

2020 SUPERVISION REPORT

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- **The 2020 Supervision Report has been drawn up in response to a legal mandate:** (10th additional provision of the consolidated text of the Securities Market Law). It includes information on the year's supervisory actions and procedures with a view to assessing their effectiveness and efficiency.
- Following the inclusion of the “Annual Report on the Oversight of Financial Market Infrastructures” in 2019, the title of the publication was changed to “**Supervision Report**” (formerly the “Report on banking supervision in Spain”). A message will be included on the website explaining the reason for this change.
- Its structure remains unchanged and a new section has been added entitled “The Spanish banking sector”, which contains the banking sector's main aggregates and ratios, and its performance in recent years.

Content

- Foreword and interview: including the most significant messages.
- Emphasis has been placed on the banking sector's and supervisors' role in mitigating and reducing the effects of crises.
- The work carried out over the year is explained in each chapter, noting the impact of the pandemic on activity (supervisory procedures, activity in international fora, etc.).
- A series of boxes addressing current or particularly salient issues is included.

Videos

- How is the banking system helping to mitigate the effects of the COVID-19 crisis?
- How has microprudential banking supervision adapted to the COVID-19 crisis?
- How has conduct supervision supported banking and bank customers during the COVID-19 crisis?
- What are the main risks banks are exposed to?

- ❑ **2020 was marked by the global health and economic crisis** triggered by COVID-19. The recovery remains partial, uneven and uncertain.

- ❑ The **economic authorities have taken forceful, highly-coordinated action**, adopting monetary, fiscal and financial policy measures. **The European prudential authorities adopted decisions and recommendations in order to help banks continue to provide financing to households and firms** in an adverse environment. Supervisory flexibility (P2G, composition of P2R, use of buffers, etc.), alleviating the supervisory burden, limiting dividends... The pandemic and its fallout have had a major impact on supervisory activity.

- ❑ The banking sector has played a key role in the application of certain government support measures: moratoria and State guarantees. The sector is better placed, in terms of capital and liquidity, to address the impact: recognition of the role played by the international financial reform.

- ❑ **However, the ultimate impact of the crisis on the banking sector will depend both on its scale and duration and on the effectiveness of the policies** in alleviating its effects on households and firms. Fiscal policy may play an important role by providing direct support to viable firms.

- ❑ **Banks must face the challenge of improving profitability: making more intensive use of new technologies and consolidation processes.**

- ❑ **As supervisors, we should continue to closely monitor banks to ensure that **credit risk is properly assessed, classified and measured in their balance sheets.****

- ❑ **The growing use of technology entails an increase in the associated risks (cyberattacks). Neither institutions nor supervisors should let their guard down.**

- ❑ **We must encourage adequate measurement and management of the risks posed by climate change and the environment which may have a major impact on the financial system.**

- ❑ **In the banking sphere, the response to the crisis must be European:** Banking Union (EDIS), Capital Markets Union, European administrative procedure for winding up institutions.

Supervisory and oversight functions

- Microprudential → allocation of competences within the SSM
- Macroprudential policy
- Supervision of conduct and transparency
- Supervision of payment service providers
- Oversight of financial market infrastructures
- AML/CFT: collaboration with the Commission and SEPBLAC

Organisation of supervision and oversight

- Distribution of supervisory and oversight functions among the **Directorates General and their departments**

Staff

- **Information on staff** dedicated to supervisory and oversight tasks
- Distribution of **staff by professional group / gender**

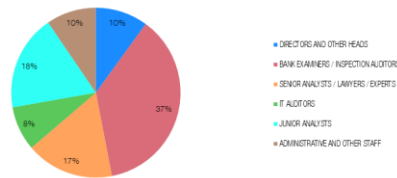
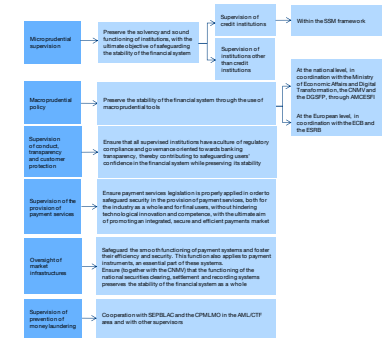
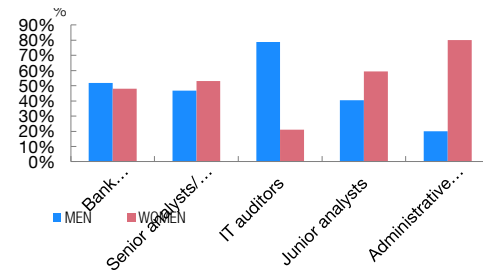
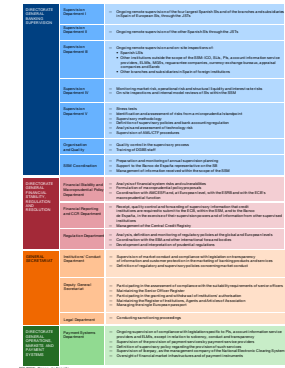


Figure 1.1 THE BANCO DE ESPAÑA'S SUPERVISORY AND OVERSIGHT FUNCTIONS



SOURCE: Banco de España

Figure 1.2 ORGANISATION OF SUPERVISION AND OVERSIGHT AT THE BANCO DE ESPAÑA

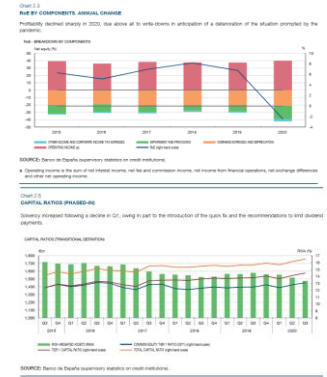


2. MICROPRUDENTIAL SUPERVISION

The Spanish banking sector and supervisory priorities

The Spanish banking sector

- **Banking sector: better prepared to deal with the crisis.**
- Solvency: improved solvency in recent years.
- Liquidity: improvement in 2020 (monetary policy measures).
- Profitability: drops in 2020 owing to write-downs ensuing from the crisis.
- Asset quality: improvement in the ratio in recent years; foreseeable future impairment.



Response to the crisis and supervisory focal points in 2020

- Widespread remote working.
- Central banks, governments and regulatory and supervisory bodies adopted measures and recommendations to mitigate the impact of COVID-19 on the economy and on financial stability.
- Supervisory activity focused on monitoring pandemic-related risks.

Supervisory priorities in 2021

SIIs - SSM / LSIs - Banco de España

- Credit risk management
- Strengthening capital
- Business model sustainability
- Governance

CREDIT RISK MANAGEMENT	STRENGTHENING THE CAPITAL OF INSTITUTIONS	BUSINESS MODEL SUSTAINABILITY	GOVERNANCE
Review of the procedures and practices for the management, monitoring and reporting of this risk	Monitoring of the institutions' capital plans, with emphasis on dividend distribution and share buyback policies	Review of the strategic plans and measures presented by the institutions to remedy shortcomings	Monitoring of the institutions' crisis management procedures and capacity to adapt
Identification of asset impairment and management thereof	EU-wide stress test (postponed in 2020)	Assessment of headway made in digitalisation plans and impact on business models	Assessment of management systems for the provision of relevant management information and data
			IT and cyber risk
			Assessment of ML/TF risk

2. MICROPRUDENTIAL SUPERVISION

Supervision of credit institutions

In the Banking Union, the ECB heads the microprudential supervisory function with the participation of the NCAs. Distribution of competences: ECB - Banco de España.

- **Significant institutions:** including subsidiaries and branches of foreign SIs.
- **Less significant institutions,** remainder of EU branches, non-EU branches and the ICO.

(Information is provided on the weight of the groupings in the system and on Institutions in the Register of Credit Institutions)

The Banco de España's participation in ECB decisions; information provided to the Executive Commission on decisions and actions affecting Spanish institutions. The Supervision Report provides information on the areas to which these decisions relate.

Figure 2.4

DISTRIBUTION OF SUPERVISORY POWERS

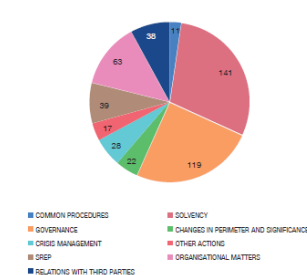
	Tasks assigned to the ECB within the SSM	Tasks assigned to the NCAs within the SSM
Supervision of SIs	Direct supervision of SIs	Assistance to the ECB for SI supervision: participation in JSTs and in on-site inspections
Supervision of LSIs	Indirect supervision of LSIs	Direct supervision of LSIs
Common procedures	The common procedures are the responsibility of the ECB, with proposal by the NCAs: granting and withdrawal of authorisations to/from credit institutions and of authorisations to purchase/sell qualifying holdings in credit institutions	Preparation of proposals for SIs and LSIs
Sanctions	SIs: sanctioning powers in the event of non-compliance with directly applicable EU law, except non-pecuniary penalties and penalties on natural persons LSIs: sanctioning power in the event of non-compliance with an ECB decision or regulation	SIs: sanctioning powers, upon prior examination by the ECB, for non-compliance with national laws transposed from EU directives; for infringements by directors and managers; and for non-pecuniary penalties. LSIs: powers to sanction LSIs for other instances of non-compliance, in some cases after prior examination by the ECB
Macroprudential measures	Possibility of tightening certain macroprudential policy measures set by the national authorities, if deemed justified	Initiative to implement macroprudential policy in close cooperation with the ECB (and any other European bodies)

Chart 2.9

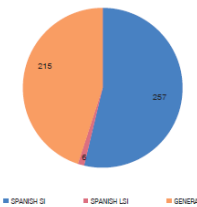
DISTRIBUTION OF THE ECB DECISIONS AND ACTIONS IN 2020 NOTIFIED TO THE EXECUTIVE COMMISSION

In 2020, the number of SREP decisions declined due to adoption of the pragmatic approach. Another notable change was the increase in decisions concerning governance, while the actions relating to the management of COVID-19 were recorded in the crisis management area.

1 BY CATEGORY



2 BY TYPE OF INSTITUTION



SOURCE: Banco de España.

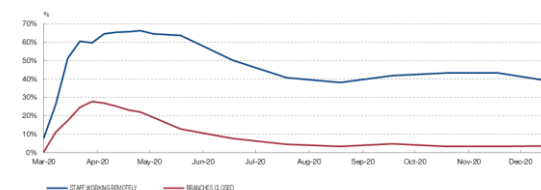
2. MICROPRUDENTIAL SUPERVISION

Supervision of credit institutions

Ongoing off-site supervision

- A distinction is made between SIs and LSIs-branches-ICO
- In general, the COVID-19 crisis prompted a need to perform tasks relating to: monitoring the impact of COVID-19 on asset quality; banks' contingency plans; liquidity; impact on institutions' level of activity, income statements and capital.
- SREP central task: **simplified SREP methodology** for 2020.
- SSM (SIs): postponement of the EBA and ECB stress test exercises, replaced by a **vulnerability exercise**.
- Banco de España: information is provided on **activities performed by type of institution**.

Example: description of the effects of the pandemic on branch closures and on increased remote working



Ongoing supervisory actions at LSIs



2. MICROPRUDENTIAL SUPERVISION

Supervision of credit institutions

On-site supervision

Letters sent deriving from actions: LSIs, branches, ICO

- On-site work was suspended owing to the lockdown imposed by the state of alert, continuing on a remote basis. Activity resumed in Q4
- Separate information on the number of actions: SIs –SSM- / LSIs-branches-ICO
 - SIs: 10 inspections /10 IMIs
 - LSIs: 6 inspections.
- Areas under review →

Credit quality

Governance

Solvency

Technology risk

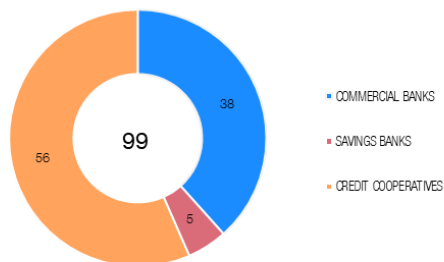
Market risk

- As a result of the aforementioned supervisory actions carried out in 2020, 99 letters were sent.
- The requirements and recommendations by type of action (inspection, capital decision, recovery plans) and by area (business, credit, governance, etc.) are discussed.

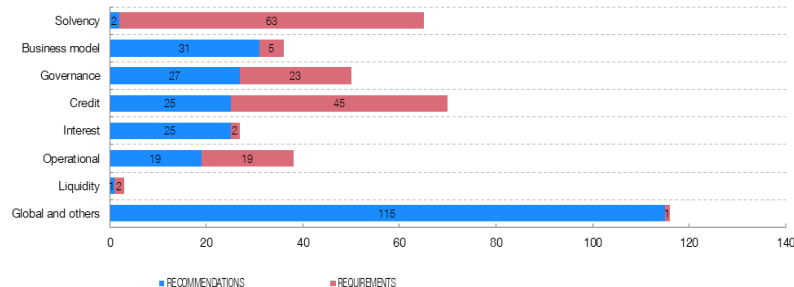
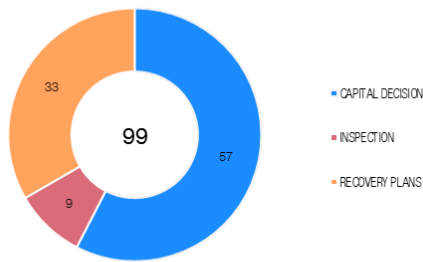
Number of letters addressed to credit institutions

Requirements and recommendations by area

1 BY TYPE OF INSTITUTION (2020)



2 BY SUBJECT MATTER (2020)



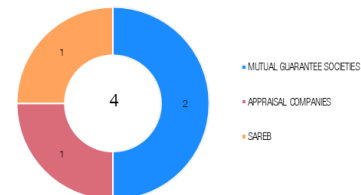
2. MICROPRUDENTIAL SUPERVISION

Other information included in Chapter 2

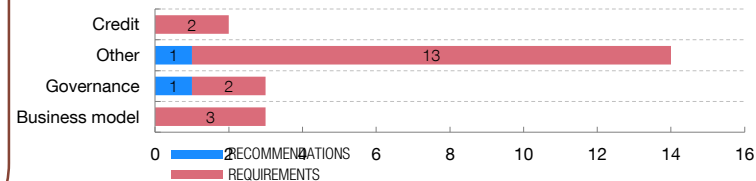
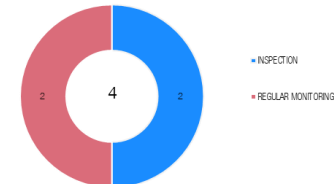
Supervision of institutions other than credit institutions

- SLIs, PIs, ELMIs, appraisal companies, MGSs, etc.
- 380 ongoing off-site supervision actions
- 3 inspections
- 4 letters to other institutions, including 22 requirements and recommendations
- Intruders: supervisory actions relating to 29 legal entities which may have been carrying out restricted activities without authorisation

1 BY TYPE OF INSTITUTION (2020)



2 BY SUBJECT MATTER (2020)



Other information relating to microprudential supervision

- Recommendations on dividends and variable remuneration
- Common procedures, suitability and other procedures
- Other actions: AML/CTF
- The quality and training function
- Supervision of payment services

**Stabilisation measures:
moratoria and ICO
guarantees.**

The banking sector's leading role in the implementation period.

**Relaxing application of
prudential regulations
and accounting
standards. ECB and
Banco de España
measures.**

The aim is to avoid procyclical effects so as not to limit the capacity to provide financing.

**Banco de España
supervisory
expectations on
climate change and
environmental risks,
and the ECB guide**

Risks posed by climate change and environmental degradation are sources of financial risk and banks should begin to address them.

**Supervisory policy in
mergers between
institutions**

These processes are an opportunity for improving efficiency and positioning in the face of new challenges. The supervisor's role: a reference to the content of the ECB's guide on supervisory expectations

Organisational restructuring of ECB supervision

New payment services business models

Leadership of particularly significant SSM projects

Anti-money laundering: a priority for the EU

New developments in regulations on technology-related risks and their supervision

New technologies in supervision: suptech

Macroprudential tools

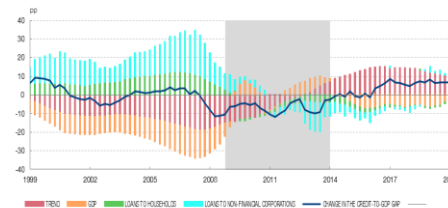
- The countercyclical capital buffer rate has been held at 0% for credit exposures in Spain and is not expected to increase over a prolonged period.
- G-SIIs and O-SIIs are identified and their capital buffers are set.
- Commonly used indicators have lost part of their explanatory value.
- Work has continued on the draft circular relating to the new macroprudential tools.

Table 3.1

SYSTEMICALLY IMPORTANT INSTITUTIONS AND ASSOCIATED CAPITAL BUFFERS

Legal Entity Identifier (LEI)	Institution	Designation	Capital buffer requirement in 2020
5493006QMFDDMYIAM13	Banco Santander, SA	G-SII and O-SII	1,00%
K8MS7FD7N5Z2WQ51AZ71	Banco Bilbao Vizcaya Argentaria, SA	O-SII	0,75%
7CUNSS33WID6K7DGF87	CaixaBank, SA	O-SII	0,25%
SISRG2M0WQQLZCXKRM20	Banco de Sabadell, SA	O-SII	0,25%
549300GT0XFTFHGOIS94	BFA Tenedora de Acciones, SAU (Bankia, SA)	O-SII	0,25%

Change in the credit-to-GDP gap



SRI and output gap

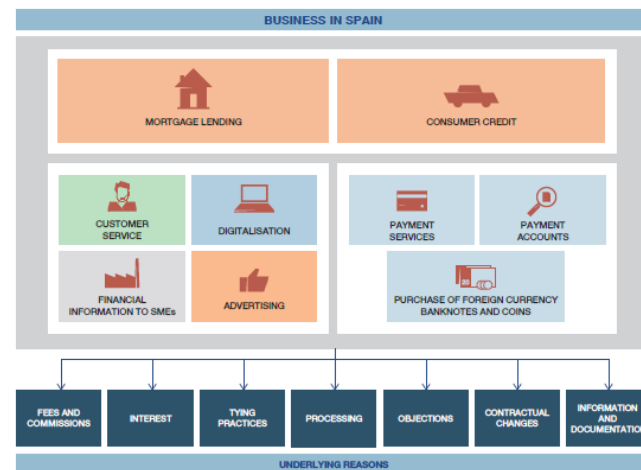


Macroprudential coordination at national level: information on AMCESFI's activity

SSM macroprudential tasks: continuous dialogue with the ECB and other NCAs

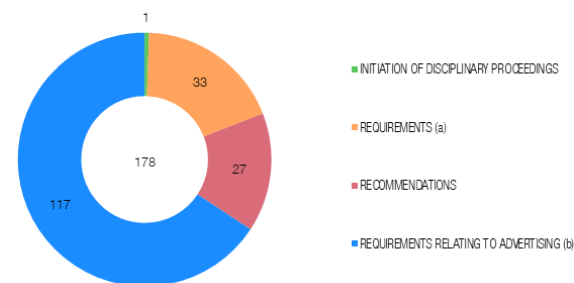
Supervisory activity in 2020

- Work has been carried out to ensure citizens are provided with the necessary information on the support measures (moratoria and State guarantees) and to support institutions in their implementation.
- Areas of activity: consumer lending (in particular, revolving credit cards), mortgage lending, advertising, customer service departments and digitalisation in banking product marketing.



Adoption of supervisory measures

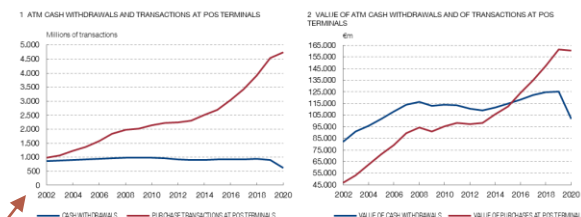
- 33 requirements letters
- 27 recommendation letters
- 117 letters requesting removal or rectification of advertising



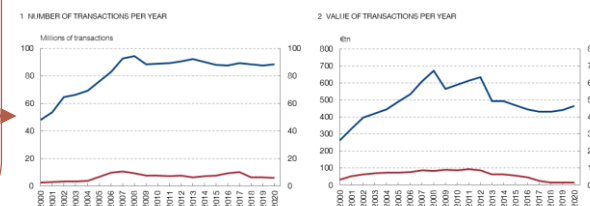
Oversight of payment systems and instruments

- In oversight activity, the national sphere (SNCE and the Spanish card scheme) and the Eurosystem's co-operative oversight (TARGET2, other pan-European payments systems and schemes operating in Spain) are distinguished.
- Information on the impact of COVID-19 on payment systems and instruments.
Examples

Overview of operations with cards



Overview of TARGET2 operations



Supervision of Iberpay

- Iberpay is SNCE's manager.
- Oversight activity: the new SNCE regulation was authorised and the rules for 4 new Iberpay services and 11 SNCE operating instructions were analysed.

Oversight of securities infrastructures

- Spanish securities infrastructures: Iberclear (CSD) and BME Clearing (ECC)
- The SIX group has acquired the BME Group
- Assessment of two new links between Iberclear and foreign CSDs.
- Information is provided on the activity of BME Clearing and Iberclear



The time limits for sanctioning proceedings were suspended from 14 March to 1 June, owing to the declaration of the state of alert.

Proceedings processed

- Nevertheless, proceedings continued to be initiated and resolved in 2020:

3 proceedings were initiated

8 proceedings initiated in 2019 were concluded

1 proceeding was resumed, having been suspended for several years owing to the concurrence with criminal proceedings in relation to the same facts

- 5 of the 12 proceedings are related to:

Transparency and bank customer protection

Institutions or individuals

3 banks

SLI

Credit cooperative

2 unauthorised companies

PI and officers

ELMI shareholders

Savings bank and officers

2 appraisal companies and officers

Causes

- Detailed information on some of the causes is provided:
 - Pre-contractual and contractual information
 - Information on the CGP
 - Sufficiency of human resources at appraisal companies, shortfalls in the procedure for monitoring incompatibilities, valuation methodologies that do not fully comply with sector-specific legislation, etc.

7. THE BANCO DE ESPAÑA'S PARTICIPATION IN INTERNATIONAL BODIES

Global fora

FSB

Adaptation of its work programme to support the real economy, maintain financial stability and minimise the risk of fragmentation.

BCBS

- The BCBS and the challenge of COVID-19 (Box). Priority has been given to monitoring risks and vulnerabilities and adopting regulatory relief measures.
- The strategic review of its organisation to optimise its structure and internal processes in order to focus on emerging risks is noteworthy.

European fora

ESRB

Five lines of work in response to COVID-19:

- implications for the stability of the financial system of public guarantee schemes;
- market illiquidity;
- the procyclical impact of ratings downgrades;
- restraints on dividend payments; and
- liquidity risks arising from margin calls.

EBA

- Guidelines on legislative and non-legislative moratoria (Box);
- Statement on the use of capital and liquidity buffers;
- Easing of the supervisory reporting and disclosure requirements;
- Guidelines on loan origination and monitoring (Box), etc.

Other fora

Description of the work performed in the year by FinCoNet, the CPMI of the BIS and the NGFS.

Banco de España circulars and guidelines

- **Circular 1/2020** on the CCR
- **Circular 2/2020** amending Circular 4/2017
- **Circular 3/2020** amending Circular 4/2017
- **Circular 4/2020** on the advertising of banking products and services
- **Circular 5/2020** to PIs and ELMIs on public and confidential financial reporting standards and formats
- **Circular 1/2021** on the transparency of banking services and responsible lending
- **Circular 2/2021** determining the basis of calculation of contributions to the DGSCI

Draft circulars

- Guidelines on the organisational and operational criteria of customer service departments
- Circular on the macroprudential tools provided for in Law 10/2014
- Circular on operational and security risk management relating to payment services
- Circular on liquidity, prudential regulations and reporting obligations of LSIs
- Circular on confidential conduct-related information

Other new regulatory developments

- **Regulation (EU) 2020/873** amending the CRR to introduce adaptations in response to the COVID-19 pandemic, known as the “quick fix”.
- **Law 7/2020** on the digital transformation of the financial system (sandbox)
- **Royal Decree 309/2020** on the legal regime of SLIs

THANK YOU FOR YOUR ATTENTION

