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Functions of the Banco de España in the new European context

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Ladies and gentlemen,

Allow me first to thank the Committee for Economic Affairs for calling me to report on the organisation and functions of the Banco de España following the start-up on 4 November of the Single Supervisory Mechanism (SSM).

The launch of the SSM naturally marks a deep-seated change in banking supervision procedures and in the distribution of the attendant responsibilities in the euro area countries.

After discussing the main characteristics of the SSM, I shall turn to how the Banco de España is affected in terms of its competences, workload, relationship to the European Central Bank, staffing needs and relations with other participating supervisory authorities. But first I should like to summarise some key figures relating to Banco de España staff and operating expenses compared with other Eurosystem central banks that are participating in the new European supervisory arrangements.

The Banco de España within the framework of the Eurosystem

As at 1 January 2014, total Banco de España staff numbered 2,652, 4.3% down on 2008. 84% of its employees work in Madrid, and 16% in the regional branches (of which there are 15 at present). A significant portion of the staff work outside the Bank, on secondment or on special or obligatory leave (i.e. not voluntary leave). Overall, 193 employees are currently in this situation.

Banco de España employees account for 5.6% of total Eurosystem staff.

Having regard to the proportion accounted for by our employees in total Eurosystem staff (5.6%) and our weight in the capital of the ECB (11.8%), the Banco de España ranks first among the euro area central banks, i.e. the ratio of one figure to the other is the lowest in the entire Eurosystem; and the same applies if the comparison is made not with the share in ECB capital but with the size of the euro area central banks' balance sheets.

Moving from staff to personnel costs, the latter totalled €218 million in 2013, representing 0.06% of our total balance sheet, compared with 0.14% in the case of the European Central Bank, which is the same percentage as that for the entire Eurosystem. The Banco de España also ranks first for this ratio (i.e. the lowest proportion) among the euro area central banks.

If we compare operating expenses, i.e. including personnel costs, administrative expenses, depreciation of tangible fixed assets and banknote production, in relation to the balance sheet total, the proportion for the Banco de España in 2013 was 0.12%, which is also the lowest

among the group of the six national central banks with the biggest balance sheets in the Eurosystem.

In short, on the basis of these data the Banco de España can be said to score highly, comparatively speaking, from the standpoint of the efficient use of its resources.

The Directorate General for Banking Supervision is the business area in the Bank most affected in terms of functions and human resources owing to the start-up of the SSM, though it is not alone in this. It had a staff of 416 at the start of 2013, 16% of our total employees, 373 of whom were managerial staff (222 were bank examiners) and 43 belonging to other areas of professional specialisation. As I shall now explain, it is naturally this area that has been and should continue in the future to be the focus of the efforts to adapt to the SSM.

The functioning of the SSM

Let me very briefly describe the core characteristics of the SSM.

The new banking supervisory authority has two components: the European Central Bank, accommodating the new Supervisory Board, and the national supervisory authorities.

It makes sense for the SSM to be called a “mechanism” because what is actually involved is an institution made up of different interconnecting cogs and wheels. The Mechanism is based on cooperation arrangements entailing decision-making by the Supervisory Board and, ultimately, by the ECB Governing Council, which remains the maximum decision-making body, and by the national supervisory authorities, which continue to play an essential role, since they will provide most of the human and material resources for the Mechanism and combine the experience and knowledge of the different national banking systems.

The banks of the countries participating in the SSM have been divided into two groups of significant and less significant institutions. The ECB will exert “direct supervision” over the former; as regards the latter, it merely assumes “indirect supervision” functions, as the national authorities will in fact continue to be responsible for their effective supervision.

A list of 120 significant banking groups has been drawn up, accounting for approximately 85% of euro area bank assets. 15 of these are Spanish groups, representing around 90% of the assets of our country’s deposit institutions. It should be borne in mind that when we talk about 120 groups, we are referring to consolidated groups; that is to say, the number of individual banks is far higher. In total there are 1,244 individual institutions, which is essentially explained by the importance of cooperative banks in certain euro area countries, in particular France, the Netherlands, Austria and Finland.

To directly supervise the significant banks, the ECB has created two directorate generals, which shall perform the **continuous monitoring** of the 120 groups. DG I will supervise the 30

biggest banks in terms of balance sheet and activities, while DG II will cover the remaining 90 significant banks. However, the supervision of specific aspects or matters, what is known as **on-site inspection**, will be carried out by different teams. The ECB has thus adopted a different model to that place at the Banco de España to date: functionally separating the **continuous** monitoring of banks and inspection **visits**.

The centrepiece of the supervision of significant banks will be the Joint Supervisory Teams, responsible for the day-to-day oversight of these banks. These teams will be made up of specialists from the ECB and from the national authorities, under the leadership of a coordinator designated by the ECB, and a sub-coordinator designated by the national supervisor. Approximately 75% of those making up the teams will be drawn from and designated by the national supervisors; in the case of Spanish banks, it will of course be staff from the Banco de España.

Inspection visits to significant banks, what is known as on-site inspection, will continue to be conducted by the national authorities, and their results will be passed onto the ECB for the adoption of the appropriate measures.

With regard to the less significant banks, national authorities will continue to directly supervise them as they have to date. Over 3,600 banks across the euro area are involved here. The ECB will define common practices and criteria, it will monitor the actions and position of these banks and it will always be entitled, if it considers it necessary, to re-claim direct supervision over any of these banks.

The competences and responsibilities of the Banco de España in the framework of the new Mechanism

I would now like to address the competences and responsibilities of the Banco de España, as a national supervisor, under the new Mechanism.

First, with regard to significant Spanish banks, the Banco de España, in addition to providing its experience and most of the staff of the joint supervisory teams, will shoulder the weight of on-site inspections, it will participate in the preparation of all the decisions to be adopted by the ECB Supervisory Board and it will be active in the exercise of its sanctioning powers.

As regards the sanctioning regime, it should be stressed that the European Central Bank will be responsible for imposing sanctions, provided that three requirements are met: that the sanction is imposed on the credit institution, i.e. on the legal person; that it stems from non-compliance with directly applicable European Union legal rules; and that the sanctions are of a pecuniary nature. In the remaining cases, power will continue to be exercised by the national supervisory authorities, without prejudice to the ECB being able to demand that the appropriate proceedings be initiated.

Second, as stated, the Banco de España will continue to be fully responsible for the supervision of the 81 credit institutions deemed less significant.

Third, the entry into force of the Mechanism will entail the need to conduct new activities and develop new functions: the monitoring of the banking systems of the remaining euro area countries, which is needed to underpin the Banco de España's place on the Supervisory Board; participation in the definition of the Mechanism's supervisory policies and in the administrative procedures in relation to the significant banks; and also collaboration in the performance of other horizontal and specialised supervisory functions developed by the SSM.

Fourth, there are certain areas of banking activity whose supervision will not be assumed by the Mechanism, but will continue to be within the remit of the national authorities. The Banco de España will thus continue to exercise supervisory powers in the areas of money laundering prevention, consumer protection and, partly, in the oversight of financial markets. It will also retain the supervision of banking foundations within its sphere of competence, that is to say having regard to regional governments.

Fifth, the Banco de España, like the other national supervisory authorities participating in the SSM, fully retains its supervisory powers over non-bank financial institutions, other financial institutions and entities related to the financial sector such as payment institutions, electronic money institutions, credit financial intermediaries, mutual guarantee companies, currency-exchange bureaux and appraisal companies.

In short, with the launch of the SSM, the main centre of supervisory decision-making on significant Spanish banks has passed from the Banco de España to the ECB. But this does not mean that there are no important tasks for the Banco de España – or other participating countries' national supervisors – to perform in the SSM, in addition to the functions that remain intact as they are not assumed – or are assumed only partially or in exceptional circumstances – by the SSM.

In recent months there has been talk of the Banco de España becoming devoid of its powers. This reflects a lack of knowledge or misunderstanding of how the SSM is organised and how it will operate and is reminiscent, in a sense, of the talk afoot when Monetary Union came into being and the ECB assumed responsibility for the main monetary policy decisions.

The model then adopted entailed full decentralisation of monetary policy implementation. This meant that it relied on the national central banks for its implementation (in fact, credit and deposit institutions have no direct operational relationship with the ECB) and that in practice, although the ECB assumed decision-making powers, there was no decrease in either the workload or the staffing needs of the national central banks.

Albeit for different reasons, the start-up of the SSM is expected to have a similar impact on workload and staffing needs at the Banco de España and at the other national supervisory authorities.

In any event, the creation of the SSM poses an organisational challenge for the national authorities. Since 2013, and in addition, naturally, to our contribution to the preparatory work, we have been working hard at the Banco de España in two directions:

- a) first, to adapt our structure to the new needs; and
- b) second, to encourage the presence of experts from the Banco de España at the ECB.

A few weeks ago a reform of the Directorate General Banking Supervision was approved, designed to create a structure that mirrors that of the ECB, to facilitate interaction between the two authorities and achieve efficient management of resources.

The new organisation replicates the arrangements envisaged by the ECB: two departments will be responsible for ongoing supervision of the significant banks, a third will be responsible for the less significant banks, and a fourth will perform the so-called “horizontal” tasks, in addition to on-site inspections of the significant banks.

To underpin the position of the Banco de España’s representatives on the SSM’s governing bodies, a new SSM Coordination Service was created in February , which will be responsible for analysing and monitoring non-Spanish significant banks.

Regarding the Spanish presence in the SSM, our experts have been very successful in the ECB selection processes, both at senior management and junior analyst levels, which testifies to their excellent qualifications and vast experience.

One of the SSM’s four directors general and two of its seven deputy directors general are from the Banco de España, while by the end of this year almost 100 Spanish experts will have joined the SSM as junior analysts or managers, almost all of them from the Banco de España. Of the 102 management posts corresponding to the SSM’s top six management levels (which include directors general, deputy directors general, directors, heads of division, deputy heads of division and head of section), 19 are from the Banco de España, making it the national supervisory authority that has supplied the most managers.

Naturally, as a result, we have had to fill the gaps left by the staff who have moved to the ECB.

On our estimates, the target staffing level in the Directorate General Banking Supervision in order to meet the needs of the new supervisory model is approximately 440, which is virtually

the same as before the launch of the SSM. The Banco de España has already set in motion the selection and hiring processes to fill these vacancies.

To conclude, I would like to sum up my address in three points.

First, the creation of the Banking Union is, without doubt, the most ambitious European project undertaken since the launch of Economic and Monetary Union. It is the first step in a new phase of economic integration, establishing a more robust institutional and regulatory framework that will help restore confidence in banks, safeguard financial stability and lay the foundations for more stable economic growth.

Second, the new model, which relies to a great extent on national supervisors, will not entail a decrease in the workload or, therefore, in the staffing needs of the participating countries' authorities, or in the importance of their work. This will also be the case for the Banco de España.

And third, the Banco de España has already made the necessary changes in the organisation of the Directorate General Banking Supervision, to adapt its structure to the needs and arrangements that the SSM requires. Moreover, it has also begun to implement the changes needed in its working methods and systems in order to contribute, as effectively as possible, to the operation of the euro area's new supervisory structure. But we are still at the early, founding stages of the SSM. And foreseeably for some time, even for some years, adjustments and changes will have to be made to the different components of our supervisory arrangements, both in terms of organisation and of working procedures and staffing levels.

Thank you.