This box describes the increase in capital requirements applicable to two of Spain’s other systemically important institutions (O-SIIs) from 2024 and estimates its impact on their contribution to the systemic risk of the Spanish banking sector.

Among other macroprudential policy responsibilities, the Banco de España is called on to identify global and domestic systemically important institutions and to set their macroprudential capital buffers. An institution is deemed to be systemic if, in a situation of difficulty, it is considered to have the potential to cause significant disruption to the wider financial system and the real economy. During the 2008 global financial crisis, such banks were classified as “too big to fail”.

In the case of O-SIIs – institutions that are systemically important at the domestic level – every year the Banco de España calculates a score for each bank following the EBA Guidelines on O-SIIs. These scores are based on a set of four indicators relevant to the banking business: size, importance (substitutability of the services provided to customers and impact on payment infrastructure), complexity (including cross-border activity) and interconnectedness. Banks with a score equal to or higher than 350 basis points (bp) are automatically designated as O-SIIs.

Based on these scores, the Banco de España sets the buffer rates applicable to O-SIIs, which must be met with Common Equity Tier 1 (CET1) capital. Prior to 2023 these were calculated following the ECB’s floor methodology, which was approved by its Governing Council in December 2016 in order to foster convergence in the setting of O-SII buffers in banking union countries.

In December 2022 the ECB approved a revision of its floor methodology for assessing capital buffers for O-SIIs, effective as of 1 January 2024. The revised framework introduced a more stringent calibration for higher scored institutions than under the previous arrangements, with the O-SII minimum buffer rates ranging between 0.25% and 1.5% (depending on the score obtained), compared with the previous requirements of between 0.25% and 1%.

As a result of these higher minimum buffer rates set by the ECB, the Banco de España has revised its own methodology for determining O-SII buffer rates accordingly. The Banco de España’s new framework is consistent with the minimum requirements set by the ECB, except in the case of O-SII scores over 5,500 bp, for which it envisages a buffer rate of 1.75% (see Table 1). This higher requirement for the top bucket introduces an additional disincentive to attaining such high systemic importance.

The Banco de España’s revised framework helps narrow the gap between the O-SII buffers for Spanish banks and those of their banking union peers, as it raises the buffer rates by 0.25 percentage points (pp) for Banco Santander, S.A. and Banco Bilbao Vizcaya Argentaria, S.A., while keeping those for CaixaBank, S.A. and Banco de Sabadell S.A. unchanged (see Chart 1).

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1 In 2011 and 2012, the Basel Committee on Banking Supervision developed a regulatory framework (which was subsequently incorporated into EU and Spanish legislation) to establish higher capital surcharges for systemically important institutions, with the aim of strengthening their solvency and encouraging their management bodies to internalise the impact of their decisions on the wider financial system. An institution’s designation as systemic makes it more likely it will receive public support in the event of financial difficulties. This requirement therefore also helps offset the possible competitive advantage these banks may have on the funding markets compared with smaller institutions.

2 In addition to the regulatory framework for setting the additional buffers for these institutions, a specific treatment is also in place from a resolution perspective. In this respect, the EU adopted Bank Recovery and Resolution Directive 2014/59/EU, which requires banks to prepare resolution plans and empowers national authorities to ensure an orderly resolution of failing banks at a minimal cost for taxpayers.

3 EBA Guidelines EBA/GL/2014/10 of 16 December 2014 on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of O-SIIs. The calculation methodology contained in these Guidelines was incorporated into Banco de España Circular 2/2016.

4 The EBA Guidelines set out the information to be used when calculating the scores. The data used by the Banco de España mainly come from the consolidated financial reporting statements (FINREP).

5 According to the EBA Guidelines, relevant authorities may raise or lower the 350 bp threshold by 75 bp, but it was not modified in Banco de España Circular 2/2016.


8 See the press release “The Banco de España updates the list of other systemically important institutions and sets their macroprudential capital buffer rates for 2024”, the Banco de España blog post “The Banco de España raises the capital buffers for systemic banks” and the Spanish macroprudential authority’s “Opinion on the macroprudential measure adopted by the Banco de España on other systemically important institutions (O-SIIs) for 2024”, all published on 29 September 2023.
Box 3.2
REVISION OF THE ECB’S FLOOR METHODOLOGY FOR ASSESSING CAPITAL BUFFERS FOR OTHER SYSTEMICALLY IMPORTANT INSTITUTIONS AND ITS IMPLICATIONS FOR SPANISH BANKS (cont’d)

Chart 1
Relationship between systemic scores and O-SII buffers (a)

Chart 2
Breakdown by indicator of the O-SII scores in 2024 (b)

Chart 3
Systemic risk contribution of Spanish O-SIIs relative to the total contribution of the Spanish banking sector. Data for 2020-2022 (c)

Chart 4
Systemic risk contribution measured as a percentage of total assets. European comparison. Data for 2020-2022 (d)

SOURCE: Banco de España.

a The Spanish banks’ scores are taken from the 2024 O-SII exercise, whereas those of non-Spanish institutions refer to the 2023 exercise. The x-axis indicates the O-SII score and the y-axis denotes the O-SII buffer required.

b The last column presents the average scores of the 16 institutions that, although below the designation threshold (350 bp), have a score above 30 bp.

c The bars denote each bank’s contribution to systemic risk (based on the 2023 requirements, before the 2024 increase) as a percentage of the Spanish banking sector’s total consolidated assets. The diamonds represent these contributions after applying the revision for 2024.

d The bars denote the contributions to the systemic risk of the national banking systems, expressed as a percentage of the total consolidated assets of each country’s banking sector. The diamond represents the contribution after applying the revision for 2024. Only institutions listed on the stock market have been considered.
3. SYSTEMIC RISK AND PRUDENTIAL POLICY

The breakdown of the Spanish O-SII scores by component or category shows that, in the case of the two smaller O-SIIs (CaixaBank and Sabadell), size tends to be the main contributor in relative terms to systemic importance (see Chart 2). Moreover, in the case of CaixaBank, its high relative score in the importance category captures its stronger focus on private sector loans and deposits and on payment transactions. By contrast, Santander and BBVA have more complex business models that are interconnected with other Spanish and international financial institutions, thus contributing to their higher relative scores in the interconnectedness and complexity categories.

Impact analysis

The impact on systemic risk of the introduction of the O-SII buffers can be approximated using the SRISK indicator. This metric estimates the market value of institutions’ capital shortfall in the event of a severe stock market downturn, i.e. the capital that banks would need to rebuild after a severe financial crisis to re-establish compliance with prudential requirements.

Based on this methodology, the introduction of the O-SII buffers in 2016 is estimated to have reduced the contribution of O-SIIIs to systemic risk. Specifically, according to the elasticities obtained from econometric models, raising the O-SII buffer rate by 1 pp leads to a relative reduction of 16.4% in each bank’s SRISK value. This would appear to confirm that the O-SII buffers are fulfilling their objective of reducing these banks’ systemic importance.

In the case of the additional increases envisaged for 2024, raising the O-SII buffer rates by 0.25 pp for Santander and BBVA is expected to lead to a relative decrease of 2.25% and 0.5%, respectively, in their systemic risk contribution (see Chart 3). Further, considering the impact on the Spanish banking system as a whole, a 0.25 pp increase for both these banks will entail a moderate reduction of around 9 bp in terms of the sector’s total consolidated assets (see Chart 4).

However, the regulatory change could entail costs in the short term for the economy as a whole. To comply with the capital requirements, both banks may have to set aside a larger share of their profits, issue additional capital on the markets and/or curb lending to customers, which could reduce the supply of credit to the private sector. The Banco de España’s estimates nevertheless suggest that the costs of the higher requirement will be small. First, Santander and BBVA have sufficient capital headroom above the regulatory requirements to cover the additional amount from the outset, without having to resort to any of the above options in the short term. Second, even if they were to resort to such measures, the adverse impact on lending and economic activity would be very low, given the limited size of the increase required.

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10 For more details on the SRISK indicator and an empirical application demonstrating the usefulness of these buffers in reducing banks’ systemic importance, see Carmen Broto, Luis Fernández Lafuente and Mariya Melnychuk. (2022). “Do buffer requirements for European systemically important banks make them less systemic?”. Documentos de Trabajo, 2243, Banco de España.