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SYSTEMIC RISK AND PRUDENTIAL POLICY

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The values of the main indicators used in the new framework for setting the countercyclical capital buffer (CCyB) are consistent with an intermediate level of cyclical systemic risk. However, the coincident indicators of stress in financial markets remain abnormally low, indicating overoptimism, with August's turbulence having proved very short-lived.

The standard credit cycle indicators, such as the credit-to-GDP gap, are still showing some signs of weakness, although they are no longer declining and appear to be gathering momentum. Other indicators, such as those linked to real activity (output gap) and to the banking sector's capital generation capacity (profitability and stock market valuation), are displaying a more expansionary cyclical behaviour and are following an upward path.

According to the Banco de España's revised framework for setting the CCyB, this situation is consistent with holding the required buffer rate for exposures located in Spain at 0.5% (where it has been since early October), which will be binding as from 2025 Q4. If cyclical systemic risk remains at an intermediate level, in 2025 Q4 the buffer rate will also be increased to the 1% target level established in the new Banco de España framework.

Turning to the real estate sector, the growth path of house prices is a key factor to monitor. The sound performance of household income has so far prevented the emergence of signs of growing house price imbalances, but this could change in the coming quarters. In this regard, the credit standards based on borrower income and collateral value are not showing significant signs of easing compared with their historical distribution, despite a slight rise in the loan-to-value (LTV) ratio. However, interest rate spreads in the mortgage market are at historically low levels and mortgage loan maturities are lengthening slightly.

Notable recent regulatory and supervisory developments include the headway made to complete the transposition of the latest Basel III reforms in various jurisdictions. In the United States, the implementation is set to be less ambitious than the initial proposal, which was, however, more stringent than the minimum standards agreed by the Basel Committee on Banking Supervision (BCBS) and included banks that are not internationally active. Europe has decided to delay the application of some aspects – related to the treatment of market risk – of this reform, but others will be phased in between 2025 and 2030. In the United Kingdom, adoption of the framework is postponed to January 2026, with a transitional period for its implementation ending in 2030. On a separate note, the European Commission has launched a public consultation on macroprudential policies for non-bank financial intermediation (NBFi).

3.1 Analysis of risk indicators and systemic vulnerabilities

In 2024 Q4 the Banco de España has implemented a new framework for monitoring cyclical systemic risks to inform CCyB decisions.¹ This new framework has two stages. First, the cyclical position of 16 key macroeconomic, financial and banking indicators in Spain are analysed. Each indicator has three distinct phases based on its current position relative to its historical distribution: low, intermediate or standard and high cyclical systemic risk. Second, this analysis is fleshed out with other quantitative and qualitative information, such as the voluntarily capital buffers available to banks and their ability to generate capital organically, which are discussed in Chapter 2 of this report.

Both the top-down analysis of the key indicators and the analysis of the main categories indicate that cyclical systemic risk is at a standard level. The key indicators have been grouped into four blocks: macroeconomic indicators,² macro-financial indicators,³ financial market indicators⁴ and banking system indicators.⁵ These four cyclical systemic risk dimensions stood, at the latest available date, at an intermediate level (see Chart 3.1.a). In line with this result, the composite indicator, which aggregates data on all the indicators, is also currently at a standard level, just above the 50th percentile.

The output gap remains slightly positive. The macroeconomic indicators are the key indicator category with higher levels and also remain on an upward trajectory. Among these indicators, the continued positive performance of GDP growth and the output gap is noteworthy (see Chart 3.1.b).

The credit-to-GDP gap reversed its downward trend in 2024 Q1. The macro-financial indicators are the indicators at the lowest level within the standard range. Among the indicators in this category, the credit-to-GDP gap remains in negative territory, but it has been on an upward path since end-2023 which, as projected, would take it into positive territory by end-2025. In addition, were the credit-to-GDP gap to be calculated using bank lending only (i.e. excluding other forms of debt), it would already be positive, close to equilibrium. This shows that non-bank finance is contributing to the gap's negative level. The indicators used to monitor the sectoral credit cycles of households and non-financial corporations (NFCs) are not showing signs of imbalances either, although they are now on an upward path.⁶ Meanwhile, the real estate sector indicators are proving more expansionary and the projections also suggest that they will perform favourably over the coming quarters.

1 For further details on the new framework for setting the CCyB in Spain, see [Revision of the framework for setting the countercyclical capital buffer in Spain](#) and Ángel Estrada et al. (2024). "Analysis of cyclical systemic risks in Spain and of their mitigation through countercyclical bank capital requirements". Documentos Ocasionales, 2414, Banco de España.

2 Economic activity and labour market indicators.

3 Financial indicators, such as bank credit, and their interaction with macroeconomic variables.

4 This financial indicator is disaggregated from the rest owing to its particular usefulness for contemporaneously measuring the materialisation of risks in the financial markets.

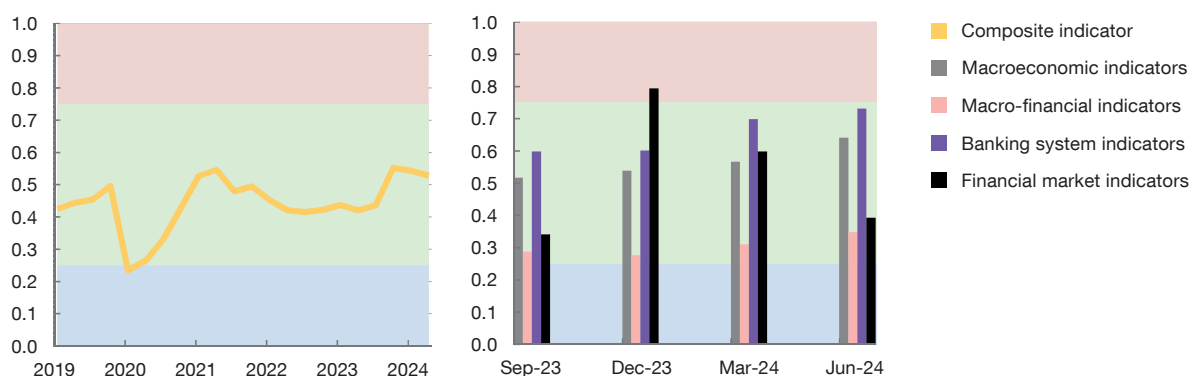
5 Indicators calculated on the basis of the consolidated and individual accounting information reported by credit institutions to the Banco de España.

6 For a detailed description of the indicators used to monitor sectoral credit cycles, see Carmen Broto, Esther Cáceres and Mariya Melnychuk. (2022). "Sectoral indicators for applying the Banco de España's new macroprudential tools". Financial Stability Review – Banco de España, 42. Also, [Box 3.1](#) of the Spring 2022 Financial Stability Report.

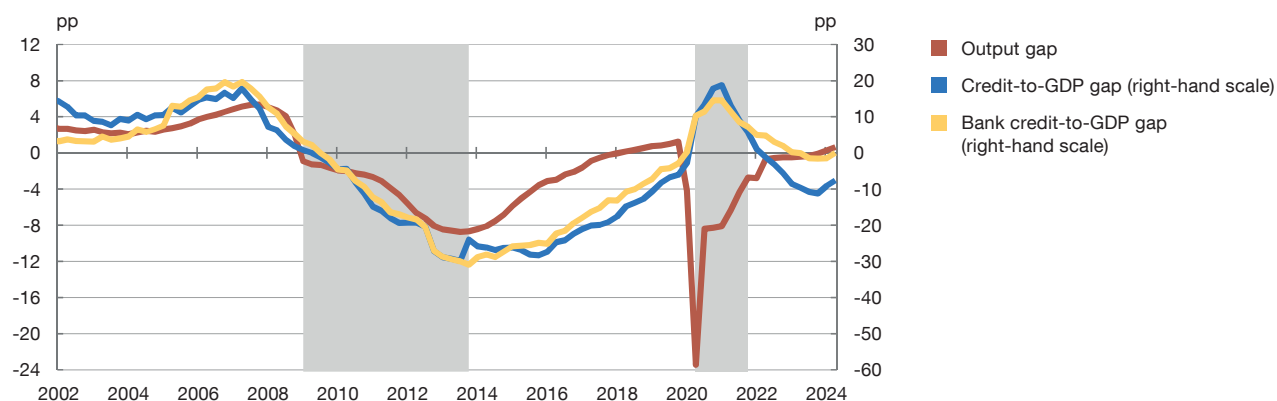
Chart 3.1

Cyclical systemic risks are at a standard level. The increase in the credit-to-GDP gap and the output gap remaining at positive levels are noteworthy

3.1.a Composite indicators (a)



3.1.b Credit-to-GDP gap and output gap (b)



SOURCES: Banco de España, INE and Datastream.

- a Data updated as at June 2024. The indicators are defined between 0 and 1 on the basis of the percentile relative to their historical distribution. The blue (green) [red] shaded areas correspond to a signal of a low (standard) [high] level of cyclical systemic risk.
- b The output gap represents the percentage difference between observed GDP and its quarterly potential level. Values calculated at constant 2010 prices. See Pilar Cuadrado and Enrique Moral-Benito. (2016). "Potential growth of the Spanish economy". Documentos Opcionales, 1603, Banco de España. The credit-to-GDP gap is calculated as the percentage point difference between the observed ratio and its long-term trend calculated by applying a one-sided statistical Hodrick-Prescott filter with a smoothing parameter of 25,000. This parameter is calibrated to the financial cycles historically observed in Spain. See Jorge E. Galán. (2019). "Measuring credit-to-GDP gaps. The Hodrick-Prescott filter revisited". Documentos Opcionales, 1906, Banco de España. The bank credit-to-GDP gap is calculated identically to the credit-to-GDP gap, but only taking into account bank lending. Data available up to June 2024. The grey shaded areas show two crisis periods identified in Spain since 2009: the systemic banking crisis (2009 Q1 to 2013 Q4) and the economic crisis triggered by the COVID-19 pandemic (2020 Q1 to 2021 Q4).

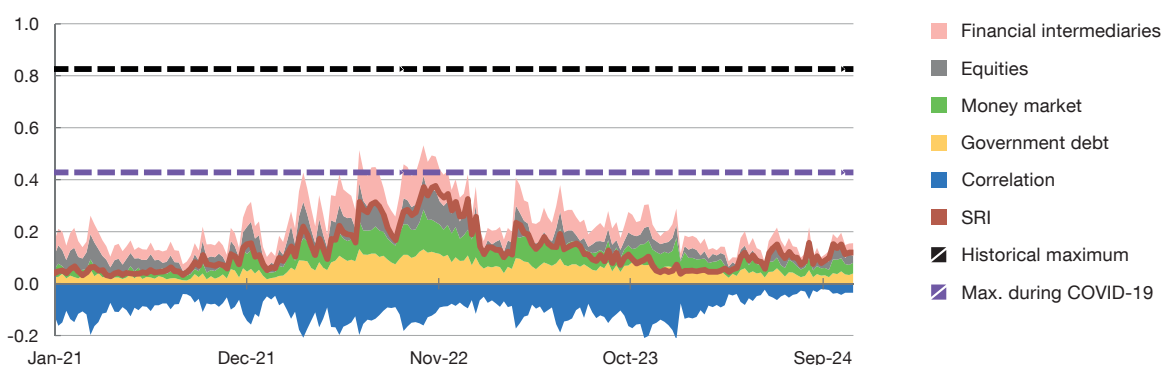
The financial markets have shown resilience to systemic tensions, but they remain vulnerable to negative surprises. The burst of volatility on the financial markets last August was short-lived, as shown by the systemic risk indicator (SRI), which is included as the market component within the key indicators.⁷ Except for the isolated surge in the first week of August,

⁷ This indicator comprises information on the four most representative segments of Spain's financial markets (the money, government debt and equity markets and financial intermediaries) and is designed to increase in value when tensions arise simultaneously in these four segments. For a detailed explanation of the SRI calculation methodology, see Box 1.1 of the May 2013 Financial Stability Report.

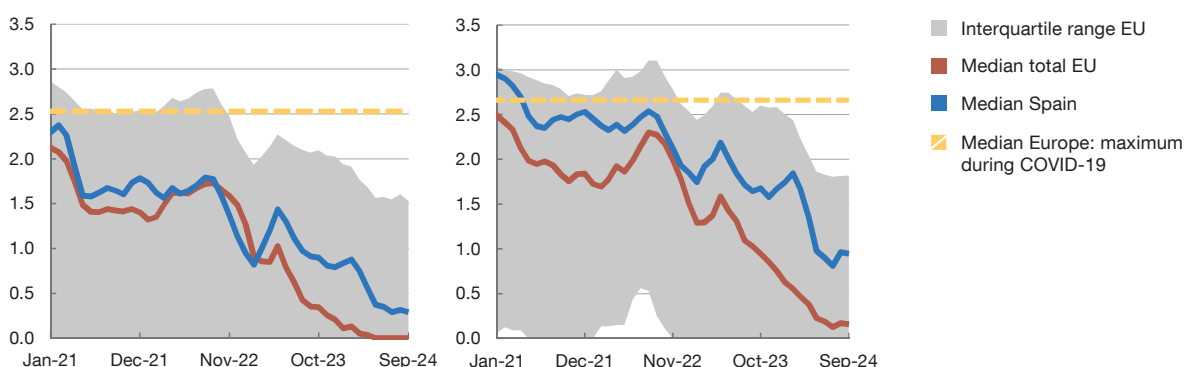
Chart 3.2

Financial markets showed their resilience during the episode of instability over the summer and the SRISK indicator for banks has decreased

3.2.a Systemic risk indicator (a)



3.2.b Distribution of the SRISK indicator with a European equity market correction of 10% (l-h panel) and 40% (r-h panel) (b)



SOURCES: Datastream, S&P Capital IQ and Banco de España.

- a The SRI aggregates 12 individual stress indicators (including volatilities, interest rate spreads and maximum historical losses) from four segments of the Spanish financial system. The effect of cross-correlations is taken into account to calculate the SRI, such that it registers higher values when the correlation between the markets is high and lower values when the correlation is low or negative. For a detailed explanation of this indicator, see [Box 1.1 of the May 2013 FSR](#). The black dotted line represents the SRI's historical maximum (since January 2000). The purple dotted line represents the SRI's maximum value since the COVID-19 crisis. Data updated as at 23 October 2024.
- b The SRISK indicator is expressed as a percentage of each bank's total assets. The parameters used are 4.5% for capital requirements, 10% (left-hand panel) and 40% (right-hand panel) for the decline in the European equities index and 22 (left-hand panel) and 132 (right-hand panel) business days for the period over which the hypothetical market decline occurs; for more details see Carmen Broto, Luis Fernández Lafuerza and Mariya Melnychuk. (2022). "Do buffer requirements for European systemically important banks make them less systemic?". Documentos de Trabajo, 2243, Banco de España. The SRISK indicator for the months of 2024 Q3 is calculated based on 2024 Q2 assets and liabilities values, drawing on the stock price data of the corresponding month. The time series have been smoothed using a three-month moving average. The interquartile range is defined as the difference between the 75th and 25th percentiles of the SRISK distribution for EU banks. The dotted line represents the SRISK's maximum value since the COVID-19 crisis. Data updated as at 30 September 2024.

the SRI held relatively stable in Q2 and Q3 (see Chart 3.2.a). However, as discussed in Chapter 1, the price of some risky financial assets remains far off their fundamentals. This may contribute to a sharp correction, as evidenced by their high sensitivity to bad economic news.

The banking system indicators also suggest that activating the CCyB at the established rate would have a very small impact on banks' activity. As analysed in detail in Chapter 2 of this report, bank profitability is at high levels and, while it is expected to ease slightly, under

the baseline scenario it will only do so marginally and gradually. Bank asset quality has not deteriorated significantly either.

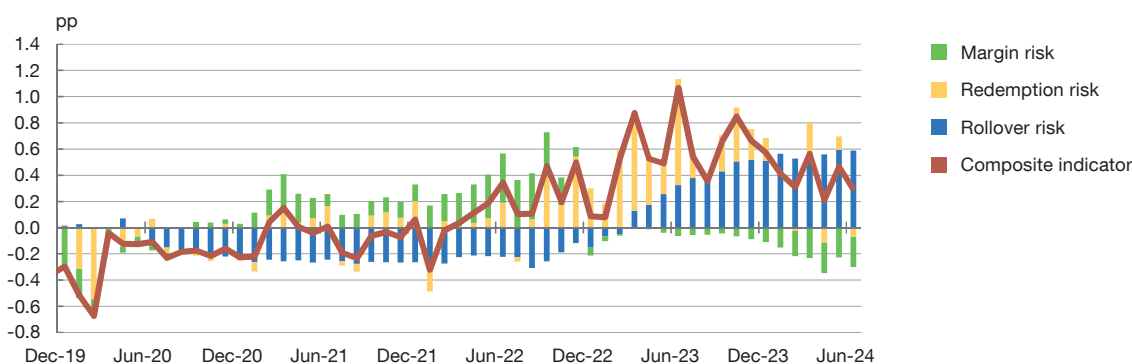
The systemic risk indicator for banks (SRISK)⁸ continues to fall, amid favourable financial market conditions. European banks’ balance sheet position and the sound performance of their stock prices mean that the median capital shortfall is very low, as estimated by the SRISK under an adverse scenario characterised by the market corrections typically used for this analysis (market correction of 10% lasting for 30 days) (see Chart 3.2.b, left-hand panel). Indeed, the median SRISK for the European Union (EU) as a whole stands at its lowest level since the 2020 health crisis.

However, the possibility of sharper financial market corrections and the SRISK heterogeneity across banks continue to signal some risk. In a setting marked by greater concern about financial market risks, applying SRISK to a more adverse scenario, with a greater correction (40%) over a longer period (six months), signals a larger – albeit still limited – contribution to systemic risk at the median bank (see Chart 3.2.b, right-hand panel). In addition, even when assuming a smaller correction, the interquartile range of the SRISK estimates shows significant cross-bank heterogeneity in 2024 H1 (see Chart 3.2.b). The

Chart 3.3

The recent decrease in interest rates and the asset encumbrance ratio have lowered bank funding liquidity risk

3.3.a Composite indicator of funding liquidity (a)



SOURCE: Banco de España.

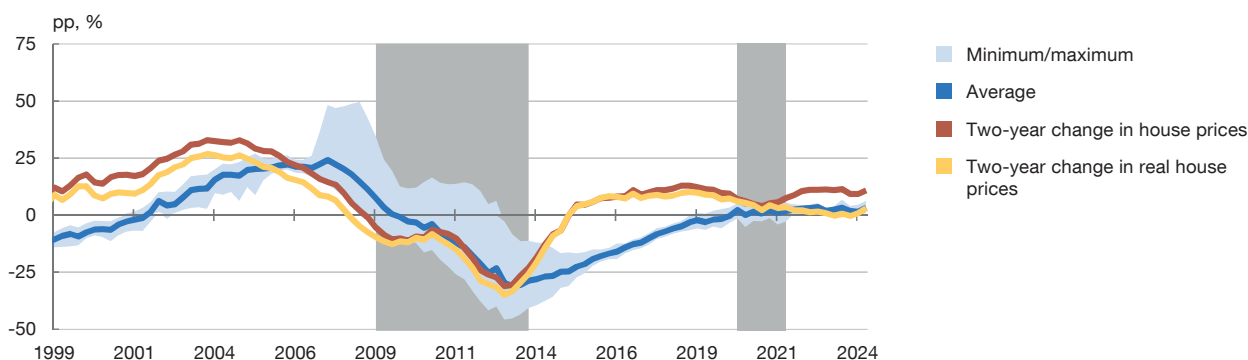
a The funding liquidity index draws on 13 indicators grouped into three dimensions: (i) margin risk (asset encumbrance ratio, re-use of collateral); (ii) redemption risk (monthly change in deposit rates for households and firms, liquidity coverage ratio); and (iii) rollover risk (level of deposit rates for households and firms, percentage of market funding, EURIBOR-OIS spread). The composite index measures the number of standard deviations from the mean of the indicators that make up each of the three dimensions (all the dimensions have the same weight). Higher composite indicator levels denote lower liquidity. The chart also shows the contribution that each dimension makes to the composite indicator. Data available up to June 2024.

8 Christian Brownlees and Robert F. Engle. (2017). “SRISK: a conditional capital shortfall measure of systemic risk”. *The Review of Financial Studies*, 30, pp. 48-79. This indicator measures the market value of the regulatory capital shortfall of an individual bank or the banking sector overall following a significant correction in the equity market. It is, therefore, a systemic risk metric, since the high cost of making up a capital shortfall for the banking sector could distort financial intermediation.

Chart 3.4

The indicators of house price imbalances remain slightly above equilibrium, subdued by growth in per capita income

3.4.a Indicators of house price imbalances (a) (b)



SOURCES: Banco de España and INE.

- a The vertical grey shaded areas denote the periods of the two financial crises in Spain since 2009: the last systemic banking crisis (2009 Q1-2013 Q4) and the economic crisis triggered by the COVID-19 pandemic (2020 Q1-2021 Q4). Data updated as at June 2024.
- b The blue shaded area denotes the minimum and maximum values of four indicators of house price imbalances: (i) the real house price gap; (ii) the house price-to-household disposable income ratio gap; (iii) the ordinary least squares (OLS) model, which estimates house prices based on long-term trends in household disposable income and mortgage rates; and (iv) the error correction model that estimates house prices based on household disposable income, mortgage rates and fiscal effects. The long-term trends for indicators (i) to (iii) are calculated using a statistical one-sided Hodrick-Prescott filter with a smoothing parameter equal to 400,000. All four indicators have an equilibrium value of zero. The cumulative two-year growth in nominal and real house prices is also depicted.

median SRISK for Spanish banks is higher than the median for the EU as a whole. This difference is partly due to banks in the EU as a whole having higher market capitalisation-to-total asset ratios than the average for Spanish banks.

The funding liquidity risk indicator eased in 2024 H1. This composite indicator summarises information on three key liquidity risk dimensions: collateral value and availability, the volume of redemptions and rollover costs.⁹ The deterioration that began in early 2023 was due mainly to the rise in interest rates, which had a direct impact on both the rollover cost for short-term financing and redemption risk. However, expectations of the European Central Bank (ECB) easing its monetary policy stance, borne out in June, September and October, have helped reduce these risks, as is evidenced by the decline in the indicator (see Chart 3.3). The decrease in the asset encumbrance ratio¹⁰ and, therefore, in margin risk, also contributed to the easing of the composite indicator. The fresh interest rate cuts expected by the markets should result in this indicator easing further still over the coming quarters.

House price imbalance indicators remain in positive territory, only slightly above equilibrium (see Chart 3.4). These indicators have held at moderately positively values since

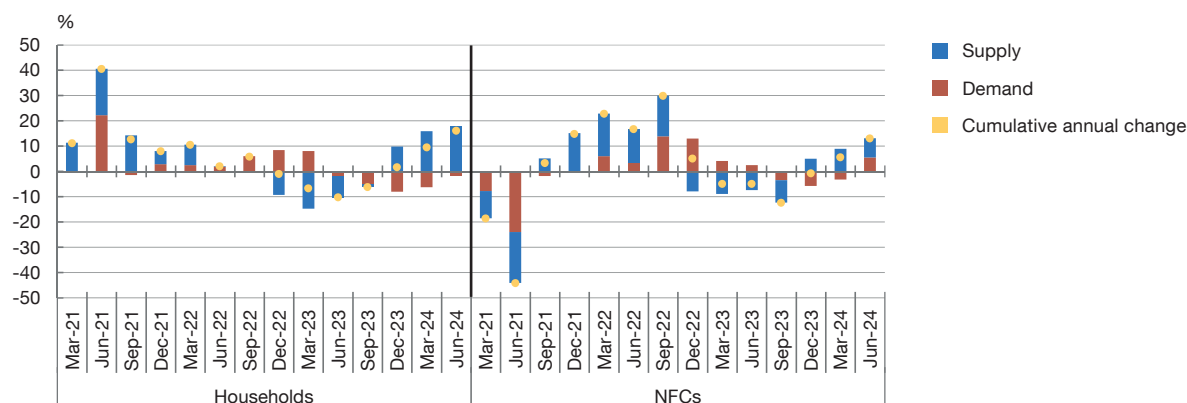
⁹ Margin risk is the risk of a change in value of the collateral provided and, therefore, in the haircut or margin of a secured loan; redemption risk is the risk of depositors withdrawing their funds; and rollover risk is the risk of maturing short-term funding being replaced or rolled over at a higher cost.

¹⁰ The proportion of encumbered assets that are therefore unavailable to be pledged as collateral against new secured funding.

Chart 3.5

New lending to NFCs and households grew in the first two quarters of 2024, driven mainly by supply-side factors and, to a lesser extent, by demand-side factors

3.5.a Macroeconomic decomposition of new lending to households and NFCs, by supply and demand-side factors (a)



SOURCES: ECB and Banco de España.

a Cumulative year-on-year change. Supply and demand effects estimated with an S-VAR model, using data on volumes and loan-deposit interest rate spreads for new lending in euro area countries. The model is estimated by means of Bayesian inference, using a Gibbs sampling algorithm and Minnesota priors, drawing on 5,000 MCMC (Monte Carlo Markov Chain) samples out of a total of 50,000 iterations.

2021, with limited fluctuations. Favourable household income developments have offset the rise in house prices and interest rates, preventing warning signals from appearing. However, the recent acceleration in house prices and interest rate cuts could mean this situation changes over the coming quarters.

In 2024 Q1 and Q2 the flow of new lending to households and NFCs increased – albeit less so to the latter – mainly because of supply-side factors. The Banco de España regularly uses econometric models that enable the flow of new credit to be decomposed into supply and demand-side factors. Their results point to supply-side factors playing an important role in the growth in lending to households up to mid-2024, while demand-side factors have continued to operate in the opposite direction, albeit much less intensely. With regard to lending to NFCs, supply-side and, to a lesser extent, demand-side factors also contributed to the growth in new lending recorded in the first two quarters of the year (see Chart 3.5). According to the Bank Lending Survey (EPB by its Spanish initials), loan demand has performed favourably across all segments over the first three quarters of 2024 and is expected to continue to do so in the coming quarters.¹¹ The EPB shows that credit supply was flatter than estimated using the econometric models.

Interest rate spreads (over market reference rates) for new loans to households and NFCs continue to widen (see Chart 3.6).¹² These spreads hit lows between 2022 H2 and

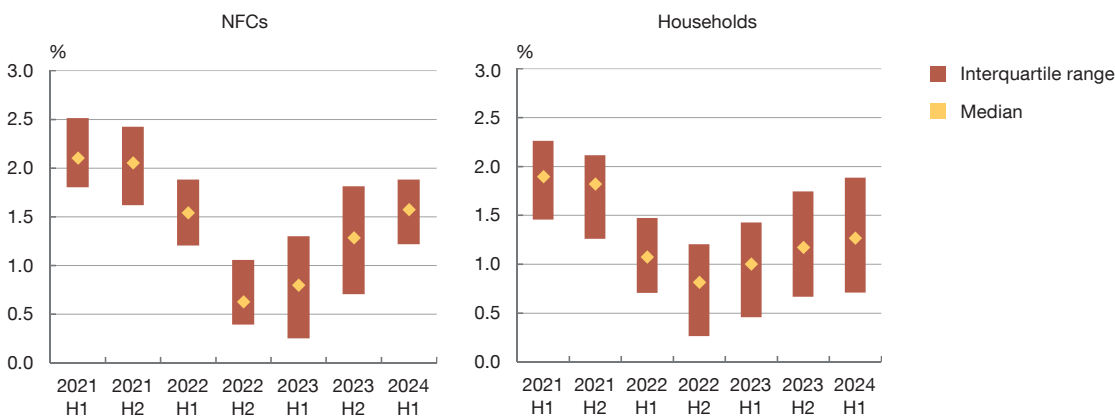
¹¹ *Nota de Prensa* of the Banco de España (available only in Spanish) on the results of the 2024 Q3 EPB, of 15 October 2024. For Bank Lending Survey data at European level (which include the Spanish data), see [Euro area bank lending survey](#).

¹² The spreads are calculated by reference to the interest rate swap (IRS) benchmark rate according to their maturity.

Chart 3.6

Interest rate spreads over reference rates have widened in new lending to NFCs and in new mortgages to households

3.6.a Distribution, by institution, of the interest rate spreads for new lending to NFCs and new mortgages to households (a)



SOURCE: Banco de España.

a The chart depicts the interquartile range (difference between the 75th and 25th percentiles) and the median of the average interest rate spread (weighted by the loan amount) applied by deposit institutions over the IRS curve, for new mortgages to households and new lending to NFCs in the corresponding half-year period, drawing on information reported in confidential financial statements. For households, the spread is calculated based on new loans in four maturity intervals (floating and initial rate fixation periods of up to one year, between one and five years, between five and ten years, and over ten years). Each interval is compared with the IRS rate for the mortgage term at the midpoint of the respective interval. For floating-rate loans with a rate fixation period of up to one year the 1-year IRS rate is used, and for loans with a fixation period of over ten years the 25-year IRS rate is used (25 years being the average term of new mortgages with a term of over ten years). For NFCs, the spread is calculated based on new loans in six maturity intervals (floating and initial rate fixation periods of up to three months, between three months and one year, between one and three years, between three and five years, between five and ten years, and over ten years). Each interval is compared with the IRS rate at the midpoint of the respective interval. For floating-rate loans with a rate fixation period of up to one year the 1-year IRS rate is used, and for loans with a fixation period of over ten years the 25-year IRS rate is used.

2023 H1, when the pass-through of the ECB's interest rate hikes to reference rates was quicker and more complete than the partial and lagged pass-through to lending rates. Spreads on new loans to NFCs started to widen in 2023 and have continued to do so in 2024. Meanwhile, spreads on new mortgage lending to households have widened less markedly and remain at historically low levels, with greater cross-bank heterogeneity.

Loan maturities for new lending to NFCs and new mortgages to households have increased slightly. The average maturity for lending to NFCs stood at 2.7 years in 2024 H1, up from 2.2 years in 2023. The maturity distribution of mortgage lending to households is holding relatively stable compared with 2023 and in 2024 Q1 most loans were concentrated around 25 years; for a small group of banks average maturities were just over 30 years.

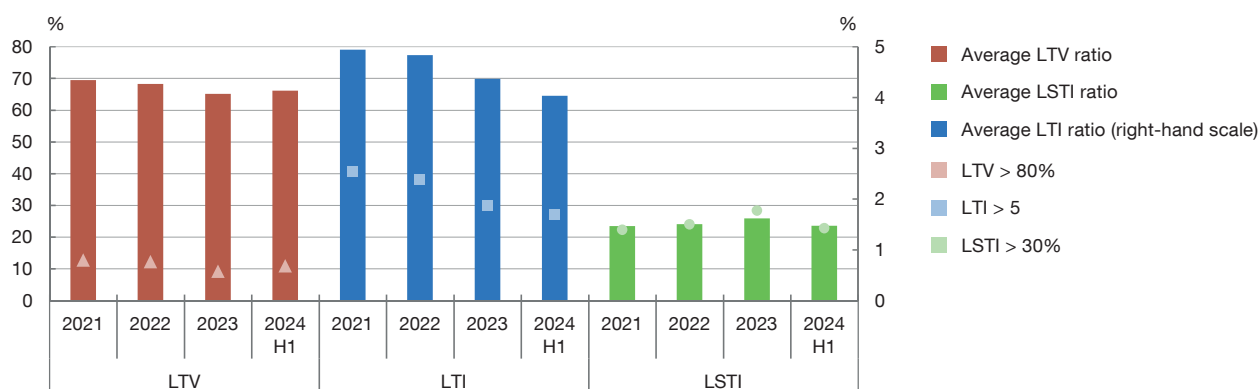
The ratio between the amount of new mortgage loans and the collateral provided increased slightly in 2024 H1. The average LTV ratio for these loans increased slightly in 2024 H1 compared with the 2023 average, rising by 1 percentage point to 66.8%. Moreover, the portion of new mortgage loans with an LTV ratio above 80% stood at 11.1% in 2024 H1, only marginally higher than in the previous two years (see Chart 3.7).

The downward trend in the loan-to-income (LTI) ratio has continued, with the household debt burden now also declining. The steady correction since 2022 in the LTI ratio (which

Chart 3.7

The LTV ratio rose slightly in 2024 H1, while the LTI and LSTI ratios fell

3.7 Credit standards for new mortgage lending to households (a) (b) (c)



SOURCE: Banco de España.

- a The LTV ratio is the amount of the mortgage principal relative to the appraisal value of the property. The average LTV ratios are weighted by the principal of each mortgage and calculated for new mortgages.
- b The LTI ratio is estimated for each mortgage as the ratio of the initial mortgage amount to the household's net income. The definition of income used in this report has been revised to align it with Recommendation ESRB 2016/14. This entails using net household income rather than gross income as had previously been the case. Specifically, up to 2021 average net income by postcode, available in the Household income distribution map for Spain provided by the INE, was used. Given that this information is only available with a two-year lag (as it is based on tax data), to infer household income for the period 2021-2023 the income data for 2020 are extrapolated using aggregate information for the entire country on the course of net household income, which is also provided by the INE. Since 2024, banks have started to report to the Central Credit Register (CCR) more detailed information on the income declared in order to grant each new mortgage. This definition of income is aligned with the guidelines established in Recommendation ESRB 2016/14, as stipulated in Banco de España Circular 2/2023 on the CCR. A value for income based on the information available by postcode is imputed to those loans in the CCR with empty or ineligible values for 2024 for the required income data.
- c The average LTI and LSTI ratios are calculated as the averages of those ratios in each mortgage weighted by their relative share (in terms of the principal) in the total mortgage portfolio for which the information needed to calculate the ratio is available.

uses net income as a measure of household income) continued in 2024 H1. Meanwhile, the debt burden – as measured by the loan service-to-income (LSTI) ratio – fell on average in 2024 H1, to 23.5%. In addition, the percentage of new mortgages with an LSTI ratio of over 30% is slightly lower than in the previous two years.¹³ Therefore, neither of these two indicators are signalling an easing of credit standards for mortgages.

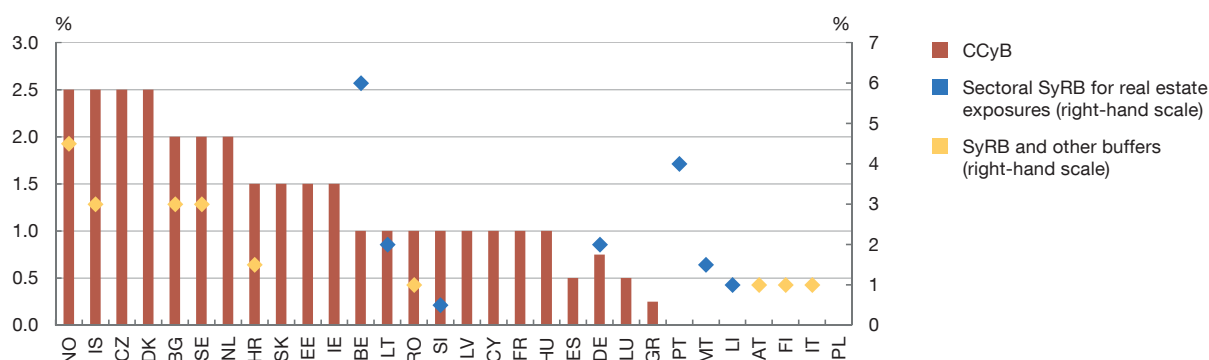
Analysing credit standards for lending to firms is also important. The Banco de España is developing indicators to monitor credit standards for lending to firms and is assessing the indicators' ability to anticipate non-performance issues at firms granted loans under looser conditions (see Box 3.1).

¹³ The definition of income used in this report has been revised to align it with Recommendation ESRB 2016/14. This entails using net household income rather than gross income as had previously been the case. Specifically, up to 2021 average net income by postcode, available in the Household income distribution map for Spain provided by the National Statistics Institute (INE), was used. Given that this information is only available with a two-year lag (as it is based on tax data), to infer household income for the period 2021-2023 the income data for 2020 are extrapolated using aggregate information for the entire country on the course of net household income, which is also provided by the INE. Since 2024, banks have started to report to the Central Credit Register (CCR) more detailed information on the income declared in order to grant each new mortgage. This definition of income is aligned with the guidelines established in Recommendation ESRB 2016/14, as stipulated in Banco de España Circular 2/2023 on the CCR. A value for income based on the information available by postcode is imputed to those loans in the CCR with empty or ineligible values for 2024 for the required income data.

Chart 3.8

Virtually all EU/EEA countries now have a releasable macroprudential buffer

3.8.a Macroprudential capital buffers in European countries (a)



SOURCES: ESRB and Banco de España calculations.

a This chart includes the latest CCyB rates announced by European countries (EU/EEA). Increases in the CCyB rates are applicable 12 months after they are announced. The chart also depicts the sectoral SyRB for real estate exposures and the SyRB and other buffers in the countries that have activated them. Italy's SyRB only applies to domestic exposures. The SyRB buffer rates for Austria and Romania refer to the maximum of an established range (0.5-1 and 0-1, respectively). Data as at June 2024.

The situation identified, in which cyclical systemic risks are at an intermediate level, supports implementing a CCyB rate of 0.5% applicable to exposures in Spain in 2024 Q4. This decision was announced on 1 October, taking into account the observations received in a public information consultation process.¹⁴ The decision is also consistent with the ECB's assessment of the current situation.¹⁵ In addition, it complies with the International Monetary Fund's recommendation, in its latest assessment of the Spanish financial system, of adopting a positive neutral CCyB (see Box 3.2). The Banco de España will continue to review quarterly developments in cyclical systemic risks. If the current situation continues, the CCyB will foreseeably increase to 1% as from 1 October 2025 and will be binding for institutions a year later.

Virtually all European countries have set a positive rate for releasable macroprudential capital buffers. After Spain, as mentioned above, Greece was the latest country to announce the implementation of a CCyB rate, initially set at 0.25% but expected to increase it to 0.5% next year. In addition, some authorities are still applying systemic risk buffers (SyRBs), with the sectoral SyRB being used in many cases to address real estate market vulnerabilities in particular (see Chart 3.8). Lastly, it should be noted that the Banco de España applied reciprocating measures after the implementation of the SyRB by Portugal

14 See the press release "The Banco de España approves the new framework for setting the countercyclical capital buffer and sets the buffer rate for 2024 Q4 at 0.5%", of 1 October 2024.

15 See the [Governing Council statement on macroprudential policies, of 28 June 2024](#), which indicates that building up macroprudential buffers under prevailing conditions would generate low costs which are even lower against the current backdrop of highly profitable banks.

and Italy, since certain Spanish institutions have material exposures in either of the two countries (see Box 3.3).

3.2 Regulatory and supervisory developments relevant to financial stability

3.2.1 Regulatory developments related to solvency in the EU and in other jurisdictions

The amending Capital Requirements Regulation (CRR III) and Capital Requirements Directive (CRD VI)¹⁶ were published in June. This legislative package completes the implementation in the EU of the globally agreed outstanding Basel III reforms and also includes other measures to strengthen the European prudential framework and to ensure that the banking sector is better prepared to face new challenges such as the transition to climate neutrality. Most of the provisions will enter into force gradually as from 2025, subject, in the case of the CRD VI, to their compulsory transposition into national law by January 2026.

The new features of the CRR III include, most notably, those focused on obtaining a more uniform measurement of risk, namely, on reducing the dispersion in the calculation of risk-weighted assets, the denominator of the solvency ratio. For instance, in addition to making certain standardised approaches more risk sensitive, some restrictions are introduced on the use of internal models. Significantly, the output floor is introduced. This restricts the lower limit on the risk exposure obtained by using internal models to 72.5% (as from 2030) of the limit that would apply if using standardised approaches. In the same vein, the European Banking Authority (EBA) has received a high number of mandates from European legislators to operationalise this regulation.

The EU has fully transposed the Basel III framework by establishing certain – in principle, transitional – European specificities. However, given the uncertainty surrounding the implementation of Basel III mainly in the United States, the European Commission has used its legal capacity to postpone the entry into force of the market risk framework to 1 January 2026.¹⁷

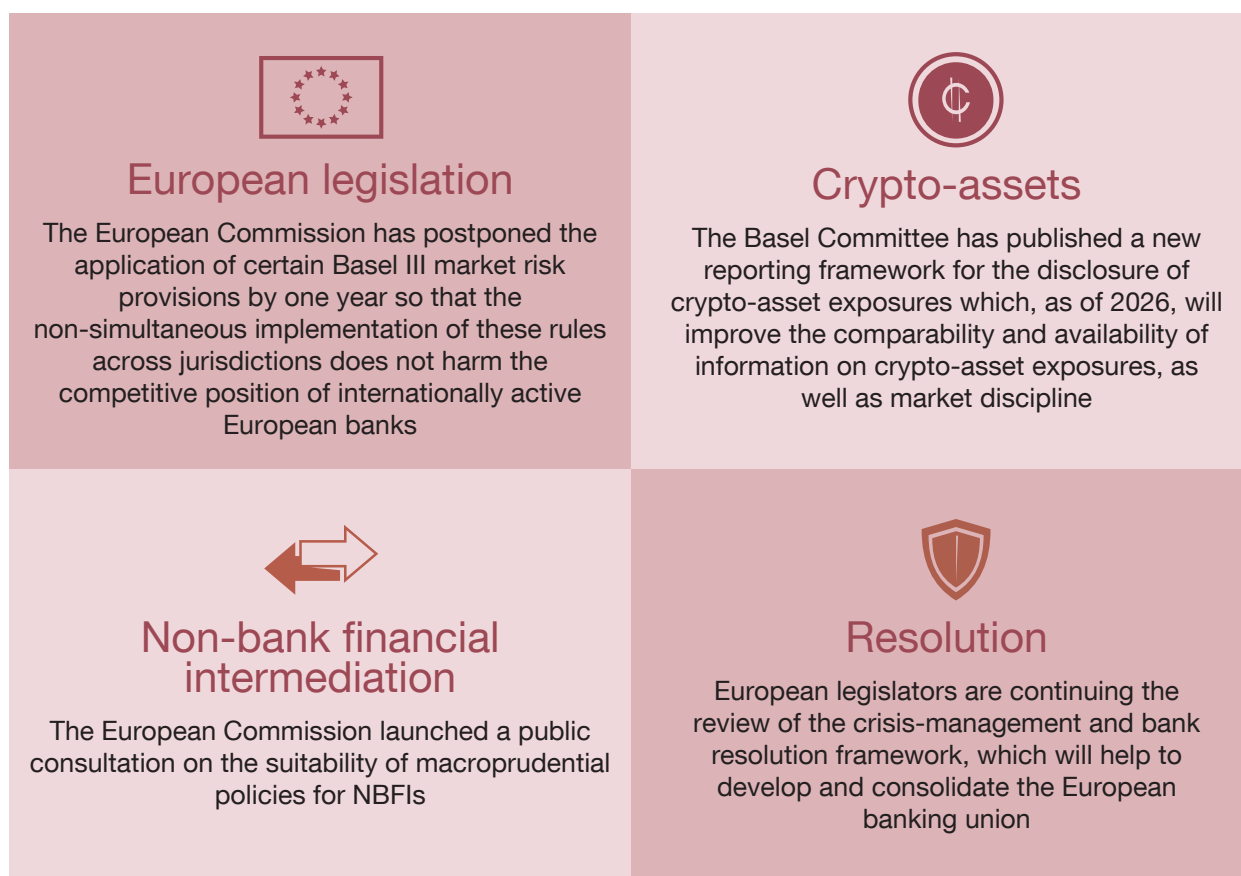
An important legislative development in the CRD VI refers to using the SyRB to address climate-related risks. Designated authorities, to the extent that they consider that climate risks may have serious negative consequences for the financial system, should introduce an SyRB that could be applied to some sets or subsets of exposures, such as those subject to physical and transition risks related to climate change, if they consider that it would be an effective and proportionate measure to mitigate such risks. Methodological challenges, data

¹⁶ Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor Directive (EU) 2024/1619 of the European Parliament and of the Council of 31 May 2024 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks.

¹⁷ See press release of the European Commission “Commission proposes to postpone by one year the market risk prudential requirements under Basel III in the EU”, of 24 July 2024.

Figure 3.1

Regulatory developments relevant to financial stability



limitations and the correct separation of the climate component from other risk factors for the banking sector are the challenges that should be addressed by the potential calibration of the SyRB for this purpose.

Some jurisdictions, such as the United States and the United Kingdom, will implement the latest Basel III reforms after the EU.¹⁸ In the case of the United States, the proposals to finalise the implementation of Basel III and to adjust the macroprudential capital surcharge for its global systemically important banks will be subject to consultation again¹⁹ on account of the changes triggered by the scope of the feedback on the first draft of the rules. The Federal Reserve’s re-proposal is expected to ease the requirements envisaged in the original proposal, which in many aspects was stricter than Basel III and, for the first time in the United States,

¹⁸ Globally, the Group of Central Bank Governors and Heads of Supervision (GHOS) of the Bank for International Settlements acknowledges the progress made in the implementation of the Basel III reforms. At its May meeting, it reiterated its expectation that all jurisdictions will have fully implemented the reforms by 2025. See the BCBS press release “Governors and Heads of Supervision reiterate commitment to Basel III implementation and provide update on cryptoasset standard”, of 13 May 2024.

¹⁹ See the speech by Michael S. Barr, Vice Chair for Supervision of the Board of Governors of the Federal Reserve System, “The Next Steps on Capital”, of 10 September 2024.

also applied to banks that are not internationally active. At the cut-off date for this Financial Stability Report, the Vice Chair for Supervision of the Federal Reserve had already announced that banks with assets of between \$100 and \$250 billion would be exempt from applying these reforms, except for the requirement to recognise unrealised gains and losses of their held-to-maturity securities in regulatory capital. In the United Kingdom, the Prudential Regulatory Authority (PRA) published in September the final draft²⁰ for incorporating the outstanding Basel III reforms into law. The PRA considers that Tier 1 capital requirements for major UK firms will essentially remain unchanged and will increase by less than 1% from January 2030, when the four-year transitional period – postponed until 1 January 2026 – ends.

3.2.2 Other developments in the EU

In May this year, the European Commission launched a public consultation on macroprudential policies for NBFIs.²¹ The aim of the consultation is to gather further feedback, mainly from authorities, on the suitability of a macroprudential framework for NBFIs. The consultation is based on a recent Commission report²² which identified the vulnerabilities of non-bank financial intermediaries (NBFIs) regarding liquidity mismatches, excessive leverage and strong interconnectedness among NBFIs and between NBFIs and credit institutions. This report also identified possible improvements to macroprudential coordination throughout the EU. Against this background, the consultation is structured around: i) risks and vulnerabilities of NBFIs; ii) tools to address liquidity risk and excessive leverage; iii) interconnectedness; and iv) supervisory coordination in the EU.

In October, the European Commission opened a public consultation on the functioning of the EU securitisation framework.²³ The purpose of this process is to gather the views of EU securitisation market participants about the effectiveness of the current framework and possible changes to improve it. For this purpose, several issues are addressed relating to, for example, the scope of application of the Securitisation Regulation, transparency requirements and the prudential treatment of this type of financial product. The goal is to relaunch securitisation as a means of strengthening the lending capacity of European banks and, thus, increasing the EU's competitiveness. This initiative is part of the capital markets union action plan.

The review of the resolution framework continues to move forward. The Council of the European Union agreed its position on the review of the bank crisis management and deposit insurance framework²⁴ so that it can begin negotiating with the European Parliament. This

20 See the Bank of England press release “The PRA publishes the second policy statement on Basel 3.1 and proposals on the strong and simple capital regime for smaller firms”, of 12 September 2024.

21 See “Targeted consultation assessing the adequacy of macroprudential policies for non-bank financial intermediation (NBFIs)”, of 22 May 2024.

22 See “Commission report on the macroprudential review for credit institutions, the systemic risks relating to Non-Bank Financial Intermediaries (NBFIs) and their interconnectedness with credit institutions”, of 24 January 2024.

23 See “Targeted consultation on the functioning of the EU securitisation framework”, of 9 October 2024.

24 See the press release of the Council of the European Union “Bank crisis management and deposit insurance framework: Council agrees on its position”, of 19 June 2024.

review includes a set of measures for bank crisis management in the EU and, in particular, for improving the resolution process for small and medium-sized banks. In particular, the revised framework aims to broaden the scope of resolution and, at the same time, to increase the funds available for the financing of these processes. The Council's text is notably complex due to the many limitations and requirements established, precisely in processes that need to be considerably agile to minimise their impact on financial stability.

The work of the European System of Financial Supervision continues in the area of cyber resilience. The three European supervisory authorities (the EBA, the European Securities and Market Authority and the European Insurance and Occupational Pensions Authority) have set up a framework²⁵ for coordination in the event of systemic cyber incidents envisaged in the Digital Operational Resilience Act and to comply with Recommendation [ESRB/2021/17](#). This framework would permit an effective response to cyber incidents that might pose a financial stability risk. Similarly, the EBA is complying with the mandates received in this act and also in the Markets in Crypto-Assets Regulation which came into effect recently. The ESRB published a report²⁶ which analyses, from a macroprudential standpoint, the operational policy tools existing in the EU and their potential use in the event of a systemic cyber incident. The report classifies the tools identified under three categories based on their approach: i) gathering, sharing and managing information; ii) coordination between authorities and with institutions; and iii) emergency and back-up systems.

3.2.3 Other global developments

The BCBS has published a framework for the disclosure of crypto-asset exposures and introduced amendments to its prudential requirement framework for these instruments.²⁷

The new disclosure framework will provide common requirements for the disclosure of crypto-asset exposures and improve information availability and market discipline. This new framework will apply as of 1 January 2026, which is also when the latest amendments to the prudential standard on crypto-assets will be implemented. These amendments clarify, among other aspects, the criterion for stablecoins to receive preferential regulatory treatment.

Likewise, the BCBS has published reports on the banking turmoil²⁸ in spring 2023 and the digitalisation of finance.²⁹ The former includes an updated empirical analysis on liquidity risk dynamics observed during the turmoil last year (with the Swiss institution, Credit Suisse, and with Silicon Valley Bank and other medium-sized banks in the United States). The

25 See the press release "[ESAs establish framework to strengthen coordination in case of systemic cyber incidents](#)", of 17 July 2024.

26 See the ESRB report [Advancing macroprudential tools for cyber resilience – Operational policy tools](#), of 16 April 2024.

27 See the BCBS reports [Disclosure of cryptoasset exposures](#) and [Cryptoasset standard amendments](#), of 17 July 2024.

28 See the BCBS press release "[Basel Committee publishes G20 progress report on the 2023 banking turmoil and liquidity risk](#)", of 11 October 2024.

29 See the BCBS report [Digitalisation of finance](#), of 16 May 2024.

BCBS will continue working to increase the effectiveness of banking supervision and is considering options to revise specific features of the Basel Framework, such as liquidity risk and interest rate risk in the banking book (IRRBB). The latter report analyses the implications of the digitisation of finance for banks and supervisory authorities, insofar as they can benefit banks and their customers but can also represent a source of vulnerabilities and amplify existing risks.

In addition, the BCBS has also published the review of the Basel Core Principles (BCPs)³⁰ for effective banking supervision and its IRRBB standard. This is the third revision of the BCPs since they were introduced in 1997, having previously been revised in 2006 and 2012. It includes, among other things, new risks such as climate-related risks and the digitalisation of finance.³¹ Likewise, several principles were amended to strengthen macroprudential oversight and foster coordination among supervisory authorities, as well as to clarify their role in the risk mitigation process. Following the consultation³² by the BCBS, it published a report³³ setting out the adjustments to the framework for interest rate shocks referred to by the IRRBB standard.

The BCBS has consulted on the principles for the sound management of third-party risk³⁴ and on guidelines for counterparty credit risk management.³⁵ The former stems from the risk of the banking sector being increasingly reliant on third-party services, particularly due to digitalisation and financial technology. The guidelines for counterparty credit risk are intended to address the weaknesses detected following cases such as that of Archegos. For instance, they foster the ongoing analysis of counterparties, developing a counterparty risk mitigation strategy, using additional metrics for risk monitoring and limitation, and building a risk governance framework.

The Financial Stability Board (FSB) has introduced a new framework for the orderly resolution of central counterparties (CCPs). The report³⁶ published on this issue underlines the importance of the availability of liquidity, loss-absorbing capacity and tools to maintain the continuity of critical functions and to mitigate the adverse effects on financial stability, should it be necessary to resolve a CCP, particularly systemically important CCPs. The FSB will monitor the implementation of the new framework for systemically important CCPs and will publish the results in its annual resolution report.

30 See the BCBS document [Core Principles for effective banking supervision](#), of 25 April 2024.

31 For more information on the latest revision of the BCPs, see Asunción Alonso, Danae Durán, Belén García-Olmedo and Quaaada María Antonia Quaaada. (2024). ["Basel core principles for effective banking supervision: an update after a decade of experience"](#). Financial Stability Review – Banco de España, 46, Spring.

32 See BCBS press release ["Basel Committee consults on targeted adjustments to its standard on interest rate risk in the banking book"](#), of 12 December 2023.

33 See BCBS document ["Recalibration of shocks for interest rate risk in the banking book"](#), of 16 July 2024.

34 See BCBS press release ["Basel Committee consults on principles for the sound management of third-party risk"](#), of 9 July 2024.

35 See the BCBS press release ["Basel Committee publishes consultation on guidelines for counterparty credit risk management"](#), of 30 April 2024.

36 See FSB report [Financial Resources and Tools for Central Counterparty Resolution](#), of 25 April 2024.

The FSB also published a report on the ongoing work of financial authorities in the area of nature and biodiversity-related financial risks. The report³⁷ found that the analyses in this field are at different stages based on the authority responsible, partly due to the diversity of mandates received, and it concludes that the authorities and the private sector need to know more about this issue in order to be able to address the related risks.

The FSB has submitted several other matters to public consultation. These include its assessment of the reforms on securitisation,³⁸ recommendations on the provision of cross-border payment services³⁹ and liquidity preparedness for margin and collateral requirements in situations of market stress.⁴⁰

37 See the FSB report [Stocktake on Nature-related Risks: Supervisory and regulatory approaches and perspectives on financial risk](#), of 18 July 2024.

38 See FSB press release [“FSB consults on interim findings of its evaluation of the effects of the G20 financial regulatory reforms on securitisation”](#), of 2 July 2024.

39 See FSB consultation [Recommendations for Regulating and Supervising Bank and Non-bank Payment Service Providers Offering Cross-border Payment Services: Consultation report](#), of 16 July 2024.

40 See FSB consultation [Liquidity Preparedness for Margin and Collateral Calls: Consultation report](#), of 17 April 2024.