

1 ORGANISATION OF SUPERVISION IN SPAIN



1884. Juan Álvarez de Mendizabal (front) © Banco de España.

1 ORGANISATION OF SUPERVISION IN SPAIN

1.1 Supervisory functions of the Banco de España

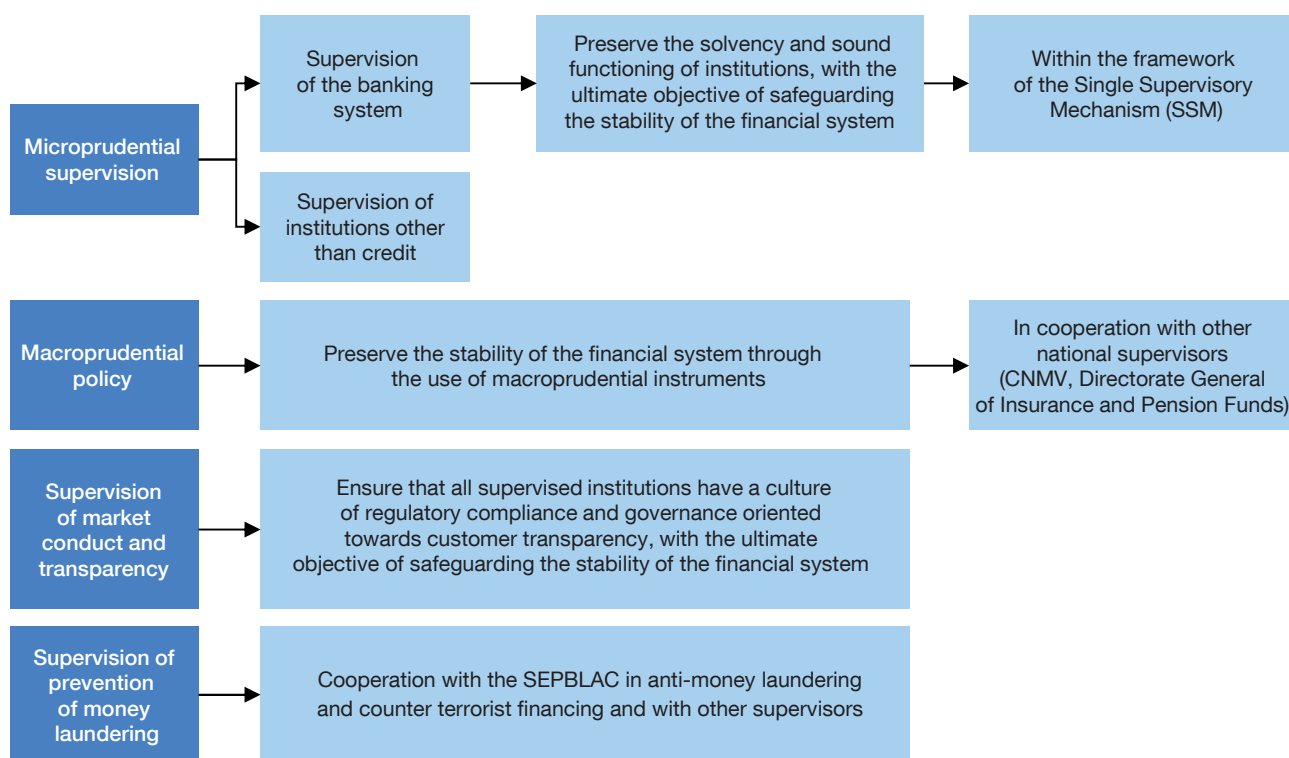
The Banco de España has broad supervisory powers aimed at ensuring the solvency and smooth functioning of financial intermediaries and at safeguarding the stability of the financial system. Figure 1.1 has a breakdown of these functions.¹

The functions relating to microprudential supervision of credit institutions come under the SSM, which is entrusted with the supervision of the credit institutions of the EU Member States belonging to the euro area or those which, while not belonging to the euro area, decide to be part of the SSM.² In this respect, in July 2018 Bulgaria became the first country to request close cooperation with the ECB, with a view to joining the SSM.

The SSM is the first pillar of Banking Union, which was promoted in the wake of the 2008 financial crisis. Banking Union consists of three essential elements: i) a single supervisory mechanism led by the ECB and in which the national competent authorities participate; ii) a single resolution mechanism, comprising a central resolution body (the SRB) and the national resolution authorities of each member country; and iii) a common deposit guarantee scheme which has yet to be implemented. In addition to these three elements

SUPERVISORY FUNCTIONS OF THE BANCO DE ESPAÑA

FIGURE 1.1



FUENTE: Banco de España.

¹ The part of this supervisory function relating to oversight of the correct functioning of payment systems is dealt with in the Banco de España's Annual Report on the Oversight of Financial Market Infrastructures (*Memoria Anual sobre la Vigilancia de las Infraestructuras de los Mercados Financieros*, available only in Spanish). This function is performed by the Directorate General Operations, Markets and Payment Systems.

² For information on the supervisory activities of the SSM, see the ECB's Annual Report on supervisory activities published in the first quarter of each year.

Tasks assigned to the ECB within the SSM	Tasks assigned to NCAs within the SSM
Direct supervision of significant institutions (SIs).	Assistance to the ECB for SI supervision: participation in JSTs and in on-site inspections.
Indirect supervision of less-significant institutions (LSIs).	Direct supervision of LSIs.
The common procedures are the responsibility of the ECB, with proposal by the NCAs: granting and withdrawal of authorisations to/from CIs and of authorisations to purchase/sell qualifying holdings in CIs.	Preparation of proposals for SIs and LSIs.
SIs: sanctioning powers in the event of non-compliance with directly applicable EU law, except non-pecuniary penalties and penalties on natural persons. LSIs: sanctioning power in the event of non-compliance with an ECB decision or regulation.	SIs: sanctioning powers, upon prior examination by the ECB, for non-compliance with national laws transposed from Community directives; for infringements by directors and managers; and for non-pecuniary penalties. LSIs: powers to sanction LSIs for other non-compliances, in some cases after prior examination by the ECB.
Option to tighten certain macroprudential measures set by national authorities, where considered appropriate.	Initiative to implement macroprudential policies, in close cooperation with the ECB (and, where applicable, other European bodies).
Tasks outside the scope of the SSM: competences of the Banco de España	
Supervision and sanctioning in the areas of market conduct, transparency and consumer protection of Spanish CIs and institutions other than CIs.	
Supervisory and sanctioning functions regarding institutions other than CIs: specialised lending institutions, payment institutions, electronic money institutions, currency-exchange bureaux, mutual guarantee and re-guarantee companies, appraisal companies, banking foundations, Sareb. Also, the branches of non-member countries.	
Cooperate with the SEPBLAC in the prevention of money laundering and terrorist financing.	

SOURCE: Banco de España.

there is the common rulebook, which is designed to ensure that the legislative framework applicable to credit institutions is consistent.

The fundamental aims of the SSM are to ensure the safety and solvency of the European banking system, to enhance financial integration and the stability of the system, and to ensure consistent and uniform supervision in the countries of the Banking Union. The form of organisation of the SSM and the distribution of its functions are laid down in the SSM Regulation³ and in the SSM Framework Regulation.⁴

The ECB has ultimate responsibility for microprudential banking supervision, although for purposes of implementation there has been a division of tasks between the ECB and the NCAs. A distinction has been drawn between significant institutions (SIs) and less significant institutions (LSIs), according to their size or national economic importance. The ECB is directly responsible for supervision of the SIs; at 31 December 2018 they numbered 119 consolidated groups, 12 of which are Spanish. The national supervisory authorities, among them the Banco de España, directly supervise the LSIs, which at end-2018 numbered 58 in Spain.

Figure 1.2 shows the current allocation of powers.

³ Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions.

⁴ Regulation (EU) No 468/2014 of the ECB of 16 April 2014 establishing the framework for cooperation within the SSM between the ECB and national competent authorities and with national designated authorities (SSM Framework Regulation).

The Supervisory Board (SB) and the ECB Governing Council discuss and approve the supervisory decisions, along with the methodology, practices and criteria applied in the countries belonging to the system, both for SIs and LSIs. The Banco de España forms part of both these decision and control bodies, where decisions are taken on a collegiate basis.

The SSM promotes a common supervisory culture, aiming to harmonise supervisory procedures and practice so as to eliminate differences between different countries.

The ongoing monitoring of SIs is performed by the Joint Supervisory Teams (JSTs). In the case of the Spanish SIs, the JSTs are led by a coordinator who belongs to the ECB and by a national coordinator from the Banco de España, with staff taken from both institutions. The Banco de España provides approximately two-thirds of the human resources of these JSTs. In the case of Spanish banks that have a presence in other SSM countries, the JSTs also feature staff from the national supervisory authorities of those countries and have a national coordinator from each such country. Likewise, the Banco de España forms part of some of the JSTs of banking groups of other SSM countries that have a presence in Spain.

The Banco de España plays an essential role, together with the ECB and other national supervisory authorities, in the on-site inspections of banks and reviews of their internal models, and it plays an active part in the horizontal teams that help to plan and determine the criteria and methodologies used in the framework of the SSM.

The Banco de España is also responsible for handling the common procedures, for their subsequent approval by the ECB, as described in section 2.2.5.

The distribution of supervisory tasks between the ECB and the Banco de España, within the framework of the SSM, also applies to the functions assigned to the supervisor under the bank recovery and resolution regulations. The European framework for the recovery and resolution of EU credit institutions, and its transposition into Spanish regulations, assigns certain tasks to banking supervisors focused on the pre-resolution stage, before a bank is declared to be non-viable (such as assessment of recovery plans or adoption of early intervention measures), and on the declaration of non-viability.

In the microprudential sphere, in addition to the supervisory functions it performs through the framework of the SSM, the Banco de España has other own and independent supervisory functions, relating to branches of non-EU credit institutions, certain non-credit financial institutions, banking foundations, appraisal companies and Sareb.⁵

The Banco de España also has macroprudential powers over credit institutions, aimed at promoting financial stability. Since 2014 the Banco de España has had at its disposal macroprudential tools provided for in the European legislation on capital requirements and in its transposition into Spanish law.⁶ These powers focus essentially on identifying systemically important institutions, determining associated capital surcharges, setting the quarterly countercyclical buffer level and assessing the need to activate other

⁵ The Banco de España's function is to ensure that Sareb fulfils its exclusive corporate purpose, in order to detect any departure from that corporate purpose that may jeopardise the achievement of the overall objectives established by law for the asset management company.

⁶ Royal Decree-Law 22/2018, approved on 14 December 2018, provides the Banco de España, the CNMV and the Directorate General of Insurance and Pension Funds (DGSFP) with new macroprudential tools, as explained in section 3.1 of this Report.

macroprudential instruments provided for in the regulatory framework and, where appropriate, activating them.

In addition, the Banco de España is responsible for supervising market conduct, transparency and customer protection at institutions registered in its official registers, such as credit institutions and other institutions that provide financial services, for which there are specific regulations on transparency and customer protection.⁷ The Banco de España takes decisions on supervision of conduct autonomously, independently of the SSM.

Moreover, the Banco de España will participate in the new Macroprudential Authority Financial Stability Board (AMCESFI) as from its creation in 2019. AMCESFI's aim is to contribute to preserving the stability of the Spanish financial system as a whole.

Lastly, the Banco de España cooperates with other Spanish financial supervisors. Most notably, in respect of prevention of money laundering and terrorism financing, an area in which there are no powers conferred on the SSM and in which, therefore, the national authorities are responsible for monitoring compliance with current legislation. In the case of Spain, the Banco de España cooperates with the Executive Service of the Commission for the Prevention of Money Laundering (SEPBLAC) in the performance of these tasks. The Banco de España also cooperates with the CNMV in the supervision of activities related to the financial markets and in the supervision of consolidable groups that include credit institutions and investment firms. Similarly, it takes coordinated measures with the Directorate General of Insurance and Pension Funds (DGSFP) in all cases in which a consolidable group of credit institutions includes institutions that are subject to solo supervision by the DGSFP.

1.2 Organisation of banking supervision at the Banco de España

The supervisory function is performed by the Banco de España's different directorates general and departments.

- The Directorate General Banking Supervisión (DGBS) is responsible, within the framework of the SSM, for: ongoing supervision of credit institutions; on-site inspections of credit institutions and review of their internal risk models; assisting the Banco de España's representative on the Supervisory Board of the ECB; and other horizontal tasks, such as defining supervisory policies and methodology, planning supervisory activity, quality controlling the supervisory process and participating in the selection and training of DGBS staff.

In December 2018 a reorganisation of the DGBS was approved, dividing it into five departments coordinated by two Associate Directorates General. The aim of this reorganisation was to strengthen the supervision of LSIs and to enhance coordination with the Banco de España's other Directorates General and with other national and international supervisory bodies.

- The General Secretariat is responsible for supervising market conduct and compliance with data transparency and customer protection legislation in the marketing of banking products and services, participating in the processes of verifying the suitability of senior management and in the process of granting and withdrawal of the authorisation of institutions, keeping registers of

⁷ Including, in addition to the institutions that operate in Spain with a permanent establishment, those that pursue their business under the freedom to provide services, in accordance with Article 12(2) of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions.

DIRECTORATE GENERAL BANKING SUPERVISION	Supervision Department I	— Ongoing supervision of the four largest significant institutions and of the branches and subsidiaries in Spain of European significant institutions, through the JSTs.
	Supervision Department II	— Ongoing supervision of the other significant institutions through the JSTs.
	Supervision Department III	— Ongoing supervision and on-site inspection of: <ul style="list-style-type: none"> • less significant institutions within the SSM. • other institutions outside the scope of the SSM.
	Supervision Department IV	— Specialised or horizontal tasks affecting all institutions. — On-site inspections and investigation of internal models of significant institutions within the SSM.
	Supervision Department V	— Definition of supervisory policies and bank accounting regulation. — Supervision of anti-money laundering procedures. — Supervisory methodology. — Identification and assessment of banking risks from a micro standpoint. — Stress testing.
	Organisation and Quality	— Quality control in the supervisory process. — Training of Directorate General Banking Supervision staff.
	SSM Coordination	— Preparation and monitoring of annual supervision planning. — Support to the Banco de España's representative on the SSM Supervisory Board. — Management of information received within the scope of the SSM.
GENERAL SECRETARIAT	Market Conduct and Claims Department	— Supervision of market conduct and compliance with regulations on transparency of information and customer protection in the marketing of banking services and products. — Definition of regulatory and supervisory policies concerning market conduct.
	Deputy General Secretariat	— Participating in the assessment of compliance with the suitability requirements of senior officers. — Maintaining the Senior Officer Register. — Participating in the granting and withdrawal of institutions' authorisation. — Maintaining the Register of Institutions, Agents and Articles of Association. — Managing the single European passport.
	Legal Department	— Examining disciplinary proceedings.
DIRECTORATE GENERAL FINANCIAL STABILITY, REGULATION AND RESOLUTION	Financial Stability and Macroprudential Policy Department	— Analysis of financial system risks and vulnerabilities. — Formulation of macroprudential policy proposals.
	Financial Reporting and CCR Department	— Receipt, quality control and forwarding of supervisory information that credit institutions are required to submit to the ECB, within the SSM, and to the Banco de España, in the exercise of their microprudential supervision and inspection powers over institutions. — Management of the Central Credit Registry.
	Regulation Department	— Analysis, definition and monitoring of regulatory policies at the global and European levels. — Coordination with the EBA and other international forums and bodies. — Development and interpretation of prudential regulations.

SOURCE: Banco de España.

institutions, agents and articles of association, managing European passports and handling sanctioning proceedings.

- The Directorate General Financial Stability, Regulation and Resolution, among a range of functions, performs risk and vulnerability analyses of the Spanish financial system and formulates macroprudential policy measures. It is also responsible for receiving and monitoring credit institutions' supervisory reporting to the ECB

and the Banco de España, for implementing and interpreting prudential legislation and for defining regulatory policies in conjunction with international bodies.

Figure 1.3 sets out in more detail the supervisory functions performed by the Banco de España.

1.3 Staff

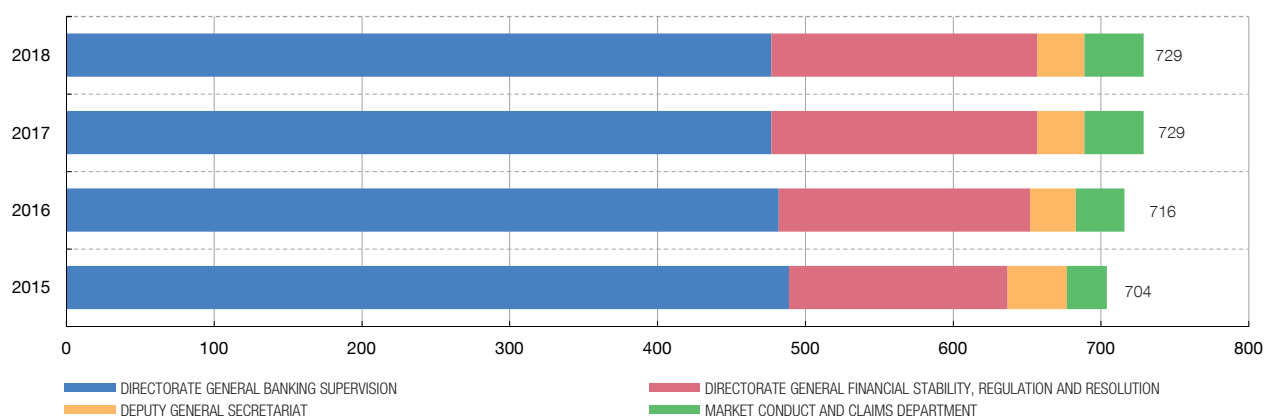
In 2018 the Banco de España continued to move towards the target staffing level agreed with the ECB.

Four selection processes were completed in 2018: two for bank examiners for credit institutions; one for specialists in risk models and a fourth for IT specialists. In total, 111 new staff⁸ joined the DGBS in 2018 for exercise of the supervisory functions assigned to it. In 2019 a further 25 bank examiners for credit institutions are expected to join the DGBS, as the result of a selection process that is still ongoing.

Also in 2018 another selection process for 30 specialists in banking supervision was completed, for supervisory functions other than the prudential supervision entrusted

SUPERVISORY STAFF AT 31 DECEMBER 2018

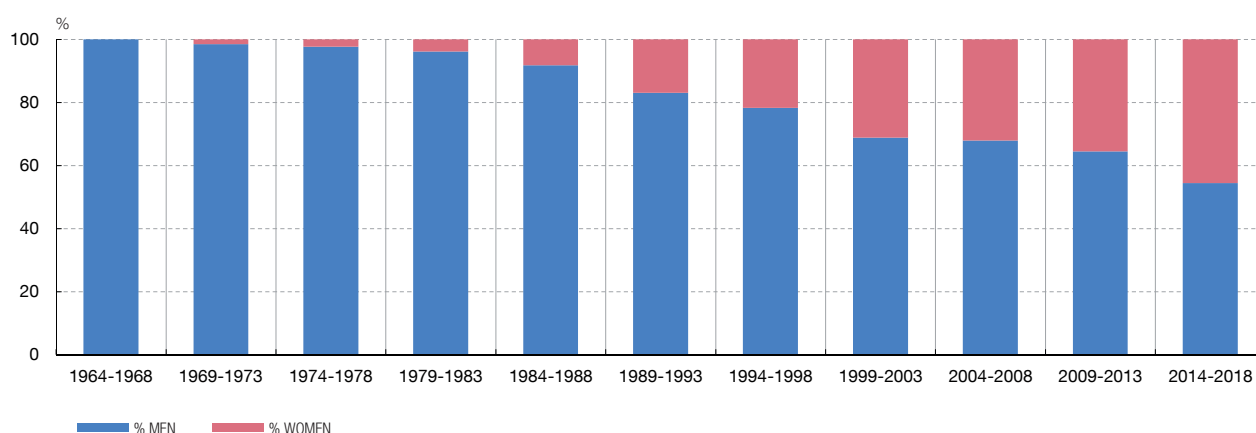
CHART 1.1



SOURCE: Banco de España.

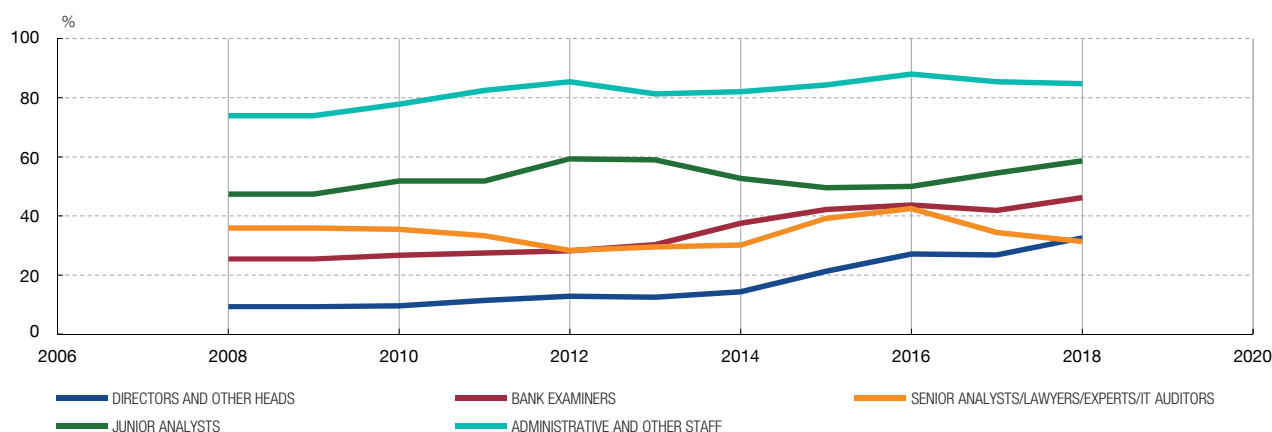
PERCENTAGE OF MEN AND WOMEN IN THE DIRECTORATE GENERAL BANKING SUPERVISION

CHART 1.2



SOURCE: Banco de España.

⁸ Comprising 77 bank examiners for credit institutions, 18 specialists in risk models and 16 IT specialists.



SOURCE: Banco de España.

to the DGBS. Chart 1.1 shows the evolution of the number of employees by Directorate General.

Regarding the proportion of men and women working at the Bank, women currently account for approximately 51.50% of the total staff and men for the other 48.50%. In the DGBS, women made up 47% of the staff at end-2018, compared with 45% at end-2017. The proportion of women in the DGBS staff has gradually risen over the last fifty years, and especially over the last decade. Charts 1.2 and 1.3 reflect this change.

A specific training programme is held annually for supervisory staff.

Every year the DGBS runs a specific training programme to conserve and reinforce staff members' banking regulation and supervision skills, consisting of some 25 courses on banking and finance, supervisory processes and techniques, risk measurement and management and the use of supervisory tools.

In the international sphere, and as in every year since 2016, the DGBS takes part in the SSM Training Curriculum, which is organised by the ECB in cooperation with the national authorities to achieve a common supervisory training framework. The courses on offer in 2018 numbered almost 100 and were attended by more than 150 DGBS staff members.

The use of IT tools for remote training – such as, for example, the FSI Connect platform provided by the Basel Committee's Financial Stability Institute (FSI) – has also intensified. In addition, DGBS staff have access to the training organised by international bodies such as the EBA.