

Supervision Report: Digest

Banco de España supervisory functions and their internal distribution

- The Banco de España has broad supervisory powers not only over credit institutions, but also over other financial institutions and undertakings related to the financial system operating in Spain. Specifically, it has powers over payment institutions (PIs), account information service providers, specialised lending institutions (SLIs), electronic money institutions (EMIs), mutual guarantee societies (MGSs), reguarantee companies, currency-exchange bureaux, appraisal companies, banking foundations and Sareb (the asset management company for assets arising from bank restructuring).
- Microprudential supervision aims to ensure that institutions and groups, considered individually, maintain adequate solvency and liquidity levels, comply with the prudential regulations in force and conduct prudent business and risk management. Credit institutions from countries participating in the Banking Union are supervised jointly by the European Central Bank (ECB) and the national competent authorities (NCAs) of such countries – including the Banco de España – under the Single Supervisory Mechanism (SSM). The Directorate General Banking Supervision (DGBS) performs this task at the Banco de España.
- In the macroprudential sphere, the Banco de España is the national designated authority for formulating, adopting and establishing macroprudential measures for credit institutions. The Directorate General Financial Stability, Regulation and Resolution (DGFSRR) is responsible for drawing up macroprudential policy measures.
- The Banco de España is also entrusted with supervising the conduct and transparency of the institutions in its Official Registers and with consumer protection. These tasks are performed by the General Secretariat.
- Supervisory responsibility for the provision of payment services is split among three Directorates General: the DGBS, the Directorate General Operations, Markets and Payment Systems (DGOMPS) and the General Secretariat. The DGOMPS is also in charge of overseeing financial market infrastructures and payment instruments.
- Turning to anti-money laundering and countering the financing of terrorism (AML/CFT), the Banco de España collaborates with the Commission for the Prevention of Money Laundering and Monetary Offences and its Executive Service.

The Spanish banking sector

- Spanish banks were better placed to cope with the pandemic-induced crisis than in previous crises. Total consolidated lending surged in 2020, driven by the central bank stimulus packages and State guarantee schemes launched in response to the pandemic.
- The sector's solvency – which had continuously increased over recent years – has improved since 2020 H2. This is mainly because of the regulatory and supervisory measures implemented as a result of the crisis, which have eased some capital requirements and restricted dividend payments.
- Spanish banks' liquidity coverage ratio has also risen since 2020 H2 on account of the increase in their liquidity buffers as a result of the monetary policy measures in response to the crisis.
- Spanish banks' profitability, which had already shown weaknesses in recent years due to the low interest rate environment, fell sharply in 2020, mainly because of the write-downs recognised as a result of the crisis.

The response to the crisis, focal points in 2020 and supervisory priorities for 2021

- The COVID-19 crisis forced the supervisory actions and priorities for 2020 to be refocused to adapt them to the main pandemic-induced risks.
- The Banco de España urgently adopted the measures required to ensure that prudential supervision, along with its other functions, could remain in full effect under the new circumstances.
- Central banks, governments and supervisory and regulatory bodies adopted and published a raft of measures and recommendations to mitigate the impact of COVID-19 on the economy and financial stability. These measures include legislative moratoria and State guarantee schemes, in addition to those adopted by supervisory and regulatory authorities to relax capital and liquidity requirements and to alleviate the operational burden on banks.
- Supervisory efforts were refocused to ensure pandemic-related risks are adequately monitored, prioritising the impact on institutions' risk profile and operational continuity.
- Supervisory priorities for 2021 – credit risk management, capital strength, business model sustainability and governance – have naturally been shaped by the impact of COVID-19.
- Against the current background of ever-narrowing margins and write-downs as a result of the crisis, banks are consolidating to increase their resilience and boost their efficiency. Two consolidation projects are currently under way in Spain. The supervisor has published its supervisory expectations regarding consolidation projects and is following these projects closely to make sure that the resulting banks comply with prudential requirements and ensure effective and prudent risk management.

The response to the crisis, focal points in 2020 and supervisory priorities for 2021

- Over the last five years, Europe's regulators have pushed for improvements in the financial sector's technological and digital resilience. Two noteworthy initiatives because of their importance are the European Banking Authority (EBA) Guidelines on ICT and security risk management and the European Union's (EU) proposal for a Digital Operational Resilience Act.
- Initiatives have been launched to raise the banking sector's awareness of, and readiness for, the financial risks posed by climate change and environmental degradation. The ECB published its guide on climate-related and environmental risks and the Banco de España issued its related supervisory expectations.

Supervision of credit institutions

- Under the SSM, the ECB is the central microprudential supervisor, in collaboration with the NCAs. Ongoing supervision of significant institutions (SIs) is performed by joint supervisory teams comprising ECB and Banco de España staff. The Banco de España directly supervises less significant institutions (LSIs) according to a common policy laid down by the ECB.
- The COVID-19 crisis heavily influenced supervisory activity in 2020. In addition to the typical ongoing supervision, other tasks included monitoring of: the measures established by the Government (e.g. moratoria and State guarantees); the impact of COVID-19 on asset quality; contingency plans (honing in on cybersecurity and business continuity); liquidity; and the effects of the crisis on banks' activity, earnings and solvency.
- A simplified supervisory review and evaluation process (SREP) methodology was applied, prioritising in each area those aspects that could have been particularly affected by the crisis. The ECB and EBA 2020 stress tests were postponed to 2021. A top-down vulnerability analysis was conducted instead.
- In 2020, 600 ongoing off-site supervision actions were conducted on Spanish LSIs, the Official Credit Institute, branches of LSIs from other SSM participating countries and other EU Member States, and branches of non-EU credit institutions.
- Ongoing off-site supervision is supplemented with on-site actions (inspections and model investigations). The 2020 inspection plan for the SIs from SSM countries was revised as a result of the COVID-19 pandemic: inspections at advanced stages continued and the rest were suspended. On-site inspections resumed in 2020 Q4, all by remote and online means. In 2020 Banco de España staff participated in 20 on-site actions on SIs and in six on-site inspections of LSIs.
- The ECB and the Banco de España have recommended that institutions refrain from paying dividends to shareholders, to ensure that they have the capital necessary to continue lending to economic agents and to absorb potential losses. They also reiterated their expectations that banks adopt extreme moderation on variable remuneration.
- Within their respective areas of competence, the Banco de España and the ECB supervise compliance with the rules on the suitability of credit institutions' senior officers for the duration of their tenure. The Banco de España participated in 195 suitability assessments for senior officers at institutions, be they supervised directly by the SSM or by the Banco de España. The Banco de España also prepared a new questionnaire for assessing the suitability of senior officers of institutions other than CIs and SLIs. In cooperation with the NCAs, the ECB created a new portal to smooth the processing of institutions' suitability assessments.
- As a result of its supervisory tasks, the Supervisory Board of the ECB – of which the Banco de España is a member – adopted 478 decisions and actions affecting Spanish institutions that were reported to the Executive Commission. The Banco de España sent 99 letters to LSIs containing 405 requirements and recommendations.
- In 2020 two general inspections were launched to review LSIs' compliance with AML/CFT obligations, and the implementation of an AML/CFT action plan at one SI was revised. In 2020 EU institutions reiterated their commitment to AML/CFT through a series of initiatives. These included the European Commission's action plan for a comprehensive Union policy on preventing money laundering and terrorism financing.
- Each year the DGBS works on a training programme that fosters staff's professional development and excellence.

Supervision of other institutions, compliance with vetted access to activity and supervision of payment service providers

- The Banco de España has exclusive microprudential supervisory powers over SLIs, MGSs, reguarantee companies, appraisal companies, Pls, ELMIs, currency-exchange bureaux, account information service providers, banking foundations and Sareb. In 2020, 380 ongoing off-site supervision actions were performed by various means and three inspections were conducted.
- The Banco de España oversees compliance with vetted access to activity and takes action on those seeking to begin operations in the financial market without meeting the conditions of access. Supervisory actions relating to 29 legal entities were launched in 2020.
- Most of the supervision of payment service providers during 2020 was geared towards verifying compliance with Commission Delegated Regulation 2018/389 on strong customer authentication and common and secure open standards of communication.

CHAPTER 3.

MACROPRUDENTIAL POLICY

The Banco de España's macroprudential tools	<ul style="list-style-type: none">• The Banco de España regularly monitors the risks to and vulnerabilities of the financial system. In accordance with the prevailing legislation, the Banco de España regularly sets two macroprudential capital buffers to address the build-up of cyclical and structural risks.• The Banco de España held the countercyclical capital buffer rate at 0% for credit exposures in Spain in 2020 and does not expect to increase it over a prolonged period due to the macrofinancial impact of the pandemic. Five other systemically important institutions – one of which is also a global systemically important institution – were identified and their associated buffers were set.• In 2020 the Banco de España worked on drawing up a circular on how the new macroprudential tools applicable to credit institutions provided for in Royal Decree-Law 22/2018 and Royal Decree 102/2019 will be designed and used.
Macroprudential coordination at national level	<ul style="list-style-type: none">• 2020 was the first full year of activity for the Spanish macroprudential authority (AMCESFI). The Banco de España, the National Securities Market Commission and the Directorate General of Insurance and Pension Funds participate in AMCESFI, which is attached to the Ministry of Economic Affairs and Digital Transformation.• AMCESFI stepped up its activity in 2020 as a result of COVID-19-related events. It also published its first annual report and launched its website.
SSM macroprudential tasks	<ul style="list-style-type: none">• The Banco de España participates in the ECB's Financial Stability Committee and Macroprudential Forum. As part of the SSM, the Banco de España must regularly notify the ECB of each of its proposed macroprudential measures before they are adopted and subsequently announced.

CHAPTER 4.

SUPERVISION OF INSTITUTIONS' CONDUCT

Ongoing oversight and supervisory actions	<ul style="list-style-type: none">• The Banco de España supervises compliance by the institutions in its official registers with banking conduct regulation and discipline legislation. It also aims to ensure effective compliance with such legislation and to prevent and correct inappropriate practices, by promoting the implementation of a culture of conduct and adequate governance arrangements as a cornerstone of maintaining a viable and sustainable banking business model in the medium and long term.• In 2020 supervisory activity focused on monitoring banks' effective implementation of the conduct-related facets of the measures approved to contend with the economic effects of the pandemic. The Banco de España has worked to ensure citizens are provided with the necessary information on these measures and to support institutions in their implementation.• Other priority areas in the supervision of conduct have included: consumer lending (in particular, revolving credit cards), mortgage lending, advertising, customer service departments and the impact of digitalisation on the marketing of banking products.• Annual supervisory planning takes into account the information gathered in the course of supervisory and ongoing monitoring actions and focuses on those institutions considered a priority according to their conduct profile. During 2020 the Banco de España worked on drawing up a circular on confidential conduct-related information, which will result in better information being available for more efficient supervision.
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CHAPTER 5.

OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES

Oversight of payment systems and instruments	<ul style="list-style-type: none">• The exceptional circumstances triggered by the COVID-19 crisis have had a significant impact on market infrastructures and payment schemes. Consequently, the Banco de España closely monitored the functioning of the Spanish retail payment system – the National Electronic Clearing System – and of the Spanish card scheme – Sistema de Tarjetas y Medios de Pago, S.A. –, and their respective managers' actions to contend with the situation.• Similar actions have been conducted within the Eurosystem. The Banco de España participated in those related to the pan-European payment infrastructures and systems operating in Spain.• Several major TARGET2 incidents occurred in 2020 that caused total system outages. The ECB is analysing the operator's management of the incidents and has launched an independent review of the business continuity model, the regular recovery tests, the change management procedures and the communication protocols.
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Supervision of Iberpay (National Electronic Clearing System manager)

- The Banco de España is empowered to approve the articles of association of Sociedad Española de Sistemas de Pago, S.A. (Iberpay), the amendments thereto and the basic operating rules of the services it manages, which are its core purpose. It also assesses the technical instructions regulating the operating procedures of the National Electronic Clearing System and the basic rules relating to the complementary and ancillary services provided by Iberpay.
- In 2020 the Executive Commission of the Banco de España approved the new National Electronic Clearing System regulation. The Banco de España analysed and approved the adoption of operating rules for four new Iberpay services and of 11 National Electronic Clearing System operating instructions.

Oversight of securities infrastructures

- In June 2020 the Swiss SIX Group acquired the BME group, which includes Iberclear and BME Clearing. The Banco de España closely monitored the purchase and approval process, paying special attention to its impact on financial and euro stability.
- As a Eurosystem member, the Banco de España participated in assessing the eligibility of two new links between Iberclear and foreign central securities depositories in 2020.

CHAPTER 6. EXERCISE OF SANCTIONING POWERS

Sanctions

- Despite the stay between 14 March and 1 June 2020, the Banco de España concluded eight administrative proceedings, instituted a further three and resumed one that had been suspended for several years due to the concurrence with criminal proceedings in relation to the same facts. Transparency and consumer protection continue to account for the highest number of sanctioning proceedings.

CHAPTER 7. THE BANCO DE ESPAÑA'S PARTICIPATION IN INTERNATIONAL BANKING REGULATION AND SUPERVISION BODIES

International activities

- In 2020 the organisation of these fora and the matters on their agendas were heavily affected by the COVID-19 crisis. The fora also tried to promote the flexibility required to mitigate the adverse effects of the crisis on the real economy and the financial system.
- The Financial Stability Board prioritised the international coordination of the response to COVID-19, adapting its work programme to support the real economy, maintain financial stability and minimise the risk of fragmentation. The work of the Basel Committee on Banking Supervision, which is chaired by the Governor of the Banco de España, was also marked by the response to the impact of COVID-19. The strategic review to optimise its structure and internal processes in order to focus on emerging risks, the digitalisation of finance, and climate-related risks is noteworthy.
- The EBA's work in response to the COVID-19 crisis notably included: the Guidelines on legislative and non-legislative moratoria; the statement on the use of capital and liquidity buffers; the easing of reporting requirements; the postponement from 2020 to 2021 of the stress test exercise; and the recommendations to the supervisor to take a pragmatic approach in the SREP and to banks to adopt a prudent approach to dividend payment. Brexit also had a significant impact on the EBA's work.
- Under the coordination of its Advisory Technical Committee (chaired by the Governor of the Banco de España), the European Systemic Risk Board focused its work in response to COVID-19 on five priority areas: i) implications for the stability of the financial system of State guarantee schemes and other fiscal measures to protect the real economy; ii) market illiquidity and implications for asset managers and insurers; iii) the procyclical impact of ratings downgrades; iv) restraints on dividend payments by financial institutions; and v) liquidity risks arising from margin calls.

CHAPTER 8. NEW REGULATORY DEVELOPMENTS IN SUPERVISORY MATTERS

Regulatory developments

- The Banco de España issued five circulars in 2020: i) one on the Central Credit Register; ii) two amending Circular 4/2017 to credit institutions on public and confidential financial reporting standards and financial statement formats (one of which afforded them greater flexibility in the context of the COVID-19 crisis); iii) one on advertising for banking products and services; and iv) one establishing the accounting and reporting regime of PIs and ELMIs.
- In 2020 the salient legislative developments for prudential supervision were the amendments to the Capital Requirements Regulation in response to the pandemic and the promulgation of a law on regulatory sandboxes and a royal decree on SLIs' legal regime.