

BANCO DE ESPAÑA EVALUATION PROGRAMME

TERMS OF REFERENCE FOR THE EXTERNAL EVALUATION OF THE MACROPRUDENTIAL POLICY-MAKING FRAMEWORK

Banco de España



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1 Introduction

The powers to apply the macroprudential tools laid down in the European legislation¹ to credit institutions have been conferred on the Banco de España, as the designated authority, since 2015. These powers notably include setting the countercyclical capital buffer rate each quarter, identifying each year the systemically important institutions (in addition to determining the buffer applicable to such institutions) and possibly requiring institutions to maintain a systemic risk buffer. This activity is also conducted taking into account (i) the powers conferred in this respect on the European Central Bank, which enable it to toughen the measures adopted by national authorities, and (ii) the necessary coordination with the macroprudential authorities at three levels: national (Spanish macroprudential authority (AMCESFI)), European (European Systemic Risk Board) and international (Basel Committee on Banking Supervision).

In 2019 Spanish legislation² increased the Banco de España's powers in this arena, conferring on it two further macroprudential tools: the possibility of limiting sectoral exposure concentration and the ability to impose limits on credit conditions.

The Banco de España has so far only activated the macroprudential tools that seek to mitigate the most structural dimension of systemic risk: the buffers for systemically important institutions. Fortunately, in the Spanish banking system, no build-up of systemic risks in the time dimension has been identified that would warrant the activation of the corresponding macroprudential tools. This has afforded the Bank time to develop the framework and the methodology to use these tools, which is one of the objectives of the Strategic Plan 2024. However, while the staff dedicated to these tasks has grown slightly in number in recent years, it is not yet at full strength. The experience of other countries that have had to activate some of these tools is proving key to making headway in this arena. In addition, some time has been spent on developing a communication strategy to foster a discussion of the Banco de España's analysis with the institutions and academia and to communicate its assessment of macro-financial developments to the general public. This not only facilitates the necessary accountability, but also potentially makes the measures adopted more effective.

Against this background, an evaluation of macroprudential policy-making conducted by leading independent experts that assesses the suitability of the framework and methodology in place and helps the Financial Stability and Macroprudential Policy Department define its medium-term objectives would be especially useful.

The aim of this document is to define the terms of reference for the external evaluation of the Banco de España's macroprudential policy-making framework (hereafter, the External Evaluation).

1 Directive 2013/36/EU.

2 Royal Decree-Law 22/2018, Royal Decree 102/2019 and Circular 5/2021.

2 Terms of reference

The External Evaluation will be conducted by an Evaluation Committee comprising three independent experts of recognised standing in the field of macroprudential policy: Claudio Borio, Elena Carletti and Michael McMahon.

The findings of the External Evaluation shall be set out in an evaluation report to be submitted to the decision-making bodies of the Banco de España. The Evaluation Committee may be asked to appear before the decision-making body to which the findings of the External Evaluation are to be submitted, in order to present the main conclusions and clarify any doubts.

The following terms of reference shall apply to the Evaluation Committee's work:

- 1 **Independence and impartiality.** The Committee members shall work independently and objectively.
- 2 **Timetable and deliverables.** The Evaluation Committee shall begin its work in late 2024 Q1 and shall deliver its report within nine months of acceptance of these terms of reference.
- 3 **Cooperation.** The Directorate General Financial Stability, Regulation and Resolution shall provide the Evaluation Committee with all the necessary support and information. The Committee members may conduct online or face-to-face interviews with any Banco de España senior management and staff members they deem relevant in the performance of their tasks. If they see fit, information may also be requested from other external sources.
- 4 **Confidentiality.** The Evaluation Committee members shall treat as confidential any material and information not in the public domain that is obtained in the fulfilment of their duties, and shall refrain from making any public statements on the outcome of the external evaluation without the prior authorisation of the Banco de España. They shall remain bound by this obligation even after the evaluation has concluded.
- 5 **Publication.** The evaluation shall be subject to the publication criteria established in the evaluation programme guidelines. The appropriate prior and/or subsequent dissemination shall be carried out, subject solely to the limitations of the confidentiality considerations applicable in each case.

3 Goal

The scope of the External Evaluation shall comprise a critical review to assess and document the appropriateness of the macroprudential policy-making framework and the potential to improve it. To do so, other countries' macroprudential policy-making frameworks, including the tools used and the effectiveness of the measures adopted, will be considered.

More specifically, the main goals of the External Evaluation consist in assessing and documenting:

- a) The provision of the resources and incentives to discharge the function. Specifically, the provision of adequate resources, the suitability of the profiles, knowledge and skills, and the recruitment and training strategies.

- b) The completeness and validity of the framework for the early detection of systemic risks.
- c) The suitability of the methodology to select the most appropriate macroprudential tools.
- d) The efficiency and governance of the administrative processes associated with implementation of the macroprudential measures.
- e) The effectiveness of the communication policy.
- f) The assessment of the framework for monitoring the macroprudential measures adopted.
- g) The quality of the work programme to keep the analytical tools and the area's research up to date.