

# SUPERVISION REPORT

2022

BANCO DE **ESPAÑA**  
Eurosistema





## SUPERVISION REPORT

NumeroDOI

# 1

## SUPERVISION AND OVERSIGHT AT THE BANCO DE ESPAÑA

- 1.1 Supervisory and oversight functions of the Banco de España** 37
- 1.2 Organisation of banking supervision and oversight at the Banco de España** 39
- 1.3 Supervisory and oversight staff** 41

# 2

## MICROPRUDENTIAL SUPERVISION

- 2.1 The Spanish banking sector** 47
- 2.2 Supervisory priorities** 53
  - 2.2.1 Supervisory priorities in 2023 54
  - 2.2.2 Supervisory focal points in 2022 59
- 2.3 Supervision of credit institutions** 61
  - 2.3.1 Ongoing supervision 64
  - 2.3.2 On-site supervision 73
  - 2.3.3 Stress tests 75
  - 2.3.4 Letters sent to less significant institutions, non-EU branches and the Official Credit Institute 78
  - 2.3.5 Covered bond supervision 80
  - 2.3.6 Anti-money laundering and counter-terrorist financing 81
  - 2.3.7 Common procedures, suitability and other procedures 82
- 2.4 Supervision of institutions other than credit institutions** 84
- 2.5 Compliance with vetted access to activity** 89
- 2.6 Supervision of payment service providers** 89
- 2.7 Application of financial technology innovation to supervisory functions. Sandbox: controlled digital innovation testing space** 92



# 3

## MACROPRUDENTIAL POLICY

<b>3.1</b>	<b>Macprudential tools</b>	101
3.1.1	Stress tests	101
3.1.2	Countercyclical capital buffer	103
3.1.3	Systemically important institutions	105
3.1.4	Other macroprudential tools	106
<b>3.2</b>	<b>Macprudential coordination with other authorities in Spain and in the SSM</b>	106

# 4

## SUPERVISION OF INSTITUTIONS' CONDUCT

<b>4.1</b>	<b>Conduct-related supervisory activity</b>	113
4.1.1	Ongoing monitoring	114
4.1.2	Inspection actions	117
<b>4.2</b>	<b>Supervisory measures</b>	122
4.2.1	Adoption of supervisory measures	122
4.2.2	Monitoring and effectiveness of supervisory measures	122

# 5

## OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES

### 5.1 Oversight of payment systems and instruments 127

5.1.1 Payment systems 127

5.1.2 Payment instruments 130

### 5.2 Supervision of Iberpay 132

### 5.3 Oversight of securities infrastructures 133

5.3.1 Activities resulting from national legislation 136

5.3.2 Activities resulting from European legislation 137

# 6

## EXERCISE OF SANCTIONING POWERS TO IMPOSE PENALTIES

### Exercise of sanctioning powers 141

# 7

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

- 7.1 Global fora** 145
  - 7.1.1 Financial Stability Board 145
  - 7.1.2 Basel Committee on Banking Supervision 147
- 7.2 European fora** 150
  - 7.2.1 European Banking Authority 150
  - 7.2.2 European Systemic Risk Board 155
- 7.3 Other fora** 156

# 8

## NEW REGULATORY DEVELOPMENTS IN SUPERVISORY MATTERS

- 8.1 Banco de España circulars and guidelines** 161
  - 8.1.1 Circular 1/2022 161
  - 8.1.2 Circular 2/2022 161
  - 8.1.3 Circular 3/2022 162
- 8.2 Other draft circulars in progress** 163
- 8.3 Other new regulatory developments** 164

# 9

## INTERNAL AUDIT REPORT

Internal audit report 169

Index of photographs 173  
Banco de España publications 175  
Acronyms and abbreviations 176

## INDEX OF TABLES

- 2.1 Banks operating in Spain 62
- 2.2 Register of credit institutions 63
- 2.3 On-site supervision of credit institutions. Number of actions 74
- 2.4 Procedures with Banco de España participation on credit institutions 83
- 2.5 Register of institutions other than credit institutions 85
- 2.6 Other procedures performed by the Banco de España on other institutions 88
- 3.1 Systemically important institutions and associated capital buffers 106

## INDEX OF CHARTS

- 1.1 Supervisory and oversight staff (%), by professional group (at 31 December 2022) 42
- 1.2 Supervisory and oversight staff, by gender (at 31 December 2022) 42
- 2.1 Capital ratios (phased-in) 47
- 2.2 Loans and credit. Developments 48
- 2.3 NPLs and NPL ratio 48
- 2.4 RoE by component. Annual change 50
- 2.5 Efficiency ratio 50
- 2.6 Liquidity coverage ratio 51
- 2.7 Distribution of the ECB decisions and actions in 2022 notified to the Executive Committee 63
- 2.8 Weight of the various types of LSIs and non-EU branches 70
- 2.9 Number of ongoing off-site supervisory actions at LSIs, non-EU branches and the ICO 72
- 2.10. LSI stress tests. Results 77
- 2.11 Number of letters addressed to credit institutions 79
- 2.12 Number of recommendations and requirements notified to credit institutions 79
- 2.13 Number of ongoing off-site supervisory actions at other institutions 86
- 2.14 Number of letters addressed to other institutions 87
- 2.15 Number of recommendations and requirements notified to other institutions 87
- 3.1 FLESB stress tests. Impact on the CET1 ratio 103
- 3.2 Credit-to-GDP gap and output gap 104
- 4.1 Conduct-related supervisory actions in 2022 by subject area 114
- 4.2 Supervisory measures adopted and advertising requirements in 2022 121
- 5.1 Overview of TARGET2 and TARGET2-BE operations 128
- 5.2 Overview of SNCE operations 129
- 5.3 Overview of operations with cards 131
- 5.4 Overview of BMEC operations 134
- 5.5 Behaviour of the BMEC energy segment 134
- 5.6 BMEC. Resources deposited and liquidity 135
- 5.7 Iberclear activity data. Transactions processed 135

## INDEX OF FIGURES

- 1.1 Supervisory and oversight functions of the Banco de España 38
- 1.2 Organisation of supervision and oversight at the Banco de España 40
- 2.1 Moratoria and government support related to the pandemic. Periods 49
- 2.2 SI supervisory priorities for 2023 55
- 2.3 Distribution of credit institutions' microprudential supervisory powers 62
- 2.4 Climate stress test. Methodology 76
- 2.5 Climate stress test. Lessons learned 76
- 2.6 Fit and proper requirements assessed for directors within the SSM 83
- 4.1 Supervision of advertising activity 116
- 4.2 New transparency and creditworthiness assessment obligations provided for in the revolving credit order 120
- 4.3 Remote marketing of banking products and services 121
- 7.1 The Banco de España's participation in international banking regulation and supervision fora 146
- 7.2 EBA strategic priorities in 2022 149

## INDEX OF BOXES

- 2.1 Effects of monetary policy normalisation (interest rate rises and withdrawal of monetary support) 52
- 2.2 Improving profitability as an opportunity to strengthen resilience in a context of high uncertainty 53
- 2.3 Sustainability of the business model. Risks and opportunities of financial digitalisation 56
- 2.4 The importance of technology provider risk management in the financial sector 58
- 2.5 Credit risk under supervisory scrutiny, in a context of unfavourable macroeconomic expectations and geopolitical tensions 60
- 2.6 Climate risk supervision: thematic review of the European Central Bank 67
- 2.7 Developments in payment services 92
- 2.8 Controlled digital innovation testing space: Sandbox 94
- 4.1 Measures to alleviate the rise in interest rates on mortgage loans 115
- 4.2 Payment account switching. A swift and efficient service that institutions must offer the customer 118
- 4.3 Loans granted in the form of overdrafts (tacit overdrafts) 119
- 5.1 Payment statistics regulation 132
- 7.1 Financial Stability Board's initiatives in progress on non-bank financial intermediation 146
- 7.2 Prudential treatment of banks' exposures to cryptoassets 148
- 7.3 Opinion of the European Banking Authority on the review of Directive (EU) 2015/2366 on payment services in the internal market (PSD2) 152
- 7.4 Principal prudential initiatives in the area of environmental, social and governance risk 153



Presentation by the Governor Pablo Hernández de Cos



Cover
Contents
Presentation by the Governor
Interview with the Deputy Governor
Supervision Report: Digest
Chapter 1
Chapter 2
Chapter 3
Chapter 4
Chapter 5
Chapter 6
Chapter 7
Chapter 8
Chapter 9
Index of photographs
Banco de España publications
Acronyms and abbreviations



Russia's unjustified invasion of Ukraine in February 2022, following two years of pandemic, has significantly aggravated geopolitical tensions. In particular, it has led to a major hike in the price of energy and other commodities —products that the euro area economies need to import— so that our terms of trade have deteriorated significantly. All this has occurred in a context of a sharp upturn in global inflation, which has reached levels not seen for decades and has generated significant falls in real income. Moreover, the robust monetary policy reaction in order to contain inflationary pressures has led to a tightening of financial conditions in the world's major economies.

Against this backdrop, the economic growth outlook for the euro area countries was gradually downgraded over the course of 2022. Nevertheless, both the European economy as a whole and Spain in particular have displayed greater resilience than expected, in a context in which the extraordinary energy price rises stemming from the Russian invasion of Ukraine and the bottlenecks in global value chains following the opening of the pandemic-related restrictions have been significantly corrected.

In any case, there is still an extremely high level of uncertainty, stemming from developments in the war in Ukraine and its economic repercussions, which are difficult to predict. But inflationary pressures also represent a genuine risk factor. Whether inflationary pressures increase further depends not only on the unfolding of the war, but also on domestic issues, such as a possible persistent rise in inflation expectations or higher-than-expected wage increases or corporate mark-ups. And more persistent inflation would force further tightening of monetary policy, which would increase the vulnerability of public or private players in a less sound economic and financial situation and would have a greater-than-expected impact on their spending levels.

More recently, tensions in the financial markets arising from difficulties at certain US regional banks and at Credit Suisse have contributed to the high level of uncertainty, while the swift and decisive decisions taken by the US and Swiss authorities are essential to ensure financial stability and restore appropriate market conditions.

The Spanish banking sector, like that of the euro area as a whole, is tackling this scenario of uncertainty and the most recent market tensions with a high resilience capacity and sound capital and liquidity positions. This has been the result of the regulatory reform agreed at the international level in the last decade, which, in the case of Europe, has been applied to all banks, irrespective of their size, so that all our banks are subject to the same strict capital and liquidity requirements.

This sound situation of the banking sector, together with the robust response of the authorities, is what has allowed institutions to continue providing financing to the economy over the last three years in the face of unprecedented negative shocks. They have even improved their solvency levels in this period and have continued to

reduce their NPL ratios. They have also increased their profitability, which in 2022 exceeded the cost of capital, and have benefited from the positive effect of interest rate rises on net interest income and increased fees and commissions.

The stress tests conducted by both the Single Supervisory Mechanism and national macroprudential authorities, including the Banco de España, confirm the sector's high degree of resilience, even in very severe hypothetical adverse scenarios.

In any event, the uncertainty of the macro-financial context may generate a persistent increase in institutions' cost of funding. Moreover, the increase in the cost of funding, together with the impact of inflation on household and corporate disposable income, may also adversely affect their payment capacity, especially in the case of the most vulnerable segments, characterised by low income levels, dependence on energy and food products and, in some cases, high levels of indebtedness. And this, in turn, may force institutions to increase the necessary credit loss provisions, although the macroeconomic deterioration has not yet been reflected in credit quality, with slightly decreasing NPL ratios over the course of 2022, despite the end of the moratorium programmes.

In any event, it should not be forgotten that, in such an uncertain and volatile environment as the current one, preventing the possible materialisation of macroeconomic and banking-specific risks from impairing the solvency and profitability of financial institutions makes it particularly necessary for supervision tasks to focus on closely monitoring the evolution of risks at institutions and for their borrowers.

Thus, for example, even before the most recent tensions in financial markets became apparent, certain priorities were established in the supervisory area that sought precisely to mitigate and anticipate potential adverse effects of the current macroeconomic context. In particular, the Single Supervisory Mechanism placed the supervisory focus precisely on the interest rate risk faced by institutions and on the sustainability of their funding plans, issues that are crucial in a context of interest rate rises and liquidity withdrawal. And when cases of banking sector interconnections with non-bank financial intermediaries emerged, as in the Archegos case, which particularly affected Credit Suisse, it was also decided to focus supervision on analysing the risks to European banks of such exposures.

Beyond supervisory work, institutions should adopt a prudent stance and take advantage of the current increase in profitability to strengthen their resilience, through an adequate profit capitalisation and provisioning policy.

Also, the financial sector must continue to address structural and other more recent challenges decisively, including the digitalisation of finance, the increase in cyber risks, the emergence of new high-potential competitors (particularly BigTechs, FinTechs and the like), the financial effects associated with climate change and the

popularisation of cryptoassets. Institutions must take these challenges into account in order to promote their medium- and long-term sustainability.

In particular, the new digital reality entails radical changes in consumer behaviour and distribution channels, and growing competition from new operators. The challenges presented by the digitalisation process include, most notably, increased cyber risk and greater use of the services of technology providers, which increases dependence on these providers. Both challenges demand the strengthening of processes and controls to ensure institutions' resilience and operational continuity.

With regard to the prudential treatment of bank exposures to cryptoassets, the Basel Committee on Banking Supervision (BCBS) published new international minimum standards at the end of 2022, the implementation of which will begin on 1 January 2025. The approach seeks to ensure that there is no contagion to the banking sector of the financial stability risks associated with these assets. However, given the dynamism of this market, it will be necessary to continue assessing developments in these products and providing users with adequate timely information on the associated risks.

Moreover, it is crucial that banks identify and incorporate the financial effects of climate change into their strategy, governance, day-to-day management and public reporting, whilst regulation and supervisory activity must properly take these risks into account. In this regard, as discussed in this Report, within the scope of their respective mandates, authorities such as the BCBS, the European Banking Authority and the European Commission are continuing to develop initiatives to effectively address environmental, social and governance risks in the prudential framework.

The significance of the challenges facing financial institutions once again highlights how important it is to have in place sound and effective governance. The governing bodies, in which independent members must play a fundamental role, should be equipped with mechanisms, information circuits and capacities that enable them to carry out in-depth monitoring of the institution's management, to issue and take adequately informed opinions and decisions, and to appropriately outline the strategic lines of future business.

The banking business is based on public confidence, which is achieved by demonstrating not only asset strength and adequate risk management, but also correct behaviour and a quality service. Therefore, the provision of banking services must be governed by transparency between the parties and be carried out by means that avoid undue exclusion from access to banking products and services, especially basic products and services.

Precisely for the purpose of reinforcing the strategy geared towards ensuring transparency and the responsible banking model for customers, the Banco de

España has created the new Directorate General Financial Conduct and Banknotes. Conduct supervision should boost a preventive approach based on institutions' risk, which should be strengthened by effective communication.

In this respect, given that one of the priorities must be the protection of the most vulnerable customers, in 2023 conduct supervision will pay special attention to institutions' actions within the framework of measures approved to alleviate the impact of interest rate rises on primary residence mortgages.

In short, in view of the persistence of the complex and uncertain economic and financial environment, the authorities must remain vigilant and closely monitor the unfolding of events and risks so as to be able to offer an appropriate timely response in order to guarantee the smooth functioning of the banking sector and safeguard financial stability, which are essential elements for economic growth and the enhanced well-being of citizens.

**Pablo Hernández de Cos**

Governor of the Banco de España





Interview with the Deputy Governor Margarita Delgado Tejero



Cover
Contents
Presentation by the Governor
Interview with the Deputy Governor
Supervision Report: Digest
Chapter 1
Chapter 2
Chapter 3
Chapter 4
Chapter 5
Chapter 6
Chapter 7
Chapter 8
Chapter 9
Index of photographs
Banco de España publications
Acronyms and abbreviations

## How would you summarise the current macroeconomic situation and the macroeconomic outlook and their effects on banking activity?

2022 was marked by an economic and geopolitical context of unprecedented uncertainty, with intense and persistent inflationary pressures on a global scale, which led to the tightening of most central banks' monetary policy and, therefore, of the financial conditions of companies and households.

Over the past year, we have witnessed, on the one hand, the withdrawal of the health restrictions stemming from the pandemic and, on the other, Russia's invasion of Ukraine. The withdrawal of restrictions was a major economic stimulus in the first part of 2022, but the effects of the reopening of the economy have faded over time as the recessionary drive intensified with the war in Ukraine, due in particular to its impact on international commodity markets and especially the energy market.

Recently, we have experienced additional disruptions originating from certain regional banks in the United States and from Credit Suisse. These elements generated tensions in the financial markets, the competent authorities' response to which was firm. These two situations can in no way be extrapolated to EU or Spanish banks, but they have undoubtedly added another layer of uncertainty to the situation we have been going through. Thanks to all the reforms implemented over the years, Spanish banks' solvency and liquidity levels and governance standards make them resilient to such shocks. All of this is accompanied by strengthened supervisory frameworks, which have put the spotlight on interest rate risk, and by a functioning resolution mechanism.

Despite this overall context of uncertainty, both the European and Spanish economies are showing greater resilience than was expected a few months ago, with growth that could be around 1.6% in 2023 (1% for the euro area). This is also the case with the labour market, which is in a good situation, although the Spanish rate is still much higher than the European rate.

The increase in interest rates has a clear positive impact on bank margins. However, it cannot be ruled out that companies and households will end up feeling the effects of this scenario of tightening financial conditions, high inflation and economic uncertainty, and that it will, therefore, affect their ability to pay. Against this backdrop, banks need to be extremely prudent in quantifying the negative

income impacts on companies and households and manage the associated risks correctly.

### What supervisory priorities would you highlight in the current context?

Logically, the Banco de España, as national competent authority and member of the European Single Supervisory Mechanism (SSM), aligns and coordinates its supervisory priorities with those set by the European Central Bank (ECB). They are set for a medium-term time horizon (three years), they can be reviewed annually, or more frequently if necessary, and they are based on the identification of sources of risk and vulnerabilities specific to the banking sector, enhancing the effectiveness and efficiency of its supervisory activity plan.

In short, and in the light of the economic context, the current priorities revolve around three central factors:

- 1 Requiring banks to increase their resilience to macro-financial and geopolitical shocks. This block includes most notably the ongoing review of credit risk and the assessment of funding and liquidity risks in a context of more restrictive financial conditions following a period of abundant liquidity at low costs. Banks must have diverse, credible and plan-based funding sources that can adapt flexibly to the changing environment. In this respect, the EU-wide stress test to be conducted in 2023 and coordinated by the European Banking Authority will support this first supervisory objective.
- 2 Digitalisation and governance. This central factor aims to analyse how banks manage their structural challenges. Close monitoring of technology risks, in order to boost the strengthening of IT security and cyber resilience frameworks, and business model transformation strategies are aspects to be assessed within this block.

Attention also continues to be focused on resolving shortcomings in the composition and functioning of governing bodies, at a time when the magnitude of the challenges facing financial institutions enhances the importance of robust and effective governance.

- 3 Lastly, climate and environmental risk management. In relation to this central factor, the assessment of institutions' progress in identifying and incorporating the financial effects of climate change into their strategy, governance, day-to-day management and public reporting is key for the supervisor. Banks should adequately incorporate climate and environmental risks into their business strategy, governance and risk management frameworks.



## Where do Spanish banks stand in the current global environment of uncertainty and volatility?

Spanish institutions have a good solvency, liquidity and earnings generation situation with which to tackle possible impacts arising from the uncertain global macroeconomic context.

In particular, the sector's capital levels are adequate and have increased over the last three years. Moreover, in 2022, banking activity was more profitable than in 2019 for a second consecutive year, which is evidence, among other things, of the presence of robust business models that have the capacity to generate recurring earnings. The generation of recurring earnings is the first line of defence in ensuring a sound banking business.

In addition, the regular internal stress tests carried out by the Banco de España<sup>1</sup> confirm the banking system's resilience with regard to potential scenarios of macroeconomic turbulence, although, logically, the individual results differ from one institution to another.

Although financial conditions have tightened, so far this has not led to an increase in NPL ratios, which, on the contrary, continued to decline slightly over the course of 2022 to 3.1%.

The foregoing positive assessment does not preclude a prudent stance, which is particularly necessary in view of the global uncertainty and volatility. This is precisely why it is vital that both supervisors and institutions remain particularly vigilant against any possible materialisation of risks that could harm the sector's solvency and profits. And, as part of the prudence that must always be exhibited by banking managers, institutions must take advantage of earnings bonanzas to strengthen their resilience through appropriate risk hedging and capitalisation of profits.

## What effects could monetary policy normalisation have on Spanish banks?

As is well known, the normalisation of monetary policy has been reflected in a series of ECB measures, including successive interest rate rises, modification of TLTRO III operations conditions and the start of Quantitative Tightening, with the reduction of the purchase programme.

As for the possible impact of monetary policy measures, on the one hand there will be a progressive reduction in funding from TLTRO III operations, via early repayments or maturities, with a consequent decline in the unusually high volumes of high-quality liquid assets that financial institutions have been holding in the context of the pandemic. On the other hand, in the euro area as a whole, the decline in liquidity

<sup>1</sup> *Financial Stability Report*.

could increase competition for funds and thus make market funding conditions less favourable.

Moreover, interest rate rises could have conflicting effects on financial institutions' income statements. While their net interest income is expected to improve, because their balance sheets are generally favourably positioned for the repricing of their components in the face of interest rate rises, it is also important to consider the possible negative effects of such rises in terms of credit quality deterioration and the need for additional provisions in a context of economic slowdown.

Lastly, another potential impact that could negatively affect institutions is linked to the valuations of financial assets due to the increase in interest rates.

**What changes do you foresee in Spanish banks' business models? In particular, what risks and opportunities does financial digitalisation present, and how and to what extent might they affect the banking business model?**

We have already pointed out that one of the strengths of the Spanish banking system lies precisely in the development of well-established business models with the capacity to generate recurring revenue.

However, in a constantly evolving environment, the financial sector is subject to processes of change that can significantly affect banks' business models. Therefore, it is essential that institutions constantly analyse the merits of their business models and identify what strategic and tactical changes they could introduce to take advantage of market opportunities, to strengthen customer relationships, improve results and gain in efficiency. In short, the ultimate goal would be to promote sustainability in the medium and long term.

In this connection, digitalisation represents a major change in many areas of the lives of citizens and economic players. The financial world cannot remain on the sidelines of this phenomenon and it must inevitably adapt quickly and effectively to the new digital environment, which brings with it, among other aspects, very significant and increasing competition from new operators and considerable changes in consumer behaviour.

Logically, digitalisation is a source of opportunity, but also of risks and costs. It can offer new formulas and channels for income growth and allow them to keep pace with technological innovations applied to the financial sector (thereby strengthening their capacity to compete with other players, such as BigTechs and FinTechs), as well as enabling efficiency gains. But digital transformation can also entail significant risks and transition costs, which banks will need to take into account in their decision-making.

Also, institutions should analyse how these changes affect their business model, risk management and customer interactions, where they should take particular care to avoid undue exclusion from accessing banking products and services.

### **What recent supervisory actions would you highlight in the area of climate and environmental risks?**

Climate change is one of the main concerns of today's society, insofar as it constitutes a global threat to the future of our planet. Climate risks fall into two broad categories: on the one hand, physical risks, which are related to the direct effects of climate change, such as damage caused by floods, hurricanes, fires or natural disasters (phenomena whose frequency and magnitude have increased in recent years); on the other hand, energy transition risks, which are associated with the process of adapting to a sustainable economy and which can be very diverse.

Concern about climate change leaves no economic sector untouched, the financial sector included. Banks could suffer significant devastation as a result of climate risks, so they need to identify these risks, assess them and integrate them appropriately into their management.

The ECB and the Banco de España are fully conscious of the importance of climate and environmental risk management and have, therefore, integrated this matter into their supervisory priorities and have issued expectations setting out how this risk should be included in institutions' business model, strategy and internal capital adequacy assessment processes.

Other relevant supervisory actions in 2022 in this area include most notably a climate stress test and a thematic review.

The stress test consisted of a learning exercise with no direct impact on capital, and its main objectives included the improvement of the climate risk assessment capacity of institutions and the supervisor. Around 100 institutions participated, including the 10 Spanish significant institutions, and a specially developed methodology was applied. It could be concluded, in short, that institutions are making progress, but there is still some way to go in this area.

The thematic review focused on institutions' climate risk identification and management, and their strategies and governance, in light of supervisory expectations. Just over 100 significant institutions (including the 10 Spanish SIs) and almost 80 less significant institutions (including 4 Spanish LSIs) were also analysed. The exercise has shown that, despite the progress observed, institutions are still far from meeting supervisory expectations, which are expected to be met in full by December 2024 at the latest.

As a result of these actions, the ECB published the findings of the thematic review and a series of good practices observed in both exercises.

### **What are your views on the boom in artificial intelligence initiatives and advances and their application in supervisory practice?**

In the performance of its supervisory work, the Banco de España has traditionally emphasised a supervisory model that was developed with multidisciplinary teams of inspectors, IT auditors and modelling experts, involving the handling of large amounts of data.

At the international level, the use of SupTech tools has expanded in recent years. These tools rely on the use of innovative technology, e.g. machine learning or big data, by supervisory authorities to support their work.

One of the objectives of the Banco de España's 2022-2024 Strategic Plan is to promote technological innovation within the institution and, with regard to supervisory functions, this materialises in the development, in-depth analysis and improvement of SupTech tools.

Our SupTech strategy is based on several interrelated pillars. These pillars are: i) active participation in SupTech initiatives conducted within the SSM; ii) in-house creation of SupTech tools; iii) fostering a culture of innovation; and lastly, iv) promotion of specific training in data science.

Moreover, in line with the priority granted to this matter, the SupTech function has been included in the Banco de España's programme of external evaluation by a team of independent international experts. The evaluation commenced in the first quarter of 2023.

### **What aspects would you highlight in terms of financial conduct and inclusion during 2022?**

Over the last few years, the importance of banks having an appropriate culture and conduct has been highlighted, with the aim of preventing a bad sector reputation from affecting customer confidence and, therefore, the stability of the institution itself and of the financial system as a whole. Therefore, since then, institutions have been immersed in a gradual, ongoing and growing process to establish this culture. Similarly, regulators and supervisors, at the European and international level, have also paid more attention to these matters.

The Banco de España cannot stay on the sidelines. In this respect, I would like to highlight, firstly, the restructuring of the Banco de España's internal organisation, with the creation of the new Directorate General Financial Conduct and Banknotes.

The new internal organisation strengthens the Banco de España's strategy geared at ensuring the transparency of financial institutions' relationships with their customers and the responsible banking model.

The cost of an absence of confidence is too high, and the strategy must always be considered in a medium- to long-term scenario and sustained over time. Therefore, the Banco de España has included the strengthening of conduct supervision as one of its strategic objectives, the effective implementation of which includes the aforementioned restructuring, and it has boosted the preventive approach, amplified its impact through adequate communication and developed a risk-based supervisory approach, with the appropriate quantification of conduct risk.

The approach must also take into account market developments (new products and services, new ways of marketing) and equip itself with tools and powers adapted to the changing environment. An effective strategy regarding this issue should include an appropriate combination of proactive and reactive measures, and it should seek to maximise impact through efficient communication and cooperation with institutions. Supervision can help institutions' senior management address culture and conduct problems and, thus, this proactive, preventive supervisory approach requires collaborative mechanisms between supervisor and institutions.

This report highlights the most relevant supervisory actions of 2022. The strategic supervisory priorities in this area for 2023 were established taking into account the main risks identified in the area of conduct, the main one being the risk generated by the macroeconomic environment and the rise in interest rates, and the digitalisation of the provision of banking and payment services, and litigation issues. These risks are structured in three blocks:

- Customer protection, especially for the most vulnerable customers, through the verification of the effective implementation of the regulatory measures adopted, both in relation to mortgage debtors, in this environment of interest rate rises, and in relation to the basic payment account offering.
- Verification of the appropriate marketing of banking products, through both traditional and new channels, related sales and advertising communications.
- The institution's lines of defence to correct inappropriate actions with its customers, and the supervision of measures implemented to protect against fraud.



# Supervision Report: Digest

Acronyms and  
abbreviations

Banco de  
España  
publications

Index of  
photographs

Chapter 9

Chapter 8

Chapter 7

Chapter 6

Chapter 5

Chapter 4

Chapter 3

Chapter 2

Chapter 1

Supervision  
Report: Digest

Interview with  
the Deputy  
Governor

Presentation by  
the Governor

Contents

Cover

## CHAPTER 1.

## SUPERVISION AND OVERSIGHT AT THE BANCO DE ESPAÑA

Supervisory functions of the Banco de España	<ul style="list-style-type: none"> <li>The Banco de España has various supervisory powers over credit institutions and over other financial institutions or undertakings related to the financial system operating in Spain.</li> <li>The microprudential supervision of credit institutions conducted by the Banco de España within the Single Supervisory Mechanism (SSM) aims to ensure their solvency and liquidity, as well as compliance with prudential regulations. Macroprudential policy, in turn, is aimed at safeguarding the stability of the financial system as a whole.</li> <li>The Banco de España is also tasked with the supervision of the conduct, transparency and customer protection of the institutions registered in its official registers.</li> <li>The Banco de España is responsible for the supervision of payment service provision. In addition, it is also responsible for the oversight of payment systems and instruments, and it shares with the National Securities Market Commission (CNMV) the task of oversight of securities infrastructures.</li> <li>The Banco de España cooperates with the Commission for the Prevention of Money Laundering and Monetary Offences and its Executive Service (SEPBLAC) in the area of anti-money laundering and counter-terrorist financing (AML/CTF).</li> <li>Royal Decree-Law 24/2021 strengthens the supervisory regime for covered bonds, which is attributed to the Banco de España. This new supervisory function, which also includes the authorisation of the issuance programmes of these bonds and their monitors, commenced in 2022.</li> </ul>	Cover
Supervisory and oversight staff	<ul style="list-style-type: none"> <li>At 31 December 2022, the Banco de España had 849 employees performing supervisory and oversight functions (compared with 844 employees at the end of 2021). 49% of supervisory and oversight staff are men and 51% are women, although the distribution varies among the professional groups.</li> </ul>	Contents
		Presentation by the Governor
		Interview with the Deputy Governor
		Supervision Report: Digest
		Chapter 1
		Chapter 2
		Chapter 3
		Chapter 4
		Chapter 5
		Chapter 6
		Chapter 7
		Chapter 8
		Chapter 9
		Index of photographs
		Banco de España publications
		Acronyms and abbreviations

## CHAPTER 2.

## MICROPRUDENTIAL SUPERVISION

The Spanish banking sector	<ul style="list-style-type: none"> <li>Spanish institutions maintain adequate solvency levels —above the levels reached in December 2019, prior to the health crisis— although the system's solvency ratios contracted slightly in 2022.</li> <li>The growth trend in the total volume of loans of Spanish institutions continued in 2022, with an increase in lending activity at foreign subsidiaries and stability in transactions in Spain.</li> <li>The deterioration of the macroeconomic environment has not yet been reflected in the credit quality indicators, where the NPL ratio decreased slightly in 2022, although an increase in the near future cannot be ruled out as borrowers' payment capacity may deteriorate due to the negative effects of the current macroeconomic environment.</li> <li>In 2022, profitability remained at levels similar to those of 2021 —after leaving behind the negative values of 2020 triggered by the health crisis— with an increase in profit from ordinary business, while impairment losses remain moderate. However, given the uncertainty associated with the current macroeconomic scenario, banks should take advantage of this improvement in profitability in order to strengthen their resilience.</li> <li>The high liquidity coverage ratio of Spanish institutions remained stable in 2022. However, the normalisation of monetary policy and the upcoming Targeted Longer-Term Refinancing Operations III (TLTRO III) maturities are likely to cause banks to reduce their liquidity surpluses, although they will remain ample.</li> </ul>	Chapter 1
Supervisory priorities in 2023 for credit institutions. Focal points in 2022	<ul style="list-style-type: none"> <li>The European Central Bank (ECB) has set the priorities for significant institutions (SIs) in 2023 around three major objectives: i) to increase resilience to short-term macro-financial and geopolitical shocks, by continuing to focus on the review of credit risk so that institutions remedy any shortcomings they may have in their management, with particular attention to exposure to sectors that are more sensitive to the current macroeconomic environment, while funding risk will also be reviewed; ii) to increase efforts to tackle institutions' structural vulnerabilities, addressing technology risks and the implications of digital transition (in this regard, it is important that institutions assess the opportunities and risks of undertaking a robust digital transformation so that their business models are sustainable in the long term); and iii) to adapt the business strategy and risk management framework to incorporate climate risk.</li> </ul>	Chapter 2
Supervisory priorities in 2023 for credit institutions. Focal points in 2022	<ul style="list-style-type: none"> <li>In line with the priorities set by the ECB, the Banco de España has identified as a priority for less significant institutions (LSIs) in 2023 the review of credit risk, business models, operational risk (in particular technology risk), governance, capital planning and, lastly, environmental and social risks.</li> <li>The supervisory focal points for the SIs in 2022 were grouped into three broad areas: i) promoting the post-pandemic strengthening of institutions, paying special attention to credit risk; ii) addressing institutions' structural weaknesses through digital transformation and improved governance; and iii) assessing the response to emerging risks, including climate, counterparty and operational risks. For LSIs, on the other hand, work focused on credit risk management, business models, governance, capital strength, technological innovation and risks linked to climate change.</li> </ul>	Chapter 3
		Chapter 4
		Chapter 5
		Chapter 6
		Chapter 7
		Chapter 8
		Chapter 9
		Index of photographs
		Banco de España publications
		Acronyms and abbreviations



Supervision of credit institutions	<ul style="list-style-type: none"><li>• The core task of the ongoing monitoring of SIs is the supervisory review and evaluation process (SREP), which serves not only to determine the institution's risk profile, but also to assess the adequacy of its governance and risk controls. The SREP is complemented by other supervisory tasks, such as on-site inspections, institution-specific in-depth reviews and cross-institutional reviews of priority areas. All the findings from these various activities are used to adopt Pillar 2 capital and liquidity decisions (P2R). The average P2R of Spanish SIs remained stable in 2022, as did capital guidance (P2G), since no full stress test was carried out in the year.</li><li>• Among the supervisory activities on SIs, cross-institutional reviews are becoming increasingly important, and in 2022 they addressed the degree of implementation of the European Banking Authority (EBA) guidelines on loan origination, the analysis of the impacts of the war in Ukraine, banks' digitalisation strategy and climate risks.</li><li>• The main objective of this thematic review on climate risk was to check whether institutions adequately identify and manage climate-related and environmental risks, and to analyse their governance strategies and frameworks relating to these risks. In addition, during the first half of 2022 the ECB also conducted a climate risk stress test, intended as a learning exercise both for institutions and for the supervisor, which had no direct impact on capital. The conclusion drawn from the two exercises is that although the institutions have made progress, there is still some way to go.</li><li>• 595 activities were planned for Spanish SIs in 2022 (data up to 15 September 2022), which were largely performed within the SREP framework. In the last quarter of the year, supervisory activity continued as normal and around 200 further actions were added.</li><li>• As part of ongoing supervision of LSIs, each institution's progress is monitored periodically and, as is the case for SIs, the SREP is one of the central tasks of ongoing off-site supervision. As a result of this process, the Banco de España adopted the capital and liquidity decisions for the 56 LSIs or LSI groups. The average P2R of Spanish LSIs increased slightly in 2022. With regard to P2G, the 2021 statement to institutions has remained unchanged, as it is updated every two years. Horizontal reviews were also carried out during the year: on the business model of retail banking institutions, on the notification of the delegation of critical functions or services (outsourced activities), on technology risk and on climate risk.</li><li>• In 2022 a total of 732 ongoing off-site supervisory actions were carried out in relation to Spanish LSIs, the Official Credit Institute, branches of LSIs in other ECB countries and the rest of the European Union (EU), as well as branches of non-EU credit institutions.</li><li>• For both SIs and LSIs, ongoing monitoring is complemented by on-site actions, which can be of two types: inspections, and internal model investigations. In 2022, 18 inspections and 11 internal model investigations were conducted at Spanish SIs. Additionally, 3 cross-border missions were carried out at non-Spanish SIs. As regards LSIs, the Banco de España conducted 10 inspections.</li><li>• As a result of its supervisory activity, the ECB Supervisory Board —of which the Banco de España forms part— took 518 decisions and actions affecting Spanish institutions. The Banco de España, in turn, sent 114 letters to LSIs, with 520 requirements and recommendations.</li><li>• With the entry into force in 2022 of the strengthened supervisory regime for covered bonds, the Banco de España assumed the ongoing supervision thereof. In 2022 it authorised, for the 19 issuing institutions, 5 monitors and 27 bond programmes covering all current covered bond issues at that date.</li><li>• In 2022, 4 inspections reviewing compliance with AML/CTF obligations were completed and 2 more were initiated. Also, a thematic inspection is underway, jointly with SEPBLAC, on foreign exchange activity, which has been identified as a ML/TF risk operation.</li></ul>
Supervision of other institutions, compliance with vetted access to activity and supervision of payment service provision	<ul style="list-style-type: none"><li>• The Banco de España has exclusive microprudential supervisory powers over institutions other than credit institutions, on which 261 ongoing off-site supervisory actions were carried out in 2022 by various means and 5 inspections.</li><li>• The Banco de España, as the body responsible for overseeing compliance with vetted access to activity, initiated actions in 2022 in 26 possible cases of transactions being carried out without complying with the conditions of access, including most notably 13 cases of possible non-compliance with vetted access to activity by payment service providers.</li><li>• In addition to the tasks involved in the ongoing monitoring of payment service provision, supervisory work in 2022 included most notably the assessment and monitoring of problems relating to the proper functioning of the specific interfaces offered by account servicing payment service providers, and the first application of the revised EBA guidelines on major incident reporting under the Payment Services Directive. Over the course of 2022, the way in which payment institutions and electronic money institutions provide certain payment services evolved, e.g. making the payment initiation service available to users at the physical points of sale or finding ways to add value to the account information service.</li></ul>
Application of financial technology innovation to supervisory functions (SupTech)	<ul style="list-style-type: none"><li>• In 2022 there were two new calls for applications to the controlled testing space, known internationally as Sandbox. In the course of 2022, the protocols were signed and testing began for two projects from the second and third calls, and testing was completed for the six projects from the first call that signed a protocol with the Banco de España. In most cases, added value was found in these projects, and it was concluded that they may represent a potential benefit to financial service users, as well as an increase in efficiency of institutions or markets. According to the Banco de España's assessment, none of the projects that completed their passage through Sandbox in 2022 provided mechanisms for the better exercise of the supervisory function.</li></ul>

## CHAPTER 3.

## MACROPRUDENTIAL POLICY

Banco de España's macroprudential policy tools	<ul style="list-style-type: none"> <li>In accordance with current legislation, the Banco de España regularly sets macroprudential capital buffers to address the build-up of cyclical and structural risks.</li> <li>In 2022, the Banco de España decided to maintain the countercyclical capital buffer at 0% for credit exposures in Spain. This decision was in line with European Systemic Risk Board (ESRB) Warning 7/2022 on the vulnerabilities of the EU financial system. This was deemed to be an appropriate macroprudential policy response, given the current adverse economic environment, marked by geopolitical uncertainty, high inflation rates and the tightening of the ECB monetary policy.</li> <li>In 2022, one global systemically important institution (G-SII) —which is also a domestic systemically important institution (O-SII)— and three other O-SIIs were identified, and their associated capital buffers were set for 2023 and 2024, respectively.</li> <li>The new Banco de España Circular 3/2022 finalised the transposition of Directive (EU) 2019/878 (CRD-V), including its macroprudential aspects.</li> <li>The results of the 2022 forward-looking exercises to measure the resilience of institutions to adverse macro-financial scenarios show that this resilience would remain high at the aggregate level. However, due to high uncertainty and the heterogeneity among institutions, extra prudence is recommended in provisioning and capital policies.</li> </ul>	Cover
Macroprudential coordination at the national level	<ul style="list-style-type: none"> <li>The Banco de España is one of the member institutions of the Spanish macroprudential authority (AMCESFI), which is attached to the Ministry of Economic Affairs and Digital Transformation and in which the CNMV and the Directorate General of Insurance and Pension Funds also participate.</li> </ul>	Contents
Macroprudential tasks at the European level	<ul style="list-style-type: none"> <li>The Banco de España participates in the Financial Stability Board and the ECB's Macroprudential Forum. As an SSM authority, the Banco de España notifies the ECB of all its proposals for macroprudential measures prior to their adoption and announcement.</li> </ul>	Presentation by the Governor
		Interview with the Deputy Governor
		Supervision Report: Digest
		Chapter 1
		Chapter 2
		Chapter 3

## CHAPTER 4.

## SUPERVISION OF INSTITUTIONS' CONDUCT

Objectives	<ul style="list-style-type: none"> <li>Supervision of conduct aims to verify compliance with transparency and customer protection legislation, and with good banking practice criteria and the supervisory expectations conveyed to institutions. It also seeks, more broadly, to transform institutions' culture of conduct</li> <li>To this end, the creation of the new Directorate General Financial Conduct and Banknotes was approved in 2022, in order to continue with the Banco de España's strategy geared at ensuring the transparency of financial institutions' relationships with their customers and the responsible banking model.</li> </ul>	Chapter 4
Supervisory activity	<ul style="list-style-type: none"> <li>The monitoring tasks seek to gain knowledge of institutions' business models and strategies, and of other significant issues, such as product offerings, the treatment of claims or how to address the problems of mortgage debtors in vulnerable situations.</li> <li>In 2022, ongoing supervision was completed with the performance of 146 supervisory actions, focusing on the review of areas such as consumer credit —responsible lending, revolving credit or tacit overdrafts—, payment services —marketing in branches, account switching, contractual changes or basic payment accounts— and real estate lending. Also, special attention was paid to the way in which institutions ensure transparency in digital environments.</li> </ul>	Chapter 5
Supervisory measures	<ul style="list-style-type: none"> <li>As a result of the corresponding supervisory actions, the following measures were adopted in 2022: i) 1 sanctioning proceeding initiated; ii) 81 advertising requirements issued; iii) 25 requirements issued on other matters; and iv) 57 recommendations made.</li> <li>In addition, in the monitoring of supervisory measures, there was a general improvement in institutions' conduct due to compliance with these measures.</li> </ul>	Chapter 6
		Chapter 7
		Chapter 8
		Chapter 9

## CHAPTER 5.

## OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES

Oversight of payment systems and instruments	<ul style="list-style-type: none"> <li>By the end of 2022, most of the milestones of the action plan developed in response to the TARGET service incidents occurring in 2020 had been completed. The uncompleted actions will be finalised in the first quarter of 2023, since they are linked to the entry into operation of the consolidation of TARGET2-TARGET2-Securities.</li> <li>The implementation of the Eurosystem oversight framework for electronic payment instruments, schemes and arrangements (the PISA framework) commenced with the identification of the schemes subject to the framework. The Banco de España shares the leadership with the ECB in the monitoring of American Express as a pan-European card scheme.</li> <li>The fraud ratio for transactions with cards issued in Spain, in terms of number of transactions, was 0.025% in the first half of 2022, as compared with 0.032% in 2020, partly due to the implementation of strong customer authentication in remote transactions.</li> </ul>	Interview with the Deputy Governor
Supervision of Iberpay (management company of the National Electronic Clearing System)	<ul style="list-style-type: none"> <li>The Banco de España assessed eight operating instructions for the National Electronic Clearing System (SNCE), which the Banco de España did not oppose. These instructions include issues such as the replacement of the physical exchange of documents by the exchange of images through the SNCE and the launch of the first use in the SEPA payment requests subsystem by the SNCE.</li> </ul>	Supervision Report: Digest
Oversight of securities infrastructures	<ul style="list-style-type: none"> <li>The increase in both energy prices and their volatility has led to a significant increase in initial margin requirements in the energy derivatives segment of the Central Counterparty, BME Clearing, with no impact on participants' compliance.</li> <li>With respect to TARGET2-Securities, monitoring continued on the implementation of recommendations as a result of the assessment of compliance with the principles for financial market infrastructures issued jointly by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions, and on the assessment of the penalty mechanism for delays in the matching and settlement of instructions required by the Regulation on improving securities settlement and on central securities depositories.</li> </ul>	Chapter 1
		Chapter 2
		Chapter 3

## CHAPTER 6.

## EXERCISE OF SANCTIONING POWERS

Penalties	<ul style="list-style-type: none"> <li>Sanctioning powers, as a necessary supplement to supervisory powers, continued to be exercised in both the prudential area and the area of transparency and customer protection. In total, 14 proceedings were conducted against institutions and their directors and executives (a total of 97 natural persons). The prudential area continues to account for the largest number of sanctioning proceedings, where the most noteworthy proceedings are those relating to internal control, credit risk and governance and the proceedings conducted against appraisal companies.</li> </ul>	Chapter 4
		Chapter 5

## CHAPTER 7.

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

Global fora	<ul style="list-style-type: none"> <li>In 2022, the Financial Stability Board continued to analyse the effects of COVID-19 and to work on strengthening the non-bank financial intermediation sector, analysing vulnerabilities associated with structural changes (in particular those related to financial innovation and climate change) and monitoring the implementation and effects of reforms agreed following the 2008 global financial crisis.</li> <li>The Basel Committee on Banking Supervision, chaired by the Governor of the Banco de España, made progress in its work on the prudential treatment of cryptoassets, the treatment of banking union in the G-SII identification methodology, the development of a holistic approach to address financial risks arising from climate change and the assessment of the functioning of the Basel framework.</li> </ul>	Chapter 7
		Chapter 8
European fora	<ul style="list-style-type: none"> <li>The EBA has worked actively to ensure effective and consistent regulation and supervision in the European banking sector. Along these lines, in 2022 it developed a large number of technical standards, guidelines and reports in the area of prudential regulation, resolution, digital finance and emerging risks, including climate and environmental risk, cyber risk and AML/CTF risk. In addition, it continued to strengthen the European stress testing framework and the EUCLID data platform.</li> <li>The ESRB —whose Advisory Technical Committee is chaired by the Governor of the Banco de España— worked intensively in 2022 on identifying and monitoring risks and vulnerabilities for the EU financial system, with a particular focus on the commercial real estate sector.</li> </ul>	Chapter 9
		Index of photographs

<p><b>Banco de España's new regulatory developments</b></p>	<ul style="list-style-type: none"> <li>• In 2022, the Banco de España published three circulars on the following subjects: i) legal regime for financial credit institutions, including most notably the new liquidity requirements (Circular 1/2022); ii) statistical payment reporting obligations to the Banco de España by payment service providers and payment system operators (Circular 2/2022); and iii) prudential matters for credit institutions that represent the finalisation of the transposition of CRD-V into Spanish law, and the development of reporting obligations applicable to revolving credit (Circular 3/2022).</li> <li>• Three circulars are currently in progress, all on reporting to the Banco de España, in relation to: i) covered bonds and other loan mobilisation instruments; ii) capital structure; and iii) remuneration policy, for alignment with the new EBA models.</li> </ul>
<p><b>Other new regulatory developments</b></p>	<ul style="list-style-type: none"> <li>• At the national level, it is worth mentioning the Draft Securities and Investment Services Markets Law, which, among other things, will make the necessary adaptations for the implementation of the future regulation of markets in cryptoassets (MiCA). It provides for the Banco de España to be entrusted with the supervision, inspection and sanctioning of compliance with the obligations under the MiCA Regulation as regards issuers of electronic money tokens and asset-referenced tokens.</li> <li>• A regulation on instant transfers in euro is in progress in the EU, which aims, among other things, to ensure that payment service providers offer euro instant payments to their customers in an affordable and secure manner.</li> </ul>









# 1

## SUPERVISION AND OVERSIGHT AT THE BANCO DE ESPAÑA

Acronyms and  
abbreviations

Banco de  
España  
publications

Index of  
photographs

Chapter 9

Chapter 8

Chapter 7

Chapter 6

Chapter 5

Chapter 4

Chapter 3

Chapter 2

Chapter 1

Supervision  
Report: Digest

Interview with  
the Deputy  
Governor

Presentation by  
the Governor

Contents

Cover



## MICROPRUDENTIAL SUPERVISION

Preserve solvency, liquidity and the smooth functioning of institutions, with the ultimate aim of safeguarding the stability of the financial system



## MACROPRUDENTIAL POLICY

Safeguard the stability of the financial system as a whole through the prevention and mitigation of systemic risks and vulnerabilities



## SUPERVISION OF CONDUCT, TRANSPARENCY AND CUSTOMER PROTECTION

Ensure that institutions have a culture of conduct and governance aimed at ensuring banking transparency, contributing to safeguarding user confidence in the financial system and preserving its stability



## SUPERVISION OF PAYMENT SERVICE PROVIDERS

Safeguard the security of payment service provision with the aim of promoting an integrated, safe and efficient payments market



## OVERSIGHT OF MARKET INFRASTRUCTURES

Ensure the smooth functioning of payment systems and instruments and that the functioning of securities clearing, settlement and registration systems preserves the stability of the financial system as a whole



## STAFF

849 employees performed supervisory and oversight functions

**Women**  
51 %

**Men**  
49 %



## 1.1 Supervisory and oversight functions of the Banco de España

**The Banco de España has supervisory powers over credit institutions and over other financial institutions or undertakings related to the financial system operating in Spain.** These supervisory and oversight functions are summarised in Figure 1.1.

**Microprudential supervision aims to ensure the solvency and liquidity of credit institutions, as well as compliance with prudential regulations.** The Banco de España exercises its powers in this area within the framework of the Single Supervisory Mechanism (SSM), and it aims to preserve financial stability and ensure consistent and standardised supervision among the participating countries<sup>1</sup>.

Outside the scope of the SSM, the Banco de España is the supervisory authority of institutions other than credit institutions that provide services or perform activities related to the financial sector.

**Macroprudential policy aims to safeguard financial stability through the prevention and mitigation of systemic risks and vulnerabilities.** In the exercise of these functions, the Banco de España has macroprudential tools to curb the accumulation of systemic risk in the banking system, in both its time and cross-section dimensions, and to mitigate the effects of its potential materialisation.

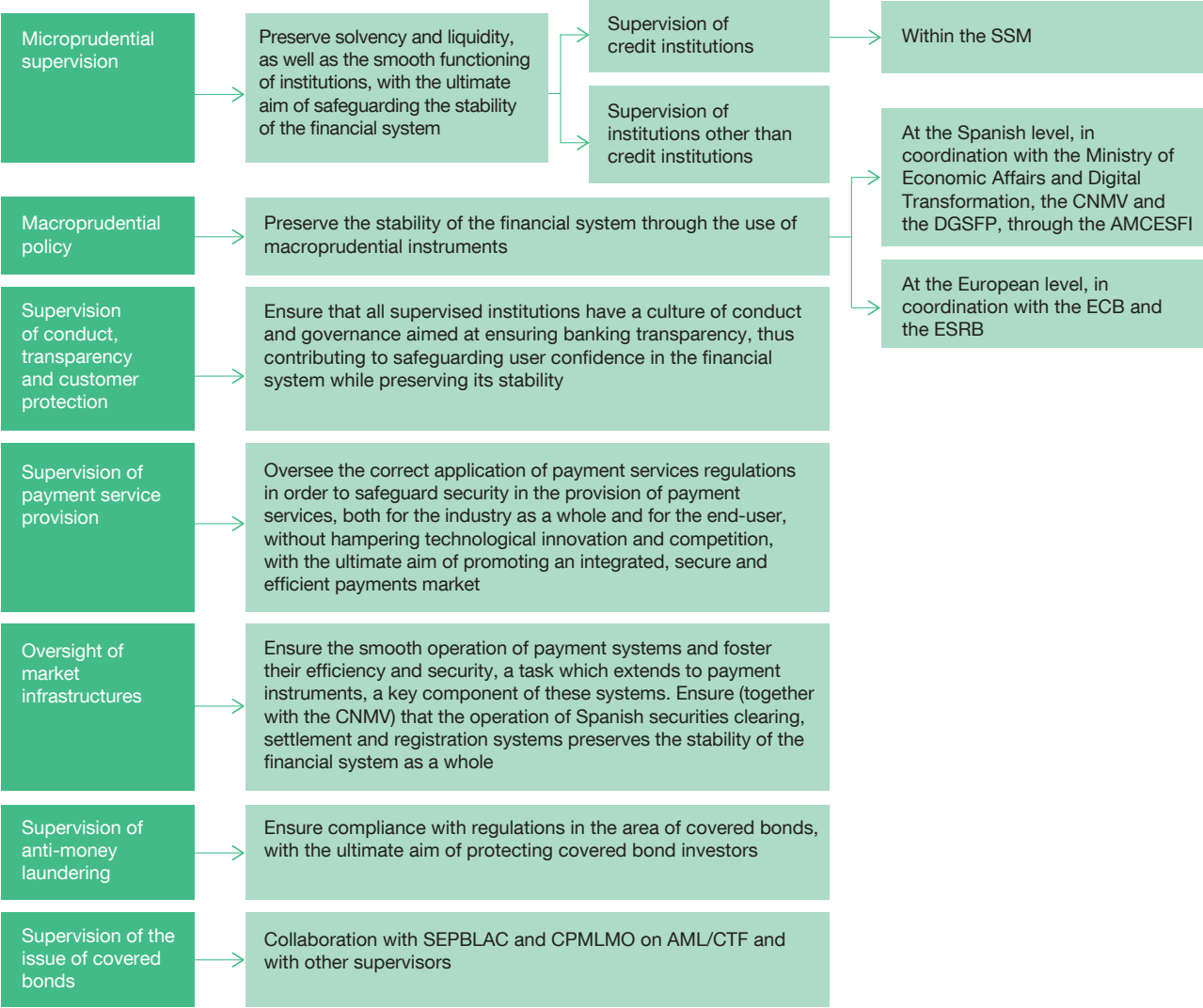
The Banco de España participates, together with the National Securities Market Commission (CNMV), the Directorate General of Insurance and Pension Funds (DGSFP) and the Ministry of Economic Affairs and Digital Transformation, in the Spanish macroprudential authority (AMCESFI), which aims to identify, prevent and mitigate the development of systemic risk in order to preserve the stability of the Spanish financial system as a whole.

**The Banco de España is also responsible for supervising the conduct, transparency and customer protection of certain institutions registered in the official registers of the Banco de España** (credit institutions and other institutions offering certain financial services including institutions offering their products under the freedom to provide services), for which there are specific transparency and customer protection regulations.

<sup>1</sup> Further information on the objectives, governance and participants of the SSM is available on the [Banco de España website](#).

Figure 1.1

SUPERVISORY AND OVERSIGHT FUNCTIONS OF THE BANCO DE ESPAÑA



SOURCE: Banco de España.

In relation to the supervision of the provision of payment services, the Banco de España has a specific regulatory framework, the Second Payment Services Directive<sup>2</sup> (PSD2). This framework regulates payment services and the entities specialised in their provision, placing special emphasis on operational and security risk requirements.

The Banco de España is responsible for overseeing payment systems and instruments and it shares with the CNMV the oversight of the financial market securities infrastructures.

2 Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, transposed into the Spanish regulatory framework by Royal Decree-Law 19/2018 of 23 November on payment services and other urgent financial measures.

In addition, the Banco de España collaborates with the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC) and the Commission for the Prevention of Money Laundering and Monetary Offences (CPMLMO) in the supervision of the prevention of money laundering, pursuant to Spanish legislation and the cooperation and coordination agreement entered into with the CPMLMO.

Lastly, noteworthy is the entry into force on 8 July 2022 of Royal Decree-Law 24/2021<sup>3</sup>, transposing Directive 2019/2162 on covered bonds, which establishes a harmonised minimum regime in the European Union (EU) with regard to the conditions for the issue and characteristics of this type of instrument, with the aim of promoting the unified development of these markets. This new regulation increases the protection of covered bond investors and strengthens the supervisory regime for these instruments, which is attributed to the Banco de España.

## 1.2 Organisation of banking supervision and oversight at the Banco de España

**The supervisory function is performed by the Banco de España's different directorates general and departments:**

- The Directorate General Banking Supervision (DG.SUP) is responsible for microprudential supervision, and carries out the ongoing off-site supervision of institutions and on-site inspections. Also, it performs reviews of internal models for calculating capital requirements, and supervisory actions in the area of anti-money laundering and counter-terrorist financing (AML/CTF), and it provides support to the Banco de España's representative on the Supervisory Board of the European Central Bank (ECB). It also performs horizontal tasks, such as data exploitation and risk analysis, the preparation of supervisory methodology and policy, planning the DG.SUP's resource needs, training, quality function, etc. In addition, the DG.SUP prepares accounting circulars applicable to credit institutions and other supervised institutions and resolves consultations on this matter.

In 2022, a restructuring of the DG.SUP was approved: the SSM Coordination and Supervisory Strategy Department was created, reporting directly to the Associate Directorate General Banking Supervision II, and the SSM and Supervisory Strategy Subdirectorate was abolished. In order to

<sup>3</sup> Royal Decree-Law 24/2021 of 2 November on the transposition of European Union directives on covered bonds, cross-border distribution of collective investment undertakings, open data and re-use of public sector information, exercise of copyright and related rights applicable to certain online transmissions and retransmissions of radio and television programmes, temporary exemptions for certain imports and supplies, for consumers and for the promotion of clean and energy-efficient road transport vehicles.

Figure 1.2

**ORGANISATION OF BANKING SUPERVISION AND OVERSIGHT AT THE BANCO DE ESPAÑA**

<b>DIRECTORATE GENERAL BANKING SUPERVISION</b>	Significant Institution Department I	<ul style="list-style-type: none"> <li>— Ongoing off-site supervision of the three largest Spanish SIs and of the branches and subsidiaries in Spain of European SIs, through the JSTs</li> <li>— Participation in the granting of credit institution start-up licences and in other administrative procedures relating to supervised institutions</li> </ul>
	Significant Institution Department II	<ul style="list-style-type: none"> <li>— Ongoing off-site supervision of the 7 other Spanish SIs through the JSTs</li> <li>— Participation in the granting of credit institution start-up licences and in other administrative procedures relating to supervised institutions</li> </ul>
	LSI and Other non-SSM Institutions Department	<ul style="list-style-type: none"> <li>— Ongoing off-site supervision and on-site inspections of: <ul style="list-style-type: none"> <li>• Spanish LSIs</li> <li>• Other institutions outside the scope of the SSM: ICO, SLIs, Pls, account information service providers, ELMIs, MGSs, reguarantee companies, currency-exchange bureaux, appraisal companies and Sareb</li> </ul> </li> <li>— Participation in the granting of start-up licences and in other administrative procedures relating to supervised institutions</li> </ul>
	Inspection, Internal Model and AML Department	<ul style="list-style-type: none"> <li>— On-site inspections and internal model investigations of SIs within the SSM</li> <li>— Internal model investigations of LSIs</li> <li>— Planning, implementation and monitoring of AML/CTF supervisory actions</li> </ul>
	Horizontal Functions Department	<ul style="list-style-type: none"> <li>— Analysis of credit, business and solvency risk. Preparation of technical studies and reports for various Banco de España services and external agents</li> <li>— Definition and processing of consultations on supervisory policies and banks and other supervised institutions accounting regulation</li> <li>— Supervision of covered bonds, including authorisation of their issuance programmes and cover pool monitor</li> <li>— Stress tests</li> <li>— Exploitation and analysis of supervisory data for risk assessment</li> <li>— Monitoring of market risk, operational risk and structural liquidity and interest rate risks</li> <li>— Supervisory methodology</li> <li>— Application of supervisory technologies (SupTech)</li> </ul>
	SSM Coordination and Supervisory Strategy Department	<ul style="list-style-type: none"> <li>— Preparation and monitoring of annual supervision planning</li> <li>— Definition of SSM supervisory strategic planning and second line of defence</li> <li>— Support to the Banco de España representative on the SB</li> <li>— Coordination and management of information received within the scope of the SSM</li> <li>— Technology risk inspections of SIs within the SSM and LSIs</li> </ul>
	Organisation and Quality Group (Corporate Functions)	<ul style="list-style-type: none"> <li>— Quality control in the supervisory process</li> <li>— Training of DGBS staff</li> <li>— Coordination of DGBS corporate functions</li> </ul>
<b>DIRECTORATE GENERAL FINANCIAL STABILITY, REGULATION AND RESOLUTION</b>	Financial Stability and Macroprudential Policy Department	<ul style="list-style-type: none"> <li>— Analysis of financial system risks and vulnerabilities</li> <li>— Formulation of macroprudential policy proposals</li> <li>— Coordination with the AMCESFI, with the ESRB and with the ECB's macroprudential function</li> <li>— Performance of stress tests (FLESB)</li> </ul>
	Financial Reporting and CCR Department	<ul style="list-style-type: none"> <li>— Receipt, quality control and forwarding of supervisory information that credit institutions are required to submit to the ECB and to the Banco de España</li> <li>— Management of the CCR and of Anacredit</li> <li>— Calculation and validation of compliance with the minimum reserve ratio</li> </ul>
	Regulation Department	<ul style="list-style-type: none"> <li>— Analysis, definition and monitoring of regulatory policies applicable to supervised institutions</li> <li>— Coordination with the EBA, FSB, BCBS and other international fora</li> <li>— Development and interpretation of prudential regulation</li> </ul>
<b>GENERAL SECRETARIAT</b>	Deputy General Secretariat	<ul style="list-style-type: none"> <li>— Participation in the assessment of compliance with the suitability requirements of senior officers</li> <li>— Maintenance of the Senior Officer Register</li> <li>— Participation in the granting and withdrawal of institutions' authorisation</li> <li>— Maintenance of the Register of Institutions, Agents and Articles of Association</li> <li>— Management of the single European passport</li> </ul>
	Legal Department	<ul style="list-style-type: none"> <li>— Handling of sanctioning proceedings</li> </ul>
<b>DIRECTORATE GENERAL FINANCIAL CONDUCT AND BANKNOTES</b>	Institutions' Conduct Department	<ul style="list-style-type: none"> <li>— Supervision of market conduct and compliance with legislation on transparency of information and customer protection of supervised institutions through off-site inspections and monitoring</li> <li>— Preparation of regulations and circulars on transparency and customer protection</li> <li>— Participation in international committees on regulation and supervision</li> </ul>
<b>DIRECTORATE GENERAL OPERATIONS, MARKETS AND PAYMENT SYSTEMS</b>	Payment Systems Department	<ul style="list-style-type: none"> <li>— Ongoing supervision of compliance with legislation on payment services at credit institutions, Pls, ELMIs and account information service providers</li> <li>— Definition of supervisory policy regarding the provision of payment services</li> <li>— Participation in the granting of authorisations and the register of payment service providers</li> <li>— Supervision of Iberpay, as the management company of the National Electronic Clearing System</li> <li>— Oversight of financial market infrastructures and payment instruments</li> </ul>

SOURCE: Banco de España.

improve coordination, the new department also incorporates the function of reviewing institutions' technological risk, so as to foster in a coordinated manner the implementation of technological innovation and cybersecurity in credit institutions.

- The Directorate General Financial Stability, Regulation and Resolution (DG.FSR) is responsible for analysing vulnerabilities in the financial system and formulating macroprudential policy proposals; it is also responsible for coordination with the macroprudential function of the ECB, the European Systemic Risk Board (ESRB) and other international bodies. It also receives and monitors institutions' supervisory reporting. Also, it participates in the implementation of prudential regulations and coordinates with the European Banking Authority (EBA) and other international fora.
- The General Secretariat (GS.GRL) is tasked with the analysis of senior officer suitability, the granting and withdrawal of authorisation, and the register of senior officers; the authorisation of bylaw amendments; the register of institutions; and the handling of sanctioning proceedings.
- The Directorate General Financial Conduct and Banknotes was created in 2022, incorporating the former Institutions' Conduct Department. This new internal organisation is an important development in the framework of the Banco de España's strategy to improve its capacity for supervising compliance with the conduct and customer protection regulations to which institutions are subject, bearing in mind the importance of institutions' appropriate conduct for financial stability, for the reputation of the sector and for customer confidence.
- Lastly, the Directorate General Operations, Markets and Payment Systems (DG.OMP) is responsible for overseeing financial market infrastructures and payment instruments, schemes and arrangements. Additionally, it is responsible for verifying compliance with applicable payment services regulations at credit institutions, payment institutions (PIs), electronic money institutions (ELMIs) and account information service providers, through both ongoing off-site monitoring and occasional inspections and actions.

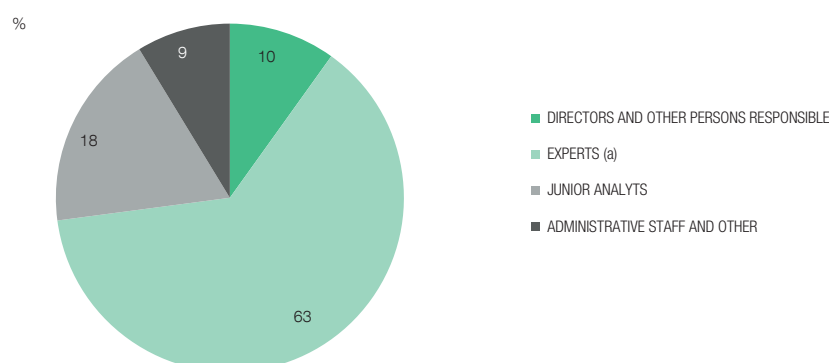
Figure 1.2 details the organisation of the supervisory and oversight functions performed by the Banco de España.

## 1.3 Supervisory and oversight staff

**At 31 December 2022, the Banco de España had 849** employees performing supervisory and oversight functions (844 employees in 2021). Of these 849

Chart 1.1  
**SUPERVISORY AND OVERSIGHT STAFF (%), BY PROFESSIONAL GROUP**  
**At 31 December 2022**

The predominant group continues to be, within the "Experts" category, inspectors and inspection auditors. The composition of the various groups of staff remained stable with respect to previous years.

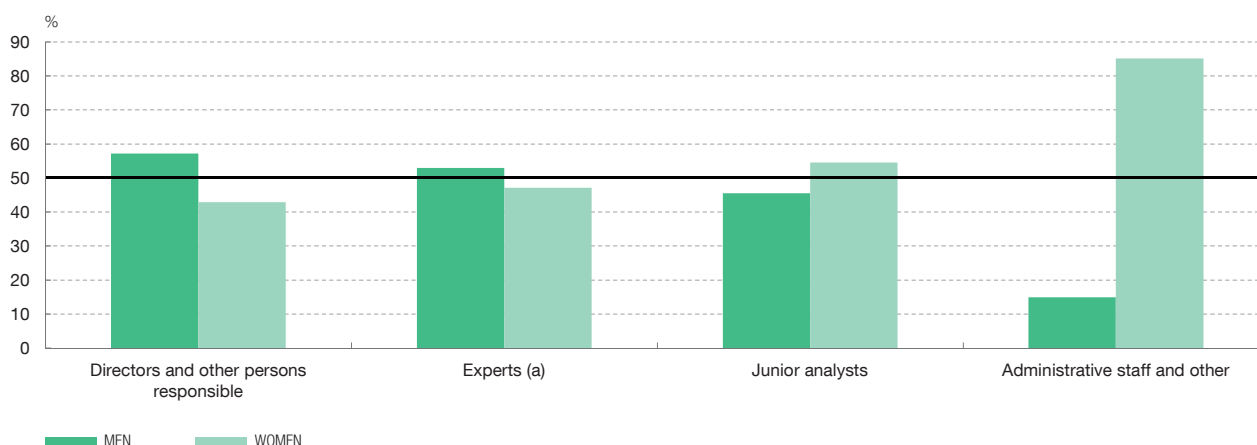


**SOURCE:** Banco de España.

**a** Also includes inspectors, degree-level economists, lawyers, inspection auditors and IT auditors.

Chart 1.2  
**SUPERVISORY AND OVERSIGHT STAFF BY GENDER**  
**At 31 December 2022**

The proportion of men and women is almost equal in three professional groups. However, there are major disparities in "Administrative staff and other".



**SOURCE:** Banco de España.

**a** Also includes inspectors, degree-level economists, lawyers, inspection auditors and IT auditors.

employees, 527 belong to the DG.SUP, 195 to the DG.FSR, 60 to the Institutions' Conduct Department, 49 to the Deputy General Secretariat and 18 to the DG.OMP.

In 2022, the selection of legal advisers and documentalists to carry out tasks related to supervision was finalised. Also, there was a call for applications for general junior



analysts, a pool of inspectors was opened to address temporary staffing needs, and a forthcoming call for applications for inspectors was announced to cover various supervisory functions.

Chart 1.1 shows the distribution, by professional group, of Banco de España employees who carry out supervisory functions.

48.7 % of supervisory staff are men and 51.3 % are women, although the distribution varies among professional groups, as shown in Chart 1.2.

Cover
Contents
Presentation by the Governor
Interview with the Deputy Governor
Supervision Report: Digest
Chapter 1
Chapter 2
Chapter 3
Chapter 4
Chapter 5
Chapter 6
Chapter 7
Chapter 8
Chapter 9
Index of photographs
Banco de España publications
Acronyms and abbreviations







# 2

## MICROPRUDENTIAL SUPERVISION



## SUPERVISION OF CREDIT INSTITUTIONS

Supervision performed within the SSM: i) 10 Spanish SI groups supervised by the ECB, with key participation by the Banco de España; and ii) 56 Spanish less significant institutions (LSIs) or groups supervised directly by the Banco de España, with indirect supervision by the ECB



## 2022 FOCAL POINTS

i) post-pandemic credit risk; ii) structural weaknesses: digital transformation strategy and improved governance; and iii) emerging risks: climate and operational risk due to cyber attacks and outsourcing



## 2023 SUPERVISORY PRIORITIES

i) Strengthening resilience to macro and geopolitical shocks; ii) structural vulnerabilities: digitalisation and technology risks; management capabilities; and iii) incorporation of climate risks into risk strategy, governance and management



## ONGOING OFF-SITE SUPERVISION

The SREP is a core element of the supervisory activity, regularly updating the assessment of institutions' situation and risk profile



## ON-SITE ACTIONS

Essential supplement to off-site supervision, through two types of action: inspections and investigations of regulatory capital calculation models



## ANTI-MONEY LAUNDERING

The Banco de España supervises certain AML/CTF obligations (due diligence, internal control and reporting) and cooperates closely with the CPMLMO

## 2.1 The Spanish banking sector

**At 30 September 2022, the consolidated assets of the institutions making up the Spanish banking sector totalled EUR 4,315 billion, of which 90% corresponds to Spanish significant institutions (SIs), 6% to Spanish less significant institutions (LSIs) and the Official Credit Institute (ICO), and the remaining 4% to subsidiaries and branches in Spain of foreign credit institutions.**

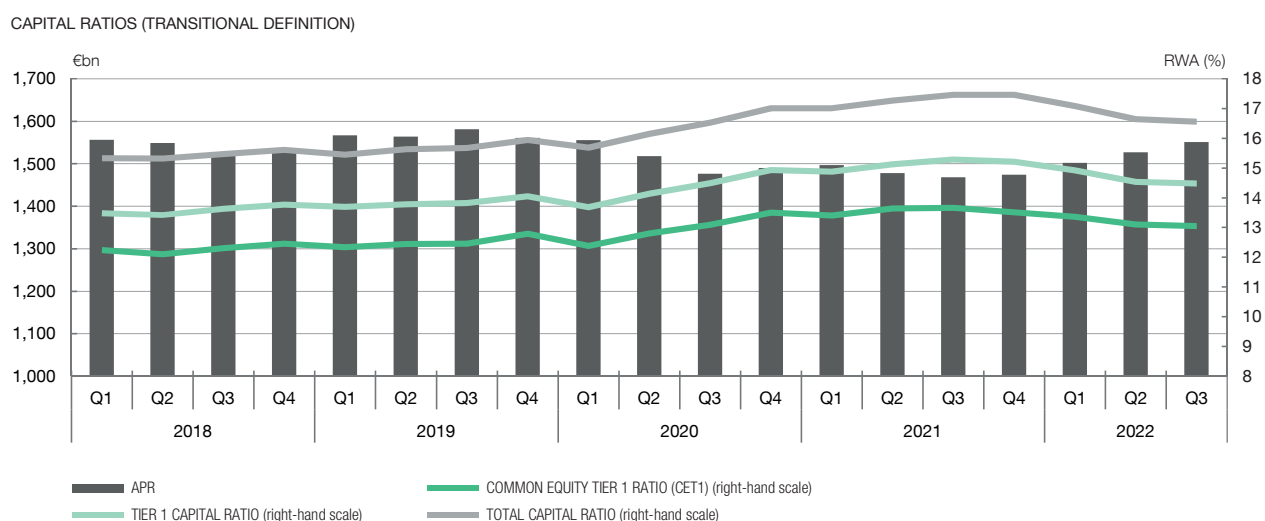
**Spanish institutions maintain adequate solvency levels, above the levels reached in December 2019, prior to the health crisis (see Chart 2.1), although solvency ratios contracted slightly in 2022, particularly in the second quarter.**

**The growth trend in total lending by Spanish institutions continued throughout 2022 (see Chart 2.2), with an increase in lending activity at foreign subsidiaries of banks with a significant international presence, but stability in transactions in Spain. Balances at central banks also increased.**

**The deterioration of the macroeconomic environment was not reflected in the credit quality indicators, whose NPL ratio decreased slightly in 2022 (see Chart 2.3)**

Chart 2.1  
**CAPITAL RATIOS (PHASED-IN)**

Capital ratios exceeding pre-pandemic levels. Contraction in 2022 due to higher risk-weighted assets (RWA) and, to a lesser extent, due to the market impact on financial instruments at fair value with changes in capital and share buybacks.

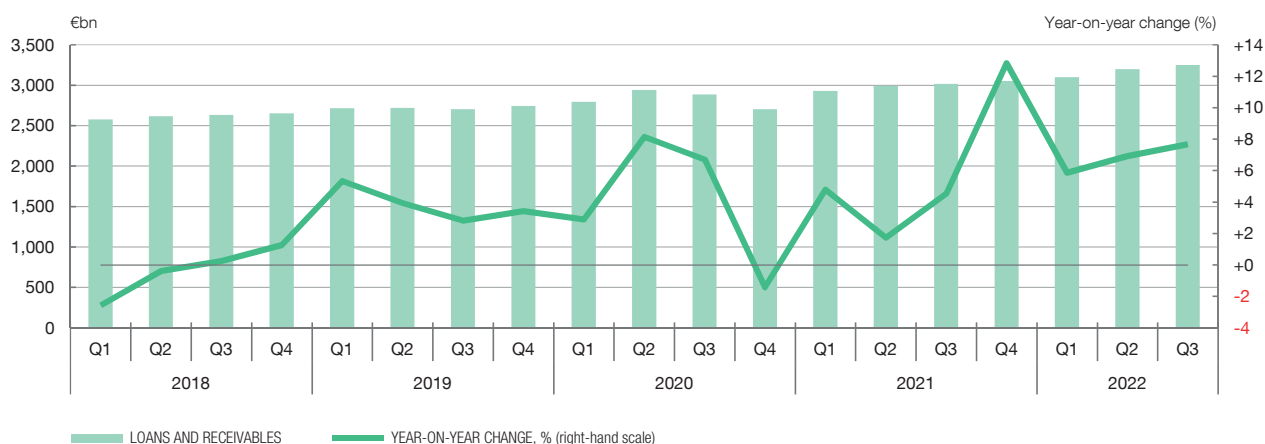


SOURCE: Banco de España (supervisory statistics on credit institutions).

Chart 2.2

**LOANS AND CREDIT. DEVELOPMENTS**

Growth continued in loans and credit at the consolidated level.

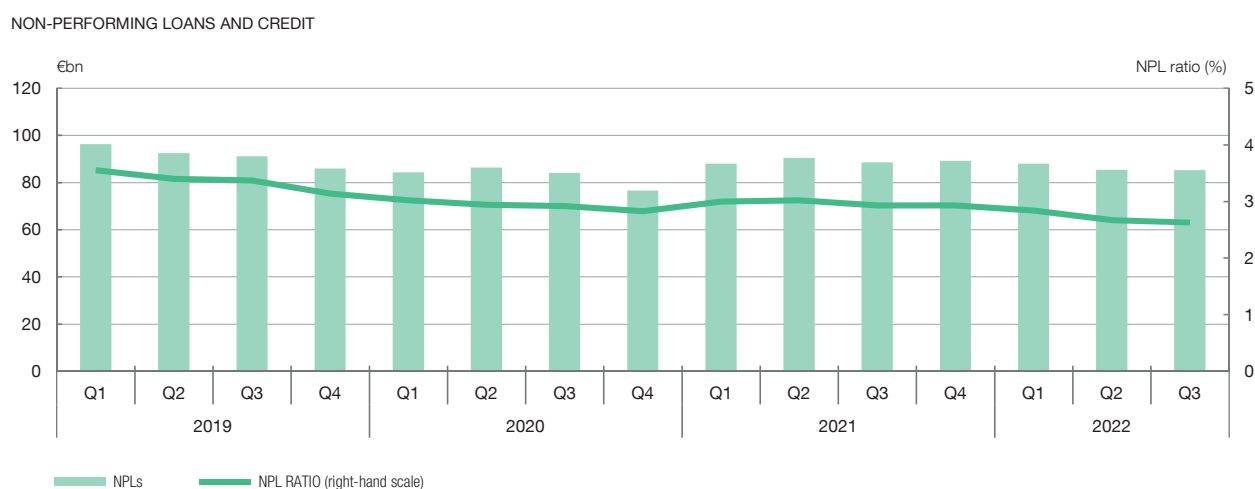


**SOURCE:** Banco de España (supervisory statistics on credit institutions).

Chart 2.3

**NPLs AND NPL RATIO**

Decrease in the NPL ratio in 2022, despite the current macroeconomic environment.



**SOURCE:** Banco de España (supervisory statistics on credit institutions).

partly due to portfolio sales, mainly in Spain. An increase in the near future cannot be ruled out, to the extent that borrowers' payment capacity may deteriorate due to the negative effects of the current macroeconomic environment.

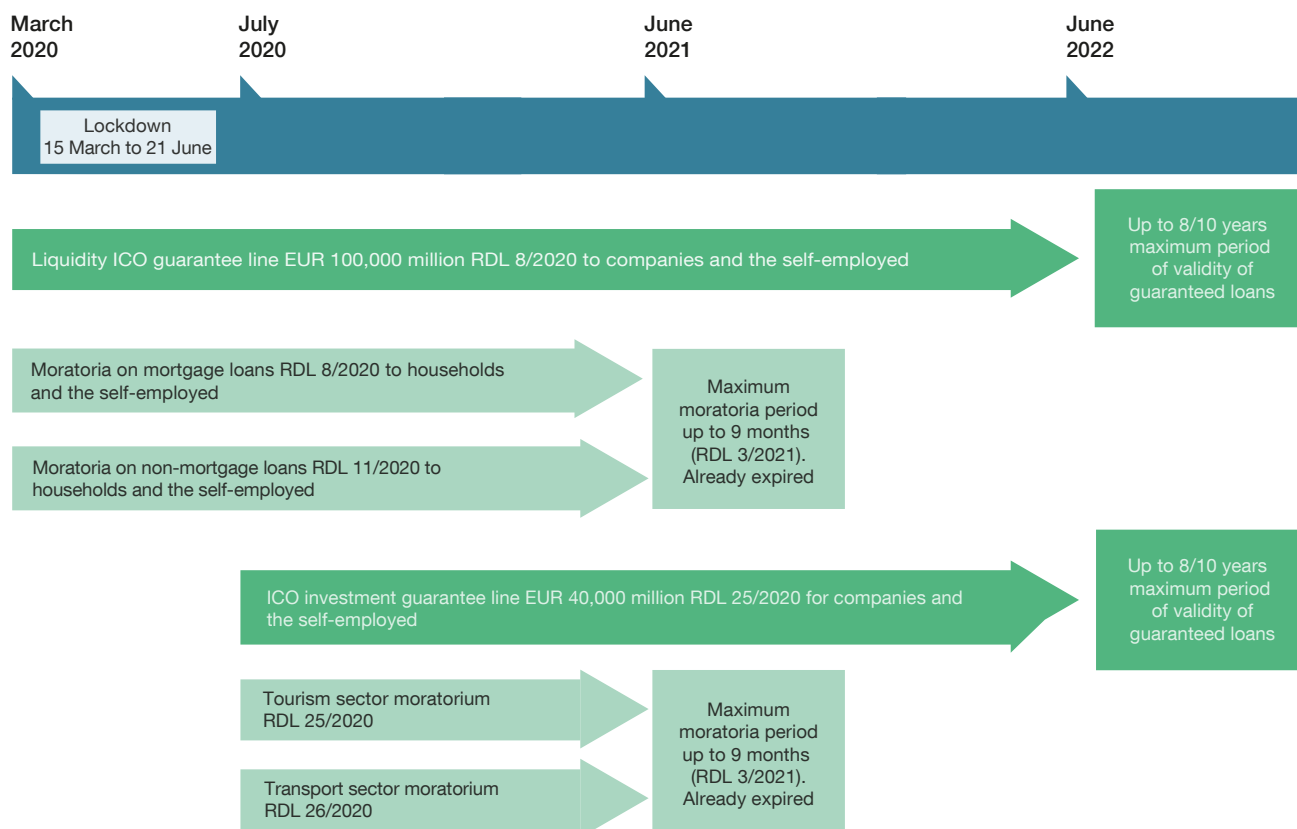
**In this respect, it is worth recalling that, once the health restrictions were overcome, there was a withdrawal of the COVID-19 public support measures**



Figure 2.1

**MORATORIA AND GOVERNMENT SUPPORT RELATED TO THE PANDEMIC. PERIODS**

The arrows represent the application period of the measures (all already finalised), while the boxes indicate the period of validity of the moratoria and guaranteed loans.



SOURCE: Banco de España.

**aimed at maintaining the financing of households and companies in the form of moratoria and of loans backed by the ICO**, the only loans outstanding being those guaranteed by the ICO with a repayment period of up to ten years (see Figure 2.1, which summarises the process). This support provided liquidity to sustain lending during the lockdown period and boosted the investment necessary for the subsequent reactivation of the economy. Currently, following the outbreak of the war in Ukraine, the macroeconomic environment is facing new challenges.

**Spanish institutions maintain higher profitability levels than in 2019, before the pandemic crisis, for the second consecutive year** (see Chart 2.4). Profit from ordinary business increased in 2022, due to the greater contribution to net interest income from foreign activity, while recognised impairment losses remained moderate, despite the macroeconomic environment of high uncertainty.

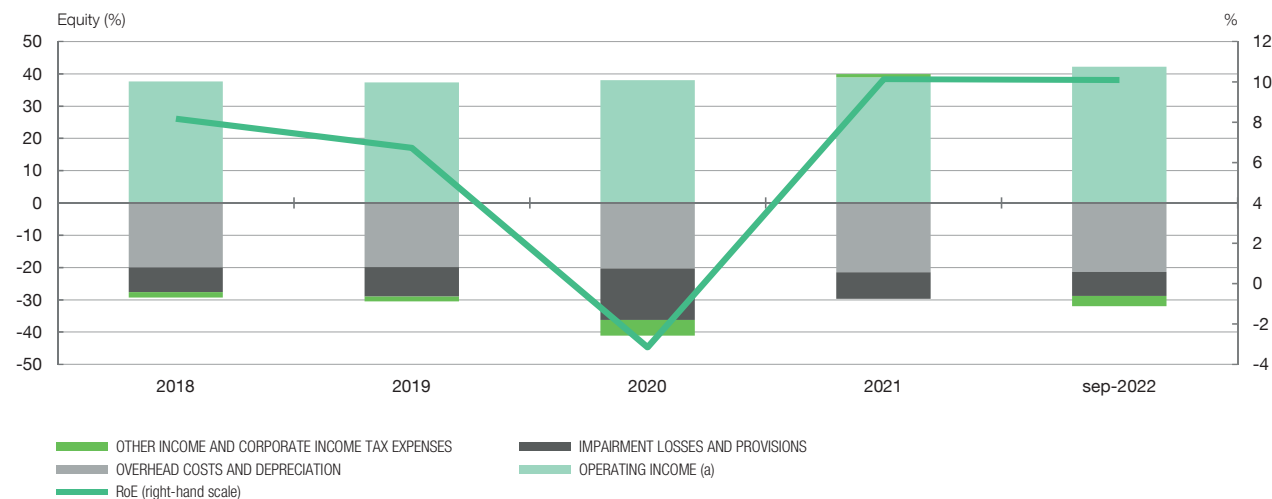
**The efficiency ratio performed favourably (see Chart 2.5)**, due to the improvement in operating profit and the moderate increase in overhead costs following the restructuring of workforces and the commercial network in the previous year.

Chart 2.4

**RoE BY COMPONENTS. ANNUAL CHANGE**

Second year of recovery in return on equity (RoE) (following the pandemic crisis), which already exceeded pre-pandemic levels in 2021 and remained stable in 2022, with improvements in ordinary business and containment of overhead costs and impairment losses.

RoE - BREAKDOWN BY COMPONENTS



**SOURCE:** Banco de España (supervisory statistics on credit institutions).

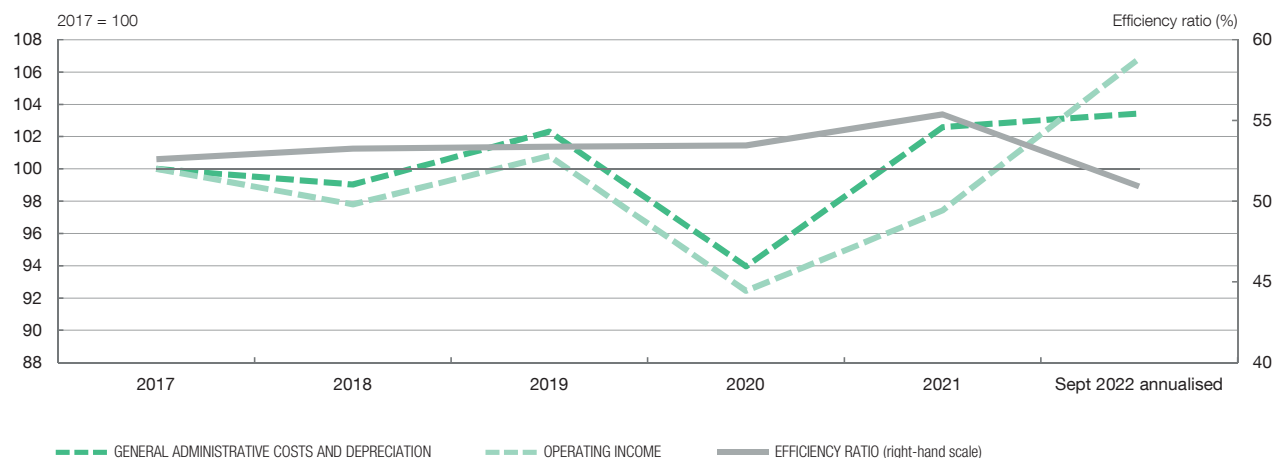
a Operating income is the sum of net interest income, net fee and commission income, net income from financial operations, net exchange differences and other net operating income.

Chart 2.5

**EFFICIENCY RATIO**

Improvement in the efficiency ratio due to the improvement in operating income and the containment of overhead costs.

EFFICIENCY RATIO AND DEVELOPMENTS IN ITS COMPONENTS



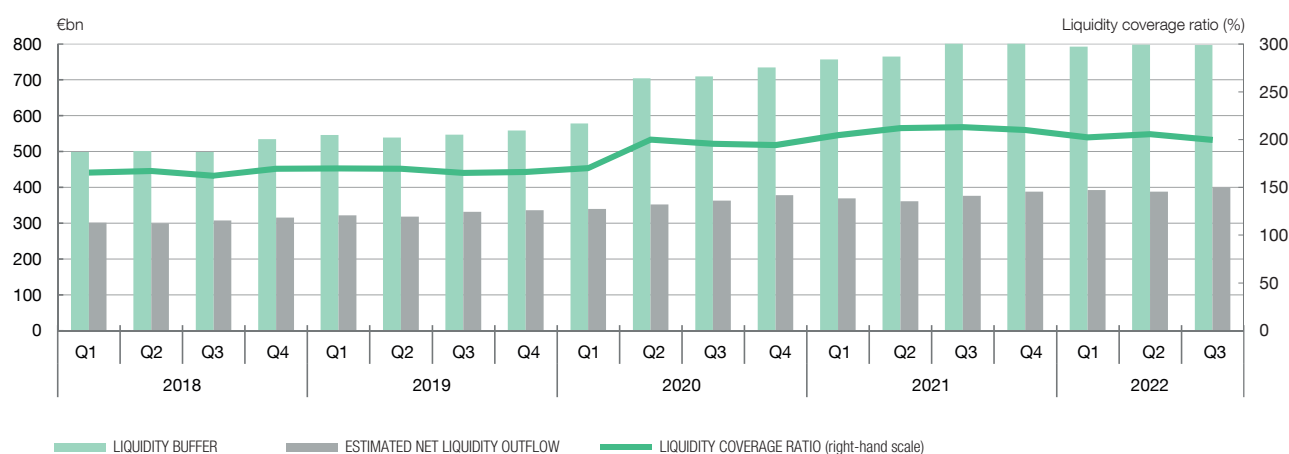
**SOURCE:** Banco de España (supervisory statistics on credit institutions).

Chart 2.6

**LIQUIDITY COVERAGE RATIO**

The liquidity coverage ratio remained high, at around 200% on average, in the first three quarters of 2022.

LIQUIDITY COVERAGE RATIO AND COMPONENTS



SOURCE: Banco de España (supervisory statistics on credit institutions).

**Recent monetary policy changes and upcoming TLTRO III (Targeted Longer-Term Refinancing Operations III) maturities will reduce institutions' liquidity surpluses.** The liquidity coverage ratio of Spanish institutions basically remained stable until September 2022 (see Chart 2.6). The change in the ECB's monetary policy stance (see Box 2.1) stemming from inflationary pressures arising from the war in Ukraine has resulted in the elimination of the financial incentives associated with TLTRO III operations. The early repayment and upcoming maturities of these operations determine a new environment in which institutions will operate with liquidity coverage ratios that are less cushioned than those maintained recently.

**Lastly, in the current context, it is necessary to mention operational risk, for which no upturn in losses has been observed, despite the increase in the number of events.** The losses due to operational risk at Spanish institutions have remained within the levels recorded in recent years. However, there was a considerable increase in the number and diversity of operational events —mainly in the conduct and customer, technology and fraud risk categories— in an environment of greater potential risk due to digitalisation and outsourcing processes, remote working, the war in Ukraine and other salient factors, such as the new conduct regulations and rulings.

**Consequently, Spanish banks' financial statements have not yet been negatively affected by the growing uncertainties.** However, the inflationary process and the rise in interest rates could lead to a reduction in the medium term in

## EFFECTS OF MONETARY POLICY NORMALISATION (INTEREST RATE RISES AND WITHDRAWAL OF MONETARY SUPPORT)

The intensification of inflationary pressures as a result of the war in Ukraine has led to a faster than expected normalisation of the European Central Bank's (ECB) monetary policy following a long period of low or negative rates and generous monetary stimulus.

Thus, in the course of 2022, the monetary policy decisions of the ECB Governing Council envisaged, inter alia, the following measures:

- a) Interest rate rises. They started in July, and represented an increase of 300 basis points overall through February 2023, with the deposit facility rate rising from -0.50% to 2.5%.
- b) Change in the conditions of TLTRO III (Targeted Longer-Term Refinancing Operations III). In October, the ECB changed the system for calculating the interest rates applicable to these operations from 22 November 2022, eliminating some of the incentives for their use. At the same time, it established three additional early repayment windows, two of which (in November and December) have already been used by credit institutions. Taken as a whole, the TLTRO III balance of Spanish institutions fell by EUR 155.7 billion, or 50%, from October to December 2022.
- c) Modification of debt purchase programmes. Net purchases in the Pandemic Emergency Purchase Programme (PEPP) and the Asset Purchase Programme (APP) have been discontinued, limiting the amount of purchases to the reinvestment of maturing principal. In the case of the PEPP, the period in which reinvestments may be made will be extended until at least the end of 2024, while in the case of the APP, such reinvestments will be reduced from the beginning of March 2023, so that the portfolio of debt acquired by the ECB under this programme will be reduced by an average of EUR 15 billion per month until the end of June 2023.

In addition, on 21 July, the ECB approved the Transmission Protection Instrument (TPI) for monetary policy, which provides for government bond purchases in the secondary market when it is deemed that there is an unwarranted deterioration in a country's financing conditions.

As regards the possible impact of these monetary policy measures on financial institutions' liquidity, the progressive reduction in TLTRO funding, due to early repayments or maturities, will entail a reduction in the high-quality liquid assets held by institutions for the short-term liquidity coverage ratio (LCR). In this regard, it should be noted that significant excess liquidity resulted in unusually high LCR coverage. In the Single Supervisory Mechanism as a whole, the reduction in liquidity may generate greater competition for re-sources and affect the conditions for obtaining funding in capital markets.

Moreover, interest rate rises could have opposing effects on the income statements of financial institutions. On the one hand, an improvement in net interest income is expected, since, in general, Spanish institutions are positively positioned in the face of interest rate rises because the rates on assets, as a whole, change earlier and to a greater extent than those on liabilities. On the other hand, the intensity and speed with which these rates have risen may lead to an economic slowdown that will ultimately affect the quality of loans and generate the need to increase loan-loss provisions.

Lastly, an additional risk that could affect institutions' income statements or their capital ratios is the possible increase in sovereign debt risk premiums if the recessionary environment and the increase in fiscal deficits generate a fragmentation of debt markets, despite the reduction of debt portfolios that may be affected by being valued at market prices and the existence of the aforementioned TPI agreed by the ECB, which tends to balance risk premiums in situations of stress.

the financial capacity of households and companies, with impairment in institutions' loan portfolios, a tightening of financial conditions and a certain contraction in credit, that are all the more significant the more persistent the uncertainties are. Therefore, it would be desirable for institutions to apply prudent policies in their capital planning and credit risk coverage, as discussed in Box 2.2.

## IMPROVING PROFITABILITY AS AN OPPORTUNITY TO STRENGTHEN RESILIENCE IN A CONTEXT OF HIGH UNCERTAINTY

In 2022, the Spanish banking sector showed a positive overall performance. Aggregate profitability in the sector recovered significantly following the health crisis, with return on equity (RoE) standing at around 10% for the second consecutive year, above the cost of capital. Net interest income improved in 2022 and, to a lesser extent, fee and commission income (noteworthy in both items is the contribution of foreign subsidiaries of Spanish banks), while recognised impairment losses remained moderate. Although the Common Equity Tier 1 (CET1) ratio fell around 46 basis points in 2022 to 13.1%, solvency ratios remained above pre-pandemic levels (the CET1 ratio stood at 12.8% at December 2019). The main quality indicators of Spanish banks' balance sheets performed positively, with the NPL ratio continuing to fall slightly in 2022.

However, the outlook for the banking sector for 2023 and beyond is shaped, in the shorter term, by the uncertainty associated with the macroeconomic and financial scenario, and, in the medium and long term, by the structural and business model changes facing Spanish institutions.

Although the latest economic forecasts point to upward revisions for growth and downward revisions for inflation, there are still huge uncertainties, in a context affected by geopolitical tensions, rising and persistently high inflation and a return to a tighter monetary policy intended to stabilise prices. If the economy develops in line with current forecasts, interest rate rises can be expected to have a positive effect on banking business in the short term, thanks to higher net interest income, and a possible

negative effect on loan loss provisions if the increased financial pressure on companies and households leads in the medium term to a deterioration in the debt repayment capacity. These effects could be particularly significant in macroeconomic scenarios that are more adverse than expected.

Moreover, the banking sector is facing other types of uncertainties that may generate additional impacts in the medium and long term, which in some cases are difficult to estimate. Among these risks are those associated with the growing digitalisation of the financial sector and with climate change, which may reduce institutions' organic capital generation capacity in the coming years.

Given these uncertainties, institutions should adopt a prudent stance and take advantage of the current increase in profitability to strengthen their resilience. In this respect, in addition to allocating resources to further the implementation of sound strategies to address the sector's structural challenges, they should also be extremely rigorous and prudent in their accounting policies, adapting their provisioning levels to future economic forecasts. Also, they should be cautious in their capital planning, defining sound internal solvency targets, with minimum thresholds based on available evidence with prospective effect. The return on capital (either through share buybacks or dividend distributions) should be analysed taking into account credible, bank-specific baseline and adverse scenarios that adequately reflect the potential impact of economic forecasts.

## 2.2 Supervisory priorities

**The SSM establishes a set of supervisory priorities for SIs with a medium-term horizon of three years,** reviewable annually, or more frequently if necessary, following a process that revolves around the identification of the risk sources and vulnerabilities specific to the banking sector, strengthening risk-based supervision, and the effectiveness and efficiency of supervisory activities. This materialises in a multi-year plan of supervisory activities.

**The Banco de España uses a similar process to set the supervisory priorities for LSIs on an annual basis.**

## 2.2.1 Supervisory priorities in 2023

**The pandemic crisis has given way to a new environment, characterised by geopolitical tensions, high inflation and rising interest rates**, increased public and private indebtedness, volatile asset valuations and potential deterioration of credit quality in a context of withdrawal of institutional support measures. There are increasing concerns about the possible deterioration of asset quality and the cost of bank funding, and the focal points identified the previous year need to be partially refocused.

**On the other hand, pre-existing challenges related to more structural aspects remain relevant**, including the development and implementation of digital transformation strategies, or challenges stemming from climate change.

The supervisory priorities identified for 2023-2025, both by the SSM for SIs (see this [link](#) for more details) and by the Banco de España for LSIs, share the three major objectives highlighted in Figure 2.2, with certain differences.

**The action priorities established by the SSM for the SIs are described below:**

### 1 Increase resilience to macro-financial and geopolitical shocks in the short term.

This priority consists of two major lines of action:

**Firstly, to continue to review credit risk.** The worsening economic conditions are likely to finally have a negative impact on companies and households, given the vulnerability of certain sectors to the current situation. This implies the need to continue strengthening credit risk management, as detailed in Box 2.5, in line with the priorities established in 2022.




**Secondly, funding risk will be reviewed for the first time as a supervisory priority.** The normalisation of monetary policy, after a period of abundant liquidity at low costs, implies higher funding costs and wider spreads in wholesale markets, as well as the gradual repayment of TLTRO funding (see Box 2.1). The priorities of the supervisory action plan include funding risk, with a greater focus on banks with more vulnerable funding structures or weaker liquidity and funding risk management practices. An examination of TLTRO repayment strategies and a horizontal analysis of liquidity and funding plans are planned.

In addition, the stress test to be conducted at EU level, coordinated by the EBA, will support this first objective of increasing resilience to shocks.



Figure 2.2

## SI SUPERVISORY PRIORITIES FOR 2023

	1 MACRO-FINANCIAL AND GEOPOLITICAL SHOCKS	Credit Risk	<ul style="list-style-type: none"> <li>Worsening economic conditions likely to finally have negative impact on companies and households</li> <li>Continue strengthening credit risk management, as detailed in Box 2.5</li> </ul>
		Financing Risk	<ul style="list-style-type: none"> <li>The normalisation of monetary policy implies higher funding costs and wider spreads in wholesale markets</li> <li>Greater focus on banks with more vulnerable funding structures or weaker liquidity and funding risk management practices</li> </ul>
	2 DIGITALISATION AND MANAGEMENT CAPABILITIES	Technology Risks and Digital Transition	<ul style="list-style-type: none"> <li>Digital transformation and greater reliance on new technologies and service providers have increased the complexity and interconnectedness of the financial and banking system</li> <li>Supervision will continue to interact with institutions through horizontal reviews and onsite inspections, with the aim of strengthening their IT security and cyber resilience frameworks, and their digital transformation strategies</li> </ul>
		Governing Bodies	<ul style="list-style-type: none"> <li>Effective governance is a key element in ensuring that the bank can address the growing challenges it faces</li> <li>Shortcomings in the functioning and composition of governing bodies and in the area of risk data aggregation and reporting will be specifically addressed</li> </ul>
	3 CLIMATE RISK	Climate and Environmental Risk Management	<ul style="list-style-type: none"> <li>The supervisory commitment is reinforced with improvements to climate and environmental risk management</li> <li>Analysis, with a long-term perspective, of institutions' progress in incorporating these risks into their business strategy, governance and risk management frameworks</li> </ul>

SOURCE: Banco de España.

## 2 Increase efforts to address institutions' structural vulnerabilities

This is a medium- and long-term priority which includes several aspects:

**Technological risks and the implications of digital transition will continue to be addressed.** Digital transformation and greater reliance on new technologies and technology service providers have increased the complexity and interconnectedness of the financial and banking system. In addition, recent geopolitical tensions make it necessary to exercise extreme caution and improve the monitoring of technological risks, especially cyber risks. In this context, supervision will continue to interact with institutions through horizontal reviews and onsite inspections, with the aim of strengthening their IT security and cyber resilience frameworks. Also, digitisation strategies and banking's adaptation to new consumer trends through digital channels and competition from new players will be closely monitored, with the aim of maintaining the sustainability of their business models in the future (see Box 2.3).

**SUSTAINABILITY OF THE BUSINESS MODEL. RISKS AND OPPORTUNITIES OF FINANCIAL DIGITALISATION**

The financial sector is undergoing a process of change that may affect banks' business model. Historically, institutions have faced structural difficulties, such as excess installed capacity and cost inefficiencies. On top of this there are other more recent challenges, such as digital transformation or sustainable finance. All of this in a highly competitive environment.

Institutions can adopt different strategies to tackle this new environment; however, in any case, they will need to adapt their processes and distribution channels to the new digital environment and changing customer preferences. Digitalisation, as it became clear during the pandemic, is no longer an option for institutions, but a necessity, and banks that lag behind in this area may find their medium-term viability compromised.

Investment in digitisation can offer institutions new opportunities and avenues for income growth, and serve as a driver to improve their efficiency. It will also allow them to keep pace with technological innovations applied to the financial sector, and thus be able to compete with other players, such as FinTech or large technology companies, where innovation makes a competitive difference.

However, there are also very significant risks and transition costs in the digital transformation process that banks will need to take into account when making their decisions. Also, institutions will need to analyse how these changes affect their customer segments, their business model and their risk management. Among other challenges, institutions need to step up controls to prevent and detect digital fraud, manage the risks associated with the increased volatility of deposits collected through non-traditional channels, adapt know-your-customer

procedures to the new environment, and strengthen the granting and monitoring of risks taken through digital channels, where there is limited interaction with the institution's interlocutors. In parallel, institutions should have solutions adapted to customers who are not fluent in the digital environment.

The banking supervisor is not oblivious to these changes and is stepping up its efforts to be on a par with the initiatives that institutions are adopting and to encourage them to make appropriate decisions in this strategic area. Supervisors need to assess the robustness, profitability and long-term sustainability of institutions' digitisation strategies to ensure that they have the appropriate mechanisms in place (e.g. governance, resources, capabilities, risk management, etc.), but without interfering with management.

To this end, in 2022 a series of surveys were conducted at institutions on their digitalisation strategies and a peer comparison was carried out. Specific monitoring and on-site inspections were also conducted.

In short, banks need to deal decisively and effectively with the profound structural changes that the sector is undergoing. There is a lot of work to be done, with certain matters to be addressed in the short term (e.g. cost rationalisation) and others in the medium term (such as digital strategy). In any case, institutions need to make the necessary assessment of opportunities and risks in order to undertake a sound digital transformation and have the appropriate mechanisms and instruments in place to make their business models sustainable in the long term. The supervisor, in turn, will need to monitor this process closely and, therefore, digital transformation is a supervisory priority in the coming years.

**The focus will continue to be on shortcomings in the functioning, supervision and composition of governing bodies.** Effective governance is a key element in ensuring that the institution can address the growing challenges it faces. As part of the governance review, persistent shortcomings identified in the area of risk data aggregation and risk reporting will be specifically addressed.

### 3 Continue to adapt the business strategy and risk management framework to climate risk.

In line with the previous year, the supervisory commitment is reinforced with improvements to climate and environmental risk management.

With these new priorities, in general, certain supervisory focal points that guided the 2022 activities lose relative importance, including most notably the review of sensitivity to interest rate and credit spread risk, and counterparty risk, allowing for an efficient use of available resources. In any case, these activities form part of the recurring reviews, and shortcomings identified by the Joint Supervisory Teams (JSTs) will be monitored.

**Bearing in mind the SSM risks and priorities, the Banco de España identified the risks particularly affecting Spanish LSIs.** On this basis, the following priority areas were established:

- **Credit risk:** particular attention to the identification of shortcomings in granting, monitoring, accounting classification and loan-loss provisioning policy, and to possible concentration of risk in vulnerable sectors.
- **Business model and profitability:** focused on the analysis of its medium-term sustainability and the institution's preparedness to adapt to technological change (digitalisation of business).
- **Operational risk and, in particular, technology risk:** cross-institutional analysis of institutions' responses to the information technology risk questionnaire submitted in 2022 and on the outsourcing of critical functions, to assess: i) the capacity of the institution's IT systems to generate quality management information intended for its persons in positions of responsibility and to provide reliable and timely statement reporting to the supervisor; ii) the adaptation of systems to identify, assess, manage and mitigate their exposure to undesirable events (attacks, critical business disruptions, etc.); and iii) the management of the outsourcing of critical functions (see Box 2.4 on the importance of third-party risk management).
- **Governance:** monitoring the remedying of the shortcomings identified in the horizontal review carried out in 2021 and the implications of the entry into force on 31 December 2021 of the Guidelines on internal governance (EBA/GL/2021/05) and on sound remuneration policies (EBA/GL/2021/04).
- **Capital planning:** proactive monitoring of compliance with the institution's forecasts and budgets, in particular any projections made in its capital planning during 2022, and checking that the assumptions and hypotheses used are updated as frequently as necessary.

## THE IMPORTANCE OF TECHNOLOGY PROVIDER RISK MANAGEMENT IN THE FINANCIAL SECTOR

It is a fact that financial institutions around the world rely on external providers for the delivery of their services. The agreements with these third parties are often complex and may involve various providers located in different jurisdictions. This trend was augmented by the COVID-19 pandemic, which forced institutions to quickly adopt technology services provided by third parties in order to continue offering their services to customers. This increased institutions' exposure surface and thus the operational risk they face.

Moreover, it is common for external technology service providers to offer their services through an outsourcing chain, where at each link a different third party provides one part of the service. The complexity of these provider chains makes management difficult and reduces the risk mitigation capacity of both institutions and supervisory or resolution authorities, as it is extremely difficult to identify all the participants involved and, therefore, very difficult to properly assess the potential impact of an incident or the disruption of the service provided by one of them, not only on a given institution, but on the financial sector as a whole.

In recent years the various European authorities, concerned about these risks, have issued regulations to mitigate the risk of outsourcing —European Banking Authority (EBA) Guidelines EBA/GL/2019/02 on outsourcing arrangements and Banco de España Circulars 2/2016 and 3/2022, among others— which both institutions and providers have been incorporating into their arrangements. Given their significance for enabling institutions to adequately manage risks, all three regulations establish various requirements for outsourcing agreements, especially for those that refer to critical services or functions, such as including access and audit right clauses for the institution and for the supervisor or termination and exit clauses. Consequently, the assessment of these arrangements on critical services or functions has been incorporated into institutions' microprudential supervision.

However, supervisory authorities and regulators see a need to broaden the regulatory scope to include all third-party

relationships and, in particular, to focus on the oversight of critical service providers to the financial sector. This is illustrated by the initiatives of the European Supervisory Authorities —EBA, European Securities and Markets Authority and European Insurance and Occupational Pensions Authority— to compile technological third-party registers, or the Financial Stability Board's public consultation on issues relating to outsourcing and third-party relationships, which, among other aspects, highlights the need to establish a common terminology (lexicon) with global consistent definitions.

In addition, the forthcoming implementation of the Digital Operational Resilience Act (DORA) will establish additional requirements for institutions and a framework for the oversight of critical technology providers for the entire European financial sector.

Why are we so concerned about the potential risk posed by these external technology service providers? The answer is immediate: in addition to the risks associated with this dependence, there is the threat posed by supply chain attacks, which have proliferated in recent years, usually targeting suppliers and software developers, with the aim of reaching a company through its third-party relationships. The number of potential victims in such an attack can be significant, sometimes affecting thousands of companies.

These attacks are harder to detect if suppliers do not implement a proactive security approach, with adequate security policies and detection and response tools that make it possible to identify and act upon suspicious activity. Also, it is important that suppliers have in place an incident response procedure for supply chain attacks, and that this ensures that institutions and their customers are notified, where appropriate, with accurate and timely information.

In conclusion, in order to determine an institutions' level of exposure it is essential to identify, supervise and manage the risks arising from the relationships with its external technology service providers.

- **Environmental, social and climate change risks:** analysis, with a long-term perspective, of institutions' progress in incorporating these risks into their business strategy, governance and risk management frameworks. Assessment of their capacity to mitigate and report these risks and comply with regulatory requirements.

## 2.2.2 Supervisory focal points in 2022

**The identification of risks for 2022 was based on an economic environment of recovery following the pandemic, albeit still with several uncertainties.** Euro area gross domestic product (GDP) was expected to recover to near pre-pandemic levels, which was confirmed in early 2022, although a number of vulnerabilities were identified related to the health crisis and its potential impact on credit quality in the face of the withdrawal of support measures, rising public and private debt, and market valuations and volatilities.

**In this environment, three major objectives were established that guided supervisory activity for the SSM as a whole in 2022, with the logical adaptations in view of developments in the geopolitical and macroeconomic environment, which have generated negative effects in terms of inflation and interest rate rises.**

**To promote the post-pandemic strengthening of institutions, actions were carried out in the area of credit risk,** including reviews of shortcomings in credit risk management, of more pandemic-sensitive exposures such as the commercial real estate sector, and of compliance with International Financial Reporting Standard 9 on financial instruments. In addition, the focus was placed on exposures to leveraged finance and reviews were carried out of interest rate and credit spread management in both the trading book and the banking book.

**In order to address structural weaknesses through effective digital transformation strategies and improvements in governance,** two types of actions were carried out: i) a study of the digital transformation strategies of all SSM institutions, to gain insight into the situation of each institution and to improve the focus of the work performed; and ii) specific inspections of management bodies, seeking to assess their effectiveness.

**Lastly, to address emerging risks, actions were carried out on three fronts: climate risk, counterparty risk and operational risk.** In order for banks to develop strategies mitigating the long-term impact of climate risk, horizontal supervisory activities (including a climate stress test) were carried out, which served to gain experience both for the banks and for the supervisor. Moreover, there were reviews of governance and counterparty risk management vis-à-vis non-bank financial institutions, as well as supervisory activities focusing on the outsourcing of critical functions and security against cyber attacks.

**Following a similar process, the Banco de España identified the key risks affecting Spanish LSIs and focused its work in 2022 on the following elements:**

## CREDIT RISK UNDER SUPERVISORY SCRUTINY, IN A CONTEXT OF UNFAVOURABLE MACROECONOMIC EXPECTATIONS AND GEOPOLITICAL TENSIONS

Euro-area credit institutions' operations have been disrupted by the macro-financial consequences of Russia's invasion of Ukraine. The significant rise in energy and other commodity prices has, in the first instance, fuelled an escalation in the prices of other consumer products, including notably a number of market basket goods (especially foodstuffs), thus generating an increase in inflation to unexpected levels, followed by a rapid rise in interest rates in response by the major central banks. All this implies a deterioration in the growth outlook for the euro area and increased uncertainty in financial markets and, as a consequence, heightened risks for the European financial sector.

Against this background, the European Central Bank (ECB), the European Banking Authority and the Banco de España have set as a supervisory priority for the 2023-2025 period that credit institutions "strengthen their resilience to immediate macro-financial and geopolitical shocks", fearing that higher funding costs and lower disposable incomes of companies and households could lead to a deterioration in loan quality.

Non-performing loans of all European significant institutions (SIs) under ECB supervision continued to fall to 2.3%<sup>1</sup> on average in the third quarter of 2022. This reduction was also observed in the Spanish banking system, resulting in NPLs of 3.2%<sup>2</sup> for the total Spanish banking system at that date.

However, there are early warning indicators that could point to a deterioration in loan quality—for example, the ratio of loans of SIs under ECB supervision classified as stage 2 stood at around 9.8% in the third quarter of 2022.

This potential deterioration would affect both households and companies, albeit to a different extent, depending on

their level of indebtedness and their exposure to the current macroeconomic shocks. In companies, the impact is expected to be greater in sectors related to the production and processing of raw materials, and in energy-intensive sectors, e.g. agriculture and transport. In the real estate sector, less impact is expected in the residential segment than in the commercial segment.

In this context, a strategic objective has been set whereby both SIs and LSIs remedy any shortcomings they may have in credit risk management, with a focus on exposures to vulnerable sectors. This includes potential structural weaknesses in the entire credit risk management cycle, from loan origination to risk mitigation and monitoring, including accounting classification and provisioning. In this way, banks should be able to quickly identify and mitigate any increase in risk in their exposures to sectors that are more sensitive to the current macroeconomic environment, especially those affected by the war in Ukraine and real estate portfolios.

The supervisor's work programme on this priority will focus on the sectors most affected by the consequences of the war in Ukraine and by the macroeconomic environment. Some of the main activities planned in the work programme for 2023-2025 are: (i) specific reviews of loan origination and monitoring (with a particular focus on residential real estate portfolios); (ii) specific reviews of International Financial Reporting Standard on financial instruments (IFRS-9) on supervisory expectations included in the 2020 "Letter to the CEO" and its modelling (including overlays); (iii) exhaustive analyses of the refinancing and restructuring practices set out in the aforementioned letter; (iv) on-site inspection campaigns on IFRS-9 and commercial real estate; and (v) monitoring of leveraged finance.

<sup>1</sup> NPL ratio calculated without including demand deposits placed with central banks in the denominator.

<sup>2</sup> NPL ratio calculated without including demand deposits placed with central banks in the denominator. If they had been included, the ratio would be 2.63%, as shown in Chart 2.3.

- i) **Credit risk management.** Both the potential increase in credit risk and the incorporation of the necessary loan-loss provisions.
- ii) **Business model and sustainability.** A horizontal business model review was carried out for 41 LSIs with business models focused on the retail activity.



- iii) **Governance.** Continuing the analysis of the results of the 2021 cross-institutional review of credit cooperatives, focussed on the composition, size and functioning of decision-making bodies and committees, and of control functions, in addition to the results of the ECB's analysis of a sample of institutions.
- iv) **Capital strength.** Monitoring the quality of capital, capital concentration in cooperatives (in order to detect whether there are members with high percentages of capital), and dividend policies.
- v) **Technological innovation.** Work on detecting and resolving cyber attacks and the outsourcing of critical functions.
- vi) **Risks linked to climate change.** We analysed the questionnaires submitted by institutions in the first quarter of 2022, updated with a new request for information in October, and participated in a horizontal analysis by the ECB on a sample of institutions.

## 2.3 Supervision of credit institutions

Since the launch of the SSM in 2014, the ECB has been leading the microprudential supervision of credit institutions in participating countries, acting in cooperation with the national competent authorities (NCAs).

To perform this function, the ECB classifies institutions as SIs or LSIs. The ECB is responsible for the direct supervision of SIs and carries out indirect supervision of LSIs, the direct supervision of which corresponds to the Banco de España.

Figure 2.3 describes the distribution of the main supervisory tasks in the SSM.

At the end of 2022 there were 10 significant groups in Spain (out of a total of 115 groups in the SSM), which accounted for 90.5% of the total assets of the Spanish banking system. Also, there were 56 Spanish LSIs, which accounted for 5.5% of the total assets of the Spanish banking system, as detailed in Table 2.1.

In addition, Table 2.2 classifies the individual institutions operating in Spain by institution type in 2022 and 2021.

**The supervision of SIs and LSIs is mainly performed through two complementary channels: ongoing (off-site) supervision and on-site supervision.**

**The objective of ongoing supervision is to keep the institutions' risk profile up to date.** In this regard, the Supervisory Review and Evaluation Process (SREP) is

Figure 2.3

**DISTRIBUTION OF CREDIT INSTITUTIONS' MICROPRUDENTIAL SUPERVISORY POWERS**

	Tasks assigned to the ECB within the SSM	Tasks assigned to the NACs within the SSM
Supervision of SIs	Direct supervision of SIs	Support to the ECB for supervision of SIs: participation in JSTs and in on-site missions
Supervision of LSIs	Indirect supervision of SIs	Direct supervision of LSIs
Common procedures	Common procedures are the responsibility of the ECB, with proposals from the NACs: authorisation for credit institutions and the withdrawal of such authorisation, and authorisations for the acquisition/sale of qualifying holdings in a credit institution	Preparation of the proposal for SIs and LSIs
Penalties	<p>SIs: sanctioning powers in the event of non-compliance with directly applicable EU law, except for non-financial penalties and penalties for natural persons</p> <p>LSIs: sanctioning powers in the event of non-compliance with an ECB decision or regulation</p>	<p>SIs: sanctioning powers, after instruction from the ECB, for non-compliance with national legislation transposing EU directives; for infringements attributable to its directors and executives; and for the purpose of imposing non-financial penalties</p> <p>LSIs: sanctioning powers for other cases of non-compliance, in some cases after instruction</p>

SOURCE: Banco de España.

Table 2.1

**BANKS OPERATING IN SPAIN**

	2021		2022	
	Number of groups	% of assets	Number of groups	% of assets
Spanish SIs	10	90.2	10	90.5
Other SSM SIs in Spain via subsidiary/branch	26	3.6	29	3.6
Spanish LSIs	57	5.7	56	5.5
Branches of other SSM LSIs	40	0.3	38	0.3
Branches of non-EU banking groups	4	0.2	4	0.2
<b>TOTAL</b>	<b>137</b>	<b>100.0</b>	<b>137</b>	<b>100.0</b>

SOURCE: Banco de España.

carried out annually with a single methodology and harmonised tools that allow for a comprehensive evaluation of institutions.

**On-site supervision includes inspections and internal model investigations.**

While the former allow for an in-depth analysis of any risk that may affect institutions, the latter relate to the review and, where appropriate, authorisation of the internal models for calculating the capital requirements necessary to cover credit, counterparty, market and operational risks.

Table 2.2

**REGISTER OF CREDIT INSTITUTIONS**

Data at 31 December

	2021	2022
Credit institutions	195	194
Banks	48	48
Savings banks	2	2
Credit cooperatives	61	61
ICO	1	1
Branches of EU credit institutions	79	78
Branches of non-EU credit institutions	4	4
Financial holding companies		3
Mixed financial holding companies		1
<b>TOTAL</b>	<b>195</b>	<b>198</b>

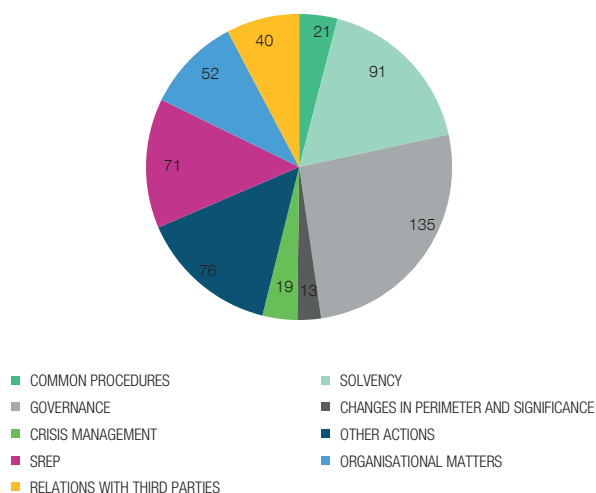
**SOURCE:** Banco de España.

Chart 2.7

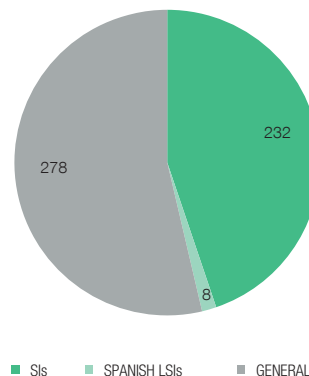
**DISTRIBUTION OF THE ECB DECISIONS AND ACTIONS IN 2022 NOTIFIED TO THE EXECUTIVE COMMISSION**

In 2022, there was a slight increase in SREP decisions and there was also an increase in governance decisions, whereas there was a decrease in solvency decisions.

1 BY CATEGORY



2 BY TYPE OF INSTITUTION

**SOURCE:** Banco de España.

**The Banco de España makes an essential contribution to the supervision of Spanish SIs**, both through its presence in the JSTs, which are responsible for ongoing supervision, and through its participation in on-site inspections and in model investigations.

**A key element is the SSM working groups and expert networks in which the Banco de España actively participates.** These groups analyse and develop

technical and supervisory policy proposals with a view to improving the functioning of the SSM.

**Also, the Banco de España participates in decision-making regarding all credit institutions under SSM supervision through the presence of the Deputy Governor and the Governor on the ECB Supervisory Board and Governing Council, respectively.** In 2022, the Supervisory Board adopted a total of 2,362 decisions, of which 518 affected Spanish institutions, as shown in Chart 2.7.

## 2.3.1 Ongoing supervision

### 2.3.1.1 Ongoing supervision of significant institutions

**The JSTs are responsible for the ongoing supervision of SIs.** The Banco de España participates in the JSTs for the 10 groups of Spanish credit institutions classified as significant pursuant to the SSM's criteria, and likewise in 6 JSTs for 28 significant banking groups from SSM countries that have a presence in Spain (through 5 subsidiaries and 42 branches). At the end of 2022, the Banco de España contributed a total of 136 employees to the JSTs of Spanish banks.

**The objective of ongoing supervision is to maintain an up-to-date opinion on institutions' risk profile and situation.** To this end, supervisory tasks are planned annually, and their frequency and intensity are determined by the institutions' importance and profile.

**The ongoing supervisory tasks include most notably those related to the SREP,** applying EBA guidelines (EBA/GL/2014/13) and SSM supervisory manuals.

**The SREP findings provide a snapshot of the situation of each bank with respect to risk, capital and liquidity, and also a suitability assessment of their governance and their risk management and controls.** This annual analysis process helps to determine the supervisory intensity for each institution, as part of the next Supervisory Examination Programme, and to set the additional supervisory capital requirement (P2R) and supervisory capital guidance (P2G) for each institution for the following year.

**The P2R is a specific requirement intended to cover risks that are underestimated or not covered by the minimum capital requirement** (known as Pillar 1). The P2R is binding, any breaches can have legal consequences, and it is a very important figure for the market. Since 2021, the P2R has included coverage shortfalls in non-performing exposures, determined in line with supervisory expectations, to the extent that these have not been deducted from capital.

Already in 2019 the ECB recommended institutions to publish the quantity and composition of their P2R, and since 28 January 2020 the ECB has published the specific P2R of each institution under its supervision. As a result of the 2022 supervisory exercise, the P2R levels required in 2023 of Spanish SIs, which incorporate, if appropriate, the aforementioned coverage shortfalls in non-performing exposures based on ECB expectations, have remained practically stable in aggregate terms, increasing at only three institutions.

**Supervisory work also leads to the setting of the P2G, a bank-specific guideline reflecting the level of capital that the ECB expects it to hold.** The P2G is not legally binding, it acts as an additional buffer to ensure that banks withstand a stressed period, and is determined by applying the supervisory methodology, based on the Capital Requirements Directive (CRD-V) and EBA inputs, on the basis of the results of regular stress tests, which examine the impact of an economic shock on banks' capital.

**In 2022, the P2G quantified for each bank in 2021 was generally maintained,** following the supervisory practice of conducting a comprehensive analysis of the overall impact of a stress scenario on banks every two years and dedicating the intervening year to conducting a stress test focused on a specific risk (in 2022 the stress test was focused on climate and environmental risks —see section 2.3.3). In the last overall stress test, conducted in 2021, the average reduction in the CET-1 ratio of Spanish SIs was 3.1 pp, as compared with 5.2 pp for all SSM SIs.

**In addition, as a result of the SREP, requirements and qualitative recommendations can be made to institutions regarding a variety of areas for improvement.** In 2022, these requirements and recommendations were broad in scope and included most notably those related to credit risk, governance and capital. In credit risk, the most widespread recommendation refers to coverage shortfalls in non-performing exposures, while in governance, the specific case of each institution gave rise to a very varied set of recommendations.

**The capital and liquidity decisions resulting from the SREP, which were approved by the SSM decision-making bodies, were formally communicated to institutions before the end of 2022, following the period to make representations,** became effective on 1 January 2023 and will remain in force until the next capital and liquidity decision, which is expected to be communicated at the end of 2023. Also, the ECB expects institutions to remain prudent in their dividend distribution and share buyback decisions and remuneration policies, and assesses these decisions in the context of the supervisory dialogue with each institution.

**Dialogue between the supervisor and the supervised institution is a cornerstone of ongoing supervision.** It is essential for conveying weaknesses detected, the assessment of the institution, and supervisory priorities and expectations, for

fostering the exchange of opinions, and for engaging in dialogue on the main areas of attention. JSTs maintain fluid contact with institutions, at different levels of the hierarchy, including the Board of Directors and senior management.

**Moreover, the JSTs conduct institution-specific in-depth reviews (deep dives)** to analyse the areas that may be of greater supervisory concern or to obtain more in-depth knowledge of specific aspects and verify the functioning of certain policies or procedures. In 2022, 14 deep dives to Spanish SIs were conducted, the main areas analysed being lending, business and governance.

**Also, the JSTs participate in cross-institutional reviews, which are conducted uniformly for all or several SSM institutions** in areas that represent a priority from a supervisory point of view. Worthy of note in 2022 are the following:

- Analysis of the degree of implementation of the EBA guidelines on loan origination and monitoring, which establish supervisory expectations on policies and procedures for loan origination and monitoring, collateral applications and pricing.
- Performance of two specific credit risk reviews. The first review was to assess risk management practices in commercial real estate financing (including, inter alia, climate risk). The second was to analyse the degree of alignment with the ECB's expectations regarding leveraged finance operations.
- Analysis of the impact of the conflict between Russia and Ukraine, focussed on three aspects: i) classification and provisions; ii) vulnerable sectors; and iii) internal ratings-based (IRB) models.
- In the area of structural risks, two specific reviews were performed in relation to the governance and management of counterparty risk, on the one hand, and interest rate exposure and credit risk spreads, on the other.
- Review, through a questionnaire, of banks' digitalisation strategy and the use of new technologies in their business model, as a preliminary step to the thematic review planned for 2023.
- Thematic review on climate risk with the objective of analysing the degree of alignment of institutions' practices with the ECB's Guide on climate risk (see Box 2.6). A stress test was also conducted to assess institutions' internal climate stress test frameworks.
- Review of recovery plans, including most notably the assessment of overall recovery capacity, which provides an overview of the extent to which the institution could restore its financial situation after a significant deterioration.



Since the publication in November 2020 of its Guide on climate-related and environmental risks<sup>1</sup>, the European Central Bank (ECB) has been analysing institutions' situation with regard to the management of these risks. In the first half of 2021, the ECB requested 112 significant institutions (SIs) to conduct a self-assessment exercise on the alignment of their banking practices with the supervisory expectations set out in the guide, and to submit their implementation plans to improve this alignment.

In 2022, as a follow-up to this exercise and in cooperation with eight national competent authorities, including the Banco de España, the ECB conducted a thematic review. The objective of this review was to check whether institutions adequately identify and manage climate-related and environmental risks, and to analyse their governance strategies and frameworks.

The thematic review was conducted on a total of 186 institutions (107 SIs, including the 10 Spanish SIs, and 79 LSIs, including 4 Spanish LSIs). The main conclusions of this exercise were published in a report in November 2022<sup>2</sup> and included most notably the following:

- The institutions showed significant progress with respect to the situation in 2021. A high percentage of institutions consider that climate risk has a material impact on their risk profile and business strategy.
- The vast majority of institutions have at least basic practices in place for half of the expectations, and some of them have started to use their transition plans to improve the resilience of their business models over longer time horizons..
- Certain institutions have already started work to address environmental risks in a broader sense (biodiversity loss, increased pollution, etc.).
- On the contrary, institutions generally lack sophisticated methodologies and granular information on climate and environmental risks. Also, the ECB

expresses concern about institutions' implementation capacity, as around half of them have designed practices but have not implemented them effectively.

In short, the thematic review has shown that, despite the progress made, institutions are still far from adequately managing climate and environmental risks. The ECB communicated the results of its assessment to the institutions individually, describing the main shortcomings identified and setting specific deadlines for remedying them, compliance with which will be closely monitored. In general, institutions should achieve, at least, the following milestones:

- As a first step, the ECB expects institutions to adequately classify climate-related and environmental risks and to carry out a complete assessment of the impact of these risks on their activities by March 2023 at the latest.
- In a second step, by the end of 2023 at the latest, the ECB expects institutions to include these risks in their governance, strategy and risk management.
- As a final step, institutions are expected to meet all other supervisory expectations by the end of 2024, including full integration into the internal capital adequacy assessment process and stress tests.

As a result of this thematic review, the ECB imposed qualitative requirements on several institutions in the supervisory review and evaluation process (SREP).

Together with the conclusions report, in November 2022 the ECB published a compendium of observed good practices<sup>3</sup>, with the aim of guiding institutions to come progressively into line with supervisory expectations.

In addition, in 2022 the ECB undertook the following supervisory actions focused on climate and environmental risks: i) a stress test, intended as a learning exercise to assess institutions' preparedness for tackling climate risks; ii) a specific review of commercial real estate loan portfolios; iii) on-site inspections of a small sample of

1 "ECB Guide on climate-related and environmental risks", published by the ECB in November 2020. <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks-58213f6564.en.pdf>

2 "Results of the 2022 Thematic Review on climate-related and environmental risks", published by the ECB in November 2022. <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.thematicreviewcerreport112022-2eb322a79c.en.pdf>

3 "Good practices for climate-related and environmental risk management", published by the ECB in November 2022. <https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.thematicreviewcercompendiumgoodpractices112022-b474fb8ed0.en.pdf>

significant institutions; and iv) a gap analysis of institutions' disclosures on these risks<sup>4</sup>. In turn, at the end of 2022 the Banco de España started the process of

assessing the degree of progress of less significant institutions in coming into line with the supervisory expectations issued by the Banco de España in 2020<sup>5</sup>.

- 
- 4 "Supervisory assessment of institutions' climate-related and environmental risks disclosures", published by the ECB in March 2022. [https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.ECB\\_Report\\_on\\_climate\\_and\\_environmental\\_disclosures\\_202203~4ae33f2a70.en.pdf?2e88c1605db8adf0b748ad4aeb8721d7](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.ECB_Report_on_climate_and_environmental_disclosures_202203~4ae33f2a70.en.pdf?2e88c1605db8adf0b748ad4aeb8721d7)
- 5 "Banco de España supervisory expectations relating to the risks posed by climate change and environmental degradation", published by the Banco de España in October 2020. [https://www.bde.es/f/webbde/INF/MenuVertical/Supervision/Normativa\\_y\\_criterios/Recomendaciones\\_BdE/Expectativas\\_supervisoras\\_sobre\\_riesgo\\_medioambiental\\_27102020.pdf](https://www.bde.es/f/webbde/INF/MenuVertical/Supervision/Normativa_y_criterios/Recomendaciones_BdE/Expectativas_supervisoras_sobre_riesgo_medioambiental_27102020.pdf)

For Spanish SIs, 24 cross-institutional reviews were carried out in 2022<sup>1</sup>.

**Another significant area of activity is the collaboration of JSTs in on-site activities** (described in detail in section 2.2.3), through the preparation and definition of the objectives of each visit, the drafting of the letter sent to the institution, the monitoring of the shortcomings identified and the implementation of the measures to resolve them, and even through the integration of some members of the JSTs in the inspection teams, in order to share knowledge about the entity.

In addition, there are other tasks included in the area of ongoing supervision, such as:

- The processing of authorisations, including most notably those related to merger processes, acquisition of qualifying holdings and senior officer suitability assessment procedures.
- Coordination with other supervisors, mainly through supervisory colleges. Specifically, in the case of Spanish SIs with a presence in non-SSM countries, the JSTs participate in supervisory colleges (chaired by the ECB and with the Banco de España as observer), collaborating and sharing information with other supervisory authorities, with which the JSTs also hold regular bilateral meetings, thus maintaining fluid communication among them. In 2022, two Spanish SI supervisory colleges were held in Madrid.

With data up to 15 September 2022, 595 activities were planned by the JSTs for Spanish SIs, which were largely performed within the SREP framework, including, inter alia, analysis of institutions' capital planning process, ongoing risk analysis,

---

<sup>1</sup> For the purpose of calculating the total number of reviews, a review is considered to be the analysis of one of the above matters for an institution.

supervisory dialogue, horizontal reviews, monitoring of internal models and activities related to the crisis management framework. All of the above with attention to the principle of proportionality and guided by the supervisory priorities set for 2022. In the last quarter of the year, supervisory activity continued as normal and around 200 further actions were added. The outcome of supervisory activities is communicated to the institutions concerned in capital and liquidity decision letters as a result of the SREP and in specific letters known as operational acts. In 2022, 22 operational acts were sent.

### 2.3.1.2 Ongoing supervision of less significant institutions, non-EU branches and the Official Credit Institute

**The Banco de España is responsible for the direct supervision of Spanish LSIs, while the ECB is responsible for their indirect supervision.** There are 67 individual institutions which, as shown in Table 2.1, are grouped into 56 institutions or groups. The Banco de España likewise performs supervisory functions on the branches in Spain of LSIs from other SSM countries and the rest of the EU, along with the branches of non-EU credit institutions. All these institutions account for 6% of the Spanish banking system's assets (Chart 2.8 shows the breakdown of these assets by type of institution). The Banco de España also supervises the ICO.

**The action plan, which details the following year's supervisory activities, is prepared on the basis of the supervisory priorities.** As part of ongoing supervision, each institution's progress is monitored periodically. The monitoring may vary in depth and is conducted in accordance with the principle of proportionality, considering factors such as each institution's risk profile, size, volume of retail deposits and business model.

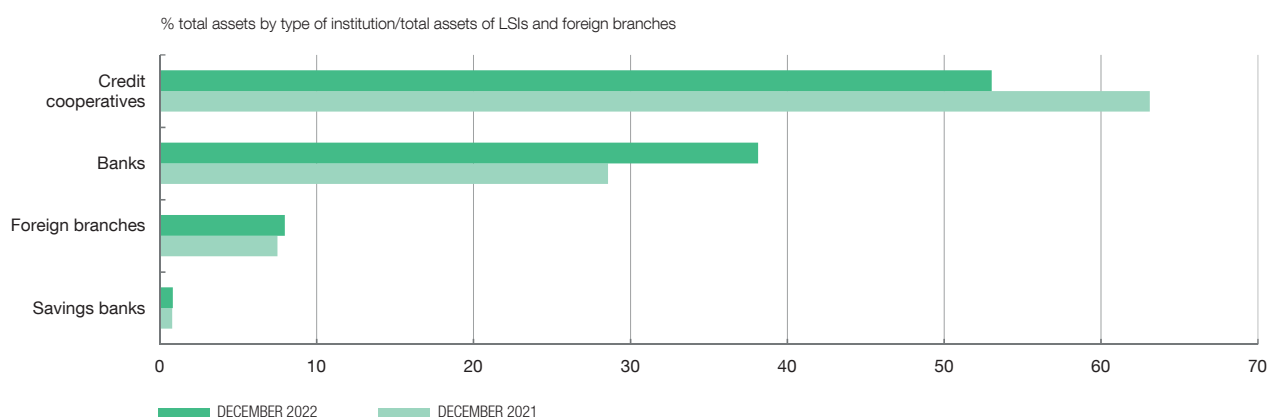
**In 2022, regular quarterly monitoring was carried out of the 56 Spanish LSIs or groups of LSIs to which the SREP is applied,** corresponding to 35 credit cooperatives, 19 banks and 2 savings banks. Various indicators and alerts are used for monitoring. Specifically, the following are used: indicators developed internally on the basis of confidential information, indicators defined by the ECB to identify situations of financial deterioration, other indicators related to the SREP methodology that identify possible changes in the rating of the items analysed in this process and, lastly, indicators that institutions include in their recovery plans. The ultimate objective of regular monitoring is to detect potential future problems relating to liquidity, solvency or business model sustainability.

**Supervisory monitoring efforts were focused on the supervisory priorities set for 2022** and, to this end, the supervisor requests institutions to submit regular and ad hoc information. Likewise, ongoing contact with institutions is maintained through numerous meetings.

Chart 2.8

**WEIGHT OF THE VARIOUS TYPES OF LSIs AND NON-EU BRANCHES**

In absolute terms, the assets of LSIs and foreign branches taken as a whole decreased by 4%. As regards the distribution of these assets among the various types of institutions, credit cooperatives lose relative weight, especially as compared with banks.



SOURCE: Banco de España.

**In addition, in 2022 the following horizontal reviews were carried out:**

- A horizontal review of the business model of 41 retail LSIs. The main weaknesses identified are set out in section 2.3.4.
- The update of notifications of the delegation of critical functions or services (commonly known as outsourcing) in the framework of the Banco de España Circular 2/2016 and the EBA Guidelines on outsourcing arrangements (EBA/GL/2019/02). These guidelines further specify the definition of critical functions or services, which had hitherto been unclear. According to the guidelines, institutions should review and amend accordingly outsourcing arrangements of critical functions with a view to ensuring that these are compliant with these guidelines before 31 December 2021. As a result of this action, 63 LSIs were notified that they should update certain unreported outsourcing arrangements for critical functions.
- A technology risk assessment based on the responses to an information technology risk questionnaire, developed by the ECB and based on the EBA Guidelines on ICT Risk Assessment under the SREP (EBA/GL/2017/05), applicable from January 2018. The outcome of this assessment has been incorporated into the analysis of technology risk, within operational risk, of the 2022 SREP.
- The analysis of the responses to a second climate risk questionnaire (the first was sent in 2021) in order to assess the solidity, exhaustiveness and

effectiveness of practices in relation to climate and environmental risks, as well as the degree of progress made in meeting the Banco de España's supervisory expectations regarding the risks arising from climate change and environmental deterioration.

**In addition, other tasks as part of ongoing supervision** include reviews of external audit reports, reviews of internal capital and liquidity adequacy assessment reports, review of recovery and resolution plans, meetings with the external auditor and regular meetings with persons in positions of responsibility at the institutions.

**As is the case for SIs, the SREP is one of the central tasks of ongoing off-site supervision.** The SREP process follows the SREP methodology for LSIs approved by the ECB and it incorporates all the information obtained in the various ongoing supervision activities. Once the related 2022 SREPs had concluded and the institutions' representations had been considered, the Banco de España adopted the capital and liquidity decisions, including the P2R, for the 56 LSI institutions and groups. Following the 2022 supervisory exercise, the average P2R required in 2023 for LSIs has increased slightly.

**P2G guidance which, as a new development, was set for the first time in 2021 to be applied in 2022, has remained unchanged and will be updated again in the 2023 SREP.** To this end, the results of the stress test known as the Forward-Looking Exercise on Spanish Banks (FLESB) (see section 2.3.3), together with the quantitative results of the stress tests performed by the institution within its internal capital and liquidity adequacy assessment report, will be taken into account.

In addition, the annual letter sent to institutions contains other requirements and recommendations arising from the supervisory process carried out during the year. The weaknesses identified are discussed in section 2.3.4.

**Also, attention continued to be paid to dividend distribution and share buy-back decisions and to remuneration policies.**

The Banco de España has continued to cooperate with another NCA in the context of a supervisory college of an LSI in other SSM countries with subsidiaries in Spain. It contributed to joint decisions at the supervisory college on capital and liquidity requirements. Also, in its capacity as supervisor of LSIs, the Banco de España has participated in four<sup>2</sup> supervisory colleges of foreign central counterparties<sup>3</sup>.

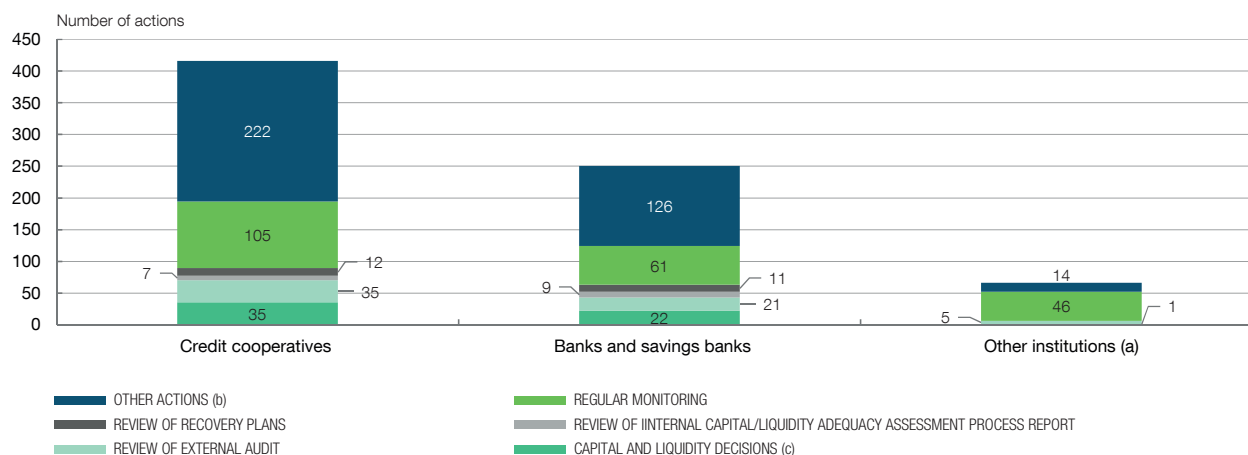
<sup>2</sup> It participated in three in its quality as member and in one as observer.

<sup>3</sup> In accordance with Article 18(2)(c) of Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (commonly known as EMIR), the Banco de España participates as the competent authority responsible for the supervision of clearing members established in one of the three Member States with the largest contributions to the default fund.

Chart 2.9

**NUMBER OF ONGOING OFF-SITE SUPERVISORY ACTIONS AT LSIs, NON-EU BRANCHES AND THE ICO**

In 2022, the usual reviews continued, as well as a cross-institutional review of the business model, technology risk and climate risk, and a review of outsourcing.



SOURCE: Banco de España.

a "Other institutions" include foreign branches and the ICO.

b "Other actions" includes meetings with institutions, monitoring of requirements and recommendations, and ad hoc monitoring generally relating to the supervisory priorities defined in the year and to each institution's characteristics, risk profile and performance.

c There were 58 capital and liquidity decisions in total, corresponding to the 56 LSI institutions or groups (in one case, a decision was issued for a subsidiary of an LSI group in addition to the group itself) and to the ICO.

In 2022, the assessment of the recovery plans of 46 LSIs submitted in the last quarter of 2021 was completed.

Lastly, the list of institutions considered to be small and non-complex institutions (SNCIs) is updated on an annual basis<sup>4</sup>. According to the latest assessment performed in 2022, 40 individual LSIs are deemed SNCIs.

Since the branches in Spain of institutions with head offices in other EU Member States (including those of countries not participating in the SSM and those of LSIs of other SSM countries) are not subject to prudential or liquidity requirements, periodic monitoring of the branch's performance is conducted.

**Direct supervision of LSIs is supplemented with indirect supervision by the ECB, which has the following objectives:**

- Ensure consistent application of high standards of supervision.
- Ensure consistency of supervision results across SSM participating countries.

<sup>4</sup> This assessment is performed in accordance with the criteria defined in Article 4(1)(145) of Regulation (EU) No 575/2013.



As in previous years, the execution of these two functions by the ECB benefited from the full cooperation of the Banco de España, through participation in various working groups, meetings, information exchange, workshops, etc.

In 2022, a total of 732 on-going supervisory actions were carried out for these institutions, which lead to 114 letters being sent, including the capital decision letter issued to the ICO, which are detailed in Chart 2.11 by type and subject matter.

### 2.3.2 On-site supervision

**On-site supervision supplements the ongoing supervision of institutions.** It is carried out by different teams to those tasked with ongoing supervision with the aim of reinforcing their independence and the objectivity of the conclusions of their work.

**In 2022, inspections and internal model investigations were mainly conducted using a hybrid working model** combining visits by inspectors to institutions' head offices with off-site work.

**Table 2.3 details the visits to SIs carried out in 2022 that are most important for the Banco de España** (i.e., all inspections relating to Spanish institutions and those relating to institutions in other SSM countries led by Banco de España staff).

**In 2022, 20 inspections were conducted at SSM SIs**, of which 18 were conducted at Spanish group institutions. 14 of these inspections were led by the Banco de España, 3 by the ECB and 1 by the Banque de France. The Banco de España has participated in all teams of inspections at Spanish institutions, as well as in 2 inspections at financial groups from other SSM member states, without leading them.

**By type of risk, 6 of the 18 inspections at Spanish SIs in 2022 focused on credit risk**, with the remainder dedicated to technology risk (3), capital (3), governance (3), business model (2) and market risk (1).

**A significant percentage of these inspections of SIs — 44% — were part of so-called “campaigns”.** The most important campaign for Spanish institutions in 2022 was the commercial real estate collateral review, in which two Spanish institutions were included, and, for the first time, a climate and environmental risk review was conducted, in which one Spanish institution was included.

**The shortcomings detected in the course of the inspections are summarised in the findings.** Institutions must correct these shortcomings in accordance with the indications of the JSTs, and the JSTs are responsible for monitoring them until they are remedied. In 2022, 15 on-site inspection reports were submitted to Spanish

Table 2.3

**ON-SITE SUPERVISION AT CREDIT INSTITUTIONS. NUMBER OF ACTIONS**

	2022		
	SIs	LSIs	Total
On-site inspections	20	10	30
At Spanish credit institutions	18 (a)	10	28
At credit institutions of other SSM countries	2		2
Model investigations	12 (b)		12
At Spanish credit institutions	11 (c)		11
At credit institutions of other SSM countries	1		1
<b>TOTAL</b>	<b>32</b>	<b>10</b>	<b>42</b>

**SOURCE:** Banco de España.

**a** 14 led by Banco de España staff and 4 led by staff from other authorities.

**b** In addition, 1 model investigation was carried out on the Spanish branch of a European institution.

**c** 8 led by Banco de España staff and 3 led by staff from other authorities.

SIs, with a total of 176 findings. The bulk of the findings stem from credit risk inspections, which are the most numerous, followed by technology risk inspections. The most serious shortcomings were detected in relation to the estimation of the parameters used by the internal models for accounting provisions, to the identification of exposures with a significant increase in risk and to the quality of the databases reviewed.

**With regard to model investigations, 12 missions were undertaken in 2022, 11 of which were at Spanish institutions.** Of these, 8 were led by the Banco de España, 1 by the Banco de Portugal, 1 by the Bundesbank and 1 by the ECB.

**By type of risk, most of the investigations were focused on credit risk models,** while 1 was focused on market risk.

In terms of content, the bulk of missions were aimed at reviewing material changes to models emerging from adaptations to the new EBA guidelines (mainly PD and LGD guidelines and the new definition of default) and from the resolution of outstanding obligations arising from previous missions.

**In 2022, 13 model investigation reports including 251 findings were submitted to Spanish institutions.** The most significant reports were focused on the area of downturn LGD estimation and the determination of the long-term horizon on the basis of which the probability of default (PD) is calculated.

**Lastly, the supervisory plan for LSIs is approved by the Banco de España's Executive Commission, since they are subject to the Banco de España's direct supervision.** However, the ECB is kept apprised of the content of the plan. In 2022,

10 on-site inspections were conducted at LSIs, with a special emphasis on the assessment of credit quality, foreclosed assets, governance and solvency, along with IT-related matters.

The results of the inspection visits to the LSIs are discussed with the institutions themselves by means of the so-called “preliminary findings report”, which sets out the most salient points arising from the inspection visits, after which the corresponding final reports and the letters of requirements and recommendations to the institutions are drafted, and submitted to the Executive Commission of the Banco de España for approval at the proposal of the DG.SUP (see section 2.3.4).

On-site inspections of Spanish SIs and LSIs in the area of AML/CTF are covered in section 2.3.6.

### 2.3.3 Stress tests

**In the first half of 2022, the ECB conducted a climate risk stress test**, which was intended to advance the analysis of climate risk, identified as a supervisory priority for 2022-2024.

**It was a test in which the most important aspect was the learning component, both for the institutions and for the supervisor, with no direct impact on capital.** The objective was to ascertain the degree of development at the institutions, to foster awareness of the importance of this risk, and to take note of both best practices and the main shortcomings detected.

**The 10 Spanish SIs participated in the exercise.** It was a very wide-reaching test, in which a total of 104 institutions took part.

**The methodology used was specially developed for this purpose**, and it consisted of three modules for each institution: 1) a qualitative analysis of the degree of progress of climate stress testing, with a block questionnaire that sought to assess its existence and implementation; 2) an analysis of the degree of the extent to which the business model is dependent on greenhouse gas intensive sectors through the use of two metrics (income sustainability and degree of exposure); and 3) a study of the potential impact of short- and long-term transition risk, and of physical risks of drought and flooding. While all institutions in the sample participated in modules 1 and 2, only one institution that was considered to be advanced in its climate risk practices provided projections for module 3. For the remaining institutions, a top-down approach was used.

The qualitative analysis of the questionnaire provided an overview of the degree of progress by institutions in their climate stress testing. In addition, the approach

Figure 2.4

**CLIMATE STRESS TEST METHODOLOGY**

Module 1 QUESTIONNAIRE	<ul style="list-style-type: none"> <li>Climate ST framework: 11 blocks including governance, integration in management and ICAAP, methodology, scenarios, data, future plans, internal audit, stress test</li> </ul>
Module 2 PEER BENCHMARKS	<ul style="list-style-type: none"> <li>Metric 1: sensitivity of the business model (income) to greenhouse gas emitting industries</li> <li>Metric 2: degree of exposure (financing) to carbon-intensive companies</li> </ul>
Module 3 BOTTOM-UP ST	<ul style="list-style-type: none"> <li>Transition risk               <ul style="list-style-type: none"> <li>Short term (3 years): static balance sheet, two scenarios</li> <li>Long term (until 2050): dynamic balance sheet, three scenarios</li> </ul> </li> <li>Physical risk: drought and floods (1 year): static balance sheet</li> <li>Scenarios based on the scenarios proposed by the NGFS with additional preparation by the ECB (stressed macroeconomic parameters)</li> </ul>

SOURCE: Banco de España.

Figure 2.5

**CLIMATE STRESS TEST LESSONS LEARNED**

Lessons learned banks	<ul style="list-style-type: none"> <li>Most banks have not integrated climate risk into their stress tests</li> <li>Difficulties in data availability and modelling techniques. This affects the results</li> <li>Sensitive to credit losses due to transition and physical risks</li> <li>Their transition to a green economy are not adequately reflected in their long-term strategies</li> </ul>
Lessons learned supervisors	<ul style="list-style-type: none"> <li>Reflect on the development of stress scenarios</li> <li>Improve methodological factors</li> <li>Help banks overcome difficulties in data availability</li> <li>Provide "best practice" guidelines</li> </ul>

SOURCE: Banco de España.

followed made it possible to score banks on a relative basis using a four-tier system and to see their position relative to their peer group.

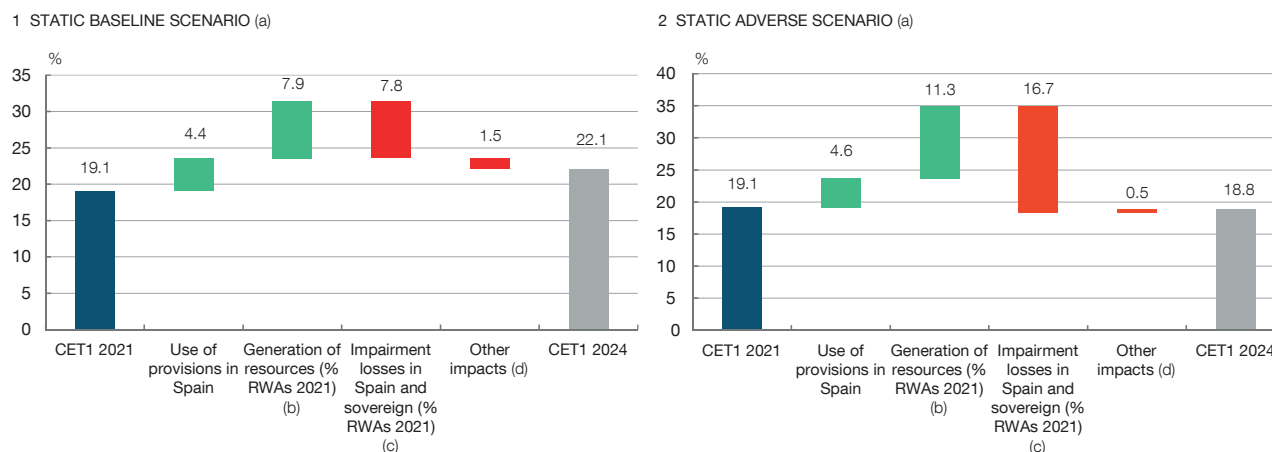
**Although the institutions have made progress, the results showed that there is still some way to go.** The majority of the sector has not yet integrated climate risk into its stress testing framework, and shortcomings were detected in data quality and modelling techniques. It was also noted that institutions need to improve strategies to take advantage of the opportunities of ecological transition. In any case, the exercise showed reasonable progress in the implementation of the climate stress testing framework in Spanish institutions, especially in those aspects related to governance, scenario design and information availability.

**The ECB published in December 2022 a report with observed best practices,** with the aim of facilitating institutions' development of an adequate climate stress testing framework. This framework should consider the importance of the portfolios concerned, their sectoral dimension and the design of physical and transition

Chart 2.10

**LSI STRESS TESTS. RESULTS**

The test points to a 3 pp increase in the CET1 ratio in the baseline scenario, while there is a 0.3 pp decrease in the adverse scenario.



SOURCE: Banco de España.

- a The red/green colour of the bars indicates a negative/positive contribution of the item corresponding to the change in the CET1 ratio at the end of the forward-looking exercise (2024) as compared to the beginning of the exercise (2021).  
b The generation of loss-absorbing resources is determined by net operating income in Spain.  
c Impairment losses on loans and foreclosed assets in Spain, and the impact on capital of the potential impairment of institutions' sovereign exposures.  
d Other consolidated profit and loss, tax and exchange rate effects, profit distribution and changes in RWAs.

scenarios under both a static and a dynamic balance sheet approach. In this regard, it is essential to have adequate information on emissions and energy performance certificates, obtained directly from counterparties or external suppliers, or deduced through the use of proxies, provided that it is granular and verifiable, as this will facilitate the integration of climate risk into credit risk models. This modelling should consider, for different time horizons, the use of climate variables and their impact on the various credit metrics and factors.

**The Banco de España conducts annual stress tests of LSIs<sup>5</sup>** with the aim of measuring institutions' capacity to cope with potential macroeconomic and financial risks and to feed the SREP and, in particular, the P2G estimate. These tests are conducted in the same framework and under the FLESB tool, which is mentioned in Chapter 3.

**The aggregate results of the test, with the baseline and adverse scenarios of that section using the static balance sheet method recommended by the ECB, point to an increase in the CET-1 ratio of 3 pp in the baseline scenario and a decrease of 0.3 pp in the adverse scenario. In the baseline scenario, the generation of new loss-absorbing resources (7.9% of RWA) and the use of provisions (4.4%) more than offset impairment losses (7.8%) and the other impacts (-1.5%). In the**

<sup>5</sup> These stress tests are conducted in accordance with Article 55(5) of Law 10/2014 on the regulation, supervision and solvency of credit institutions.

adverse scenario, the new resources generated are positive (11.3%) thanks to the increase in the interest margin favoured by the interest rate rise; however, this effect, together with the use of provisions (4.6%) and the positive effect of the other impacts (0.5%), does not offset the significant impairment losses (16.7%).

**The aggregate solvency of all the LSIs in both scenarios would be high and above regulatory requirements.**

#### 2.3.4 Letters sent to less significant institutions, non-EU branches and the Official Credit Institute

**As a result of the supervisory actions described above that were performed in 2022, the Banco de España sent 114 letters to the LSIs and the ICO.** Chart 2.11 provides a breakdown of these letters by type of institution and origin. Of these, 58 related to capital decisions following the prior submission of drafts for representations, 46 to recovery plan reviews and 10 to on-site inspections.

**Also, Chart 2.12 shows the breakdown by subject matter of the 520 requirements and recommendations contained in the 114 letters sent to credit institutions.** As shown in this Chart, the largest number of requirements and recommendations made to LSIs in 2022 are classified under the area called “Global and others”. They are mainly recommendations made as a result of the assessment of recovery plans, and others relating to improvements to internal capital and liquidity adequacy assessment process reports included in the capital decision letters. The other recommendations relate mainly to the area of solvency, mostly P2R and P2G requirements included in capital decisions; to the area of business models, which have been included in capital decision letters; and to the areas of governance and credit, arising from both capital decisions and inspections. In fact, most of the requirements arising from the inspections related to credit risk, followed by governance.

Most of the weaknesses related to the business model were identified in the horizontal review of the first half of 2022 on the 41 institutions with retail business. All the requirements and most of the recommendations in this area deal with qualitative aspects and aim to ensure that institutions: improve their analysis of profitability by business line; have adequate cost allocation and pricing procedures; correctly monitor their strategic plan and projections; involve both management bodies and internal control functions sufficiently; and extend the scope of actions carried out by internal audit.

Credit risk requirements are explained by the kind of business model carried out by the institutions concerned (retail banking) and relate mostly to reclassifications to non-performing and to the need to increase loan loss provisions, and to improve the

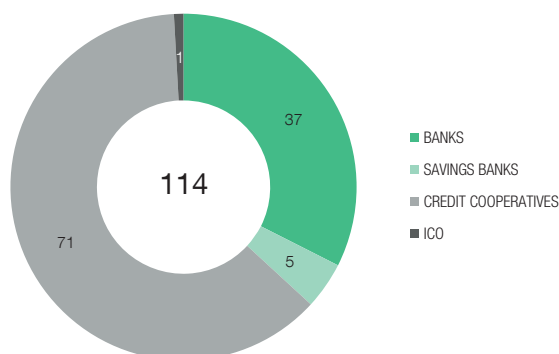


Chart 2.11

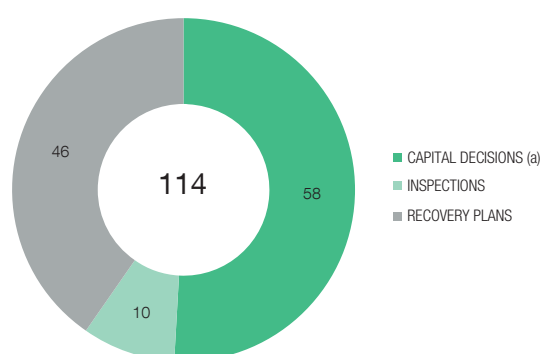
**NUMBER OF LETTERS ADDRESSED TO CREDIT INSTITUTIONS**

The majority of letters were addressed to credit cooperatives, since this group has the highest number of LSIs, and capital decisions and recovery plans were most commonly at the origin of the letters.

1 BY TYPE OF INSTITUTION (2022)



2 BY ORIGIN (2022)



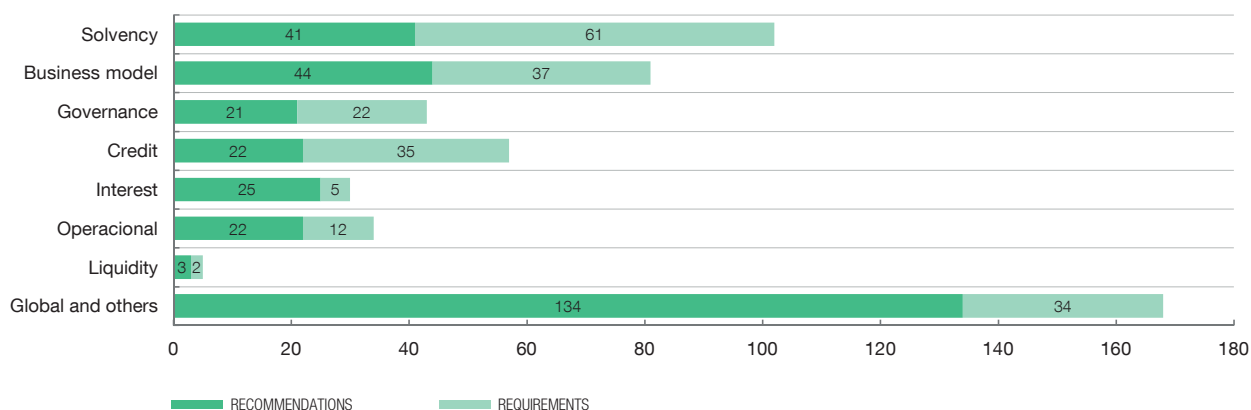
**SOURCE:** Banco de España.

**a** The 58 capital decision letters addressed to the 56 LSI institutions or groups (in one case a letter was addressed to a subsidiary of an LSI group in addition to the group itself) and to the ICO.

Chart 2.12

**NUMBER OF RECOMMENDATIONS AND REQUIREMENTS NOTIFIED TO CREDIT INSTITUTIONS**

By specific areas, the requirements and recommendations on solvency risk, business models and credit stand out.



**SOURCE:** Banco de España.

**NOTE:** "Global and others" mainly comprises recommendations set out in 46 letters on recovery plans and in others relating mainly to improvements to internal capital and liquidity adequacy assessment process reports.

specific internal controls in place for credit risk. The governance requirements were issued to improve the composition and functions of management body committees and internal control.

On a quarterly basis, within the LSI monitoring framework, the situation of the requirements and recommendations not yet complied with by each institution is assessed.

### 2.3.5 Covered bond supervision

**8 July 2022 saw the entry into force of Royal Decree-Law 24/2021<sup>6</sup>, transposing Directive (EU) 2019/2162 on covered bonds.**

This directive establishes a harmonised minimum regime in the EU with regard to the conditions for the issue and characteristics of this type of instrument, with the aim of promoting the unified development of these markets

**The entry into force of Royal Decree-Law 24/2021 led to the creation of two categories of covered bonds: “European covered bond (premium)” and “European covered bond”.** The former are subject to additional, more demanding requirements, including most notably the imposition of a minimum level of overcollateralisation of 5%. Mortgage, internationalisation and public sector covered bonds can benefit from the designation “European covered bond (premium)” if they meet all the requirements.

**Royal Decree-Law 24/2021 increases protection for covered bonds investors by strengthening the supervisory regime for these instruments and reducing their level of risk** by requiring, among other new developments, the creation of a liquidity buffer and the segregation of cover assets through their entry in a special register.

The strengthened supervisory regime is underpinned by two new developments: the Banco de España is tasked with the ongoing supervision of covered bonds and, therefore, it must authorise both the covered bond programmes issued under it and the issuance monitors; and issuing institutions are required to appoint a cover pool monitor, which oversees compliance with legal and contractual requirements.

**Due to the entry into force of Royal Decree-Law 24/2021, the Banco de España authorised, for the 19 issuing institutions, 5 companies as monitors and 27 bond programmes** covering the outstanding issues at that date (the aggregate amount of which totalled EUR 240 billion) and possible subsequent issues during the term of the programme and up to the maximum authorised amount.

At December 2022, the Spanish covered bond market represented slightly more than 225 issues and an outstanding amount of around EUR 212 billion, of which 91% corresponded to mortgage covered bonds, 6% to public sector covered bonds and 3% to internationalisation covered bonds.

In addition, in compliance with Royal Decree-Law 24/2021, the Banco de España discloses and periodically updates on its website the list of authorised issuing institutions and covered bonds issued under authorised programmes.

<sup>6</sup> Royal Decree-Law 24/2021 was amended by Royal Decree-Law 29/2021 of 21 December and Royal Decree-Law 11/2022 of 25 June.

The forthcoming publication of the circular on information to be submitted to the Banco de España on covered bonds (see Section 8.2) will facilitate the performance of this new supervisory function, through the submission of a flow of stable and reliable data by issuing institutions. This information will make it possible to determine, as early as 2023 and on an annual basis, a compliance profile for these institutions, without prejudice to any other verification, control and inspection tasks that may be carried out.

### 2.3.6 Anti-money laundering and counter-terrorist financing

**The Banco de España's powers in the area of AML/CTF are confined to the supervision of certain AML/CTF obligations** (due diligence, internal control and reporting) at the regulated institutions within its scope of supervision<sup>7</sup>. These powers are exercised within the framework of the provisions of Spanish legislation and the agreement entered into with the CPMLMO in 2021 for the coordination of their respective supervisory and inspection activities, through close cooperation with its two bodies, the Secretariat of the CPMLMO and SEPBLAC, and with the CNMV and the DGSFP. This cooperation allows synergies to be exploited and contributes to institutional efficiency.

**In 2022 supervisory cooperation continued to advance.** In this respect, progress was made in the development of a methodology for the joint assessment with SEPBLAC of ML/TF risk at credit institutions, the results of which will be an essential element for the preparation of the Joint Inspection Plan<sup>8</sup>, which follows a risk-based approach. Also, work was performed on the development of common supervisory criteria and procedures, in coordination with the Secretariat of the CPMLMO, SEPBLAC, the DGSFP and the CNMV.

**In the course of 2022, the Banco de España completed 4 general inspections, reviewing compliance with AML/CTF obligations at 3 LSIs and 1 SI.** In addition, 2 inspections were launched, 1 with a general scope on an SI and the other with a specific scope focusing on the review of the group's internal control systems of an SI in the AML/CTF area of the activity carried out by its branches and subsidiaries abroad. Also, a thematic inspection is underway on foreign exchange activity, which has been identified as a ML/TF risk operation. It should be noted that this latter inspection is a joint action with SEPBLAC which extends to 2023 and affects credit institutions and other institutions providing foreign exchange services.

<sup>7</sup> Credit institutions, branches of foreign credit institutions, specialised lending institutions (SLIs), mutual guarantee societies (MGSs), PIs, ELMIs and currency-exchange bureaux.

<sup>8</sup> Annual inspection plan, referred to in Article 44(2)(g) of Law 10/2010, approved by the CPMLMO Standing Committee, which includes the inspections that all the supervisors will conduct.

Moreover, monitoring actions were carried out reviewing compliance with the recommendations and requirements arising from 5 inspections conducted in previous years, and the degree of progress made in the implementation of an AML/CTF action plan established by an SI. In addition, the ML/TF risk profile of credit institutions incorporated in Spain was updated in accordance with the methodology defined in the DG.SUP. Also, the CPMLMO Standing Committee was informed of the performance of our supervisory actions.

**At the international level, as in previous years, the Banco de España continued to cooperate closely with other supervisors and to participate in international fora.** In cooperation with SEPBLAC, cooperative relationships were maintained with AML/CTF supervisors from other countries, either bilaterally or through supervisory colleges. In 2022, the Banco de España and SEPBLAC participated jointly in 65 AML/CTF supervisory colleges and organised the colleges for 6 credit institutions and 8 Spanish PIs. Additionally, active participation continued in international and European fora, notably in the EBA's Standing Committee on anti-money laundering and countering terrorist financing (AMLSC).

**Lastly, in regulatory matters, the Banco de España has contributed technically to the negotiations on the EU's AML/CTF legislative package** of July 2021<sup>9</sup>, which aims, among other things, to create the European Anti-Money Laundering Authority (AMLA), with direct and indirect supervisory functions over regulated institutions, and a more harmonised regulatory framework in the EU, which will include a new European regulation and a sixth AML/CTF directive. In June 2022, the Council agreed its partial position on the proposal for a regulation that will govern the creation of the new European authority<sup>10</sup> and on 7 December 2022 it agreed its position on the sixth directive and the European ML/TF regulation<sup>11</sup>. At the beginning of 2023, the trilogue phase of the legislative package was launched in order for the co-legislators to reach agreement on the definitive version of the text. The city of Madrid has applied to be the seat of the new European AML/CTF authority, which will commence activities in 2024.

### 2.3.7 Common procedures, suitability and other procedures

**Common procedures are those relating to the authorisation to carry on the activity of credit institutions, the withdrawal of such authorisation and the acquisition of qualifying holdings.** They are set out in ECB Regulation (EU) No 468/2014 establishing

<sup>9</sup> [https://ec.europa.eu/commission/presscorner/detail/es/ip\\_21\\_3690](https://ec.europa.eu/commission/presscorner/detail/es/ip_21_3690)

<sup>10</sup> <https://www.consilium.europa.eu/en/press/press-releases/2022/06/29/new-eu-authority-for-anti-money-laundering-council-agrees-its-partial-position/>

<sup>11</sup> <https://www.consilium.europa.eu/en/press/press-releases/2022/12/07/anti-money-laundering-council-agrees-its-position-on-a-strengthened-rulebook/>

Table 2.4

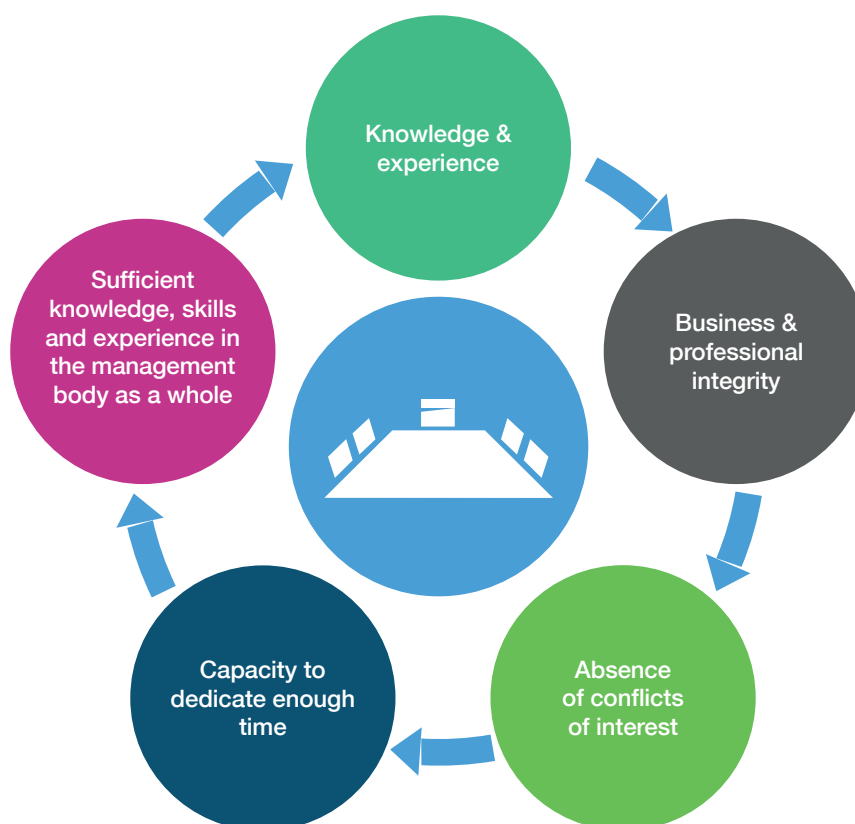
**PROCEDURES IN RESPECT OF CREDIT INSTITUTIONS INVOLVING THE BANCO DE ESPAÑA**

	Total number
Qualifying holdings, merger, spin-off and other significant acquisitions	11
Cross-border activity of Spanish credit institutions	38
Branches in the EU	16
Branches in third countries	0
Freedom to provide services	22
Representative offices	0
Cessation of business	0
Loans to senior officers	23
Suitability of senior officers (a)	253
Procedures relating to capital	80
Amendments to articles of association	32
Communications with other supervisory authorities or institutions	12
Other procedures	78
<b>TOTAL</b>	<b>527</b>

**SOURCE:** Banco de España.

**a** Includes 15 suitability assessments on senior officers of mixed financial holding companies.

Figure 2.6

**FIT AND PROPER REQUIREMENTS ASSESSED FOR DIRECTORS WITHIN THE SSM**

**SOURCE:** Banco de España.

the framework for cooperation within the SSM between the ECB and NCAs. In these procedures, for Spanish institutions, the Banco de España makes an initial assessment and formulates a draft decision for each specific case. Subsequently, on the basis of this proposal and any additional work it deems appropriate, the ECB adopts a definitive decision. Noteworthy among the rest of the procedures is the suitability procedure.

Table 2.4 shows the details of the other common procedures and the rest of the procedures on credit institutions in which the Banco de España has participated.

Following a public consultation process and its approval by endorsement by the Supervisory Board and the Governing Council of the ECB, the “[Guide to fit and proper assessments](#)” and the new “[Fit and proper questionnaire for senior bank officials in the SSM](#)” were published on 8 December 2021. The national specificities of the new questionnaire were published in 2022.

## 2.4 Supervision of institutions other than credit institutions

The Banco de España is the competent authority for registering, and granting and withdrawing the licenses of, SLIs which provide payment services (SLI-PIs) or which issue electronic money (SLI-ELMIs), ELMIs, PIs, exempt PIs pursuant to Article 14 of Royal Decree-Law 19/2018<sup>12</sup>, <sup>13</sup> account information service providers (known as “aggregators”) and currency-exchange bureaux. The Banco de España is also the competent authority for the official recognition of appraisal companies.

Also, the Banco de España is tasked with issuing the mandatory report on the authorisation of SLIs, MGSs and reguarantee companies, the granting of which is the prerogative of the Ministry of Economic Affairs and Digital Transformation.

Table 2.5 shows the number and performance of these institutions other than credit institutions.

With regard to applications for authorisation and registration of new payment service providers, noteworthy is the relatively low number of applications for the extension of activity with respect to the total number of authorisation and registration applications. As a result, the observed trend leads to the consolidation of a payment service provider ecosystem which has ever more participants and, therefore, is

<sup>12</sup> Royal Decree-Law 19/2018 of 23 November on payment services and other urgent financial measures.

<sup>13</sup> These are Small Payment Institutions (SPIs), which are subject to a registration process in the PI register, conditional on compliance with lower requirements than in a PI authorisation process, insofar as the average total value of payment transactions performed in the preceding 12 months, including possible agents for which it assumes full responsibility, does not exceed EUR 3 million per month.



Table 2.5

**REGISTER OF INSTITUTIONS OTHER THAN CREDIT INSTITUTIONS**

Data at 31 December

	2020	2021	2022
SLIs	26	23	24
SLI-PIs 8 9 9	8	9	9
Branches of financial institutions subsidiaries of EU credit institutions	1	1	1
MGSs and reguarantee companies	19	19	19
Appraisal companies	32	32	32
Currency-exchange bureaux (a)	17	16	16
PIs	47	49	52
PIs exempt under Article 14 of Royal Decree-law 19/2018	1	9	10
Payment service providers excluded under Article 4 of Royal Decree-Law 19/2018	3	15	18
Account information service providers	1	1	3
ELMIs	9	9	10
Branches of EU PIs	14	7	9
Branches of EU ELMIs	8	3	4
<b>TOTAL</b>	<b>186</b>	<b>193</b>	<b>207</b>

**SOURCE:** Banco de España.**a** Not including establishments authorised only to purchase currency using euros.

increasingly heterogeneous, with an associated increase in the number of institutions to be supervised.

The number of PIs and ELMIs increased from 49 in December 2018 to 75 at the end of 2022 (52 PIs, 10 ELMIs, 10 exempt PIs pursuant to Article 14 of Royal Decree-Law 19/2018 and 3 aggregators). In line with this increase, the number of payment service providers excluded under Article 4 of Royal Decree-Law 19/2018<sup>14</sup> continues to grow.

It is worth noting that in 2022 progress was made in streamlining the implementation processes of the various authorisation and registration procedures, with the publication of an informative guide on these processes and an update of certain forms, all of which are available on the Banco de España's Virtual Office. Also, the Banco de España has joined the electronic notification system, Single Enabled Electronic Address (DEHú), to offer interested parties the opportunity to send communications and notifications by electronic means.

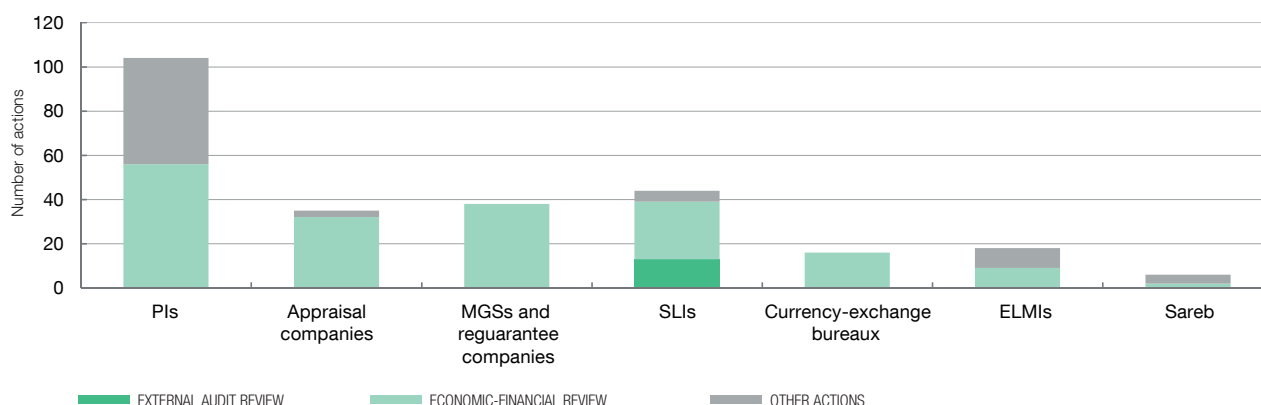
**With regard to supervisory powers, the Banco de España has exclusive microprudential supervisory powers over the following institutions that provide financial services or perform functions related to the financial sector:** SLIs, mutual guarantee societies (MGSs), reguarantee companies, appraisal

<sup>14</sup> The payment service providers excluded under Article 4 of Royal Decree-Law 19/2018 that are included in Table 2.5 are subject to a separate registration regime in the Banco de España and only certain regulatory provisions of Royal Decree-Law 19/2018 are applicable to them.

Chart 2.13

**NUMBER OF ONGOING OFF-SITE SUPERVISORY ACTIONS AT OTHER INSTITUTIONS**

In 2022, the external audit review ceased to be an independent action, as its assessment became included in economic-financial monitoring, except for SLIs.



SOURCE: Banco de España.

companies, Pls, exempt Pls, account information service providers, ELMIs, currency-exchange bureaux, Sareb (the asset management company for assets arising from bank restructuring)<sup>15</sup> and banking foundations<sup>16</sup>. The legal basis under which the Banco de España supervises these institutions and the approach to the tasks differ from case to case.

Moreover, although the weight of Pls and ELMIs in the financial system is not comparable to that of credit institutions, they need to have in place an effective regulatory and supervisory model to promote the fluidity of financial intermediation mechanisms and to generate a climate of trust in financial institutions. Section 2.6 describes the Banco de España's oversight of the operational aspects of the provision of payment services, including institutions' security and fraud control.

**In 2022, 261 ongoing off-site supervision actions were performed by various means:** periodic monitoring, external audit report reviews and other activities, as detailed in Chart 2.13.

**Also, in 2022, 2 on-site inspections were carried out at appraisal companies, and 1 inspection at an ELMI, and 2 inspections at appraisal companies were**

<sup>15</sup> The Banco de España supervises fulfilment of Sareb's sole corporate purpose, in order to identify deviations therefrom jeopardising the attainment of Sareb's overall statutory objectives.

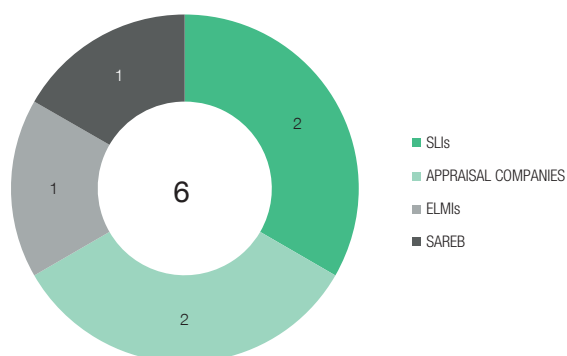
<sup>16</sup> Law 26/2013 of 27 December 2013 on savings banks and banking foundations confers on the Banco de España control of compliance with certain rules related to the influence of the banking foundation over the sound and prudent management of the investee credit institution, in the event that the foundation holds an ownership interest of, at least, 30% of the share capital of the credit institution or which allows it to exercise control. This control refers to the submission for approval by the Banco de España of management protocols and annual financial plans.

Chart 2.14

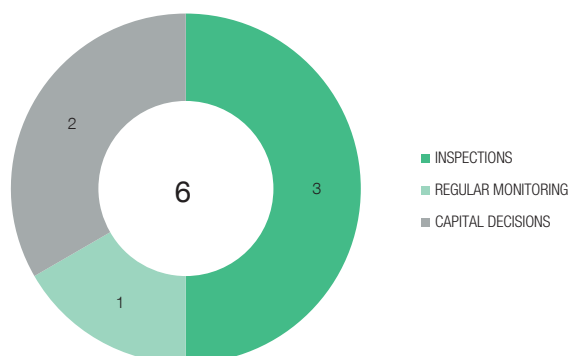
**NUMBER OF LETTERS ADDRESSED TO OTHER INSTITUTIONS**

Of the letters addressed to other institutions, half relate to inspection visits.

1 BY TYPE OF INSTITUTION (2022)



2 BY SUBJECT MATTER (2022)

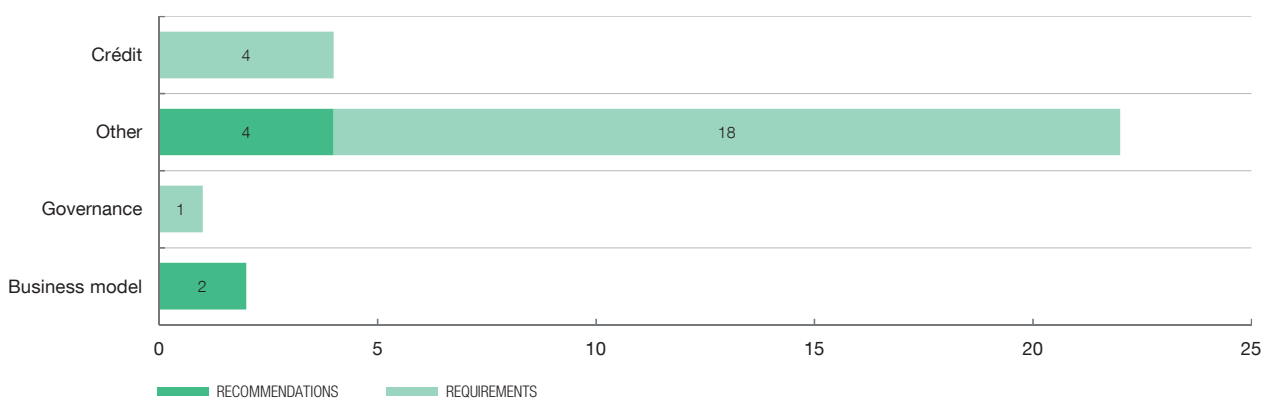


SOURCE: Banco de España.

Chart 2.15

**NUMBER OF RECOMMENDATIONS AND REQUIREMENTS NOTIFIED TO OTHER INSTITUTIONS**

By specific areas, the requirements and recommendations relating to credit risk and business models stand out.



SOURCE: Banco de Espa a.

**completed, and requirements letters were sent to them.** Chart 2.14 shows the number of letters sent to supervised institutions other than credit institutions as a result of ongoing monitoring or inspections conducted. For 2023, inspection visits are planned to 2 appraisal companies, 1 ELMI and 1 MGS.

Chart 2.15 shows the number of recommendations and requirements, by area, contained in these letters.

Table 2.6

**OTHER PROCEDURES CONDUCTED BY THE BANCO DE ESPAÑA IN RESPECT OF OTHER INSTITUTIONS**

	PIs	ELMIs	SLIs	MGSs	Appraisal companies	Currency-exchange bureaux	Sareb	Banking foundations	Total other institutions
Qualifying holdings, merger, spin-off and other significant acquisitions	11	5	3		2				21
Cross-border activity of Spanish credit institutions	2,298	55	1						2,354
Branches in the EU	10	1	1						12
Branches in third countries									0
Freedom to provide services	140	51							191
Agents	2,148	3							2,151
Cessation of business									0
Suitability of senior officers	52 (*)	29	65	55	8	3			212
Procedures relating to capital	2	2	6	1					11
Amendments to articles of association	3		2	4					9
Authorisation of management protocol and financial plan								11	11
Communications with other supervisory authorities or institutions					1				1
Other procedures	3	1	2			1			7
<b>TOTAL</b>									<b>2,626</b>

**SOURCE:** Banco de España.

**a** Each daily notification per recipient country and institution is deemed a procedure.

(\*) Includes 5 account information service providers' senior officer suitability procedures.

**Similarly, in 2022 a further 2,622 procedures were performed within the remit of the supervisory powers over these institutions, as detailed in Table 2.6.**

In addition to the high number of register entries for PI agents, noteworthy are the supervisory procedures in the PI and ELMI area, with 16 qualifying holding procedures, 4 return to compliance plans relating to capital and the above-mentioned authorisation processes for new activities or licences.

The oversight of compliance with capital requirements through the information collected from these institutions by means of ad hoc templates that they have been submitting since 2020 until the development of a prudential circular that allows for regular reporting on their solvency situation has led to the detection of 22 situations of non-compliance with capital requirements, which has required the injection of capital by their shareholders.

These capital needs generally arise from two situations of a very different nature: on the one hand, the limited generation of capital by some institutions in the sector, which does not cover their own business expectations, and, on the other, the limited solvency buffer with which some of these institutions operate, which hinders the

absorption of the higher capital requirements arising from increased activity or from greater investment in technological systems.

Lastly, it is worth mentioning these institutions' senior officer suitability processes, which amounted to 212 procedures in 2022, mainly in the most important institutions in the sector, such as PIs, ELMIs and SLIs.

## 2.5 Compliance with vetted access to activity

**Under Spanish legislation, several financial activities are subject to vetted access to activity, i.e. they can only be carried out by the legal entities and individuals legally authorised to do so.** The Banco de España's functions include overseeing compliance with this legislation, taking action on those seeking to break into the financial market without meeting the conditions of access, whether by conducting activities legally restricted to credit institutions, payment service providers or other types of institutions supervised by the Banco de España, or through the use of generic names restricted to those institutions or any other name that may confuse the public.

In 2022, 13 supervisory actions were performed in relation to legal entities which may have been carrying out activities restricted to credit institutions and/or currency-exchange bureaux without authorisation or simply making undue use of a name pertaining to supervised institutions, the outcome of which could lead to the adoption of penalties.

In addition, in the area of payment services, the analysis commenced in 2022 of 13 cases of possible non-compliance with the vetted access to activity established in Article 5 of Royal Decree-Law 19/2018. In most of these cases, formal irregularities were detected in the activity of commercial establishments which, in reality, operate as agents or distributors in Spain of payment service providers, as well as institutions which depend on other payment service providers to carry out their activity, as a prior step to applying for authorisation as a payment service provider, without this information being clearly stated on their websites. Also, innovative business models were identified that are not always an easy fit within the regulations.

## 2.6 Supervision of payment service providers

This section covers the supervisory activity related to the operational aspects of the provision of payment services, as set out in Royal Decree-Law 19/2018 and its implementing regulations, by payment service providers<sup>17</sup>.

<sup>17</sup> Payment service providers include the PI and ELMI sector, including account information service providers, and also credit institutions and SLIs, which accompany the provision of payment services with other activities which are also subject to their own regulations.

**As in previous years, part of the supervisory work focused on the assessment and monitoring of problems reported by payment service providers relating to the proper functioning of the specific interfaces offered by the account servicing payment service providers.** Most of these problems related to payment initiation services and consisted mainly of one-off outages and deteriorations in the interface service, as well as shortcomings in the information provided by the interfaces on the status of payment transactions initiated through them.

In addition, approval was granted for the communications submitted on two corporate payment processes for the purposes of the application of the strong customer authentication exemption in the provision of payment services, as provided for in Article 17 of Delegated Regulation 2018/389.

**Also, the EBA's Guidelines on major incident reporting under PSD2<sup>18</sup>** became applicable on 1 January 2022. This review of the guidelines simplified the reporting process and criteria, with the aim of allowing a greater number of security incidents to be captured and reducing the number of operational incidents (often without significant impact on payment service providers) that need to be reported. The Banco de España carried out the adaptations required in order to allow payment service providers to report major incidents under the revised procedures in 2022. In terms of volume, since the date of entry into force of the new guidelines, a total of 36 major incidents reported by 27 institutions were received, analysed and transferred to the EBA, affecting, to varying degrees, around 1,500,000 users and a total of more than 2 million transactions. In general, the incidents were due to internal factors within the institutions, although a minority were due to external causes. Of the latter, only 20% were due to malicious actions.

With regard to other supervisory activities in the area of payment services, in accordance with Article 23 of Royal Decree-Law 19/2018 and implementing regulations, 14 communications were received regarding the delegation of operational functions from PIs and ELMIs, most of which were related to critical functions. In addition, in accordance with Article 22 of the aforementioned Royal Decree-Law, in year 2022, 28 communications from Spanish PIs and ELMIs were assessed and reported favourably, of which 15 corresponded to the request for the freedom to provide services and the other 13 corresponded to the exercise of the right of establishment (6 through branches, 4 through agents and 3 through distributors), mainly in EU countries. 4 communications were also received from various European supervisory authorities regarding applications for the establishment of branches in Spain by European SPIs and/or ELMIs, all of which, bar 1, were reported positively.

<sup>18</sup> EBA/GL/2021/03, which repealed the previous EBA/GL/2017/10.



Also, progress was made in 9 actions regarding possible regulatory non-compliance, relating mainly to the scope of the right of access to payment account services offered by credit institutions to other payment service providers and the delegation of important operational functions.

**Fraud data corresponding to 2021 and reported by payment service providers over the course of 2022 were analysed.** The main findings show that, although the highest fraud rates continue to occur in e-money transactions and e-commerce card-based payment transactions, the comparison with previous 6-month periods shows a positive and material effect on fraud reduction, especially in card transactions, following the widespread implementation of strong customer authentication technical solutions. However, in quantitative terms, bank transfers are the transactions with the highest fraud volumes, although, in percentage terms, money transfers and, above all, direct debits show lower fraud rates than bank transfers. This is likely to be due to the growing impact of fraudulent transactions materialised through various social engineering techniques aimed at initiating and/or authorising false payment transactions through customer manipulation.

In addition, Box 2.7 describes the evolution in 2022 of certain payment services provided by SPIs and ELMIs.

Lastly, in the area of international coordination in the supervision of payment service provision, in order to simplify the operational flow of the reporting of statistical data on payments and fraud, and to reduce as far as possible the regulatory burden associated with this reporting obligation, on 26 October 2022 the Banco de España signed a memorandum of understanding with the ECB, the EBA and other NCAs involved. This memorandum enables a single, sequential flow in the transfer of information between reporting payment service providers, NCAs, the ECB and the EBA for compliance with Royal Decree-Law 19/2018.

Also in the area of international cooperation, a period of analytical review was opened, mainly in the areas of: i) payment fraud data reporting under PSD2, with the publication by the EBA of a Discussion Paper, which presents the main conclusions reached in relation to the data reported in 2019 and 2020<sup>19</sup>; ii) the authorisation of specialised payment service providers, through the development of a peer review, which concluded with the publication by the EBA, in January 2023, of a report which sets out the conclusions of that exercise and establishes a series of recommendations<sup>20</sup>; and iii) incident reporting.

<sup>19</sup> "Discussion Paper on the EBA's preliminary observations on selected payment fraud data under PSD2, as reported by the industry" (EBA/DP/2022/01).

<sup>20</sup> "EBA Report on the peer review on authorisation under PSD2" (EBA/REP/2023/01).

**DEVELOPMENTS IN PAYMENT SERVICES**

The way in which payment institutions and electronic money institutions have been providing certain payment services evolved over the course of 2022. Although these changes are due to multiple factors, they were driven mainly by technological developments and regulatory changes introduced recently.

Thus, the payment initiation service has attracted a high level of interest, in particular among payment service providers geared towards the provision of services to merchants, in order to complement their payment service offerings for commercial transactions. In this respect, certain initiatives have been observed that seek to make the payment initiation service available to users at the physical points of sale.

Also, there has been ongoing interest in the provision of account information services, where it is increasingly common to find business models in which the information gathered through this service is used to complement, enrich or add value to a third party's activities not directly related to payment service provision. In such cases, promoters often opt to set up a company that will carry out this payment service for the benefit of other group companies interested in holding the information obtained by the specialised entity.

As regards money transfer services, not only has the already traditional trend towards their provision through

digital channels (websites and apps) continued, but there has also been growing interest in the possibility of providing them through new technologies, in particular those based on distributed ledgers or cryptoassets, although there is still no specific regulatory framework to cover them.

It is also worth noting the interest in the provision of payment and e-money services through what are known as "own brand models", where, although payment institutions and electronic money institutions are responsible for carrying out these services, the services are made available to end-users through third party institutions, which offer them to their customers through their digital channels alongside their own products and services.

Lastly, in 2022 the National Electronic Clearing System (SNCE) Regulation was amended to allow payment institutions and electronic money institutions to access the system through the "accessible institution" figure. This figure enables payment and electronic money institutions to settle their customers' payment transactions through a direct participant in the SNCE, using the IBANs of the payment accounts they open for their customers, as these are now recognised by the system. This allows payment and electronic money institutions' customers to order and receive transfers on their payment accounts, and to issue and receive direct debits, under the same conditions as the customers of any other payment service provider participating in the SNCE.

## 2.7 Application of financial technology innovation to supervisory functions. Sandbox: controlled digital innovation testing space

Traditionally, the Banco de España has pioneered the creation of multidisciplinary teams comprising inspectors, supervisory experts, IT auditors and modelling experts with experience in reviewing inventories and reconciling them against confidential returns. This has generated a breeding ground for the creation of supervisory tools for bulk data processing.

In this context, the term "SupTech", which can be broadly defined as the use of innovative technology (e.g. machine learning and big data) by supervisory authorities to support their work<sup>21</sup>, has become popular in recent years in various international

21 Simone di Castri, Stefan Hohl, Arend Kulenkampff and Jermy Prenio. (2019). «The supotech generations». FSI Insights, 19. <https://www.bis.org/fsi/publ/insights19.htm>

fora. In this respect, the Banco de España's 2022-2024 Strategic Plan sets the objective of becoming a benchmark in prudential supervision, particularly in credit and technological risks (strategic objective 4.2.ii). This requires the incorporation of new technologies into the supervisory activity.

**The main pillars on which the SupTech strategy is based are as follows:**

- **In-house creation of SupTech tools.** There are currently two major lines of work:
  - Graphical representation of large amounts of data that facilitates interpretation and analysis by supervisors. Examples include choropleth maps regarding confidential returns and a tool<sup>22</sup> for interactive visualisation of many-to-many (n:m) relationships (e.g. economic groups from the FINREP 40 return).
  - Predictive capability search on the basis of the Banco de España's Central Credit Register (CIRBE) using transition matrices and machine learning algorithms.
- **Fostering a culture of innovation.** One of the first initiatives established was the creation of a multidisciplinary SupTech forum within the DG.SUP to exchange best practices and foster the culture of innovation. Moreover, as part of a general drive by the Banco de España, it benefits from the collaboration of Information Systems through the digital transformation programme.
- **Participation in the SSM SupTech initiative.** The Banco de España collaborates very actively with the ECB's SupTech initiative, contributing specialised staff, participating in its various fora and sharing tools developed at the Banco de España.
- **Training in data science and machine learning.** Lastly, the Banco de España promoted several training programmes, that were given by DG.SUP staff on various subjects, such as R, Python and machine learning. These courses are being shared with other bodies, such as the Association of Supervisors of Banks of the Americas and the SSM itself.

**In line with the priority given to this matter, it was decided to include the SupTech function in the Banco de España's evaluation programme. This**

<sup>22</sup> A more detailed description can be found in Box 6 of Kenton Beerman, Jermy Prenio and Raihan Zami. (2021). «SupTech tools for prudential supervision and their use during the pandemic». FSI Insights, 37. <https://www.bis.org/fsi/publ/insights37.pdf>

**CONTROLLED DIGITAL INNOVATION TESTING SPACE: SANDBOX**

The controlled testing space<sup>1</sup>, known internationally as Sandbox, continued to offer promoters the opportunity to test their technology-based financial innovations securely under the monitoring of the competent financial authorities. Over the course of 2022 there were two new calls for applications to Sandbox.

The third call was published by resolution of the General Secretariat of the Treasury and International Financing on 22 December 2021 and set the application submission period between 1 March and 12 April 2022. There was a total of five applications, of which two corresponded to the Banco de España and obtained a favourable prior assessment by the latter.

The fourth call was published on 22 July 2022, with an application submission period between 1 September and 13 October 2022. In this call, the number of projects submitted rose slightly to seven, of which three were assigned to the Banco de España and two obtained

favourable prior assessment (one of the projects, in the capacity as observer authority, together with the National Securities Market Commission)<sup>2</sup>.

Therefore, since not all testing of projects from previous calls has been completed, in 2022 projects from the first four calls coexisted in the regulatory Sandbox. These projects were at different stages of the process, depending on the date on which they applied for entry into the controlled testing space.

In the course of 2022, testing was completed on the six projects from the first call that signed a protocol with the Banco de España, and the documents with the supervisor's conclusions on the results of the tests carried out were published (see Figure 1 for a brief summary of the topic of these projects). Therefore, with the publication of these documents, the participation of all the projects from the first call monitored by this institution was deemed to be complete. In most cases, added value was found in these

Figure 1  
PROJECTS FROM THE FIRST CALL MONITORED AT THE BANCO DE ESPAÑA

Project	Description of the project
Rings	Business-to-business payment clearinghouse that uses distributed ledger technology and artificial intelligence to execute business-to-business transactions, creating customer-supplier rings for simultaneous collection and payment of all balances in the ring
Digital Custody in Blockchain	A solution that uses distributed ledger technology and digital fingerprint aggregation techniques to record documents that are signed digitally by customers in a distributed ledger, allowing verification of their integrity
Dalion	Decentralised self-managed digital identity solution based on distributed ledger technology that allows the user to maintain control over their personal data, managing it directly and autonomously both to share them with third parties and to recover them
Ithium 100	Solution that uses distributed ledger technology to record all relevant information on order financing transactions (including the agreed sale and purchase estimate, product characteristics or the bank's financing offer), adding transparency and assurance to the process
Neurodecision Technology	Artificial intelligence algorithm for risk management with a predictive capacity that is potentially superior to those traditionally used in the financial sector, addressing the problems of explainability inherent to artificial intelligence algorithms
Vottun Intercompany	Platform that uses distributed ledger technology to allow the companies in the same group operating in different countries to settle and reconcile, through the use of digital tokens, the resulting positions between them in real time

**SOURCE:** Financial Sandbox Annual Report 2021 (General Secretariat of the Treasury and International Financing).

1 The 2021 *Supervisory Report* details the characteristics of the Spanish regulatory Sandbox.

2 The projects of the fourth call finally assigned to the Banco de España and with a favourable prior assessment were Money EURM and Multilateral Trading System, based on decentralised ledger technology.

## Box 2.8

**CONTROLLED DIGITAL INNOVATION TESTING SPACE: SANDBOX (Cont'd)**

projects, and a very wide range of technologies was used, such as distributed ledgers, artificial intelligence or digital identity in the financial system, and it was concluded that they may represent a potential benefit to financial service users, as well as an increase in efficiency of institutions or markets. The most significant challenges for the development of these proposals included most notably the existence of regulatory gaps or barriers that may hinder the launch of these projects on the market, and the technological, governance and third-party dependency risks.

Also, in the course of 2022, the protocols were signed and testing began for two projects from the second and third calls that had obtained a favourable prior assessment by the Banco de España (ContractID and Eurocoinpay, respectively). In particular, ContractID completed its tests and it is currently awaiting the publication of the conclusions document prepared by the Banco de España.

If we take into account the projects from the four calls in which the Banco de España has participated (alone or together with other supervisory authorities) in the prior assessment, the promoters belong to different sectors, mainly consultancy firms, FinTechs and banks (see Chart 1.1). As regards the technologies of the projects that obtained a favourable prior assessment, distributed ledger technology continued to dominate, followed by artificial intelligence (see figure 1.2).

None of the various technological innovation projects tested in Sandbox have so far been identified as being applicable to the better performance of the supervisory functions carried out by the Banco de España.

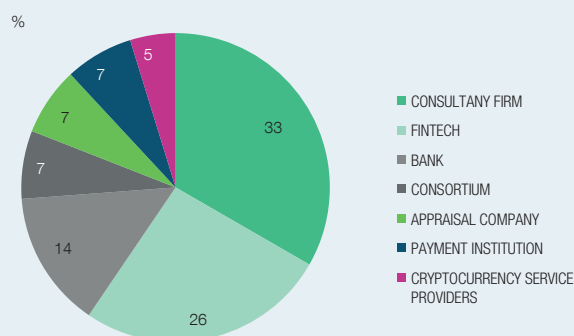
In 2022, the authorities responsible for Sandbox continued to work on improving its functioning. Firstly, the documentation to be provided by the promoter to justify compliance with data protection regulations has been simplified and the documentation related to money laundering and terrorist financing legislation has been further specified. Secondly, once the Sandbox process has been completed, the competent authorities have organised a discussion to assess the possibility of promoting regulatory changes to facilitate the secure development of innovation within the financial sector. As regards the impact of this tool on the promotion of financial innovation and, in particular, on the trajectory of the participating companies, it is still too early to make an assessment, as the testing of the projects that applied for the first call has just been completed.

As for the Banco de España, the communications channel for queries on financial innovation (provided for in Article 20 of Law 7/2020) was more widely disseminated, and communication and dissemination efforts continued on Sandbox at both national and international level.

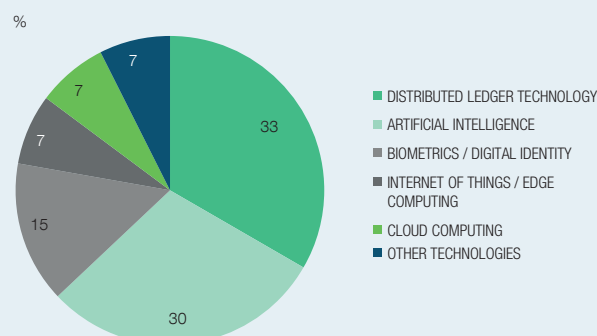
As part of this work, the Banco de España held a meeting with the financial community on 27 January at its headquarters in Malaga, which was attended by some of

Chart 1  
PROMOTERS AND TECHNOLOGIES OF THE SANDBOX PROJECTS ANALYSED BY THE BANCO DE ESPAÑA

## 1 BY TYPE OF PROMOTER (ASSESSED PROJECTS)



## 2 BY TYPE OF TECHNOLOGY (PROJECTS WITH FAVOURABLE PRIOR ASSESSMENT) (a)



SOURCE: Banco de España.

a Projects can use more than one technology. Technologies in accordance with what is reported by the promoter in its application.

CONTROLLED DIGITAL INNOVATION TESTING SPACE: SANDBOX (Cont'd)

the promoters of the projects admitted to the first call of Sandbox and at which they shared their experience after participating in the controlled testing space.

Lastly, the European procedural framework for cross-border testing was launched in 2022, allowing promoters to test

their innovation simultaneously or in parallel in several Sandboxes in European Economic Area countries<sup>3</sup>. Once access to a Member State's Sandbox has been requested, promoters can request that other European authorities also monitor the tests, or that they are observers or have access to the test results.

3 <https://digital-finance-platform.ec.europa.eu/>

evaluation will be conducted by a team of independent international experts and will start in 2023.

Lastly, Box 2.8, which is dedicated to Sandbox, provides an update on the functioning of Sandbox, the projects that have participated in it and its improvements. In accordance with Article 26 of Law 7/2020 of 13 November on the digital transformation of the financial system, this document must reflect an assessment of the possible applicability and implementation for the better performance of the supervisory function of technological innovations that have been tested in the controlled testing space regulated in that law (Sandbox). According to the Banco de España's assessment, none of the projects that completed their passage through Sandbox in 2022 provided mechanisms for the better exercise of the supervisory function, so these assessments are not specifically included in Box 2.8.

Cover
Contents
Presentation by the Governor
Interview with the Deputy Governor
Supervision Report: Digest
Chapter 1
Chapter 2
Chapter 3
Chapter 4
Chapter 5
Chapter 6
Chapter 7
Chapter 8
Chapter 9
Index of photographs
Banco de España publications
Acronyms and abbreviations





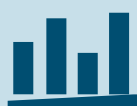






# 3

## MACROPRUDENTIAL POLICY



## EVOLUTION OF SYSTEMIC VULNERABILITIES

In the usual monitoring of systemic vulnerabilities through indicators and stress tests, no risk warnings were detected



## MACROPRUDENTIAL TOOLS

Two types of capital buffer are regularly set: CCyB and buffers for G-SIIs and O-SIIs. The adequacy of lending conditions and sectoral concentration is also assessed



## COUNTERCYCLICAL CAPITAL BUFFER (CCyB)

It was maintained at 0%, as it was considered the appropriate level, given the adverse economic environment, geopolitical uncertainty, high inflation and the ECB's tightening monetary policy



## SYSTEMICALLY IMPORTANT INSTITUTIONS

1 Global Systemically Important Entity (G-SII) and 4 Other Systemically Important Entities (O-SIIs) were identified



## AMCESFI

2022 was the fourth year of activity of the Spanish macroprudential authority (AMCESFI), in which the Banco de España participates



## COORDINATION IN THE SSM

Cooperation with the ECB and the SSM national authorities took place in the areas of: i) analysis of risks to financial stability, and ii) exchange of information on national macroprudential measures

## 3.1 Macprudential tools

**Macroprudential tools are designed to mitigate risks and systemic vulnerabilities, increasing institutions' shock absorption capacity and mitigating the effects of shocks on the provision of funding and on the activity of the real economy.** The Banco de España regularly monitors risks and systemic vulnerabilities through stress tests on Spanish banks, and a series of indicators and specific methodologies that also guide the calibration of macroprudential tools<sup>1</sup>. On the basis of these analysis methods, in 2022 the Banco de España reviewed the adequacy of the levels of two macroprudential capital buffers, which address the build-up of cyclical and structural risks, respectively: (i) the countercyclical capital buffer (CCyB); and (ii) the buffers for Spanish global systemically important institutions (G-SII) and other systemically important institutions (O-SII). Moreover, it was not necessary to activate any of the other macroprudential tools available in the legislation, due to the absence of signs of build-up of risk that justify it.

**Noteworthy in 2022, the transposition of the latest capital requirements directive (CRD-V)<sup>2</sup>, including its macroprudential aspects, was completed.** The CRD-V regulatory changes promote sound risk management of credit institutions to ensure their solvency and strengthen banks' resilience to systemic risks. In the macroprudential area, the main changes relate to: (i) the sectoral application of the systemic risk buffer; (ii) methodological adjustments to the setting of capital buffers for systemic institutions; and (iii) the simplification of the regime whereby national authorities notify European bodies of proposed macroprudential measures.

### 3.1.1 Stress tests

**The Banco de España conducts forward-looking exercises to measure the resilience of credit institutions to the hypothetical materialisation of macroeconomic and financial risks.** The main objective of the stress tests is to assess the solvency of Spanish credit institutions under various macroeconomic scenarios. These exercises are conducted by means of an analytical tool developed

1 For more details on risk identification indicators, see Banco de España Strategic Plan 2024: Risk identification for the financial and macroeconomic stability, (2021). "How do central banks identify risks? A survey of indicators". Occasional Papers - Banco de España, 2125. <https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriadas/DocumentosOcasiones/21/Files/do2125e.pdf>.

2 Directive (EU) 2019/878 (CRD-V) was transposed through Royal Decree 970/2021 of 8 November and Banco de España Circular 3/2022 of 30 March.

in-house, known as FLESB. FLESB has a top-down approach and uses highly granular information available from regulatory and supervisory reporting to the Banco de España, and it projects the evolution of institutions' balance sheets and income statements based on these scenarios over a three-year horizon<sup>3</sup>.

**The 2022 stress tests were focused on examining risks stemming from geopolitical tensions, higher and persistent inflation, and tighter financial conditions.** These exercises considered a baseline scenario, which reflected the most likely evolution of the economic environment until 2024; and an adverse scenario, which reflected the materialisation of the main risks identified for the Spanish economy, related to the new macro-financial environment brought about by the Russian invasion of Ukraine and the subsequent increase in energy and raw material prices. In 2022, risks were characterised by higher and more persistent inflation, associated with a tightening of financial conditions and a strong reduction in GDP growth. This is an important qualitative change compared to the scenarios used in 2021, where the focus was on risks associated with health developments, linked to the deterioration of activity and confidence. The modelling took into consideration both the economic support measures adopted during the pandemic that are still in place (e.g. ICO guarantee lines) and the potential latent credit deterioration as a result of the economic effects of the pandemic in the 2020-2021 period. In addition, the heterogeneity of the probability of default based on the borrower's sector of activity was modelled, which is particularly significant given the different impact of the increase in energy and raw material prices in the current risk context on the gross value added of the various sectors.

**The results obtained show an adequate aggregate loss-absorbing capacity of Spanish credit institutions both in the baseline scenario and in the adverse scenario.** Specifically, as illustrated in Chart 3.1, in an adverse scenario Spanish credit institutions would be able to maintain their CET1 ratio at 10.5% (-2.3 pp with respect to their position at the end of 2021), and in the baseline scenario, the CET1 ratio would increase to 13.4% (+0.6 pp with respect to their level at the end of 2021).

However, the usual caution needs to be exercised in the interpretation of the stress test results. It is worth noting that there are differences in the stress test results of the various institutions due to differing initial solvency positions and differences in the impact of the various scenarios on the institutions. Moreover, the current environment is uncertain, and it is possible that there are further shocks beyond those envisaged in the exercises and unanticipated economic policy responses. Given this uncertainty, it is necessary that the supervisor continues with its close monitoring and that

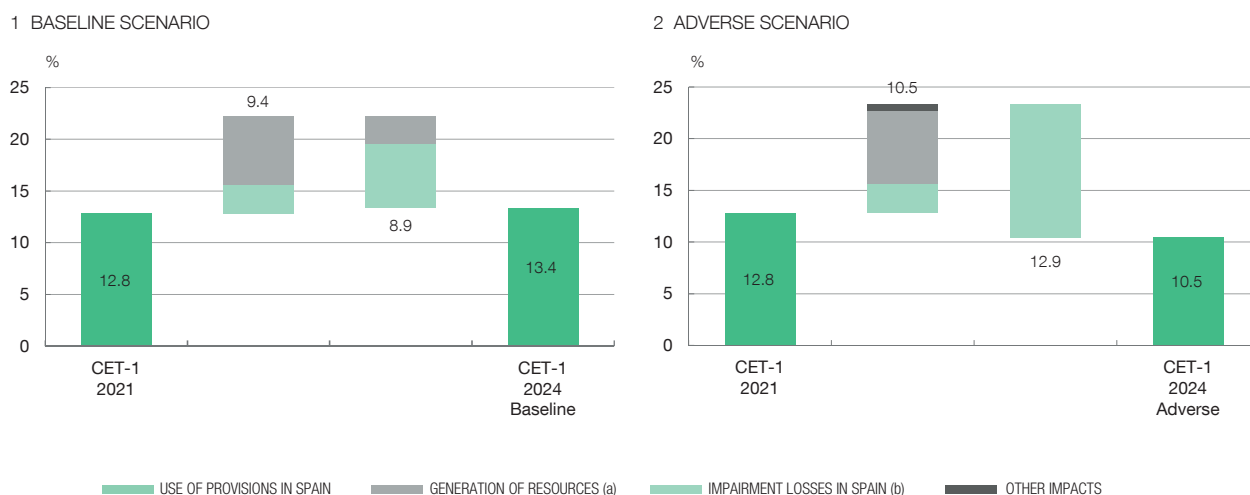
<sup>3</sup> Each autumn issue of the Banco de España's Financial Stability Report shows the results and the main methodological improvements included in each exercise. The basic structures of the framework can be seen in the Financial Stability Report of November 2013 of the Banco de España. <https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinancera/13/IEF-Noviembre2013.pdf>.



Chart 3.1

**FLESB STRESS TESTS. IMPACT ON THE CET1 RATIO**

Credit institutions show considerable resilience, despite the relatively high volume of impairment losses in the business in Spain in both scenarios. In the baseline scenario, use of provisions and generation of capital offset impairment losses, while in the adverse scenario, additional impairment losses and lower capacity to generate capital reduce the 2023 CET1 ratio with respect to the starting ratio, albeit above the minimum thresholds required.



**SOURCE:** Banco de España.

**NOTE:** The net effect of the positive (negative) flows are indicated by the figure above (below) the corresponding bar. The initial and final CET1 ratios are presented as "fully-loaded". The other impacts include the change in RWAs between 2021 and 2024 and the effect of the ICO guarantees. Aggregate results include institutions supervised directly by both the SSM and the Banco de España.

- a This variable includes net operating income in Spain and net income attributable to business abroad. Thus, the possible capital generated by the banking group as a whole is compared with the impairment losses in Spain, which are the focus of these exercises.
- b This variable shows the projection over the three years of the exercise of gross losses due to credit portfolio impairment for exposures in Spain and other types of loss (associated with the fixed-income portfolio, the management of foreclosures and the sovereign portfolio).

institutions exercise extreme prudence in their provisioning and capital policies, so that they have sufficient capital, even in the event of adverse scenarios materialising.

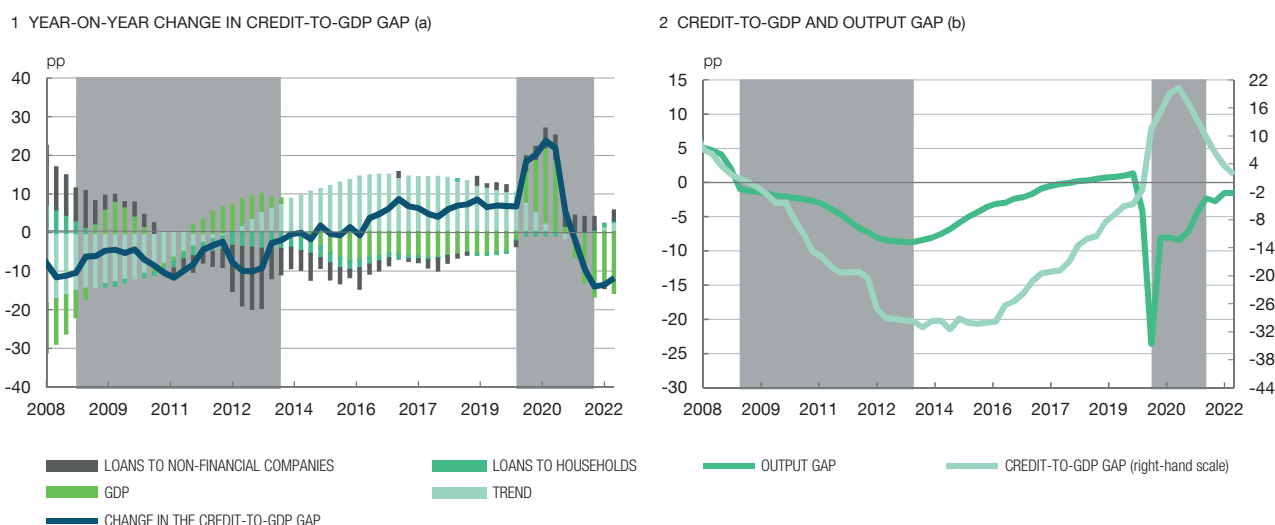
### 3.1.2 Countercyclical capital buffer

**The Banco de España decided to maintain the CCyB at 0% for credit exposures in Spain in 2022.** The CCyB is a capital requirement designed to ensure that banks build up an additional capital reserve in financial upturns, when conditions are favourable. This buffer would be released in a subsequent downturn so as to absorb potential credit losses and help mitigate the contraction in credit flows to the real economy inherent to such adverse situations. The economic recovery following the shock generated by the COVID-19 crisis has been shaped by the war in Ukraine, high inflationary pressures and the tightening of the ECB's monetary policy. In view of this adverse environment, where the likelihood of low growth and even recession scenarios is high, maintaining the CCyB at 0% was considered the appropriate

Chart 3.2

**CREDIT-TO-GDP GAP AND OUTPUT GAP**

In 2022 the widening of the credit-to-GDP gap following the start of the pandemic continued to be corrected, and the gap was below the 2 pp threshold from the third quarter. The current environment of economic uncertainty generated by the war in Ukraine and the inflationary pressures could affect the rate at which this indicator is corrected. Therefore, it is worth considering indicators on developments in the macroeconomic environment, such as the output gap, to guide CCyB decision-making.



**SOURCES:** Banco de España and Datastream.

NOTE: The shaded areas denote the latest systemic banking crisis (2009 Q1 - 2013 Q4) and the crisis triggered by Covid-19 (2020 Q1 - 2021 Q4).

- a** The solid line represents the year-on-year change, in percentage points, of the credit-to-GDP gap. The latest observation is for September 2022.
- b** The credit-to-GDP gap is the difference between the credit-to-GDP ratio and the trend calculated using a one-sided Hodrick-Prescott filter. The gap is adjusted to adapt its calculation to a shorter cycle duration that is more consistent with the empirical evidence in Spain. To this end, a smoothing parameter of 25,000 is considered. The output gap is the percentage difference between observed GDP and potential GDP. Values calculated at constant 2010 prices. See P. Cuadrado and E. Moral-Benito. (2016). "Potential growth of the Spanish economy". Occasional Papers No 1603, Banco de España <https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSerias/DocumentosOcasiones/16/Fich/do1603.pdf>. The latest observation is for September 2022.

response<sup>4</sup>. Moreover, this macroprudential policy decision is in line with the warning issued in 2022 by the ESRB on the vulnerabilities of the EU financial system (ESRB/2022/7)<sup>5</sup>.

**The narrowing of the credit-to-GDP gap in 2022 is consistent with maintaining the CCyB at 0%.** The credit-to-GDP gap, the main benchmark indicator used in the quarterly reviews of the CCyB, measures the deviation of the aggregate indebtedness of the economy (credit-to-GDP ratio) from a long-term equilibrium trend<sup>6</sup>, such that an increase in this indicator above 2 pp may be a warning sign

<sup>4</sup> See the current CCyB for exposures in Spain, together with the macro-financial indicators relevant to the decision, as well as the justification for the measure in the [XLS document available on the Banco de España website](#).

<sup>5</sup> The ESRB indicates in its [Warning 7/2022 of 22 September](#) that risks to financial stability in the EU have increased markedly due to the deterioration of the macroeconomic outlook, the heightened risk of a sharp asset price correction and the financial stability implications of these developments.

<sup>6</sup> This trend is calculated using statistical procedures (using a one-sided Hodrick-Prescott filter).

for potential excessive credit growth. In this regard, the jump above 2% in this indicator during the pandemic was not so much the result of an excessive increase in credit as of a fall in GDP, the denominator of this ratio. Therefore, the recovery in economic activity since mid-2021, combined with the moderation in credit performance, has supported its decline during 2022, and it has been below the 2 pp threshold since the third quarter (see Chart 3.2.1). Other complementary indicators are also analysed, such as the output gap, which measures the difference between actual and potential growth of the Spanish economy. This indicator shows that the recovery that started in 2021 slowed in 2022 and, therefore, at the end of 2022 all the deterioration accumulated during the pandemic had still not been corrected in full (see Chart 3.2.2).

### 3.1.3 Systemically important institutions

**The Banco de España identifies the Spanish systemically important institutions each year and sets their macroprudential capital buffers.** An institution is deemed systemic —globally or domestically— if, in the event of potential solvency problems, it can have a very adverse impact on the financial system and the real economy. Accordingly, an additional capital requirement is imposed on institutions to reinforce their resilience, incentivise prudent risk-taking and to correct their potential competitive advantage in the funding market stemming from their systemic nature. Systemic importance is assessed by a set of variables that measure institutions' size, degree of interconnectedness, substitutability of services provided, complexity and cross-border activity.

**At 31 December 2022, one G-SII, which is also an O-SII, and three other O-SIIs had been identified.** In July 2022 the Banco de España announced the designation of four O-SIIs with their associated capital buffers in 2023<sup>7</sup>, while in December 2022 it announced the identification of one G-SII with its 2024<sup>8</sup> requirement (see Table 3.1)<sup>9</sup>. The buffers required in 2023 for O-SIIs have remained stable with respect to those set the previous year, with the exception of CaixaBank, SA. The buffer for this institution rose from 0.375% to 0.5% due to the increase in its systemic importance as a result of its merger by absorption with Bankia, SA in March 2021. This change in the calibration of the buffer, effective from 1 January 2023, was anticipated in a Banco de España press release in 2021<sup>9</sup>.

7 See the press release of 22 July 2022 "Banco de España updates the list of other systemically important institutions and sets their macroprudential capital buffer rates for 2023". [https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/22/presbe2022\\_64.pdf](https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/22/presbe2022_64.pdf).

8 See the press release of 19 December 2022 "Banco de España identifies a Global Systemically Important Institution sets its macroprudential capital buffer rate for 2024". [https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/22/presbe2022\\_108.pdf](https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/22/presbe2022_108.pdf).

9 See the [press release published by the Banco de España](#) on 29 July 2021.

Table 3.1

**SYSTEMICALLY IMPORTANT INSTITUTIONS AND ASSOCIATED CAPITAL BUFFERS**

LEI code (a)	Institution	Designation (b)	Capital buffer requirement 2022 (%)	Capital buffer requirement 2023 (%)
5493006QMFDDMYWIAM13	Banco Santander, SA	G-SII and O-SII	1.00	1.00
K8MS7FD7N5Z2WQ51AZ71	Banco Bilbao Vizcaya Argentaria, SA	O-SII	0.75	0.75
7CUNS533WID6K7DGF187	CaixaBank, SA	O-SII	0.375	0.50
SI5RG2M0WQQLZCXKRM20	Banco de Sabadell, SA	O-SII	0.25	0.25

**SOURCE:** Banco de España.

**a** The LEI code is the Legal Entity Identifier.

**b** G-SII refers to global systemically important institutions; O-SII refers to other systemically important institutions.

### 3.1.4 Other macroprudential tools

**No other macroprudential tools have been activated, due to the absence of signs of imbalance that justify it.** In particular, the activation of any sectoral macroprudential tool was not considered, as no signs of sectoral imbalance requiring it were observed. Nor did the Banco de España introduce limits on lending criteria, as there were no signs of a relaxation of lending standards for companies and households. Lastly, the systemic risk buffer, which aims to prevent or mitigate structural or cyclical risks not covered by the CCyB or by buffers for systemic institutions, was not activated either.

## 3.2 Macroprudential coordination with other authorities in Spain and in the SSM

**The Banco de España is a member of AMCESFI<sup>10</sup>.** AMCESFI was created in 2019 and it is tasked with risk oversight for the Spanish financial system. It has the power to issue opinions, warnings and recommendations on issues of importance to financial stability. The Governor of the Banco de España is Vice-Chair of the AMCESFI Board, and the Deputy Governor, as well as sitting on the Board, chairs its Financial Stability Technical Committee (FSTC). Further, the Banco de España's Director General Banking Supervision (member) and Director General Financial Stability, Regulation and Resolution (member and secretary) are ex officio members of the FSTC.

**In 2022, AMCESFI published its *2021 Annual Report*.** On 7 September 2022, the First Deputy Prime Minister of the Government and Minister for Economic Affairs

<sup>10</sup> The AMCESFI was created by Royal Decree 102/2019 of 1 March, and is configured as a collegiate body attached to the Ministry of Economic Affairs and Digital Transformation, of which the CNMV and the DGSFP also form part.

and Digital Transformation presented this report to the corresponding committee of the Spanish Parliament. The report reviews the evolution of the Spanish financial system in 2021, a year marked by the gradual recovery of activity after the disruption caused by the COVID-19 pandemic. At the technical level, in 2022 AMCESFI's work was geared towards further developing the analysis of direct and indirect interconnections between sectors of the financial system, studying the regulatory approach to cryptoassets —and possible areas of cross-institutional action in this field for the three sectoral supervisory authorities— and making progress in the preparatory work for the first biennial report on climate change risks for the Spanish financial system<sup>11</sup>, which is scheduled for publication in 2023.

**Within the SSM, the Banco de España collaborates with other national authorities on macroprudential analysis and policy through the ECB's Financial Stability Committee (FSC).** The Banco de España participated in 2022 in the discussions on financial stability risks and vulnerabilities (summarised in the institution's half-yearly financial stability reports), the ECB's advice to the European Commission on the review of the macroprudential framework in EU banking regulation<sup>12</sup>, and other methodological lines of work on systemic risk measurement and stress testing. The work of the FSC is regularly presented to the Macroprudential Forum, which brings together members of the ECB's Supervisory Board and Governing Council. As an SSM authority, in 2022 the Banco de España notified the FSC of its proposals for quarterly CCyB measures and annual G-SII and O-SII measures, in the context of the mandatory review process by the ECB's decision-making bodies.

**In relation to the work of the FSC, the ECB's Governing Council issued three macroprudential policy statements in 2022.** In June 2022, the ECB published a statement<sup>13</sup> on the additional method for assessing the systemic importance of G-SIIs headquartered in the banking union. Further to a prior agreement by the Basel Committee on Banking Supervision (BCBS), the new method<sup>14</sup> provides for an adjustment to the treatment of the cross-border exposures of these institutions, bringing them into line with domestic exposures by a factor of 66% in recognition of the development of two of the three pillars of the banking union, the SSM and the Single Resolution Mechanism (SRM). In November 2022, the ECB published another

11 Report whose coordination is assigned to AMCESFI in Law 7/2021 of 20 May on climate change and energy transition.

12 See «ECB response to the European Commission's call for advice on the review of the EU macroprudential framework» of 19 March 2022. <https://www.ecb.europa.eu/pub/pdf/other/ecb.responsetothecallforadvice~547f97d27c.en.pdf>.

13 See «Governing Council statement on the treatment of the European banking union in the assessment methodology for global systemically important banks», of the ECB, of 27 June 2022. <https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/ComunicadosBCE/NotasInformativasBCE/22/2022-06-27-statement.pdf>.

14 Called Adjustment for Structural Regional Arrangements (ASTRA).

statement<sup>15</sup> aimed at supporting the above-mentioned ESRB warning on the vulnerabilities of the EU financial system. The statement warns that the war in Ukraine has complicated the macro-financial situation, aggravating pre-existing vulnerabilities and increasing the likelihood of short-term risks materialising, while cautioning that the macro-prudential policy response should take into account the specific conditions of each country and avoid an increase in capital buffers resulting in an excessive tightening of credit conditions. Lastly, the ECB's December 2022<sup>16</sup> statement contains a review of the minimum capital buffer framework for O-SIIs identified by national designated authorities in the banking union. The new framework, which the ECB will use to assess buffers with effect from 2024, will entail a moderate increase in the calibration of this macroprudential buffer, in order to reduce the disparity of national practices allowed under EU legislation.

15 See «Governing Council statement on macroprudential policies», by the ECB, of 2 November 2022. [https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/ComunicadosBCE/NotasInformativasBCE/22/presbce2022\\_144.pdf](https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/ComunicadosBCE/NotasInformativasBCE/22/presbce2022_144.pdf).

16 See «Governing Council statement on macroprudential policies», by the ECB, of 2 November 2022. [https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/ComunicadosBCE/NotasInformativasBCE/22presbce2022\\_167.pdf](https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/ComunicadosBCE/NotasInformativasBCE/22presbce2022_167.pdf).









# 4

## SUPERVISION OF INSTITUTIONS' CONDUCT



## CULTURE OF CONDUCT

The purpose of the supervision of conduct is to verify whether institutions are in line with transparency and customer protection legislation and also to transform their culture of conduct



## ADVERTISING AND REMOTE MARKETING

Analysis of advertising activity for banking products and services, advertisements, and internal procedures and controls Supervisory focus on adequate explanations and pre-contractual information for banking products and services marketed in digital environments



## PAYMENT SERVICES AND PAYMENT ACCOUNTS

Payment account switching. Contractual amendments. Basic payment account. Transparency in payment accounts (verifications through branch visits)



## CONSUMER CREDIT

Revolving credit (new mandates). Responsible lending. Tacit overdrafts



## REAL ESTATE CREDIT

Measures to alleviate the rise in interest rates on mortgage loans (New Code of Best Practice)



## 2022 SUPERVISORY ACTIVITIES AND SUPERVISORY MEASURES

Supervisory activities comprise supervisory actions (146 in 2022) and the monitoring of supervisory measures, monitoring of institutions and special monitoring. Supervisory measures adopted in 2022:

- i) 1 sanctioning proceeding initiated;
- ii) 25 requirements; iii) 57 recommendations; and iv) 81 publicity requirements

The conduct and reporting obligations imposed on supervised financial institutions by banking organisational and disciplinary rules act as customer protection measures and seek to preserve public confidence in the banking system, thereby helping to promote the stability of the financial system. Conduct-related supervisory actions have focused not only on verifying effective compliance with these rules, but also on guiding a change in institutions' culture of conduct, as an essential complementary way of ensuring an appropriate financial relationship between institutions and their customers.

In 2022 the Governing Council of the Banco de España approved a restructuring of the internal organisation, with the creation of the new Directorate General Financial Conduct and Banknotes. This new organisation represents a significant development in the framework of the Banco de España's strategy, aimed at guaranteeing the transparency of financial institutions' relations with their customers and the responsible banking model, and growing support for the actions in the areas of financial education and conduct supervision currently being performed by the Institutions' Conduct Department, while at the same time seeking to take better advantage of the synergies and proximity to the public offered by the branch network.

## 4.1 Conduct-related supervisory activity

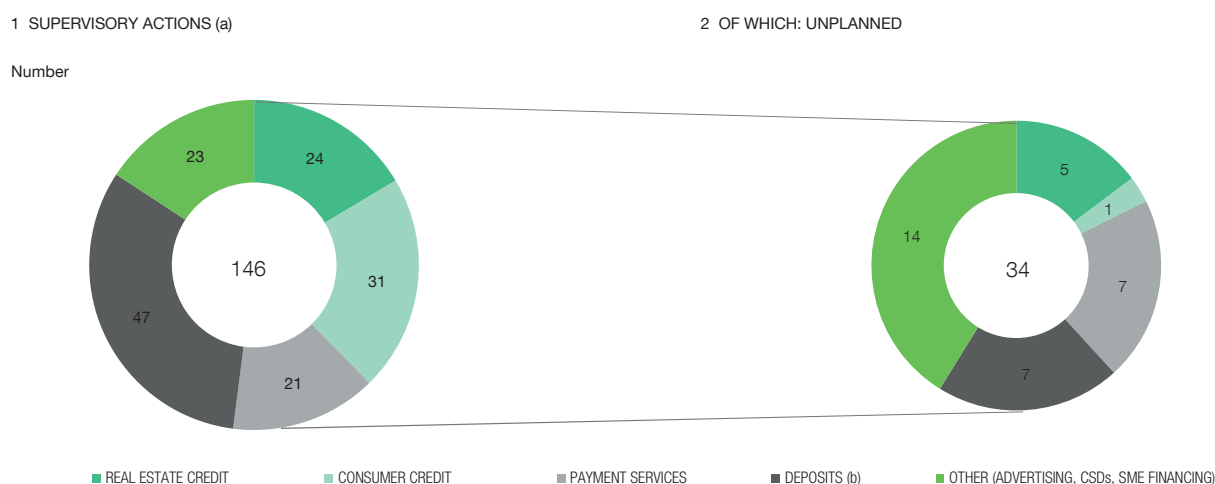
**As part of the Banco de España's conduct strategy, and with the objective of identifying the priority areas of action for the year, conduct supervision is planned annually,** taking into account the information obtained in the course of supervisory actions and in the ongoing monitoring of institutions. In addition to this planning, unplanned supervisory needs arose in the year and were duly addressed. As in previous years, in 2022 this supervisory activity, both planned and ad hoc, took the form of proposals for ongoing monitoring of institutions; and also of the performance of supervisory actions, either with a cross-institutional scope —to several institutions in relation to a specific regulatory aspect— or with an institution-specific scope —supervisory actions the distribution of which is shown in Chart 4.1.

**Supervisory activity in this area aims not only to verify compliance with transparency and customer protection regulations, and with good banking practice criteria and the supervisory expectations transferred to institutions, but also, more broadly and perhaps also effectively, to transform institutions'**

Chart 4.1

**CONDUCT-RELATED SUPERVISORY ACTIONS IN 2022 BY SUBJECT MATTER**

Supervisory actions were focussed mainly on the areas of activity relating to payment services, consumer credit and deposits.



**SOURCE:** Banco de España.

**a** Of these supervisory actions, 99 were initiated before the beginning of 2022.

**b** Deposits include, inter alia, current and savings accounts.

**culture of conduct, moving towards a responsible banking model**, with a focus on preventive supervision, and trying to ensure that the supervisory criteria derived from this activity reach all institutions. Therefore, once the deficiencies and weaknesses have been identified and, where appropriate, the corresponding supervisory measures have been imposed, the activity is centred on verifying institutions' effective compliance with the measures adopted, on assessing the potential changes that the implementation of these measures has brought about in institutions' customer relationships; and on defining guidance, criteria and supervisory guidelines for the sector in general, in order to achieve their effective implementation in the largest possible number of institutions.

#### 4.1.1 Ongoing monitoring

**Ongoing conduct-related monitoring work seeks to gain knowledge of institutions' business models and strategies, and of the market in general, in order to anticipate potential conduct risks.** This monitoring is carried out individually at institutions with the largest market share and retail activity, and in groups at the rest of the institutions, depending on the type of activity and business models; the monitoring involves analysing issues of significance from a conduct perspective, such as product offerings, the treatment and subject matter of claims, or how to address the problems of mortgage debtors in vulnerable situations. In



## MEASURES TO ALLEVIATE THE RISE IN INTEREST RATES ON MORTGAGE LOANS

Royal Decree-Law 19/2022 of 22 November<sup>1</sup> provided for various structural measures to improve the mortgage loan market. It is worth noting the creation of a new Code of Good Practice (CGP), with transitional nature—until 31 December 2024— and applicable to individuals holding loans or credits secured by real estate mortgages, granted until 31 December 2022, on the primary residence of the debtor or non-debtor mortgagor, whose acquisition price does not exceed EUR 300,000. It also modified the pre-existing CGP for the protection of mortgagors without resources, regulated in Royal Decree-Law 6/2012 of 9 March<sup>2</sup>.

The following Figure specifies the access regime and the measures provided for in both codes.

Among other actions, the Banco de España will publish the following on its website: i) a «Guide of tools for mortgagors facing payment difficulties»; ii) two simulators to provide information on the eligibility and access regime for the measures in both CGPs and on the impact of the proposed measures on mortgage loan terms and conditions; and iii) a list of contact points of the State, the Autonomous Regions and local authorities for the provision of services to citizens facing payment difficulties on their primary residence.

Figure 1  
CODES OF GOOD PRACTICES: ACCESS REGIME AND MEASURES

CGP of RDL 19/2022, for mortgagors at risk of vulnerability		CGP of RDL 6/2012, for mortgagors experiencing financial hardship	
		Particular vulnerability (1)	Particular vulnerability (2)
Requirements	Income of the family unit below 3.5 times the annual Public Indicator of Income for Multiple Purposes (IPREM) for 14 payments (or 4.5 or 5.5 times the IPREM, in cases of disability or illness)	Income of the family unit below 3 times the annual IPREM for 14 payments (or 4 or 5 times, in cases of disability or illness)	Income of the family unit below the threshold of 3 times the annual IPREM for 14 payments (or 4 or 5 times, in cases of disability or illness)
	In the 4 years preceding the application, the family unit:  (i) has suffered an increase in the effort represented by the mortgage burden of at least 20%, or  (ii) is in a situation of particular vulnerability	In the 4 years preceding the application, the family unit:  (i) has suffered an increase in the effort represented by the mortgage burden of at least 50%, or  (ii) is in a situation of particular vulnerability	In the 4 years preceding the application, the family unit:  (i) has suffered an increase in the effort represented by the mortgage burden of less than 50%, or  (ii) is not in a situation of particular vulnerability
	Mortgage instalment of more than 30% of family unit's net income	Mortgage instalment of more than 50% of family unit's net income (40% in cases of disability or illness)	Mortgage instalment of more than 50% of family unit's net income (40% in cases of disability or illness)
Measures	(i) Extend the repayment period up to a maximum of 7 years —without extending its total duration beyond 40 years— and freeze the mortgage instalment for a period of 12 months. The unpaid principal shall will accrue interest at a rate that entails a 0.5% reduction in the net present value of the loan  (ii) Conversion of the initial loan interest calculation formula, switching from a variable to a fixed interest rate, freely offered by each institution	(i) 5-year principal grace period  (ii) Extension of the repayment period up to a maximum of 40 years  (iii) Interest rate equal to Euribor minus 0.10% during the grace period	(i) 2-year principal grace period  (ii) Extension of the repayment period with a maximum of 7 years, without extending the total duration of the loan beyond 40 years  (iii) Reduction of the interest rate which entails a 0.5% reduction of the net present value of the loan during the grace period
		The new version of the CGP of RDL 6/2012 (i) allows for a second restructuring plan, and (ii) extends the period for applying for dation in payment of the principal residence to 2 years and the period for applying for and obtaining rent from the enforcing creditor of the dwelling to 12 months	

SOURCE: Banco de España.

- 1 Royal Decree-Law 19/2022 of 22 November, which establishes a Code of Good Practices to alleviate the rise in interest rates on mortgage loans on primary residences, amends Royal Decree-Law 6/2012 of 9 March on urgent measures to protect mortgagor debtors without resources, and adopts other structural measures to improve the mortgage loan market.
- 2 Royal Decree-Law 6/2012 of 9 March on urgent measures to protect mortgagor debtors without resources.

particular, and in relation to the latter issue —the problem of mortgagor debtors without resources— a new regulatory framework was recently approved, the essential aspects of which are summarised in Box 4.1, and which will be monitored in the coming months.

Information thus obtained in the monitoring work is very valuable for the design of a preventive supervisory strategy and of supervisory actions, and the establishment of a supervisory criterion in relation to certain aspects of conduct and their due transfer, through the tools available, to the institutions.

In addition, the new reporting of confidential information on conduct established by Banco de España Circular 4/2021 of 25 November to credit institutions and other supervised institutions on confidential return models relating to market conduct, transparency and customer protection and on the complaints register, is a milestone in the knowledge of institutions' business models and the definition of their conduct profiles. The first confidential returns to be submitted to the Banco de España will relate to the second half of 2022.

Figure 4.1

#### SUPERVISION OF ADVERTISING ACTIVITY

ONGOING SUPERVISION OF ADVERTISING OF BANKING PRODUCTS AND SERVICES		
ONGOING MONITORING	REVIEW OF ADVERTISEMENTS	ANALYSIS OF INTERNAL PROCEDURES AND CONTROLS
Analysis of information on banking products and services of supervised institutions	Ongoing review of advertisements broadcast in different media (press, TV, radio, digital media, social networks, etc.)	Assessment of the integrity and robustness of the controls implemented by institutions to manage risks arising from their advertising activity
Preparation of an annual monitoring report	Review of the content and format of advertising messages to verify that they comply with the principles and criteria to which they must conform	Review of marketing communication policies
Identification of supervisory priorities for the coming year	Sending institutions reporting requirements and requirements to withdraw or rectify advertisements, and management of institutions' representations	CONSULTATIONS ON REGULATIONS
Monitoring of institutions starting advertising activities	Detection of new media used by supervised institutions to disseminate advertisements	Resolution of consultations made by institutions in relation to the regulations
Monitoring of notifications of institutions' adherence to advertising self-regulation systems		Interpretation of Banco de España Circular 4/2020 of 26 June on the advertising of banking products and services
SUPERVISORY ACTION ON INTERNAL ADVERTISING REGISTERS	Supervisory action on a sample of 18 institutions to verify compliance with the obligations set out in Circular 4/2020 and in the technical specifications on the internal advertising register	
	Objectives: i) verify that the institutions in the sample record and keep all the documentation corresponding to each of the advertising campaigns disseminated over a given period and ii) conduct a statistical analysis of the information obtained to improve knowledge of the activity	

SOURCE: Banco de España.

In addition, ongoing monitoring is carried out on specific matters, allowing the supervisory framework and supervisory planning to be specified, such as the advertising of banking products and services described in Figure 4.1, claims and consultations, or the functioning of customer service departments (CSDs) and, in particular, the location of such information on their website. As a result of the monitoring of advertising activity, greater clarity in the advertising messages disseminated and a greater number of adverts being reviewed and classified as correct advertising were observed.

#### 4.1.2 Inspection actions

**In 2022, a significant portion of supervisory actions were focused on ascertaining and verifying the degree of compliance with payment service provision regulations.** Thus, inspections were carried out with the aim of analysing the procedure for notifying changes in current account conditions of certain supervised institutions, and verifying compliance with basic payment account regulations. In addition, actions were carried out on the practical application of contractual limits on withdrawals as mitigants of the risk of potential fraud in payment services; and on the application of the mechanism provided for in the regulations to ensure the swift switching of payment accounts and of the services and direct debits linked to them (see Box 4.2).

**As in previous years, visits were made to bank branches** in order to verify that the staff dealing with customers have sufficient knowledge of payment account regulations, and that this knowledge is conveyed with due clarity through appropriate explanations to customers. During these visits, the following are verified: i) the adequacy of the explanations and offering of the basic payment account; ii) the delivery of pre-contractual information in good time; iii) the information provided on the termination of accounts; or iv) the unauthorised payment transactions regime, all with the aim of enabling institutions to correct any shortcomings identified.

**Also, an inspection** was carried out at an electronic money institution, where shortcomings were identified in the processes of contracting and terminating contracts with customers.

**As regards consumer credit, most of the actions were cross-institutional and included several institutions in their subjective scope.** They analysed, among other issues, responsible lending practices and policies; loans granted in the form of overdrafts on demand deposits, which are detailed in Box 4.3; the various technological solutions, platforms and additional services associated with cards to defer payments at points of sale; and the measures implemented to comply with the

**PAYMENT ACCOUNT SWITCHING. A SWIFT AND EFFICIENT SERVICE THAT INSTITUTIONS MUST OFFER THE CUSTOMER**

The payment account switching service, regulated by Royal Decree-Law 19/2017 of 24 November and implemented by Ministerial Order ECE/228/2019 of 28 February, is intended to enable customers to easily switch their payment accounts from their former institution to other institutions whose offer may be more suited to their interests and needs. To this end, the former and new institutions must facilitate an efficient, swift and free switch of their accounts, collaborating and exchanging the necessary information, within a maximum period of 13 working days.

With the aim of verifying the degree of compliance with the obligations established in the regulations, detecting inadequate practices and identifying good practice criteria, a cross-institutional supervisory action was carried out on 19 institutions in 2022.

The review performed showed that: i) although the regulation stresses the importance of the former and new institutions offering a clear, fast and secure account switching procedure, the institutions analysed reported to the Banco de España that they had received a very small number of applications; and ii) the intended efficient and swift switch of payment accounts may not be taking place, firstly, because the new institutions are not giving adequate visibility to the service and, secondly, because they do not appear to be in a position, in all cases, to send the a copy of the customer authorisation to payers of standing orders and issuers of direct debits and, therefore, the customer's direct management is sometimes required to make the changes.

Therefore, the Banco de España addressed these institutions so that they are in a position to ensure that:

- The application form is available on their website, in a visible manner and with a clear and intuitive URL.
- The switch can be completed on a non-face-to-face basis, when services are provided remotely.
- The procedures include, among the actions to be taken by the new institutions, the delivery of a copy of the switch authorisation to the customer.
- The existence of enforceable obligations could only prevent the switch of the balance, but does not prevent the switch of the remainder of the operation.

Also, good practice criteria passed on to the institutions were identified, such as: (i) making videos, infographics or guides available to customers, which ease and guide the customer through the switch procedure when it is completed on a non-face-to-face basis; (ii) the information contained in the switch application form should be clear, concise and complete; and (iii) the receiving payment service provider should communicate to the applicant the reasons preventing the switch process from being completed on paper or on another durable medium.

As a result of the supervisory action, the institutions analysed are making the service visible on their websites and incorporating tools that facilitate the comprehension of the form and guide customers through the procedure for requesting the switch of their accounts.

new transparency and creditworthiness assessment obligations under the revolving credit regulation, which are detailed in Figure 4.2.

Lastly, two inspections were carried out on the arrangement of consumer credit, in which shortcomings were identified in the product marketing and offering processes, the correction of which is necessary to ensure that the customer has sufficient information upon arranging the credit and to avoid situations of over-indebtedness.

**In relation to real estate lending, in 2022 the inspection carried out in recent years was concluded.** Its objective was to check that the effective application of

**LOANS GRANTED IN THE FORM OF OVERDRAFTS (TACIT OVERDRAFTS)**

In tacit overdrafts, institutions make available to a consumer funds which exceed the balance in the consumer's account, allowing authorised payments to be made against their customers' accounts in excess of the account balance. In other words, institutions are not obliged to accept overdrafts on demand accounts opened with their customers, but if they decide to do so, they have the legitimate right to demand payment of the interest and fees and commissions stipulated in the agreement, subject to the limitations established by law.

In 2022, a cross-institutional supervisory action was completed at 22 institutions, verifying compliance with the obligations established in respect of tacit overdrafts granted to individuals in Law 16/2011 of 24 June on consumer credit agreements; in Ministerial Order EHA/2899/2011 of 28 October on transparency and customer protection in banking services; and in Banco de España Circular 5/2012 of 27 June to credit institutions and payment service providers on the transparency of banking services and responsible lending.

The action was focused on verifying the regulatory compliance of the way in which institutions grant, settle and communicate tacit overdrafts to the customer. In particular, special attention was paid to whether:

- Demand account contracts providing for this service include the minimum content established by the regulations.

- The interest rates, commissions or surcharges applied to the customer are in line with what was agreed and do not exceed the amounts advertised, in accordance with the breakdown provided in Annex 2 of Circular 5/2012 between the annual interest rate and the commissions envisaged for the granting of the overdraft.
- The amounts passed on to customers do not exceed, in any case, an annual percentage rate of more than 2.5 times the legal interest rate.
- The information provided to the consumer on a regular basis complies with the regulations.
- The overdraft settlement document contains all the data necessary for the customer to check the settlement made and calculate the cost of the service.

The supervisory action made it possible to convey to institutions the need to: (i) duly inform the customer of the overdraft regime applied in the event of a change in purpose of the account to a business account, and (ii) reinforce the communication that must be made to customers regarding the conditions applicable to overdrafts, the treatment in tacit overdrafts of certain charges for the provision of the institution's services, and the specification, where applicable, of the charge for the cost of claiming debit positions in the supposed tacit overdraft, thus completing the treatment initially given to these costs in the 2020 *Complaints Report*.




"floor clauses" (i.e. clauses that set a lower limit on interest rates) by institutions complies with the terms agreed in the corresponding contracts, and this was the most extensive inspection carried out to date, in terms of both the number of institutions and the files reviewed.

The Banco de España's supervisory teams used SupTech natural language processing tools and machine learning techniques to perform this action, which made it possible to increase the size of the samples of files analysed.

Moreover, the correct application by member institutions of the Code of Good Practices included in the annex to Royal Decree-Law 6/2012 of 9 March on urgent measures to protect mortgage debtors without resources was verified.

Figure 4.2

## NEW TRANSPARENCY AND CREDITWORTHINESS ASSESSMENT OBLIGATIONS PROVIDED IN THE REVOLVING CREDIT ORDER

Ministerial Order ETD/699/2020 of 24 July on the regulation of revolving credit and its implementation in Circular 3/2022 of 30 March		
The Banco de España has been paying special attention to the adequate marketing of revolving credit, which, due to its special characteristics and complexity, presents a high risk of over-indebtedness for the debtor. With the objective of reducing litigation and generating certainty, Ministerial Order ETD/699/2020 of 24 July, together with its implementation in Circular 3/2022 of 30 March, incorporates measures to reinforce transparency and creditworthiness assessments of revolving credit.		
New obligations		<ul style="list-style-type: none"> <li>Measures that reinforce the information the customer receives from the institution:               <ul style="list-style-type: none"> <li>Separate pre-contractual information document with representative example</li> <li>Regular information document with examples of scenarios and amount of the monthly instalment that would allow the debt to be settled in one year</li> <li>Additional information at the customer's request</li> </ul> </li> </ul>
		<ul style="list-style-type: none"> <li>Measures to perform the creditworthiness assessment on potential customers: evaluate whether the customer has sufficient financial capacity to repay a minimum annual amount of 25% of the limit of the credit granted without incurring over-indebtedness, and update the information to extend the credit limit</li> </ul>
Supervision action	 17 institutions	<ul style="list-style-type: none"> <li>Action carried out in 2022 to ascertain the manner in which institutions are complying with the new obligations. Main conclusions:               <ul style="list-style-type: none"> <li>Pre-contractual information document: (i) lack of homogeneity in the references on repayment modalities, (ii) dispersion in the way the information is provided and (iii) doubts about the minimum instalment to be included in the representative example</li> <li>Periodic information document: difficulty in breaking down the information, where different repayment modalities are permitted, and in savings scenarios</li> <li>Additional information at the customer's request: (i) no information is given on the possibility of requesting it, (ii) it is limited to a certain period of time, and (iii) it is not provided in the absence of a unilateral agreement to extend the limit on the part of the institution</li> </ul> </li> </ul>

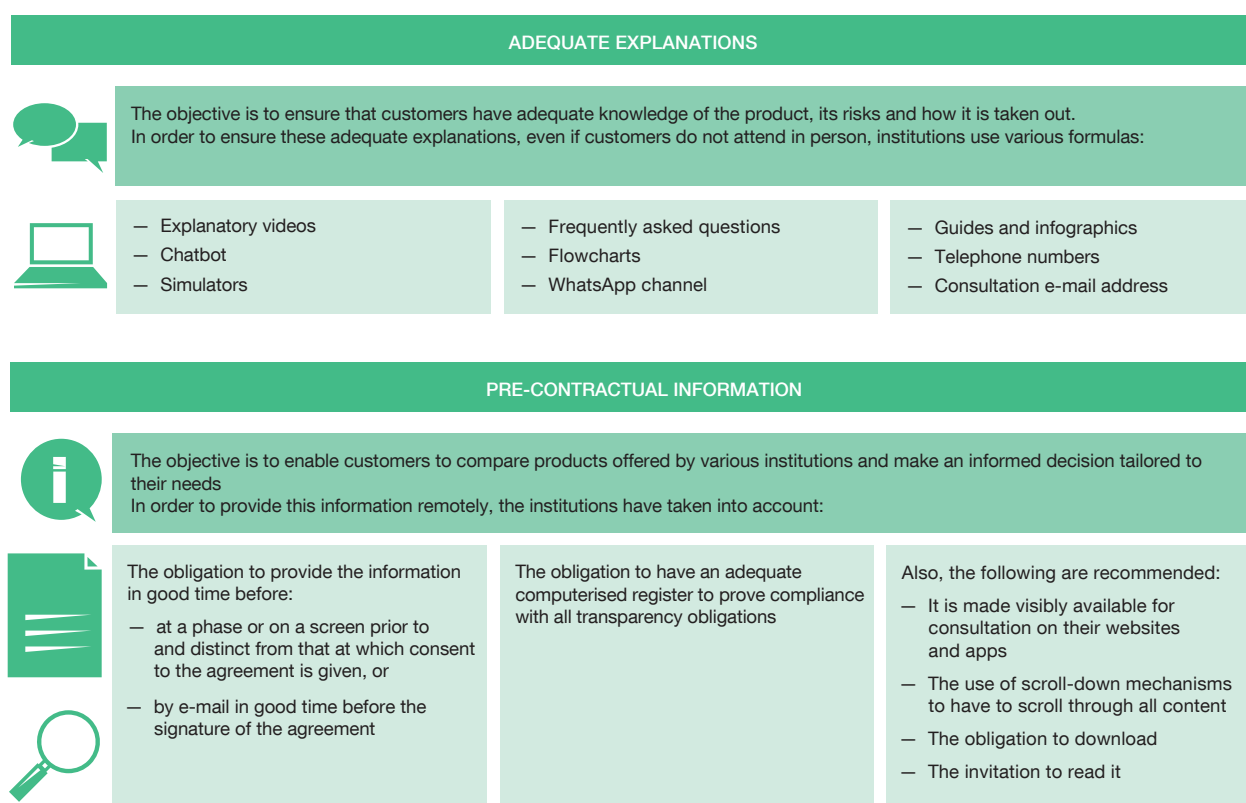
SOURCE: Banco de España.

**In addition, in an increasingly digitalised banking service provision environment, particular attention was paid to how institutions complied with their transparency obligations on the basis of the contracting channels used.** As shown in Figure 4.3, institutions adapted to comply with prior reporting obligations in digital environments.

In 2022 inspection actions were also carried out to verify the information reported to the Banco de España by the supervised institutions in the “Interest rates on lending transactions in Spain with the resident private sector” reporting included in Annex 9 of Circular 5/2012, with the objective of contributing to the preparation of benchmark indices, and assessments were made of the effective compliance with reporting obligations for SMEs in the event of the cancellation or reduction of the flow of finance.



Figure 4.3

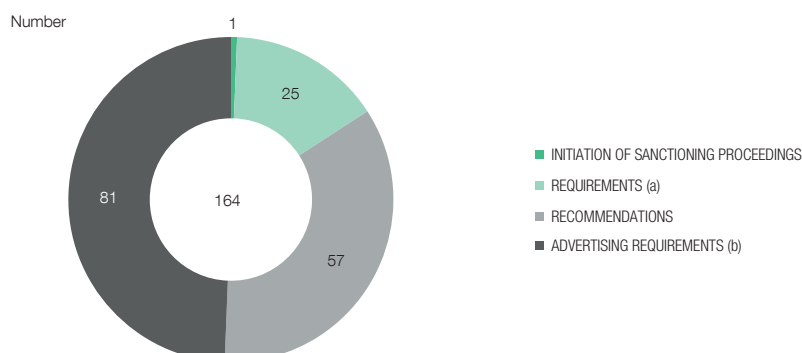
**REMOTE MARKETING OF BANKING PRODUCTS AND SERVICES**

SOURCE: Banco de España.

Chart 4.2

**SUPERVISORY MEASURES ADOPTED AND ADVERTISING REQUIREMENTS IN 2022**

In 2022, as a result of the supervisory actions carried out, 1 sanctioning proceeding was initiated, and 25 requirements and 57 recommendations were issued mainly on matters concerning payment services, including those relating to payment account switching services and customer information in branches on payment accounts; consumer credit, including revolving credit; and real estate lending, inter alia. Additionally, within the framework of the supervisory activity relating to advertising, 81 requirements were issued.



SOURCE: Banco de España.

a The 25 requirements letters contain 104 specific requirements for institutions.

b Of the 81 advertising requirements issued in 2022, at year-end 37 had resulted in the removal of advertising and 36 in the rectification of advertising.

## 4.2 Supervisory measures

### 4.2.1 Adoption of supervisory measures

**In 2022, a total of 106 requirements were issued, of which 81 related to requests issued in the area of supervision of institutions' advertising activity,** requesting the withdrawal or rectification of advertising that did not comply with regulatory requirements, and 19 requirements within the framework of the cross-institutional supervisory action on the payment account switching service. The other requirements issued include those relating to real estate lending and consumer credit.

Also, 57 recommendations were sent to institutions, focusing on aspects related to customer information in branches on payment accounts, the provision of the account switching service and real estate lending.

**In addition to the measures contained in the recommendation letters, and in relation to real estate lending actions on the correct application of the so-called "floor clauses", noteworthy is the detection of around 62,000 incidents in the contracting processes, which have been remedied** and have led to the refund of around 133 million euros, which has contributed to reinforcing confidence in the banking system.

Chart 4.2 includes a breakdown of the supervisory measures adopted in 2022.

**Lastly, in addition to the adoption of the above-mentioned supervisory measures, the supervision of CSDs gave rise to letters being sent to institutions.** Specifically, in 2022 448 letters were sent to institutions and 13 letters were sent to other supervisors as a result of the verification of their operating rules and suitability assessments of their head officers.

### 4.2.2 Monitoring and effectiveness of supervisory measures

**In 2022, work was performed on monitoring compliance with supervisory measures** arising from various cross-institutional actions and supervisory actions related to consumer credit, including revolving credit, and to real estate lending. As a result of this monitoring, there was a general improvement in institutions' conduct due to compliance with supervisory measures.

Thus, in relation to the supervisory measures related to revolving credit, the majority of institutions subject to the monitoring action were noted to have carried out an in-depth review of their product and their pre-contractual information and marketing procedures, for which they implemented various initiatives aimed at providing their

customers with adequate explanations and revised their pre-contractual information documents.

Through the monitoring of supervisory measures related to the supervision of consumer credit, certain improvements were noted in relation to, inter alia, the following: (i) the content of pre-contractual information and the way in which such information is provided to customers, both for products and ancillary services; (ii) the contractual information being in line with the pre-contractual information; (iii) responsible lending; or (iv) the governance of consumer financing products offered.

This monitoring of supervisory measures constitutes the final phase of verifying institutions' conduct and, at the same time, the new starting point for their ongoing monitoring, and the definition of an appropriate preventive supervision and supervisory planning framework.





# 5

## OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES



## TARGET2 OVERSIGHT

Most of the milestones of the Eurosystem's action plan in response to incidents in TARGET have been completed



## SNCE OVERSIGHT

Iberpay, the SNCE operator, completed the migration of the Bizum instant transfer operation from a deferred net settlement model to a real-time gross settlement model



## CARD TRANSACTION OVERSIGHT

Fraud rate (in amounts) of card transactions on the Internet: 0.14% in the first half of 2022 (0.21% in 2020). Decline due, among other factors, to the implementation of the SCA



## PAYMENT STATISTICS

Payment service providers and payment system operators successfully completed the first reporting under the new ECB Regulation 2020/2011



## OVERSIGHT FRAMEWORK

In accordance with the PISA framework, the Banco de España has identified the institutions subject to oversight. It now shares the leadership with the ECB in the monitoring of pan-European card scheme American Express



## MONITORING OF SECURITIES INFRASTRUCTURES

Monitoring of BMEC, especially the energy derivatives segment due to the sharp increase in prices and their volatility; and verification of the implementation of recommendations issued to Iberclear in the framework of the CSDR



Most trade and financial transactions are cleared and settled through financial market infrastructures. Due to the role they play and the importance of their proper functioning for the financial system as a whole, central banks are tasked with their oversight and, in some cases, their supervision.

## 5.1 Oversight of payment systems and instruments

Ensuring the efficiency and smooth functioning of payment systems is a responsibility of central banks, which also includes oversight of the payment instruments with which end users securely transfer funds.

### 5.1.1 Payment systems

**The Banco de España participates in the Eurosystem's cooperative oversight of the real-time gross settlement system TARGET2, which is led by the ECB.** TARGET2 is operated by the national central banks of the euro area countries, and it is identified as a systemically important payment system in accordance with the SIPS Regulation<sup>1</sup>.

The evolution of TARGET2 and of the Spanish component (TARGET2-BE) is presented in Chart 5.1. In 2022, the number of transactions in TARGET2-BE grew by 3% with respect to the previous year and represented almost 7% of all transactions processed in TARGET2. In terms of value, the growth of the Spanish component was more pronounced, reaching 21%, which accounts for 3% of the total value of TARGET2 transactions, which grew by 18% in 2022. In general, the dynamism of the value in TARGET2 and TARGET2-BE is explained by the interbank component, partly due to the transfer of balances to the technical accounts of the new settlement model used by STEP2, which is based on a prior contribution of funds<sup>2</sup>.

**Regarding the status of the system, on 30 June 2022 the Governing Council of the ECB took note of the first action plan progress report<sup>3</sup> prepared by the Eurosystem**

<sup>1</sup> Regulation (EU) No 795/2014 of the ECB of 3 July 2014 on oversight requirements for systemically important payment systems.

<sup>2</sup> Continued Gross Settlement

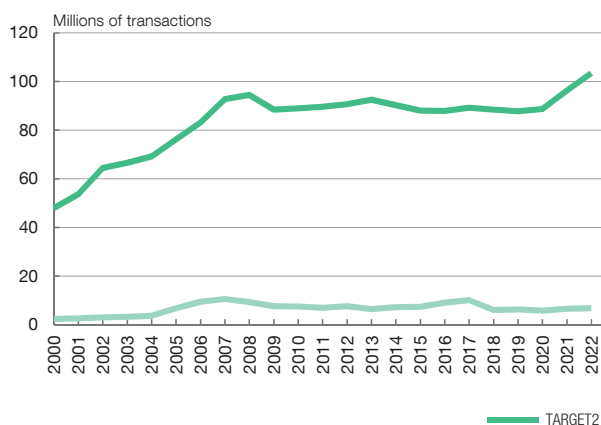
<sup>3</sup> The action plan covers six workstreams, relating to change management, business continuity management, recovery tests, communication protocols, governance, and operation of data centres and IT systems.

Chart 5.1

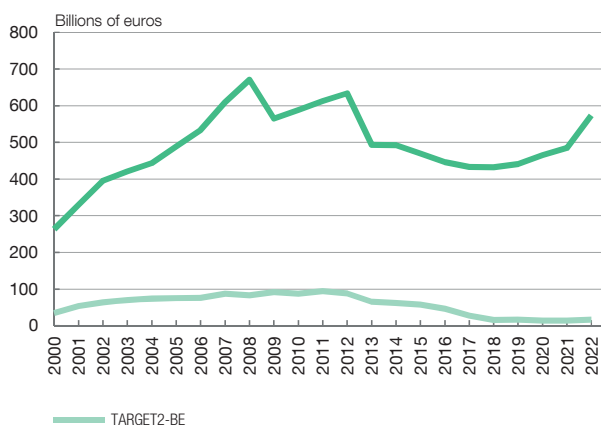
## OVERVIEW OF TARGET2 AND TARGET2-BE OPERATIONS

In 2022 the Spanish component, TARGET2-BE, represented 6.6% of the number of transactions processed in TARGET2 and 2.9% of the total value of the transactions.

1 NUMBER OF TRANSACTIONS PER YEAR



2 VALUE OF TRANSACTIONS PER YEAR



SOURCE: Banco de España.

to implement the various recommendations issued by an external auditor and by the oversight and internal audit functions in response to the incidents experienced by the TARGET services in 2020.

**By the end of 2022, most of the milestones of the action plan had been completed and the remaining actions will be finalised in the first quarter of 2023, since they are linked to the entry into operation of the consolidation of TARGET2 and TARGET2-Securities.**

The launch of the consolidation project was rescheduled to 20 March 2023, with a view to giving users more time to complete their tests in a stable environment. The decision took into account the importance and systemic nature of TARGET services, especially considering the current geopolitical conditions and the volatility of financial markets.

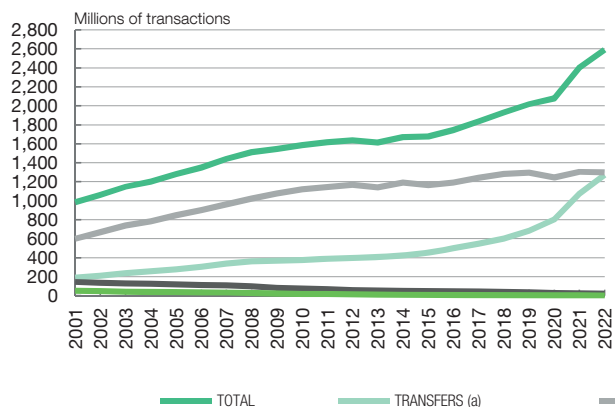
**The Banco de España also participated in the cooperative oversight of the other pan-European systemically important payment systems (SIPS).** Thus, with regard to Mastercard, work was carried out on the first full SIPS assessment of the Mastercard Clearing Management System. With regard to EURO1 and STEP2, which are both SIPS operated by EBA Clearing, the oversight activities were focused on monitoring the recommendations aimed at mitigating the fraud risk related to access points in EURO1, as a large-value payment system, and the recommendations stemming from the assessment of the new STEP2-CGS settlement model, the migration of which was completed on 11 July 2022.

Chart 5.2

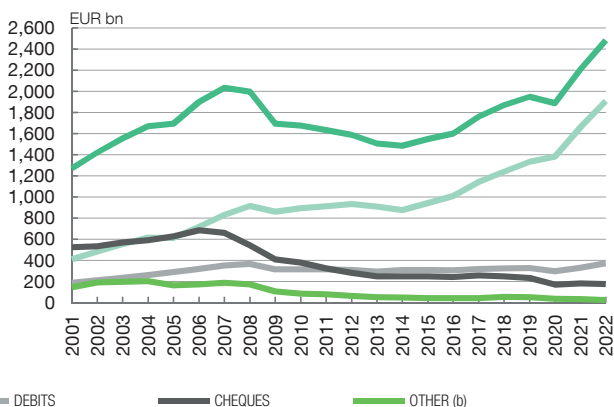
**OVERVIEW OF SNCE OPERATIONS**

SNCE operations in 2022 maintained the dynamic that was seen in 2021, with annual growth of 7.9 %. In terms of value, growth was sharper as a result of the inflationary process in the year.

1 NUMBER OF TRANSACTIONS PER YEAR



2 VALUE OF TRANSACTIONS PER YEAR



**SOURCE:** Banco de España, based on Iberpay data.

**a** Including instant transfers as from 2018.

**b** Including bills of exchange and other.

**At the national level, the Banco de España is responsible for the oversight of the National Electronic Clearing System (SNCE), the national clearing house managed by Sociedad Española de Sistemas de Pago, SA (Iberpay).**

Chart 5.2 shows the evolution of the transactions of the various SNCE subsystems in 2022, in terms of both number of transactions and value. As shown in the Chart, the SNCE's operations in 2022 maintained the same dynamic as in 2021, with annual growth of 8% in terms of the number of transactions, as a result of the momentum observed in credit transfers and, in particular, instant credit transfers, which grew by 39% in 2022. This growth in instant credit transfers may be due, among other factors, to the decrease in cash transactions, whose weight in the Spanish economy, according to SPACE<sup>4</sup> data, fell from 84% in 2019 to 66% in 2022, and not so much to a substitution effect of ordinary credit transfers, which grew by 5% in 2022. In addition, in 2022 the SNCE completed the migration of the Bizum payments from a deferred net settlement model to a real-time gross settlement model.

In contrast, payments with cheques continue to decline, with a 13% reduction in 2022 in terms of transactions. Direct debits fell by 0.4% in 2022, partly reflecting economic uncertainty. The behaviour of the different SNCE subsystems in terms of value does

<sup>4</sup> Study on the payment attitudes of consumers in the euro area (SPACE). [https://www.ecb.europa.eu/stats/ecb\\_surveys/space/html/index.en.html](https://www.ecb.europa.eu/stats/ecb_surveys/space/html/index.en.html)

not introduce any change with respect to that indicated for the number of transactions, although the growth in 2022 was more pronounced, as a consequence of the inflationary process this year, which means, for example, that the value of transactions processed in the SNCE grew by more than 12%, compared with the 8% increase in the number of transactions indicated above.

**As part of the oversight of Iberpay, the annual risk monitoring report was analysed, based on the global risk management framework.** The conclusion was that its risk management model meets the objective of having risk management policies, procedures and systems in place to identify, measure, oversee and manage the range of risks that the infrastructure faces.

### 5.1.2 Payment instruments

The Eurosystem oversight framework for electronic payment instruments, schemes and arrangements<sup>5</sup> (the PISA framework), which entered into force in November 2022, sets out oversight expectations for the sound risk management of retail payments and their supporting infrastructures, complementing existing regulations. The Banco de España shares the leadership with the ECB in the monitoring of American Express as a pan-European card scheme. Furthermore, it participated in the joint oversight groups, under the leadership of the ECB, for the scheme managed by Visa Europe and for the SEPA<sup>6</sup> payment schemes managed by the European Payments Council relating to credit transfers (SCT), instant transfers (SCT Inst) and direct debits (SDD Core, SDD B2B). Ongoing oversight of these schemes included statistical monitoring and the evaluation of updates to their operating rules in 2022.

**The Banco de España is also responsible for the oversight of Sistema de Tarjetas y Medios de Pago, SA (STMP) and it monitors its operations.** Chart 5.3 shows the recent evolution of domestic card transactions. On the one hand, there was a recovery of pre-pandemic levels of activity, and a clear difference between the growth in 2022 in the number of card payments, which was almost 23%, and the growth in cash withdrawals, which was close to 4% in the same year. This difference was also observed in terms of value, albeit to a somewhat lesser extent, as the value of card payments grew by around 22% in 2022, and the value of cash withdrawals by 7%. The similar growth rate observed in the number and value of card purchase transactions, in a high inflation environment, is partly a consequence of the offsetting effect in terms of average value per transaction, as a result of the shift from

<sup>5</sup> For more information, see Banco de España. (2021). "Box 5.2. The new Eurosystem oversight framework for payment instruments, schemes and arrangements". In *the 2020 Supervision Report - Banco de España*. [https://www.bde.es/f/webbde/Secciones/Publicaciones/PublicacionesAnuales/MemoriaSupervisionBancaria/20/recuadro\\_5.2.pdf](https://www.bde.es/f/webbde/Secciones/Publicaciones/PublicacionesAnuales/MemoriaSupervisionBancaria/20/recuadro_5.2.pdf)

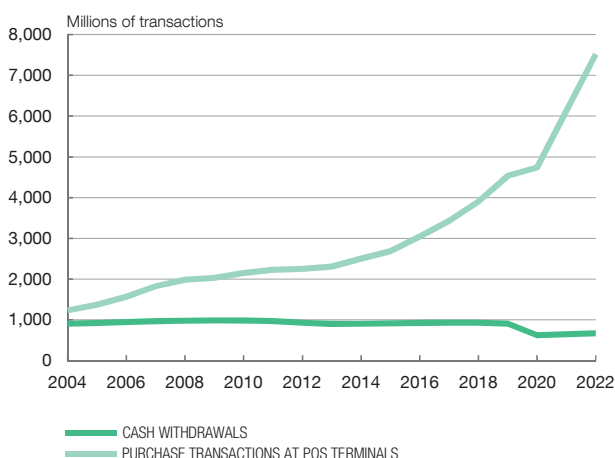
<sup>6</sup> SEPA stands for Single Euro Payments Area.

Chart 5.3

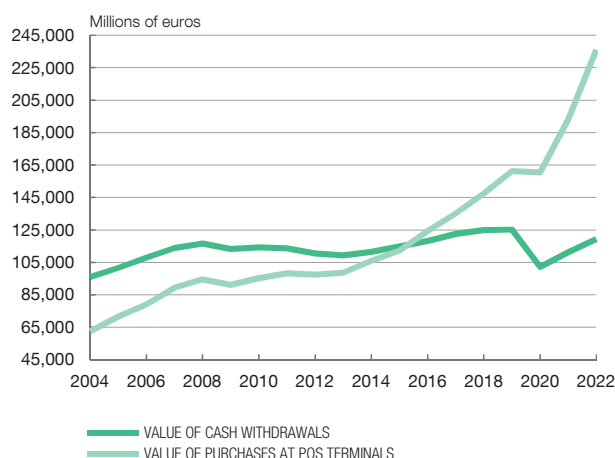
**OVERVIEW OF OPERATIONS WITH CARDS**

The disparity in growth of card payments and cash withdrawals continued in 2022 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 2022 were estimated on the basis of the variable's behaviour in the first three quarters of the year.

transactions previously made with cash, which tend to be of a lower average value, to card transactions.

Based on information from STMP<sup>7</sup>, the fraud ratio for transactions with cards issued in Spain in the first half of 2022 was 0.025%, in terms of number of transactions, as compared with 0.021% in 2021, which represents a slight deterioration in the performance of this variable. However, fraud ratios remain significantly lower than in 2020 (0.032%) thanks to the widespread use of strong authentication in remote card transactions. This effect is more evident when analysing fraud in internet-based transactions, where the fraud rate fell from 0.15% in 2020 to 0.13% in the first half of 2022. This decrease is even more pronounced in terms of value, since the fraud rate fell from 0.21% in 2020 to 0.14% in the same period in 2022.

**Lastly, in 2022 the Banco de España approved the Spanish legislation implementing the regulation on payment statistics<sup>8, 9</sup>.** This regulation, which is discussed in Box 5.1, requires central banks to gather a large amount of information on payment transactions, which facilitates central banks' oversight and supervision tasks.

<sup>7</sup> Data referring to transactions with Spanish cards corresponding to the Visa and Mastercard schemes that are processed by Spanish infrastructures.

<sup>8</sup> 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).

<sup>9</sup> For further information, see section 8.1.2.

## BOX 5.1

### PAYMENT STATISTICS REGULATION

The European Central Bank (ECB) needs statistical information on payments and payment systems in order to fulfil the task of promoting the smooth operation of payment systems in the European Union (EU) assigned to it by the EU Treaty. The collection of statistics enables the ECB to effectively understand and monitor the evolution and degree of integration of payment systems and payment markets in the Member States; it provides the most significant users and the general public with a comprehensive overview of the payments world in Europe in terms of volumes, amounts, services, providers and systems; and, lastly, it provides support for the adoption of policy decisions of the European System of Central Banks in the area of payments. To this end, Regulation (EU) 1409/2013 on payment statistics was approved, which establishes that the ECB, in cooperation with the national central banks (NCBs), will collect information on payments and payment systems. Mandatory for euro area Member States and voluntary for all other EU Member States, it was subsequently amended by ECB Regulation (EU) 2020/2011, which was implemented in 2022.

The ECB has been collecting payment statistics since 2000, but since the adoption of the Regulation, with the assistance of the NCBs, it has received and disseminated more comprehensive information on an annual basis for the years 2014 to 2021. The amendment of the Regulation in 2020 has greatly expanded the statistical requirements, so that it has been adapted to the evolution of payments in recent years. Moreover, information on fraud observed in the various payment instruments is required, as well as more detailed and frequent statistical information on card payments with a breakdown by merchant category code and country, which is very useful for the compilation of balances of payments.

<sup>1</sup> EBA/GL/2018/05.

In order to simplify the reporting obligations of payment service providers, the amendment of the Regulation contains the requirements set out in Directive (EU) 2015/2366 on payment services in the internal market — the revised Payment Services Directive (PSD2)— on fraud data reporting, integrating the data provided for in the European Banking Authority (EBA) guidelines<sup>1</sup>. This makes it easier for authorities to agree on the submission of a single data flow from reporting agents. Thus, the ECB will be able to share with the EBA the fraud data received, avoiding double reporting by payment service providers. Another new development introduced by the amendment of the Regulation is the frequency of information. There is a shift from annual information to quarterly information (information which, among other purposes, allows for the improvement in the preparation of certain items in the Balance of Payments) and half-yearly information (information on payments and fraud).

Banco de España Circular 2/2022 of 15 March on rules for the submission of payment statistics by payment service providers and payment system operators, and Technical Application 1/2022 that implements it, constitute the implementation for Spain of Regulation 2020/2011. Under the umbrella of this new regulation, information has been received, processed and reported to the ECB for the first three quarters and the first half of 2022. As the volume of statistical requirements is very high, the implementation of the new regulation has involved a significant effort not only for the institutions that are obliged to report, but also for the Banco de España, the other NCBs and the ECB. This effort will be passed on to the information users when it is disseminated by both the ECB and the Banco de España.

## 5.2 Supervision of Iberpay

**The Banco de España is responsible for the supervision of Iberpay<sup>10</sup>, which is entrusted by law with operating the SNCE.** 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 Iberpay

<sup>10</sup> Article 17 of Law 41/1999 of 12 November on securities payment and settlement systems.



manages. Also, the technical or operating instructions regulating the operating procedures of these systems and services, together with the basic operating rules on the complementary services, must be communicated to the Banco de España following their adoption, and in this case the non-opposition of the Banco de España is sufficient for their entry into force.

**Among the tasks carried out in Iberpay supervision in 2022, the Banco de España assessed eight operating instructions for the SNCE, which the Bank did not oppose.** The main changes they introduced are as follows: i) the adaptation of the technical and operating rules of the SNCE subsystems to the new developments introduced by the new SNCE regulation, which came into force in February 2022 and which establishes, inter alia, the obligation that all instant transfers processed through the SNCE be settled through the use of the technical account held by the Banco de España in TIPS on behalf of Iberpay; ii) the replacement of the physical exchange of documents by the exchange of images through the SNCE; and iii) the launch of the first use in the subsystem of SEPA payment requests by the SNCE.

**Also, assessments were performed on a total of three amendments to the basic operating rules of two of the services offered by Iberpay,** corresponding to the account portability service and the account ownership confirmation service, and the Banco de España did not oppose any of them.

## 5.3 Oversight of securities infrastructures

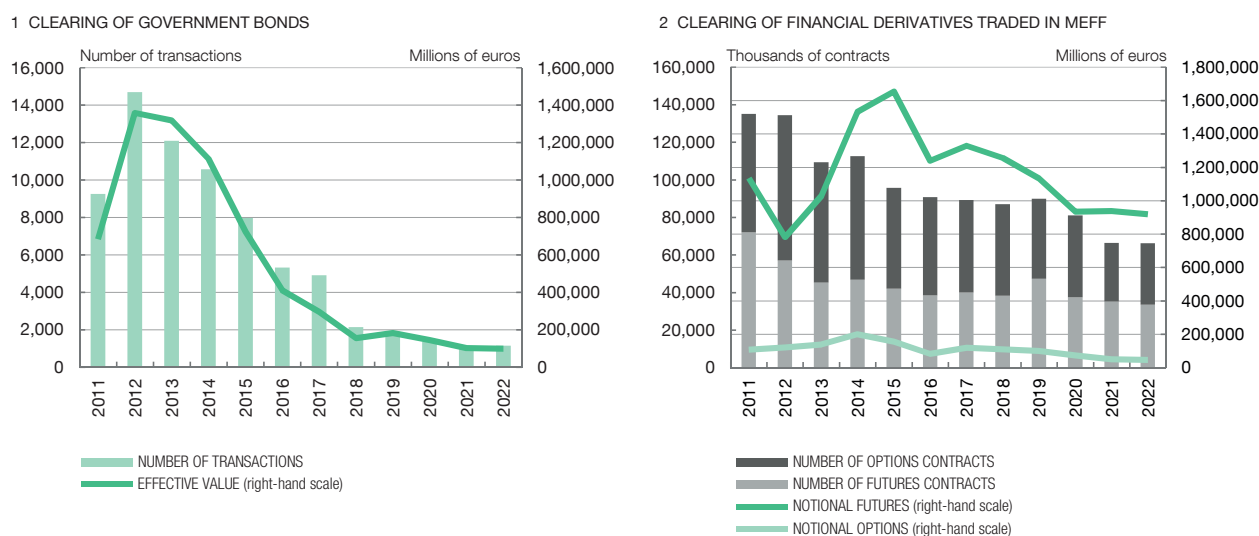
**Under the Securities Market Law (LMV), the CNMV is tasked with the supervision of securities infrastructures in Spain and, jointly with the Banco de España, with ensuring the smooth operation of Spanish securities clearing, settlement and registration systems.** The objective of this task is to preserve the stability of the whole financial system. The infrastructures subject to shared oversight are the central securities depository, Iberclear (which operates the ARCO securities settlement system) and the Central Counterparty, BME Clearing (BMEC).

**With regard to BMEC's activity, the evolution of the two most significant segments, fixed income and financial derivatives, has followed a downward trend in recent years,** as shown in Chart 5.4. Clearing activity in the fixed income segment has declined significantly in recent years due in part to the improvement in institutions' funding conditions. The rise in interest rates in 2022 led to a slight increase in the number of transactions cleared and a smaller decrease than in previous years in terms of the value cleared. In the financial derivatives segment, both the nominal value and the number of contracts decreased, except for the number of options contracts, which increased very slightly.

Chart 5.4

**OVERVIEW OF BMEC OPERATIONS**

The clearing activity in the fixed-income and financial derivatives segment has followed a downward trend in recent years.

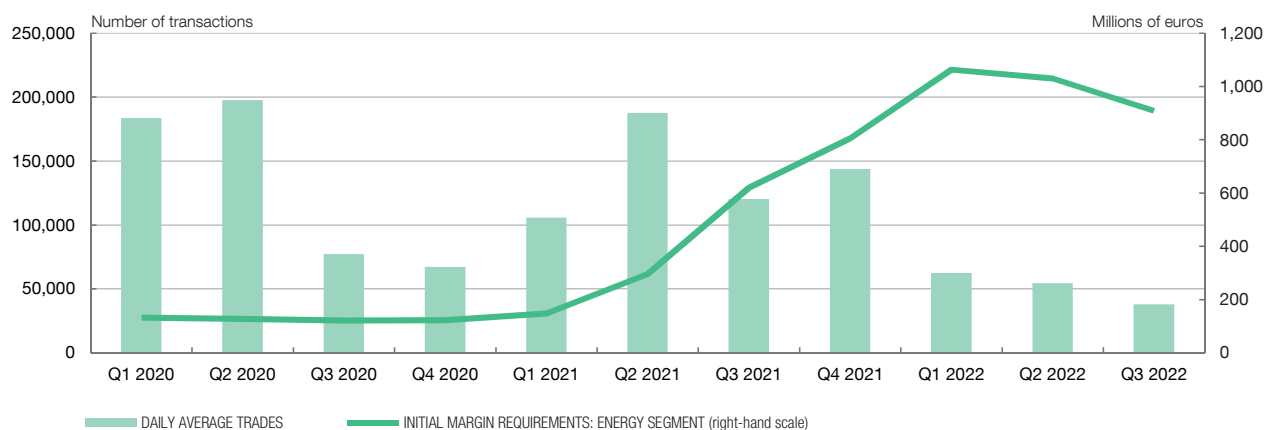


SOURCE: BMEC.

Chart 5.5

**BEHAVIOUR OF THE BMEC ENERGY SEGMENT**

Initial margin requirements increased significantly from the third quarter of 2021.



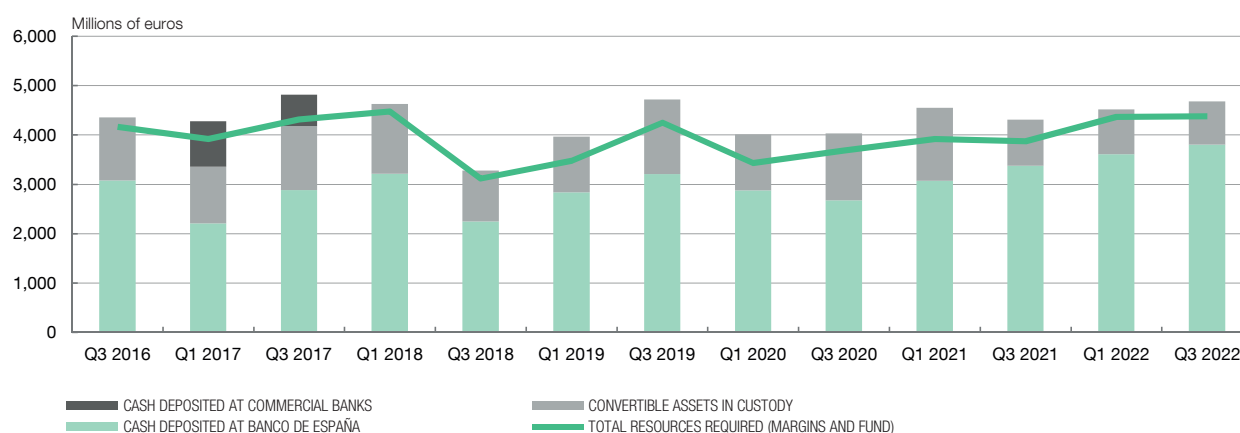
SOURCE: BMEC.

Regarding the energy segment, as shown in Chart 5.5, it is worth noting that in 2022 there was a strong increase in initial margin requirements, despite the significant drop in activity, measured in terms of the average daily volume of trades. This may be largely due to the sharp increase in both energy prices and volatility since the fourth quarter of 2021, which has been aggravated by the Ukraine war and the resulting tensions in energy markets. The Banco de España has closely monitored the performance of the energy segment.

Chart 5.6

**BMEC. RESOURCES DEPOSITED AND LIQUIDITY**

The composition of BMEC's financial resources has remained stable in recent years. Liquidity is quite high and most of it is cash deposited with the Banco de España.

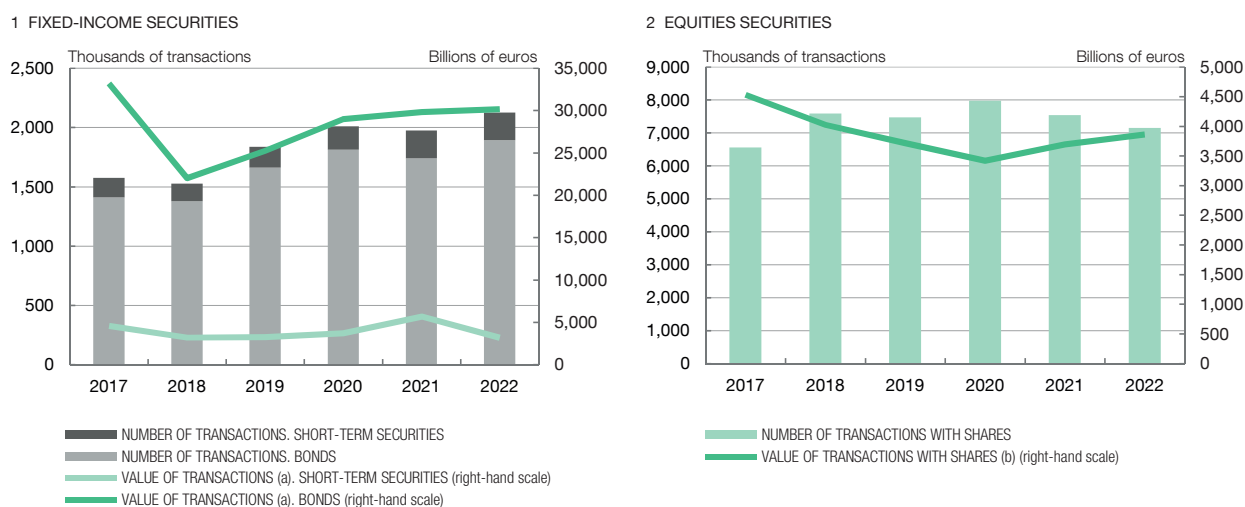


SOURCE: BME Clearing.

Chart 5.7

**IBERCLEAR ACTIVITY DATA. TRANSACTIONS PROCESSED**

In general, the Iberclear settlement activity maintains the trend of the last few years, although it is worth noting the slight growth in value of long-term fixed-income and equities securities settled.



SOURCE: Iberclear.

- a Nominal balances.  
b Cash settled.

**BMEC's financial resources stem mainly from margins and contributions from its clearing members to the guarantee fund.** The composition of BMEC's financial resources has remained stable in recent years, and its liquidity is quite high, as can be seen in Chart 5.6, most of which is cash deposited with the Banco de España.

**As for Iberclear, the performance of its settlement activity varies depending on the type of instrument** (see Chart 5.7). For fixed income securities, there was an increase in the value settled for long-term securities and a decrease for short-term securities. In terms of the number of transactions, in 2022 there was a slight increase in bond transactions and there was a certain degree of stability for short-term securities. The equities settlement activity increased slightly in terms of value, with a decline in the number of transactions.

**The Banco de España also participates in the Eurosystem's cooperative oversight of the TARGET2-Securities platform.** In 2022, 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 Regulation<sup>11</sup>. As a result, it was concluded that most of the recommendations had already been implemented. Certain of these implemented recommendations were implemented on the entry into force of the settlement discipline rules on 1 February 2022, as set out in Articles 6 and 7 of the CSDR. The objective of these latter recommendations is to improve settlement efficiency by reducing the number of trades not completed by the intended settlement date through incentives and the establishment of a sanctioning regime, which will improve the functioning of financial markets. Other recommendations will be implemented when TARGET2 and TARGET2-Securities are consolidated<sup>12</sup>. Work continues on the implementation of the remaining recommendations.

### 5.3.1 Activities resulting from national legislation

On the basis of the information provided by Iberclear, in accordance with Article 73(2)(e) of Royal Decree 878/2015<sup>13</sup>, the Banco de España carried out the assessment of Iberclear's operational risks, of the two-way link it established with the Swiss central securities depository SIX-SIS and of the activity through the links it maintains with other foreign central securities depositories, without any issues being identified that require action by the institutions. Activity relating to the links has increased, both when Iberclear acts as the investor central securities depository and when it is the issuer central securities depository.

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

12 Scheduled for 20 March 2023.

13 Royal Decree 878/2015 of 2 October on clearing, settlement and registration of tradable securities represented by book entries, on the legal regime of central securities depositories and central counterparties and on transparency requirements for issuers of securities admitted for trading on an official secondary market.

**As regards BME Clearing, SAU, the Banco de España has issued four mandatory reports in accordance with Articles 104 and 107 of the LMV.** One of these relates to the amendment of the internal rules<sup>14</sup> and another relates to various amendments to the general terms and conditions<sup>15</sup> of the fixed income and equities segments. Also, a mandatory report was issued regarding the authorisation of clearing of products traded on a trading platform<sup>16</sup> other than MEFF and another on the authorisation of an agreement with a new central securities depository<sup>17</sup>. All the reports were favourable.

### 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 CSDR Regulation 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 2022 the Banco de España took responsibility for monitoring the recommendations identified in previous evaluation exercises in the framework of the CSDR that were pending implementation. It also carried out the annual review and assessment exercise for 2021, in which the integration between BME and SIX continued to be assessed.

<sup>14</sup> New BMEC investment policy.

<sup>15</sup> Entry into force of Commission Delegated Regulation (EU) 2018/1229 on regulatory technical standards on settlement discipline.

<sup>16</sup> Signing of an agreement with the IRS Tradeweb EU V.B. trading platform.

<sup>17</sup> SIX SIS Ltd.







# 6

## EXERCISE OF SANCTIONING POWERS

## EXERCISE OF SANCTIONING POWERS



### COROLLARY OF SUPERVISION

Sanctioning powers, as a corollary of supervisory powers, continued to be exercised in 2022, with 14 proceedings conducted against institutions and their directors and executives (proceedings were started against a total of 97 natural persons)



### PUBLICATION OF SANCTIONS BY THE BANCO DE ESPAÑA

Except in exceptional cases, sanctions imposed for serious and very serious infringements are published on the Banco de España website



### PRUDENTIAL

The area which accounts for the largest number of sanctioning proceedings, with 9 in 2022. Noteworthy are the proceedings opened against institutions, directors and executives relating to internal control, credit risk and governance, and the proceedings against appraisal companies



### TRANSPARENCY AND CUSTOMER PROTECTION

In 2022, 4 proceedings were resolved against 3 banks and 1 branch in Spain of a foreign institution and its general manager, and 1 proceeding was initiated against an e-money institution

**Sanctioning powers, as a necessary supplement to supervisory powers,** continued to be exercised in the prudential area and in the area of transparency and customer protection.

**In the prudential area 9 proceedings were processed, of which 4 were resolved in the course of 2022.** Noteworthy in this area are three groups of proceedings, all of which were opened not only against the corresponding institutions, but also against their directors and executives (proceedings were started against a total of 90 natural persons).

First, there are the proceedings in which the non-compliance relates to credit risk management, capital strength, and institutions' governance and internal control mechanisms. In 2022, 4 proceedings of this nature were being processed against a savings bank (resolved in 2022), a specialised lending institution, a credit cooperative and, at the end of the year, an electronic money institution.

Secondly, it is also worth noting the 4 proceedings against appraisal companies for conduct related to their internal control mechanisms, procedures and organisation, 3 of which were resolved in 2022.

Lastly, the Banco de España's sanctioning powers were extended, in this prudential area, to another electronic money institution and to certain of its shareholders, the latter due to the acquisition of qualifying holdings without meeting the obligations to notify the Banco de España.

**In the area of conduct, transparency and bank customer protection, 4 proceedings were also resolved against 3 banks and 1 branch in Spain of a foreign institution and its general manager, and a further proceeding was initiated at the end of the year against an electronic money institution and its directors and executives (proceedings were started against a total of 7 natural persons).** The non-compliance relates to shortcomings in credit card financing offer policies, to the charging of undue fees, and to conducts such as including in the loan application document credit lines unrelated to the financing originally intended by the customer, or inaccurately submitting the information to be reported to the Banco de España in the "Interest rates on lending transactions in Spain with the resident private sector" reporting contained in Annex 9 of Circular 5/2012.

Lastly, it is worth recalling that the Banco de España provides information on its website on the sanctions imposed (published within 15 days from the date on which they become final in administrative proceedings).









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





## INTERNATIONAL BODIES

Participating in international banking regulation and supervision fora is a strategic priority for the Banco de España



## FINANCIAL STABILITY BOARD

Noteworthy is the work on: i) strengthening the non-bank financial intermediation sector; ii) analysis and monitoring of vulnerabilities associated with digitalisation and climate change; and iii) monitoring implementation and effects of reforms



## BASEL COMMITTEE ON BANKING SUPERVISION

Progress was made on: i) prudential treatment of cryptoassets; ii) recognition of the Banking Union in the identification of G-SIBs; iii) holistic approach to addressing financial risks stemming from climate change; and iv) assessment of functioning of Basel framework



## EUROPEAN BANKING AUTHORITY

Its priorities included: i) maintaining the prudential framework for supervision and resolution; ii) strengthening the EU-wide stress testing framework; iii) consolidating EUCLID; iv) digital resilience, FinTech and financial innovation; and v) AML/CTF. Also, it had two horizontal priorities: i) ESG risks framework; and ii) COVID-19 monitoring and mitigation



## EUROPEAN SYSTEMIC RISK BOARD

It issued for the first time a warning about vulnerabilities in the financial system. In the commercial real estate market, it approved an ambitious recommendation driven by cyclical and structural considerations



## OTHER

Banco de España actively participated in FinCoNet, the Committee on Payments and Market Infrastructures and the Network of Central Banks and Supervisors for Greening the Financial System on climate change

Participating in international banking regulation and supervision fora is one of the Banco de España's strategic priorities, and one of its objectives is to boost its influential capacity within these fora. The main international banking regulation and supervision fora in which the Banco de España participates are presented in Figure 7.1.

Figure 7.1

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

 GLOBAL FORA	 EUROPEAN FORA	 OTHER FORA
<ul style="list-style-type: none"><li>- Financial Stability Board (FSB)</li><li>- Basel Committee on Banking Supervision (BCBS)</li></ul>	<ul style="list-style-type: none"><li>- European Banking Authority (EBA)</li><li>- European Systemic Risk Board</li></ul>	<ul style="list-style-type: none"><li>- International Financial Consumer Protection Organisation (FinCoNet)</li><li>- Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS)</li><li>- Network for Greening</li></ul>

SOURCE: Banco de España.

## 7.1 Global fora

### 7.1.1 Financial Stability Board

The Financial Stability Board (FSB) is a body that is responsible for promoting international financial stability and, to this end, it coordinates national financial authorities and international standard-setting bodies. In 2022, it continued its analysis of the COVID-19 effects and its corresponding response measures, and of the implications of Russia's invasion of Ukraine. Also, it published two reports analysing the withdrawal of the measures adopted during the pandemic and highlighting the significance of the reforms backed by the G20 following the Global Financial Crisis.

In addition, the FSB continued to monitor risks associated with the non-bank financial intermediation (NBFIs) sector, publishing a progress report (see Box 7.1), and it continued to analyse the vulnerabilities associated with structural changes, in particular vulnerabilities related to financial innovation and

## FINANCIAL STABILITY BOARD'S INITIATIVES IN PROGRESS ON NON-BANKING FINANCIAL INTERMEDIATION

Since the 2008 Global Financial Crisis, the Financial Stability Board (FSB) has been working to understand and address the risks associated with non-bank financial intermediation. In this area, the FSB includes all the activities (liquidity transformation, maturity transformation, leverage, etc.) that entail risks similar to banking risks, but which are not subject to similar regulation and supervision to those of banks and lack of access to central bank liquidity. Based on this definition, the FSB developed a methodology based on economic functions to determine which non-bank financial intermediaries carry out this type of credit intermediation<sup>1</sup>. The objective was to have a reliable estimate of their relevance, their evolution, their specific potential risks and their interconnections with the rest of the financial system and, in particular, with banks.

As part of its work in this area, the FSB published, in November 2022, a progress report describing the work done on strengthening the non-bank financial intermediation sector in 2021 and 2022, whose findings were taken into consideration to develop proposals in five work areas (see Figure 1). The work of the FSB and international regulators has focused on the areas that contribute the most to the build-up of liquidity imbalances and their amplification in times of stress.

The proposals being worked on redefining pre-existing tools in the microprudential and investor protection areas. Their use to mitigate potential systemic risks will be analysed and the need for additional tools will be assessed. In addition, the FSB will continue to oversee developments in this sector, to strengthen the detailed analysis in certain areas and to monitor the systemic risk using the data that is already available.

Figure 1  
FSB'S INITIATIVES IN PROGRESS ON NON-BANKING FINANCIAL INTERMEDIATION

Money market funds (MMFs) and short-term funding markets	<p>Compile and take stock of the MMF measures adopted in the various jurisdictions</p> <p>Assess the effectiveness of MMF reforms from a financial stability perspective</p> <p>Carry out work with IOSCO to enhance short-term funding markets</p>
Liquidity risk management in open-ended funds (OEFs)	<p>In collaboration with IOSCO:</p> <ul style="list-style-type: none"> <li>— Revise the 2017 recommendations on liquidity mismatch in OEFs</li> <li>— Initiate a pilot programme to close data gaps in relation to OEFs' liquidity mismatch, the use of liquidity management tools and its potential impact on financial stability</li> <li>— Organise a workshop on experiences among authorities in the design and use of stress tests</li> </ul>
Margining practices	<p>In collaboration with the BCBS, the CPMI and IOSCO, monitoring of the work on:</p> <ul style="list-style-type: none"> <li>— Transparency in centrally cleared markets</li> <li>— Liquidity preparedness and liquidity disclosures</li> <li>— Data gaps in regulatory reporting</li> <li>— Variation margin processes</li> <li>— Responsiveness of initial margin models to market stresses</li> </ul>
Leverage	In consultation with IOSCO, assess and address vulnerabilities associated with the sector's leverage
Developing a systemic perspective for the regulation of the NBFI sector and policies to address systemic risk	<p>Enhance its assessment of vulnerabilities in the NBFI sector, report on implementation of G20 reforms, publish a Global Monitoring Report</p> <p>Publish a report with the main findings of initiatives implemented and the proposals to address systemic risk</p>

**SOURCE:** Banco de España, based on Financial Stability Board data.

**NOTE:** Money market funds are open-ended collective investment vehicles managed with the objective of providing returns associated with money market rates by investing primarily in short-term money market instruments. Open-ended investment funds are collective investment vehicles that offer their investors the right to redeem their shares on a frequent (usually daily) basis. Margins are the collateral collected by one counterparty to absorb losses in the event of default of the other counterparty.

1 See, for example, "Box 2.2. Annual exercise by the FSB on non-banking financial intermediation". *Financial Stability Review - Banco de España*, Spring 2020. [https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinanciera/20/ficheros/IEF\\_2020\\_1\\_Rec2\\_2.pdf](https://www.bde.es/f/webbde/Secciones/Publicaciones/InformesBoletinesRevistas/InformesEstabilidadFinanciera/20/ficheros/IEF_2020_1_Rec2_2.pdf)

**climate change.** With regard to financial innovation, it published a report examining the acceleration of the digitisation of retail financial services during the pandemic and various reports on cryptoassets that emphasise the risks of the absence of adequate regulation. The FSB continues to work on recommendations for the regulation of markets for this type of instrument and on updating pre-existing recommendations for global stablecoins<sup>1</sup>. In the cybersecurity area, it is working on fostering convergence in cyber-incident reporting. As regards financial risks stemming from climate change, the progress report on the roadmap established by the FSB itself was published, as well as high-level recommendations to promote consistency in regulatory and supervisory approaches, one report on climate scenario analysis and two reports on financial sector disclosure of information on these risks.

**Lastly, the FSB continued its regular monitoring of the implementation and effects of reforms,** publishing progress reports on the data gaps initiative, on the transition from LIBOR to risk-free reference rates, on the effectiveness of the recommendations issued in 2017 for open-ended investment funds and on the implementation of OTC derivatives market reforms.

### 7.1.2 Basel Committee on Banking Supervision

**The Basel Committee on Banking Supervision, which is currently chaired by the Governor of the Banco de España, is the international body responsible for setting global standards for the prudential regulation of internationally active banks, while acting as a forum for cooperation on banking supervisory matters.** In recent years, the Committee has analysed developments related to cryptoassets. Following two consultation documents, at the end of 2022 it published the prudential treatment of banks' exposures to these assets (see Box 7.2).

**The Committee has continued working on the financial risks arising from climate change** from a regulatory, supervisory and disclosure perspective. Thus, it published principles for the effective management and supervision of these risks and, on the regulatory side, it published a series of clarifications about how these risks may be captured in the current Basel framework (see Box 7.4).

**In the context of the assessment of the Basel reforms, the Committee published two additional reports.** Firstly, a report on the usability and cyclicity of the framework, which shows indications of a positive relationship between banks' capital headroom and lending. Given the findings of this report, the longer-term impacts

<sup>1</sup> Stablecoins are cryptoassets that link their value to that of a traditional asset or a basket of traditional assets through a stabilisation mechanism (Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements. Final Report and High-Level Recommendations, October 2020).

## PRUDENTIAL TREATMENT OF BANKS' EXPOSURES TO CRYPTOASSETS

In December 2022, the Basel Committee on Banking Supervision (BCBS) approved the global standard for the prudential treatment of banks' exposures to cryptoassets, whose implementation will start on 1 January 2025.

Banks will have to classify cryptoassets into two broad groups, which will determine their regulatory treatment for the purposes of calculating capital requirements. In general, this classification distinguishes, from among all the cryptoassets, those which are tokenised traditional assets or those which are issued by an issuer subject to capital and liquidity regulation and supervision and that have an effective stabilisation mechanism, minimising redemption risk, provided that they are also subject to the other conditions summarised in Figure 1.

Thus, cryptoassets that meet the full set of classification conditions (see Figure 1) will form part of Group 1 (see Figure 2), which includes, as indicated above, tokenised traditional assets (Group 1a) and stablecoins with an effective stabilisation mechanism, whose issuer is regulated and supervised (Group 1b). Their regulatory treatment is essentially based on the existing Basel framework. In addition, it is left to the competent authorities' discretion to establish an add-on to cover possible operational weaknesses related to the new infrastructure used.

All cryptoassets —including tokenised traditional assets and stablecoins— that do not meet the classification conditions will form part of Group 2. To the extent that they incorporate

more risk than Group 1 cryptoassets, the framework considers a new and more demanding capital treatment, that includes a limit on the banks' exposure to these cryptoassets.

Within this Group 2, cryptoassets that meet a number of market criteria (existence of regulated financial products that have the cryptoasset as the underlying, high capitalisation, liquid market and sufficient price data) will be allowed to determine capital requirements by netting the net credit and debit position (Group 2a). For the cryptoassets that do not meet any of these market criteria (Group 2b), the exposure will be determined without the possibility of carrying out hedging operations and with the application of a 1250% risk weight, thus being the group that receives the highest capital requirement.

In short, the approved standard provides a global regulatory framework that promotes responsible innovation and seeks to preserve financial stability.

In any case, the BCBS will continue to review certain aspects of the standard, given the brief experience with these instruments and their rapid evolution. Also, the BCBS work plan foresees further assessment of banks' progress in relation to cryptoasset markets, including their role as issuers of stablecoins, risk management practices as custodians of cryptoassets and possible interconnections. In addition, the Committee will continue to cooperate with other international standard-setting bodies and the Financial Stability Board in order to ensure a consistent global treatment of cryptoassets.

of the pandemic, ongoing geopolitical events and the possibility of new risks emerging, the Committee stresses the importance of the prudent build-up and use of buffers by banks to soften the impact of shocks. In a newsletter, it highlighted the benefits of the authorities' ability to set a positive countercyclical capital buffer on a voluntary basis even in situations where no build-up of systemic risk is detected (i.e. positive cycle-neutral CCyB). Secondly, it published a general evaluation report on the functioning of the Basel framework. It is the first holistic evaluation of the impact and efficacy of the reforms implemented, and evaluates whether it has increased bank resilience and reduced systemic risk, while examining certain unintended consequences, notably on lending and capital costs.

**In relation to medium-term structural changes and vulnerabilities affecting the banking system, it has continued working on banks' interconnections with**



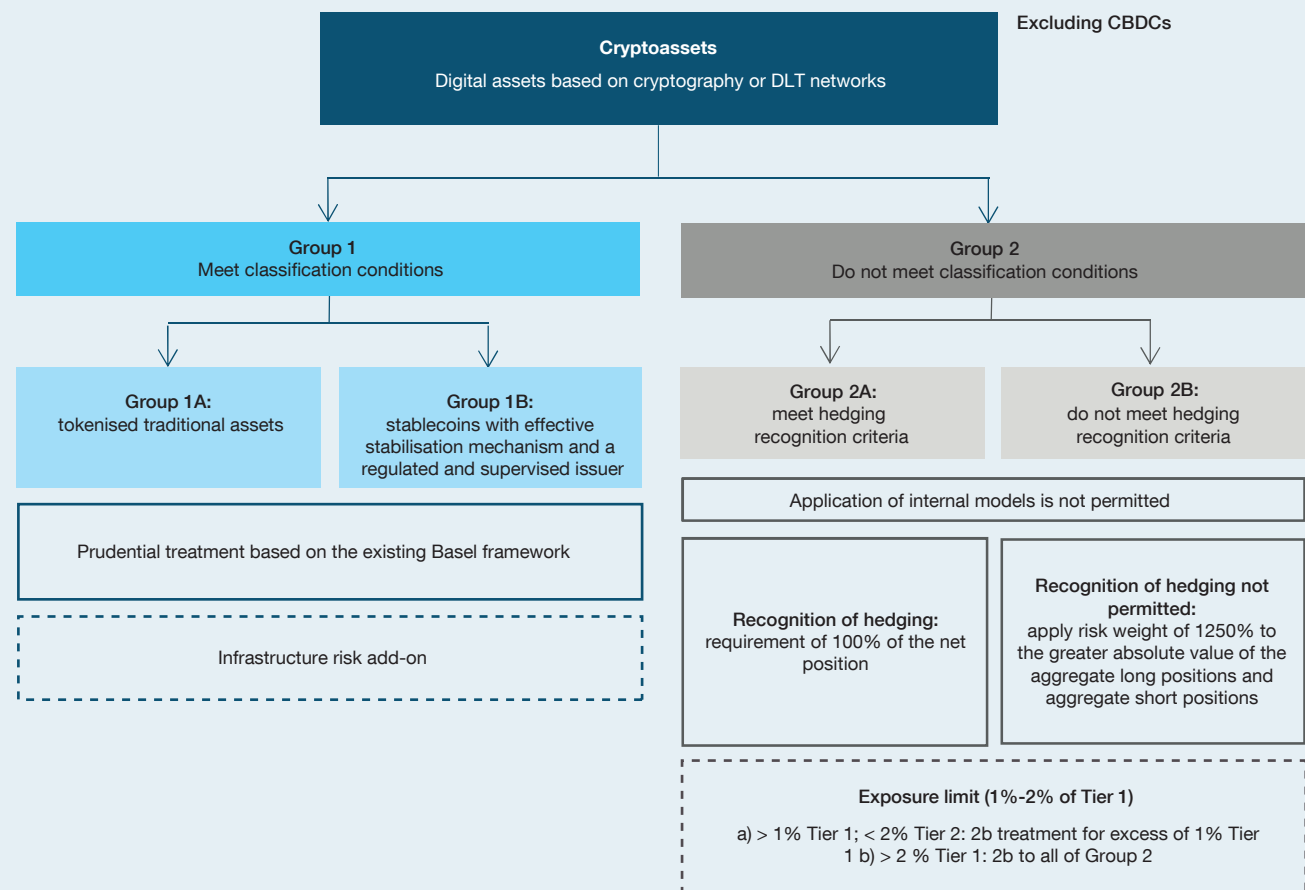
**PRUDENTIAL TREATMENT OF BANKS' EXPOSURES TO CRYPTOASSETS (cont.)**

Figure 1

**1 CLASSIFICATION CONDITIONS OF BANKS' EXPOSURES TO CRYPTOASSETS**

Classification condition 1	<ul style="list-style-type: none"> <li>– <b>Tokenised traditional assets:</b> cryptographic representations of traditional assets with the same level of credit and market risk as the traditional form of the asset. The stabilisation mechanism requirement does not apply</li> <li>– <b>Stablecoins:</b> a stabilisation mechanism is required, that is effective at all times in linking its value to a traditional asset (or a pool of assets), and the issuer must be regulated and supervised and subject to capital and liquidity requirements</li> </ul>
Classification condition 2	<ul style="list-style-type: none"> <li>– All cryptoasset rights and obligations arrangements are <b>clearly defined and legally enforceable</b> in all the jurisdictions where the asset is issued and redeemed</li> <li>– Banks must ensure that the arrangements are properly documented</li> <li>– At all times the arrangements must ensure full transferability and settlement <ul style="list-style-type: none"> <li>• Stablecoins must ensure full redeemability</li> </ul> </li> </ul>
Classification condition 3	<ul style="list-style-type: none"> <li>– The functions of the cryptoasset and the network on which it operates are designed to mitigate and manage any material risks that could impair its transferability, redeemability or settlement</li> <li>– <b>The key functions are well defined:</b> operational structure, degree of access, roles of the nodes and consensus mechanism</li> <li>– <b>Traceability:</b> all transactions and participants are traceable</li> </ul>
Classification condition 4	<ul style="list-style-type: none"> <li>– Entities that execute settlement, transfer, custody or redemption functions or manage reserve assets are <b>regulated and supervised</b> (or subject to appropriate risk management standards)</li> </ul>

Figure 2

**2 CRYPTOASSET CLASSIFICATION GROUPS**

**SOURCE:** Banco de España, based on Basel Committee on Banking Supervision data.

**the NBFI**, highlighting the wide range of direct and indirect channels through which banks may be exposed to the NBFI. The Committee agreed to continue monitoring NBFI developments and to assess the supervisory implications.

**The Committee completed the specific review of the cross-border exposures treatment within the European banking union on the methodology for G-SIIs.**

The review entails a parallel measurement of an institution's systemic importance through the 66% reduction of cross-border exposures within the banking union. This adjustment is an acknowledgement that the SSM and SRM are fully operational, and that the establishment of the third pillar of the banking union is still pending: the common European deposit insurance scheme. The new additional measurement of systemic importance may result in the reclassification of an institution to a lower tier (but in no case in delisting) and does not affect the scoring of institutions outside the banking union.

**On the other hand, in the area of proportionality, the Committee published voluntary high-level considerations** to facilitate the implementation of Basel in a homogeneous, simple manner, proportionate to the size, complexity and business model of the institutions and the characteristics of each country's banking system.

## 7.2 European fora

### 7.2.1 European Banking Authority

**The EBA is an authority that works to ensure effective and consistent prudential regulation and supervision in the European banking sector.** The Banco de España participates in its working groups and decision-making committees, and it is represented on the Board of Supervisors and the Management Board by the Director General of Financial Stability, Regulation and Resolution.

**The 2022 EBA work programme was developed around five vertical and two horizontal strategic priorities (see Figure 7.2).**

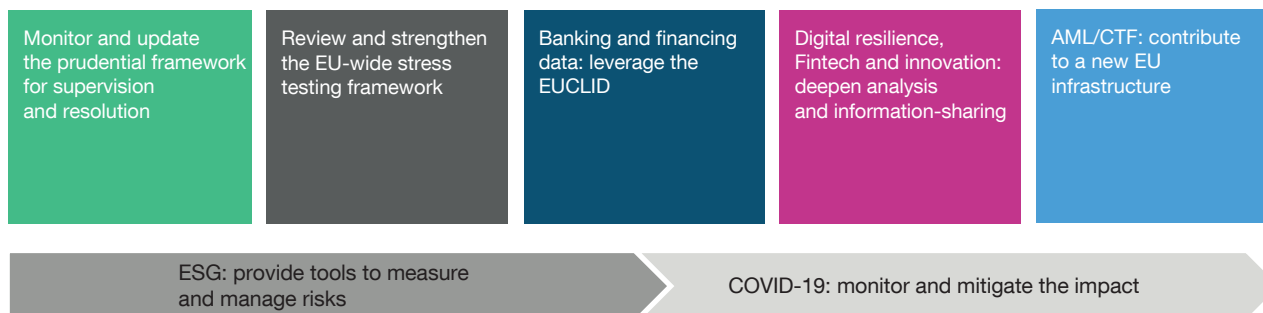
**The first strategic priority encompasses the EBA's work related to the prudential framework, supervision and resolution.** In the area of prudential regulation, it developed technical standards, guidelines and reports that complete the risk reduction package approved by the European Council and the European Parliament in May 2019. This year, those works related to the interest rate risk in the banking book (IRRBB) have been particularly relevant, with the publication of a regulatory package<sup>2</sup> that will be

<sup>2</sup> Composed of the regulatory technical standards on the IRRBB standardised approach, the regulatory technical standards on supervisory outlier tests and the updated guidelines on IRRBB and credit spread risk arising from non-trading book activities (CSRBB).

Figure 7.2

**THE EBA'S STRATEGIC PRIORITIES IN 2022**

The EBA's priorities were established taking into account the co-legislators' current and expected mandates and the tasks stemming from the EBA's founding regulation.



SOURCE: European Banking Authority.

subject to enhanced monitoring, and to securitisations, with the preparation of various technical standards and reports that will increase legislative certainty and contribute to the development of this market in Europe. Lastly, it is worth mentioning the publication of the first mandatory Basel III monitoring report.

**In the area of supervisory convergence, it published revised guidelines on common procedures and methodologies for SREP.** The main objectives were the incorporation of the amendments introduced in CRD-V/CRR-II, their alignment with other EBA guidelines and standards, and the incorporation of supervisory best practices identified by the EBA in the ongoing process of monitoring and assessing supervisory convergence.

**In the resolution area, it developed, inter alia, three key guidelines to improve the resolvability and preparedness of institutions:** resolvability guidelines, transferability guidelines and guidelines to institutions and resolution authorities on resolvability testing, published for consultation. The EBA continued to monitor the compliance with the minimum requirement for own funds and eligible liabilities (MREL), analysing its impact on institutions, markets and the ability of institutions to access those markets.

**With regard to the second of its priorities —the development of EU-wide stress tests— the EBA worked on the design of the methodology for the 2023 stress test.** This exercise, which will incorporate, for the first time, top-down elements in the analysis, was started in 2023 with the publication of macroeconomic scenarios. Its results will be published by the end of July 2023.

**In its third priority, related to banking and financial data, the EBA continued to consolidate its data infrastructure, the European Centralised Infrastructure**

# **OPINION OF THE EUROPEAN BANKING AUTHORITY ON THE REVIEW OF DIRECTIVE (EU) 2015/2366 ON PAYMENT SERVICES IN THE INTERNAL MARKET (PSD2)**

PSD2 regulates the provision of payment services across the European Union (EU) and applies since 13 January 2018. Article 108 of PSD2 requires the European Commission to report on the application and impact of this regulation to the European Parliament, the Council, the European Central Bank (ECB) and the European Economic and Social Committee. To this end, the Commission submitted a call for advice to the European Banking Authority (EBA). The findings were set out in an opinion of 23 June 2022 (EBA/Op/2022/06) and a report (EBA/REP/2022/14). The EBA observes that, overall, the implementation of PSD2 has contributed to reducing fraud and enhancing competition among providers. Nevertheless, the EBA also sees areas for improvement, which include, but are not limited to, the following:

- a) Scope and definitions: it proposes clarifying the nature of certain payment services, various key concepts and definitions, and some of the exclusions from the scope of PSD2. Also, it proposes recasting PSD2 and Directive 2009/110/EC on electronic money into a single legal framework.
- b) Licensing of payment institutions and supervision of payment service providers: it proposes reviewing the prudential framework, applying a simplified recovery and wind-down framework to significant payment and e-money institutions, enhancing the role of the EBA central register, distinguishing between services provided under the right of establishment and those provided under the freedom to provide services, assessing the merits of introducing consolidated group supervision, and addressing various issues related to the payment institution authorisation process.
- c) Rights and obligations: it proposes certain rules on the blocking of funds of the payment service user by its provider. It also suggests clarifying several issues related to the providers' liability regime. Lastly, it proposes adjusting the legal framework to the specific nature of instant payments.
- d) Strong customer authentication (SCA): the EBA proposes clarifying the regulatory treatment of merchant-initiated transactions and transactions excluded from the scope of SCA.
- e) Access to and use of payment accounts data in relation to payment initiation and account information services: it proposes exploring the possibility of having a common application programming interface in the EU. Also, it suggests requiring account servicing payment service providers to offer a dedicated interface for third-party providers' access, and clarifying aspects related to the sharing of data between the former and the latter.
- f) Access to payment systems and to accounts held with a credit institution: it proposes introducing criteria to justify refusing or terminating access to the credit institutions' accounts by a payment institution or a credit institution.
- g) Enforcement of PSD2: it proposes introducing mechanisms that reinforce the position of the competent authorities to require the removal of barriers to access payment accounts by third-party providers. It also suggests introducing a centralised database on administrative sanctions and supervisory measures.

**for Supervisory Data (EUCLID) to turn it into an integrated EU-wide data platform.**

**With regard to the work related to its fourth priority –cyber resilience, digital finance and financial innovation– it is worth mentioning the reports published in the framework of the European Commission's Digital Finance strategy.** In collaboration with the other two ESAs, it submitted the response to the Commission's call for advice on the regulatory challenges posed by digital platforms and bundling of services, mixed activity groups and fragmentation of

**PRINCIPAL PRUDENTIAL INITIATIVES IN THE AREA OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK**

Set forth below is a description of the principal prudential initiatives developed over the course of 2022 by the Basel Committee on Banking Supervision (BCBS), the European Banking Authority (EBA) and the European Commission, which follow a holistic approach to address the treatment of environmental, social and governance (ESG) risk in the prudential framework, within the scope of their respective mandates. However, it is important to note that many studies and reports have been prepared on this subject, both in global fora, such as the Network for Greening the Financial System or the Financial Stability Board (FSB) and in European institutions, such as the European Central Bank or the European Systemic Risk Board<sup>1</sup>.

After publishing two major analytical reports on the financial risks stemming from climate change<sup>2</sup> in 2021, the BCBS concentrated its efforts in 2022 on assessing whether measures need to be taken in the area of banking supervision, regulation and disclosure.

In the area of supervision, in June 2022 the BCBS published high-level principles for the effective management and supervision of climate-related risks<sup>3</sup>. These principles, addressed to institutions and supervisors, were designed taking into account the principle of proportionality and they cover aspects such as corporate governance, internal controls and the assessment and management of climate-related financial risks. The BCBS expects the principles to be implemented by jurisdictions as soon as possible and it will establish a mechanism to assess the progress made. On the regulatory side, in December 2022 the BCBS published a question and response paper<sup>4</sup> clarifying how climate change may be captured in the various standards of the existing Pillar 1 framework. These clarifications are intended to promote consistent interpretation of how to address climate risks, and should in no way be interpreted as changes to the aforementioned standards. Lastly, in

the area of disclosure, the BCBS is working in coordination with the International Sustainability Standards Board and other international bodies to improve the quality and granularity of climate risk information provided to the market.

At the European level, in 2022 the EBA continued to develop the mandates received in CRD-V/CRR-II on how to incorporate ESG risks into prudential banking legislation.

In February 2022, the EBA published the final report<sup>5</sup> of implementing technical standards on disclosures on ESG risks, addressed to large banks which have issued securities for trading. Implementing Regulation 2022/2453<sup>6</sup> of December 2022 is based on the EBA's ITSs and contains a set of templates with qualitative and quantitative information on the ESG risks (essentially climate change risk) to which institutions are exposed. In the first half of 2023, credit institutions subject to these standards will start disclosing the first data sets on this matter.

In relation to Pillar 1, in May 2022 the EBA published the discussion paper<sup>7</sup> analysing whether a dedicated Pillar 1 treatment for exposures related to assets or activities substantially associated with environmental objectives would be justified. The paper analyses various elements of Pillar 1 in detail, explaining the advantages and disadvantages of possible changes. Also, the report emphasises that it takes a risk-based approach, i.e. that prudential requirements should reflect the risk profiles of exposures. It is expected to be finalised by the EBA in the second quarter of 2023.

Lastly, in the banking package published in October 2022, the European Commission explicitly incorporates sustainability in the Pillar 2 framework, in line with the recommendations received from the EBA a year earlier.

1 <https://www.bde.es/bde/es/secciones/sobreelbanco/sostenibilidad-medioambiental/foros-internacionales/foros-internacionales-de-los-que-es-miembro-el-banco-de-espana.html>

2 Climate-related risk drivers and their transmission channels y Climate-related financial risks – measurement methodologies

3 <https://www.bis.org/bcbs/publ/d532.htm>

4 <https://www.bis.org/bcbs/publ/d543.pdf>

5 <https://www.eba.europa.eu/eba-publishes-binding-standards-pillar-3-disclosures-esg-risks>

6 <https://www.boe.es/boe/2022/324/L00001-00054.pdf>

7 [https://www.eba.europa.eu/sites/default/documents/files/document\\_library/Publications/Discussions/2022/Discussion%20paper%20on%20the%20role%20of%20environmental%20risk%20in%20the%20prudential%20framework/1031947/Discussion%20paper%20on%20role%20of%20ESG%20risks%20in%20prudential%20framework.pdf](https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Discussions/2022/Discussion%20paper%20on%20the%20role%20of%20environmental%20risk%20in%20the%20prudential%20framework/1031947/Discussion%20paper%20on%20role%20of%20ESG%20risks%20in%20prudential%20framework.pdf)



Other relevant amendments regarding ESG risks refer to the extension of disclosure requirements to all credit institutions, taking into account the proportionality

principle, or the clarification —through a recital— of the possibility of using the systemic risk buffer to address these risks.

value chains<sup>3</sup>. In the same context, it published a report on non-bank lending, analysing its evolution, benefits and risks, and possible measures to mitigate those risks. Also, it analysed the use of technology applied to supervision and it continued with preparatory developments to address the mandates of the Digital Operational Resilience Act (DORA) and the Markets in Cryptoassets (MiCA) regulation.

**In the area of AML/CTF, its fifth strategic priority, it contributed to the negotiations of the EU's new AML/CTF legislative package, among other legislative texts.** Also, it issued guidelines on the internal governance of the AML/CTF function and digital customer onboarding<sup>4</sup>. Moreover, it launched the EuReCA database, which collects information on material AML/CTF shortcomings detected in institutions.

**It is also worth noting the work on conduct and bank customer protection and on payment services.** In the conduct area, it developed indicators of potential causes of consumer harm, it carried out a review on fees and charges and it published its report on banking consumer trends. In addition, it published an opinion in the framework of the MCD<sup>5</sup> review and a warning —together with the other ESAs— to consumers about the risks of cryptoassets. As for payment services, it published an opinion on the review of the Payment Services Directive (PSD2) (see Box 7.3).

**In relation to its horizontal priorities, the EBA continued working on developing a relevant environmental, social and governance (ESG) framework for banks (see Box 7.4) and on monitoring the impact of COVID-19.** With regard to the monitoring of COVID-19, it published a summary report on the evolution of the measures taken to mitigate the impact of COVID-19 on the European financial sector. Lastly, in relation to the Ukraine crisis, the EBA contributed to ensuring the proper implementation of the

3 See the joint ESAs report (ESA/2022/01), in which they make a number of cross-sectoral recommendations with the objective of ensuring that the EU's regulatory and supervisory framework for financial services remains fit-for-purpose.

4 Guidelines on policies and procedures in relation to compliance management and on the role and responsibilities of the AML/CTF compliance officer under Article 8 and Chapter VI of Directive (EU) 2015/849 (EBA/GL/2022/05), and guidelines on the use of remote customer onboarding solutions under Article 13(1) of Directive (EU) 2015/849 (EBA/GL/2022/15).

5 Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property.

EU sanctions regime and, furthermore, monitored the potential impact of the crisis on banks' balance sheets.

## 7.2.2 European Systemic Risk Board

**The Banco de España is a member institution of the ESRB, which is entrusted with the macroprudential oversight of the EU financial system in order to mitigate and prevent risks to financial stability.** The General Board of the ESRB brings together the heads of central banks and authorities with responsibility for banking, securities and insurance regulation and supervision from across the EU. The Banco de España's Governor and Director General Financial Stability, Regulation and Resolution participate in the General Board<sup>6</sup>. In 2022, the ESRB re-elected Pablo Hernández de Cos for a second term as Chair of its Advisory Technical Committee, which is the main permanent advisory and support structure for the ESRB's General Board and Steering Committee<sup>7</sup>.

**The ESRB regularly monitors systemic risks and assesses national macroprudential measures<sup>8</sup>, with initiatives aimed at developing analytical advances and increasing the level of preparedness for systemic events.** Last year the ESRB's work was carried out in an environment marked by increased and more intense financial stability risks —induced or amplified by factors such as the war in Ukraine and high and persistent levels of inflation—. The ESRB also devoted its attention to relevant structural financial stability issues commenced in previous years in the climate change and cyber risks area<sup>9</sup>; it completed an advisory report to the European Commission for the review of the macro-prudential framework in EU banking legislation<sup>10</sup>; it prepared the macro-financial scenarios for the EBA stress tests<sup>11</sup>; and

6 Pablo Hernández de Cos (voting member) and Ángel Estrada (non-voting member), respectively.

7 See "Pablo Hernández de Cos reappointed as Chair of the Advisory Technical Committee of the European Systemic Risk Board", Banco de España press release of 30 June 2022. [https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/22/presbe2022\\_55en.pdf](https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/22/presbe2022_55en.pdf)

8 See *2021 Annual Report* (<https://www.esrb.europa.eu/pub/pdf/ar/2022/esrb.ar2021~8c51ab2011.es.pdf>) and *EU Non-bank Financial Intermediation Risk Monitor 2022*, both of 15 July 2022 ([https://www.esrb.europa.eu/pub/pdf/reports/nbfi\\_monitor/esrb.NBFI\\_Monitor.20220715~a623f2329b.en.pdf?ed03941fc3d33c62acf8f2628b9ccb98](https://www.esrb.europa.eu/pub/pdf/reports/nbfi_monitor/esrb.NBFI_Monitor.20220715~a623f2329b.en.pdf?ed03941fc3d33c62acf8f2628b9ccb98)).

9 See *The macroprudential challenge of climate change* ([https://www.esrb.europa.eu/pub/pdf/reports/esrb.ecb.climate\\_report202207~622b791878.en.pdf?e0b611d79c3a324077d7515df273f56c](https://www.esrb.europa.eu/pub/pdf/reports/esrb.ecb.climate_report202207~622b791878.en.pdf?e0b611d79c3a324077d7515df273f56c)), joint report of the ESRB and ECB of 26 June 2022, and *Advancing macroprudential tools for cyber resilience*, ESRB of 14 February 2023 (<https://www.esrb.europa.eu/pub/pdf/reports/esrb.macroprudentialtoolscyberresilience20214~984a5ab3a7.en.pdf>).

10 See *Review of the EU Macroprudential Framework for the Banking Sector - Response to the call for advice* (<https://www.esrb.europa.eu/pub/pdf/other/esrb.reviewmacropruframeworkcfa.220331~5d81cb2173.en.pdf?7263115b46a985b4481328afd3f2326d>) and *Review of the EU Macroprudential Framework for the Banking Sector - Concept Note*, both of 31 March 2022 (<https://www.esrb.europa.eu/pub/pdf/reports/esrb.reviewmacropruframework.220331~65e86a81aa.en.pdf?a2ea3c6aed8c9611911384c73dbaf937>).

11 See *Macro-financial scenario for the 2023 EU-wide banking sector stress test*, 31 January 2023. [https://www.esrb.europa.eu/mppa/stress/shared/pdf/esrb.stress\\_test230131~c4980ac646.en.pdf?c7cfb48ad419a42008f60d4b08cd8786](https://www.esrb.europa.eu/mppa/stress/shared/pdf/esrb.stress_test230131~c4980ac646.en.pdf?c7cfb48ad419a42008f60d4b08cd8786)

it published its first three-yearly report on monitoring systemic risks in the EU securitisation market<sup>12</sup>.

**It is worth noting that the ESRB issued, for the first time in 2022, a warning to all EU Member States about vulnerabilities in the financial system.** [Warning ESRB/2022/7](#) of 22 September warned of increased risks to financial stability in the EU and the likelihood of (extreme) tail-risk scenarios materialising. The risks highlighted relate to: (i) a deterioration in the macroeconomic outlook and a tightening of financing conditions; (ii) a sharp correction in asset prices; and (iii) a deterioration in asset quality and profitability outlook of financial institutions.

**As a result of several years of monitoring and analysis of the commercial real estate market, the ESRB approved an ambitious recommendation driven by a number of cyclical and structural considerations.** Although the situation and specific conditions of this segment of the real estate market vary widely across the EU, [Recommendation ESRB/2022/9](#) of 1 December calls on all the relevant national authorities and the ECB to: (i) refine the regular monitoring of associated systemic risks; (ii) promote prudent financing conditions for activities related to this sector; and (iii) adopt, if deemed necessary, macroprudential measures to increase the resilience of financial institutions.

## 7.3 Other fora

**In the conduct and consumer protection area, the Banco de España is a member of the Governing Council of the International Financial Consumer Protection Organisation (FinCoNet) and it participates actively in various working groups in this area.** These working groups deal with sales incentives in the marketing of mortgage loans; the impact of remote working on supervision after the COVID-19 pandemic and the use of SupTech tools in this context; and the supervisory implications of non-traditional financial institutions (such as BigTech or FinTech) offering financial services, especially payments. It is worth noting the 2022 publication of the report on supervisory challenges related to increased digitalisation in the marketing of financial products and services, especially payment services.

**The Banco de España also participates in the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS).** In this area, in 2022 the Banco de España continued the CPMI's work on the G20 roadmap for the cross-border payments programme, and contributed to the assessment and design of improvements in payment services related to infrastructure

<sup>12</sup> See *Monitoring systemic risks in the EU securitisation market* of 1 July 2022. [https://www.esrb.europa.eu/pub/pdf/reports/esrb\\_report\\_securisation.20220701~27958382b5.en.pdf?94c1fd978e974454f65a21c399f44ff8](https://www.esrb.europa.eu/pub/pdf/reports/esrb_report_securisation.20220701~27958382b5.en.pdf?94c1fd978e974454f65a21c399f44ff8)

aspects and on the regulatory framework and applicable policies. In 2022, work had also continued on the analysis of the application of the CPMI and IOSCO principles for financial market infrastructures to stablecoins, and of central counterparty matters related to margining or recovery and resilience policies. Also, the CPMI had worked on market infrastructures monitoring to verify the sound functioning and management of these infrastructures and it continued providing support to the FSB on initiatives to strengthen the resilience of non-bank financial intermediaries.

**In the sustainable finance area and on a global scale, it is worth highlighting the work carried out by the Network for Greening the Financial System, that is a network of supervisors and central banks from across the world, in which the Banco de España participates.** Throughout 2022, it continued to delve into issues on which it has been working since its creation, such as the development of climate change scenarios for supervisors or the study on the possible existence of a risk differential between green and non-green assets. Regarding the latter, in May 2022 it published a report<sup>13</sup> showing that there is still no clear evidence of a possible risk differential between green and non-green exposures. Also, it was recognised that the use of forward-looking tools is a key area for measuring the impact of climate change on banking risks, despite the many challenges involved.

<sup>13</sup> [https://www.ngfs.net/sites/default/files/medias/documents/capturing\\_risk\\_differentials\\_from\\_climate-related\\_risks.pdf](https://www.ngfs.net/sites/default/files/medias/documents/capturing_risk_differentials_from_climate-related_risks.pdf)







# 8

## NEW REGULATORY DEVELOPMENTS IN SUPERVISORY MATTERS



### NEW REGULATORY DEVELOPMENTS IN SUPERVISORY MATTERS

The Banco de España prepares circulars implementing higher-ranking regulations, and technical guidelines with criteria, practices, methodologies or procedures for compliance with supervisory regulations



### BANCO DE ESPAÑA'S NEW REGULATORY DEVELOPMENTS

Since January 2022, the Banco de España has published 3 circulars, including most notably Circular 3/2022, which finalises the transposition of CRD-V into Spanish law



### BANCO DE ESPAÑA DRAFTS IN PROGRESS

There are 3 draft circulars in progress, all on reporting obligations to the Banco de España



### SPANISH AND EUROPEAN DRAFT LEGISLATION

Draft Law to adapt Spanish legislation to the future European Regulation on MiCA cryptoasset markets. European Commission Proposal for a Regulation on instant credit transfers in euro

## 8.1 Banco de España circulars and guidelines

### 8.1.1 Circular 1/2022

**Circular 1/2022 of 24 January to specialised lending institutions on liquidity, prudential rules and reporting obligations, and amending Circular 1/2009 of 18 December to credit institutions and other supervised institutions, in relation to information on the capital structure and non-voting equity units of credit institutions, and on their branches, and on the senior officers of supervised institutions, and Circular 3/2019 of 22 October exercising the power conferred by Regulation (EU) 575/2013 to define the materiality threshold for past due credit obligations.**

This circular completes the SLI legal regime by implementing Law 5/2015<sup>1</sup> and Royal Decree 309/2020<sup>2</sup>. It regulates the liquidity buffer and the structure of SLI funding and maturities, building on those of credit institutions, but adapting them to the nature, funding structure and lower liquidity risk of their activities. Moreover, it establishes their solvency and liquidity reporting obligations. Lastly, it sets the guarantees required in the event that the control of an SLI is to be exercised by non-EU persons, the reporting obligations on the shareholder structure, and the circumstances in which an SLI must carry out the internal capital adequacy assessment process (ICAAP) and the Banco de España must carry out the SREP.

### 8.1.2 Circular 2/2022

**Circular 2/2022 of 15 March on rules for the submission to the Banco de España of payment statistics by payment service providers and payment system operators.**

This circular establishes the obligations for payment statistic reporting to the Banco de España; in particular, with regard to the reporting procedure and frequency and the Banco de España's power to grant exemptions from these obligations to certain

<sup>1</sup> Law 5/2015 of 27 April on the promotion of business financing.

<sup>2</sup> Royal Decree 309/2020 of 11 February on the legal regime of specialised lending institutions and amending the Mercantile Registry Regulation, approved by Royal Decree 1784/1996 of 19 July, and Royal Decree 84/2015 of 13 February implementing Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions.

reporting agents. This circular also determines the form and frequency with which payment service providers must submit to the Banco de España statistical fraud data related to different means of payment, in accordance with ECB Regulation (EU) 1409/2013 [as amended by Regulation (EU) 2020/2011] and Royal Decree-Law 19/2018. Circular 2/2022 repeals Circular 2/2015.

### 8.1.3 Circular 3/2022

**Circular 3/2022 of 30 March, amending Circular 2/2016 of 2 February to credit institutions on supervision and solvency, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) No 575/2013; Circular 2/2014 of 31 January to credit institutions on the exercise of various regulatory options contained in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012; and Circular 5/2012 of 27 June to credit institutions and payment service providers on the transparency of banking services and responsible lending.**

The main purpose of this circular is to complete, by amending Circular 2/2016, the transposition of CRD-V into Spanish law, in the terms established by the enabling powers granted to the Banco de España by Royal Decree-Law 7/2021<sup>3</sup> and Royal Decree 970/2021<sup>4</sup>, which amend, inter alia, Law 10/2014<sup>5</sup> and Royal Decree 84/2015<sup>6</sup>, respectively. The enabling powers cover various aspects of corporate governance, remuneration, capital and leverage ratio buffers and information to be reported by branches of credit institutions with head offices in non-EU Member States.

In addition, other amendments to Law 10/2014 and Royal Decree 84/2015 arising from the transposition of CRD-V make it necessary in turn to amend Circular 2/2016, either to adapt the current regime to the provisions of those regulations —for example, in relation to the remuneration areas or capital buffers— or to adjust it to their new content on new topics, such as the approval regime for financial holding companies and mixed financial holding companies or the leverage ratio buffer. Also, the opportunity provided by the CRD-V transposition was used to introduce

<sup>3</sup> Royal Decree-Law 7/2021 of 27 April on the transposition of European Union directives in the areas of competition, anti-money laundering, credit institutions, telecommunications, tax measures, prevention and remedying of environmental damage, posting of workers in the transnational provision of services and consumer protection.

<sup>4</sup> Royal Decree 970/2021 of 8 November amending Royal Decree 1644/1997 of 31 October on administrative authorisation rules and solvency requirements for guarantee companies, Royal Decree 2660/1998 of 14 December on the changing of foreign currency in establishments open to the public other than credit institutions, and Royal Decree 84/2015 of 13 February implementing Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions.

<sup>5</sup> Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions.

<sup>6</sup> Royal Decree 84/2015 of 13 February implementing Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions.

amendments to the circular in areas which are unrelated to the directive but that improve the regulatory framework for credit institutions. These include most notably the areas related to the delegation of functions regime, where certain rules in the outsourcing guidelines issued by the EBA (EBA/GL/2019/02), which were adopted by the Banco de España and the ECB, were incorporated. In addition, doubts arising in the application of the rules were clarified and issues arising from the practical experience accumulated by the Banco de España in the supervision of Spanish institutions were reflected.

With regard to the amendment of Circular 2/2014, the objective is to exercise the options and discretions applicable at national level that the CRR-II or the Commission Delegated Regulation 2015/61<sup>7</sup> attribute to the national competent authorities.

The circular also amends Circular 5/2012, with the aim of developing certain reporting obligations applicable to revolving credit, in the pre-contractual and contractual phase, established in Order 2899/2011<sup>8</sup>, which are necessary to achieve the public policy objectives on bank customer protection pursued in the aforementioned ministerial order.

## 8.2 Other draft circulars in progress

**The Banco de España is preparing a circular to credit institutions, branches in Spain of credit institutions authorised in other EU Member States and SLIs, on the information to be submitted to the Banco de España on covered bonds and other loan mobilisation instruments, and amending circulars 4/2017 and 4/2019.**

This draft circular responds to the need to regulate the reporting obligations set out in Royal Decree-Law 24/2021. Specifically, Article 35(1) establishes the reporting obligations of credit institutions as issuers of covered bonds to the Banco de España. These obligations relate to, inter alia, the eligibility of assets and cover pool requirements, the cover pool liquidity buffer and any other information that the Banco de España deems necessary for the exercise of its supervisory functions over covered bonds. Also included are the requirements related to collateralised mortgage bonds and mortgage transfer certificates as established in the third additional provision of the Royal Decree-Law, and to loan mobilisation instruments or loans secured by first chattels mortgage or first non-possessory pledge that may be issued by credit institutions and credit establishments regulated in the fourth additional provision of the Royal Decree-Law. The draft circular sets out the returns

<sup>7</sup> Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to liquidity coverage requirement for credit institutions.

<sup>8</sup> Ministerial Order EHA/2899/2011 of 28 de October on transparency and customer protection in banking services.



that might be requested from institutions in order to comply with the aforementioned reporting requirements.

**A circular on capital structure is also being drafted, which will comprehensively and fully regulate the new information on this matter, repealing the existing legislation contained in Chapter I of Circular 1/2009 of 18 December, since, in recent years, amendments have been made to Spanish legislation that make it advisable to update and harmonise these requirements.**

In addition, the new circular will also repeal Chapter III of the aforementioned circular, corresponding to registration in the Senior Officer Register and to the submission of information on other positions held by senior officers in other companies, since the rules contained in that chapter have become obsolete and have been superseded by subsequent legislation of equal or higher rank. However, institutions will uphold the reporting obligations on this matter that derive from the legislation applicable to them.

**Similarly, the amendment of circulars 2/2016 and 1/2022 is under way, with regard to the reporting of the remuneration policy of both credit institutions and SLIs.**

This revision seeks to update the current reporting returns to bring them into line with the new models introduced by the EBA through its guidelines on the benchmarking exercises on remuneration practices, the gender pay gap and approved higher ratios under Directive 2013/36/EU (EBA/GL/2022/06), and the guidelines on the data collection exercises regarding high earners under Directive 2013/36/EU and Directive (EU) 2019/2034 (EBA/GL/2022/08).

## 8.3 Other new regulatory developments

**Although this is not legislation in force, it is worth mentioning the Draft Securities and Investment Services Markets Law, which is currently being examined by the Parliament.**

Among other issues, this draft law aims to make the necessary adaptations for the implementation of the EU's future MiCA Regulation. This regulation will include a definition and classification of cryptoassets and it will incorporate, among several of its provisions, a regulation on their offering and issuance and on the provision of cryptoasset services.

On this basis, the draft law provides for the Banco de España to be entrusted with the supervision, inspection and sanctioning of compliance with the obligations under the MiCA Regulation as regards issuers of electronic money tokens (EMTs)

and asset-referenced tokens (ARTs). The draft law also introduces an infringements and sanctions regime applicable in relation to these issues.

**Lastly, at the European level, it is worth mentioning the Proposal for a Regulation (EU) on instant credit transfers in euro, which is currently under way.** Among other issues, this proposal intends to ensure that payment service providers offering their users a payment service for sending and receiving ordinary credit transfers also offer their customers instant payments in euros, that the charges for such payments are the same as or less than the charges for ordinary credit transfers, and that providers of euro instant payments check that the IBAN matches the payee's name and notify the payer of any possible mismatch between the two, before the payer authorises the transaction.







**INTERNAL AUDIT REPORT**  
**REPORT PROVIDED FOR IN THE CONSOLIDATED TEXT OF THE**  
**SECURITIES MARKET LAW APPROVED BY ROYAL LEGISLATIVE**  
**DECREE 4/2015 OF 23 OCTOBER 2015**  
**2022 REPORT**





## 1. Introduction

The tenth additional provision of the consolidated text of the Securities Market Law (LMV, by its Spanish initials) approved by Royal Legislative Decree 4/2015 of 23 October 2015 establishes that the Banco de España shall prepare an annual report on its supervisory function, describing the supervisory actions undertaken and procedures followed, permitting information to be gained on the effectiveness and efficiency of these procedures and actions. It also provides that such annual report shall include a report by the internal control body on the conformity of the decisions taken by the governing bodies of the Banco de España with the procedural regulations applicable in each case. This annual report shall be approved by the Governing Council of the Banco de España and sent to the Spanish Parliament and Government.

The Banco de España's 2023 Annual Internal Audit Plan includes the drafting of the report provided for in the LMV, so that it may be included in the Banco de España's Annual Report on its supervisory function, referred to above.

## 2. Purpose, scope and methodology of the report

This report falls within the bounds of the legal mandate contained in the tenth additional provision of the LMV, which, as indicated above, defines the scope of the report, by reference to three basic elements:

- 1) The supervisory function of the Banco de España.
- 2) The decisions taken by the governing bodies in exercise of the supervisory function.
- 3) The conformity of the foregoing decisions with the procedural regulations applicable.

As regards the reporting period, the report refers to the decisions taken by the Executive Commission in 2022, or submitted to the Governing Council for approval, and the decisions adopted by delegation and notified to the Executive Commission in 2022.

The subject matter of the report relates to the decisions taken, in the exercise of the supervisory function, by the Banco de España's governing bodies within the spheres of competence of the Directorate General Banking Supervision; the Directorate General Financial Stability, Regulation and Resolution; the Directorate General Operations, Markets and Payment Systems; the Directorate General Financial Conduct and Banknotes<sup>1</sup>; and the General Secretariat.

Regarding applicable regulations, the supervisory powers and procedures set out in Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España and in the Internal Rules of the Banco de España were taken into account, together with those established by the Single Supervisory Mechanism regulations, primarily Council Regulation (EU) No 1024/2013 of 15 October 2013 and Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014. In addition, the Executive Commission of the Banco de España has established, through various agreements, the procedural rules applicable to proposals on matters within the competence of the various Directorates General.

On 2 November 2012, rules were laid down on the reporting of matters to the Executive Commission by all the Banco de España's Directorates General. These rules complement those specific to the aforementioned Directorates General.

Likewise, by means of a Resolution of 10 December 2019, the Executive Commission approved the regime governing the delegation of powers, published in the Official State Gazette No. 311 of 27 December 2019<sup>2</sup>, and which provides for the delegation of signature and callback of delegated powers.

To review the decisions adopted by the Executive Commission and the decisions adopted by delegation, random sampling was performed by Directorate General.<sup>3</sup>

The work was conducted in accordance with the Internal Audit Manual, which includes the International Standards for the Professional Practice of Internal Auditing, approved by the Institute of Internal Auditors, including those relating to the Code of Ethics.

<sup>1</sup> At its meeting on 25 April 2022, the Executive Board approved an internal reorganisation, effective from 5 May 2022, whereby the Directorate General Cash and Branches was renamed the Directorate General Financial Conduct and Banknotes, which henceforth also encompassed the Institutions' Conduct Department, which until that date was attached to the General Secretariat, and the Delegation of Powers Agreement was amended to reflect this reorganisation.

<sup>2</sup> In force since 28 December 2019. The Resolution of 10 December 2019 was subsequently amended by the agreements of 8 September 2020 (Official State Gazette No. 243 of 11 September 2020), 27 July 2021 (Official State Gazette No. 180 of 29 July 2021) and 3 May 2022 (Official State Gazette No. 107 of 5 May 2022) of the Executive Commission of the Banco de España.

<sup>3</sup> The random sampling was performed by establishing two groups for each Directorate General: one for resolutions adopted directly by the Executive Commission and another for the decisions adopted by delegation of powers.

### 3. Opinion

In our opinion, the decisions of the governing bodies of the Banco de España, taken in 2022, in the exercise of its supervisory function, were taken by bodies with sufficient own or delegated powers in accordance with the Internal Rules of the Banco de España and with the provisions laid down by its Executive Commission, and conformed, in all material respects, with the applicable procedural rules existing in each case.

Madrid, 10 March 2023

Director of the Internal Audit Department

GOVERNOR OF THE BANCO DE ESPAÑA

DEPUTY GOVERNOR OF THE BANCO DE ESPAÑA





## INDEX OF PHOTOGRAPHS

Alcalá-Marqués de Cubas chamfered corner. Photographer: Luis Asín. © Banco de España	COVER
Pablo Hernández de Cos, Governor of the Banco de España. Photographer: Daniel Santamaría. © Banco de España	12
Margarita Delgado, Deputy Governor of the Banco de España. Photographer: Daniel Santamaría. © Banco de España	18
Cibeles chamfered corner. Photographer: Ana Amado. © Banco de España	34
Staircase of the Cibeles chamfered corner. Photographer: Ana Amado. © Banco de España	44
Cibeles imperial staircase. Photographer: Ana Amado. © Banco de España	98
Alcalá-Marqués de Cubas chamfered corner. Photographer: Juan Carlos Quindós. © Banco de España	110
Façade of the Santa Cruz de Tenerife Branch. Photographer: Galder Gortázar. © Banco de España	124
Façade of the Las Palmas de Gran Canaria Branch. Photographer: Aridane Llarena. © Banco de España	138
Trading room of the Seville Branch. Photographer: Banco de España. © Banco de España	142
Trading room of the Bilbao Branch. Photographer: Gaizka Medina. © Banco de España	158
Trading room of the Málaga Branch. Photographer: Javier Arquimbau. © Banco de España	167





The Banco de España publishes various types of documents providing information on its activity (economic reports, statistics, research papers, etc.), which can be found in the Institutional Repository, at <https://repositorio.bde.es/>.

Most of these documents are available in PDF format and can be downloaded free of charge from the Banco de España website at <https://www.bde.es/bde/es/secciones/informes/>.

Data cut-off date: 1 February 2023.

Reproduction for educational and non-commercial purposes is permitted provided that the source is acknowledged.

© Banco de España, Madrid, 2023  
ISSN: 2697-1607 (online)  
Depósito legal: M-11127-2022

## ACRONYMS AND ABBREVIATIONS

AMCESFI	Spanish Macroprudential Authority	MMF	Money Market Funds
AML/CTF	Anti-money laundering and counter terrorist financing	NBFI	Non-Banking Financial Intermediation
AML/CTF	Preventing money laundering and terrorist financing	NCA	National competent authority
APP	Asset Purchase Programme	NGFS	Network for Greening the Financial System
APR	Annual percentage rate	NPL	Non-performing loans
ART	Asset-referenced tokens	O-SII	Other systemically important institutions
BCBS	Basel Committee on Banking Supervision	P2G	Pillar 2 Guidance
BigTech	Major globally active firms with a relative advantage in digital technology	P2R	Pillar 2 Requirements
BIS	Bank for International Settlements	PD	Probability of default
BMEC	BME Clearing	PEPP	Pandemic Emergency Purchase Programme
CCR	Central Credit Register	PI	Payment institutions
CCyB	Countercyclical capital buffer	PISA	Payment Instruments, Schemes and Arrangements
CET-1	Common Equity Tier-1	PPS	Post Program Surveillance
CGP	Code of good practice	PSD2	Payment Services Directive 2
CLO	Collateralized loan obligations	RegTech	Regulatory technology
CNMV	Spanish National Securities Market Commission	RoE	Return on Equity
CPMI	Committee on Payments and Market Infrastructures	RT1	Real time payment system
CPMLMO	Commission for the Prevention of Money Laundering and Monetary Offences	RWA	Risk-weighted assets
CRD-V	Capital Requirements Directive V	Sareb	Asset management company for assets arising from bank restructuring (Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria)
CRR	Capital Requirements Regulation	SCA	Strong Customer Authentication
CRR-II	Capital Requirements Regulation II	SEPA	Single Euro Payment Area
CSD	Central Securities Depository	SEPBLAC	Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences
CSD	Customer service department	SG.GRL	General Secretariat of the Banco de España
CSDR	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 on central securities depositories	SI	Significant institutions
CSRBB	Credit spread risk arising from their non-trading book activities	SIPS	Systemically important payment systems
DG.BS	Directorate General Banking Supervision	SLI	Specialised lending institution
DG.FSR	Directorate-General Financial Stability, Regulation and Resolution	SNCE	National Electronic Clearing System (Sistema Nacional de Compensación Electrónica)
DG.OMP	Directorate General Operations, Markets and Payment Systems	SQA	Supervisory Quality Assurance
DGSFP	Directorate General of Insurance and Pension Funds (Dirección General de Seguros y Fondos de Pensiones)	SREP	Supervisory Review and Examination Process
EBA	European Banking Authority	SRM	Single Resolution Mechanism
ECB	European Central Bank	SSM	Single Supervisory Mechanism
ELMI	Electronic money institutions	STEP2	Retail payment system
ESA	European Supervisory Authorities	STMP	Sistema de Tarjetas y Medios de Pago
ESG	Environmental, social and governance	SupTech	Supervisory technology
ESRB	European Systemic Risk Board	TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer System
EU	European Union	TPI	Transmission Protection Instrument
EURO1	Large-value payments system	TPP	Third party payment service provider
FinCoNet	International Financial Consumer Protection Organisation	TRIM	Targeted review of internal models
FinTech	Financial technology	-	
FLESB	Forward-Looking Exercise on Spanish Banks	m€	Millions of euros
FSB	Financial Stability Board	pb	Basis points
FSC	Financial Stability Committee	pp	Percentage points
GDP	Gross domestic product		
G-SII	Global systemically important entity		
Iberpay	Sociedad Española de Sistemas de Pago, SA		
ICAAP	Internal capital adequacy assessment process		
ICO	Official Credit Institute (Instituto de Crédito Oficial)		
IFRS-9	International Financial Reporting Standard 9 on Financial Instruments		
ILAAP	Internal liquidity adequacy assessment process		
IOSCO	International Organization of Securities Commissions		
IPREM	Public Indicator of Income for Multiple Purposes		
IRRBB	Interest rate risk in the banking book		
IT	Information technology		
JST	Joint Supervisory Team		
LCR	Liquidity coverage ratio		
LGD	Loss given default		
LMV	Royal Legislative Decree 4/2015 of 23 October approving the consolidated text of the Securities Market Law		
LSI	Less significant institutions		
MGs	Mutual guarantee society		
MiCA	Markets in CryptoAssets		
ML/TF	Money laundering and terrorist financing		