PRESS RELEASE

THE CNMV PUBLISHES THE REPORT ON NON-BANK FINANCIAL INTERMEDIATION (NBFI) IN SPAIN FOR 2019

12 January 2021

- It is the third issue of the series entitled "Monitor of the non-bank financial intermediation (NBFI)".
- Assets in the NBFI in Spain totalled 311 billion euros in 2019, approximately 5% more than in 2018. This sector accounts for around 6.7% of the financial system.
- The assessment of risks associated with NBFI shows little change with regard to the patterns observed in previous years. Therefore, no major threat to financial stability has been detected.
- The report contains two tables with the latest results of the stress tests carried out by the CNMV on investment funds, and on CIS liquidity management tools, as well as their use during the COVID-19 crisis.

The Spanish National Securities Market Commission (CNMV) has published the third report on non-bank financial intermediation (NBFI) in Spain, which updates the information on this sector with data from 2019[1].

According to the methodology of the Financial Stability Board (FSB), the key measure of NBFI is the so-called "narrow measure", which seeks to identify entities that may be included within any of the five economic functions defined by the FSB in 2013[2], and whose activities are assimilated to some of typical banking risks. This measure considers certain types of investment funds, securitisations (or SPVs), credit financial institutions, broker-dealers and mutual guarantee schemes as being part of the NBFI. The total amount of assets of these entities, excluding entities that consolidate into their banking group, was 311 billion euros in 2019, approximately 5% more than in 2018. The relative importance of this sector in the financial system (6.7%) in Spain continues to be lower than that in other advanced economies. The most relevant entities of the NBFI narrow measure in Spain would be investment funds (economic function 1), which concentrate more than 86% of total assets. Securisation vehicles (economic

[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).

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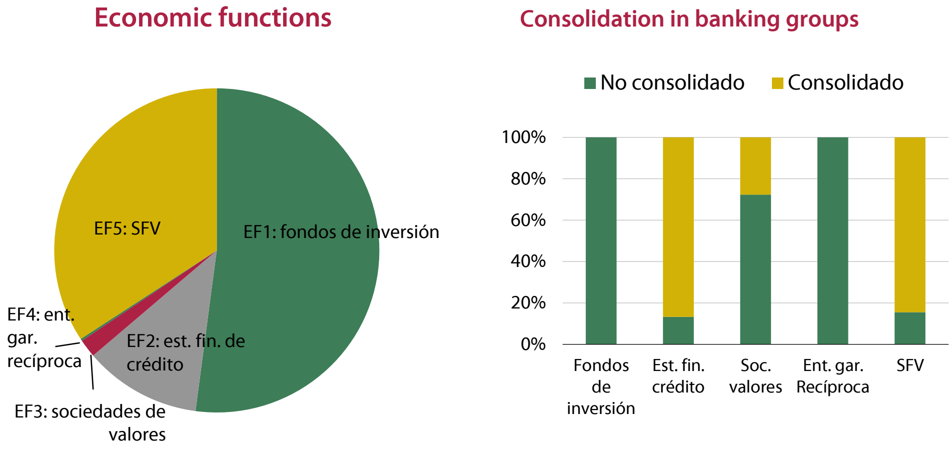
function 5) represent 8.8%, and entities belonging to other economic functions account for a mere 5%.

Distribution of non-bank financial intermediation. 2019



Source: CNMV and BoS.

Furthermore, assets of the NBFI sector in its broadest sense (all non-bank financial institutions) stood at 1.36 billion euros in 2019, an increase of 2.9% compared with the previous year, representing approximately 30% of the total financial system.

Within this sector, worthy of note is the performance of OFIs – Other Financial Institutions –, since the entities that will finally be considered for the NBFI narrow measure are obtained from this group of entities. Assets of OFIs totalled 825 billion euros in 2019, 2.2% higher than in 2018. This amount represents more than 60% of the non-bank financial sector.

The analysis of risks associated with NBFI does not reveal, for the moment, the existence of relevant weaknesses from a financial stability perspective. The most relevant risks continue to be credit risk and liquidity risk for the majority of entities within to NBFI. The perceived intensity of these risks shows little change compared with the previous year. In the specific area of investment funds, the in-depth analyses are focused on the assessment of the liquidity conditions of portfolios and the indebtedness deriving from derivative transactions. Liquidity analyses point to a slight decline in the proportion of more liquid assets, in particular in some categories, although these are still sufficient to address a potential increase in redemptions. Furthermore, calculated leverage indicators, do not show an excessive leverage for the sector as a whole, or for any other category of funds in particular.

This report contains two tables that deal with two subjects of special interest:

- The first table summarises the key results of the latest stress tests carried out by the CNMV on investment funds with information up to June 2020. These tests use a methodology based on a proposal made by the European Securities and Markets Authority (ESMA), which has been further developed with the incorporation of granular fund data and with some improvements in the modelling. The key results include the quantification of high-quality liquid assets (HQLA) of the funds, and the identification of funds that would not be able to address a specific redemption shock with the liquid assets available. The analysis reveals that under the most extreme scenario considered, only eight of the 452 funds (1.77% of the total) distributed into three categories could have liquidity problems.

- The second table details the most important investment fund liquidity management tools, their availability in various countries and their use during the markets turmoil undergone during the COVID-19 crisis. Even though there are various tools available to manage the liquidity risk of these entities, only a few of these, such as suspension of redemptions, or redemption commissions, are available to a larger extent among different European States. Spain stands out for having a larger number of tools available and also for its dynamism in their adoption, which is demonstrated by the two new tools approved since 2019. With regard to the use of tools during the crisis, at European level redemptions have been suspended in approximately one hundred funds (mainly with exposure to the real estate sector and corporate debt), while in Spain only five partial suspensions have taken place. The use of swing pricing mechanisms or valuations at bid price have also been promoted.

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