Notification of intended decision on the Other Systemically Important Institutions (O-SIIs) in Spain

24 November 2015

Notifying national authority		
1.1	Name of the notifying authority.	Banco de España (BdE)
1.2	Name of the macroprudential measure that is notified.	Capital buffer for Other Systemically Important Institutions (O-SII buffer).
1.3	Date when the decision referred to in Article 5 of the SSMR shall be taken.	A meeting of BdE's Executive Commission will be held on 25 November 2015 with a view to make a final decision by the same date on the list of O-SIIs and the capital buffers applicable to them as of 1 January 2016. The intended date for publication in BdE's website of the final decision and the relevant information is 28 December 2015
Description of the measure		
2.1	Please provide a detailed description of the measure, including calibration and the main parameters.	Identification of the O-SIIs in Spain and calibration of the capital buffers for the identified institutions. The identification has been carried out following the mandatory indicators and resulting scores set out in the EBA's Guidelines (EBA/GL/2014/10). The ten required indicators from four different categories have been computed and aggregated following these guidelines for all the institutions operating in Spain. In the cases in which the FINREP variables were not available, the closest variables available at BdE have been used. Next, for the buffer allocation, BdE has developed a methodology with two main goals: simplicity and consistency with the hierarchy established by G-SIIs buffers for Spanish institutions. This consistency is deemed essential given that the O-SIIs scores are computed, following the EBA guidelines, using consolidated data as for those of G-SIIs. Specifically, the calibration methodology consists of a proportional mapping of the scores based on the EBA guidelines to buffer requirements, using Santander's current reference (1% buffer as a G-SII) as an anchor point to ensure

		consistency with G-SII buffers. The final buffer for a given domestic systemic institution is set as the product of 1% by the ratio of the institution's O-SII score over Santander's score, rounded to the closest interval of the buffer (steps of 0.25 percentage points: 0%, 0.25%, 0.5%, 0.75% and 1%).
2.2	Please specify the legal basis and process of implementation of the measure.	Article 131 of the CRDIV provides the legal basis in Europe. Transposition to the Spanish law has been carried out through article 46.1 of the Law 10/2014, of 26 June, and article 63 of the Royal Decree 84/2015, of 13 February.
2.3	Please describe in detail which institutions/exposures will be covered by the measure, including whether the measure would be applied at consolidated or solo level and possible exemptions.	The EBA methodology has been applied to compute the scores for all the institutions operating in Spain using consolidated data in accordance to this methodology. BdE has decided to maintain the 350 threshold defined by the EBA guidelines. Following these guidelines, six institutions with scores above 350 basis points have been identified as O-SIIs: **Banco Santander, S.A (Santander).** **Banco Bilbao Vizcaya Argentaria, S.A. (BBVA)** **Caixabank, S.A. (Caixabank)** **Bankia, S.A. (Bankia)** **Banco Popular Español, S.A. (Popular)** **Banco de Sabadell, S.A. (Sabadell)** In order to calibrate the O-SII capital buffer for these institutions, BdE has developed a simple and transparent methodology described in 2.1, which is consistent with the hierarchy of G-SIIs buffers for Spanish institutions. Furthermore, a phase-in period from 2016 to 2019 is envisaged, again to remain consistent with the phase-in of G-SIIs buffers. The final buffers in 2019 may be subject to changes if the degree of systemic importance of these (or other identified) institutions change over the following years. The required capital buffer, which should be CET1, is computed as a function of the total risk exposure at a consolidated basis.

<table>
<tr><td></td><td></td><td>
<table>
<tr><td>O-SIIs institutions</td><td>Final buffer to be required in 2019</td><td>Required buffer as of Jan 1, 2016</td></tr>
<tr><td>Santander</td><td>1.00%</td><td>0.25%</td></tr>
<tr><td>BBVA</td><td>0.50%</td><td>0.125%</td></tr>
<tr><td>Caixabank</td><td>0.25%</td><td>0.0625%</td></tr>
<tr><td>Bankia</td><td>0.25%</td><td>0.0625%</td></tr>
<tr><td>Popular</td><td>0.00%</td><td>0.00%</td></tr>
<tr><td>Sabadell</td><td>0.00%</td><td>0.00%</td></tr>
</table>
</td></tr>
<tr><td>2.4</td><td>On what date does the measure come into force?</td><td>1 January 2016</td></tr>
<tr><td>2.5</td><td>Until when will the measure presumably be in place or when would it be reviewed?</td><td>The list of O-SIIs and corresponding buffers requirements will be revised at least annually, as required under CRDIV.</td></tr>
<tr><td colspan="3">Reason for the activation of the measure</td></tr>
<tr><td>3.1</td><td>Please give the description of the macroprudential risk in the financial system to be addressed by the proposed macroprudential measure. Please specify the reasons why changes in the intensity of systemic risk could have serious negative consequences for financial stability at national level.</td><td>The failure of a systemic institution could have negative externalities for the broader financial system. Managers of systemic institutions may not take into account these externalities when making their decisions. Furthermore, they are subject to moral hazard, due to the too-big-to-fail effect. In order to avoid these potential negative effects, the solvency of the most systemic domestic institutions is strengthened by this measure. In the case of the Spanish banking system, the six identified institutions represent around 80% of the total assets of the Spanish banking system at the consolidated level. Given this level of concentration, it is deemed necessary to introduce positive O-SII capital buffers for the four most systemic institutions, which represent 70% of total assets on a consolidated basis.</td></tr>
<tr><td>3.2</td><td>Please describe the indicators on the basis of which the measure is to be activated. Please provide the data the decision is based on (preferably an Excel-file).</td><td>The identification is carried out using the Guidelines developed by the EBA (EBA/GL/2014/10), where the threshold of 350 basis points has been used to select the systemic institutions. The methodology to set the capital buffer for each institution is described above in 2.1. In the cases in which the FINREP variables were not available for all institutions, the closest variables available at BdE have been used.</td></tr>
</table>

3.3	If applying a measure under Article 133 CRD or 458 CRR, please explain why the measures mentioned in Article 133(11)e and Article 458(2)c are not sufficient to adequately address the macroprudential risks identified and why the measure is deemed to be suitable, effective and proportionate to address the situation.	Not applicable
Impact of the measure		
4.1	Please provide your assessment of the effects of the measure on the domestic banking system, the real economy and financial stability in your country.	The measure should contribute to mitigating negative externalities, reducing implicit subsidies and increasing banks' resilience. Specifically, it is expected to contribute to reducing the competitive advantage of systemic institutions in terms of funding due to their systemic nature, and limiting the potential moral hazard incentives which may affect their managers. At the same time, the envisaged phase-in period should give O-SIIs sufficient time to adapt to the additional requirements without major disruptions in the financial system or the real economy.
4.2	Referring to your country's specific characteristics, what is the scope for "leakages" (i.e., circumvention of the measure, leakages to other financial sectors or to non-domestic institutions)?	The Spanish financial system is dominated by national banks, which are covered by this measure. It is not envisaged that this measure can be circumvented by leakages to other financial sectors or non-domestic banks, since their size is very small so that they can become systemic.
4.3	Please assess the scope for cross-border spill-overs of the applied measure (including a likely impact on the EU internal market pursuant to Article 133(12) CRD or 458(2) CRR).	None
4.4	When recognition is not mandatory, please specify whether or not it is intended to ask for recognition of the measure by other Member States and provide the reasons.	N/A as this is an institution specific based measure.

Miscellaneous		
5.2	Intended date of publication of the measure and information about the communication strategy of the notified measure to the market.	The intended date is 28 December 2015. Information will be published in a dedicated webpage within the BdE's official website.
5.3	Any other relevant information.	None