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SUPERVISION AND OVERSIGHT AT THE BANCO DE ESPAÑA

1.1 Supervisory and oversight functions of the Banco de España

The Banco de España is the NCA responsible for banking supervision. Consequently, it has broad supervisory powers over credit institutions and other financial – or financial system-related – institutions operating in Spain.

Prudential banking supervision has two distinct levels: microprudential supervision and macroprudential policy. The former focuses on the risk profile, solvency and smooth functioning of the institutions or groups considered individually. The latter is aimed at safeguarding the overall stability of the financial system. Chapters 2 and 3, respectively, describe the supervisory activity in those areas.

The Bank is also responsible for supervising the market conduct and transparency of the institutions in its Official Registers. The aim of this activity is to protect bank customers. Chapter 4 sets out the conduct-related supervisory activity and the adoption of supervisory measures in this area.

The Banco de España is entrusted with supervising the provision of payment services. Following entry into force of PSD-2,¹ the new regulatory framework has resulted in the emergence of new payment services and new specialist payment service providers. Consequently, the focus on operational and security risks has increased, giving rise to a new supervisory function, seeking greater specialisation to allow for existing resources to be optimised, as mentioned in Section 2.5.

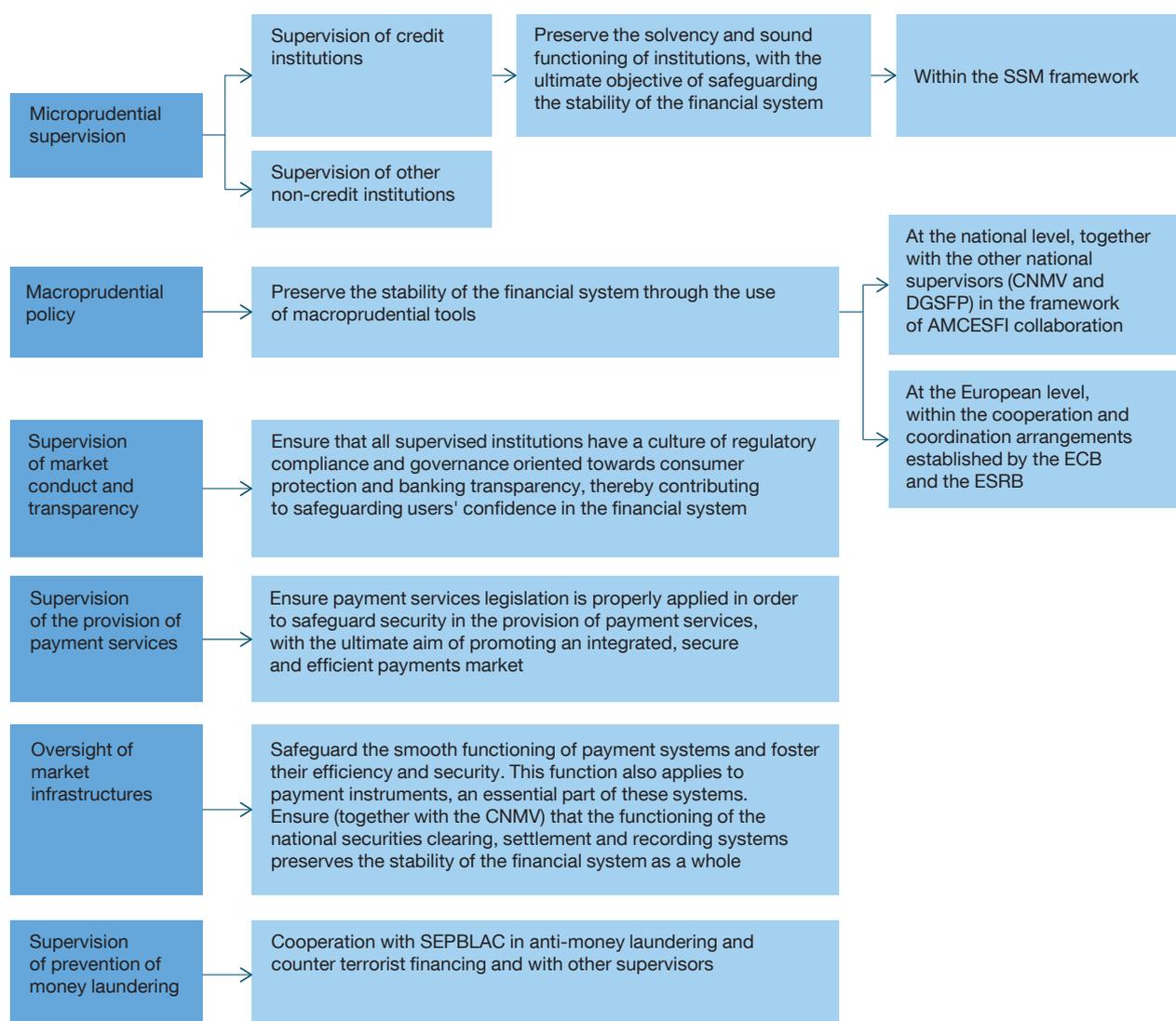
The Banco de España oversees financial market infrastructures. Specifically, it oversees payment systems and instruments, and shares with the CNMV the oversight of the financial market's securities infrastructures. For the first time, this year's report (see Chapter 5) includes information on the Banco de España's oversight activity that until now had been published in the *Annual Report on the Oversight of Financial Market Infrastructures*. As a result, the latter report will no longer be published.

Lastly, in the anti-money laundering and counter-terrorist financing (AML/CTF) area, the Banco de España collaborates with the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences

¹ Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market.

Figure 1.1

THE BANCO DE ESPAÑA'S SUPERVISORY AND OVERSIGHT FUNCTIONS



SOURCE: Banco de España.

(SEPBLAC) to supervise compliance with the obligations in this field by the institutions subject to supervision or registration by the Banco de España.

Figure 1.1 summarises the Banco de España’s supervisory and oversight functions.

Since the launch of the SSM in 2014, there has been a new integrated European system for microprudential supervision of credit institutions. It is led by the ECB with the participation of the euro area countries’ NCAs, among which the Banco de España. Non-euro area Member States can participate in the SSM by requesting the establishment of close cooperation between the ECB and

their NCA.² The SSM's main goals are to monitor the safety and soundness of the European banking system, increase integration and financial stability in Europe, and ensure supervision is consistent across the participating countries.

The day-to-day activities are shared between the ECB and the NCAs. For instance, based on the size or relative importance of the institutions in each country, a distinction is made between significant institutions (SIs) and less significant institutions (LSIs). At end-2019, the ECB directly supervised 117 significant groups in the euro area – 12 of which were Spanish – whose continuous supervision was conducted through Joint Supervisory Teams (JSTs), comprising ECB and NCA staff. The NCAs directly supervise the LSIs (59 Spanish institutions or groups at end-2019), while the ECB indirectly supervises this set of institutions.

Aside from the SSM, the Banco de España is the microprudential supervisory authority for other financial or financial system-related institutions operating in Spain: the branches of non-EU credit institutions, the Official Credit Institute (ICO),³ payment institutions, account information service providers, specialised lending institutions (SLIs), electronic money institutions, mutual guarantee companies, reguarantee companies, currency-exchange bureaux, appraisal companies, banking foundations⁴ and Sareb (the asset management company for assets arising from bank restructuring).⁵

Pursuant to European capital requirements legislation and its transposition into Spanish law, **the Banco de España is the macroprudential policymaker** in its areas of competence. These powers chiefly comprise: identifying systemically important institutions and determining the associated capital surcharges; setting the quarterly countercyclical capital buffer (CCyB); and assessing the need to activate other macroprudential tools, both those envisaged in the European regulatory framework and those specific to Spanish legislation (e.g. the establishment of certain underwriting conditions).

Furthermore, the Banco de España is a member, together with the Ministry of Economic Affairs and Digital Transformation, the CNMV and the DGSFP, of the new macroprudential authority (AMCESFI), the aim of which is to contribute to preserving the stability of the Spanish financial system as a whole.

2 Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions. Bulgaria and Croatia have submitted requests for the establishment of close cooperation.

3 The ICO has the legal form of a credit institution, pursuant to Article 1 of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions. However, it is supervised by the Banco de España, since it is excluded from the scope of the SSM under Article 1 of Council Regulation (EU) No 1024/2013 of 15 October 2013.

4 As regards banking foundations, Law 26/2013 of 27 December 2013 on savings banks and banking foundations confers on the Banco de España control of compliance with certain rules related to the influence of the banking foundation over the management of the investee credit institution.

5 The Banco de España's function as regards Sareb consists of supervising fulfilment of its sole corporate purpose, in order to identify deviations therefrom jeopardising the attainment of Sareb's overall statutory objectives.

Outside the SSM's purview, the Banco de España supervises the market conduct, transparency and customer protection of the institutions in the Bank's Official Registers, such as credit institutions and other institutions providing banking services. There is specific transparency and customer protection legislation for such institutions, including those offering products under the freedom to provide services.

Lastly, the Banco de España oversees financial market infrastructures and payment instruments in Spain (Iberpay, Sistema de Tarjetas y Medios de Pago, Iberclear, BME Clearing), and participates in agreements for collaborative oversight of infrastructures, instruments and card schemes of global scope (TARGET2, TARGET2-Securities, international card payment schemes, etc).

1.2 Organisation of banking supervision and oversight at the Banco de España

The supervisory and oversight functions are performed by Banco de España's different directorates general and departments.

- The Directorate General Banking Supervision (DGBS), as the area tasked with microprudential supervision, is responsible for the ongoing supervision of institutions, on-site inspections and risk model investigations. It further provides support to the Banco de España's representative on the Supervisory Board (SB) of the ECB, among other functions. The different departments of the DGBS work in coordination with each other. As detailed in Box 1.1, horizontal groups play a crucial role in their coordination.
- The Directorate General Financial Stability, Regulation and Resolution (DGFSRR) is responsible for the macroprudential overview and performs the analytical work required for decision-making in this area. It also assesses and participates in the development of the regulatory framework applicable to supervised institutions and is tasked with receiving and monitoring institutions' supervisory reporting.
- The General Secretariat, as regards the supervisory function, is tasked with supervising market conduct and participating in the processes of assessing the suitability of senior officers, the process of granting and withdrawal of the authorisation of institutions and the handling of sanctioning proceedings.
- The Directorate General Operations, Markets and Payment Systems (DGOMPS) is responsible for overseeing financial market infrastructures

THE COORDINATION OF THE SUPERVISORY FUNCTION IN THE DGBS: THE ROLE OF HORIZONTAL GROUPS

In addition to the ongoing supervision and on-site supervision (on-site inspections and model investigations) of institutions, the DGBS performs certain horizontal functions that affect all credit institutions. As such, there are groups engaged in the following tasks:

- i) Development of supervisory policies, monitoring of national and international implementing regulations, and preparation of accounting standards.
- ii) Development and update of supervisory methodologies and review of their implementation.
- iii) Centralisation and coordination within the DGBS of the different stress test exercises conducted in the Spanish banking system.
- iv) Aggregate analysis of the different risks from a microprudential perspective.
- v) Monitoring of market risk and structural liquidity and interest rate risks.
- vi) Monitoring of technology risk and the measures adopted by institutions to ensure an appropriate level of security.

There are also other groups that handle organisational or personnel matters of the DGBS, review the quality of supervisory actions, coordinate the Banco de España's participation in the Supervisory Board and in the different activities of the SSM, and plan supervisory tasks.

The group members who perform these horizontal functions receive information from the rest of the DGBS, giving them an overview of the system in their respective

areas, which enables them to contribute effectively to national and international working groups.

In turn, the knowledge acquired by these groups is conveyed to the rest of the DGBS staff, thereby supporting them in the performance of their work. These horizontal groups also act as a point of contact with the other areas of the Bank, with which they work closely when required.

The members of these groups also maintain contact and collaborate with other national bodies, such as the CNMV, the DGSFP, the Instituto de Contabilidad y Auditoría de Cuentas (ICAC) and the General Secretariat of the Treasury and International Financing. In the international arena, they actively participate in the international working groups of the FSB, the BCBS, the EBA, the ECB and the Association of Supervisors of Banks of the Americas.

To ensure correct supervision, significant coordination work is required between these horizontal functions and the units tasked with the ongoing supervision of institutions and on-site supervision. To this end, the DGBS has a steering committee which advises the Director General on technical and organisational matters, supervisory policy and supervision.

Furthermore, for the necessary exchange of information between the different areas within the DGBS, a coordination committee with representatives from every area holds regular meetings to share the work carried out in each area, thus improving cross-departmental communications. Lastly, regular meetings are held where participants in the SSM expert networks or working groups report to senior DGBS management on the most significant work in progress. These meetings also act as a forum for discussing supervisory topics.

and payment instruments. Moreover, following the structural changes to the Banco de España's supervisory function as a result of the Second Payment Services Directive (PSD-2), it has assumed ongoing supervision of payment service providers other than credit institutions (except for matters relating to solvency, market conduct and transparency) and of the payment services offered by all such providers.

Figure 1.2 provides greater details of the organisation of the supervisory and oversight functions performed by the Banco de España.

Figure 1.2

ORGANISATION OF SUPERVISION AND OVERSIGHT AT THE BANCO DE ESPAÑA

DIRECTORATE GENERAL BANKING SUPERVISION	Supervision Department I	<ul style="list-style-type: none"> – Ongoing off-site supervision of the four largest Spanish significant institutions and of the branches and subsidiaries in Spain of European significant institutions, through the JSTs
	Supervision Department II	<ul style="list-style-type: none"> – Ongoing off-site supervision of the other Spanish significant institutions through the JSTs
	Supervision Department III	<ul style="list-style-type: none"> – Ongoing off-site supervision and on-site inspections of: <ul style="list-style-type: none"> • Spanish less significant institutions within the SSM • Other institutions outside the scope of the SSM • Other branches and subsidiaries in Spain of foreign institutions
	Supervision Department IV	<ul style="list-style-type: none"> – Monitoring of market risk and structural liquidity and interest rate risks – On-site inspections and internal model investigations of significant institutions within the SSM
	Supervision Department V	<ul style="list-style-type: none"> – Stress tests – Identification and assessment of risks from a microprudential standpoint – Supervisory methodology – Definition of supervisory policies and bank accounting regulation – Analysis and assessment of technology risk – Supervision of anti-money laundering procedures
	Organisation and Quality	<ul style="list-style-type: none"> – Quality control in the supervisory process – Training of Directorate General Banking Supervision staff
	SSM Coordination	<ul style="list-style-type: none"> – Preparation and monitoring of annual supervision planning – Support to the Banco de España representative on the Supervisory Board – Management of information received within the scope of the SSM
DIRECTORATE GENERAL FINANCIAL STABILITY, REGULATION AND RESOLUTION	Financial Stability and Macprudential Policy Department	<ul style="list-style-type: none"> – Analysis of financial system risks and vulnerabilities – Formulation of macroprudential policy proposals
	Financial Reporting and CCR Department	<ul style="list-style-type: none"> – 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 powers and of information from other supervised institutions – Management of the Central Credit Registry
	Regulation Department	<ul style="list-style-type: none"> – Analysis, definition and monitoring of regulatory policies at the global and European levels – Coordination with the EBA and other international fora and bodies – Development and interpretation of prudential regulations
GENERAL SECRETARIAT	Market Conduct and Claims Department	<ul style="list-style-type: none"> – Supervision of market conduct and compliance with legislation 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	<ul style="list-style-type: none"> – Participation in the assessment of compliance with the suitability requirements of senior officers – Maintenance of the Senior Officer Register – Participation in the granting and withdrawal of institutions' authorisation – Maintenance of the Register of Institutions, Agents and Articles of Association – Management of the single European passport
	Legal Department	<ul style="list-style-type: none"> – Handling of sanctioning proceedings
DIRECTORATE GENERAL OPERATIONS, MARKETS AND PAYMENT SYSTEMS	Payment Systems Department	<ul style="list-style-type: none"> – Ongoing supervision of compliance with legislation specific to payment institutions, account information service providers and electronic money institutions, except in relation to solvency, market conduct and transparency – Supervision of the provision of payment services by payment service providers – Definition of supervisory policy regarding the provision of such services – Supervision of Iberpay, as the management company of the National Electronic Clearing System – Oversight of financial market infrastructures and of payment instruments

SOURCE: Banco de España.

1.3 Supervisory and oversight staff

At 31 December 2019, the Banco de España had 818 employees performing supervisory and oversight functions (compared with 803 employees in 2018). Of these, 529 belong to the DGBS, 183 to the DGFSRR, 48 to the Market Conduct and Claims Department, 45 to the Deputy General Secretariat and 13 to the DGOMPS.

25 new bank examiners for credit institutions joined the Bank following a selection process in 2019. In 2020 a further 11 bank examiners are expected to join under the selection process currently under way, as well as 12 IT auditors, 6 credit risk model specialists and 6 specialists in banking regulation.

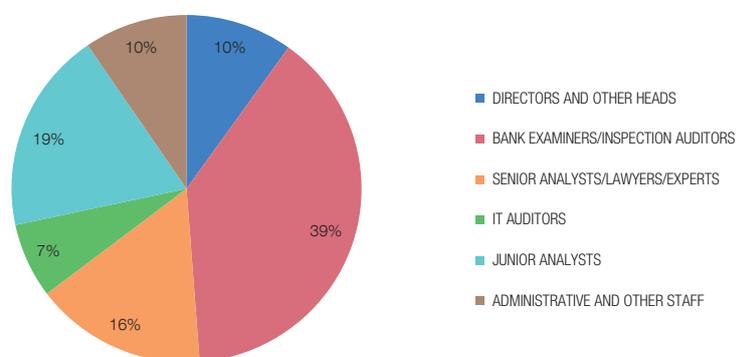
Following the creation of AMCESFI and the implementation of new macroprudential tools under the aegis of the Banco de España, 11 employees have joined the Financial Stability and Macroprudential Policy Department, including senior economists, specialists in risks and regulation, and clerical and support staff.

An initial team has also been assigned to the Payment Systems Department, primarily to handle organising the new tasks to supervise payment service providers. The initial team consists of three IT experts, two supervision specialists and one junior analyst, who joined the Bank through the relevant selection processes. Moreover, until the team for the supervisory structure is fully operational, the Payment Systems Department has received the provisional support of eight IT experts from other departments at the Banco de España.

Chart 1.1 shows the distribution of employees at the Bank who perform supervisory and oversight functions, based on the following groups: i) individuals in management

Chart 1.1

SUPERVISORY AND OVERSIGHT STAFF (%)
At 31 December 2019

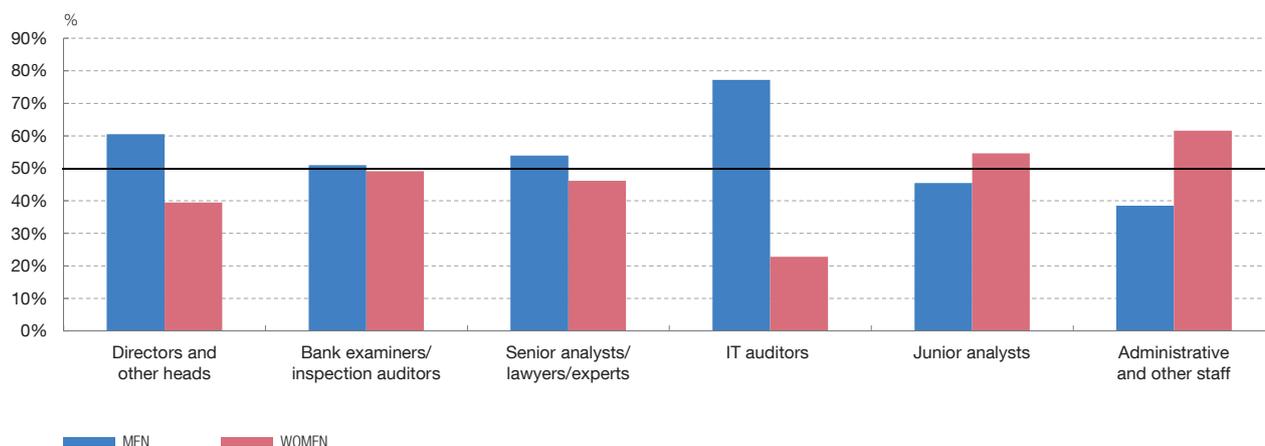


SOURCE: Banco de España.

Chart 1.2

SUPERVISORY AND OVERSIGHT STAFF BY GENDER

At 31 December 2019



SOURCE: Banco de España.

positions or with responsibility for teams; ii) bank examiners and inspection auditors; iii) senior analysts, lawyers and experts; iv) IT auditors; v) junior analysts; and vi) administrative staff.

52% of supervisory and oversight staff are men and 48% are women. Chart 1.2 shows the distribution of men and women in each of the professional groups within this area.