

# Recent key developments in the area of Spanish financial regulation

Prepared by the Regulation and Research Department of the Spanish Confederation of Savings Banks (CECA)

## **Bank of Spain Circular 1/2024 on capital structure disclosures, amending Circular 1/2009 (Official State Gazette: 1 February 2024)**

The purpose of this Circular is to establish the confidential information that has to be provided to the Bank of Spain regarding acquisitions, increases and reductions in shares in the financial institutions falling under its scope and about their capital structures. It entered into force 20 days after its publication.

The Circular's scope of application includes the following entities: the banks and credit cooperatives; specialised lending institutions, including hybrid firms; certain payment institutions; and electronic money institutions, including hybrid firms.

Those entities must disclose to the Bank of Spain:

- Acquisitions of significant shareholdings in the entity;
- Acquisitions of shareholding in the entity that, without being significant, drive the share of voting or equity rights held to or above 5%;
- Increases in shareholdings in the entity that drive the share of voting or equity rights held to or above 20%, 30% or 50%, or that give control over the entity (control is presumed to exist when any of the circumstances itemised in article 42 of the Code of Commerce are met), and
- Losses of or decreases in significant shareholdings in the entity or decreases that imply a reduction in the share of voting

or equity rights held to below the above-listed thresholds or that imply the loss of control over the entity.

Moreover, the bound entities must inform the Bank of Spain of their share capital structures indicating:

- All of the direct holders of the shares, equity holdings or share capital contributions that are considered “financial institutions”.
- All other direct holders that hold in their name shares, equity holdings or share capital contributions that represent a percentage of share capital in the entity equal to or higher than 0.25% in the case of banks, 1% in the case of credit cooperatives and specialised lending institutions and 2.5% in the case of payment institutions and electronic money institutions.
- The summation of other direct holders that hold in their name shares, equity holdings or share capital contributions that do not, individually, meet the above-listed thresholds.

In addition, payment institutions and electronic money institutions must disclose the “financial institutions” that hold their shares or equity holdings indirectly.

The banks, credit cooperatives and specialised lending institutions must provide that information quarterly and the payment institutions and electronic money institutions must provide it six-monthly. The data provided must be that related to the last day of the reporting period.

The capital structure disclosures have to be provided for the first time as of 31 March

2024, for those that have to provide quarterly disclosures and as of 30 June 2024, for those providing six-monthly disclosures. Until then, the entities must continue to provide the information required of them under Circular 1/2009.

Lastly, this new Circular partially repeals Circular 1/2009 (the rules and annexes repealed include those regarding information about equity holdings in the now-defunct savings banks) and modifies it to allow the presentation to the Bank of Spain of the information about credit institution branches online. Authorisation to provide that information in hard copy format will be provided exceptionally and only when duly justified.

**Modification of the Bank of Spain's Guidelines on the internal capital and liquidity adequacy assessment process with respect to management of interest rate risk and credit spread risk arising from non-trading book activities (Bank of Spain's website: 19 February 2024)**

Modification of the Guidelines for the Internal Capital Assessment Adequacy process (ICAAP) and Liquidity Assessment Adequacy process (ILAAP) at credit institutions stems from adoption by the Bank of Spain of the Guidelines EBA/GL/2022/14 issued in accordance with article 84.6 of the CRD specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities. The amendments took effect on the date of their approval (19 February 2024) and apply to the entities supervised in respect of their adequacy reports related to 31 December 2023.

The modifications made to the Guidelines for credit institutions refer, broadly, to the following elements of the ICAAP report:

- The specialised lending institutions are brought under the scope of application of the Guidelines (only those that have to prepare an ICAAP report).

- Addition of the definition of the CSRBB acronym: credit spread risk in the banking book.
- The simplified standardised approach for IRRBB (interest rate risk in the banking book) is aligned with the current definition of the supervisory outlier tests (SOT) provided in Directive (EU) 2019/878, where the sensitivity of the economic value of equity (EVE) threshold used for that approach has been changed to 15% of Tier 1 capital instead of 20% of total own funds. The EVE sensitivity values are also factored into the six rate scenarios defined in the Directive.
- Addition of a reference to the expectation that the entities should explicitly assess the materiality of their credit spread risk (CSRBB) and include in their ICAAP reports information about how they quantify and measure that risk and, if appropriate, allocate capital to it internally. Moreover, the entities must contemplate credit spread risk in the stress tests provided in their ICAAP reports.
- Whenever an entity surpasses the threshold defined by the sensitivity of the results, in addition to signalling the measures taken to correct the situation, they are required to evaluate the need to allocate additional capital to this risk.