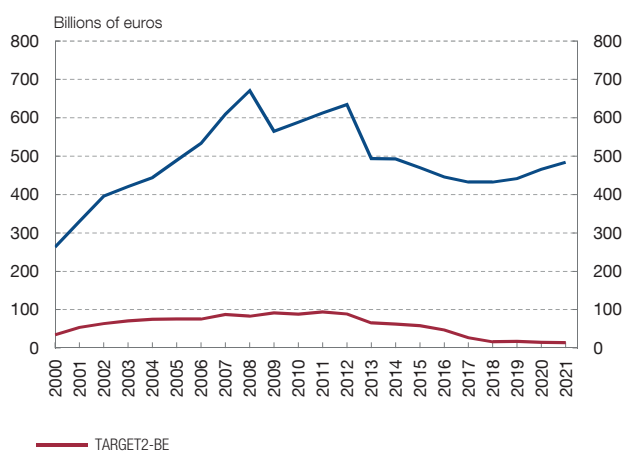
OVERVIEW OF TARGET2 AND TARGET2-BE OPERATIONS

In 2021 the Spanish component, TARGET2-BE, represented 6.9% of the number of transactions processed in TARGET2 and 2.8% of the total value of the transactions.

1 NUMBER OF TRANSACTIONS PER YEAR



2 VALUE OF TRANSACTIONS PER YEAR



SOURCE: Banco de España.

previous assessment exercises –which mainly relate to the implementation of the *Cyber resilience oversight expectations for financial market infrastructures*— and, on the other hand, on the assessment of the new STEP2 settlement system and on a change considered important for EURO1, which affects the functioning of its liquidity pool. With regard to the Mastercard clearing and settlement system¹, a preliminary analysis was performed on the system’s compliance with the SIPS Regulation², given its recent identification as a systemically important system.

In the national arena, the Banco de España, as the primary overseer of the National Electronic Clearing System (the SNCE, by its Spanish acronym), managed by Sociedad Española de Sistemas de Pago, SA (Iberpay), monitored the impact of the Coronavirus crisis on the SNCE. Box 5.1 details the effect on this system and, in general, on payment infrastructures and instruments in 2021. In any case, and as Chart 5.2 shows, SNCE operations recovered in 2021, in terms of both the value and number of transactions, mainly as a result of the significant boost of immediate transfers.

In addition, contacts have been held with Iberpay to discuss various issues, in particular those relating to cybersecurity. For example, Iberpay was informed of the

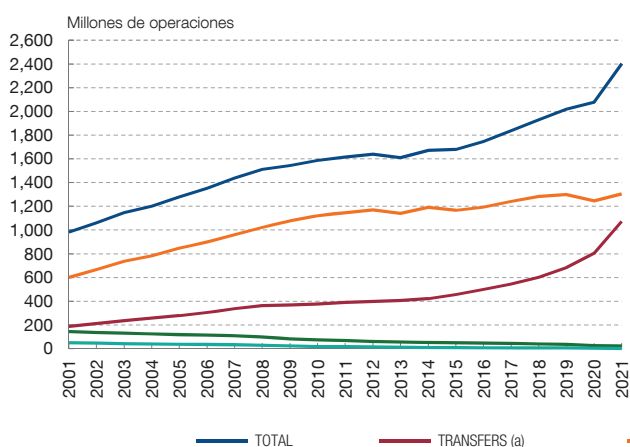
1 Mastercard Clearing Management System, operated by Mastercard Europe, SA, was identified as SIPS in May 2020.
 2 Regulation (EU) No 795/2014 of the European Central Bank of 3 July 2014 on oversight requirements for systemically important payment systems.

Chart 5.2

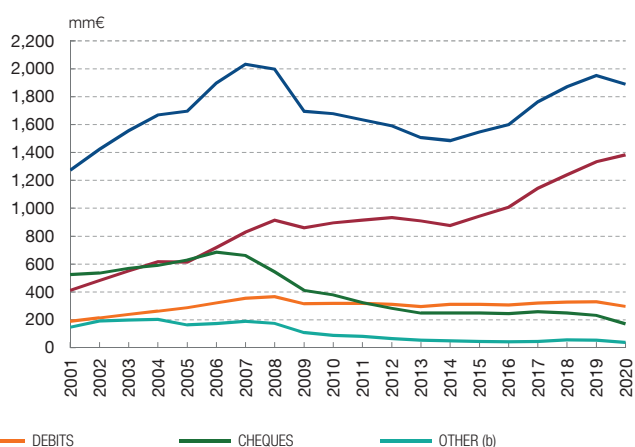
OVERVIEW OF SNCE OPERATIONS

Direct debits account for 54% of the number of transactions processed by SNCE. In terms of value, credit transfers account for the highest share (75% of the total).

1 NUMBER OF TRANSACTIONS PER YEAR



2 VALUE OF TRANSACTIONS PER YEAR



SOURCE: Banco de España, based on Iberpay data.

a Including immediate transfers as from 2018.

b Including bills of exchange and other.

adoption by the Banco de España of the advanced cybersecurity testing framework published by the ECB (TIBER-EU) for the Spanish financial sector (see Box 2.4), in which it will be able to participate on a voluntary basis. These contacts, together with statistical monitoring, form part of the ongoing oversight of the infrastructure.

5.1.2 Payment instruments

As with payment systems, the oversight of payment instruments is also conducted in a cooperative manner in the Eurosystem, applying the same common standards that comprise the Eurosystem's oversight rules. Currently, the Visa Europe, Mastercard Europe³ and American Express card schemes are pan-European payment schemes⁴, as well as the SEPA⁵ payment schemes managed by the European Payments Council (EPC): the transfer scheme (SCT), the instant transfer scheme (SCT Inst) and the direct debit scheme (SDD Core) and business-

3 A scheme is a set of formal, standardised and common rules enabling value between end-users to be transferred by means of electronic payment instruments.

4 It is important to distinguish between Mastercard Europe's role as manager of the card scheme and its role as SIPS operator.

5 SEPA stands for Single Euro Payments Area.

to-business direct debit scheme (SDD B2B). In all these cases, the primary overseer is the ECB, with the exception of Mastercard, where the Central Bank of Belgium leads the oversight team.

In 2021, statistical monitoring on the operation of SEPA payment schemes was conducted, having been strengthened since March 2020 due to the COVID-19 crisis. Recommendations outstanding from previous evaluations were also monitored, and the updates made to its rulebooks by the EPC were assessed. The oversight activities on Visa Europe and American Express were focused on monitoring their evolution during the pandemic and on reviewing their operating rules.

In October 2021, the ECB published its [seventh report on card fraud on its website, with data up to 2019](#). The report analyses fraudulent transactions involving cards issued in the SEPA area. Among its findings, it highlights that 2019 saw the second lowest percentage of fraudulent card payments since 2007. Specifically, the fraud rate for the SEPA area in 2019, in terms of the value of transactions, stood at 0.036%, which means that for every €10,000 of spending using cards issued by SEPA, there is fraud of €3.6. The same report puts this rate at 0.042% for Spain. In terms of the number of transactions, these fraud rates were 0.024% for the SEPA area and 0.029% for Spain.

On the other hand, and based on the information provided by Sistema de Tarjetas y Medios de Pago, SA⁶, the fraud rate in Spain during the first half of 2021 was 0.023% in terms of the number of transactions, which represents a clear decline with respect to 2020 (0.032%), to which the deployment of the SCA in remote card transactions has undoubtedly made a significant contribution.

The [new Eurosystem oversight framework for electronic payment instruments, schemes and arrangements \(known as the “PISA framework”\)](#) was approved on 22 November 2021, and it will come into effect one year after its publication. The new framework represents a change in the approach to oversight with respect to the current framework, in order to adapt it to the risks arising from a payment ecosystem in continuous transformation due to innovation and technological changes. In addition, the PISA framework extends the scope of oversight to those payment institutions and services that are becoming increasingly important in the payments environment⁷.

The Banco de España is also the principal overseer of Sistema de Tarjetas y Medios de Pago, SA. It conducts ongoing oversight of the scheme and, in particular, it performs statistical monitoring of its operations, including fraud data. Chart 5.3

6 The data refer to transactions with Spanish VISA and Mastercard card schemes.

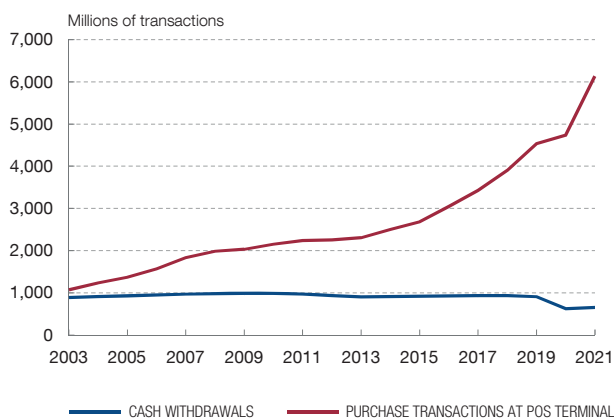
7 For more information, see Banco de España (2021), “[The new Eurosystem oversight framework for payment instruments, schemes and arrangements](#)”, Box 5.2, 2020 Supervision Report.

Chart 5.3

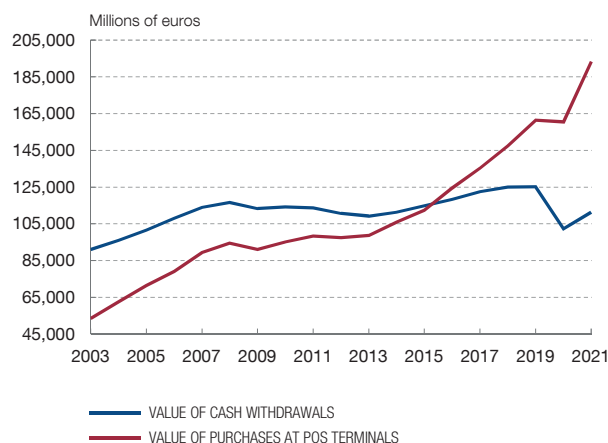
OVERVIEW OF OPERATIONS WITH CARDS

Cash withdrawals continued to fall in terms of number of transactions, which was combined with a very notable increase in card payments in 2021, in terms of both volume and value.

1 ATM CASH WITHDRAWALS AND TRANSACTIONS AT POS TERMINALS



2 VALUE OF ATM CASH WITHDRAWALS AND OF TRANSACTIONS AT POS TERMINALS



SOURCE: Banco de España, based on Sistema de Tarjetas y Medios de Pago data.

NOTE: The levels for 2021 were estimated on the basis of the variable's behaviour in the first three quarters of the year.

shows the recent evolution of card transactions in Spain, which was affected by the COVID-19 crisis, as described in Box 5.1.

Lastly, the Banco de España is preparing a circular implementing certain aspects of the new ECB regulation on payments statistics⁸ (see section 8.2). This regulation obliges institutions to report a much higher volume of information to central banks than at present, which facilitates central banks' oversight and supervisory tasks in the area of payments, in particular with regard to matters such as fraud and new payment services.

5.2 Supervision of Iberpay

The Banco de España is responsible for the supervision of Iberpay, which is entrusted by law with the management of the SNCE⁹. In the exercise of this function, the Bank is empowered to give explicit prior approval to the company's articles of association and the basic operating rules of the systems and services that it manages. For the technical or operational instructions regulating the operating

⁸ Regulation (EU) 2020/2011 of the European Central Bank of 1 December 2020 amending Regulation (EU) No 1409/2013 on payments statistics (ECB/2013/43) (ECB/2020/59).

⁹ Article 17 of Law 41/1999 of 12 November on securities payment and settlement systems.

UPDATE ON THE IMPACT OF COVID-19 ON PAYMENT INSTRUMENTS

In Spain, as in the rest of the euro area, payment infrastructures continued to operate without incidents in 2021, strengthening security and maintaining remote working as the common denominator. The context of the pandemic has contributed to the acceleration of digitalisation in retail payments. Remote payments made strong progress and contactless payments have become widespread in the face-to-face environment. Electronic instruments gained ground over the use of cash as a means of payment. In Spain, there was a strong increase in the number of domestic card purchases from mid-March 2021, which in certain weeks exceeded year-on-year

growth of 40% with respect to pre-COVID-19 baseline levels, with increases of close to 25% in terms of value of card transactions. Instant payments initiated by mobile telephone number saw year-on-year growth of close to 200% in terms of the number of transactions in certain months of the pandemic. On the other hand, the number of ATM cash withdrawals continued to fall year-on-year by up to 35%, with declines in the value of withdrawals of up to 20%. The new payment habits are likely to be consolidated, while, given the experience of previous crises, a reduction in accumulated cash is to be expected once the situation normalises.

procedures of these systems and services, and for the basic rules on the complementary services, the non-opposition of the Banco de España after their approval by Iberpay will be sufficient.

One of the main activities in the supervision of Iberpay in 2021 and early 2022 has been the approval of a new SNCE regulation (see Box 5.2). Furthermore, in 2021 the Banco de España assessed eight operating instructions for the SNCE, which the Bank did not oppose. It also assessed the basic operating rules of a new ancillary service, consisting of a technological gateway between Iberpay and EBA Clearing's payment request service, and a total of five amendments to the basic operating rules of four of the services offered by Iberpay, none of which the Banco de España opposed.

5.3 Oversight of securities infrastructures

Under the Securities Market Law (LMV), the CNMV is entrusted with the responsibility for the supervision of securities infrastructures in Spain and, jointly with the Banco de España, with ensuring the smooth operation of Spanish securities clearing, settlement and registration systems. This shared oversight task, entrusted to them under Article 255 of this Law, is aimed at preserving the stability of the financial system as a whole. Spanish securities infrastructures include the Central Counterparty (CCP), BME Clearing and the central securities depository, Iberclear (which operates the securities settlement system).

In recent years, the activity of the two most significant segments of BME Clearing has been uneven. As seen in Chart 5.4, the clearing activity in the fixed income segment has declined significantly over time, in part owing to the improvement

MODIFICATION OF THE NATIONAL ELECTRONIC CLEARING SYSTEM REGULATION

The National Electronic Clearing System (SNCE), managed and operated by Iberpay through its CICLOM platform, is the Spanish retail payment system. The basic rules of the SNCE are the Regulation, which was amended at the beginning of 2022 in five key areas.

Firstly, the settlement procedure for instant credit transfers was updated due to the adaptations in the SNCE resulting from the decision of the Governing Council of the European Central Bank of 22 July 2020 to achieve pan-European reachability of instant payments through the TARGET Instant Payment Settlement service (known as "TIPS"). The following measures were taken:

- i) All payment service providers adhering to the European Payments Council's SEPA Instant Credit Transfer (SCT Inst) scheme and reachable in TARGET2 must be reachable in TIPS.
- ii) All clearing houses offering instant payment services have to migrate their technical accounts from TARGET2 to TIPS.

Secondly, in accordance with the recommendations of the European resolution authorities, this regulation includes for the first time the procedures for the resolution of institutions, referring expressly to the applicable legal regulation.

The third change is the gradual replacement of the exchange of certain documents in physical format by the exchange of their image. In this respect, the SNCE was created with the aim of making the exchange, clearing and settlement of transactions exclusively electronic. However, the facility for the physical exchange of certain documents, which was a function of the old clearing houses, is still maintained. The pandemic and mobility constraints have highlighted the unquestionable advantages of telematic transmission in terms of speed, reliability and security in commercial traffic. This represents the culmination of the automation process initiated with the creation of the SNCE.

Fourthly, the requirement for a minimum level of activity to be a direct participant in the SNCE was removed. The changes adopted by the system in recent years have significantly reduced settlement risk and, therefore, it no longer seems necessary to maintain such a requirement.

Lastly, following the process of opening up the system initiated in the previous regulation, in order to further facilitate the reachability of payment institutions and electronic money institutions vis-à-vis the SNCE, the geographical scope of origin of such institutions has been extended to the Single Euro Payments Area.

in the financing conditions of institutions, while in the financial derivatives segment the decline was less substantial, both as regards the number of transactions and in nominal terms.

The CCP's financial resources, the liquidity of which is essential in order to swiftly close positions in the event of a member defaulting, come primarily from margins and from clearing members' contributions to the default fund. The liquidity of these resources at BME Clearing is quite high, as can be seen in Chart 5.5, and most of it is deposited in its account at Banco de España. The composition of the CCP's financial resources has remained stable over recent years.

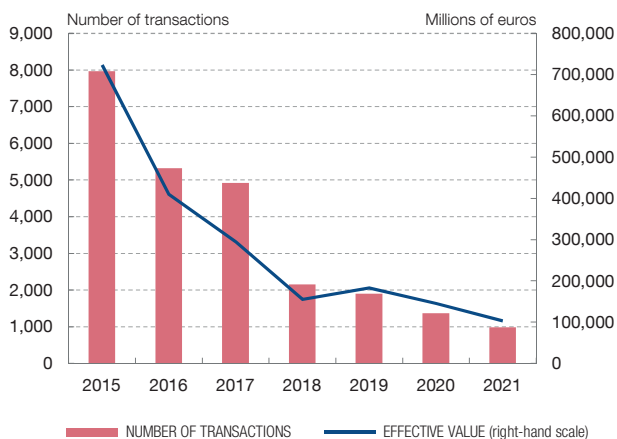
The performance of Iberclear's settlement activity is quite steady in all instruments (see Chart 5.6). For fixed income securities, there are slight increases in terms of value; however, in terms of the number of transactions, there is a decrease in bonds and an increase in short-term securities. The equities settlement activity increased slightly in terms of value, with a slight decline in the number of transactions.

Chart 5.4

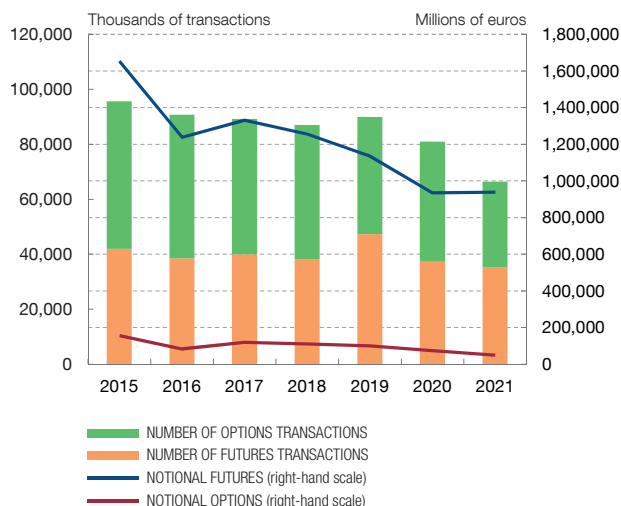
OVERVIEW OF BME CLEARING OPERATIONS

The clearing activity in the fixed-income segment (government bond repos), which in recent years has broadened the range of cleared European sovereign debt, has declined significantly. Also, more gradually, the clearing activity of the financial derivative segment has decreased.

1 CLEARING OF GOVERNMENT BONDS



2 CLEARING OF FINANCIAL DERIVATIVES TRADED IN MEFF

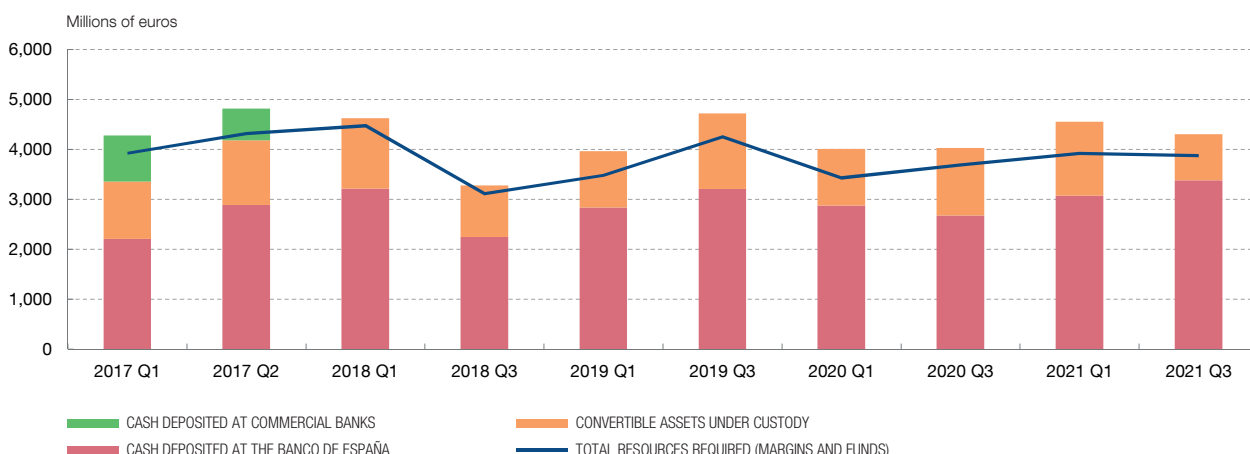


SOURCE: BME Clearing.

Chart 5.5

BME CLEARING. RESOURCES DEPOSITED AND LIQUIDITY

The financial resources of BME Clearing have remained steady over recent years. The liquidity of these resources is quite high, with most being deposited in the BME Clearing account in the Banco de España.

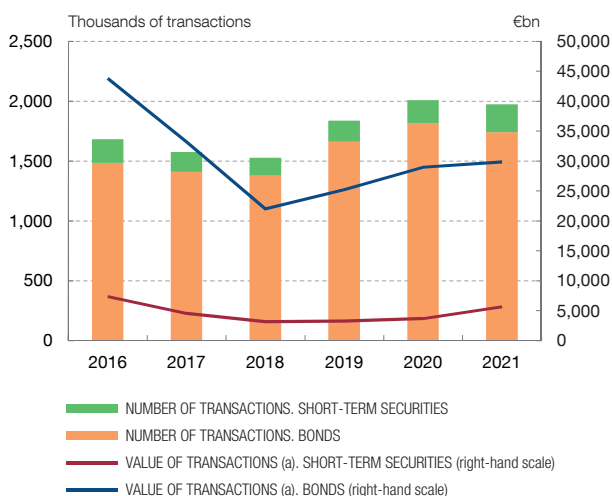


SOURCE: BME Clearing.

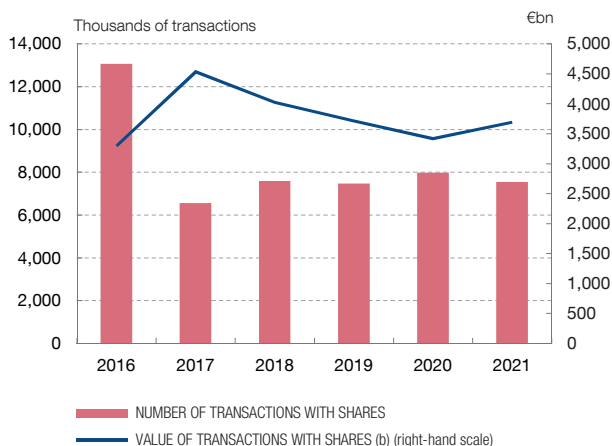
Chart 5.6

IBERCLEAR ACTIVITY DATA. TRANSACTIONS PROCESSED

1 FIXED-INCOME SECURITIES



2 EQUITIES



SOURCE: Iberclear.

- a Nominal balances.
- b Cash settled.

5.3.1 Activities resulting from national legislation

The Banco de España exercises oversight functions over Iberclear. On the basis of the information provided by Iberclear in accordance with national legislation, the Banco de España carried out in 2021 the assessment of Iberclear’s operational risks, of the future establishment of a two-way link with the Swiss central securities depository SIX-SIS and of the activity of the links it maintains with other foreign central securities depositories.

As regards BME Clearing, SAU, the Banco de España has issued four mandatory reports in accordance with Articles 104 and 107 of the LMV. Three of these relate to various amendments to the general terms and conditions of the CCP’s fixed income, financial derivatives and energy segments. Also, a mandatory report was issued regarding the authorisation of clearing of products traded on a platform other than MEFF. All the reports were positive.

5.3.2 Activities resulting from European legislation

In addition to its role as overseer, the Banco de España is a relevant authority in the framework of the Regulation on improving securities settlement in the

European Union and on central securities depositories (CSDR¹⁰) on behalf of the Eurosystem, acting as the central bank of issue and the central bank in which post-trading infrastructures clear and settle cash from their operations.

As the relevant authority for Iberclear, in 2021 the Banco de España monitored the recommendations identified in previous evaluation exercises that were pending implementation. Also, it carried out the 2021 annual review and evaluation exercise, which assessed the potential implications of the acquisition of the BME group by SIX¹¹ in June 2020. It was concluded that there were no changes in Iberclear's corporate organisation, reporting lines or risk supervision functions. However, given that consolidation may entail changes in management, such as, for example, in conflict of interest policy, consolidation will also be analysed in the next annual review.

The Banco de España is the Eurosystem's representative in BME Clearing's college of supervisors.

As such, it analyses the impact that changes to the CCP may have on its clearing and settlement processes, the arrangements in place for this purpose, the liquidity risk management framework and interdependencies with other market infrastructures. In 2021 there were two significant changes in the CCP that required the issuance of an opinion, in both cases positive, by the college: the introduction of a new type of contract in the energy segment with pricing indexed to the TTF (virtual trading point for natural gas in the Netherlands), and the modification of the way in which the size of the default fund is calculated.

The Banco de España also participates in the Eurosystem's cooperative oversight of the TARGET2-Securities platform.

In 2021, monitoring continued on the implementation of the recommendations made in 2019 as a result of the assessment of compliance with the [principles for financial market infrastructures of the Committee on Payments and Market Infrastructures \(CPMI\) and the International Organization of Securities Commissions \(IOSCO\)](#), and on the recommendations arising from the assessment of the penalty mechanism for delays in the matching and settlement of instructions required by the CSDR. As a result, it was concluded that most of the recommendations had already been implemented. Certain outstanding recommendations will be implemented when the consolidation between TARGET2 and TARGET2-Securities takes place, or upon the entry into force of the settlement discipline rules; for the remainder, work on their implementation is ongoing.

10 Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

11 SIX is the parent of a group of companies (SIX Group) that operates the Swiss securities markets infrastructure.