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OVERSIGHT AND SUPERVISION OF MARKET INFRASTRUCTURES



TARGET OVERSIGHT

Monitoring of the migration to the new TARGET system was completed



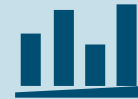
SNCE SUPERVISION

A new SNCE regulation was approved. A total of 11 SNCE operating instructions and 4 amendments to the basic rules of other complementary services obtained a favourable assessment



CARD PAYMENTS OVERSIGHT

STMP was identified as a prominently important retail payment system and is subject to oversight by the Banco de España



PAYMENT STATISTICS

Instant credit transfers represent over 52% of total transfers in Spain, while in the European Union they account for just over 15%, according to statistics from the second quarter of 2023



OVERSIGHT FRAMEWORK

The Eurosystem's cyber resilience strategy for financial market infrastructures was re-viewed. Apple Pay and Google Pay are considered as payment arrangements subject to Eurosystem oversight



OVERSIGHT OF SECURITIES INFRASTRUCTURES

A total of 6 favourable reports were issued in relation to various adaptations to BME Clearing regulations

Most trade and financial transactions are cleared and settled through financial market infrastructures. Given the central role they play, central banks are entrusted 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 that allow end users to transfer funds.

5.1.1 Pan-European payment systems

Monitoring of the Eurosystem T2-T2S consolidation project was completed in 2023, culminating in the migration to the new TARGET system, which now consists of three services: i) T2, for the real-time gross settlement of euro payments; ii) TIPS, for the settlement of SEPA instant credit transfers;¹ and iii) T2S, for the settlement of securities.

Under the leadership of the ECB, the Banco de España participates in the Eurosystem's cooperative oversight of the TARGET services. TARGET is considered to be a systemically important payment system under the SIPS Regulation.²

The evolution of the T2 service, both TARGET and the Spanish TARGET2-BE, is presented in Chart 5.1. In 2023, the number of transactions increased slightly, while the amounts settled decreased, mainly due to the fall in value of interbank transactions. The Spanish component TARGET-BE accounted for just over 6% of the total number of transactions processed in the T2 service, while in terms of value it reached a share of around 4% of the total.

In 2023 it was noted that most of the milestones of the action plan to comply with the **recommendations issued by an external auditor and by the oversight and internal audit functions**, in response to the incidents experienced by TARGET2 in 2020, had been completed, and that the remaining actions would be finalised in the first quarter of 2024.

The Banco de España also participates in the cooperative oversight of the other pan-European systemically important payment systems (SIPS). Thus, as regards the systems

1 SEPA stands for Single Euro Payments Area.

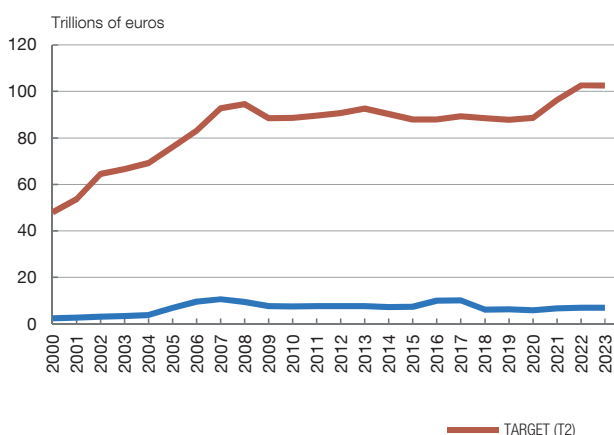
2 Regulation (EU) No 795/2014 of the ECB of 3 July 2014 on oversight requirements for systemically important payment systems.

Chart 5.1

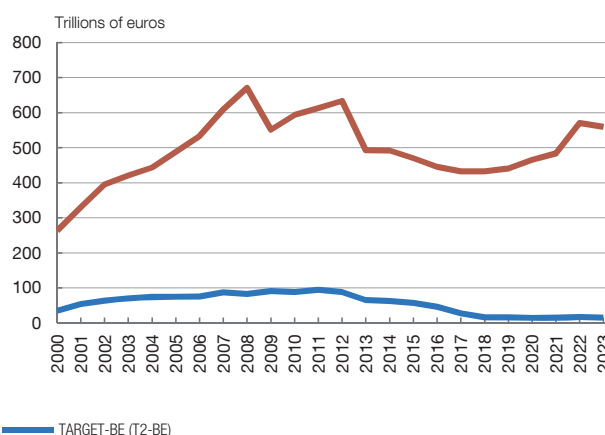
OVERVIEW OF TARGET AND TARGET-BE OPERATIONS

In 2023 the Spanish component, TARGET-BE, represented slightly more than 6% of the number of transactions processed in T2 and around 4% of the total value of the transactions.

1 NUMBER OF TRANSACTIONS PER YEAR



2 VALUE OF TRANSACTIONS PER YEAR



SOURCE: Banco de España.

NOTE: Data for 2023 are provisional, pending a methodological review following the T2-T2S consolidation project.

operated by EBA Clearing, the main oversight activities were focused on the assessment of system changes and planned new services, in particular: i) the monitoring of the new fraud pattern and anomaly detection (FPAD) functionality for STEP2-T and RT1, the launch of which was scheduled for March 2024; ii) the monitoring of the migration from EURO1 to ISO 20022, which took place in August 2023; iii) the monitoring of the new Immediate Cross-Border Payments (IXB) project, the launch of which is scheduled for the end of 2024; and iv) the monitoring of outstanding recommendations from previous evaluations and incidents. In addition, the periodic comprehensive assessment exercise of STEP2-T and EURO1 was launched in mid-2023. As regards Mastercard Europe as SIPS operator, the first comprehensive assessment of the Mastercard Clearing Management System (MCMS) was completed, and progress was made on the action plan for the implementation of the various recommendations issued.

5.1.2 Retail payment systems in Spain

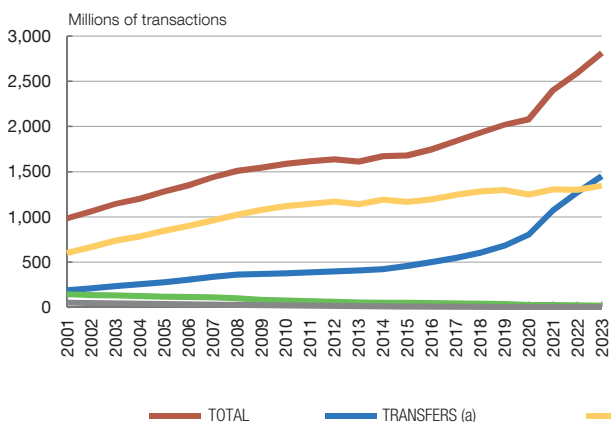
At the national level, the Banco de España is responsible for the oversight of the National Electronic Clearing System (SNCE), the national clearing house managed by Sociedad Española de Sistemas de Pago, SA (Iberpay). Chart 5.2 shows the evolution of the various SNCE subsystems in 2023, in terms of both number of transactions and value. As the Chart shows, SNCE transactions in 2023 maintained the same dynamic as in 2022, with an annual increase of 8.6% in the total number of transactions. This increase is due mainly to instant credit transfers, which grew by 23.6% in 2023, thanks to Bizum transactions and the downward

Chart 5.2

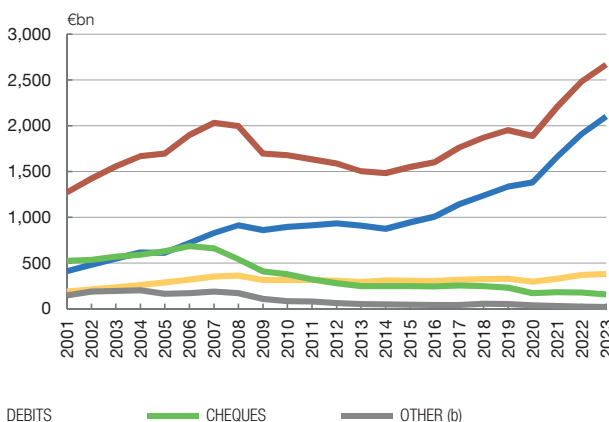
OVERVIEW OF SNCE OPERATIONS

SNCE operations in 2023 maintained the dynamic that was seen in 2022, with an increase of 8.6% in the total number of transactions and 7.4% in terms of value in 2023, led by the growth in transfers.

1 NUMBER OF TRANSACTIONS PER YEAR



2 VALUE OF TRANSACTIONS PER YEAR



SOURCE: Banco de España.

a Including instant transfers as from 2018.

b Including bills of exchange and other.

trend in cash transactions, and to a lesser extent to a substitution effect of ordinary credit transfers, which grew by 5.8% in 2023. In contrast, the decline in cheque transactions continued, falling by 12.0%, while direct debits grew by 3.6% in terms of the number of transactions exchanged on the SNCE in 2023. In terms of value, the various SNCE sub-systems did not show significant deviations from the trends described above.

With regard to SNCE oversight activities, Iberpay’s annual risk monitoring report was analysed, and it was concluded that Iberpay’s risk management model meets the objective of having management policies, procedures and systems in place to identify, measure, oversee and manage the diversity of risks faced by the infrastructure.

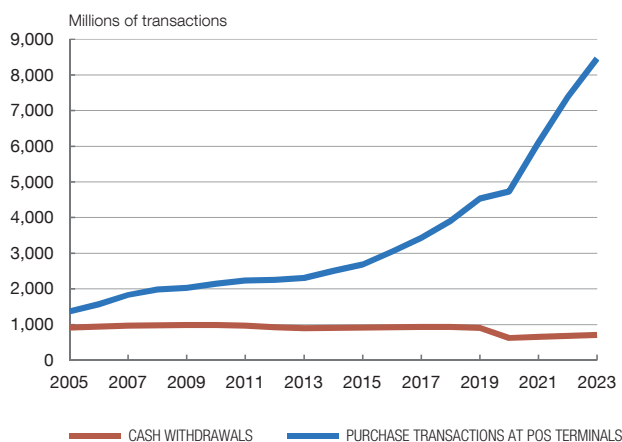
The Banco de España is also responsible for the oversight of Sistema de Tarjetas y Medios de Pago, SA (STMP) and monitors its operations. STMP was identified in 2023 as a prominently important retail payment system operator. STMP is responsible for the clearing of a large part of card transactions in Spain and for the interbank settlement of the resulting net multilateral positions. The institutions participating in STMP are payment service providers acting as acquirers and/or issuers of cards under various brands and schemes. The technical processors, Redsys and Cecabank, and the settlement banks are critical service providers for STMP. A comprehensive assessment of STMP was initiated in 2023 under the Eurosystem oversight framework for payment systems. In addition, the technical processors are monitored directly by the Banco de España, given their importance in the Spanish payment ecosystem, and an assessment is under way on the operational incidents that occurred in one of them in November 2023.

Chart 5.3

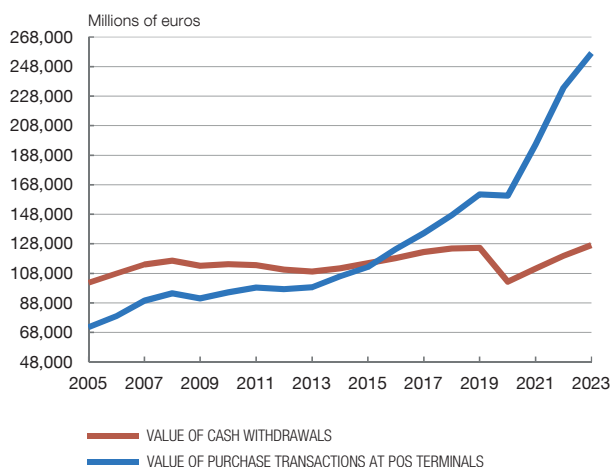
OVERVIEW OF OPERATIONS WITH CARDS

The disparity in growth of card payments and cash withdrawals continued in 2023 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 2023 were estimated on the basis of the variable's behaviour in the first three quarters of the year.

Chart 5.3 shows recent developments in STMP-cleared transactions, which account for the bulk of purchases and cash withdrawals with cards at the national level. Moreover, the Chart shows high levels of activity, and the clear difference between the growth in the number of card purchases (14%) and in cash withdrawals (close to 4%) is again confirmed in 2023. In value terms, a similar trend was observed, with growth of 10% in purchases in 2023 and 6% in cash withdrawals.

5.1.3 Payment instruments

The Eurosystem oversight framework for electronic payment instruments, schemes and arrangements (PISA framework) entered into force on 15 November 2022. The PISA framework bases its oversight expectations on the CPMI-IOSCO³ principles for financial market infrastructures. The Eurosystem regularly conducts a comprehensive exercise to determine the set of payment schemes and arrangements that should be subject to oversight; the list was updated on 2 August 2023.⁴ As well as identifying the payment schemes and arrangements, it details the central bank(s) acting as lead overseer(s) and their geographical scope (national or pan-European). The updated PISA list includes, for the first time, Apple Pay and Google Pay as payment arrangements subject to oversight.

³ The Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO)

⁴ https://www.ecb.europa.eu/paym/pdf/List_of_payment_schemes_and_arrangements_overseen_under_PISA_framework.pdf

Based on the PISA framework, the Eurosystem commenced an assessment exercise in November 2022 to verify compliance of payment schemes with security and efficiency expectations. This exercise was extended to 2023. In particular, the Banco de España participated in the assessments of the SEPA payment schemes operated by the European Payments Council (EPC), i.e. the credit transfer (SCT), instant credit transfer (SCT Inst) and direct debit (SDD Core, SDD B2B) schemes. It also participated in the assessment of the scheme operated by Visa Europe. These tasks are carried out in its capacity as member of the joint oversight groups for each of these pan-European schemes, in which the Banco de España participates together with other national central banks of the Eurosystem and the ECB, which is the lead overseer.

With regard to card fraud in the SEPA area, in May 2023 the ECB published the latest report for 2020 and 2021 on its website.⁵ Noteworthy among its findings is the fact that in 2021 the level of fraud was the lowest recorded since these statistics were first collected in 2008. Specifically, the fraud rate for the SEPA area in 2021, in terms of transaction value, stood at 0.028%. Remote fraud —over the telephone and in internet purchases— decreased by 12% in 2021, but still accounts for 84% of total fraud in Europe.

At the national level, with respect to domestic transactions cleared by STMP,⁶ the fraud ratio with cards issued in Spain was 0.023% in the first half of 2023, in terms of the number of transactions, as compared to 0.025% in 2022. The implementation of strong authentication, in line with the requirements of the payment services directive, has been a clear step forward in the fight against retail payment fraud. This improvement is even more evident when analysing remote fraud in Spain, where the fraud rate was 0.15% in 2020; in the first half of 2023 it was successfully reduced to 0.13%. The improvement is even more pronounced in terms of value, since the fraud rate fell from 0.21% in 2020 to 0.14% in the first half of 2023.

5.2 Supervision of Iberpay

The Banco de España is responsible for the supervision of Iberpay,⁷ which is entrusted by law with operating the SNCE. In the exercise of this function, the Bank is empowered to give prior approval to the company's articles of association and the basic operating rules of the systems and services that Iberpay 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.

5 <https://www.ecb.europa.eu/pub/cardfraud/html/ecb.cardfraudreport202305~5d832d6515.en.html>

6 Data referring to domestic transactions with Spanish cards corresponding to the Visa and Mastercard schemes that are processed by Spanish infrastructures.

7 Article 17 of Law 41/1999 of 12 November 1999 on securities payment and settlement systems.

One of the main activities in the supervision of Iberpay in 2023 was the approval of a new SNCE regulation. It entered into force in March 2023 so that the changes arising from the implementation of the Eurosystem's new TARGET system would be incorporated into the system's rules, and in order to align the terminology used with the new TARGET Harmonised Conditions and to introduce the settlement bank⁸ concept into the SNCE.

Also, the Banco de España has assessed 11 operating instructions of 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; ii) the incorporation of the responsibilities of the participants in the transfer subsystems in relation to recall requests due to fraud and the updating of their responsibilities in recall requests due to technical error and duplicity; iii) the finalisation of the project involving the replacement of the physical exchange of documents by the exchange of images through the SNCE, and the incorporation into the rules and operations of each subsystem of the specifications and conditions for the processing of the various payment instruments included in the relevant sectoral agreements; and iv) the adaptation of the instant credit transfer subsystem rules to the new version of the EPC's SEPA Instant Credit Transfer Rulebook.

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

5.3 Oversight of securities infrastructures

Under Law 6/2023 of 17 March 2023 on Securities Markets and Investment Services (LMVSI), 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.

Accordingly, the Banco de España carries out oversight activities on 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,

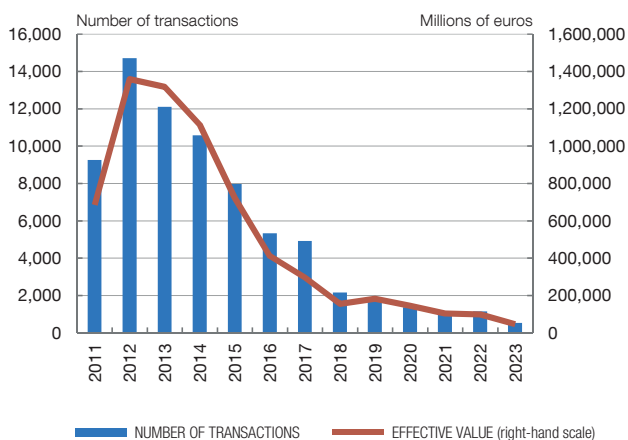
⁸ Taken to be a credit institution which, without being a member of the SNCE, but being a participant in a TARGET system, has entered into a contractual arrangement with a direct participant in the SNCE whereby the payment obligations arising from the settlement of the direct participant's transactions are paid by debiting the accounts and sub-accounts of the settlement bank in TARGET.

Chart 5.4

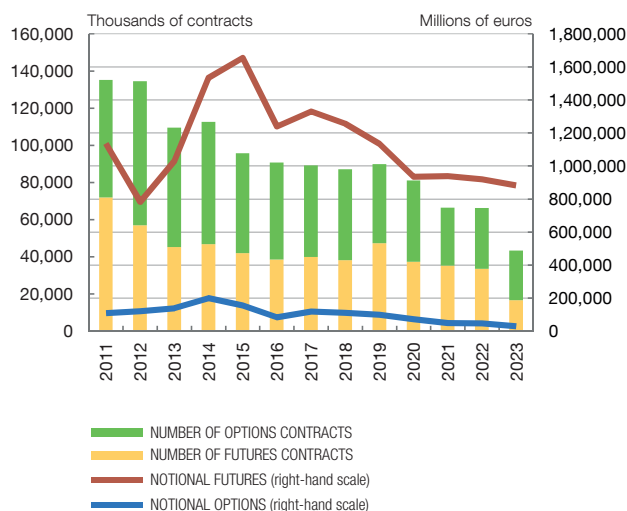
OVERVIEW OF BMEC OPERATIONS

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

1 CLEARING OF GOVERNMENT BONDS



2 CLEARING OF FINANCIAL DERIVATIVES TRADED IN MEFF



SOURCE: BME Clearing.

as shown in Chart 5.4. The clearing activity in the fixed income segment continued to decline, despite the increase in interest rates in 2023. In the financial derivatives segment, both the nominal value and the number of options and futures contracts decreased, in line with this segment’s performance in recent years.

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 5.5. These resources are mainly cash deposited with the Banco de España.

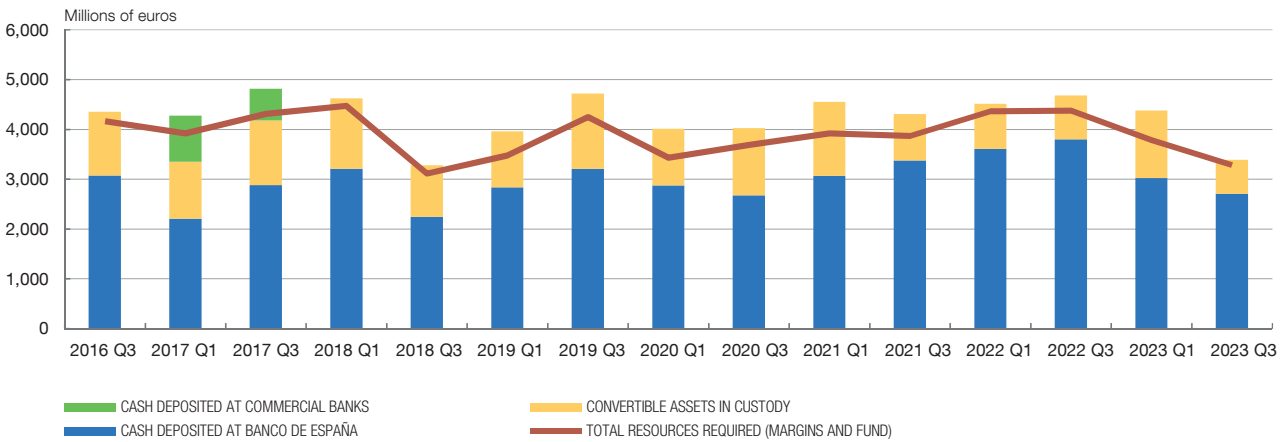
As for Iberclear, the performance of its settlement activity varies depending on the type of instrument (see Chart 5.6). In long-term fixed income securities, there was a slight increase in the value and number of transactions settled in 2023, while in short-term securities there was a slight decrease in value and a sharp increase in the number of transactions. The trend in equities settlement activity remained the same as in recent years, with an increase in terms of value and a decrease in the number of transactions.

In addition, the Banco de España participates in the Eurosystem’s cooperative oversight of the T2S platform, which also serves the central securities depositories. In 2023, monitoring continued on the implementation of the recommendations arising from the assessment of the penalty mechanism for delays in the matching and settlement of instructions

Chart 5.5

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.



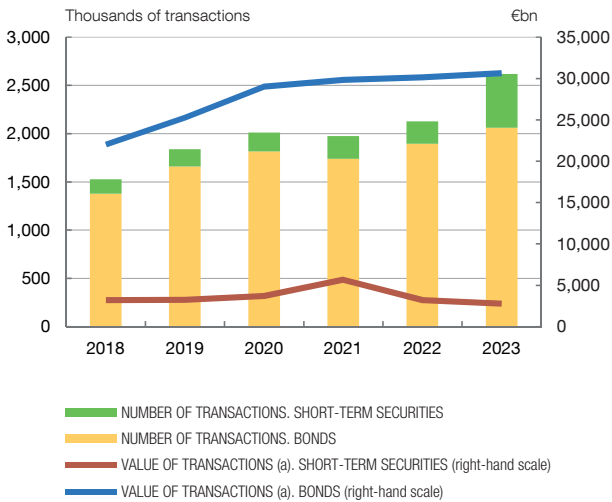
SOURCE: BME Clearing.

Chart 5.6

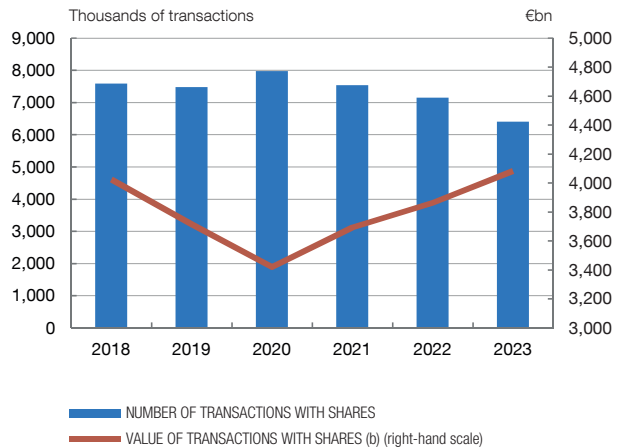
IBERCLEAR ACTIVITY DATA. TRANSACTIONS PROCESSED

In general, the Iberclear settlement activity maintains the trend of the last few years, with slight growth in value of long-term fixed-income securities settled and stronger growth in the case of equities.

1 FIXED-INCOME SECURITIES



2 EQUITIES SECURITIES



SOURCE: Iberclear.

- a Nominal balances.
- b Cash settled.

required by the CSDR Regulation.⁹ As a result, it was concluded that most of the recommendations had already been implemented.

5.3.1 Activities resulting from national legislation

As regards BME Clearing, SAU, the Banco de España has issued six mandatory reports in accordance with Articles 86.4 and 94 of the securities markets and investment services law (LMVSI). Specifically, the reports based on Article 86.4 of the LMVSI have dealt with: i) the amendment of BME Clearing's internal rules in order to comply with the provisions of Article 9.14 of Regulation (EU) 2021/23 on a framework for the recovery and resolution of central counterparties (hereinafter, the R&R Regulation); ii) the amendments introduced in the general conditions of the fixed income segment for clearing repo transactions of supranational debt issued by the European Commission; and iii) the amendments to its internal rules so as to implement the new segment on digital asset derivatives and to bring these rules into line with the R&R Regulation in relation to the authorisation of the recovery plan. The reports related to Article 94 referred to the signature of several agreements with other platforms, to service the energy derivatives segment. 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 for the euro and the central bank in which the cash leg of a securities settlement system operated by a CSD is settled.

As the relevant authority, the Banco de España participated in the annual review and evaluation of Iberclear for 2022 in accordance with CSDR, in which it continued to assess the integration process between BME and SIX, and where the links with SIX-SIS and NBB-SSS were assessed as well. On the basis of the information provided by Iberclear, the Banco de España has carried out an assessment of Iberclear's operational risks,¹⁰ of the link it has established with the Belgian central securities depository NBB-SSS and of the activity through the links it maintains with other foreign central securities depositories. Activity relating to the links with other central securities depositories has increased, both when it acts as the investor central securities depository and when it is the issuer central securities depository.

As the Eurosystem's representative in the college of supervisors of BME Clearing, in its capacity as the central bank of issue of the currency in which it settles its transactions,

⁹ 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.

¹⁰ Article 45.6 of CSDR.

the Banco de España analyses the impact that changes in the central counterparty may have on the clearing and settlement processes, the agreements established for this purpose, the liquidity risk management framework and the interdependencies with other market infrastructures. During 2023, BME Clearing requested authorisation to start clearing derivatives on indices whose underlying assets are digital assets and exchange traded funds. BME Clearing also submitted its recovery plan in 2023, in accordance with the requirements set out in the R&R Regulation. In both cases, the Eurosystem's opinion was positive.

REGULATION ON INSTANT CREDIT TRANSFERS

On 26 October 2022 the European Commission presented a legislative proposal on instant credit transfers in euro in Europe, amending Regulation (EU) 260/2012 and Regulation (EU) 2021/1230, given their low level of implementation. At the time of the impact analysis carried out by the Commission prior to the publication of the proposal, instant credit transfers accounted for only 11% of total euro credit transfers sent in the European Union (EU).

The figures have improved since the initial analysis was performed, but still fall short of the desired rollout. In particular, in Spain, one of the countries with the highest penetration of instant credit transfers, levels already exceeded 52% of total credit transfers in the second quarter of 2023. In the EU, the figure is considerably lower at 15.46% in the same period.

On 7 February 2024, the European Parliament approved the regulatory text, the main features of which are as follows:

- 1 Concept of instant credit transfer: credit transfer which is executed immediately, 24 hours a day, on any calendar day. In particular, it provides for the funds to be made available to the payee within ten seconds of receipt of the payment order by the payer's payment service provider.
- 2 Mandatory provision of the instant credit transfer service: payment service providers have to offer instant credit transfers if they offer ordinary credit transfers. Payment institutions and electronic money institutions will have a longer period to comply with the obligation, in order for an amendment to Finality Directive 98/26/EC to enter into force which will allow them access to designated payment systems.
- 3 Charges: the charges applied to payment service users for sending and receiving instant credit transfers may not exceed the fees charged for ordinary credit transfers.
- 4 Verification of the payee identity service: the payer's payment service provider shall provide a service (prior to sending the instant credit transfer and at no cost to the customer) to verify that the name of the payee matches the name of the IBAN holder.
- 5 Verification of the list of sanctioned persons (targeted financial restrictive measures): the obligation to verify for each transaction that the payment service user is not on any of the lists resulting from the European Union's restrictive measures disappears; it becomes an obligation to comply at least once a day.

REVIEW OF THE REGULATION ON CENTRAL SECURITIES DEPOSITORIES: SETTLEMENT DISCIPLINE

Background

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 (EU) and central securities depositories entered into force in 2014.

This Regulation establishes, inter alia, certain requirements related to the settlement cycle and settlement discipline, as well as common requirements for central securities depositories. In particular, it establishes that the intended settlement date shall be no later than the second business day after trade (T+2) for trades in transferable securities executed on trading venues. It also includes rules on settlement discipline, to prevent and remedy securities settlement fails related to: i) reporting requirements; ii) the cash penalties regime; and iii) the mandatory buy-in regime. The reporting requirements and cash penalties entered into force on 1 February 2022. With regard to mandatory buy-ins, it was decided to postpone the entry into force until November 2025, in the expectation that the review under way of the Regulation establishes a new framework.

Review of the Regulation (CSDR Refit)

On 27 December 2023, Regulation (EU) No 2023/2845 amending Regulation (EU) No 909/2014 as regards settlement discipline, cross-border provision of services, supervisory cooperation, provision of banking-type ancillary services and requirements for third-country central securities depositories and amending Regulation (EU) No 236/2012 was published in the Official Journal of the European Union on 27 December 2023. The main new developments are:

With regard to the settlement cycle: it includes a mandate for the European Securities and Markets Authority to carry out an assessment regarding the potential shortening of the settlement cycle in the EU.

With regard to settlement discipline:

- The scope of the cash penalties and mandatory buy-in regimes is reduced. They will not apply to transactions that fail for reasons that are not attributable to the participants or to transactions that do not involve two trading parties (such as certain primary market transactions, corporate transactions, reorganisations or the creation and redemption of investment fund units). They will also not apply if the failing participant is a central counterparty or in transactions in which insolvency proceedings are opened against the failing participant.
- Cash penalties. The Commission will review the parameters used to calculate the cash penalties in order to eliminate any adverse incentives to fail that could arise in a low or negative interest rate environment.
- Mandatory buy-in regime:
 - i) In addition to the exclusions mentioned above, the buy-in regime will not apply to securities financing transactions or to transactions already governed by Article 15 of Regulation (EU) No 236/2012 on short selling and certain aspects of credit default swaps.
 - ii) The European Commission may introduce this scheme as a measure of last resort provided that these two conditions are met: the current measures do not result in a long-term sustainable reduction of settlement fails or the maintenance of a reduced level of settlement fails, and the level of settlement fails may have a negative effect on the financial stability of the Union.
 - iii) A pass-on mechanism should be implemented, so that each participant involved in the transaction chain can pass on a buy-in obligation to the next participant. This measure is intended to avoid duplication of costs and certain negative effects on the liquidity of a financial instrument if several buy-ins are applied within a chain.