

THE CNMV PUBLISHES THE REPORT ON NON-BANKING FINANCIAL INTERMEDIATION (NBFI) IN SPAIN FOR 2021

7 December 2022

- Assets in the NBFI in Spain totalled 328 billion euros in 2021, 8.1% above those in 2020.
- It accounts for about 6% of the financial system.
- This edition of the report includes a more extensive analysis of the fixed income portfolio of the investment funds (the most relevant entities of the NBFI) addressing credit risk (credit ratings) and interest rate risk (duration).
- The assessment of the risks associated with the NBFI does not reveal any substantial change from previous years.

Today, the Spanish National Securities Market Commission (CNMV) published [a new report on non-banking financial intermediation \(NBFI\) in Spain](#), which updates the information on this sector with data from 2021¹.

The total amount of assets of these institutions, after deducting those that consolidate in banking groups, was 328 billion euros in 2021, 8.1% more than in 2019 and representing only 6% of the total financial system, below the ratio of other advanced economies (close to 14%). The most relevant entities of NBFI's "narrow measure" in Spain continued to be investment funds, which accounted for 91% of total assets. Securitisation vehicles were a distant second with 6.2%. The remaining entities (financial credit entities, broker-dealer entities, and mutual guarantee companies) accounted for only 3% overall.

According to the methodology of the Financial Stability Board (FSB), the key measure of the NBFI is the so-called "narrow measure", which aims to identify entities that may be included within any of the five economic functions defined by the FSB in 2013² and whose activities

¹ The first analysis in this area was published in the CNMV newsletter for the first quarter of 2019.

² See "Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities" (2013). The five economic functions defined by the FSB are: (1) Management of collective investment vehicles with characteristics that make them susceptible to massive redemptions, (2) Lending dependent on short-term funding, (3) Intermediation in market activities dependent on short-term funding or secured funding, (4)

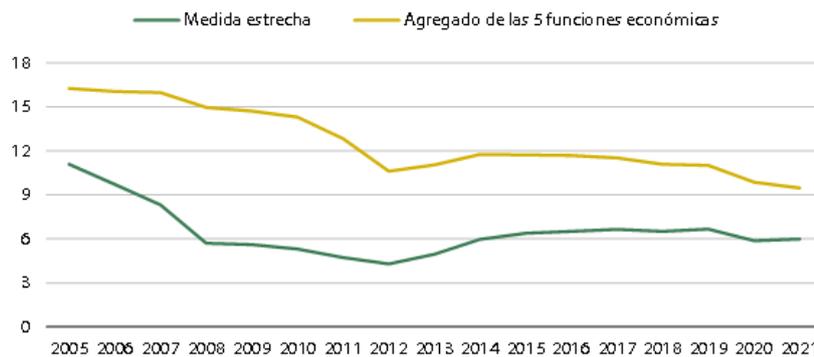
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are assimilated to some of the typical banking risks. This measure considers all investment funds except equity funds, SICAVs, securitisations (or SFVs), financial credit institutions, broker-dealer firms and mutual guarantee institutions as part of the NBFI.

Relative weight of the NBFI (% of the financial system)



Source: CNMV and BoS. The narrow measure is obtained from the aggregate of the five economic functions removing the assets consolidated in banking groups.

The risk analysis associated to the NBFI does not point to the existence of relevant vulnerabilities from a financial stability point of view. In the investment funds universe, in addition to the standard risk indicators, analytical extensions have been added to assess credit risk in more detail (through credit ratings of the assets in the portfolio), liquidity risk (through the analysis of the portfolio of CISs in which the funds invest) and interest rate risk (through an estimate of the modified duration of the fixed income portfolio). Lastly, the leverage of the funds through the use of derivatives has been assessed, showing certain increase in average leverage compared to 2020, but in any case neither strong nor widespread. The latter analysis is particularly relevant given the problems that some European funds have recently experienced as a result of margin calls in times of high volatility and falling market prices.

The report includes a section describing the existing the liquidity risk management tools for CISs Spain for, their use in 2021 and also so far in 2022 as a result of the war between Russia and Ukraine. The start of the conflict led to the suspension of trading in assets linked to both countries and five collective investment institutions activated the

Entities engaged in "facilitating" credit creation and (5) Credit intermediation based on securitisation for the funding of financial institutions.

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partial redemption mechanism. This section also reflects CNMV's promotion of the active use of liquidity management tools by CISs, not only in extraordinary situations but also in normal market conditions. This policy has led to a considerable increase in the number of entities including one or more of these tools in their prospectuses.

The information available up to September this year reveals, for example, that 85% of funds (in terms of assets) have established the possibility of requiring up to 10 working days' notice when redemptions exceed 300,000 euros and that 39% have the possibility of using the swing pricing mechanism. Fixed income and money market funds have such mechanisms available in greater proportion than the others.

This report contains two exhibits that deal with two subjects of special interest: The first reviews the impact of the war in Ukraine, as well as other elements of uncertainty in the current context, on the Spanish investment fund industry. The second describes the results of the assessment exercise of the implementation of IOSCO's liquidity recommendations in different jurisdictions and the FSB's proposed work in the same area.