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Report envisaged in Law 44/2002 on Financial System Reform Measures

2014

1. Introduction

The Second Additional Provision of Law 44/2002 of 22 November 2002 on Financial System Reform Measures established, in consonance with its name, certain measures to improve the efficiency, effectiveness and quality of supervision procedures.

These measures comprise most notably the obligation of supervisory agencies, including the Banco de España, to prepare annually “a report on their supervisory function”. This report shall include “a report by the respective internal control bodies on the extent to which the decisions taken by their governing bodies conform to the procedural rules applicable in each case”.

The 2015 Internal Audit Plan of the Banco de España, approved by the Governor on 23 December 2014 and notified to the Executive Commission on 15 January 2015, includes the drafting of the report envisaged in Law 44/2002 of 22 November 2002 on Financial System Reform Measures, so that it may be included in the Banco de España’s annual report on its supervisory function.

2. Purpose, scope and methodology of the report

This report falls within the bounds of the legal mandate contained in the Second Additional Provision of Law 44/2002. As mentioned above, this Second Additional Provision 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. Conformity of the foregoing decisions to the procedural rules applicable.

As regards the reporting period, the report refers to the decisions taken by the Executive Commission in 2014 and the delegated decisions of which the Executive Commission was notified in that period.

The subject matter of the report is 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 Banking Regulation and Financial Stability¹, and the General Secretariat.

Regarding applicable legislation, account was taken of the supervisory powers and procedures contained 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.

Also, the Executive Commission established, via a resolution of 14 February 2003, the procedural rules for proposals on matters within the competence of the Directorate General Banking Supervision. These rules were updated by a resolution dated 8 April 2014. In addition, the Executive Commission approved, via resolutions of 30 June 2006 and 18 July 2008, the

¹ On 29 April 2015, this directorate was renamed Directorate General Financial Stability and Resolution. However, the previous name is used in this document as it was the name in force during the audit period.

procedural rules for proposals on matters within the competence of the Directorate General Banking Regulation and Financial Stability and, via resolution of 29 September 2014, the procedural rules for proposals from the General Secretariat to the Executive Commission.

On 2 November 2012, rules were laid down on the reporting of matters to the Executive Commission by all the Directorates General of the Banco de España. These rules are complementary to those mentioned above for the Directorate General Banking Supervision, the Directorate General Banking Regulation and Financial Stability, and the General Secretariat.

Similarly, via a resolution of 18 December 2009, the Executive Commission approved the regime governing the delegation of powers, which was published in the Official State Gazette of 5 January 2010 and envisages that delegates may in turn delegate their powers and, consequently, also provides for recovery of competence by a higher administrative level. This resolution was amended² in 2011, on 23 November and 23 December³, in 2013, on 25 January, 16 April, 27 June and 29 July⁴, and in 2014, on 30 April, 29 September and 5 December⁵.

In order to review the decisions adopted by the Executive Commission, stratified sampling was performed in 12 strata or types of decision taken by the Directorate General Banking Supervision, in 14 strata or types of decision taken by the Directorate General Banking Regulation and Financial Stability and in 14 strata or types of decision taken by the General Secretariat. Different sampling fractions were applied to these strata depending on the materiality, numerical volume and internal homogeneity 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 2014 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 are in conformity, in all material respects, with the existing procedural rules applicable in each case.

Madrid, 3 June 2015
Director of the Internal Audit Department



Juan González Gallegos

THE GOVERNOR OF THE BANCO DE ESPAÑA
THE DEPUTY GOVERNOR OF THE BANCO DE ESPAÑA

² The amendments listed are those relevant to 2014.

³ Official State Gazettes of 2 December 2011 and 24 December 2011, respectively.

⁴ Official State Gazettes of 5 February 2013, 25 April 2013, 29 June 2013 and 31 July 2013, respectively.

⁵ Official State Gazettes of 10 May 2014, 1 October 2014 and 10 December 2014, respectively.