

1 ORGANISATION OF BANKING SUPERVISION IN SPAIN

1.1 Supervisory functions of the Banco de España

1.1.1 AS PART OF THE SINGLE SUPERVISORY MECHANISM

On 4 November 2014 the Banco de España joined the SSM, which exercises the prudential supervision of the more than 4,500 credit institutions of the 19 countries in the euro area. In order to exercise its functions, the new European supervisor has organised itself as an integrated system, made up of the ECB and the National Competent Authorities (NCAs), including the Banco de España. The NCAs contribute substantially to the functioning of the SSM, since they provide resources, supervisory experience and their superior knowledge of the domestic banking systems and institutions.

Membership of the SSM involves the Banco de España's participation in the decision-making relating to all the credit institutions of the euro area, channelled via its representation on the SSM Supervisory Board and the ECB Governing Council. In its first full year, the Supervisory Board adopted (or proposed for final approval by the Governing Council) more than 1,500 supervisory decisions. The bulk of those decisions were adopted through written procedures, which supplement physical meetings, enabling recurring or previously addressed matters to be expedited. With regard to Spanish institutions, a total of 351 supervisory decisions and actions were recorded, which either addressed the Spanish institutions specifically (188 decisions), or were more general in nature or dealt with matters of organisation and policies also affecting them (the remaining 163 decisions).

In the framework of the SSM a distinction should be drawn between two types of institution, based on criteria of size, economic significance and cross-border activity: "significant" institutions and "less significant" institutions. The ECB is responsible for the direct supervision of significant institutions, while the NCAs are responsible for the direct supervision of less significant institutions. However, even in cases where they are not directly responsible, both the ECB and the NCAs participate in the supervision of all institutions.

Thus, although the ECB is responsible for the direct prudential supervision of significant Spanish credit institutions, the Banco de España contributes notably to both the ongoing monitoring tasks and the on-site inspections of those institutions.

Ongoing monitoring is performed through the Joint Supervisory Teams (JSTs). The JSTs are made up of staff from the ECB and the Banco de España, and they are headed by an ECB coordinator assisted by a sub-coordinator from the Banco de España. In the case of groups of Spanish institutions with a presence in other SSM countries, and Spanish subsidiaries of groups of institutions of other SSM countries, the JSTs also have staff from other NCAs and a sub-coordinator from each of those countries.

The Banco de España participates in the JSTs of the 14 groups of Spanish credit institutions classified as significant according to the SSM criteria and in the JSTs of 22 significant foreign banking groups established in Spain (8 via subsidiaries and 14 via branches). At 2015 year-end, the Banco de España contributed 155 bank examiners and junior analysts to the JSTs of the Spanish banks, representing around 70% of the total staff assigned to those JSTs.

Also, the Banco de España plays a key role in the on-site inspections of Spanish significant institutions, and it contributed 95% of the staff assigned to the inspections performed in 2015. Those inspections were headed mainly by Banco de España staff.

1 ONGOING MONITORING

2 ON-SITE INSPECTIONS



SOURCE: Banco de España.

As regards the supervision of less significant institutions, the Banco de España is responsible for their direct supervision and the ECB maintains indirect supervisory powers.

Also, the Banco de España cooperates with the ECB in dealing with the so-called “common procedures” relating to both significant and less significant institutions. Those procedures are the authorisation of credit institutions, authorisation of qualifying holdings and withdrawal of licences. The Banco de España performs the first analysis of the procedures considered and prepares a draft decision. Subsequently, on the basis of that draft decision and other actions it deems relevant, the ECB adopts the final decision.

Furthermore, the Banco de España participates in various working groups and numerous expert networks, most of which are coordinated by the ECB, for the discussion and proposal of supervisory policy and technical criteria. In 2015 the Banco de España participated actively in 55 of the no fewer than 80 horizontal groups organised within the SSM sphere.

At 2015 year-end, the SSM supervisory framework covered 129 groups of significant institutions within the scope of the SSM, which comprise a total of 1,117 individual institutions, including holding companies. In addition, at the individual level there are a further 3,466 institutions classified as less significant. Of the 129 largest banking groups, 14 are headed by a Spanish institution¹ (15 in 2014, before Catalunya Banc was merged into BBVA). Those 14 Spanish groups are made up of 79 individual institutions of euro area countries, 57 of which are Spanish, and they represent 15% of the total assets of the 129 significant institutions of the SSM, behind only Germany and France. Additionally, there are a further 8 significant foreign groups in which Spanish subsidiaries hold ownership interests. The institutions supervised directly by the ECB account for around 96% of the Spanish banking system’s assets.

The Spanish credit institutions also comprise 73 less significant groups, including branches supervised directly by the Banco de España in the framework of the SSM. Table 1.1 shows the distribution of the Spanish credit institutions into those three groups.

¹ Santander, BBVA, La Caixa, Bankia, Sabadell, Popular, Unicaja, Bankinter, Kutxabank, Ibercaja, Abanca, Liberbank, BMN and Banco de Crédito Social Cooperativo.

Figures at December 2014 and 2015	2014		2015	
	Groups	Assets (%)	Groups	Assets (%)
Groups of significant Spanish institutions	15	94.9	14	95.6
Foreign groups of significant institutions in which Spanish sub-groups participate	8	0.6	8	0.6
Groups of less significant Spanish institutions (a)	75	4.5	73	3.8
TOTAL	98		95	

SOURCES: ECB and Banco de España.

a Including 11 branches in 2015 and 12 in 2014 of non-euro area EU banking groups, not supervised by the SSM. The number of groups of less significant institutions without including branches amounts to 62 in 2015 and 63 in 2014. It includes groups and individual institutions that are not part of groups.

1.1.2 OTHER SUPERVISORY
TASKS OF THE BANCO
DE ESPAÑA NOT
TRANSFERRED
TO THE SSM

In addition to the above-mentioned supervisory tasks in the framework of the SSM, the Banco de España performs the following supervisory functions:

- 1 The supervision of credit institutions in areas not attributed to the ECB, in cooperation —where appropriate— with other national authorities, such as: the oversight of institutions' conduct in matters relating to information transparency and customer protection in the marketing of products and provision of services common to banks; the prevention of money laundering², in cooperation with the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC); or the control of activities relating to the financial markets, in cooperation with the National Securities Market Commission (CNMV).
- 2 The imposition of certain penalties.
- 3 The activation of the macroprudential procedures provided for in the Fourth European Capital Requirements Directive.
- 4 The supervision, within the scope established in Spanish legislation, of institutions other than credit institutions that provide services or perform activities related to the financial sector, such as: specialised lending institutions, mutual guarantee companies, reguarantee companies, appraisal companies, payment institutions, electronic money institutions, currency-exchange bureaux, banking foundations and Sareb.
- 5 The supervision of branches of third-country credit institutions.

Schema 1.1 summarises the Banco de España's various supervisory functions.

² In Spain, the authority responsible for the supervision and inspection of compliance with prevention of money laundering obligations and for the adoption of the necessary measures in the event of non-compliance is the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC). The Banco de España cooperates in the actions relating to that matter, in accordance with the cooperation arrangement established in Law 10/2010 of 28 April 2010 and in the agreement signed with SEPBLAC in 2013.

FUNCTIONS WITHIN THE SSM CONTEXT	
Relating to Spanish significant institutions Participation in ongoing monitoring Participation in on-site inspections	On Spanish less significant institutions Direct supervision of less significant institutions
Common procedures: participation in authorisations, qualified holdings and licence withdrawals procedures	
General functions (Spanish institutions and also from other SSM countries) Participation in supervisory decision-making process (on the Supervisory Board) Participation in horizontal tasks (through expert networks and specialised working groups)	
FUNCTIONS OUTSIDE THE SSM CONTEXT	
Non-transferred areas relating to the supervision of credit institutions Supervision of procedures to prevent money laundering, in collaboration with the SEPBLAC Supervision of market conduct, transparency and customer protection Supervision of activities relating to the securities markets, in cooperation with the CNMV Activation of macroprudential procedures, in cooperation with the ECB	
Supervision of other financial institutions Specialised lending institutions, mutual guarantee companies, reguarantee companies, appraisal companies, payment institutions, electronic money institutions, currency-exchange bureaux, banking foundations, SAREB and branches from third countries	

SOURCE: Banco de España.

1.2 Organisation of banking supervision in the Banco de España

The entry into force of the SSM brought about a very significant change in the European supervisory model. It is a more complex model that brings together different supervisory cultures and encompasses a high number of institutions. In view of this new scenario, the Banco de España has adapted its organisational structure in order to participate in this new mechanism in the most efficient manner.

Set out below is a description of the distribution of functions relating to supervision among the Banco de España's different directorates general and departments, the main organisational changes made in 2015 and the changes in the Banco de España's human resources.

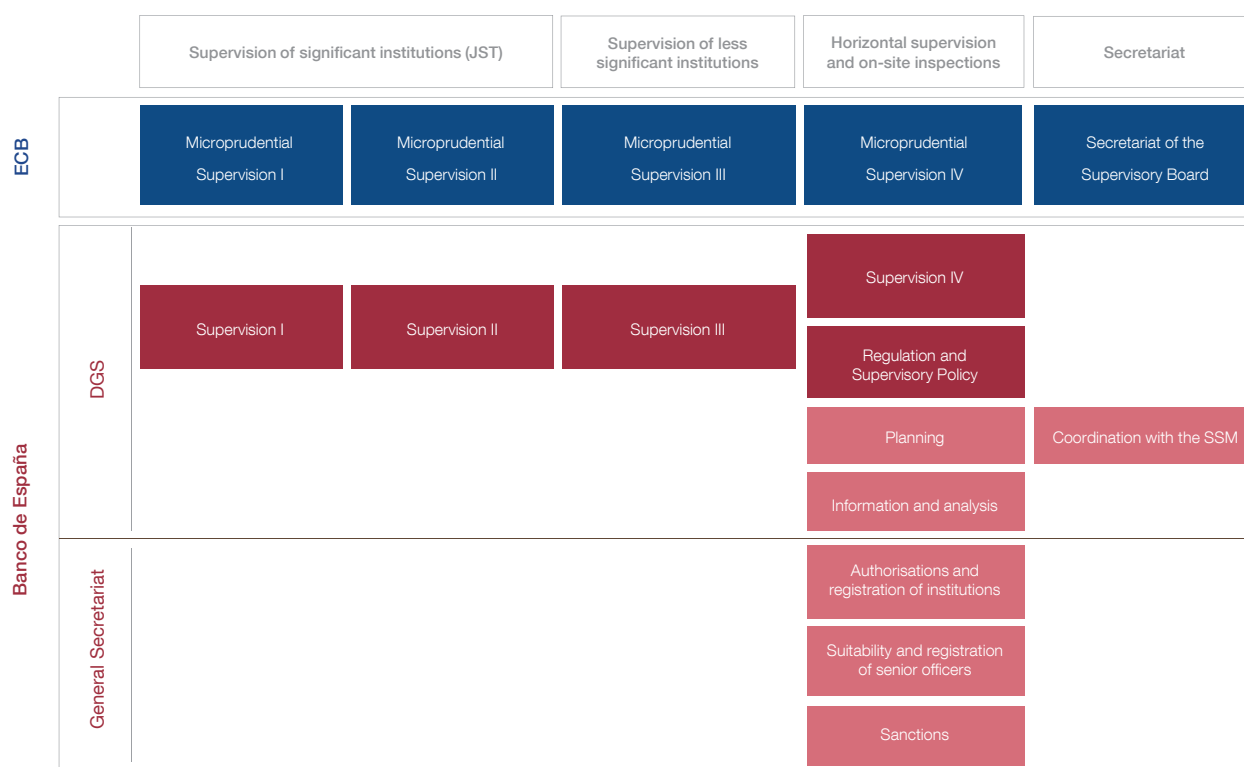
1.2.1 DISTRIBUTION OF FUNCTIONS RELATING TO SUPERVISION

Within the Banco de España, the Directorate General Banking Supervision (DGS) is responsible for the microprudential supervision of the credit institutions and other institutions over which it has supervisory powers, in coordination with other directorates general and departments with related functions. In 2014 various organisational changes were made in the DGS to create a "mirror" structure of the ECB structure, with a view to smoothing interaction with each of its four directorates general³. Schema 1.2 shows the organisational structure of the Banco de España in relation to that of the ECB.

Within the DGS there are four operating departments and other services and departments with horizontal functions:

- *Supervision Departments I and II*: responsible for the ongoing or day-to-day supervision of SSM significant institutions with Spanish parents through the JSTs.

³ It should be noted that the horizontal tasks that the ECB has assigned to the Directorate General Microprudential Supervision IV are distributed among various administrative units in the Banco de España.



SOURCE: Banco de España.

- *Supervision Department III*: responsible for the ongoing supervision and on-site inspections of the SSM less significant Spanish institutions and significant Spanish institutions belonging to groups with non-Spanish parents, and the supervision of other financial institutions or institutions with functions related to the financial sector.
- *Supervision Department IV*: carries out specialised or horizontal tasks that affect all institutions under the direct supervision of both the ECB and the Banco de España, such as, for example, actions in the areas of technological innovation, regulatory compliance and custody services. Also, it performs on-site inspections of significant institutions and reviews of the internal capital models of Spanish institutions.
- *Regulation and Supervisory Policy Department*: includes functions relating to:
 - i) the technical secretariat, which contributes to the definition of supervisory and regulatory policies;
 - ii) banking regulation, e.g. the implementation and interpretation of banking accounting legislation and prudential legislation; and
 - iii) coordination of the Banco de España's participation in the European Banking Authority (EBA) and cooperation with Spanish and international bodies and fora on matters relating to its scope of action.
- *SSM Coordination Service*: created in March 2014, it supports the representative of the Banco de España in participating in the SSM Supervisory

Board for supervisory decision-making. Similarly, it is responsible for the internal organisation, distribution and monitoring of the information received in the SSM sphere at this level.

- *Supervisory Planning Service*: performs horizontal functions relating to: i) the preparation and monitoring of the supervision framework and annual plan; ii) supervisory methodology and Pillar 2; iii) the quality control of supervisory actions; and iv) the hiring and training of DGS employees.
- *Information and Analysis Group*: focuses on the computer processing of the financial information received from institutions with a view to facilitating their analysis by the monitoring and on-site inspection teams. Also, it carries out specific analyses of the developments in the Spanish financial system and its main risks.

Within the General Secretariat, the following divisions and departments exercise functions relating to supervision:

- *Suitability Assessment and Individuals Register Division*: responsible for assessing the compliance with the suitability requirements of board members, managing directors and similar officers of the institutions under direct supervision of the Banco de España or the ECB (in the case of the latter, the work is performed in cooperation with the ECB, which is responsible for approving or rejecting these procedures). Also, it is responsible for maintaining the Senior Officer Register, in which the aforementioned persons are registered.
- *Authorisations and Institutions Register Division*: participates in the granting and withdrawal of the authorisation of institutions subject to the direct supervision of the Banco de España or the ECB. Also, it is responsible for maintaining the Institutions Register.
- *Division for Sanctioning Proceedings and Collaboration with Jurisdictional Bodies*: responsible for instructing disciplinary proceedings corresponding to the Banco de España.
- *Market Conduct and Claims Department*: it has supervisory powers over the issue of banking transparency and the protection of institutions' customers.

Also, there are other areas within the Banco de España which participate in supervisory tasks. In particular, the Directorate General Financial Stability and Resolution has functions relating to supervisory activity through the following departments:

- *Financial Stability Department*: analyses the financial system from a macroprudential point of view.
- *Financial Reporting and CCR Department*: defines, receives, validates and acts as custodian of the information submitted periodically to the Banco de España by the institutions subject to supervision by it or by the ECB.

In 2015 there were major changes in the organisation of the supervisory activity in the Banco de España, the most significant of which are discussed below:

- 1 *Creation of the Regulation and Supervisory Policy Department.* The functions relating to the implementation and interpretation of banking accounting legislation and prudential legislation and the coordination of the Banco de España's participation in the EBA have been assigned to the DGS. Until April 2015 these functions corresponded to the former Directorate General Regulation and Financial Stability. This new department groups together the aforementioned functions plus the tasks relating to the provision of support to the Supervision departments and the DGS in matters of regulation and supervisory policy.
- 2 *Split in the Surveillance and Inspection of Institutions' Conduct Unit.* The Surveillance and Inspection Unit (of the Market Conduct and Claims Department) was divided into the Inspection Unit, on the one hand, and the Surveillance Unit, on the other hand, and they have worked in tandem since June 2015. Also, their resources have increased, since one of the lessons learned from the recent banking crisis is the need to dedicate more resources to supervising transparency in the marketing of complex financial products.
- 3 *Split in the Institutions and Individuals Register Division into the Authorisations and Registration Division and the Suitability Assessment and Individuals Register Division,* both within the Deputy General Secretariat, with an increase in resources and the incorporation of the Authorisations Unit, which previously formed part of the Directorate General Regulation and Financial Stability. All of the foregoing has strengthened those functions, reinforcing synergies and bringing them into line with the SSM framework.

1.2.3 STAFF

The implementation of the SSM has affected the DGS staff significantly. Around 80 persons who belonged to the DGS have joined the ECB within the SSM structure. This poses a major challenge in terms of human resources, especially in view of the necessary adaptation to new common procedures and methodologies, the need to work in English and the significant regulatory changes in the banking sector in recent years.

Against this backdrop, the DGS has followed a two-pronged strategy. On the one hand, with a view to maintaining the high professional profile of its staff, numerous training actions have been carried out, adapted to the new supervisory situation, at both the Spanish and international level. Thus, the Banco de España offers the DGS staff an extensive annual internal training programme, with the objective of disseminating and refreshing the technical knowledge essential for performing supervisory work. Also, in cooperation with various international supervisory bodies (ECB, Basel Committee, EBA, etc.), the Banco de España also offers its examiners various courses and workshops abroad, with the aim of completing and reinforcing their training as much as possible. Lastly, considerable training actions have been performed to maintain and, where necessary, improve the DGS staff's command of English, which is essential in the new European supervisory framework.

Moreover, in recent years the number of positions advertised each year to join the team of inspectors of credit institutions has risen rapidly. In the coming years the current number

Number

	Directorate General Banking Supervision (a) (b)	Directorate General Financial Stability and Resolution	Market Conduct and Claims Department (c)	Deputy General Secretariat
Directors and other managers	48	27	9	5
Bank examiners/Inspection auditors	217	4	4	
Senior analysts/lawyers/experts	26	42	23	10
IT auditors	43	0	2	
Junior analysts	103	59	35	14
Administrative staff	52	16	12	11
TOTAL	489	148	85	40

SOURCE: Banco de España.

- a The staff of the Directorate General Banking Supervision have the following functions:
- 155 persons have functions relating to the ongoing supervision of significant institutions conducted through joint supervisory teams set up by the SSM.
 - 27 persons have functions relating to the ongoing supervision of less significant institutions supervised directly by the Banco de España and indirectly by the ECB.
 - 22 persons have functions relating to institutions whose supervision has not been taken on by the ECB.
 - 102 persons have functions relating to the performance of on-site inspections or the review of models.
 - 109 persons have cross-departmental functions.
 - 74 persons have other functions.
- b In April 2015, Executive Commission of Banco de España approved a reorganisation in Directorate General Supervision, creating Department of Regulation and Supervisory Policy and increasing the staff by 38 people.
- c Of the total staff in the Market Conduct and Claims Department, 27 employees (Director and 26 assigned to Conduct Oversight Division) have direct functions relating to supervision.

of positions —around 25 per year— is expected to be maintained, as compared to the 12-15 positions advertised in the past.

It should be noted that, although the number of positions has increased, the selection process is still as demanding, so that the hiring of highly qualified persons is ensured. The selection process has two stages: i) a selection stage, in which the candidates have to show their knowledge of accounting, the financial system, financial mathematics, statistics and commercial law, as well as their command of the English language; and ii) a training-selection phase, with a duration of approximately 10 months, conducted by teaching staff of renowned academic institutions, practitioners from the financial sector and Banco de España professionals. Approximately 25% of the course is delivered in English and it covers a wide variety of subjects, including accounting, financial markets and risks, financial supervision, commercial and banking legislation, financial and economic analysis and quantitative methods.

It is estimated that in approximately four or five years the DGS's permanent staff numbers will once again be at full capacity. In the last two years around 100 persons have joined the DGS on temporary contracts.