

## **Abstract**

The financial crisis of 2007–08 has drawn the attention of regulators and market participants to the severe consequences of pro-cyclicality in the financial system. While this had already been a concern during preparations for the introduction of Basel II, it seems that much still needs to be done.

The Bank of Spain, as regulator of the Spanish banking system, has approached the issue its own way, well before the discussions for the introduction of Basel II started. Several tools have been developed, the most well-known of which is dynamic provisioning. Another tool which we shall briefly review is the treatment of securitisation by the Spanish regulator. Both issues will be developed in this chapter so as to draw some lessons for other countries interested in reducing the pro-cyclicality of their financial system.