

8 INTERNAL AUDIT REPORT 2018
REPORT PROVIDED FOR IN THE CONSOLIDATED TEXT
OF THE SECURITIES MARKET LAW APPROVED BY ROYAL
LEGISLATIVE DECREE 4/2015 OF 23 OCTOBER 2015



1945. Map of the Indies, Juan de Oliva (reverse).

1. Introduction

The tenth additional provision of the Consolidated Text of the Securities Market Law (LMV, by its Spanish initials) approved by Royal Legislative Decree 4/2015 of 23 October 2015 establishes that the Banco de España shall prepare an annual report on its supervisory function, describing the supervisory actions undertaken and procedures followed, permitting information to be gained on the effectiveness and efficiency of these procedures and actions. It also provides that such annual report shall include a report by the internal control body on the conformity of the decisions taken by the governing bodies of the Banco de España with the procedural regulations applicable in each case. This annual report shall be approved by the Governing Council of the Banco de España and sent to the Spanish Parliament and Government.

The Banco de España's 2019 Annual Internal Audit Plan, approved by the Governor on 20 December 2018 and reported to the Executive Commission on 25 January 2019, includes the drafting of the report provided for in the LMV in order that it may be included in the Banco de España's Annual Report on its supervisory function, referred to above.

2. Purpose, scope and methodology of the report

This report falls within the bounds of the legal mandate contained in the tenth additional provision of the LMV which, as indicated above, defines the scope of the report, by reference to three basic elements:

- 1) The supervisory function of the Banco de España.
- 2) The decisions taken by the governing bodies in exercise of the supervisory function.
- 3) The conformity of those decisions with the procedural regulations applicable.

As regards the reporting period, the report refers to the decisions taken by the Executive Commission in 2018, and the decisions adopted by delegation and notified to the Executive Commission in 2018.

In respect of the subject matter, the report relates to the decisions taken by the Banco de España's governing bodies within the spheres of competence of the Directorate General Banking Supervision, the Directorate General Financial Stability, Regulation and Resolution, and the General Secretariat.

Regarding applicable regulations, the supervisory powers and proceedings set out in Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España and in the Internal Rules of the Banco de España were taken into account, together with those established by the Single Supervisory Mechanism (SSM) regulations (primarily Council Regulation (EU) No 1024/2013 of 15 October 2013 and Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014). In addition, through various resolutions, the Executive Commission has established the procedural rules for proposals on matters within the competence of the aforementioned Directorates General.¹

¹ – Directorate General Banking Supervision: Executive Commission resolution of 6 May 2016.

– Directorate General Financial Stability, Regulation and Resolution: Executive Commission resolution of 20 May 2016.

– General Secretariat: Executive Commission resolution of 18 April 2017.

On 2 November 2012, rules were laid down on the reporting of matters to the Executive Commission by all the Banco de España's Directorates General. These rules complement those specific to the aforementioned Directorates General.

Likewise, by means of a Resolution of 22 May 2015, the Executive Commission approved the regime governing the delegation of powers, published in the Official State Gazette of 2 June 2015,² and which provides for the delegation of signature and call-back of delegated powers.

To review the decisions adopted by the Executive Commission, stratified sampling was performed on decisions adopted by the Directorate General Banking Supervision, the Directorate General Financial Stability, Regulation and Resolution, and the General Secretariat. Different sampling fractions were applied to these strata, according to the materiality, number of decisions adopted and internal uniformity of each stratum.

The work was performed in accordance with the Internal Audit Manual, which includes the International Standards for the Professional Practice of Internal Auditing, approved by the Institute of Internal Auditors, including those relating to the Code of Ethics.

3. Opinion

In our opinion, the decisions taken by the governing bodies of the Banco de España in 2018 in the exercise of its supervisory function, were taken by bodies with sufficient own or delegated powers in accordance with the Banco de España's Internal Rules and with the provisions laid down by its Executive Commission, and conform, in all material aspects, with the procedural rules applicable in each case.

Madrid, 28 February 2019

Director of the Internal Audit Department,

[Firma digital]

Luis E. Pardo Merino

GOVERNOR OF THE BANCO DE ESPAÑA

DEPUTY GOVERNOR OF THE BANCO DE ESPAÑA

² Modified by the Resolutions of the Executive Commission of 11 January 2017 (published in Official State Gazette No. 15 on 18 January 2017), of 23 March 2018 (published in Official State Gazette No. 88 on 11 April 2018) and of 20 November 2018 (published in Official State Gazette No. 291 on 3 December 2018).