

## 1 ORGANISATION OF SUPERVISION IN SPAIN



Louis XVI mantel clock. 18th century. Banco de España collection.

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### 1.1 Supervisory functions of the Banco de España

The Banco de España has supervisory powers over the solvency and conduct of credit institutions and other financial auxiliaries, which it exercises either independently or as part of the Single Supervisory Mechanism (SSM) in the euro area, cooperating with other national supervisors in the area of their respective powers.

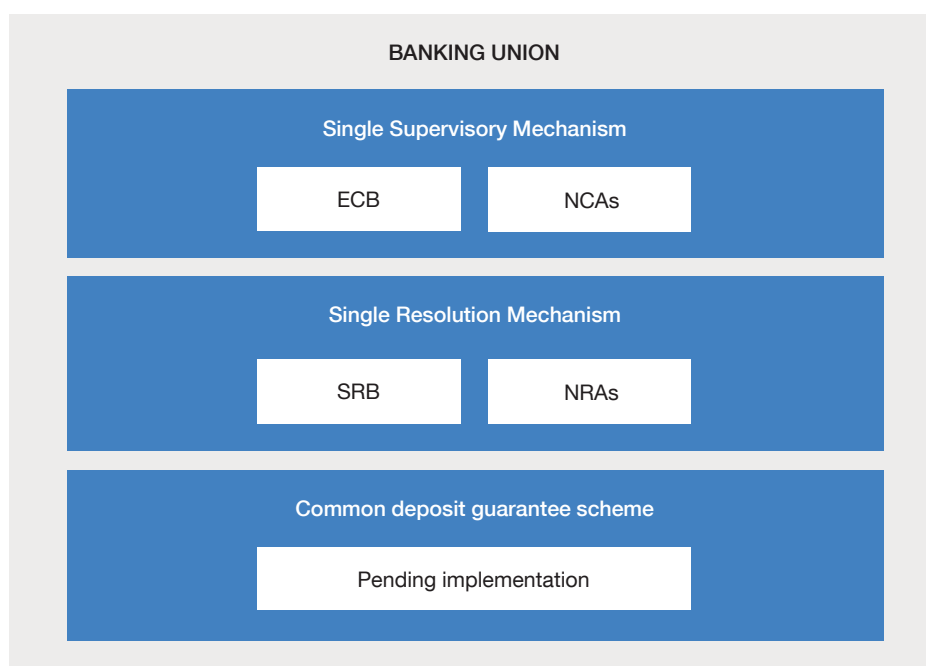
A distinction may be drawn between the following types of supervisory functions:

1. The microprudential supervision of credit institutions: geared to monitoring the solvency of credit institutions, with a view to reducing to a minimum the likelihood and the effects of crises at individual institutions.
2. The microprudential supervision of other institutions, other than credit institutions, that provide services or engage in activities related to the financial sector.
3. The functions conferred upon the supervisor by the regulations on the recovery and resolution of credit institutions.
4. Macroprudential supervision, aimed at safeguarding the stability of the financial system, in particular the banking system.
5. The supervision and monitoring of market conduct and of compliance with the regulations on data transparency and customer protection by the institutions registered in the Banco de España's official registers of institutions for which there are specific regulations on transparency and customer protection.
6. Other supervisory functions, in collaboration with different agencies.

The microprudential supervisory functions of the Banco de España are performed mainly within the Single Supervisory Mechanism (SSM), which is entrusted with the supervision of the credit institutions of the European Union Member States belonging to the euro area or those which, while not belonging to the euro area, decide to be part of the SSM.

The SSM is the first pillar of the Banking Union, a project that gathered pace further to the financial crisis that broke in 2008 and the subsequent sovereign debt crisis in Europe. The Banking Union comprises three key elements: a single supervisory mechanism led by the ECB and in which the national competent authorities (NCAs) participate; a single resolution mechanism, made up by a central resolution body, the Single Resolution Board (SRB), and the National Resolution Authorities (NRAs) of each member country; and a common deposit guarantee scheme, which has yet to be implemented (see Figure 1.1). These elements are complemented by the setting in place of a single rulebook.

The fundamental aims of the SSM are to ensure the solvency of the European banking system, to increase financial integration and the stability of the system, and to ensure consistent and uniform supervision in the Banking Union countries. The SSM performs its mission by overseeing the compliance by banks with the obligations established in the general framework laid down in European legislation (the Single Rulebook).



SOURCE: Banco de España.

The SSM is responsible for the prudential supervision of all the credit institutions of the member countries, a task in which it is assisted by the ECB and the national competent authorities. The legal basis for supervisory functions being conferred upon the ECB and for its organisation being regulated to this end is the SSM Regulation and the SSM Framework Regulation. The Banco de España sits on the ECB's Supervisory Council and on its Governing Council, where supervisory decisions, along with the supervisory methodology, practices and criteria applied in the countries belonging to the system,<sup>1</sup> are discussed and approved.

The SSM carries out the supervision of around 4,000 institutions, which are classified by virtue of their size or importance in each country as significant institutions (SIs) or less significant institutions (LSIs).

The ECB is directly responsible for the supervision of the significant institutions, while the Banco de España directly supervises Spanish less significant institutions. There were 869 groups of significant institutions as at 31 December 2017, 13 of which are Spanish. Groups of Spanish less significant institutions numbered 69 at the close of 2017.

As regards the distribution of competencies within the SSM, since 2016 it has been established that, in the case of powers conferred upon the supervisory authority under national law, the ECB shall be responsible for SIs, if such powers refer to its supervisory tasks and contribute to the performance of supervisory functions. The NCAs, for their part, exercise those powers that do not come under the ECB's tasks or which do not support its supervisory functions, although in these cases the ECB may provide guidance to the NCAs, as stipulated in the SSM Regulation.

<sup>1</sup> The current members of the SSM are the euro area countries, which are obliged to belong to the system (so far, no other EU country has applied to join this mechanism, which they can do voluntarily).



Meeting between the Directorate General Banking Supervision Directors and Danièle Nouy. Salón de los Cuarenta, Banco de España.

The ongoing monitoring of significant institutions is performed by the Joint Supervisory Teams (JSTs). The JSTs are led by a coordinator who belongs to the ECB and, in the case of Spanish institutions, a sub-coordinator of the Banco de España, and they are made up of staff from both institutions (the Banco de España provides approximately two-thirds of the human resources). If the institutions have a presence in other SSM countries, the JSTs will also feature staff from the national supervisory authorities in those countries and a sub-coordinator from each such country.

In the SSM the Banco de España also plays an essential role in other supervisory activities, such as on-site inspections and internal model reviews, which complement the ongoing monitoring of Spanish significant institutions, and in the processing of authorisations for the institutions that are subject to the common procedures described in section 2.2.5.

Finally, through its participation in the SSM's Supervisory Council, the Banco de España contributes to decision-making on institutions from other EU countries that belong to the euro area.

A second group concerns supervisory functions performed on other financial institutions, other than credit institutions, that offer specific financial services or have specific links to the financial sector: specialised lending institutions, mutual guarantee companies, reguarantee companies, appraisal companies, payment institutions, electronic money institutions, currency-exchange bureaux, banking foundations and the Asset Management Company for Assets arising from Bank Restructuring (Sareb).

Thirdly, within the framework of the distribution of SSM competencies, the Banco de España performs the functions that the regulations on the recovery and resolution of credit institutions assign to it as a microprudential supervisor. The European framework for the recovery and resolution of European Union credit institutions and its transposition into Spanish regulations confers upon banking supervisors functions that are essentially focused on the pre-resolution phase, before an institution is declared to be non-viable, such as the assessment of recovery plans or the adoption of early intervention measures and the declaration of non-viability.



Induction ceremony for new bank examiners. Hemiciclo II Auditorium, Banco de España.

**Macroprudential policy, geared to promoting the stability of the financial system, is the fourth type of supervisory function performed by the Banco de España.** To this end, the Banco de España has the macroprudential tools envisaged in the European legislation on capital requirements for credit institutions and in its transposition into Spanish regulations. These competencies include the annual identification of systemically significant institutions and the determining of the associated capital surcharges, the quarterly setting of the level of the countercyclical capital buffer and the assessment of the possibility of activating other macroprudential instruments envisaged in the regulatory framework.

The Banco de España also supervises the market conduct, transparency and protection of the customers of the institutions registered in the Banco de España's official registers of institutions (credit institutions and other institutions offering certain financial services) for which there are specific regulations on transparency and customer protection.

Finally, it performs **other supervisory functions**, such as cooperation with the Executive Service of the Commission for the Prevention of Money Laundering (SEPBLAC) in the supervision of money-laundering rules, and cooperation with the National Securities Market Commission (CNMV) in the supervision of activities related to the financial markets.

## 1.2 Organisation of banking supervision at the Banco de España

The various supervisory functions performed by the Banco de España and their distribution across the central bank's different directorates general and departments are detailed in Figure 1.2.

Microprudential supervisory functions are performed by various departments within the Banco de España, whose Directorate General Banking Supervision (DGBS) has a similar organisational structure to that of the ECB in order to participate as efficiently as possible in the SSM.

DIRECTORATE GENERAL BANKING SUPERVISION	Supervision Department I	– Ongoing supervision of the four largest significant institutions through the JSTs.
	Supervision Department II	– Ongoing supervision of the remaining significant institutions through the JSTs.
	Supervision Department III	– Ongoing supervision and on-site inspections of: <ul style="list-style-type: none"> <li>• less significant institutions under the SSM.</li> <li>• entities belonging to foreign significant groups.</li> <li>• other entities outside the scope of the SSM.</li> </ul>
	Supervision Department IV	– Specialised or cross-cutting tasks affecting all institutions. – On-site inspections and reviews of internal models of significant institutions.
	Planning and Analysis Department	– Definition of supervisory policies. – Implementation and interpretation of accounting legislation. – Development and monitoring of annual supervision plans. – Supervisory methodology. – Quality control over supervisory activities. – Selection and training of DGBS staff. – Computer processing of financial information received from institutions. – Specific analyses of developments in the Spanish financial system and its main risks.
	SSM Coordination	– Supporting the Banco de España's representative on the SSM Supervisory Board. – Managing information received in relation to the SSM.
GENERAL SECRETARIAT	Market Conduct and Claims Department	– Supervision of market conduct and compliance with regulations on transparency of information and customer protection in the marketing of banking services and products. – Definition of regulatory and supervisory policies concerning market conduct.
	Deputy General Secretariat	– Assessing the compliance with the suitability requirements of board members, managing directors and similar officers. – Maintaining the Senior Officer Register. – Participating in the granting and withdrawal of institutions' authorisation. – Maintaining the Institutions Register.
	Legal Department	– Examining disciplinary proceedings.
DIRECTORATE GENERAL FINANCIAL STABILITY, REGULATION AND RESOLUTION	Financial Stability and Macroprudential Policy Department	– Analysis of financial system risks and vulnerabilities. – Formulation of macroprudential policy proposals.
	Financial Reporting and CCR Department	– Reception, quality control and forwarding of supervisory information that credit institutions are required to submit to the ECB, within the SSM, and to the Banco de España, in the exercise of their microprudential supervision and inspection powers over institutions. – Management of the Central Credit Registry.
	Regulation Department	– Analysis, definition and monitoring of regulatory policies at the global and European levels. – Coordination with the EBA and other international forums and bodies. – Development and interpretation of prudential regulations.

SOURCE: Banco de España.

In the course of 2017, two of the directorates general engaging in supervisory functions were reorganised. In the Directorate General Financial Stability, Regulation and Resolution, the functions relating to financial regulation, which previously came under the remit of DGBS, and the Banco de España's participation in various international bodies were brought together in order to enhance the formulation of regulatory policy in the international arena and in internal coordination. In the DGBS, with the aim of better coordinating the

**STAFF OF THE DIRECTORATE GENERAL BANKING SUPERVISION, THE DIRECTORATE GENERAL FINANCIAL STABILITY, REGULATION AND RESOLUTION, THE MARKET CONDUCT AND CLAIMS DEPARTMENT AND THE DEPUTY GENERAL SECRETARIAT, AS AT 31 DECEMBER 2017**

TABLE 1.1

Number

	Directorate General Banking Supervision (a)	Directorate General Financial Stability, Regulation and Resolution	Market Conduct and Claims Department (b)	Deputy General Secretariat (c)
Directors and other managers	42	31	10	4
Bank examiners/inspection auditors	281	15	6	
Senior analysts/lawyers/experts	19	53	22	6
IT auditors	45		2	
Junior analysts	42	59	46	13
Administrative and other staff	48	22	10	9
<b>TOTAL</b>	<b>477</b>	<b>180</b>	<b>96</b>	<b>32</b>

SOURCE: Banco de España.

- a** The staff of the Directorate General Banking Supervision have the following functions:
- 157 persons have functions relating to the ongoing supervision of significant institutions conducted through joint supervisory teams set up by the SSM.
  - 21 persons have functions relating to the ongoing supervision of less significant institutions supervised directly by the Banco de España and indirectly by the ECB.
  - 21 persons have functions relating to institutions whose supervision has not been taken on by the ECB.
  - 111 persons have functions relating to on-site inspections or the review of models.
  - 102 persons have cross-departmental functions.
  - 65 persons have other functions.
- b** Of the total department staff, 40 staff members (the Director and 39 staff assigned to the Oversight of Institutions' Conduct Division) perform direct supervision functions.
- c** Includes only information on staff of the Suitability Assessment and Individuals Register Division, and the Institution Authorisation and Registration Division.

work of the four operational banking supervision departments, the latter now report directly to the Associate Director General. Also, a new department – Planning and Analysis – has been created, grouping together different horizontal functions that had hitherto been assigned to different departments or areas of the DGBS, in order to strengthen the coordination of cross-departmental functions.

### 1.3 Staff

The SSM and the existence of an increasingly extensive body of regulations have entailed a substantial increase in supervisory tasks, giving rise to a growing need for more human resources.

To address this need, in the second half of 2017 the Executive Commission of the Banco de España approved staff increases in the form of 70 bank examiners and 17 experts on risk models and information technologies for microprudential supervision.

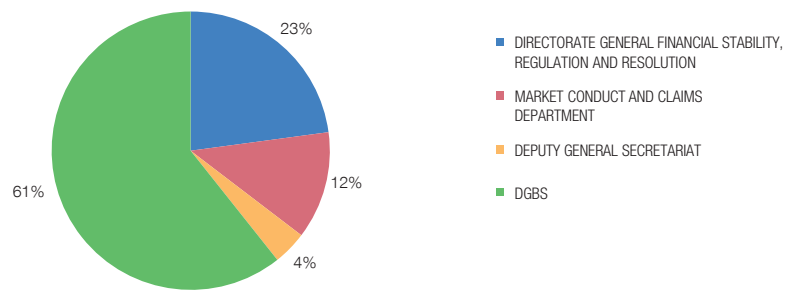
This increase in staff will be covered in the main during the first half of 2018, essentially through three selection processes: i) bank examiners for credit institutions; ii) specialists in banking risk measurement models; and iii) experts in information technologies. As at 31 December 2017, these three processes were under way. While vacancies will be covered with staff on permanent contracts, temporary contracts will continue to be extended.

Further, with a view to better adapting new positions to the current needs of the supervisory function within the SSM framework, certain changes have been made to the selection process for bank examiners for credit institutions: i) inclusion of a skills testing exercise; ii) introduction of a merit evaluation phase to analyse professional skills; and iii) greater demands in respect of the command of English. Additionally, the number of vacancies advertised has increased (from approximately 30, as had been the case in recent years, to 45) and the duration of the training and selection phase has been shortened.



## DISTRIBUTION OF STAFF FOR SUPERVISORY FUNCTIONS

CHART 1.1



SOURCE: Banco de España.

With regard to other supervisory functions not linked to the SSM, the Executive Commission also approved another selection process to hire 21 specialists to cover, inter alia, supervisory requirements in respect of market conduct and macroprudential policy.

Table 1.1 and Chart 1.1 detail the staff assigned to supervisory functions, with a breakdown by directorate general.