



## 1 Introduction

This chapter of the *Annual Report*, devoted to the management of the Banco de España, is an overall summary of the most notable aspects of the institution's activity in 2009. Some of these aspects will be addressed in greater detail in the monographic reports published annually by various departments of the Bank (Banking Supervision, Balance of Payments, Claims Service, Central Balance Sheet Data Office, Central Credit Register, Research Activities, Oversight of Payment Systems and Public Debt Market).

## 2 Activities of the Banco de España as a member of the Eurosystem

The Treaty of Lisbon came into force on 1 December 2009

The process of ratification of the Treaty of Lisbon continued throughout 2009. Following ratification by the Czech Republic on 4 November, the Treaty came into force on 1 December 2009.

A notable development is the new EU institutional framework for financial supervision; the legislative proposals were published by the European Commission on 23 September 2009. The framework has two pillars:

- The European Systemic Risk Board (ESRB), an independent body responsible for macro-prudential supervision of the whole EU financial system. The ECB and the national central banks will play a fundamental role, owing to their know-how and their responsibilities in the area of financial stability. The Secretariat of the ESRB will be entrusted to the ECB, which will also provide analytical, statistical, logistical and administrative support. In turn, the Secretariat will receive technical advice from national central banks and supervisory authorities, through the Advisory Technical Committee (ATC).
- The European System of Financial Supervisors (ESFS), made up of national financial supervisors and three supervisory authorities – the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) – drawn from the existing European macro-prudential supervision committees and endowed with specific powers. This new system will combine responsibility for day-to-day supervision of EU institutions, which will continue to correspond to the national authorities, with specific tasks at the European level, permitting enhanced quality and consistency of supervision, strengthened supervision of cross-border groups and the creation of a single set of European rules.

As in previous years, in 2009 the Banco de España's activity as a Eurosystem member was intense. The Governor took part in the regular meetings of the Governing Council and the General Council of the ECB at which decisions on monetary policy, inter alia, were taken, as is explained in detail in Chapters 1 and 4 of this *Annual Report*.

A large number of professionals from the Banco de España participated in the committees, working groups and other Eurosystem bodies, preparing meetings and assisting the ECB's governing bodies in their decision-taking.

Along with a consolidated structure of committees and working groups, the task forces, which are created to perform tasks in a very specific area and with a limited time span, provide the system with added flexibility. One noteworthy development in 2009 was the creation of the High-Level Task Force on risk management and control in Eurosystem credit opera-

tions, of which the Governor is a member. Several other high-level task forces, in which the Director General of Operations, Markets and Payment Systems participates, were also created or revived.

Moreover, in March 2009, the T2S (TARGET2-Securities) Programme Board was created, to ensure the successful completion of the T2S Programme. The Banco de España has an alternate on this Board.

The Bank participated actively in the Eurosystem forecasting exercises, in the drafting of the report on public finances and in a structural issues report on energy markets and macroeconomics that will be presented to the European Parliament in June 2010.

As a member of the European System of Central Banks (ESBC), the Banco de España was involved in the drafting of the two annual reports of the Banking Supervision Committee (BSC): the Banking Structure report (only the statistical annex has been published) and the Banking Sector Stability report. The Bank also contributed to the Financial Stability Review and to the Financial Stability Table of the Economic and Financial Committee (FST-EFC), both published half-yearly. Moreover, analysis was conducted within the BSC on a number of significant topics, such as bank lending policies and structures and credit market and counterparty risk in Europe.

As regards cooperation between central banks and supervisory authorities, the BSC, in collaboration with the Committee of European Banking Supervisors (CEBS), studied the degree of implementation of the common analytical framework developed in 2008 for assessing the systemic implications of a crisis. Lastly, work continued on the exchange of information between central credit registers and progress was made in the discussion of the use of these registers for macro-prudential purposes.

In accordance with the cooperation objectives implicit in EMU, the Banco de España was actively involved throughout 2009 in the design and implementation of the Eurosystem monetary policy strategies stemming from the special market circumstances experienced since end-2008, and specifically in the launch of 1-year liquidity-providing LTROs and in the creation of covered bond portfolios. In this respect, in May 2009 the ECB informed that it would create a €60 billion portfolio, with each national central bank acquiring a share in proportion to their capital key, as part of a programme that will run to end-June 2010.

TARGET2 operated  
satisfactorily in its first year

In the field of payment systems, and following the successful completion of migration to TARGET2, 2009 was the first full year of operation of this European large-value payment system, which plays an essential role in the implementation of monetary policy and in the functioning of euro money markets. TARGET2 operated satisfactorily in 2009, with an availability level of 99.79% (see Section 6.2). However, TARGET2 was not immune to the effects of the financial crisis, as is shown by the decline both in the number of operations and the amounts processed. The crisis also highlighted the need to encourage the use of market infrastructures for clearing and settlement of OTC derivatives. The Banco de España participates in various public initiatives to this end, for instance, by lending its support, within the sphere of the Eurosystem, to the establishment of central counterparties for clearing and settlement of credit default swaps.

Regarding the Single Euro Payments Area (SEPA), the Banco de España continued to coordinate the efforts for transition in Spain, heading the fora created to this effect and encouraging and facilitating migration by general government. The Bank contributed to the transposition into Spanish law of the Payment Services Directive. This concluded with the enactment of

Payment Services Law 16/2009, published on 14 November 2009, which will facilitate the integration of retail payment markets in Europe.

The Banco de España participated in the Eurosystem's ongoing projects in the areas of settlement of securities (TARGET2-Securities), collateral central bank management (CCBM2) and market operations (MOP). It also collaborated in the project on information on financial asset prices (CEPH - Common Eurosystem Pricing Hub).

The Banco de España was chosen once again to assess the quality of banknotes in circulation in the euro area

In the area of euro banknotes, the Banco de España continued to perform the functions entrusted to it, including, in particular, those relating to banknote production control, storage, distribution and quality control. And once again it was chosen by the Eurosystem to assess the quality of the banknotes in circulation in the 16 euro area countries. The Bank also continued to hold custody of the Eurosystem's strategic stock, and thus played an important part in the organisation of international transport of banknotes.

Lastly, the Banco de España, under the leadership of the ECB, played a significant role in the preparation (economic and technical aspects) and tests of the second series of euro notes that will be put into circulation in coming years.

### **3 International activities**

One of the Banco de España's key objectives is to build its international presence and raise its international profile. In this respect, it has continued to consolidate an image of excellence, to facilitate dialogue with other central banks, financial supervisors and regulators and multilateral organisations. The international financial crisis, which began in the summer of 2007 and heightened in September 2008, revealed the need for global solutions, for which appropriate and smooth dialogue is essential.

Activity in the sphere of the Eurosystem has already been referred to in Section 2 above, so this section focuses particularly on other European and international fora in which the Bank participates. It then goes on to mention bilateral relations, technical cooperation provided to other central banks, supervisory agencies and bank regulators, and international seminars and conferences organised.

The work of the international committees was marked by the G20 action plan

In 2009 the work of the international committees with global reach was marked by the action plan drawn up at the G20 summit held in Washington on 15 November 2008. A commitment arose from this summit to strengthen cooperation and to work together to identify and implement the reforms necessary to improve the functioning and solvency of the global financial systems. This commitment was ratified at the G20 summits held in London (April 2009) and Pittsburgh (September 2009). One of the resolutions adopted was to expand the membership of the Financial Stability Forum. Thus, following the summit held in London on 2 April 2009, which gave rise to the "Declaration on Strengthening the Financial System", the Forum was expanded and re-established, with a stronger institutional base, as the Financial Stability Board (FSB) (see Section 3.1).

In Europe, the Ecofin road map on financial supervision, stability and regulation was a key development, especially its references to the EU's supervisory architecture and to the prevention, management and resolution of banking crises.

#### **3.1 INTERNATIONAL RELATIONS**

In the realm of the European Union, the Banco de España was involved, as part of the Spanish delegation, in various Community working groups and committees.

As in previous years, the Governor participated, together with the other European Central Bank Governors and Finance Ministers, in the informal Ecofin meetings, the first held in Prague,

in April, under the Czech presidency, and the second in Gothenburg, in October, under the Swedish presidency. At these meetings, key EU economic and financial matters were discussed, including, most notably, issues related to financial stability, the future European supervisory architecture (see Section 2), the stress testing exercise conducted by the Committee of European Banking Supervisors (CEBS) and preparation of the meetings of the International Monetary Fund (IMF).

During the year, the work of the Economic and Financial Committee (EFC) focused primarily on the regular review of the EU's economic and financial situation and the annual analysis of the stability and convergence programmes. Work on the European financial architecture was completed in 2009 and progress was made on the aspects of financial stability highlighted in the road map approved by the Ecofin in October 2007 in response to the financial crisis (including, inter alia, issues relating to financial transparency, asset valuation, macro-prudential supervision and rating agencies). In addition, national financial support plans were monitored and a European position was adopted for various international meetings (G20, IMF, World Bank, etc.).

In turn, the work schedule of the Economic Policy Committee (EPC) placed particular emphasis on analysis of the impact of the economic crisis on the growth potential of the European economies, and the effect of population ageing on public finances and their sustainability in the long term. Particular attention was also paid to: the update of the Lisbon strategy scheduled for 2010 (EU 2020 strategy); the role of fiscal policy, and of labour market and structural reforms in general, in the crisis recovery strategy; ways to improve the functioning of the single market; and alternative ways to fund climate change worldwide.

The contributions made by the Bank in European financial supervision committees, particularly the CEBS, are also noteworthy. In 2009, the activity of the CEBS was focused mainly on the following areas:

- Provision of technical advice to the European Commission on the exchange of information between supervisors, options and discretion in national regulations, securitisation and custodian banks.
- Cooperation and convergence in supervisory practices, having agreed on a general framework for implementation of guides approved by the Committee. Several documents were also published, including, in particular, *High-level principles for Remuneration Policies* and other guides, at the consultation stage, on the functioning of the colleges of supervisors.
- Work connected with the financial crisis, chiefly the stress testing exercise on the financial sector (coordinated with the ECB and the European Commission), based on a sample of 22 major cross-border banking groups. Also noteworthy was the half-yearly report for the Financial Stability Table on trends, risks and vulnerabilities in the banking sector.

Also in Europe, several analyses were jointly undertaken by the three level 3 committees of European supervisors: the CEBS, the CEIOPS (Committee of European Insurance and Occupational Pensions Supervisors) and the CESR (Committee of European Securities Regulators). Thus, for example, the work conducted by these committees – which have come to be known as the 3L3 – notably included analysis of the implications of the new European supervisory architecture. Lastly, the Joint Committee on Financial Conglomerates (which depends on both the CEBS and

the CEIOPS) advised the European Commission on the review of the Financial Conglomerates Directive and published a document entitled *Colleges of Supervisors – 10 Common Principles*.

Spain included on the Financial Stability Board (FSB)

In terms of global international activity, particularly noteworthy was Spain's inclusion on the Financial Stability Board (FSB), where it is represented by the Secretariat of State for Economic Affairs, the Ministry of Economy and Finance and the Banco de España. The FSB aims to coordinate the work of the national financial authorities and of the international standards committees and agencies. To this end, it identifies and analyses the vulnerabilities of the financial system, it coordinates and promotes the response of authorities and committees to these vulnerabilities, it monitors any shortcomings or inconsistencies in international standards and it evaluates the degree of implementation of these standards in each member jurisdiction. Particularly noteworthy is the FSB's work on the treatment of moral hazard at systemic institutions, on procyclicality in financial regulation and on the relaunch of the securitisation market.

The Banco de España played an active part in the cooperation activities between central banks under the aegis of the Bank for International Settlements (BIS). These activities were especially intense and significant in 2009. Particularly noteworthy were the bi-monthly meetings of governors and the work conducted in the different committees on which the Banco de España is present. These include, in particular, the Committee on the Global Financial System and the Markets Committee; the Banco de España is now formally a full member of both these committees.

The Bank also continued to contribute actively to the work of the Basel Committee on Banking Supervision (BCBS), directing some of its activities. In response to a G20 demand, the BCBS published regulations, guides and consultation documents addressing weaknesses in the banking sector in terms of regulation, supervision and risk management. In particular, proposals were developed to:

- Change the treatment of trading books, in resecuritisations and exposures to off-balance-sheet conduits.
- Strengthen Pillar 2, to address corporate governance weaknesses, and Pillar 3 on market discipline.
- Improve the quality of capital and harmonise capital elements, and strengthen counterparty risk requirements.
- Introduce a leverage ratio and a series of countercyclical measures.
- Introduce a minimum liquidity standard and a set of follow-up indicators.

The BCBS also published other guides and reports, such as the *Principles for sound stress testing practices and supervision*, and the recommendations on cross-border bank resolution. And lastly, in connection with implementation of the Basel II standards, it monitored their impact and possible procyclicality and developed a methodology for assessment of compensation principles and standards.

The Bank was involved in the work of the Joint Forum, which groups together bank, securities and insurance supervisors from around the world, focusing on analysis of several aspects that are at the heart of the crisis, such as the use of credit ratings in the three areas, a report on special purpose entities and a review of the differentiated nature of financial regulation.

The International Monetary Fund (IMF) is another traditional catalyst of the Bank's global activity. As has become customary, the Bank expended considerable effort preparing the briefing notes for the Spanish representatives at the IMF on the main matters discussed by the Executive Board. Throughout 2009 it paid particular attention to the reforms required for the Fund to adapt to the challenges posed by the financial crisis. These reforms were given a considerable boost after the G20 summit held in London.

The key issues in 2009 included the overhaul of the IMF's lending facilities and conditionality, the issue of special drawing rights envisaged by the G20, the introduction of additional loan resources on top of quotas, and, in particular, expansion of the *New Arrangements to Borrow (NAB)*, analysis of various options to improve governance, and greater integration of bilateral surveillance via financial sector assessment programs (FSAPs). The Bank also participated in discussions on the customary Article IV reports relating to the countries of most interest to Spain. And, in the field of multilateral surveillance, it contributed to and commented on the IMF's half-yearly *World Economic Outlook* and *Global Financial Stability Report*.

The Bank participated in the meetings of the IMF's International Monetary and Financial Committee, held in the spring and the autumn. These meetings reviewed the global economic outlook, and also key aspects of the IMF's policy and governance.

In 2009 the Bank maintained its close collaboration with the main multilateral development banks (the World Bank, the Asian Development Bank and the Inter-American Development Bank) and, at a bilateral level, with other central banks and bank supervisors, through high-level and technical meetings. Also, as in previous years, the Bank was included in the Spanish delegations participating in the periodic meetings of the Paris Club and in OECD and EU working groups on export credit.

The Banco de España continues to preside, along with the Federal Reserve Bank of Philadelphia, the International Operational Risk Working Group (IORWG), whose main aim is to act as a centre of competence for advanced operational risk management among central banks. The Working Group, which meets on an annual basis, brings together operational risk management officers of more than 40 central banks and monetary authorities.

Collaboration with Latin American organisations was stepped up

Collaboration with Latin American organisations was stepped up. Thus, in the case of the Center for Latin American Monetary Studies (CEMLA), which is the main forum for coordination of Latin American central banks, the Bank participated in the meetings of governors, of the Alternates Committee and of the Audit Committee. It also participated in CEMLA's working groups, and in its training activities (where it may be considered one of the chief contributors).

Steady growth continued in the demand for technical cooperation

In 2009 the Bank continued its very active participation in the Association of Supervisors of Banks of the Americas (ASBA), which groups together all the institutions responsible for banking supervision in the American continent. As an associate member since October 2006, it participates actively in the Association's governing bodies, and also in its training plans, working groups and other activities. Four seminars on matters of common interest were organised jointly and the Bank took part in several working groups, most notably in that devoted to operational risk in banking institutions.

One element that makes a decisive contribution to the external projection of the Bank is the provision of technical cooperation and assistance to other central banks and supervisory and regulatory agencies. In recent years this activity has grown steadily, as a result of the increased

demand for these services, with the Banco de España viewed as a benchmark in the field of central banking and financial regulation and supervision. It provides technical cooperation on a bilateral basis, and also through permanent collaboration with various key multilateral organisations in the field, such as CEMLA, the ASBA, the Central American Monetary Council, the IMF, the World Bank and the BIS Financial Stability Institute.

As in previous years, in 2009 technical cooperation was concentrated in the area of Latin America, on language and cultural grounds and also for financial and economic reasons. This cooperation took several forms, including, in particular, courses and seminars, study visits to the Bank, experts sent to missions in situ and attending to an almost constant stream of consultations. In this respect, the Bank organised training activities individually (e.g. the *International Seminar on Central Banking, on Payment and Security Settlement Systems*, and on *Cash Management*) and in collaboration with other organisations (CEMLA, the ASBA, CEDDET, etc.). These included courses on *Operational Risk, Financial Instruments and International Financial Reporting Standards (IFRS)*, *Accounting and Valuation of Central Bank Financial Instruments*, *XBRL Financial Data for Financial Supervision*, and seminars on credit risk, inter alia.

In 2009, as in other years, the Banco de España provided cooperation in other geographical areas, such as the Mediterranean and eastern European countries, mainly in conjunction with other central banks and supervisory agencies, participating in several programmes coordinated within the Eurosystem and financed with EU funds. The Bank's Internal Audit Department is involved in the TACIS III project for Technical Assistance for the Commonwealth of Independent States, in collaboration, together with another eight Eurosystem central banks and the ECB, with the Central Bank of Russia. In turn, experts from the Financial Regulation Department are working on a programme for the Eurosystem, in collaboration with another 14 central banks and the ECB, for the EU accession and potential accession countries.

### 3.2 INTERNATIONAL CONFERENCES, MEETINGS AND SEMINARS ORGANISED BY THE BANCO DE ESPAÑA

Throughout 2009, the Banco de España continued its intense activity connected with the organisation of high-level events and meetings, aiming to share knowledge and views on topical issues. Of particular note during the year was the collaboration with the IMF in the organisation of some of these activities.

The Banco de España organised three conferences in conjunction with the IMF

The key event was the conference on *Reforming Financial Regulation and Supervision: Going Back to Basics*, organised jointly with the IMF's Office of the Chief Economist for Latin America and the Caribbean, held at the Banco de España's headquarters in June. The aim of the conference was to gather together Latin American central bankers and regulators, to discuss financial regulation and supervision reforms with leading researchers and policy experts from around the world.

The Banco de España organised two other conferences in conjunction with the IMF. The first in May, for presentation of two chapters of the Fund's *World Economic Outlook (April 2009)*. The first session focused on the pattern of recession and recovery in the advanced economies, on how financial crises may generate different types of recessions and how countercyclical macroeconomic policies may be used to ease adjustments. The second session addressed the transmission of financial stress from developed to emerging economies, and how the latter may shield themselves, reducing their vulnerabilities.

The conference held in October, on *Economic Outlook for the US*, was attended by Nicolás Eyzaguirre, Director of the IMF's Western Hemisphere Department. The presentation ad-

dressed the global economic situation and the reasons why the US economic recovery is proving to be slower than in previous crises.

In March, the fourth *High-Level Seminar of the Eurosystem and Latin American Central Banks* was held in Mexico City. The event, which was organised jointly by the ECB, the Banco de México and the Banco de España, was attended by governors and officials of Latin American and Eurosystem central banks, and by representatives of international organisations such as CEMLA and the IDB. It was presided by the Governor of the Banco de México, Guillermo Ortiz, the President of the ECB, Jean-Claude Trichet, and the then Deputy Governor of the Banco de España, José Viñals. The key topics addressed were the financial crisis and the economic policy response, the implications of lower commodity prices for the economies of Latin America and Europe, and the growing need for economic policy coordination as a result of the crisis.

In May, a conference on *Procyclicality and the Role of Financial Regulation* was held at the Banco de España's headquarters, organised jointly with the BIS Financial Stability Institute and attended by authorities from central banks, multilateral organisations, the universities and the financial sector. The aim of the conference was to discuss mechanisms that could be used to successfully address the problems associated with procyclicality, with a view to promoting financial stability. The three sessions focused on: a) the lessons to be drawn from the crisis; b) regulators' procyclicality approach; and c) the role of valuation and the accounting framework in the cycle.

The workshop on *Challenges in banking research* was also held in May, organised in conjunction with the Basel Committee on Banking Supervision (BCBS) and attended by academics and by senior officials of regulatory and supervisory agencies. Among the issues addressed were aspects associated with asset securitisation, credit risk measurement and liquidity risk.

Lastly, in October, the Bank hosted CEMLA's *X Meeting on Central Bank Internal Audit*. The aim of the meeting was to analyse and share the latest developments and advances in the internal auditing function of the CEMLA associate and collaborating central banks. The meeting was attended by most Latin American and Eurosystem central banks, and by the Central Bank of the Philippines and several international organisations.

During 2009, the Banco de España also organised numerous conferences of a more academic nature (see Section 4.2).

#### **4 Economic analysis and research**

In 2009 several of the Banco de España's departments carried out analysis and research on the Spanish economy and its international environment, to give advice to the Bank's governing bodies for performance of the functions entrusted to them.

##### **4.1 PRIORITY AREAS OF ANALYSIS**

The financial crisis was the common link between all the Banco de España's areas of research in 2009

Over the year, 35 Working Papers and five Occasional Papers were published. A total of 58 papers were published by Banco de España staff in academic journals and specialised books (25 of which in anonymously refereed journals, 22 of these being international in scope). These figures are similar to those of previous years.<sup>1</sup>

The research agenda of the Banco de España revolves around five major areas:

- Macroeconomic modelling and forecasting.

<sup>1</sup> The Banco de España's *Research Memorandum, 2009*, available in the «Publications» section of its website at [www.bde.es](http://www.bde.es), contains further details of these publications and of its other research activities.

- Monetary policy and its transmission mechanisms.
- Financial stability.
- International economy.
- Spanish economy.

In 2009, analysis of the relationships between the real economy and the financial sector, to identify, first, the causes and consequences of the financial crisis, and then possible measures to address the crisis, was one common link between all these areas.

The preliminary results of the Survey of Household Finances 2008 will be available at end-2010

As regards macroeconomic modelling and forecasting, work continued on developing real-time forecasting models such as the BEMOD (the Banco de España's dynamic, stochastic general equilibrium model); institutional elements of the Spanish economy were incorporated and applications made for the assessment of economic policy measures. An overlapping generations model was also developed, adapted to the Spanish economy, to analyse the impact of fiscal policy and structural reforms, and to assess the macroeconomic implications of the different strategies for recovery from the current recession. In 2009, data gathering was completed and the process of preparation of the third wave of the Survey of Household Finances (EFF) 2008 was begun. The preliminary results of this survey will be available at end-2010.

Regarding analysis of monetary policy and its transmission channels, progress was made on three fronts. First, the consequences of imperfect competition in the banking sector and of several financial restrictions connected with optimal monetary policy were analysed. Second, the impact of interest rate fluctuations on oil prices and, in general, of the effects of different shocks on these prices, was studied, together with the possible monetary policy response. And third, on the basis of the empirical findings of the Eurosystem's Wage Dynamics Network, estimates and alternative calibrations of several versions of general equilibrium models were made to assess different monetary policy rules.

In 2009, research in the area of financial stability and banking analysis also focused on aspects relating to the crisis. Thus, in-depth analysis continued on the role played by banking relationships in the changes in a firm's financial position and research was conducted on the impact of the macroeconomic background, the level of capitalisation and bank liquidity for the granting of credit, the role of securitisations in the development of the credit market and the factors behind changes in the aggregate doubtful loans ratio. The question of how banks react to changes in market interest rates was also analysed in depth.

In the case of research on the global economy and financial markets, study of the impact and of the consequences of the crisis on key economic variables and relationships gradually gained ground. Thus, research topics included the fiscal consequences of the crisis from a global perspective, its effects on gross and net capital flows between countries, international lending and trade flows, the different impact of the crisis across regions (particularly across emerging markets) and the factors behind the increase in sovereign and corporate risk. Moreover, parallel avenues of research were embarked upon or continued in modelling and empirical studies. Thus, interaction models were developed on the housing market and monetary policy, on growth and convergence in the long term, and on the oil market. On the empirical front, contributions were made to the evaluation of inflation-targeting regimes in emerging countries and to the relationship between risk and selective bankruptcies.

Lastly, the avenues of research on the Spanish economy included a broad set of topics connected with the residential market adjustment and characterisation of the property cycle (vis-à-vis activity levels and cycles in other countries), the characteristics of export firms, the level of competition in the economy, analysis of fiscal policy and its macroeconomic effects, corporate dynamism, the impact of R&D, immigration and the labour market, and the pensions system.

#### 4.2 RELATIONS WITH ACADEMIA AND CONFERENCES

The Banco de España maintains its connections with academia and with the economic analysis and research units of other central banks and international institutions, through the four traditional channels. First, the analysis and research produced by the Bank was presented and discussed at national and international seminars, congresses and academic conferences, and published in the usual professional media.

Second, the Banco de España organises several series of seminars, in which members of the Spanish and international academic community participate, including a weekly economic research seminar. In terms of expert meetings, in 2009 the Banco de España organised, on its own or in conjunction with other institutions, ten international conferences, all held in Madrid. Apart from those already mentioned in Section 3.2, the most notable were: *Conference on the 10th Anniversary of Spain's entry into the euro area, "Spain in EMU"* (27 February); *Conference on the Estimation and Empirical Validation of Structural Dynamic Stochastic Models for the Spanish Economy* (13 March); *Seminar on the Status of Women in Economics* (COSME, 1-2 June); *Conference on Household Finance and Macroeconomics* (15-16 October); *Vllth Workshop on Emerging Markets* (21-22 September); *Reforming Financial Regulation and Supervision: Going Back to Basics* (15 June); *Challenges in banking research* (28-29 May); and *European Research Workshop in International Trade - 1st EFIGE (European Firms in a Global Economy) Scientific Workshop and Policy Conference* (1-3 June). The Bank also sponsored sessions at academic conferences, such as the Congress of the European Economic Association (Barcelona, 23-27 August) and the LAMES-LACEA Meetings (Buenos Aires, 1-3 October).

Third, the Banco de España continued to contribute to research networks within the Eurosystem for analysis of the euro area economy, such as the *Wage Dynamics Network* and, for Latin America, within CEMLA.

Lastly, there are regular visitor and external adviser programmes promoting projects that may be considered strategic in different areas of analysis and research.

#### 4.3 DISSEMINATION AND COMMUNICATION

As mentioned above, the three main channels for the dissemination and communication of the Banco de España's research findings are the Working Paper and Occasional Paper series and the monthly *Boletín Económico* which, along with regular articles on the economic situation, includes summaries of completed or ongoing research. All these activities are included in the Economic Research Portal, a section on the Bank's website whose content was extended and amplified in the year.

## 5 Banking supervision and regulation

### 5.1 SUPERVISORY ACTIVITY

The Banco de España supervises a total of 353 credit institutions

In 2009, with a view to making its supervisory function more widely known to the public, the Bank published a document entitled *The Banco de España supervisory model*<sup>2</sup>, summarising the activities conducted in order to comply with the provisions of Article 7 of Law 13/1994 of Autonomy of the Banco de España, updated as a result of the New Capital Accord (Basel II). As is reflected in the above-mentioned document, the Bank supervises,

2. Available in the "Banking Supervision" section of the Banco de España's website at [www.bde.es](http://www.bde.es).

	31.12.2009
<b>CREDIT INSTITUTIONS</b>	<b>353</b>
Banks	65
Savings banks	46
Credit cooperatives	83
Branches of foreign credit institutions	89
Specialised credit institutions	69
Electronic money institutions	1
<b>OTHER</b>	<b>141</b>
Mutual guarantee and reguarantee companies	24
Currency-exchange and money-transfer bureaux	63
Appraisal companies	54
<b>TOTAL</b>	<b>494</b>

on an ongoing basis, a total of 353 credit institutions (CIs), plus 141 other institutions (see Table 7.1).

The essential objective of the Banco de España's supervisory activity is to determine and keep updated the risk profile of each supervised institution and to take all measures, as and when necessary, to correct the risk profile. This process requires up-to-date information on all developments at the supervised institutions, including their future business prospects and viability.

For this purpose, the Directorate General Banking Supervision has 21 inspection operating divisions and eight support or cross-departmental divisions, comprising bank examiners, senior analysts, IT auditors, junior analysts and administrative staff,<sup>3</sup> each led by a division head. Each operating division is assigned a number of credit institutions. The supervisory activities conducted include inspection visits, off-site inspection and, where necessary in light of the size and complexity of the group of institutions supervised, continuous monitoring on-site.

Supervisory teams have a permanent presence in ten financial groups of CIs

There are ten Spanish groups of CIs in which supervisory teams have a permanent presence. This is complemented by specific inspection visits for the evaluation of particular areas or aspects of the supervised institutions. The supervisory system is particularly intensive in the case of the two largest banking groups.

Throughout the year, and as in 2008, supervisory activity was influenced by the crisis that broke out in summer 2007. In this setting, supervisory activity focused on close monitoring of lending (especially exposure to property risk), liquidity and the responsiveness of Spain's credit institutions to situations of stress. There was also in-depth analysis of the ongoing merger and concentration processes. As a result of this priority activity, and of the ordinary ongoing

<sup>3</sup>. As at 31 December 2009, the Directorate General Banking Supervision's staff comprised 238 bank examiners, 15 senior analysts, 41 IT auditors, 50 junior analysts, 44 administrative assistants and 46 managers and other division heads.

supervisory activity conducted in 2009, a total of 372 inspections were carried out, some of which were still under way at year-end.

These inspections include inspection visits and also special monitoring processes and have involved, inter alia, verification and analysis of restructuring and merger operations, review of credit portfolios (via individual analysis and segmentation of qualities and attributes), business plans, and foreclosed assets, valuation of the investee and fixed-income portfolio and other processes relating to own funds and liquidity. This figure does not include the on-site continuous monitoring conducted in the two big Spanish banking groups. This involves the permanent presence of more than 50 persons, which gives an idea of the scale of the operation.

46% of all requirements issued to credit institutions referred to credit risk

The letters sent to supervised institutions contained a total of 278 requirements related to matters such as credit risk (including recording thereof and the need to increase coverage as a result of the accumulation of weaknesses among borrowers, and also the appropriate improvements in the processes of lending, monitoring, etc.), internal management and control systems (including capital market activities), own funds and solvency, and other matters (such as customer transparency, shortcomings in information supplied to the Central Credit Register, etc.). As usual, credit risk was the main subject of the recommendations, accounting for 127 requirements, or 46% of the total.

The first internal capital adequacy assessment reports were reviewed

One new feature in 2009 was the receipt and review of the first internal capital adequacy assessment reports. These enhance the capacity of analysis of the Banco de España in its day-to-day workings, as they include significant information on matters such as risk profiles, systems of governance, risk control and management, capital objectives, own fund planning, business strategies, future action programmes, etc.

Regarding the validation processes of the internal models for calculating regulatory capital requirements for credit risk, the conditions of approval and results of the models of the eight Spanish groups of CIs authorised, since 2008, to use, for regulatory purposes, the internal ratings based (IRB) approach, were monitored. In addition, by means of the appropriate authorisations, the use of IRB models in these groups was extended to new portfolios, in line with the roll-out plan presented to the Banco de España. For the first time, some of these models were approved for subsidiaries outside Europe, specifically in Latin America, as the result of close bilateral coordination between the Bank and the Mexican supervisory authority (Comisión Nacional Bancaria y de Valores), which also approved their use for regulatory purposes within Mexico.

As the consolidated supervisor of the two big Spanish banking groups, the Banco de España organised, for the first time, “crisis management meetings” for each of the two groups. Supervisors and central banks from the main host countries took part in these meetings. This is an initiative launched by the G20 and the Financial Stability Board, as a result of the recent international financial crisis, aimed at developing appropriate preventive measures to reduce the likelihood and the impact of a potential crisis on a large institution.

Collaboration was strengthened through the colleges of supervisors

The Bank also continued to work actively in the field of international supervisory cooperation. Fluid collaboration with European, Latin American and North American supervisory bodies was maintained and strengthened, primarily, but not exclusively, through the supervisory colleges. Meetings were held at the Banco de España relating to the colleges of the two big Spanish international banking groups and the Bank took part, as the host country supervisor, in four meetings of colleges of banking groups with a foreign parent company.

In 2009 nine cases were opened against institutions and companies

During the year, six cooperation agreements were signed, in compliance with the provisions of Article 131 of *Directive 2006/48/EC* which requires that the competent authorities responsible for the consolidated supervision of a credit institution should have cooperation and co-ordination agreements, in writing, to permit effective supervision. The Bank has one such agreement in its capacity of home country supervisor and five in its capacity of host country supervisor.

At the domestic level, a new cooperation agreement was signed with the National Securities Market Commission (CNMV).

The Banco de España replaced the directors of Caja Castilla-La Mancha (CCM)

As a precautionary measure, on 29 March 2009 the Banco de España replaced the directors of Caja Castilla-La Mancha (CCM). This was the only special precautionary measure taken in connection with the supervised institutions in the year.

## 5.2 IMPOSING OF SANCTIONS

In 2009 seven sanctioning proceedings were opened against institutions of various kinds: a savings bank; a specialised credit institution; two appraisal companies; and three currency-exchange and cross-border money transfer bureaux. Two proceedings were also opened against companies, for the pursuit of activities reserved to credit institutions. In conjunction with the above-mentioned cases, 43 proceedings were also initiated against their directors or managers. These are quite similar to previous years' figures.

In turn, in 2009 a total of 12 cases against supervised institutions were resolved, together with 45 cases against members of their boards of directors and management bodies or, where appropriate, against holders of qualifying holdings in supervised institutions. These resolutions involved the imposition of: nine sanctions on institutions, 23 on directors and two on holders of qualifying holdings for the commission of very serious infringements; 24 sanctions on institutions and 85 on directors for the commission of serious infringements; and 18 sanctions on institutions for minor infringements (there being no provision in Spanish law for sanctions to be imposed on directors for the commission of minor infringements). A sanction was also imposed on a legal person for pursuing cross-border money transfer activities without the necessary authorisation.

By type of institution, in the cases referred to above sanctions were imposed on five appraisal companies, six currency-exchange and money-transfer bureaux and one legal person for pursuing cross-border money transfer activities without the necessary authorisation.

The Banco de España's sanctioning activity also extends to the control of acquisitions of qualifying holdings in supervised institutions. In this respect, sanctions were imposed on one natural and one legal person for acquisition of qualifying holdings in a specialised credit institution without the necessary authorisation.

Regarding appraisal companies and their directors, the infringements analysed in the cases resolved may be split into two groups. It is essential that the appraisal activity conducted by these companies, consisting in issuing reports and certificates for use in the mortgage market, is subject to control, insofar as it constitutes the core of their activity and the reason for their official recognition by the Banco de España. Accordingly, the first group comprises the five cases against these companies in which sanctions were imposed, two for very serious infringements and three for serious infringements, it being considered that the reports and certificates reflected a clear lack of veracity in the valuations and, in particular, a lack of consistency with the data and evidence obtained in the appraisal activity or a departure from the principles established in the applicable regulations, respectively.

The second group comprises nine sanctions for minor infringements, relating to failure by the institution in question to comply with specific obligations imposed by the applicable regulations. For instance, the requirement that internal control measures exist to ensure that appraisals are prepared correctly and that the appraisal companies and their staff act independently, the existence of sufficient civil liability insurance cover for the appraisal activity, correct reporting of data to the supervisory authority, or the requirement of exclusivity in their corporate purpose.

In the case of the currency-exchange and money-transfer bureaux, the infringements analysed in these proceedings may be grouped under three main headings. First, failure to comply with the regulations governing the activity and organisation thereof. These numbered one very serious, ten serious and six minor infringements. Second, failure to comply with the regulations on appropriate capitalisation, recording thereof and auditing and reporting to the Banco de España of accounting and activity data. These numbered three very serious, eight serious and three minor infringements. And lastly, failure to comply with the regulations on relations with customers and with the public in general, numbering two very serious, two serious and one minor infringement.

Both the institutions and their managers and directors were deemed responsible in the serious and very serious infringements identified in the proceedings filed against appraisal companies and currency-exchange bureaux.

Most of the sanctions imposed, within the range envisaged in the corresponding regulations, were in the form of fines. Thus fines were imposed on 45 institutions, 104 managers or directors and two holders of qualifying holdings. Nevertheless, in some cases, according to the conduct of the institution or person concerned, it was decided to opt for sanctions involving public (published in the *Official State Gazette*) or private reprimand. Moreover, in light of the severity of the facts, it was deemed necessary to revoke the authorisation of two currency-exchange bureaux, and in another case to withdraw official recognition from an appraisal company. These severe sanctions on institutions were accompanied, in general, by sanctions on their managers or directors, disqualifying them from serving in these posts.

Also, a case brought involving revocation of the authorisation of a currency-exchange bureau, on account of its having relinquished such authorisation, was resolved. Strictly speaking, such cases do not involve exercise of the Banco de España's sanctioning power, but they do represent a form of control over supervised institutions, since they enable entities which, for the reasons established by law, are liable to have their authorisation withdrawn, to be prevented from forming part of the system.

### 5.3 REGULATORY ACTIVITY AND CHANGES

Three circulars were drawn up affecting supervised institutions

Under its power to develop and implement the organisational and disciplinary regulations applicable to institutions subject to supervision, in 2009 the Banco de España drew up three circulars, improving and harmonising the data to be reported by appraisal companies and currency-exchange bureaux, and that relating to shareholders and senior officers of supervised institutions. The Bank also played an active part in the preparation of rules at different levels on banking and financial matters, issuing the corresponding reports. And, in the same vein, it participated actively in international committees and working groups on banking regulation, especially in matters of solvency and accounting, but also in transparency of banking operations and customer protection, and financial institution management and governance (corporate and self-governance).

As an extension of its regulatory function, the Bank continued to interpret and apply the regulations on the activity of institutions, especially the solvency and accounting regulations, set-

tling enquiries received from institutions or from other regulatory agencies. It also provided technical assistance on regulatory matters both in and outside Spain (participating in various working groups, organising seminars, etc.). At this point, mention should also be made of the checks performed on preference share and subordinated debt issues made by credit institutions involving, in 2009, the resolution of almost 200 proceedings.

As regards exercise of the Bank's power in the area of transparency and bank customer protection, particularly noteworthy were: the authorisation, prior to publication, of credit institutions' advertising projects that refer to cost or rates of return (6,376 cases studied in 2009), the verification and registration of brochures that refer to fee and commission charges (prices of bank services) (964 cases); and the Bank Customer's Portal, a section on the Banco de España's website that aims to provide guidance and which, in 2009, recorded 2,673,764 page viewings and generated replies to more than 5,500 enquiries.

Lastly, the Bank also plays a part in proceedings for the creation of supervised institutions, and of amendment of their articles of association, advising the Minister for Economy and Finance and drawing up the mandatory reports. And it is responsible for various public registers (such as the register of supervised institutions and their agents), and confidential registers (including, in particular, the register of senior officers). The largest of these is the register of agents, with a total of 22,053 at 31 December 2009. Applications for new entries, modification of details and removal from the register numbered 22,554 in the year.

#### 5.3.1 Regulatory changes

The key changes in 2009 in Spain's organisational and disciplinary rules applicable to credit institutions and other financial intermediaries subject to Banco de España supervision may be divided, by purpose, into four different groups:

- 1 Changes that aim to improve the legal regime applicable to credit institutions. These include:
  - *Law 3/2009 of 3 April 2009 on structural changes in mercantile companies.* Among many other issues, this law deals with certain aspects of corporate mergers and spin-offs in the case of credit cooperatives or between credit institutions of different kinds.
  - *Law 5/2009 of 29 June 2009 for the reform of the regime for qualifying holdings in investment firms, credit institutions and insurance companies.* This law clarifies the prudential procedures and criteria applicable in the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector.

As regards credit institutions in particular, the latter was implemented through Royal Decree 1817/2009 of 27 November 2009, which amended Royal Decrees 1245/1995 and 692/1996.

The Royal Decree on the Fund for the Orderly Restructuring of the Banking Sector (FROB) was published in June

- 2 Changes that aim to strengthen the solvency of credit institutions and to anticipate restructuring processes. For instance:
  - *Royal Decree-Law 9/2009 of 26 June 2009 on bank restructuring and the strengthening of credit institutions' capital.* The purpose of this legislation is to establish the guidelines to which any bank restructuring processes that may be necessary should adhere, along with the regime for a new institution created to this effect, namely the Fund for the Orderly Restructuring of the Banking Sector (FROB).

- 3 Changes that affect the operational framework within which credit institutions and other financial intermediaries work. These include:
  - *Law 16/2009 of 13 November 2009 on payment services.* This regulates the provision of payment services in the EU, it introduces a new category of payment services provider – payment institutions – and it regulates the rights and obligations of payment service providers and users.
  - *Law 26/2009 of 23 December 2009 on the State budget for 2010.* This amends Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España, making minor adjustments to the legal regime applicable to collateral pledged to the Banco de España, the ECB and other national central banks.
  - *Royal Decree 716/2009 of 24 April 2009, implementing certain aspects of Law 2/1981 of 25 March 1981 on mortgage market regulation and other mortgage and financial system rules.* This replaces Royal Decree 685/1982 in its entirety and completes the update of the mechanisms for refinancing credit institutions on the mortgage market that began with Law 41/2007, which in turn amended Law 2/1981.
  - *Ministerial Order EHA/3515/2009 of 29 December 2009 establishing contributions to the Savings Bank Deposit Guarantee Fund.* This places the calculation basis of the savings banks' annual contributions to the Fund at 1 per mille.
- 4 The fourth and final group comprises rules addressed to financial institutions other than credit institutions that are supervised by the Banco de España. For instance:
  - *Ministerial Order EHA/1327/2009 of 26 May 2009 on special rules for the preparation, documentation and presentation of the accounting information of mutual guarantee companies.*

The changes made to the EU regulatory framework include, for our purposes here and following the same structure as before, the following:

- 1 Changes affecting the solvency of credit institutions:
  - *Two Commission Directives – 2009/27/EC and 2009/83/EC – amending certain Annexes to Directives 2006/49/EC and 2006/48/EC as regards technical provisions concerning risk management.*
  - *Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements and crisis management.*
- 2 Regulatory changes in the operational framework of credit institutions:
  - *Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay.*

### 3 Changes affecting financial institutions subject to Banco de España supervision:

- *Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions, which substantially reviews the 2000 Directive, adding greater flexibility to the regime applicable to these institutions.*

Cost-benefit impact analysis of financial regulation

The Banco de España continued to collaborate actively with the CEBS on the implementation of the impact analysis of financial regulation, in line with the European Commission's decision to extend this approach to all regulatory initiatives, participating, in particular, in the review of the guides on hybrids and in the debates on own funds and the liquidity regime.

The Bank also gave part of the training seminar on *Assessment of the Impact of Financial Regulation*, organised jointly with the CNMV and the Ministry of Economy and Finance in October. The aim of the seminar was to make this approach known to Spanish financial regulators, especially to officials who belong to working groups of the level 3 committees (see Section 3.1) and who need to use this approach in their work.

5.4 FINANCIAL AND PRUDENTIAL REPORTING

The Banco de España policy to set in place electronic financial reporting was extended during 2009 to cover credit institutions' financial documentation (annual accounts, actuarial reports and audit reports, etc.), the only information still received on paper. The other supervised institutions will also begin to use this procedure for financial reporting in 2010 for documents corresponding to December 2009.

5.4.1 Financial reporting and XBRL

Similarly, as a result of the gradual introduction of XBRL for the transmission of all financial information to the Banco de España, in 2009 mutual guarantee companies began to send their statements in this language, coinciding with the first-time submission of the new solvency and accounting returns approved, respectively, by Circular 5/2008 of 31 October 2008 and Ministerial Order EHA/1327/2009 of 26 May 2009.

In December 2009 the new formats for the confidential financial returns of currency-exchange bureaux were approved and will have to be submitted in 2010 using XBRL for the first time. The financial returns of appraisal companies were modified and will continue to be transmitted, as they have been to date, in this language. This language will also be used for sending the new returns, which include euro area statistical requirements, and interest rate statistics, which were approved by the Bank in January 2010.

The Banco de España actively participated within the CEBS in preparing the new accounting returns with prudential information (FINREP) which were approved in December 2009 and are planned to come into force in 2012. The CEBS undertook to adapt these formats to the changes announced by the International Accounting Standards Board (IASB) regarding the accounting treatment of financial instruments and rules on the presentation of financial information. The Bank also participated in the work commenced by the CEBS in 2009 to establish standardised formats in the European Union for solvency returns (COREP) which will be compulsory for data as at 31 December 2012. Likewise, it took part in the ECB-CEBS joint working group which prepared a manual on the reconciliation of ECB statistical requirements and CEBS prudential financial reporting (namely, FINREP and COREP). Lastly, in 2009 it collaborated in the analysis begun by the Bank for International Settlements to reformulate the information provided in the semi-annual and triennial survey of derivatives markets.

## 5.5 CENTRAL CREDIT REGISTER

The Central Credit Register (CCR) contains individualised information on the credit exposure of reporting institutions (basically credit institutions) to their customers. This information is used by the institutions for granting and monitoring exposure, and by the Banco de España, in conjunction with the data from accounting and own funds statements, for prudential supervision and other tasks which are legally entrusted to it, maintaining the confidentiality of the individual data.

The number of borrowers in the CCR decreased slightly to 17.4 million

In 2009 the number of different borrowers declared to the CCR fell slightly to 17.4 million in December (down 1.14% on one year earlier) and the number of exposures declared decreased to 32.9 million (down 2.9%), although the total amount of these exposures grew to €3.8 billion in December (up 2.7%).

During 2009 the CCR sent a total of 297.2 million automatic reports to reporting institutions, which represents, for the first time, a drop of 1.9% with respect to the previous year. Also, for the second year running, there was a decline in requests for reports for new lending transactions which totalled 5.2 million (14.7% down on 2008). In turn, requests for reports by borrowers also decreased (to approximately 112,000, a decline of 16%) and 2009 marked a turning point in the previous growth trend.

As regards the quarterly exchange of information with the central credit registers managed by six other central banks of EU Member States (Germany, Austria, Belgium, France, Italy and Portugal), to September 2009 (date of the latest available data), the CCR received information on exposures of 3,914 Spanish legal persons (an increase of 0.23% on the same period a year earlier) recorded in the other central credit registers, amounting to €233,243 million (down 2.18%). In turn, the CCR sent to these registers information on 1,831 legal persons resident in the other six countries (down 0.7%), relating to exposures amounting to €45,569 million (down 27.75%).

Borrowers in the CCR can access their reports over the Internet

Lastly, it should be highlighted that in 2009 work was carried out to grant borrowers access to their CCR reports via the Internet, to adapt to the provisions of Law 11/2007 of 22 June 2007 on electronic access to public services. This service will be available in the first half of 2010.

## 6 Operational functions

### 6.1 MONETARY POLICY AND MANAGEMENT OF THE BANCO DE ESPAÑA'S ASSETS

The implementation of monetary policy in the euro area is carried out in a coordinated fashion by the European Central Bank and the national central banks; the former takes the monetary policy decisions, while the latter perform the liquidity providing/absorbing operations and manage the collateral provided by the credit institutions within their purview.

In June the ECB conducted its first one-year refinancing operation to provide liquidity

The volume injected through monetary policy operations into the Eurosystem remained throughout 2009 substantially higher than credit institutions' liquidity requirements and, consequently, the latter used the deposit facility to drain this surplus. In June the ECB conducted its first one-year refinancing operation to provide liquidity, it was repeated in September and December and was in notable demand by institutions to the extent that it became the preferred term for the bulk of the liquidity injected by the Eurosystem.

Spanish institutions borrowed amounts in excess of their liquidity requirements from the Eurosystem and lent funds to other banks

Spain's liquidity requirements grew by 10.4% on average in 2009, at approximately half the speed of those of the euro area as a whole (21.6%). For coverage purposes, Spanish institutions continued along the path they had taken in 2008 which was characterised by increasing their use of Eurosystem funds, clearly beyond their needs, and by acting as net lenders to the rest of the European banking system. Thus, Spanish institutions obtained €73,790 million in Eurosystem monetary policy operations, an increase of 50.1% with respect to 2008. However,

this change was offset to a large extent by the considerable increase in funds delivered through TARGET to the rest of the European system which amounted to €35,251 million. Therefore, Spain's liquidity requirements totalled €38,539 million in 2009, in comparison with €34,913 million in 2008.

Like other banks, Spanish banks will have to modify their sources of financing during 2010 as and when Eurosystem monetary policy moves back onto a normal footing and, in particular, as one-year operations mature. However, it should be emphasised that Spanish banks obtained financing from the Eurosystem which amounted to 10.1% and 12.5% of the net volumes lent in monetary policy operations in 2008 and 2009, respectively. Both figures are very close to 11.9%, which is Spain's weight in the Eurosystem as a whole.

In addition to acquisitions of nearly €3,500 million of covered bonds included in the Eurosystem programme referred to in Section 2, and with the objective of achieving a more profitable balance-sheet structure, in 2009 the Banco de España managed a portfolio of euro-denominated fixed-income bonds with an average outstanding balance of €82,540 million in 2009. Holdings of foreign currency denominated assets stood on average at \$11,560. As at 31 December 2009, manageable assets in euro, foreign currency and gold totalled €102,088 million.

Throughout 2009 the Banco de España continued to manage part of the ECB's foreign reserves, taking charge of a portfolio averaging \$6,240 million.

## 6.2 FUNCTIONING AND OVERSIGHT OF PAYMENT SYSTEMS

As for large-value payments, noteworthy primarily is the soundness and stability demonstrated by the system (one full year after TARGET2-Banco de España came into operation) which was created from the Banco de España Settlement Service (SLBE).

### TARGET 2-Banco de España demonstrated its soundness and stability

In a year without any significant incidents, the new Spanish component of TARGET2 processed more than 9.3 million transactions, a decline of approximately 13%, which is equivalent to that seen for TARGET2 as a whole. In terms of amounts, TARGET2-Banco de España settled transactions amounting to more than €98 billion which, contrary to TARGET2 overall, is more than 5% up on the previous year's figures.

With regard to retail payments, during 2009 the Banco de España continued to work on the oversight of the National Electronic Clearing System (SNCE) which is managed by Iberpay, a company owned by the system's participants. The total of close to 1,545 million transactions processed by the SNCE showed a growth rate of 2.3% (a decline on the rate for recent years of around 5%-6%), amounting to almost €1.7 billion, which was notably lower than the previous year (down 15%).

14.3% of the transfers in December 2009 met SEPA standards, a considerably higher figure than the European average

The migration of the Spanish retail payments system to SEPA, the Single Euro Payments Area, progressed with the enactment of *Payment Services Law 16/2009* which transposes into Spanish Law *Directive 2007/64/EC on payment services in the internal market*. With the new Law in force, in December 14.3% of transfers compliant with the new SEPA standards had migrated, which was far higher than the average for Europe as a whole. Highly satisfactory figures were also seen in the number of SEPA-compliant ATMs and POSs. However, progress must be made during 2010 in the migration of cards to international EMV standards based on the inclusion of a chip in the card and the use of a PIN to authenticate cardholders. The first

“Status report on the transition to SEPA in Spain”<sup>4</sup> which was published in 2009 includes ample information in this connection.

In order to facilitate full access to/from the rest of the Single Area, the Banco de España continued to offer to represent those institutions that are interested at the main pan-European retail payment clearing house currently in existence, thus enabling them to send and receive payments to/from anywhere in the geographical space of SEPA.

The Banco de España continued to perform its task of oversight of payment systems, with the aim of contributing to their security and of achieving their efficient operation. To ensure that this activity is exercised with the greatest transparency, the fourth edition of the annual report on oversight<sup>5</sup>, covering the most notable developments in national payment systems and the oversight activities carried out, was published.

TARGET2 and the SNCE are the main payment systems subject to oversight. The oversight tasks of TARGET2 are undertaken jointly with other Eurosystem central banks and are coordinated by the ECB, while the oversight of SNCE is performed by the Banco de España in accordance with the shared criteria and policies set for the whole Eurosystem. In addition to monitoring these systems, in 2009 Spanish card payment networks were evaluated according to the oversight standards set by the Eurosystem. This exercise is being undertaken in coordination with all Eurosystem central banks and on completion of the analysis, its main general findings are planned to be published.

### 6.3 BANKNOTE MANAGEMENT

The Banco de España was responsible for producing 1,050 million 20 and 50 euro banknotes

The Banco de España, in compliance with its function of issuing euro banknotes and assuring the legitimacy and quality of the banknotes in circulation, and within the framework of Eurosystem agreements for banknote production, was responsible for producing 1,050 million 20 and 50 euro banknotes. Part of these banknotes was used to cover domestic demand, while the remainder was distributed to other Eurosystem members, according to the programme and timetable agreed upon by the ECB Governing Council. Likewise, the Banco de España received consignments of banknotes from other Eurosystem central banks relating to the denominations not produced in Spain.

During 2009 the Banco de España received slightly more than 2,900 million banknotes from credit institutions, an increase of 4% with respect to the previous year's figure. In turn, the Bank delivered 2,723 million banknotes to credit institutions, representing an annual increase of 6.1%. Consequently, the banknotes received exceeded those withdrawn, although this did not result in a decrease in the number of banknotes in circulation owing to the notes entering Spain from other euro area countries, basically as a result of tourism. The negative difference between the banknotes issued and those withdrawn, in technical terms “negative net issuance”, mainly affected 5, 10 and 20 euro banknotes.

The Bank continued to work in collaboration with the private sector to improve the system of custody and distribution of cash throughout Spain, endeavouring to ensure that operating flexibility and cost reduction targets may be met without impairing the quality and authenticity of the banknotes in circulation. The Bank complied with all the banknote delivery or withdrawal requests that it received and there were no significant incidents in the numerous banknote transportation operations undertaken throughout Spain.

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4. The first «Status report on the transition to SEPA in Spain» is available at SEPA's website in Spain at [www.sepaesp.es](http://www.sepaesp.es). 5. Available in the “Publications section” of the Banco de España's website at [www.bde.es](http://www.bde.es).

Banknote handling aims to improve the quality of cash in circulation

The Banco de España's banknote handling activity covers identifying, counting and authenticating banknotes and checking their fitness. For this activity it uses high tech sorting machines which processed 2,600 million banknotes in 2009, a highly similar volume to that processed in the previous year. 40% of these banknotes were declared unfit to be returned to circulation because they were damaged and were destroyed and replaced by other new or high-quality used banknotes that conformed to the standards set by the Eurosystem.

The process of applying Eurosystem rules to banknote recycling by professional cash handlers, which are included in the *European Framework for euro banknote recycling*, continued throughout 2009. At end-2009, more than 75% of the ATMs installed in Spain dispensed banknotes which complied with the established requirements and had been previously supplied by the Banco de España or had been selected using a BE-certified machine. The aim is to increase this percentage to 100% of ATMs by 31 December 2010. As a result of the extensive ATM network and the considerable use of cash by the Spanish population, this process is particularly complex. The banks have collaborated considerably with the Banco de España and, without exception, are making investments and equipping themselves with the suitable means to achieve the targets by the deadline. Also, in the context of the above-mentioned framework, the Banco de España is working on reviewing the machinery used and the procedures followed in the processes of verifying banknote authenticity and fitness at private banknote processing facilities authorised by it.

The Banco de España put 972 million coins into circulation and withdrew 310 million coins from circulation in 2009, in the performance of the task entrusted to it by the Treasury.

6.4 TRANSACTIONS OF THE FUND FOR THE ACQUISITION OF FINANCIAL ASSETS

In accordance with the provisions of *Royal Decree Law 6/2008 of 10 October 2008*, the Banco de España implements the Fund for the Acquisition of Financial Assets (FAFA), acting as its agent and custodian through the Treasury Special Schemes Support Service.

The third and fourth auctions for the acquisition of assets were held during 2009. The former involved sell/buy back transactions and the latter consisted of the purchase of held-to-maturity securities.

As part of its tasks, the Bank was also responsible for maintaining the Fund's portfolio of securities. These tasks include the management of the financial flows generated by the securities, the recovery of tax withholdings made due to the payment of regular coupons, the replacement of certain securities by others which are also "eligible" and the valuation adjustments of assets due to changes in prices.

Implementation of the Fund also includes keeping the accounts of the transactions and the preparation of its annual accounts as well as providing detailed information to the Executive Committee of the FAFA.

## 7 The statistical function of the Banco de España

The statistical function of the Banco de España is established in its Law of Autonomy and in the National Statistics Plan.<sup>6</sup> The Law of Autonomy<sup>7</sup> provides that the Banco de España shall compile and publish statistics relating to its functions and that it shall assist the ECB in the compilation of the statistical information needed for the fulfilment of the ESCB's functions.

6. The National Statistics Plan is established every four years (the current Plan is for 2009-2012) by means of a royal decree, pursuant to Law 12/1989 on the Public Statistical Function. 7. 7. Article 7.5.f).

The main statistics compiled by the Banco de España under the Law of Autonomy relate to financial institutions and markets and to interest rates. The statistics compiled under the current Plan are the Balance of Payments and the International Investment Position, the Financial Accounts of the Spanish Economy, the Survey of Household Finances, and Public Debt, according to the Excessive Deficit Protocol (EDP).

A significant part of the statistics mentioned broadly coincides with the requirements of the ESCB, being compiled using the information that all resident units are obliged to provide by law, although in certain cases the underlying information provided by other supervisory agencies is used. In addition, the Banco de España, through its Central Balance Sheet Data Office, compiles information on the balance sheet position and the results of non-financial corporations, using questionnaires completed voluntarily by the reporting firms, and on the annual accounts filed by non-financial corporations at the Mercantile Registries. All these statistics are published in the Boletín Estadístico, in monographic publications and on the Banco de España's website.

Apart from compiling and disseminating the above-mentioned statistics, the Bank also uses statistics produced by other Spanish agencies and supervisors (INE, IGAE, ministries, CNMV, DGSFP, etc.) and by international organisations as a source for another area of statistical work that it makes available to its own analysts and to the general public. Moreover, Banco de España representatives take an active part in international statistical fora (within the ESCB, the European Commission through Eurostat, the European Committee of Central Balance Sheet Data Offices, the IMF, BIS, OECD, etc.). The Bank also maintains databases that permit analysis of the evolution of the variables for which data are collected.

## 7.1 MAIN CHANGES INTRODUCED IN 2009

During 2009 the statistics were updated and disseminated along with the corresponding methodological notes and notes on changes, in line with generally accepted quality levels, and the data were released in accordance with the calendar which is kept up to date on the Banco de España's website. The most notable elements of the other work undertaken by the Banco de España are mentioned below.

### 7.1.1 Monetary and financial statistics

The most noteworthy aspects of the work undertaken in the area of monetary and financial statistics are as follows:

The new ECB statistical  
requirements were included

- The new statistical requirements of the European Central Bank have been included in the regulations governing credit institutions in the form of Circulars 1/2010 and 2/2010, both of 27 January 2010, on credit institutions' financial returns and the interest rates applied to customers.
- New statistics on mutual funds complying with ECB requirements were compiled and disseminated jointly by the ESCB for the first time.
- Coinciding with the publication of the *Financial Accounts*, the time series was extended to the period 1980-1989 and new tables were disseminated which include the link between the financial balance sheet at the beginning and the end of the period, specifying under each heading the financial transactions, revaluations and other variations in volume.
- Due to the entry into force of the new Spanish National Classification of Economic Activities (CNAE 2009), statistics on lending by economic activity were revised as were those on production, the labour market and prices, at the same time as the information sources were included in the new CNAE.

7.1.2 Balance of Payments and International Investment Position statistics

The main changes in this section are as follows:

- Data from the Investments Register were used for the first time to calculate the direct investment heading of the *International Investment Position* and the time series of Spanish investments abroad was revised from 1992.
- Work began to adapt the information system on cross-border economic transactions to *Regulation 924/2009 on cross-border transactions* and the sixth edition of the *Balance of Payments and International Investment Position Manual* published by the International Monetary Fund in 2009.

7.1.3 Balance sheet position and results of non-financial corporations according to the Central Balance Sheet Data Office

2009 saw the completion of the preparatory work undertaken in previous years to adapt the Central Balance Sheet Data Office's information system and publications to the new 2007 Spanish General Chart of Accounts (PGC 2007) and to the new Spanish National Classification of Economic Activities (CNAE 2009). During the final stage of this adaptation process work was carried out to link the time series avoiding the breaks caused by the introduction in the new chart of accounts of different concepts and measurement basis (especially the adoption of fair value). New tables which use the new CNAE 2009 classification have been disseminated for the first time. As a result, a new sector of activity had to be assigned to the more than 500,000 corporations in the various databases.

7.2 WORK RELATING TO THE COLLECTION, MANAGEMENT AND DISSEMINATION OF STATISTICAL INFORMATION

In addition to improving the infrastructure for collecting, exchanging and accessing statistical information (partly due to the projects listed in previous sections), work progressed on enhancing the procedure for disseminating data through the website with the installation of a system for searching for statistical information (Biest). The functioning of this system will be refined over the coming years and the process of providing new electronic forms for reporting cross-border transactions continued.

## 8 Claims Service

The number of claims received increased by 84%

The most important development for the Claims Service in 2009 was the vast increase in the volume of its work of attending to queries and claims made by the users of financial products and services offered by financial institutions subject to Banco de España supervision. Claims increased by 84%, while the number of enquiries received through the virtual office rose by 19% and the number of telephone enquiries was up by 52%.

As a result of this strong increase in the number of claims received by the Service, it was necessary to review and improve the methodology and organisation of the work and standardised formats were introduced for lodging complaints and receiving submissions from respondents which made it possible to streamline the processing of claims in order to subsequently study and settle them. In conjunction with other factors, this allowed the Claims Service to absorb the rise in the number of claims submitted by issuing 4,666 reasoned reports (up 96% on the previous year).

The Claims Service's virtual office, which has been in operation since April last year, was increasingly used by the public to submit queries and lodge complaints. More and more institutions have joined the electronic communication system, thus permitting swifter responses.

As a result of the organisational restructuring required to handle the higher number of complaints, the quarterly reports which had been published since 2006 were replaced by a half-yearly report on its activities and the structure and content of the Claims Service's annual report remained unchanged.

Notable in raising the Service's external profile at European level was its participation in the two annual meetings of FIN-NET, the European network for settling cross-border financial disputes out of court in the European Union, of which Spain is a founder member.

## 9 External communication

As a public agency, the Banco de España shares the obligation of accountability vis-à-vis the general public, although in the case of the Bank a balance must be found between this obligation and the discretion required of it in its financial system supervisory duties. The communication policy of the Banco de España has a twofold objective: to explain the functions and activities of the institution and to contribute to the confidence of citizens in the financial system. External communication is necessary for the Banco de España to fulfil its functions under the Law of Autonomy and as a member of the ESCB.

### 9.1 MEDIA RELATIONS

The Banco de España's relationship with the media focuses on enhancing knowledge of the institution's activities and the financial system in general among information professionals, since these are a key link in the mechanism for transmitting messages to the public. For this purpose, in 2004 the Banco de España began a journalist training programme which since its inception has covered, among other subjects, those related to financial regulation, the Bank's functions, supervision and the statistics compiled by the Banco de España. As part of this plan, in 2009 the Bank collaborated with the ECB in the organisation of a seminar specifically for the media, on aspects such as how the ECB is organised, its functions, monetary policy and economic developments in the euro area. Moreover, in order to publicise the work of the various departments of the Bank, informative meetings were organised to present the results of the public debt report (in May) and of the Central Balance Sheet Data Office (in December).

Notable, in addition to these regular meetings, was the media coverage of other acts organised in the early months of 2009 to commemorate the tenth anniversary of economic and monetary union (see section 9.2.3). To mark this anniversary, a photo shoot was organised at the premises of the National Mint which enabled the media to gain insight into the process of producing banknotes and coins. The Bernácer prize award ceremony in June was also widely reported in the media.

In line with last year's trend, media interest focused on the consequences of the crisis for Spain's financial system, which resulted in a high number of requests from the media for interviews. Overall, representatives of the Bank gave around 20 interviews. Some of the interviews in 2009 came within the Bank's branch network-based communication plan, the purpose of which is to acquaint local and regional media with the Banco de España's activities.

Nonetheless, as in previous years, the main channel for communicating the Bank's viewpoint regarding the economic situation and the financial system was its regular publications, such as the *Annual Report*, the *Economic Bulletin* and the *Financial Stability Report*, and the public speeches made by its management. In addition to the Governor's regular appearances before Parliament (in June, to present the *Annual Report*, and in October, before the Parliamentary and Senate Budget Committees), he made three further appearances before Parliament: once in February, to explain the government-approved Fund for the Acquisition of Financial Assets of credit institutions; and twice in April, firstly to report on the actions taken by the Bank at Caja Castilla-La Mancha and; secondly, before the Non-Standing Committee of the Toledo Pact, to explain the Banco de España's view on the reform of the pension system. In addition to these appearances, members of the Bank's governing bodies participated in more than 40 domestic and international fora.

9.2 INSTITUTIONAL  
COMMUNICATION PROGRAMME

9.2.1 Information to the public

The website was totally redesigned and the number of visitors increased by 16.7%

The Banco de España's website is its most important direct communication channel, in terms of efficiency and cost, for fulfilling its aim of channelling the information it produces swiftly and reliably to the public and specialist audiences.

The access statistics showed the importance of this channel since there were 2.4 million visitors in 2009, up 16.7% on the previous year. The number of pages visited by users exceeded 23 million, up 6% with respect to the pages consulted in the previous year.

In June 2009, the Banco de España successfully concluded the complete revamp of its website's design, architecture, usability and accessibility, which made it possible to tailor this channel to the demands of its target audience and to standardise the language employed by using a style manual.

The website currently comprises approximately 2,000 pages and 20,000 files. Progress has been made in the translation of institutional contents into the co-official languages of the autonomous regions, to enable users to navigate in the Catalan, Galician, Valencian and Basque languages, and into English, to satisfy the demand for information from international users.

In addition to the website, the Banco de España has made available to users several information and educational portals, the purpose of which is to cover the specific needs for information and training of certain population segments. Noteworthy among these portals is the Bank Customer's Portal which was visited by more than 500,000 users whose accesses grew by 5% to 2.7 million in 2009.

During 2009 the Virtual Office of the Banco de España was also developed and since January 2010 it has enabled members of the public, corporations, financial institutions and general government to perform administrative procedures and submit queries electronically to the Bank (see section 10.4).

For those members of the public who visit the Bank's headquarters and branches, information terminals were installed in the respective operations floors enabling them to access the Banco de España and the ECB's websites and to consult various data about the services provided.

The Bank handled a total of 59,700 enquiries from members of the public and corporations and distributed 56,200 copies of its own informative materials

In 2009 it handled 59,700 requests from corporations and members of the public from various specialised information points. Noteworthy, in terms of volume, were the 43,400 enquiries received from the public by the Claims Service about several aspects of their relationship with banks. In turn, the Bank Customer's Portal processed 5,500 requests and the Statistical Information Service responded to around 11,600. The most commonly requested information related to interest and exchange rates.

In line with the Banco de España's wish to make itself better known to different social groups, last year it distributed 56,200 copies of informative materials and 15,000 units of informative and educational products of the Eurosystem and of the European Commission. These items were distributed by post and during visits by certain groups to the Bank and at conferences held by it. Furthermore, there were approximately 5,000 downloads by members of the public of various training materials (brochures, presentations and educational videos) offered by the website.

The Bank, in line with its commitment to communicate with the public in the co-official languages, has a policy of multilingual presentation of the materials which, since they are addressed to the residents of regions with co-official languages, require translation and it ac-

tively participates in the translation into these languages of materials targeted at the public which are produced by the Eurosystem.

As part of the Banco de España's commitment to communicate suitably with the public and other segments of society, it ensures that a single, reliable and consistent image is projected in the various communication materials and vehicles it uses.

#### 9.2.2 Educational initiatives

The Bank, jointly with the CNMV, continued to develop the Financial Education Plan

The signing of an assistance agreement with the Ministry of Education in 2009 marked an important milestone for the Financial Education Plan, a project to improve the financial culture of the population which will last until 2012 and is sponsored by the Bank in conjunction with the CNMV. As a result of this agreement secondary-school students will be given a grounding in the basic concepts involved in saving and personal financial planning. As early as the next academic year (2010-2011) a pilot test will be held at around thirty schools targeted at students in the third year of Compulsory Secondary Education.

During 2009 work progressed on the preparation of the portal [finanzasparatodos.es](http://finanzasparatodos.es) ("finance for everyone") which has been available to the public since May 2010 and provides practical financial information for the population in general, according to people's socio-economic profile and financial requirements. The Bank's aim is for the [finanzasparatodos.es](http://finanzasparatodos.es) portal to be a benchmark in financial education.

During its fourth year of its life, the Virtual Classroom, an educational portal for young people to foster knowledge of the Banco de España and spread awareness of its mission to guarantee the stability of prices, payments and the financial system, became established as a learning tool for the educational community. This is clear from the fact that 290,000 portal pages were consulted by 75,000 visitors during 2009.

214 schools participated in the Banco de España's 3rd Competition for Schools

The Competition for Schools organised by the Banco de España for upper-level secondary and middle-level vocational training students is an educational instrument which fosters the entrepreneurial spirit of students and has aroused growing interest among schools since the first time it was organised. The 3rd Competition for Schools, held in the 2008-2009 academic year, merited the participation of 1,716 students from 214 schools, which are similar figures to last year when 1,799 students from 228 teams competed.

The 3rd Competition for Schools (dedicated to the 10th anniversary of the euro), in which 214 teams from public and private schools throughout Spain took part, was divided into a first general qualifying round and a second round consisting of a written contribution based on the theme "The Euro: a symbol of European integration". The winner was the Josep María Cuadrado Secondary School located in Ciutadella (Menorca). The diploma and prize (eight laptop computers) were awarded at a ceremony held at the Banco de España branch in Palma presided by the branch Director and the Chief Officer for Education and Culture of the Balearic Islands Regional Government.

As in previous competitions, due to the Banco de España's awareness of the importance of co-official languages as vehicles in education, it published a bilingual edition of winning team's contribution.

"The Safe", a game devised for primary school students

The Banco de España created "The Safe", a game devised for use in the classrooms of upper primary school students. Its aim is to promote basic knowledge about the euro, the Banco de España and the ECB through a game in which students and their teacher represent different agents in the real financial economy. The teams of students face situations, questions and

problems which they must resolve with the help of background information cards which can be acquired from other teams in a sort of information market. Each question is resolved with a transaction involving euro banknotes and, consequently, the game includes specimen euro banknotes enabling students to handle them and identify their characteristics and security features.

The Banco de España distributed the game to schools in the first term of 2009 for use in the 2009-2010 academic year. To supplement this game, the Bank created the *Educational Corner* in a section of the Virtual Classroom on the website, which enabled primary school teachers to ask for the game to be sent to them, to download the educational support materials and have at their disposal supplementary activities for the students to do in class or at home.

The Banco de España provides for institutional visits to its headquarters and branches. These are open to educational establishments and in 2009 it welcomed more than 2,500 visitors.

### 9.2.3 Institutional relations with the European Central Bank

In 2009, the Banco de España carried out communication activities as a member of the ESCB. In addition to helping to define and implement the Eurosystem's communication strategy through its participation in the Eurosystem and ESCB Communications Committee and to publishing ECB press releases and communications on its website, the Communication Department carried out various initiatives under the Eurosystem communication plan, notably including the updating of information materials, in particular, those on euro banknotes and the preparation of interactive educational materials and of a competition on price stability for upper secondary school students.

### Several events commemorated the 10th anniversary of the euro

The Banco de España held a number of events to commemorate the 10th anniversary of the euro in 2009. In addition to the International Conference held on 27 February which focused on Spain in EMU, the Bank inaugurated the exhibition of *"Ten years of the euro in Spain"*. 14,150 people visited this exhibition which explained the developments in the Spanish economy in that period and different aspects of common monetary policy. Similarly, the Banco de España's Barcelona branch housed the exhibition prepared by the ECB to commemorate this anniversary which had already travelled to several Eurosystem countries. The exhibition, which was presented in Spanish and Catalan, explained the characteristics of euro banknotes and coins, their production process and security features, and included a children's corner with interactive games. 11,000 people visited the exhibition, including guided visits for schools. Like the other central banks in the Eurosystem, the Banco de España asked the Spanish Post Office to create a commemorative stamp which was issued in June 2009. The stamp, with a face value of €1, represents the reverse of the €2 commemorative coin which was minted to celebrate the first ten years of the euro.

## 10 Internal organisation and administration

### 10.1 HUMAN RESOURCES AND ORGANISATION

The Bank's headcount  
remained stable at 2,724  
employees

As at 31 December 2009, the Banco de España's headcount amounted to 2,724 employees, having held at a similar level since 2006, although its employees have become more highly qualified with this group representing 59% of total employees at end-2009 in comparison with 54% in 2005.

This year 13 internal and 7 external selection processes were organised. A recent development in this area is that an Induction Programme was set up for new employees which involves all the Bank's departments. Collaboration with universities was also stepped up and new educational cooperation agreements were signed in order to contribute to the practical training of more students.

The number of females continued to increase and amounted to 38% of the workforce

Under the mobility project, 205 employees (8% of permanent employees) moved to another work centre, were promoted to another post or both. As for international mobility, 21 employees were temporarily assigned to other central banks or international organisations, and under secondment arrangements with the latter, 34 employees enjoyed special leave of absence.

As for information on equality, the proportion of females in the workforce grew again in general terms to 38% of total employees, and among management posts, it stood at around 37%. These data corroborate remarks made in previous years about a favourable outlook for gender balance.

As part of the reconciliation of work and family life, the number of employees who benefit from reduced working hours increased from 0.4% of employees in 2005 to 3.2% in 2009.

In the area of in-house training, programmes developed in previous years continued and the Bank's educational capabilities were expanded with new activities throughout the year which took advantage of the synergies between the various departments.

As for training figures, the number of hours of training given amounted to 141,228 in total which represents an average of 52 hours of training per employee, an increase with respect to the previous year. A total of 5,278 places were taken up on training courses. The number of employees from other central banks participating in training activities offered by the Banco de España to the ESCB and other organisations grew considerably to a total of 172 participants in 2009.

In order to boost training at the Banco de España, during 2009 training needs were analysed exhaustively with departmental representatives and a three-year Training Plan (2010-2012) was drawn up which will include cross-departmental and technical training. As for logistics, a new computer application was launched to facilitate advertising of internal training activities and to make it easier for employees to sign up for them.

With respect to labour relations, activity centred on the implementation of the commitments undertaken in the latest collective labour agreement which is in force for the 2008-2010 period.

## 10.2 PROCUREMENT AND GENERAL SERVICES

By resolution of the Executive Commission dated 17 July 2009, the Procurement and General Services Department was created, which assumed the functions undertaken until then by the Central Procurement Services and part of the functions of the former Administration and Properties Department.

This reorganisation entailed the centralisation of functions, such as the centralised management of tenders above €50,000, with the aim of improving the Banco de España's general services.

Noteworthy were the considerable efforts made by the Banco de España to analyse and coordinate tender processes, promoting good procurement practices for this purpose, in accordance with the principles of competition, equal treatment, non-discrimination, mutual recognition, proportionality, transparency and public dissemination which are included in *Internal Circular 3/2007 on Public Procurement Rules of the Banco de España*.

The procedures for procurement of construction work, goods and services continued to be made public in the Official Journal of the European Union, in the national press and on the Banco de España website. The number of email enquiries about tenders increased fivefold.

The Banco de España participated actively in the work of the Eurosystem Procurement Coordination Office. During 2009 it chaired a working group, participated in three other working groups and defined two new series of good procurement practices.

Due to its awareness of the importance of supranational procurements, on 3 November 2009 the Executive Commission authorised the Banco de España's participation in certain joint tenders.

#### 10.3 MAINTENANCE AND CONSTRUCTION

During 2009, the programme to renovate, overhaul and maintain the Bank's buildings, both at its central headquarters and at the branches and recreation centres, continued.

The refurbishing work at the Cibeles building was completed

At the Cibeles complex, with the completion of the last phase of restoration of the roofing and the inner façades, the refurbishing work on the exterior of the old building concluded. The culmination of this work will be the ornamental illumination of the external façade, the completion of which is scheduled for 2010.

Furthermore, the refurbishment and modernisation of office space progressed, thus facilitating the renovation of facilities and the reorganisation of their use, and the successive phases of the Electrical Integration Plan continued to be implemented. This plan will last for several years because, for technical reasons, it is necessary to stagger the work, thus enhancing the security, reliability and quality of the power supply.

The security of the complex improved with the installation of physical barriers and the identification of vehicles at its entrances.

At Alcalá 522, the structural voice and data cabling was completely replaced and the network's quality, capacity and speed improved considerably.

As to the branch network, the renovation of electromechanical installations and the updating and extension of fire-prevention systems involving fire detection and automatic extinction is under way and will conclude in 2010, once the subcontractors have completed their work. Similarly, elimination of impediments to public access to the operations floors was completed.

The increase in cash handling equipment at branches led to extending and building new processing rooms at Malaga, Bilbao and Zaragoza and the work is expected to be finished during 2010.

#### 10.4 CORPORATE DOCUMENT MANAGEMENT

In 2009 the project entitled "Functional extension of Banco de España corporate document management" continued to be implemented. This framework project of the Banco de España will underpin the definition and adaptation of its processes and services so as to provide them electronically to the public.

The Banco de España's Virtual Office has come on line

Similarly, 2009 saw the initial implementation of the electronic administration model designed for the Bank: the first step was taken with the creation of the virtual headquarters, approved by a resolution adopted by the Executive Commission on 23 December 2009, which came into operation on 1 January 2010. Throughout the year the Bank worked intensively to define and roll out the corresponding regulations for starting up this "Virtual Office".

The Banco de España's Virtual Office is a portal available to all users who wish to deal with the Bank electronically. It is a new service for the public, a gateway which aspires to centralising

citizens' electronic communications and promoting use of the Internet as a channel for accessing services provided by the Bank.

This portal publishes a list of the processes and services provided electronically, which will gradually be completed, and provides the related information.

#### 10.5 INFORMATION SYSTEMS AND PROCESSES

The Information Systems and Processes Department was very active during 2009: it managed 81 projects and received 2,139 requests from users, 2,111 of which it resolved.

The most important and visible Eurosystem projects in which the Banco de España participated were: TARGET2-Securities (T2S), the market operations platform (MOP) and collateral central bank management (CCBM2).

The programmes for reorganising user application systems continued throughout 2009 and included most notably the following:

- In 2009 the final adjustments were made to the reorganisation of the Central Balance Sheet Data Office (new technology platform for the processing of information on the Spanish non-financial sector, in which the website communication channel and the analytical systems for conducting studies are strengthened). In 2010 it will foreseeably be adapted to the latest regulatory and statistical changes and it will be used more extensively both internally and externally.
- The implementation of the Strategic Plan for the Directorate General Banking Supervision (field applications for on-site use in credit institutions, and full development of the Integrated Supervisory Activity Management System, denoted by the Spanish acronym SIGAS, which serves as a common framework for the work of the whole Directorate General) had already reached its final stages, all that remained to be completed was the integration of some of the field applications and the final phases of SIGAS.
- The system of Integrated Management of the Legal Department (denoted by the Spanish acronym GDJ) was introduced and provided this department with the necessary tools for the management and comprehensive monitoring of all legal files.

As for the Bank's internal management, during 2009 the computer systems which increase management efficiency were updated and extended. In March 2009 the new CTA accounting application was successfully installed, which equipped the Control, Budget and Accounting Department with a flexible and modern management tool that facilitates its working practices and enhances query and selection mechanisms (see section 10.6). Similarly, in this period the work on developing a new Budgetary Monitoring System was finalised, which will make it easier to introduce and process budgetary data, providing monitoring mechanisms for budgetary management units.

The Corporate Document Management application was also developed for documentation generated by international committees and working groups.

The most noteworthy action regarding infrastructures was as follows:

- The data network connecting the Bank's branches was notably improved and made to work faster, and part of the internal network installations in the buildings in Madrid was replaced.

- The project to improve the Bank's general connectivity to the internet to improve its redundancy was completed.
- 327 new work posts were installed, 941 were upgraded and the migration to Office 2007 continued.
- The processing capacity of the central computers was increased by 15% and the storage systems were enlarged to a greater degree to cover user demand and accommodate new applications.

During 2009 work also progressed on improving the service of the Bank's user help desk which handled 46,454 calls and 39,875 incidents.

In the area of business continuity, the first crisis management test was undertaken, in line with the practices of other Eurosystem central banks. The results were satisfactory and made it possible to promote important improvements related to crisis management. In the area of the Financial Stability Committee's Business Continuity Subcommittee (CEFSI), a protocol was prepared for responding to operating incidents with potentially systemic effects and a crisis management test was performed.

#### 10.6 CONTROL, BUDGET AND ACCOUNTING

The new accounting system was implemented and operational risk management was completed

In 2009 the new accounting computer software was implemented and, concurrently, the Bank's new accounting system came into operation with the entry into force of *Internal Circular 9/2008* which made it possible to notably simplify the recording of operations and made it easier to access and prepare the Bank's financial information.

Similarly, in 2009 the installation of the operational risk management system was completed at all the Banco de España's premises. Subsequently, an overall map of the Bank's exposure to this type of risk was prepared and measures for handling it effectively were adopted.

Work to develop a new budgetary monitoring application continued. Its actual installation is planned for 2010 Q1 and will entail important improvements in management and monitoring procedures when the Bank incurs expenses and makes investments.

The Control, Budget and Accounting Department continued to participate in the development of computer projects for the Bank's operating departments to ensure that suitable measures for the monitoring and accounting of operations were implemented, and particular attention was paid to the projects prepared within the area of the Eurosystem.

Considerable work was undertaken on adapting the cost accounting system to calculate the harmonised cost of Eurosystem projects in which the Bank participates as well as the cost of certain services provided by the Bank to other institutions.

Lastly, as regards the Bank's international presence, its influence in the areas of NCB accounting and operational risk continued through the organisation of courses and seminars in these fields, especially among members of Latin American central banks.

#### 10.7 INTERNAL AUDIT

According to the Statute approved by Internal Circular 4/2007 of 20 July 2007, the aim of internal auditing is to evaluate the efficacy, sufficiency and suitability of all the systems and procedures established for the management and control of risks.

The internal audit function is performed by the Internal Audit Department, which reports directly to the Governor. In addition, the Internal Audit Department must afford the Audit Com-

mittee of the Governing Council all such assistance as it may request and provide it with any information it may need.

The Internal Audit Department and its audit staff shall adhere to the principles of objectivity, impartiality, confidentiality and absence of conflict of interests, and act in keeping with the principles, standards and procedures laid down in the Internal Audit Manual approved by Ordinance 7/2008 of 15 February 2007.

The Internal Audit Department's audit activity is specified in an Annual Plan approved by the Governor and reported to the Executive Commission. In accordance with the 2009 plan, the Internal Audit Department carried out the following main audits: annual accounts of the Banco de España; the report envisaged in *Law 44/2002 on Financial System Reform Measures*; the *Spanish Personal Data Protection Law* (compliance with Articles 96 and 110 of the Regulation); security of automated information systems; validation of the risk management models of credit institutions supervised by the Banco de España; international technical cooperation; preparation and publication of official mortgage market benchmark rates; Treasury liquidity tenders; the Claims Service's claims and complaints management process; the Treasury Special Schemes Support Service; recording of accruals and advances; the ECB's strategic stock of banknotes; banknote distribution; governance of information technology; money market operations; management services of Eurosystem reserves; CCBM2 (collateral central bank management) project; monetary and financial statistics; and of the Valencia, Oviedo, Logroño, Pamplona, San Sebastián, Bilbao, Zaragoza and Barcelona branches. Also, it monitored the recommendations of the specific audits of the Banco de España and of those common to the ESCB.