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

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INTERNATIONAL BODIES

Participating in international banking regulation and supervision fora is one of the Banco de España's strategic priorities

FINANCIAL STABILITY BOARD

Noteworthy is the work on the following: i) impact of the pandemic, measures adopted and lessons on its effects, fostering international cooperation; and ii) identification, monitoring and assessment of vulnerabilities, including non-bank financial intermediation

BASEL COMMITTEE ON BANKING SUPERVISION

Its priorities include: i) work relating to the impact of the pandemic; and ii) the monitoring of structural trends and risk mitigation (digitalisation, crypto-assets, operational resilience, climate change)

EUROPEAN BANKING AUTHORITY

Its priorities are focussed on the following points: i) the performance of the stress test postponed due to the pandemic; ii) progress in implementing the risk reduction package and in the project to become an integrated EU data hub; and iii) the work in the areas of financial innovation and technological risk, ESG risk and AML/CTF, and the mitigation of the consequences of the pandemic

EUROPEAN SYSTEMIC RISK BOARD

Its work was geared towards the analysis of the housing market, cyber risk, the reform of money market funds and the consequences of Brexit on market infrastructures

OTHER

The Banco de España participates actively in FinCoNet, in the Committee on Payments and Market Infrastructures and in the Network for Greening the Financial System, on climate change

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

Participating in international banking regulation and supervision fora is one of the Banco de España's strategic priorities. The pandemic caused by COVID-19 has forced us to be even more aware of the globalised environment in which banks currently operate, and of the need for the financial system regulatory and supervisory standards to be agreed on in these international fora, which have the capacity to grasp the idiosyncrasies of the multiple jurisdictions in which institutions provide their financial services. Therefore, it is essential to preserve and boost the capacity to influence 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
— Financial Stability Board (FSB) — — Basel Committee on Banking Supervision (BCBS)	— European Banking Authority (EBA) — European Systemic Risk Board (ESRB)	— International Financial Consumer Protection Organisation (FinCoNet) — Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) — Network of Central Banks and Supervisors for Greening the Financial System (NGFS)

SOURCE: Banco de España.

7.1 Global fora

7.1.1 Financial Stability Board

In 2021, the Financial Stability Board (FSB) continued devoting a significant part of its agenda to issues related to the impact of the pandemic and the response measures adopted, fostering international cooperation and assessing possible lessons on its effects. This work includes the publication of a report on considerations to be taken into account in relation to the extension, adjustment and

Figure 7.2
FSB REPORT ON THE SUPPORT MEASURES IN RESPONSE TO THE COVID-19 PANDEMIC

EARLY WITHDRAWAL VS LATE WITHDRAWAL	FLEXIBLE AND GRADUAL APPROACH	CLEAR, CONSISTENT AND TIMELY COMMUNICATION	THE RESILIENCE AND SOUND FUNCTIONING OF THE FINANCIAL SYSTEM ARE A PREMISE FOR A FLUID TRANSITION
Most authorities believe that the costs of a premature withdrawal of support could be more significant than maintaining support for too long The circumstances are different, but policymakers face similar dilemmas when considering whether to extend, amend or end support measures, with shared objectives	Authorities may adopt a flexible and gradual approach: — Targeted measures to the most affected sectors, households and firms (rather than broad and large-scale support) — Application of conditional measures on request by the affected parties (rather than automatic application) — Making the support terms progressively less generous — Sequencing the withdrawal of measures	Clear, consistent and timely communication about policy intentions can help the economy adapt to them and help reduce the costs associated with withdrawal of measures In times of high uncertainty, the authorities may provide guidance on the conditions under which the support measures would be adjusted or phased out; e.g. by explaining which factors will be taken into account in their decision-making	As public support is progressively eliminated, the capacity of banks and non-financial institutions to handle risks and provide financing will be ever more critical Banks must continue to monitor the financial health of their borrowers as support measures such as debt moratoria are extended, and to provision appropriately for impaired loans Supervisors need to continue to find the right balance of flexibility and sound credit risk management

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

withdrawal of support measures adopted depending on the evolution of the pandemic (see Figure 7.2). Also, the FSB has coordinated the preliminary analysis of lessons learned from a financial stability point of view, addressing the resilience of markets and institutions, operational resilience and crisis management preparedness. The report outlines some areas that require further attention, such as the usability of capital and liquidity buffers (see section 7.1.2 for more details), and the importance of effective operational risk management and effective cross-border cooperation.

Furthermore, the FSB has continued with its work plan to address vulnerabilities detected in the non-bank financial intermediation during the market turmoil of March 2020. In 2021, the FSB completed its work of proposals for measures to address vulnerabilities in the money market funds sector. The paper sets out a catalogue of regulatory options (e.g. mechanisms to reduce liquidity transformation) that jurisdictions may implement to tackle the identified risks.

Alongside these developments, the FSB also continued working on identifying, monitoring and assessing vulnerabilities. To this end, the FSB implemented a surveillance framework in 2021 that includes a common terminology and a common taxonomy of vulnerabilities. Noteworthy among the emerging vulnerabilities identified are those associated with financial innovation, climate change and cross-border payments. In the area of financial innovation, the FSB published a progress report[1] on the implementation of the high-level recommendations for the regulation, supervision and oversight of global stablecoins[2], which highlights the different approaches taken to date by jurisdictions and identifies a number of areas to guide further work. In relation to climate change, the FSB developed a roadmap to promote and coordinate the many initiatives at the international level. With regard to enhancing cross-border payments, the FSB published a paper to set specific quantitative targets for addressing the related challenges of cost, speed, transparency and access, and a progress report on the implementation of the roadmap published the previous year.

Lastly, in view of the imminent elimination of Libor (part of its rates ceased to be published at the end of 2021), the FSB continued working on facilitating the transition to new benchmarks. Thus, it published a progress report on Libor transition (including identified challenges and risks) and a number of statements to support preparations for this transition.

7.1.2 Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) developed its work programme in accordance with the strategic priorities set for 2021 and 2022 (see Figure 7.3).

The work relating to the impact of the pandemic continued to be an important part of the Committee's agenda. In particular, it published a preliminary assessment report on lessons learned from the effects of the pandemic and the Basel framework. The report focused on analysing the overall resilience of the banking system, the usability of capital buffers, price movements of Additional Tier 1 capital instruments, the usability of liquidity buffers, the impact of the leverage ratio on financial intermediation and the cyclicality of Basel specific capital requirements. In addition, from a supervisory perspective, the Committee has been monitoring and analysing the credit risk assessment by institutions in the context of COVID-19[3].

The BCBS has focused part of its work on making progress in ongoing initiatives to mitigate structural risks and trends; among them stands the publication of preliminary proposals for the prudential treatment of banks' crypto-assets exposure (excluding digital currencies issued by central

1 Financial Stability Board (2021), Regulation, Supervision and Oversight of "Global Stablecoin" Arrangements. Progress Report on the implementation of the FSB High-Level Recommendations.

2 Stablecoins are crypto-assets 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).

3 Further information on this issue can be found in the BCBS Newsletter on Covid-19 related credit risk issues.

Figure 7.3
2021-2022 WORK PLAN AND STRATEGIC PRIORITIES OF THE BCBS

1 COVID-19 RESILIENCE AND RECOVERY

- Monitoring and assessing risks and vulnerabilities to the global banking system, drawing on supervisory insights and conducting thematic assessments
- If deemed relevant, mitigating risks by developing and deploying additional regulatory and supervisory responses that support the banking system's resilience and a sustainable economic recovery

2 HORIZON SCANNING, ANALYSIS OF STRUCTURAL TRENDS AND MITIGATION OF RISKS

- The impact of the ongoing digitalisation and disintermediation of finance on banks' business models and the banking system more generally
- The assessment, measurement and mitigation of climate-related financial risks, spanning regulatory, supervisory and disclosure-related elements for the banking system
- The impact of a “low-for-long” interest rate environment for bank business models

3 STRENGTHENING SUPERVISORY COORDINATION AND PRACTICES

- The use of artificial intelligence / machine learning in banking and supervision, and broader issues related to the use of technology in supervision
- Data and technology governance by banks
- Insights and supervisory approaches on operational resilience, with a particular focus on cyber security
- Leveraged lending and collateralised loan obligations (CLO)

Monitoring the full, timely and consistent implementation of the Basel III framework and completing an evidence-based evaluation of its effectiveness

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

banks). It proposes classifying crypto-assets into two groups on the basis of a number of conditions[4]. Group 1, which would incorporate crypto-assets that fulfil these conditions, would comprise tokenised traditional assets and certain stablecoins[5]. With respect to their prudential treatment, tokenised traditional assets, to the extent that they confer the same level of legal rights as the traditional version of the asset, would be treated as equivalent, while exposures to the stablecoins – a broader case – would be subject to requirements depending on the risk arising from the changing value/loss in value of the underlying assets and the risk arising from the potential default of the redeemer. The proposed prudential treatment for Group 2 crypto-assets is more penalising, applying the 1250% risk weight to these exposures, with no recognition of offsets or hedges.

4 These conditions are as follows: (i) the crypto-asset either is a tokenised traditional asset or has a stabilisation mechanism that is effective at all times in linking its value to an underlying traditional asset or a pool of traditional assets; (ii) legal rights must be clearly defined and legally enforceable; crypto-assets with stabilisation mechanisms must ensure full redeemability at all times; (iii) the network in which the crypto-asset operates must have governance and control mechanisms in place to mitigate the risks of not being able to perform critical functions (issuance, validation, redemption and transfer); and (iv) entities performing redemption, transfer or settlement functions must be regulated and supervised.

5 Traditional tokenised assets are defined as digital representations of traditional assets using cryptography or distributed ledger technology. Stablecoins are crypto-assets that link their value to that of a traditional asset or a pool of traditional assets through a stabilisation mechanism (Basel Committee on Banking Supervision (2021), Consultative Document. Prudential treatment of crypto-asset exposures, June

This consultation was planned as an iterative process, and a second consultative document is expected in mid-2022.

Also, progress has been made on the work of climate-related financial risks and two analytical reports have been published. These show how climate risk factors can be captured within traditional risk categories and thus be reflected in the Basel framework. The Committee is assessing the extent to which the Basel framework adequately recognises these risks and it is considering possible regulatory, supervisory and transparency measures. In this respect, it published a public consultation paper on principles for the effective management and supervision of this risk.

With regard to supervisory practices and coordination, the Committee published the final version of the Principles for Operational Resilience and the revisions to the Principles for the Sound Management of Operational Risk (PSMOR). The first report presents a definition and principles of operational resilience. The revised PSMOR better explains some principles that were not being properly implemented, aligns the text with the Basel III framework and mentions a key source of operational risk, namely technology; it highlights vulnerability to cyber threats. As a complement to these documents, the Committee published a statement emphasising the importance of cyber security and the need for banks to adopt good practices to manage cyber risks.

In addition, the Committee finalised the Pillar 3 transparency requirements of the new Basel framework. In particular, the transparency requirements relating to the new market risk framework ("Fundamental review of the trading book"). It also finalised the new framework for disclosure standards for sovereign exposures, which jurisdictions may adopt on a voluntary basis.

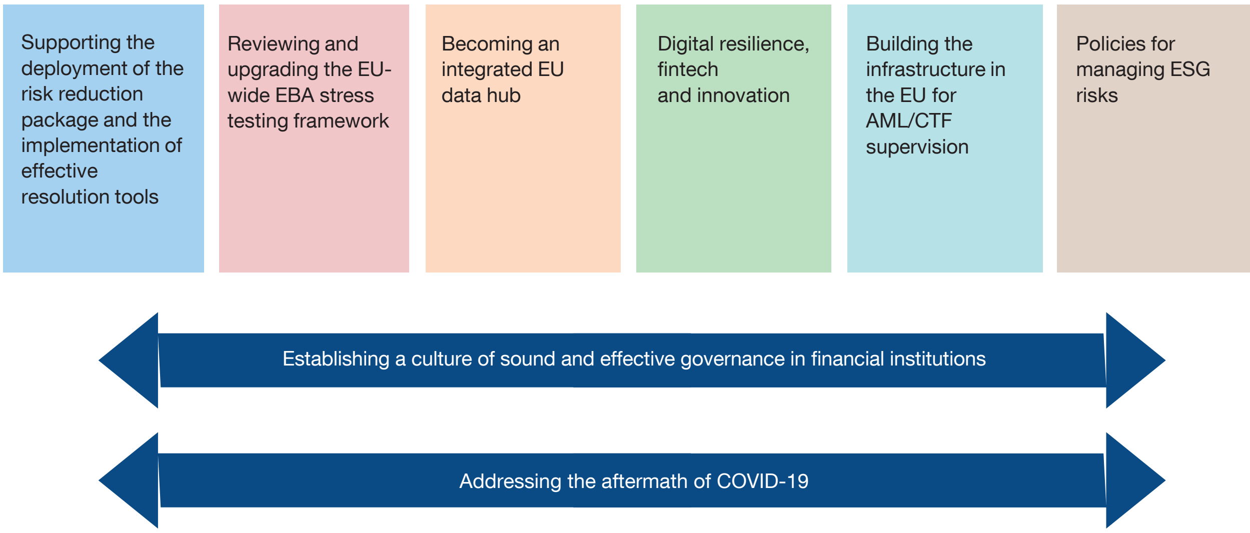
Lastly, with regard to the annual designation of the G-SII list, the Committee modified the methodology review process and the review of the implications of developments relating to European Banking Union. The review process shifts from a three-year review cycle to ongoing monitoring, where proposals for changes in methodology will be based on evidence of material unintended consequences with respect to the Basel framework's objectives. In the short term, the Committee has agreed to focus on reviewing the implications for the development methodology related to the Banking Union and, in particular, for the treatment of cross-border exposures within the Banking Union.

7.2 European fora

7.2.1 European Banking Authority

The EBA's agenda in 2021 was heavily influenced by the consequences of the pandemic, which led the EBA to reconsider some of its priorities and functions.

Figure 7.4
EBA STRATEGIC PRIORITIES IN 2021



SOURCE: Banco de España, based on European Banking Authority data.

In the end, its agenda was structured around six specific priorities and two horizontal priorities (see Figure 7.4), which determined the direction of its main work.

In relation to the implementation of the risk mitigation package and effective resolution tools, the EBA made progress in fulfilling the numerous mandates stemming from the CRR and the CRD, the directive on the recovery and resolution of credit institutions and investment firms[6], and the prudential regime for investment firms[7]. These cover a significant number of prudential regulation areas; those referring to internal governance and remuneration are particularly relevant this year, with the completion of the review of the guidelines on sound remuneration policies (EBA/GL/2021/04), the guidelines on internal governance (EBA/GL/2021/05) and the guidelines on the suitability of the members of the management body (EBA/GL/2021/06) to update them and adapt them to the CRD-V. From a prudential perspective, it is also worth noting the work on securitisations (for more details on these developments, see Box 7.1).

As regards the review and improvement of the EU-wide stress testing, the EBA published the results of the stress test postponed by one year due to COVID-19

6 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms.

7 Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms.

(see Box 2.6). The 2021 stress test did not undergo major changes in terms of structure, methodology and timelines; however, the EBA is considering the possibility of introducing more far-reaching changes in the future.

In the reporting and transparency area, significant progress has been made towards becoming an integrated EU data hub through the implementation of its European Centralised Infrastructure of Data (EUCLID) platform, which has enabled the EBA to start receiving data from LSIs in 2021, and not only from SIs, as was the case until then. Also of note are the two reports published in 2021 which will make a significant contribution to streamlining the cost associated with supervisory reporting. In the first report, the EBA analyses the costs incurred by institutions to comply with supervisory reporting requirements, and assesses whether they are proportionate to the benefits. It also includes a number of recommendations aimed at reducing reporting costs by around 15%-24%, especially for small and non-complex institutions. In the second report, the EBA analyses the feasibility of the development of a consistent and integrated system for collecting statistical, prudential and resolution data (see Box 7.2).

The EBA continued its work in the market conduct and bank customer protection area. In particular, it published a new edition of its regular Consumer Trends Report on banking products, in which it analyses developments in the supply of banking products and the problems identified. Also, it continued its work to promote common supervisory approaches and practices, focusing on the analysis of the implementation of the Guidelines on remuneration policies for sales staff.

As regards the development of financial innovation and operational resilience in the financial sector, work gained momentum in 2021, following the publication in September 2020 of the European Commission's Digital Finance Strategy. In the context of this initiative, at the request of the European Commission, the three European Supervisory Authorities (ESAs) have been working on the potential regulatory issues and challenges posed by digital platforms and the bundling of services, mixed activity groups and fragmentation of value chains. The EBA also published an analysis on the use of RegTech (regulatory technology), which assesses the associated risks and benefits and makes proposals to support the adoption of these solutions in the EU.

Furthermore, it is worth highlighting the preparatory work being carried out by the EBA, from an operational, regulatory and resource planning point of view, in order to be able to face the challenges in the coming years of implementing the new regulatory framework in the area of information and communication technology risk management, security (the so-called "DORA regulation") and crypto-assets (the so-called "MiCA regulation").

With respect to the coordination and monitoring of the supervision of the fight against ML/TF, the review of the ESAs in 2020 substantially increased

Box 7.1
SECURITISATIONS: RECENT REGULATORY AMENDMENTS AND EUROPEAN BANKING AUTHORITY WORK UNDERWAY

The European securitisation framework is set out in Regulation (EU) 2017/2402 (“Securitisation Regulation”) and Regulation (EU) 2017/2401 amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, as well as their implementing rules. In March 2021, as part of the European Union’s post-COVID-19 strategy, a number of amendments were made to this framework through Regulations (EU) 2021/557 and (EU) 2021/558 of the European Parliament and of the Council.

The new developments introduced take as a starting point two European Banking Authority (EBA) reports, and their main objective is to strengthen credit institutions’ capacity to provide financing to the real economy, while ensuring that institutions act prudently. The main amendments relate to the following areas:

— The extension to balance-sheet synthetic securitisations of the Simple, Transparent and Standardised (STS) framework, which already exists for traditional securitisations. Essentially, as long as a synthetic securitisation meets certain criteria, the originator may benefit from preferential prudential treatment in the retained senior tranche.

— The adoption of a series of measures aimed at removing the regulatory obstacles identified in NPL securitisations.

Since its entry into force, by an urgent procedure, at the beginning of April 2021, the EBA has focused its efforts on addressing the many mandates arising from this regulatory amendment. Thus, the mandates to the EBA contained in Regulations (EU) 2021/557 and (EU) 2021/558 are as follows:

— Regulatory Technical Standards (RTS) specifying and, where relevant, calibrating performance-related triggers for STS synthetic securitisations.

— Regulatory Technical Standards (RTS) on risk retention.

— Report on the creation of a specific sustainable securitisation framework.

All of this work is still in the development phase, the most advanced being the work on risk retention. In June 2021, the EBA published for consultation the Draft RTS specifying the requirements for originators, sponsors, original lenders and servicers in securitisations relating to risk retention. This proposal builds on a previous RTS sent by the EBA to the European Commission in July 2018, incorporating a number of new provisions. These new provisions include most notably the specification of the modalities of retaining risk in traditional securitisations of non-performing exposures and the establishment of certain experience requirements for managers retaining risk in such securitisations.

The RTS on synthetic excess spread and the RTS specifying and calibrating performance-related triggers are essential to ensure the proper functioning of the STS framework for synthetic transactions. The EBA is working on both consultation papers, which are most likely to be published during the course of 2022.

Lastly, the EBA is also preparing a report – which may also be published in 2022 – that establishes a specific framework for sustainable securitisations allowing the integration of sustainability-related disclosure requirements into these transactions.

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1 In its report on the STS framework for synthetic securitisation of 6 May 2020, the EBA recommended the introduction of a specific framework for balance-sheet STS securitisations. The EBA Opinion on the regulatory treatment of NPE securitisations published in October 2019, as well as the internationally agreed Basel standards, recommended introducing a specific treatment for the securitisation of non-performing exposures, since it established that the current prudential securitisation framework set out in the CRR resulted in disproportionate capital requirements for this type of exposures, as they do not take into account their specific risk factors.

2 The risk retention requirement is regulated by Article 6 of the Securitisation Regulation, which establishes that the originator, sponsor or original lender of a securitisation must retain on an ongoing basis a material net economic interest in the securitisation of not less than 5%. This requirement seeks to align the interests of the selling parties participating in a securitisation with those of the investors.

the role of the EBA. In 2021, the EBA led the development of policies and promoted their effective and consistent implementation by national authorities. Also, it collected qualitative and quantitative information in order to create a database to promote the exchange of information between national authorities

Box 7.2

INTEGRATED SYSTEM FOR COLLECTING STATISTICAL, RESOLUTION AND PRUDENTIAL DATA

In recent years, in particular since the financial crisis, the reporting requirements addressed to the banking industry have grown exponentially, due to the emergence of new user needs. In the current system in Europe, various actors are involved (institutions, authorities, IT providers) and various reporting frameworks (prudential, statistical, resolution, etc.) coexist, including national, European and international requirements. These reporting frameworks have been developed separately to meet different needs at different points in time, which occasionally gives rise to overlaps and duplication of the data required. The industry has requested greater coordination and exchange of information among authorities to avoid duplication of requirements which, in addition, must be submitted with various frequencies, formats and scope of consolidation, and to different authorities.

In response to this situation, Article 430c of Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms gives the European Banking Authority (EBA) the mandate to produce a feasibility report on the development of a consistent and integrated system for collecting statistical, resolution and prudential data. The report should take into account the previous work of the European System of Central Banks (ESCB) on integrated data collection and should include: (i) an inventory of current data requested by competent authorities in their jurisdiction; (ii) the creation of a common dictionary of the data to be collected; (iii) the establishment of a joint committee, including at least the EBA and the ESCB, to design, develop and implement the integrated reporting system; and (iv) the feasibility and possible design of a central data collection point for the integrated reporting system.

For its part, the ESCB has been working since 2016 on the Integrated Reporting Framework (IReF) project, which aims to integrate the statistical information that the ESCB requires of banks. In the course of 2022 the user requirements and processes of the business part of this project (i.e. omitting IT aspects) will be studied, including the redesign of the ESCB's statistical function. The analysis will be submitted to the Governing Council of the European Central Bank (ECB) at the end of 2022, so that this phase of the project can be approved. From 2023, once the results of the study to be carried out in 2022 are available, and if these are considered adequate, the IT project would continue and a new regulation would be drafted to replace the current regulations of the statistical reports to be integrated.

In response to the indication in the mandate of the above-mentioned Article 430c that the EBA's feasibility report should take into account the previous work of the ESCB, the ECB published its contribution to the study in September 2020. For the ECB, the integration project should be carried out gradually, with two parallel processes during a transitional period. Thus, on the one hand, the integration of statistical reporting would be performed through the IReF and, on the other hand, the supervisory and resolution data would be integrated. These parallel processes would eventually converge in an integrated report in Europe based on a unique data dictionary and unique data model.

The EBA published the feasibility report in December 2021. Noteworthy among its conclusions are that the existence of a unique data dictionary is the cornerstone of the integration project, that the existence of a central data collection platform would increase the efficiency of the system, promoting the exchange and reuse of data, and that strong governance is necessary to favour collaboration and coordination among authorities for the implementation and development of integrated reporting.

and to support the new AML/CTF colleges. This new database will also allow to identify vulnerabilities and to address requests to the authorities to investigate and deal with them.

In sustainable finance, the need to promote better disclosure, governance and management of ESG risks has been pressing during 2021. Under Pillar 2, the EBA published a report on how to incorporate these risks into the management of institutions and into their supervision. It sets out common definitions, their transmission channels and appropriate methodologies for their measurement. It reaches the conclusion that ESG risks, and in particular climate change risk, materialise through credit institutions' traditional risks.

Additionally, the EBA developed standards on the quantitative and qualitative information that institutions should disclose to the market in relation to sustainability. It has also worked on a voluntary pilot exercise to provide a first quantification of European banks' exposures to climate risk, and it is preparing a discussion paper on the prudential treatment of assets associated with environmental or social objectives.

With regard to its horizontal priorities, the EBA has focused its efforts on establishing a culture of sound and effective governance and good conduct in financial institutions, and it participated actively in monitoring and mitigating the effects of COVID-19 on EU banks, promoting coordinated actions by the competent authorities. With regard to the latter, the EBA intensified the assessment of asset quality, and the monitoring of the use of debt moratoria and State guarantees, to ensure that risk parameters remain reliable and that banks can support the recovery and deal with potential mounting losses.

7.2.2 European Systemic Risk Board

In 2021, the ESRB carried out an ambitious work plan with the support of its Advisory Technical Committee, which is chaired by the Governor of the Banco de España. The ESRB – which brings together central banks and authorities with responsibility for EU-wide banking, securities and insurance regulation and supervision – combined its regular tasks of overseeing risks and vulnerabilities in the financial system and coordinating national macroprudential measures[8] with various initiatives aimed at strengthening the level of coordination and preparedness for potential future episodes of systemic instability.

Notably, the ESRB issued the following recommendations[9] and warnings in 2021:

- Vulnerabilities in the residential real estate sector in Germany and Austria (ESRB/2021/10-11) and in Bulgaria, Croatia, Slovakia, Hungary and Liechtenstein (ESRB/2021/12-16).

- Recommendation ESRB/2021/9 on reform of money market funds, addressed to the European Commission.

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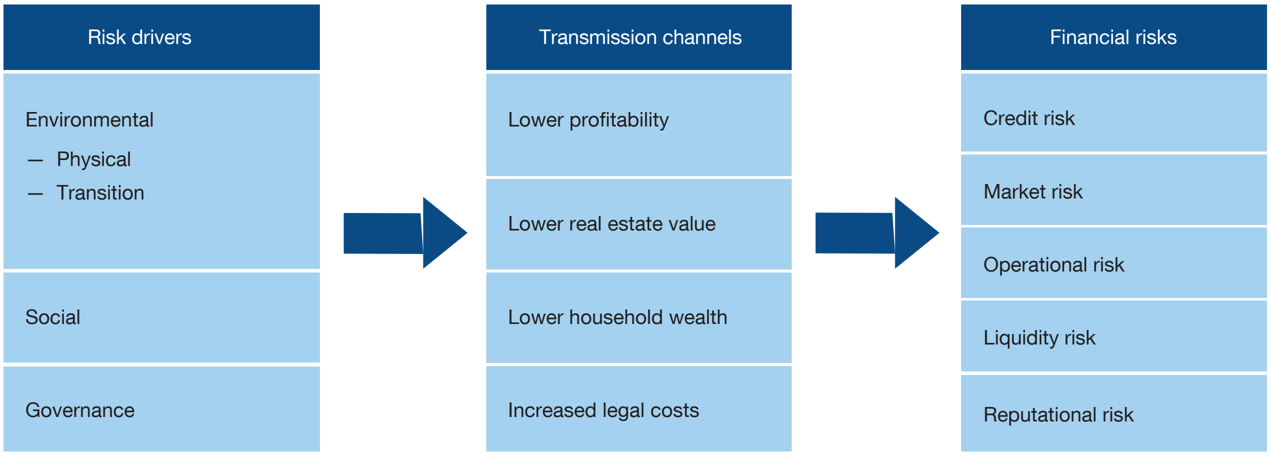
8 See the Annual Report 2020 and A Review of Macroprudential Policy in the EU in 2020, both of 1 July 2021, as well as the EU Non-bank Financial Intermediation Risk Monitor 2021, of 30 August 2021.

9 In addition, the ESRB decided not to extend beyond 30 September 2021 its recommendation on restriction of distributions during the COVID-19 pandemic (ESRB/2020/15).

Figure 7.5
MATERIALISATION OF ESG RISKS



SOURCE: EBA/REP/2021/18.

— Recommendation ESRB/2021/17 on a pan-European systemic cyber incident coordination framework for relevant authorities.

The ESRB continued working on the various topics addressed in the course of the previous year in relation to the challenges posed by COVID-19 and Brexit. In particular, the ESRB continued monitoring the financial stability implications of guarantees, debt moratoria and other fiscal public support programmes introduced at the national level to protect the real economy from the effects of the pandemic[10], and it continued to analyse how to contribute to the mitigation of unfavourable developments in insolvency in the non-financial corporate sector[11]. In addition, the ESRB advised the European Securities and Markets Authority on its analysis of the systemic importance of UK CCPs for the EU financial system.

The ESRB also devoted its attention to structural financial stability issues, in close cooperation with the ECB. In particular, it analysed how the current lower for longer interest rate environment[12] *could be affecting the risks identified for the various sectors of the financial system, and it proposed possible macroprudential policy actions to mitigate their adverse impact in the medium and long term. Also,*

10 See the report on Financial stability implications of support measures to protect the real economy from the COVID-19 pandemic, of 16 February 2021, and the Note on monitoring the financial stability implications of COVID-19 support measures, of 8 September 2021.

11 Prevention and management of a large number of corporate insolvencies, note of 28 April 2021.

12 *Lower for longer - macroprudential policy issues arising from the low interest rate environment*, joint report of the ESRB's Advisory Technical Committee and Advisory Scientific Committee and the ECB's Financial Stability Committee, of 1 June 2021.

the ESRB and the ECB published a joint report[13] providing a detailed analysis of the estimated impact on sensitive exposures to climate-related physical and transition risks across regions, sectors and firms.

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 working groups relating to increasing digitalisation in the marketing of financial products and services, among others. Of particular note is the publication in 2021 of the *Supervisory approaches to customers' creditworthiness assessments* and *Financial Product Governance and Culture* reports. Also, two new lines of work commenced in 2021 relating to exit strategies from COVID-19 debt moratoria and remuneration of sales staff in the marketing of mortgage loans.

The Banco de España also participates in the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS). In 2021, much of the work of this committee continued to focus on the financial system reaction to the measures taken in relation to the pandemic and its impact analysis. In addition, among its priorities, the CPMI focused on analysing the new economic and technological challenges arising from transformation and innovation in the context of payments, clearing and settlement. The committee continued to develop the roadmap agreed by the G20 in 2020 with the aim of improving cross-border payments. In relation to this work, coordination between the CPMI and the FSC was intensified, and progress has been made in the analysis of the different blocks and areas identified, including the analysis of digital means of payment. In general, there has been greater interest in the areas of innovation and development relating to new technologies: noteworthy are the analyses of digital currencies and their economic, regulatory, financial stability, operational and legal impact.

The CPMI also focused its resources on monitoring and analysing the CCPs' risk management framework, given the importance of these institutions to the financial market. The work focused on the analysis of counterparty risk and margining practices and of financial resources and business continuity plans from the point of view of guidance aimed at strengthening the resilience and recovery capacity of these infrastructures.

In the area of sustainable finance and at the global level, noteworthy is the work carried out by the NGFS, the network of supervisors and central banks from across the world,

13 Climate-related risk and financial stability, of 1 July 2021.

in which the Banco de España participates. Its many lines of work include the analysis of existing data gaps and the suggestion of possible solutions.

In this respect, in May 2021, a preliminary[14] report was published, suggesting some solutions, such as moving towards a taxonomy of sustainable activities at the global level or the convergence towards a common and consistent set of global disclosure standards. Another important publication in 2021 was the progress report[15], which assesses the progress made by supervisors in relation to the recommendations included in the 2020 guide for supervisors on integrating climate-related and environmental risks into prudential supervision[16]. The report concludes that, in general, supervisors have made considerable progress in developing the central banks' own strategies and expectations for institutions. However, not much progress has been made in their implementation.

14 https://www.ngfs.net/sites/default/files/medias/documents/progress_report_on_bridging_data_gaps.pdf.

15 https://www.ngfs.net/sites/default/files/media/2021/11/08/progress_report_on_the_guide_for_supervisors.pdf.

16 https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guide_for_supervisors.pdf.