

# 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 determining the content and format of the *SME-Financial Information* document and specifying the risk classification methodology provided for in Law 5/2015 (Circular 6/2016, published in the Official State Gazette (BOE) of July 11<sup>th</sup>)

Under Law 5/2015, either at the customer's request or when a credit institution decides to cancel or reduce the flow of financing to SMEs and self-employed individuals (which requires three months' prior notice), it must deliver a document to them called *SME-Financial Information* which will include detailed information on their financial situation and payment record.

The purpose of this Circular is (i) **to specify the content and format of the document** called *SME-Financial Information*, and the template/model for transferring this information; and (ii) to develop the methodology and the template/model for the preparation of a standardised report on **risk quality assessment**, which will also form part of the *SME-Financial Information* document.

The **main aspects** covered in the Circular are summarised as follows:

- In general, the Circular **will be applicable to:**
  - (i) credit institutions formed in Spain, (ii) activities

carried out in Spain by credit institutions formed in other countries; and (iii) credit financial institutions formed in Spain.

- The **minimum content of the *SME-Financial Information* document** will be divided into the following sections and will be adapted to the formats and notes specified in the annexes of the Circular: (i) statements to the Bank of Spain Central Credit Register, (ii) data reported by the institution to companies providing information services on capital adequacy and credit, (iii) borrower's credit history (last five years), (iv) extract of transactions made over the last year in the borrower's financing flow contracts; and (v) classification of borrower's risk.
- **Risk will be classified into the following categories** depending on the borrower's capacity to meet its financial obligations: low, medium-low, medium-high, high risk or unavailable. To this end, the institutions will analyse the borrower's financial situation and a series of qualitative and behavioural variables, taking into account the criteria set out in the Circular.
- In addition, the institution will provide the borrower, along with the borrower's risk classification, with **information on its relative position in the sector in which it carries out its activities** for the most recent financial year for which information is available.

The institutions **must retain for six years** (i) the documentation justifying the data used to prepare the *SME-Financial Information* document; and (ii) the documentation accrediting receipt by the borrower of the above-mentioned document, or that this has been made available to it.

The **transitional provision** of the Circular provides that until five years of declarations of data to the Bank of Spain Central Credit Register with the content and format established in Circular 1/2013 of May 24<sup>th</sup> are available, **the *SME-Financial Information* document will include the declarations of data beginning from the data corresponding to June 30<sup>th</sup>, 2015, inclusive**, with the content and format established in Annex 3 of Circular 1/2013.

### **Draft Bank of Spain Circular establishing the accounting regime that banking foundations must apply and amending the Accounting Circular and the Circular on the Central Credit Register**

The draft Circular establishes the financial reporting rules and models of the banking foundations governed by Law 26/2013 and specifies the functions allocated to the Bank of Spain with respect to banking foundations within the framework of its powers as the authority responsible for supervising the investee credit institution. The regulation also adapts the accounting standards that are applicable because of their foundation status to the specific characteristics of the obligations involved due to their participation in credit institutions.

The draft Circular specifies the accounting regime to be applied by banking foundations in their **individual and consolidated financial statements** and sets out the additional information that must be included in the notes thereto. It provides that the regime for individual financial statements will be that established in Royal Decree

1491/2011 in general, except for the specific items indicated in this draft, and on a supplementary basis the National Chart of Accounts (Royal Decree 1514/2007). Consolidated financial statements will be governed by Royal Decree 1159/2010, with the exceptions provided for in this draft Circular.

With regard to the institutions that have to set up a **reserve fund**, they will have to identify in their internal accounting the composition and materialisation of said reserve fund.

In addition, the content of the **notes** to both individual and consolidated financial statements is specified. The submission of reserved individual financial statements and public accounts to the Bank of Spain is also detailed.

The draft Circular also makes **amendments** to:

- The Accounting Circular (Bank of Spain Circular 4/2004) to specify the content of certain rules and financial statements, and to simplify the reporting obligations of credit institutions; and
- The Circular on the Central Credit Register (Bank of Spain Circular 1/2013) to update the rules applicable to the situation of holders of risk, to improve information on restructured and refinanced transactions and to define certain concepts.