Box 3.3

RECIPROCITY FOR MACROPRUDENTIAL MEASURES IN THE EUROPEAN UNION: THE SYSTEMIC RISK BUFFERS OF PORTUGAL AND ITALY

Under the prudential legislation applicable to credit institutions in the European Union (EU), Member States are authorised to activate a set of macroprudential tools to prevent and mitigate systemic risks to their financial stability. The Banco de España's macroprudential powers and tools are mainly provided for in the Spanish legislation[1] transposing Directive 2013/36/EU (Capital Requirements Directive),[2] in Regulation (EU) No 575/2013 (Capital Requirements Regulation)[3] and also in Royal Decree 102/2019[4] (which, among other matters, implements macroprudential tools specific to Spanish law).

The EU financial system is highly integrated. This means that credit institutions often provide cross-border financial services either directly or through subsidiaries or branches located in another Member State. If the macroprudential measures activated by a Member State are to be effective and free of unintended consequences, they may also need to be applied to the exposures in that Member State held by credit institutions based in other EU countries.

Under certain conditions, the activation of specific tools (e.g. the countercyclical capital buffer) in a given country automatically applies to all EU credit institutions.[5] For other measures, European regulations envisage the possibility of the relevant activating authority requesting that the authorities of other Member States adopt equivalent measures (voluntary reciprocity).

Against this background, the European Systemic Risk Board (ESRB) issued Recommendation 2015/2 on the assessment of cross-border effects and voluntary reciprocity of macroprudential policy measures, to ensure the effectiveness and consistency of macroprudential policy, and to reduce the possibilities of regulatory arbitrage.

To steer decisions by the authorities of other Member States on whether the measures envisaged in a recommendation should be reciprocated, the ESRB has set, on a case-by-case basis, an institution-specific materiality threshold, typically in terms of the volume of exposures to counterparties in the activating country. In accordance with Recommendation ESRB/2015/2, institutions in countries other than the initial activating country may be exempted from applying reciprocating measures if their risk exposure is below this threshold (the *de minimis* principle). This ensures that the principle of proportionality is upheld and avoids unnecessary costs associated with activating macroprudential measures for non-material exposures. If the materiality threshold is exceeded, the authorities of other Member States are expected to reciprocate the measure, unless they can provide a justification for not doing so.

In compliance with Recommendation ESRB/2015/2,[6] the Banco de España analyses on a case-by-case basis each reciprocation request from other Member States. Until this year, in all the cases analysed the Banco de España had found that Spanish banks' exposures to countries requesting reciprocity stood well below the pre-defined materiality thresholds in the corresponding recommendations. In addition, it had not identified any other grounds for reciprocating macroprudential measures and, therefore, the Banco de España had not reciprocated any measures.[7]

This changed recently, after the ESRB issued two reciprocity recommendations in 2024 on measures adopted in Portugal and Italy. In this case, the exposures were material for the Spanish banking system.

Failure to reciprocate the measures could incentivise lending in Portugal and Italy by Spanish credit institutions, as their capital costs would be lower than those of other

1 Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, Royal Decree 84/2015 of 13 February 2015 implementing Law 10/2014, and Banco de España Circular 2/2016 of 2 February 2016 to credit institutions on supervision and solvency, which completes the adaptation of Spanish law to Directive 2013/36/EU and to Regulation (EU) No 575/2013.

2 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions.

3 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012.

4 Royal Decree 102/2019 of 1 March 2019 creating the Spanish macroprudential authority (AMCESFI), establishing its legal regime and implementing certain aspects relating to macroprudential tools.

5 In the case of the countercyclical capital buffer, the automaticity is actually geographically much broader in scope, as it extends to all countries whose national banking authorities are Basel Committee members.

6 Recommendation 2015/2 of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures.

7 Information on the voluntary reciprocation requests currently in force can be found here.

institutions operating in these countries. In the case of those operating in those countries through subsidiaries, there would be incentives to transfer business to other institutions within their banking group that are not subject to the measure adopted. For instance, they could continue to lend in Portugal and Italy through branches. Institutions without subsidiaries in those two countries might also find this option more appealing. There might also be incentives to reallocate capital to subsidiaries affected by the measure in the activating country.

All this would limit the effectiveness of the measures adopted by Portugal and Italy, giving Spanish banks incentives to channel resources towards these countries, which could have adverse consequences for their financial stability.

Portugal's sectoral systemic risk buffer

In November 2023 the Banco de Portugal, as the national designated authority, announced its intention to introduce a 4% sectoral systemic risk buffer (sSyRB) for credit institutions.[8] This buffer will be applicable to retail exposures to natural persons secured by residential real estate located in Portugal for which the Internal Ratings-Based (IRB) approach is used to calculate the own funds requirements for credit risk. The sSyRB has been applied since 1 October 2024, at the highest level of consolidation for the institutions in Portugal, and will be reviewed at least every two years.

According to the Banco de Portugal, this macroprudential tool has a preventive application, as it aims to increase the resilience of institutions to the potential materialisation of systemic risk that has been observed in the residential real estate sector in Portugal. It will only be applicable to institutions using the IRB approach, as their estimated average risk weight (14%) is significantly smaller than that used under the standardised approach (35% for comparable exposures).

After formally notifying the ESRB of its intention to set this buffer, the Banco de Portugal also requested that it recommend the reciprocation of the measure by other Member States, in view of the systemic nature of the risks identified. The measure applies to five institutions established in Portugal, including two subsidiaries of Spanish banks.[9] The ESRB approved of the measure's adoption, and issued Recommendation ESRB/2023/11.

In response to the Banco de Portugal's request for reciprocation, the ESRB also issued Recommendation ESRB/2023/13,[10] inviting the relevant authorities of other Member States to reciprocate the sSyRB, to set it at the highest level of consolidation for the institutions and to ensure that it applies and is complied with from 1 October 2024. As guidance for the authorities of the other countries, the Recommendation sets an institution-specific materiality threshold of €1 billion. This means that it is considered justifiable for institutions with sectoral exposures below this threshold to be exempted from application of the reciprocal measure.

Overall, the Spanish banking sector's lending to counterparties in Portugal (€85.4 billion) represented 2.4% of its total consolidated assets in June 2024 (see Chart 1), and its loans to Portuguese households secured by residential real estate (€44.6 billion) accounted for 1.3%. Spanish banks use the IRB approach for most of their retail exposures in Portugal (78% as at June 2024, up 5 percentage points (pp) since 2017). These aggregates are indicative of the relevance for Spanish institutions of the macroprudential measure adopted in Portugal, which is borne out by a case-by-case analysis.

Based on the analysis of Spanish institutions' exposures within the scope of Portugal's sSyRB, in May 2024 the Banco de España approved a reciprocal macroprudential measure for institutions exceeding the materiality threshold set by the ESRB.[11] Specifically, the Banco de España decided to set a sSyRB of 4%,[12] applicable from 1 October 2024, for three banks at consolidated level, on their retail exposures to natural persons secured by

8 Banco de Portugal press release "Press release by the Banco de Portugal on the imposition of a capital buffer on exposures secured by residential real estate", of 15 November 2023.

9 Santander Totta - SGPS, S.A. (belonging to the Santander Group) and Banco BPI, S.A. (belonging to the CaixaBank Group).

10 Recommendation of the European Systemic Risk Board of 8 December 2023, amending Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/2).

11 Banco de España press release "The Banco de España resolves to reciprocate a macroprudential measure approved by the Banco de Portugal", of 17 May 2024.

12 See the section on Reciprocity of measures in other countries of the Banco de España website.

Box 3.3

RECIPROCITY FOR MACROPRUDENTIAL MEASURES IN THE EUROPEAN UNION: THE SYSTEMIC RISK BUFFERS OF PORTUGAL AND ITALY (cont'd)

Chart 1
Lending by the Spanish banking sector in Portugal by type of loan, and IRB retail exposures as a percentage of total retail exposures in Portugal (a) (b)

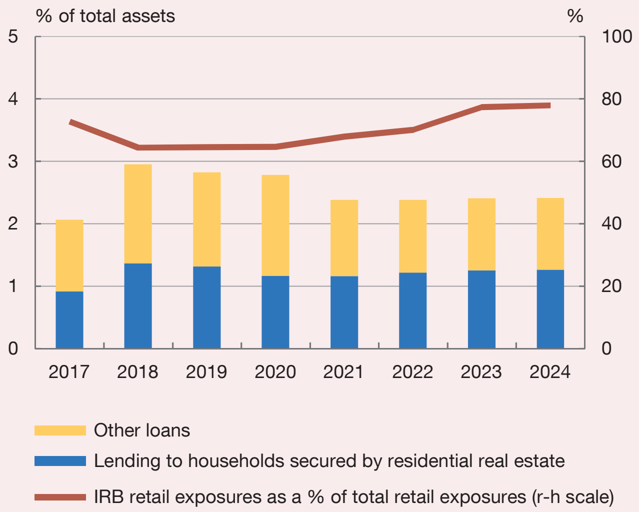
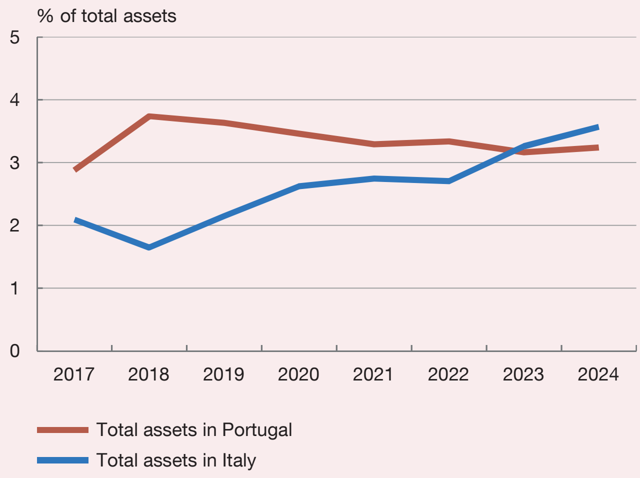


Chart 2
Total assets of the Spanish banking sector in Portugal and Italy



SOURCE: Banco de España.

a "Other loans" includes loans and advances to central banks, general government, credit institutions, other financial institutions, non-financial corporations and consumer credit to households. Data as at June each year.
b "IRB exposures" means exposures to which the internal ratings-based approach is applied to calculate own funds requirements for credit risk. The percentage is calculated on the basis of the original exposures, before applying risk weights. Data as at June each year.

Table 1
Banks subject to the Banco de España's reciprocation of the Portuguese measure

LEI (a)	Institution
5493006QMFDDMYWIAM13	Banco Santander, S.A.
7CUNS533WID6K7DGFI87	CaixaBank, S.A.
VWMYAEQSTOPNV0SUGU82	Bankinter, S.A.

SOURCE: Banco de España.

a Legal Entity Identifier.

residential real estate located in Portugal for which those banks use the IRB approach to calculate their regulatory own funds requirements for credit risk (see Table 1).

Although there is another Spanish institution[13] with significant exposures in Portugal, it is outside the scope of the measure as it uses the standardised approach to calculate its regulatory own funds requirements for credit risk.

The relatively small size of Spanish banks' mortgage exposures in Portugal vis-à-vis their total assets (see Chart 1) suggests that the Banco de España reciprocating the measure will not have a significant impact on lending

13 ABANCA Corporación Bancaria, S.A.

in Spain. The impact on lending in Portugal, however, is likely to be greater, as the Spanish institutions affected have a significant share of this market.

Italy's systemic risk buffer

In April 2024 the Banca d'Italia, as the national designated authority for Italy, announced[14] its intention to introduce a systemic risk buffer (SyRB) for credit institutions. The buffer is applicable to all credit institutions authorised in Italy, both on an individual basis and on a consolidated basis. A SyRB rate of 0.5% will apply from 31 December 2024 to 29 June 2025 to all credit risk exposures and counterparty credit risk exposures in Italy. The rate will increase to 1% from 30 June 2025.

Following a request from the Banca d'Italia, on 11 June 2024 the ESRB issued Recommendation ESRB/2024/2, inviting the relevant authorities of other Member States to reciprocate the SyRB introduced in Italy and to apply it on an individual and on a consolidated basis for the institutions. As guidance for the authorities of the other countries, the Recommendation sets an institution-specific materiality threshold of €25 billion.

In this case, the Banco de España resolved to reciprocate the measure adopted in Italy,[15] taking into account the materiality of Spanish banks' exposures to the Italian market and the grounds for contributing to the effectiveness of the measure in Italy. Thus, it has decided to set a SyRB rate of 0.5% from 31 December 2024 to 29 June 2025 and of 1% from 30 June 2025 onwards for two banks, on both an individual and a consolidated basis, applicable to all credit risk exposures and counterparty credit risk exposures in Italy (see Table 2).

Unlike in Portugal, the Spanish banking sector has consistently increased its exposure to Italy (see Chart 2). Indeed, between June 2017 and June 2024 the percentage of Spanish banks' total assets in Italy rose by 1.5 pp, to 3.6%, while their lending in this country (comprising loans and advances) increased by 1 pp, to 1.6% of total assets. During this period the proportion of their exposures to the public sector remained stable, at an average of 54%.

Table 2
Banks subject to the Banco de España's reciprocation of the Italian measure

LEI (a)	Institution
5493006QMFDDMYWIAM13	Banco Santander, S.A.
K8MS7FD7N5Z2WQ51AZ71	Banco Bilbao Vizcaya Argentaria, S.A.

SOURCE: Banco de España.

a Legal Entity Identifier.

14 Banca d'Italia press release "Activation of the systemic risk buffer", of 26 April 2024.

15 Banco de España press release "The Banco de España resolves to reciprocate a macroprudential measure approved by the Banca d'Italia", of 16 October 2024.