

## 7 BANCO DE ESPAÑA MANAGEMENT REPORT FOR 2010

## 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 2010. 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 Banco de España's activity with respect to committees and working groups was intense

As in previous years, in 2010 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 which prepare meetings and assist the ECB's governing bodies in their decision-taking.

In the context of the activities related to the Monetary Policy Committee (MPC), the Bank participated actively in the regular forecasting exercises of the Eurosystem and the ECB and in the drafting of the report on public finances as well as that prepared annually by the Committee on structural features which this year covered retail trade and its impact on price setting.

Also, as a member of the MPC and in coordination with the Market Operations Committee (MOC), the Banco de España contributed to adapting the operational framework to the circumstances arising from sovereign debt market instability which meant the reintroduction of certain exceptional measures to provide liquidity (that had begun to be withdrawn at the beginning of 2010) and the introduction mid-2010 of the Securities Markets Programme to acquire securities on the secondary market. The Banco de España took part concurrently in the discussions about the design of the strategy to withdraw the exceptional measures taken during the financial crisis as and when they ceased to be necessary.

In the field of payment systems, the Banco de España continued to participate in the management of TARGET2, which plays an essential role in monetary policy conduct and in the functioning of the euro money market. This system operated satisfactorily in 2010 and achieved an availability level of 99.99%. A new profile for internet-based access was introduced in 2010 which was offered to participants with a low payment volume for which it will considerably simplify the system participation requirements.

The Banco de España contributed to the important progress made in 2010 in two of the main projects currently being implemented by the Eurosystem: TARGET2-Securities (T2S), in the area of securities settlement, and CCBM2, for collateral management in its credit operations.

T2S creates a centralised platform for the settlement of securities transactions in euro and other currencies. The Banco de España, together with the central banks of Germany, France and Italy, is responsible for developing and maintaining T2S. It also participates with one member on the T2S Programme Board, created by the Governing Council of the

ECB with the aim of ensuring the timely and successful completion of the T2S Programme in 2014. The user requirements document was completed at the beginning of 2010 and IT and business development work continued. As for the preparation of the legal framework, the T2S guideline was published and progress was made in drawing up the agreements that will be entered into between the Eurosystem and the central securities depositories and central banks which do not belong to the euro area. Another important step was taken in November with the approval of the pricing for T2S.

In the area of CCBM2, in 2010 the user requirements document was finalised, the appropriateness of the project was confirmed on the basis of a qualitative and quantitative analysis, and the financial arrangements, the payment schedule of central banks and the project plan were approved. All the NCBs in the Eurosystem expressed their commitment to participate in CCBM2, although the modular structure of the future platform allows certain NCBs to opt for acquiring only specific functions. The Banco de España forms part of the various working groups created to manage the project and in 2010 assisted the central banks directly responsible for developing CCBM2 (Belgium and the Netherlands) with the design of certain functional aspects.

More than two years after the Single Euro Payments Area (SEPA) was launched, the Banco de España continued coordinating the work to achieve the successful transition to SEPA in Spain, leading the fora created for this purpose and encouraging and facilitating the migration of general government.

The Bank contributed to the drafting of the seventh SEPA Progress Report which includes the major milestones achieved since the publication of the previous report and the future challenges and key aspects for the success of this initiative. The report underlines the Eurosystem's firm support for European legislators to set a SEPA migration end date, which will make a decisive contribution to achieving an integrated euro payments market.

The Banco de España undertook to comply with its production quota of 50 and 5 euro banknotes

In 2010 the Banco de España continued to perform the functions entrusted to it as a member of the Eurosystem, for the production, safe-keeping, distribution and quality control of euro banknotes and for the fight against counterfeiting. In the area of banknote production, the Banco de España undertook to comply with its production quota in the Eurosystem which resulted in commissioning the production of 50 and 5 euro banknotes. As for the safe-keeping, storage and transport of banknotes, in addition to the banknotes the Bank owns, it holds custody of a portion of the banknotes owned by the ECB which are part of the Eurosystem's strategic stock. The Bank participates actively in banknote distribution throughout the euro area and was chosen for another year to assess the quality of banknotes in circulation in the Eurosystem.

The Bank played an important role in the preparation of the second series of euro banknotes which will be put into circulation in coming years. It participated in working meetings and performed technical tests at its premises.

The Banco de España participated actively in the work performed by the Banking Supervision Committee (BSC). This committee was disbanded after twelve years as a result of the creation of the European Systemic Risk Board (ESRB). The ESRB's Advisory Technical Committee's functions were going to overlap with those of the BSC. Similarly, the Governing Council decided to create the Financial Stability Committee, which commenced operations at the beginning of 2011 and will support the Governing Council of the ECB in fulfilling its financial stability functions.

As for the compilation of statistics, the Banco de España has been active on the Statistics Committee and in the corresponding working groups. In addition to this, in 2010 it chaired the task force which decided that it was appropriate to enlarge the current lists of monetary financial institutions (MFIs), investment funds and financial vehicle corporations and create a Eurosystem Register of Institutions which can be useful in areas other than statistics and, specifically, for the ESRB.

As a member of the ESCB, the Banco de España participated in the preparation of two half-yearly reports of the ECB on financial stability and contributed to the analysis of the same frequency undertaken for the Financial Stability Table of the Economic and Financial Committee. Also noteworthy in this connection are two other publications: the report on banking structures and the report on recent developments in supervisory structures of Member States of the European Union. Lastly, mention must be made of the work, undertaken in close cooperation with the Committee of European Banking Supervisors (CEBS), on the analysis of the impact of new prudential requirements which specifically include the pro-cyclicality of minimum capital requirements.

The new institutional framework for financial supervision in the EU was approved in November 2010

The new institutional framework for financial supervision in the EU was finally approved at the end of November 2010 and came into force on 1 January 2011. Thus, the European System of Financial Supervision was given legal form through an EU Regulation. It is based on two pillars:

- The ESRB, responsible for macro-prudential oversight of the EU in order to contribute to the prevention or mitigation of systemic risk. The president and vice-president of the ECB and the governors or presidents of the national central banks of EU countries are members of the ESRB's General Board, which also has a scientific and a technical advisory committee.
- Three European supervisory authorities created on the basis of the European Committees of Supervisors: the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). These authorities are entrusted with contributing to setting common supervisory standards and practices.

In December 2010 the first meeting of the Risk Management Committee (RMC) was held. It was created by the Governing Council of the ECB, around the structure of the Risk Management Working Group (RMWG) which until then reported to the MOC. The main function of the new Committee consists of the surveillance, measurement and management of financial risk generated by Eurosystem operations.

### 3 International activities

The Banco de España continued to work on consolidating its international profile. For this purpose, it maintained a smooth dialogue with central banks, financial supervisors and regulators, as well as with multilateral organisations, both bilaterally and within international fora, many of which have been created in the wake of the crisis.

#### 3.1 INTERNATIONAL RELATIONS

In the EU, 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 European central bank governors and finance ministers in the informal ECOFIN meetings, the first held in April 2010

in Madrid, coinciding with the Spanish presidency of the EU Council, and the second in September 2010 in Brussels, under the Belgian presidency.

The work of the Economic and Financial Committee (EFC) in its full composition, with the participation of central banks, focused primarily on the regular review of the EU's economic and financial situation and the annual analysis of the stability and convergence programmes, and the excessive deficit procedures which had been initiated. Secondly, the Committee continued to coordinate a joint European position at international meetings of the G20, the Financial Stability Board (FSB) and the International Monetary Fund (IMF), which in 2010 included the reform of quotas and of IMF governance.

The work schedule of the Economic Policy Committee (EPC) placed particular emphasis on the work undertaken in the first half of 2010 prior to the renewal of the Lisbon Strategy (the 2020 Strategy) and on discussions on the reform of economic governance in Europe.

Noteworthy in the supervisory realm was the Banco de España's contribution to the activity of the CEBS, the most notable points of which were as follows:

- Provision of technical advice to the European Commission on successive amendments to the capital directives, including the incorporation into European regulations of the FSB's recommendations and standards on compensation, which were finally approved in December 2010, and the introduction of the prudential requirements of Basel III, which are still pending implementing regulations.
- Cooperation and convergence of supervisory practices through the preparation of new guidelines and the updating of previous ones. For instance, in 2010 guidelines were published on joint assessment and joint decision regarding capital adequacy, remuneration policy, liquidity cost, recognition of external credit assessment institutions, operational risk, concentration risk, stress tests, risk transparency during periods of crisis and risk management.
- Work connected with supervisory transparency and restoring market confidence. The stress tests were performed in summer 2010 to analyse the solvency of a large group of European banks in situations of stress. The Banco de España participated actively in these tests which in the case of Spain covered practically all credit institutions.

In the global financial arena, the FSB (of which the Banco de España is a member) continued the work which it had begun the previous year on the treatment of the moral hazard of systemic institutions. Furthermore, it began to analyse other issues such as the regulation and supervision of activities outside the banking sector and the intensity and effectiveness of a supervision model. Also worthy of note are the peer reviews which are of two types. On one hand, there are thematic reviews, one was published on compensation in 2010 and another two were begun on risk disclosure and mortgage origination practices. On the other, there are country-specific peer reviews: the first report on Mexico was published in September and the FSB worked in 2010 on the reports on Spain and Italy, which were published at the beginning of 2011. Finally, the work by the Board to assess vulnerabilities in the financial system should be underlined.

The activities of the Bank for International Settlements (BIS), restricted to central banks, were especially intense this year. 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 Bank made a significant contribution at the various events organised by the BIS and, in particular, to the extensive network of working groups resulting from the above-mentioned committees, which included, most notably, the joint organisation of a roundtable discussion on the future of international banking in Mexico city.

The Basel Committee reformed the capital rules

The change made by the Basel Committee on Banking Supervision (BCBS) with respect to capital and liquidity was particularly important at international level. This reform is part of its response to the lessons learnt during the crisis and was backed by the FSB and the leaders of the G-20.

In relation to these measures, and especially within the framework of systemic institutions, the approval of the proposal on contingent capital prepared by the Basel Committee should be underlined.

Within the framework of cross-sectoral supervision, the Bank was involved in the work of the Joint Forum (an international group of bank, securities and insurance supervisors) which in 2010 focused on commencing the update of the principles on conglomerates dating from 1999 and the preparation of a report on modelling for the banking and insurance sector. Similarly, intra-group support, the framework of securitisations and the use of credit ratings in various financial products were analysed.

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 annually, brings together operational risk management officers of more than 40 central banks and monetary authorities.

As is customary, the Bank works closely with the IMF, both at institutional level and providing support to the Spanish representatives in this organisation. To this end, the Bank contributed actively to preparing and defining stances on the matters discussed at the IMF which were of particular importance for Spain.

The Fund's activity in 2010 was dictated, on one hand, by developing measures and providing financing to assist countries to exit the crisis and, on the other, to studying and applying preventive measures with a view to the future. The IMF handled the increase in the institution's quotas, approved the expansion of the New Arrangements to Borrow (in which Spain participates) and made them more flexible and modernised its own catalogue of financing instruments.

Furthermore, in 2010 the IMF actively assisted the EU to support European countries with financing problems (in particular, Greece and Ireland). In order for the representation of countries at the IMF to better reflect the current status quo in the global economy, the structure of the Fund's Executive Board was discussed. As a result of concern about strengthening financial and multilateral supervision, new reports were prepared and mandatory assessments of the financial system for systemically-important countries were imposed.

The Banco de España also collaborated with the IMF, as in previous years, in discussions on the customary Article IV reports relating to the countries of most interest to Spain. In particular, in 2010, discussions were held on the Article IV reports on Spain and on euro area policies. In the field of multilateral surveillance, the Banco de España also contributed comments on the IMF's half-yearly *World Economic Outlook* and *Global Financial Stability Report* discussed at its bilateral meetings in which the Banco de España participates.

The Banco de España has become more actively involved in G-20 projects

During 2010, the Banco de España has become increasingly more actively involved in G-20 projects. Accordingly, it prepared reports on important issues for this forum such as financial regulatory reform, coordination of macroeconomic policies to strengthen the global framework for growth, reform of the international monetary system and the strengthening of global financial insurance networks.

In 2010 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 banking 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.

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, of the Audit Committee and of the Treasury Committee. It also participated in CEMLA's working groups, and can be considered one of the chief contributors to its training activities, a good number of which are organised jointly.

Lastly, the Bank continued to strengthen its ties with the Latin American supervisors through the Association of Supervisors of Banks of the Americas (ASBA). Accordingly, in 2010 various seminars were held in Brazil, Uruguay and Spain. The main themes of work during the year were stress tests, liquidity and microfinance.

Sustained growth continued in cooperation and technical assistance

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, with the Banco de España viewed as a benchmark in the field of central banking and financial regulation and supervision. The Bank has extended the technical cooperation subject to prior planning, which is provided bilaterally or through collaboration with various multilateral organisations such as CEMLA, the ASBA, the Central American Monetary Council, the IMF, the World Bank and the BIS Financial Stability Institute.

The forms of technical cooperation include courses and seminars, study and working visits to the Bank, experts from the Bank sent to missions in situ, technical assistance activities and attending to an almost constant stream of consultations on a wide variety of subjects. The Bank offers training individually and in collaboration with other institutions either through face-to-face sessions or in combination with e-learning. 17 courses were organised in total in 2010.

As for geographical distribution, as in previous years, in 2010 technical cooperation was concentrated mainly in the area of Latin America, on language and cultural grounds and

also for financial and economic reasons. In other geographical areas, such as the Mediterranean basin and eastern Europe, the Bank applied the same model as in previous years, essentially providing cooperation in conjunction with other central banks and supervisory agencies, by participating in several programmes coordinated within the Eurosystem and financed with EU funds. The Bank's Internal Audit Department is contributing to 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 contributing to the progress made in a programme for the Eurosystem, in collaboration with another 14 central banks and the ECB, for the EU accession and potential accession countries. Similarly, the Information Systems Department is participating in a joint Eurosystem programme to provide technical assistance to the Central Bank of Bosnia and Herzegovina.

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

During 2010 the Banco de España worked intensely on the organisation of high-level events and meetings aimed at sharing knowledge and exchanging views on topical issues.

The key event was the Fifth High-Level Seminar of the Eurosystem and Latin American Central Banks, organised jointly with the European Central Bank (ECB), which took place on 10 December 2010 in Madrid. The seminar addressed the economic repercussions of and economic policy responses to global imbalances and financial flows. It was presided by the Governor of the Banco de España and the President of the European Central Bank, Jean-Claude Trichet. It was attended by governors, deputy-governors and high-level officials of central banks in Latin America and the Eurosystem, in addition to the representatives of organisations such as the European Commission and CEMLA.

During the Spanish presidency of the European Union, a high-level seminar was held in April at the Bank's headquarters which was organised jointly with EUROFI and attended by leaders of the financial sector and national and international public authorities, including Finance Ministers, central banks, regulators and supervisors. Its purpose was defining priorities to reform the financial regulatory and supervisory framework.

Also within the framework of the Spanish presidency an informal seminar of the Working Group of the Council of the European Union on export credit was organised in May together with the State Secretary for Trade. The seminar analysed various aspects of financing trade and the presence of Spanish banks in Latin America. Lastly, as is customary, there were various presentations of reports at the Banco de España by international institutions such as the Inter-American Development Bank "El Mundo Post-Crisis Financiera Global: Lecciones, Desafíos y Perspectivas para América Latina" (The World in the wake of the Global Financial Crisis: Lessons, Challenges and Outlook for Latin America), the World Bank (Annual Report on Economic Outlook) and the IMF (World Economic Outlook).

In 2010 the Banco de España organised numerous conferences of a more academic nature (see Section 4.2.).

4 Economic analysis and  
research

Economic analysis and research are essential for performing the functions entrusted to the Banco de España. In 2010 analysis and research on the Spanish economy and its international environment were carried out fundamentally to give advice to the Bank's governing bodies for the performance of said functions. As a result of these activities, 39 working papers and 2 occasional papers were published as well as 47 articles in academic journals and specialised books (22 of which in anonymously refereed journals).



The research agenda of the Banco de España revolved around four major areas:

- Macroeconomic modelling and forecasting.
- Monetary policy and its transmission mechanisms.
- Financial stability.
- Spanish economy.

The research agenda centred on the crisis and its economic policy implications

The Banco de España's research agenda in 2010 centred on the analysis of the crisis and its economic policy implications. In particular, special attention was paid to: studying the adjustment and recovery process of the world economy and, to a greater extent, the euro area and the Spanish economy; improving the integration of financial and real aspects into usual macroeconomic analysis; the analysis of credit and the optimal indebtedness of corporations and households; the identification of the optimum size of the financial sectors and the most suitable policies for preventing them from becoming oversized; the inclusion of elements of financial stability in the formulation of monetary policy; the role of fiscal policy in the current situation; the sovereign debt crisis in certain European countries; the effect of the crisis on the level and rate of potential growth; and suitable structural policies for promoting potential growth.

As regards macroeconomic modelling and forecasting, the main findings obtained refer to the incorporation of expectations into the quarterly macroeconomic model used for the analysis and forecasting of the Spanish economy, the development of general equilibrium models with rational agents to simulate fiscal measures in Spain and the extension of dynamic factor models to identify turning points in the principal economic variables and the further development of tools to predict activity in the very short term. As for tools for analysis, at the end of 2010 the preliminary findings of the Survey of Household Finances (EFF-2008) were published which provide a detailed approximation of the financial situation of Spanish households and, therefore, greater information for the analysis of consumption and saving decisions.

The two main results in relation to the analysis of monetary policy and its transmission mechanisms relate to i) the analysis of optimal monetary policy when there are restrictions on indebtedness and monopolistic competition in the banking system, and ii) monetary policy implementation through possible changes to central banks' deposit and lending facilities.

In 2010 research on financial stability and analysis of the international financial system continued to focus on various aspects of the crisis and on regulatory measures designed to reduce the likelihood and impact of such crises. Research began on counterparty risk analysis, work advanced on the different mechanisms for mitigating procyclicality in a risk-sensitive regulatory framework, various aspects of stress-testing methodology were addressed and progress continued in the analysis of the role of competition in risk taking. Other topics addressed were the analysis of the international capital flows, global imbalances and the risk diversification associated with financial integration, and of the determinants of sovereign risk and financial crises.

Lastly, research on the Spanish economy covered two major subject areas. Firstly, the adjustment of the Spanish economy and its determinants have been researched in greater depth, paying particular attention to the impact of institutional and structural characteris-

tics (the labour market, demography and business structure, openness to foreign trade and the real estate sector). Secondly, research examined the rationale for economic policy recommendations in different areas (fiscal policy, structural policy) and evaluated their macroeconomic impact.

#### 4.2 RELATIONS WITH ACADEMIA

The Banco de España's connections with academia and with the economic research units at other central banks and international institutions were maintained through the four traditional channels.

First, the analysis and research produced by the Banco de España was presented and discussed at national and international seminars, and conferences, and published through the profession's usual channels.

Second, the Banco de España organises several series of seminars, in which members of the academic community participate, including a weekly economic research seminar. As regards scientific meetings, the Banco de España organised, with other institutions, five international conferences: the conference on *Interactions between Monetary and Fiscal Policies*, in February; the seminar *Towards more Efficient Labour Markets*, organised with the IMF in May; the seventeenth European Summer Symposium in International Macroeconomics (ESSIM), organised jointly by the Centre for Economic Policy Research (CEPR) at the Bank's facilities in Roda de Bará (Tarragona), in May; the second International Journal of Central Banking (IJCB) Financial Stability Conference titled, *The Theory and Practice of Macro-Prudential Regulation*, held in June by CEMFI at the Banco de España, and the conference *Financial Globalization: Shifting Balances*, organised jointly with the World Bank and the Barcelona Centre de Recerca en Economia Internacional de Barcelona (CREI) in July.

The Bank also sponsored sessions at academic conferences, such as those of the European Economic Association and the Latin American and Caribbean Economic Association.

Third, the Banco de España continued to contribute to research networks, both within the Eurosystem for analysis of the euro area economy, such as that set up to work on macroprudential regulation, and in Latin America, such as that set up in CEMLA. The Bank also maintains its regular visitor and external adviser programmes, which promote projects that may be considered strategic in different areas of analysis and research.

Lastly, 2010 saw the second edition of the *Programa de excelencia en educación e investigación en economía monetaria, financiera y bancaria* (Programme for excellence in monetary, financial and banking economics education and research) aimed at promoting excellence in teaching and research in the areas of macroeconomics, monetary policy, finance, financial system supervision and international economics, through the establishment of cooperation agreements with universities and research centres to secure grants for recruiting teaching and research staff and for undertaking research projects.

#### 4.3 DISSEMINATION AND COMMUNICATION

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 and the *Revista de Estabilidad Financiera*. All these activities are included in the Economic Research Portal, a section on the Bank's website.

	31.12.10
<b>INSTITUTIONS SUPERVISED BY THE BANCO DE ESPAÑA</b>	<b>339</b>
Banks	72
Savings banks (a)	36
Credit cooperatives	82
Branches of foreign credit institutions	89
Specialised credit institutions	59
Electronic money institutions	1
<b>OTHER</b>	<b>143</b>
Mutual guarantee and reguarantee companies	25
Currency-exchange and money-transfer bureaux	61
Appraisal companies	55
	2
<b>TOTAL</b>	<b>482</b>

a The figures relate to the number of institutions included in the Register of Institutions at 31.12.10. However, in the case of the savings banks, as a result of the merger and integration processes this figure was reduced to 18 institutions or groups plus CECA.

## 5 Banking supervision and regulation

At 31 December 2010, a total of 481 institutions of various kinds were supervised by the Banco de España, of which 339 were credit institutions (CIs). The Banco de España exercises a process of ongoing supervision of these institutions<sup>1</sup>.

### 5.1 SUPERVISORY ACTIVITY

The Banco de España supervises 339 credit institutions

The essential aim of the supervisory process is to keep updated each institution's supervisory risk profile, taking the appropriate measures to correct it when necessary. To this end, the Banco de España has 22 operational inspection divisions and seven support or cross-departmental divisions, comprising bank examiners, senior analysts, IT auditors, junior analysts and administrative staff.

The number of inspections in 2010 amounted to 179, 39 of which were still under way at 31 December, and essentially include traditional on-site inspections and continuous monitoring on-site.

The number of groups of CIs in which supervisory teams have a permanent presence was increased to 15

In 2010 the above-mentioned continuous monitoring on-site, which involves a permanent presence at the institution, was extended to 15 groups of CIs compared with ten in 2009. This system is particularly intensive in the case of the two main banking groups. More than 50 individuals are assigned to these banking groups only to perform this function.

A further 329 special reviews were also performed in relation to CIs, including:

- Specific monitoring actions, apart from those mentioned above, such as, for example, studies of claims arising from troubled assets.
- Examination of internal capital adequacy assessment reports prepared by institutions and the supervisory process arising from such examination.

<sup>1</sup> Available in the "Banking Supervision" section of the Banco de España's website: [www.bde.es/webbde/en/](http://www.bde.es/webbde/en/).

- The impact analysis of regulatory changes on each institution.
- The most important actions arising from relations with national and international supervisors and bodies in the case of groups of CIs with a presence in Spain and other countries.
- The stress tests.

In addition, the Banco de España conducted the various administrative procedures subject to prior authorisation: loans to senior officers, the taking of qualifying holdings in Spanish institutions, acquisitions of qualifying holdings or of control abroad, etc.

56% of all requirements referred to credit risk

Against this background, letters were sent to supervised institutions containing 192 requirements relating to matters such as: credit risk (loan approval criteria and credit risk classification and provisioning), management and internal control, own funds and solvency, and other matters (transparency vis-à-vis customers, deficiencies in reporting to the Banco de España's Central Credit Register, etc.). As usual, credit risk was the main area of recommendations, with 108 requirements, or 56% of the total.

On 22 May 2010 the Banco de España resolved to replace the directors of CajaSur and to appoint the Fund for the Orderly Restructuring of the Banking Sector (FROB) as the institution's provisional administrator, as a consequence of its viability problems. This action was conducted within the new framework established by Royal Decree-Law 9/2009 and was resolved in just 55 days with its adjudication through a competitive process to Bilbao Bizkaia Kutxa (BBK). This was the only precautionary "intervention" measure that needed to be adopted during 2010. The process of resolution of the crisis of Caja Castilla-La Mancha (CCM), that commenced in 2009, was also concluded in 2010, with its assets and liabilities being integrated into Cajastur. Unlike the action in relation to CajaSur, the approach to the handling of the crisis of this institution was traditional and involved the participation of the Savings Bank Deposit Guarantee Fund.

In relation to the internal models of the eight Spanish groups of CIs authorised to use internal ratings based (IRB) methods to calculate regulatory capital for credit risk, the processes for authorising new portfolios continued in accordance with the successive roll-out plans presented to the Banco de España, which include the approval of exposures at subsidiaries abroad in close coordination with local supervisors. In addition, the monitoring of the models already approved has been strengthened, especially with regard to the modifications that the institutions are introducing. A key element in the monitoring of the models is the review of the internal control framework that institutions have to ensure that the approved models are maintained and used appropriately. With regard to the validation of internal models to calculate the regulatory capital for operational risk, in 2010 the conditions for approval and the results of the operational risk model approved for a Spanish group were monitored.

The Banco de España continued to work actively in the area of international supervisory cooperation, through "colleges of supervisors". The Banco de España hosted the meetings of the colleges of the two Spanish international banking groups and participated, in its capacity as host country supervisor, in six meetings of colleges of banking groups with foreign parents.

In 2010 five cooperation agreements of the kind provided for in Article 131 of Directive 2006/48/EC, relating to the supervision of European groups of credit institutions with sub-

subsidiaries in Spain, and a bilateral cooperation agreement with an EU country (Rumania) were signed. In addition, the cooperation agreement between EU financial supervisors, central banks and ministries of economic affairs and finance for cross-border financial stability signed in 2008 was extended to all the countries in the European Economic Area (Iceland, Norway, Liechtenstein).

## 5.2 IMPOSING OF SANCTIONS

In 2010 seven sanctioning proceedings were opened against supervised institutions and 50 of their directors

In 2010 a total of seven sanctioning proceedings were opened against institutions of various kinds including: a credit institution (a savings bank); a currency-exchange and cross-border money transfer bureau and other companies, that were engaging without the correct authorisation in activities restricted to credit institutions (in one case), or in the purchase and sale of foreign currency and the arrangement of cross-border money transfers (in another three cases). Finally, a disciplinary proceeding was initiated against a foreign foundation for breach of the rules on qualifying holdings, and a proceeding initiated in 2009 was extended to the director of a currency-exchange bureau.

In addition, in order to clarify any potential liability of directors and managers of sanctioned institutions, 50 sanctioning proceedings were opened against them in 2010, in conjunction with the proceedings brought against the corresponding institutions.

Seven sanctioning proceedings against institutions and 22 against directors or managers were resolved, resulting in 82 sanctions

In 2010 a total of 7 cases against various types of institutions and 22 cases against directors and managers were resolved.

In relation to the proceedings opened against a savings bank, an appraisal company and a currency-exchange and cross-border money transfer bureau, the following were imposed:

- Four sanctions on institutions and 38 sanctions on their directors or managers for the commission of very serious infringements.
- Six sanctions on institutions and 28 sanctions on their directors or managers for the commission of serious infringements.
- Two sanctions on institutions for the commission of minor infringements (legally directors or managers cannot be sanctioned for these infringements).

Similarly, proceedings were resolved against another type of legal entity for the pursuit of certain activities without the mandatory authorisation. Thus, a sanction was imposed on a legal entity for engaging in the activity of arranging cross-border money transfers without having obtained the necessary authorisation from the Banco de España or being duly registered. In another three proceedings three legal entities were sanctioned for engaging without authorisation in activities legally restricted to credit institutions.

A savings bank was sanctioned for committing one serious and two very serious infringements

Notable among the proceedings resolved is one against a savings bank and 20 members of its board of directors and management, in which this credit institution was found to have committed three infringements, two of which were classified as very serious and the third as serious. As regards the very serious infringements, deficiencies were found in its organisational structure, in its internal control mechanisms and in its administrative and accounting procedures, and such deficiencies were found to have jeopardised the viability and solvency of the institution, for which reason sanctions were imposed on the savings bank and on 17 of the members of its board of directors and management subject to the proceedings, since they were considered responsible for this situation. Also the institution

was found to have failed for at least six months to meet 80% of the capital requirements made, so that the relevant sanction was imposed on the institution, and 16 of the 20 directors and managers subject to the proceedings were considered responsible for this infringement. Finally, the savings bank was considered to have committed a serious infringement by failing to comply with the rules in force regarding the limits on exposures, as a result of which a sanction was imposed on the institution. Of its directors and managers, 16 were considered responsible for this conduct and the relevant sanction was imposed on them.

Aside from the proceeding described above, disciplinary proceedings against an appraisal company and a currency-exchange and cross-border money transfer bureau and their corresponding directors or managers were resolved. This type of institutions supervised by the Banco de España must comply with the applicable sectoral regulations because it is considered that it is necessary to ensure that they function correctly due to the activity they perform and its impact on the financial sector.

An appraisal company committed one very serious, one serious and one minor infringement

Appraisal companies issue reports and certificates which can be used in the mortgage market and determine the value of assets used as collateral by credit institutions. Consequently, on one hand, their valuation must be reliable and documented, respecting regulatorily established criteria, and on the other, their organisation must have the administrative, technical and human resources attributes which guarantee their internal control.

Thus, in view of the importance of such an activity, in the proceeding resolved in respect of an appraisal company and its directors four sanctions were imposed for very serious infringements (one on the company and the other three on each of its directors), since the contents of the appraisals were found to lack veracity and consistency and, in particular, the data and evidence arising from the valuation activity performed failed to match. Also, four sanctions were imposed for serious infringements (one on the company and the other three on each of its directors) arising from organisational deficiencies of an administrative and technical kind and relating to personnel in the internal control procedures that guarantee the correct performance of appraisals. And finally, one sanction was imposed for the commission of one minor infringement, owing to non-compliance with the applicable rules on civil liability insurance.

A currency-exchange and cross-border money transfer bureau committed one very serious, one minor and three serious infringements

It is essential that the accounting records of currency-exchange and cross-border money transfer bureaux provide a true and fair view of the institution concerned and that, in turn, its capitalisation levels are above the minimum required.

In the proceeding resolved against a currency-exchange bureau, the latter was found to have committed a very serious infringement, consisting of fundamental irregularities in its accounting records that prevented the entity's net worth and financial position from being known, for which sanctions were imposed on the bureau and on the two directors. Also, the bureau was found to have committed three serious infringements arising from its failure to perform various obligations, these being the obligations to have a minimum level of capital, to duly provide information to the supervisory authority and, finally, to perform only those operations it is authorised to perform, for which three sanctions were imposed. The directors of the bureau were considered likewise responsible for these infringements and a total of three sanctions were imposed on each. Finally, a sanction was imposed on the bureau for a minor infringement consisting of a breach of the rules regulating the recording of its transactions.

Four legal entities were sanctioned for pursuing activities without the corresponding authorisation

A legal entity was sanctioned for performing the activity of cross-border money transfers professionally with the public without having obtained the necessary authorisation from the Banco de España or having been duly registered.

Similarly, three legal entities were sanctioned for pursuing the activities of taking repayable funds from the public, which are restricted to credit institutions, without having obtained the corresponding authorisation to do so. Furthermore, they were required to immediately cease such activities.

Most of the sanctions imposed were fines, a total of 13 of varying amount were imposed on institutions and 66 on directors or managers. Similarly, in one case it was considered appropriate to impose three sanctions of public reprimand (published in the *Official State Gazette*) on an institution. In the same case, considering the particular responsibility of two directors or managers for the offence, it was also agreed to impose on each one two sanctions disqualifying them from serving as a director or manager at any credit institution or in the financial sector.

In addition to the foregoing, in 2010 a proceeding against a credit institution for non-compliance with minimum reserve requirements was resolved. This type of proceeding is brought and resolved by the European Central Bank and the Banco de España is responsible for processing it.

### 5.3 REGULATORY ACTIVITY AND CHANGES

Of the nine circulars published, noteworthy are the circular addressing the solvency of credit institutions and that amending the provisioning of credit risk

The Banco de España worked intensely in 2010 to develop and implement the organisational and disciplinary regulations applicable to institutions subject to supervision. Noteworthy among the nine circulars published is the circular on the solvency of credit institutions, which includes various EU rules aimed at promoting improvements in risk management (especially of liquidity-related risks) through guidelines included in an annex to the circular. The accounting changes were equally important and included most notably: changes to the treatment of consolidated financial statements and of business combinations; the delimitation of the special accounting register of credits and loans which serve as coverage for issues of mortgage securities and, especially, the improvements introduced in the analysis and provisioning of credit risk and impairment losses on foreclosed assets.

Also worth mentioning is the establishment of compulsory general principles for advertising by credit institutions, since the prior authorisation regime was replaced by one which is more in line with that of other financial institutions. Noteworthy among the other circulars is that completing the Law and Royal Decree regulating the qualifying holdings in credit institutions by harmonising their treatment at European and sectoral level with that of insurance and investment companies.

In addition to issuing the aforementioned implementing regulations, the Bank participated actively in drafting rules at different levels on banking and financial matters, which ultimately resulted in the corresponding external and internal reports being released. And, in the same vein, it participated in several international committees and working groups on banking regulation, which covered especially matters of solvency, accounting, financial institution management (corporate and self-governance) and transparency of operations.

As an extension of its regulatory function, the Bank also interpreted and applied the regulations governing the activity of institutions, especially the solvency and accounting regu-

lations, settling many enquiries received from institutions, other departments of the Bank or 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 monitoring and checks performed on issues of financial instruments eligible as own funds made by credit institutions involving, in 2010, the resolution of 81 proceedings.

As regards exercise of the Bank's power in the area of transparency and bank customer protection, almost 3,700 cases were processed until the removal in June of the authorisation regime, prior to publication, of advertising projects referring to the cost or rates of return of the products offered. There were 833 cases in relation to the verification and registration of brochures that refer to fee and commission charges (prices of bank services). Furthermore, the Bank Customer's Portal, a section on the Banco de España's website that aims to provide guidance, in 2010 recorded a total of 2,329,523 pages viewings and handled almost 5,100 enquiries, 2,500 of which received a written reply.

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.

### 5.3.1 Regulatory changes

In 2010 there were various regulatory changes which included most notably:

The reform of the legal regime of savings banks makes it easier for them to have access to capital and provides new forms of engaging in their financial activity

- 1 Changes that aim to improve the legal regime applicable to credit institutions. For instance:

- *Royal Decree-Law 11/2010 of 9 July 2010 on the governing bodies and other aspects of the legal regime for savings banks.* This Royal Decree-Law essentially aims to make it easier for the savings banks to have access to core capital, to promote the professionalisation of their governing bodies and to provide new forms of engaging in their financial activity.

- 2 Changes that aim to strengthen the solvency of credit institutions and to promote restructuring processes. These include:

- *Royal Decree-Law 6/2010 of 9 April 2010 on measures to promote economic recovery and employment.* This Royal Decree-Law clarifies the regime applicable to the credit institutions in institutional protection schemes (IPSs), expedites the orderly restructuring process of the sector through the FROB and facilitates the operations of financial vehicle corporations.

- *Royal Decree 628/2010 of 14 May 2010 amending Royal Decree 2606/1996 of 20 December 1996 on credit institution deposit guarantee funds and Royal Decree 948/2001 of 3 August 2001 on investor compensation schemes.* This Royal Decree completed the transposition of European regulations on deposit guarantee schemes which were amended in 2009.

The regulation applicable to payment services and banking advertising was amended

- 3 Changes that affect the operational framework within which credit institutions and other financial intermediaries work. These include:



- *Ministerial Order EHA/1608/2010 of 14 June 2010 on transparency of conditions and information requirements for payment services.* This Ministerial Order completes the transposition of European regulations on payment services which, in matters of transparency, are subject exclusively to its provisions. Furthermore, it repeals existing provisions on the valuation rules of banking operations.
  - *Ministerial Order EHA/1718/2010 of 11 June 2010 on regulation and control of the advertising of banking services and products.* This replaces the regime in force until then of prior authorisation of the advertising of credit institutions by a two-pronged monitoring system based on the establishment of general principles and criteria and requirements in relation to appropriate internal control mechanisms. The advertising activity of payment institutions is subject to a similar regime.
  - *Ministerial Order EHA/1665/2010 of 11 June 2010 implementing Articles 71 and 76 of Royal Decree 217/2008 of 15 February 2008 on the legal regime of investment firms and of other investment services entities.* This Ministerial Order transferred to the CNMV the competence on standard contracts and the verification and registering of fee and commission charges relating to transactions and services performed on the public debt book-entry market, which until then corresponded to the Banco de España. At the same time it modifies the procedures for the verification and registering of the fees/commissions relating to investment services, provided by investment firms and credit institutions.
- 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:
- *Royal Decree 712/2010 of 28 May 2010 on the legal regime governing payment services and payment institutions.* This implements the legal regime of payment institutions in a similar way to that of other financial institutions, by taking into consideration the specific features and operating limitations of payment institutions.

These changes are completed by the above-mentioned implementation of the organisational and disciplinary regulations applicable to credit institutions, in the form of the following circulars of the Banco de España:

- *Circular 1/2010 of 27 January 2010 concerning statistics on interest rates applied to deposits and loans vis-à-vis households and non-financial corporations.*
- *Circulars 2/2010 of 27 January 2010, 3/2010 of 29 June 2010 and 8/2010 of 30 November 2010 amending Circular 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats.*
- *Circular 4/2010 of 30 July 2010 on agents of credit institutions and the agreements entered into for the regular provision of financial services.*

- *Circular 5/2010 of 28 September 2010 on the information that the potential acquirer of a qualifying holding in a credit institution must submit.*
- *Circular 6/2010 of 28 September 2010 on the advertising of banking services and products.*
- *Circular 7/2010 of 30 November 2010 developing certain aspects of the mortgage market.*
- *Circular 9/2010 of 22 December 2010 amending Circular 3/2008 of 22 May 2008 on the determination and control of minimum own funds.*

Finally, the changes made to the EU regulatory framework include, for our purposes here, only the following:

- *Directive 2010/76/EU, of the European Parliament and of the Council of 24 November 2010 amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for resecuritisations, and the supervisory review of remuneration policies.* In addition to introducing certain improvements in the management of risks arising from operations with certain financial instruments, this directive attempts to make credit institutions' remuneration structures compatible with more appropriate management of their risks.

#### 5.4 FINANCIAL AND PRUDENTIAL REPORTING

##### 5.4.1 Prudential reporting requirements

The entry into force of *Circular 3/2010 of 29 June 2010* amending the criteria to be applied by credit institutions in the provisioning of credit exposures and of foreclosed assets entailed the updating of the formats of the confidential returns for reporting such information and of the instructions and correlations for preparing it.

The Circular meant, furthermore, that the information of mutual guarantee companies would be out of date, since the regulations governing credit institutions in this connection are applicable to these financial auxiliaries. Until the Ministry of Economic Affairs and Finance updates the ministerial order on the presentation of accounting information by mutual guarantee companies, these companies have been requested to voluntarily submit the updated information in accordance with the new criteria.

Likewise, in 2010 the Banco de España continued to participate very actively within the CEBS, which was replaced by the European Banking Authority, in revising the accounting returns with prudential information (FINREP) and the solvency returns (COREP) in order to prepare shared formats for use in the European Union from 2013.

##### 5.4.2 Reception of financial data in XBRL

As a result of the publication of Banco de España Circulars 1/2010 and 2/2010, it was necessary to modify, from the data as at 30 June 2010, the returns submitted by credit institutions in order to comply with the European Central Bank's statistical reporting requirements in relation to interest rates and information on the balance sheets of MFIs. The Bank capitalised on this in order to make the use of XBRL compulsory for the submission of this information, thus continuing its policy of introducing this standard as a system for receiving and validating all financial information from institutions supervised by it.

As a prior step for the preparation of the XBRL taxonomy of statistical information, a multi-dimensional data model was constructed, which is compatible with the ECB's taxonomy, and will serve as a benchmark for preparing taxonomies in the future.

5.4.3 Electronic documentation

All the financial statements were incorporated in 2010 into the telematic system established for financial reporting purposes and the receipt of this type of information on paper was almost completely eliminated.

5.5 CENTRAL CREDIT REGISTER

The Banco de España manages the Central Credit Register (CCR), which 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. It is also utilised by the Banco de España, in conjunction with the data from the accounting and own funds statements of the reporting institutions, for prudential supervision and other tasks which are legally entrusted to it, maintaining the confidentiality of the individual data.

The number of exposures declared to the CCR decreased by 2.8%

In 2010 the number of exposures declared to the CCR decreased from 32.9 million at end-2009 to 32 million at end-2010 (down 2.8%), although the total amount of these exposures held at the €3.8 billion of December 2009. The number of different borrowers declared to the CCR declined from 17.4 million at end-2009 to 17.1 million at end-2010 (down 1.7%).

As part of its function to provide reports to reporting institutions, in 2010 the CCR sent a total of 290.3 million automatic reports compared with 297.2 million in 2009, representing the second consecutive annual decline, which in this case amounts to 2.3%. Also, for the second year running, requests for reports for new lending transactions declined from 5.2 million in 2009 to 4.6 million in 2010 (down 11.54%), which reflects less lending in the system.

Borrowers can now request their exposure reports or submit claims to the CCR over the Internet

Borrowers' requests for reports rose from 110,741 in 2009 to 117,154 in 2010. This growth was particularly significant on account of the new service offered by the CCR from April for obtaining the reports over the Internet using a digital signature (issued by the Spanish public printing works for individuals and legal entities and the electronic national identity card). This channel was used intensively to request 25,452 reports from 15 April to 31 December 2010.

568 claims were made to the CRR by borrowers, who exercised their right to rectify data, compared with 508 in 2009 (up 11.8%). From 1 December 2010 it is also possible to submit claims online and 19 claims were made in this way in December.

As regards the 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), as at September 2010 (date of the latest available data), the CCR received information on exposures of 4,045 Spanish legal persons (an increase of 3.3% on the same period a year earlier) recorded in the other central credit registers, amounting to €230,770 million (down 1%). In turn, the CCR sent to these registers information on 1,662 legal persons resident in the other six countries (down 9.2%), relating to exposures amounting to €40,097 million (down 12%).

## 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 Governing Council of the ECB takes the monetary policy decisions, while the national central banks perform the liquidity providing/absorbing operations and manage the collateral provided by the credit institutions within their purview.

As a result of the sovereign debt crisis, the gradual withdrawal of the exceptional measures was delayed

The gradual withdrawal of exceptional measures adopted to address the financial crisis in 2010 was delayed significantly by the sovereign debt crisis which was at its worst in May and November. As a result of the problems observed in May, the Eurosystem implemented the Securities Markets Programme which was a temporary addition to the Covered Bonds Purchase Programme that began in July 2009 and which ended on 1 July 2010. At the end of 2010, the Eurosystem held in total under the two programmes a portfolio of €135 billion, €13 billion of which were managed by the Banco de España.

As in 2009, during 2010 the funding granted by the Eurosystem through its monetary policy operations was higher than credit institutions' liquidity requirements and, consequently, they placed their surplus liquidity in the deposit facility. However, during 2010 the structure of Eurosystem operations showed a notable return to normal: volumes in the main refinancing operations increased and those in longer-term refinancing operations decreased (particularly due to the maturity in June of the one-year refinancing operation) and, finally, use of the deposit facility has declined substantially.

The average liquidity requirements of the euro area as a whole and of Spain performed very similarly, falling by 6.5% and 6.8%, respectively. Spanish institutions continued along the same vein as in the previous two years, increasing their use of Eurosystem funds and acting as net lenders to the rest of the European banking system. Thus, Spanish institutions obtained net funding from the Eurosystem that totalled €96 billion, an increase of 30% with respect to 2009. However, this change was amply offset by the increase in funds delivered through TARGET to the rest of the European system which amounted to €61 billion.

Average gross financing obtained by Spanish institutions from the Eurosystem represented 15% of the total

Once again in 2010 the gross financing obtained by Spanish institutions in Eurosystem liquidity injection operations stood on average at 15% of the total which represents a significant increase from 11.4% in 2009. However, this change in their share of financing was reversed partially in 2010 Q4 and, as a result, stood at 13.2% in December 2010.

In addition to the above-mentioned Eurosystem portfolios, the Banco de España owns a portfolio of euro-denominated fixed-income bonds with an average outstanding balance of €80 billion in 2010. Holdings of foreign currency denominated assets stood on average at \$13 billion. As at 31 December 2010, assets in euro, foreign currency and gold totalled €96 billion.

Throughout 2010 the Banco de España continued to manage part of the ECB's foreign reserves which had an average volume of \$7 billion.

## 6.2 MANAGEMENT OF PAYMENT SYSTEMS

TARGET2-Banco de España availability reached 100%

The Spanish system of large-value payments, TARGET2-Banco de España (the Spanish component of TARGET2) operated soundly and stably in 2010, reaching availability of 100%. During the year the system processed more than 7.5 million transactions, remaining flat with respect to 2009, in line with the transactions processed by TARGET2 overall. Transactions amounting to more than €88 billion were settled which is 5% down on the previous year's figures.

With regard to retail payments, around 1,590 million transactions, totalling approximately €1.7 billion were processed through the National Electronic Clearing System (SNCE), which is managed by Iberpay, a company owned by the system's participants. The total transactions processed by SNCE recorded a year-on-year growth rate of 2.8%, similar to that in 2009. The amounts processed hardly changed in 2010 and the strong year-on-year decline in 2009 came to a halt.

SEPA credit transfers from Spain increased significantly

As for the adaptation of the Spanish retail payments system to SEPA (the Single Euro Payments Area), noteworthy is the entry into force of *Payment Services Law 16/2009* which together with the incorporation of a set of improvements in the design and processing of SEPA payment instruments contributed to the highly significant growth in the volume of SEPA-compliant credit transfers from Spain. The number of SEPA transactions processed increased four-fold during 2010 (65.7 million transfers compared with 16.8 million in 2009), meaning that the migration rate reached its highest level in November 2010 of around 22%. This figure continued to be considerably higher than the average for Europe as whole.

However, the situation is different for SEPA direct debits. Although practically all Spanish institutions have been able to offer this new Pan-European instrument since November 2010, its use is still very limited.

70% of bank cards already include the new chip

As for the adaptation of bank payment cards to SEPA, it should be noted that during 2010 the introduction of the international EMV standard in ATMs and POSs was practically completed (100% and 94%, respectively). Approximately 70% of the total number of cards in circulation had migrated to this new technology which is based on the inclusion of a chip.

The Banco de España continued to represent the institutions owning Iberpay, at their request, at STEP2 which is managed by EBA Clearing. Thus, these institutions can exchange SEPA credit transfers with any institution in the single payments area. The transfer operations processed through this “payment gateway” (Iberpay-Banco de España-STEP2) are settled in the accounts that the institutions represented hold in TARGET2-Banco de España. In July 2010 a new “payment gateway” service came into operation for SEPA direct debit transactions.

6.2.1 Oversight of payment systems

During 2010 the Banco de España continued to perform its task of oversight of payment systems, with the aim of contributing to their security and efficient operation. The fifth edition of the *Annual Report on Oversight of Payment Systems*<sup>2</sup> was published to provide information on the most notable developments in national payment systems and the oversight activities carried out.

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 2010, the Bank began an exercise to evaluate the degree of compliance with the basic oversight principles applicable to the SNCE which will end in 2011 and whose general findings are planned to be published in the *Annual Report on Oversight of Payment Systems*.

6.3 BANKNOTE MANAGEMENT

In 2010, within the framework of Eurosystem agreements for euro banknote production, the Banco de España was responsible for producing 844 million 50 and 5 euro banknotes (it was responsible for 50 and 20 euro banknotes in 2009). These banknotes were produced following the quality and security standards set by the Governing Council of the ECB. Part of the total amount produced was used to cover domestic requirements, while the remainder was sent to other Eurosystem central banks, according to the agreements and distribution timetables established. Also, the Banco de España received consignments of banknotes of other denominations produced by other Eurosystem members.

<sup>2</sup> Available in the “Publications” section of the Banco de España’s website at [www.bde.es/webbde/en/](http://www.bde.es/webbde/en/)

In 2010 the Bank received 3,200 million banknotes from credit institutions, 11% more than the previous year's figure. In turn, the Banco de España delivered 3,007 million banknotes to credit institutions, 10.4% more than in 2009. As in previous years, the volume of banknotes received exceeded those withdrawn, resulting in net negative issuance of 5, 10 and 20 euro banknotes. In any event, these figures do not signify a reduction in the number of banknotes in circulation given the sizeable inflows of notes into Spain which are introduced by visitors from other European countries.

In the area of banknote custody and distribution, the Banco de España continued working on the improvement of a system to distribute banknotes and coins flexibly and swiftly, guaranteeing they are available anywhere in Spain in the amounts and with the characteristics required at the lowest possible cost. As a result of close collaboration with the banking industry very particular logistic activities have been managed effectively and safely.

One of the Banco de España's functions is to monitor the quality of cash in circulation by withdrawing counterfeits and maintaining high quality banknotes. In this area, on a daily basis the Bank checks and monitors counterfeits which appear in the market in collaboration with the police and the legal authorities in Spain, the ECB and other central banks that issue euro banknotes and coins. As a result of this coordination, considerable success has been achieved in the fight against counterfeiting by identifying and withholding several consignments of counterfeit banknotes before they were put into circulation. As for the quality and fitness of banknotes in circulation, the Bank continued to analyse and check the banknotes which are withdrawn daily from circulation, destroying those which are damaged and replacing them with new or high-quality used banknotes. More than 3,900 million banknotes were checked and sorted at the Banco de España throughout the year.

At end-2010, 100% of the banknotes dispensed by ATMs had been subject to authenticity and quality checks

The adaptation period for Spain to comply with the rules established by the Eurosystem in the *European framework for euro banknote recirculation* (ECB Decision of 16 September 2010) ended on 31 December 2010. This framework affects all cash handlers and establishes very strict rules for the rigorous monitoring of the authenticity of euro banknotes in circulation and levels of quality and fitness. Consequently, at end-2010, all the banknotes dispensed by Spanish ATMs had been subject to a prior test for genuineness and classified by fitness, according to the rules established, by machines certified by the Bank or that came directly from it. Furthermore, all the banknotes recirculated over the counter had been manually processed by trained professionals or by machines which passed the tests agreed by the Eurosystem. The procedure represents an important guarantee for European citizens as regards the authenticity of euro banknotes in circulation and is a first-rate instrument for preserving and maintaining the public's confidence in euro banknotes.

The Banco de España also has the function, entrusted to it by the Treasury, of putting coins into circulation. In 2010 1,022 million coins were put into circulation and 245 million were withdrawn from circulation, with the result that net issuance grew by 777 million coins to 15,645 million coins at year-end. Also in this area, as with banknotes, important legal provisions were adopted that will strengthen monitoring and checking systems to guarantee the authenticity and the quality of the coins in circulation.

6.4 TRANSACTIONS OF THE FUND FOR THE ACQUISITION OF FINANCIAL ASSETS

In accordance with the corresponding regulations, the Banco de España continued to implement the Fund for the Acquisition of Financial Assets (FAFA), acting as its agent and custodian through the Treasury Special Schemes Support Service. This task includes the management of the cash flows generated by the securities in its portfolio and undertaking

the valuation adjustments of assets due to changes in prices, as well as keeping the accounts of transactions and preparing its annual accounts and periodic reports.

In 2010 the repo transactions arranged as a result of the first auction for the acquisition of assets matured and the resulting amount was paid into the Treasury.

## 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. The Law of Autonomy 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 functions of the European System of Central Banks (ESCB). 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).

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 2010

During 2010 the statistics were updated and disseminated along with the corresponding methodological notes and notes on changes, 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 Bank began to compile and send statistics to the ECB under the latter's new requirements on credit institutions' financial returns, securitisation operations and interest rates applied to customers, which is detailed in Circulars 1/2010 and 2/2010, both of 27 January 2010. Also in accordance with the ECB's guidelines, the Bank began to compile new statistics on financial vehicle corporations. Furthermore, work began within the framework of the ESCB to provide information security by security on the financial assets in the form of marketable securities held by resident sectors and the time series for the Bank Lending Survey began to be disseminated on the Banco de España's website.

#### 7.2 BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION STATISTICS

During 2010 work continued on adapting the information system on cross-border economic transactions to Regulation 924/2009 on cross-border transactions and to the sixth edition of the Balance of Payments and International Investment Position Manual, which was completed and published by the IMF in 2009. Accordingly, the information requirements were determined by the ECB and Eurostat. Similarly, a European procedure for the

exchange of information on intra-European investment came into operation which represents the first practical experience in the area of the systematic regular exchange of information on specific cross-border operations.

### 7.3 BALANCE SHEET POSITION AND RESULTS OF NON-FINANCIAL CORPORATIONS ACCORDING TO THE CENTRAL BALANCE SHEET DATA OFFICE

2010 saw the completion of the work to adapt the various products of the Central Balance Sheet Data Office to the Spanish National Classification of Economic Activities (CNAE-2009). This new classification was included in the data contributed to the European database BACH (Bank for the Account of Companies Harmonised), which was also provided for the first time with the information of small companies which filed their data at the Mercantile Registries, notably increasing the coverage of Spain. Lastly, following the line adopted in previous years to increase the dissemination of its products and to facilitate electronic access to corporations and users in 2010 all its publications were disseminated via the Internet.

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

In addition to the improvements in the infrastructure for collecting, exchanging and accessing statistical information (which are partly related to the projects mentioned in previous sections), work continued in this area to provide data collection procedures by electronic means, with the introduction of a new Internet application for receiving information from corporations and individuals and with the inclusion of these procedures in the Banco de España's Virtual Office.

## 8 Claims Service

The most important challenge in 2010 for the Claims Service was the need to handle the drastic rise in the volume of claims in the two previous years.

Consequently, the Claims Service was compelled to introduce new working and organisational methods in order to maximise its resources and boost efficiency.

Growth of the Claims Service's activity continued but more smoothly

The data on the Claims Service's activity during 2010 show that it has continued to grow, albeit more smoothly than in previous years (more detailed information is provided in the Claims Service's annual report). For instance, during 2010 the number of written claims received rose by approximately 7% with respect to the previous year. Similarly, the number of claims resolved increased by around 11% over 2009.

In 2010 signed reports totalled 4,865, up 4% on 2009.

The Service's activity in the area of enquiries decreased in comparison with 2009 since 3,394 queries were submitted electronically, 1,443 fewer than in the previous year.

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.

Similarly, the Claims Service participated actively in the conferences and seminars given to employees of Municipal Offices for Consumer Affairs under the Financial Education Plan 2008-2012 (see Section 9.2.2), implemented jointly by the Banco de España and the National Securities Market Commission (other institutions such as the Directorate General of Insurance and Pension Funds, the Ministry of Education and the National Consumer Affairs Institute, among others, have become involved).

## 9 External communication

As a public agency, the Banco de España has the obligation of accountability vis-à-vis the general public, although in the case of the Bank a balance must be struck between this obligation and the need for confidentiality, a key element in performing its duties as finan-



cial system supervisor. The communication policy of the Banco de España has a twofold objective: to improve knowledge about the Bank's functions and actions and to contribute to the confidence of citizens in the financial system. The need to strengthen confidence in the financial system has become particularly important in the context of the current financial crisis and, consequently, transparency about the situation of the banking system has been constant in all the communication activities performed by the Bank in 2010.

## 9.1 MEDIA RELATIONS

Media relations focused on the crisis and the restructuring of the financial system

During 2010, the Bank's relations with the media focused on the international financial crisis and the restructuring of Spain's financial system. For instance, most of the public speeches by the Bank's management during this period addressed the economic outlook and the reform of the banking system. The challenges facing the financial system also gave rise to the vast majority of requests for information received and were present in many of the Bank's publications.

In addition to the usual informative meetings to disseminate the work of the Bank's various departments, worth noting was the media coverage of the results of the stress testing of credit institutions and of the information on the savings banks restructuring process. The presentation of the financial education website [www.finanzasparatodos.es](http://www.finanzasparatodos.es) ("finance for everyone") (see Section 9.2.2) in May, the award ceremony of the Bernácer prize in June and that of the King Juan Carlos economics prize in November were also widely reported in the media.

Requests for interviews from foreign media grew by 70% with respect to 2009

Following the previous year's trend, in 2010 a high number of requests for interviews were made by foreign media, which as described above, centred on the consequences of the crisis for the Spanish financial system. Overall, various representatives of the Bank gave around 30 interviews (a third more than in the previous year), most of them to foreign media. The reform of the banking system stimulated the interest of the international specialist press, which resulted in a rise of 70% in requests for interviews from foreign media with respect to 2009. As has become customary, approximately a quarter of the interviews given in this period 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 Budget Committee and in November, before the Senate Budget Committee), the Deputy Governor, as Chairman of the Governing Committee of the FROB, appeared before Parliament in June, September and December to report in camera on the FROB's action to date. 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 received 2.7 million visitors, 12.5% up on 2009

As a result of the Banco de España's commitment to offer direct information to the public, its most important communication channel in terms of speed, efficiency and cost, is its website.

The access statistics corroborate the importance of the website. In 2010 there were 2.7 million visitors in total compared with 2.4 million in the previous year, up 12.5% on the previous year. The number of pages visited by users exceeded 25 million, as against 23 million in 2009, representing an increase of 8%.

In 2010 the process of translating the website into English was completed in order to satisfy the growing demand for information from international users. In addition, more than 200 projects relating to architecture, the enlargement or improvement of content were undertaken for a website comprising more than 2,000 pages and 20,000 files.

Together with the website, the Banco de España has made available to users several portals which are aimed at covering the specific information needs of certain segments. Noteworthy among these Portals is the Bank Customer's Portal, which was visited by more than 500,000 users, and the content included in the Educational Portal created in 2010, which recorded more than 84,000 visitors.

Also noteworthy is the role played by the Virtual Office, opened in January 2010, which has enabled members of the public, corporations, financial institutions and general government to perform administrative procedures and submit queries electronically to the Banco de España. In its first year of existence it was visited by 89,000 users and the most frequently requested administrative procedure was the "Request for reports on exposures from the Central Credit Register by borrowers".

The Bank handled more than 53,000 queries from members of the public and corporations

In 2010 the Banco de España handled 53,658 requests from corporations and members of the public from various specialised information points. Noteworthy, in terms of volume, were the 31,627 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 5,100 requests and the Statistical Information Service responded to around 11,000. The most commonly requested information related to financial statistics (institutions and markets) followed by 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 31,000 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 guided visits of the Bank. Furthermore, there were more than 36,000 downloads from the Educational Portal of various educational materials (brochures, presentations and videos).

The Bank 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 actively participates in the translation into these languages of materials which are produced by the Eurosystem for the general public.

#### 9.2.2 Educational initiatives

The Financial Education Plan implemented the portal [www.finanzasparatodos.es](http://www.finanzasparatodos.es) and a pilot programme of classes in Compulsory Secondary Education

The Financial Education Plan is a joint project of the Spanish National Securities Market Commission and the Banco de España, which aims to improve the financial education of current and future users of financial services. For this purpose, in 2010 two of the Plan's more far-reaching initiatives were implemented: the portal [www.finanzasparatodos.es](http://www.finanzasparatodos.es) ("finance for everyone") and the pilot programme to provide financial education in Compulsory Secondary Education.

The portal, which was presented in May, includes basic practical advice, tools and other means for managing personal finances. Since its launch until year-end, more than 1,046,051 pages were visited. The website also contains resources and games for young people, and educational guides can be downloaded.

In this academic year, in collaboration with the Ministry of Education, the Bank introduced a pilot programme to familiarise secondary school students with financial culture. More

than 2,600 students in the third year of Compulsory Secondary Education from 32 schools throughout Spain took part in this programme. Once the results have been analysed, the initiative will cover all 15 year old students.

Additionally, in 2010 the Banco de España participated regularly in educational fora organised by universities and other academic bodies.

During its fifth year of existence, 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 270,000 portal pages were consulted by over 61,000 visitors during 2010.

A total of 2,430 students participated in the 4th Competition for Schools organised by the Banco de España

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 excellence and the entrepreneurial spirit of students and has aroused growing interest among schools since it was created. The 4th Competition for Schools, held in the 2009-2010 academic year, merited the participation of 2,430 students from 486 schools, which is considerably higher than the figures for last year when 1,716 students from 214 teams competed.

The 4th Competition for Schools (dedicated to financial stability), in which 486 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 "Financial stability: a task for all". The winner was the Camilo José Cela Secondary School located in Pozuelo de Alarcón (Madrid). The diploma and prize (eight laptop computers) were awarded at a ceremony presided by the Deputy Governor of the Banco de España.

The Educational Corner, the section of the Educational Portal on the Banco de España's website for primary school teachers and students, permits the downloading of educational support materials and provides supplementary activities for the students to do in class or at home. These materials include, most notably, "The Safe", a game for use in the classrooms of upper primary school students, which aims 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. In 2010, 440 schools requested the Bank to send this game to them.

The Banco de España provides for institutional and educational visits to its headquarters in Madrid and to its branches. In 2010 it welcomed more than 4,900 visitors compared with 2,500 visitors in 2009. Furthermore, at the end of 2010 volunteers from the Sports and Cultural Club of Banco de España Employees began to help with the guided visits.

9.2.3 Institutional relations with the European Central Bank

In 2010, 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 Commit-

tee 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 visit of Spanish media to the ECB, 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.

## 10 Internal organisation and administration

As at 31 December 2010, the Banco de España's headcount amounted to 2,709 employees, the lowest figure in the last five years.

### 10.1 HUMAN RESOURCES AND ORGANISATION

This decrease was due especially to the retirement of an exceptionally high number of employees (145 in total) which represent 6% of the headcount. This was partly on account of changes in the legislation governing retirement in Spain and partly on account of a large group of employees reaching retirement age in 2010.

Headcount decreased to 2,709 employees

As for the breakdown of headcount, the number of more highly qualified employees continued to increase and reached approximately 60% of the total, while the number of less qualified employees continued to contract (currently 7.3% of the total).

Under the internal mobility project introduced in 2007 to facilitate the professional development of employees, 222 employees changed job in 2010, 9% of headcount compared with 8% in 2009. Similarly, 30 positions of responsibility were filled internally as opposed to only two which were filled externally through a competitive examination.

Females accounted for more than 40% of the workforce

Also as a result of active policies for equal opportunities, the proportion of females in the workforce grew again with respect to the previous year and currently stands at slightly more than 40%.

In the area of in-house training, the Executive Commission approved the 2010-2013 four-year Training Plan, which includes different types of programmes. These will focus particularly on technical training, which will be organised into seven schools of technical knowledge.

68% of the workforce attended a training course in 2010

In 2010, the number of hours of training given amounted to 143,099 in total, which represents an average of 51 hours per employee and a total of 5,074 places were taken up on training courses, following the same trend as in the previous year. 68% of the workforce attended a training course in 2010 and 197 employees attended international courses. 99 employees from other central banks and international bodies participated in Banco de España training courses.

During 2010 27 selection processes for permanent posts were organised, 15 internal processes and 12 external ones, involving 417 and 9,382 applicants, respectively. These posts were filled successfully.

Furthermore, 202 individuals were selected to fill temporary posts in order to cover staffing needs arising from Eurosystem projects and short-term absences, up to the legally permitted coverage levels.

As in past years, in order to contribute to the practical training of university students, the Bank continued the previous trend of welcoming in each academic year a representative number of suitable university students who wish to gain practical working experience in the financial sector (in total, there were 61 grant-holders in different areas of the Bank).

Last year was particularly significant because of the wage cut introduced by *Royal Decree-Law 8/2010 of 20 May 2010, adopting extraordinary budget-deficit-reduction measures*.

The Banco de España applied the corresponding reduction to employee remuneration in line with the provisions of the above-mentioned Royal Decree-Law through an agreement with the staff trade union representatives.

#### 10.2 PROCUREMENT AND GENERAL SERVICES

As part of the reorganisation of the Directorate General Services, the Procurement and General Services Department assumed the functions of the Maintenance, Construction, and Security Services, in order to optimise resources.

In the area of procurement the Annual Plan approved for 2010 was fully complied with and a total of 191 procurement processes were transacted. Furthermore, 204 contracts were extended and prices were renegotiated leading to a considerable reduction in costs.

From the standpoint of joint Eurosystem procurement, the Banco de España participated actively in the work of the Eurosystem Procurement Coordination Office, it was involved in two working groups and five joint tenders, and eleven new documents on good procurement practices were drawn up.

The activity of the Maintenance and Works Service during 2010 addressed the improvement in the reliability of facilities, greater energy efficiency and the removal of architectural barriers as well as recovering space at the Cibeles premises.

Noteworthy in the branch network were the following:

- Overhaul of cash handling rooms at the Zaragoza branch.
- Renovation of electromechanical installations in Zaragoza and Bilbao.
- Updating and extension of the fire-prevention system in Seville and of the air-conditioning system in Valencia.
- Also, the Plan to Improve Security and Video Surveillance Systems began and will continue in 2011.

#### 10.3 INFORMATION SYSTEMS

In 2010 the Information Systems Department was reorganised and the number of divisions and units was reduced to increase efficiency and improve system availability, in line with the shared target of the whole Directorate General Services.

Developments regarding Eurosystem projects, apart from those described in section 2 in relation to TARGET2-Securities, were as follows:

- MOP (Market Operations Platform): an agreement was reached between the central banks of France, Spain, Italy and Germany and the ECB to develop the project and subsequently supply the service to the Eurosystem. The Banco de España and the Bank of France will lead the project and will host the development and production systems.
- Eurosystem Public Key Infrastructure (ESCB-PKI): as a result of the reorganisation of the IAM (Identity and Access Management) project, the Banco de

España will undertake this project on its own (making it the first service that it will provide to the Eurosystem as a supplier) and it should be in operation in September 2011.

- ESCB Mail Program: this project which is led by the Banco de España, is geared at providing a new mail infrastructure which will permit the secure exchange of messages between ESCB members. Part of the work was undertaken in 2010, in collaboration with the Bundesbank and the Bank of Italy, including the replacement of the CebaMail mail system by another system with new technology called ESCBMail.

As for operational applications, noteworthy was the introduction of the CDI system to manage banknote cash transactions. Once it had been implemented and brought on stream, work commenced on a new system to handle cash deposits and withdrawals both of banknotes and coins in accordance with international standards.

The most salient actions in respect of IT infrastructures are as follows:

- Creation of two new devices for the telematic exchange of information with external institutions: the automated exchange of operations (ITO) and the exchange of files via the Internet (ITW), which open up new possibilities and are more flexible.
- Signing of two major strategic agreements:
  - Four-year agreement to cover the capacity requirements of the central computers and their maintenance as well as the software licenses required.
  - Software license and maintenance agreement for 2011-2013.
- Updating of security rules. Three new internal regulations were published.
- Completion of the work to increase the connection speed between branches and Madrid and the installation of alarm systems linking branches to police stations.
- Commencement of a project to modernise the telephone system which will introduce IP-based voice technology (or IP telephony), unifying the voice and data networks and improving the availability of the service in case of a disaster.

In the area of business continuity, a new room was equipped exclusively for restarting the most critical business processes in crisis situations. Due to this new room, it was possible to perform the restarting exercises for the first time under real working conditions, as recommended by best practices. Likewise, a tool to automate communications for crisis situations was used for the first time.

#### 10.4 CORPORATE DOCUMENT POLICY

During 2010 initiatives continued to be implemented in the form of projects relating to electronic administration and the modernisation of documentation processing.

On 1 January the Virtual Office came into operation

On 1 January the Banco de España's Virtual Office came into operation. The Virtual Office is the website available to members of the public who wish to deal with the Bank elec-

tronically. During 2010 information on 34 processes and services was published on this website with descriptions tailored to target audiences, along with the related technical specifications and regulations. More than 97,000 members of the public used this service to perform administrative procedures and the Bank answered their questions through the queries mailbox.

Following the Virtual Office, the next step in implementing the electronic administration model is bringing the Electronic Register into operation. For this purpose, in 2010 the necessary efforts were made to standardise the prior physical registration processes required: a Single General Register system was created at the Banco de España, the corresponding regulations were enacted (Internal General Register Circular 2/2010 of 22 December 2010) and a computer application was installed which ensures full integration of the recording of entries in the register in Madrid and at the branches. The foregoing will make it possible to address the electronic register project in 2011, which represents a direct improvement to the services provided to the public and which, internally, also simplifies and streamlines management and strengthens the monitoring of the registration processes and their legal certainty.

Also, in order to modernise the filing of documentation, an ambitious project was undertaken to re-organise and optimise storage space in the Archives which freed up 12,400m of shelves (part of the space recovered will be used for offices), the Bank's collections were reorganised and a computer program was installed to locate and monitor them.

As for the Bank's historical, art and document collections, particular attention was paid to its magnificent collection of architectural plans. The cataloguing of nearly 1700 plans was completed, 430 were restored, and they were digitalised in accordance with the standardised equipment maintenance procedures.

#### 10.5 CONTROL, BUDGET AND ACCOUNTING

In 2010 the new budget control computer software was implemented. It improves management and control procedures in respect of the Bank's expenses and investments.

In 2010 the new accounting software continued to be improved and greater automaticity was achieved in submitting financial statements to the ECB.

Also in 2010, following the preparation of the Bank's first risk maps, the information obtained continued to be used and the risk mitigation measures proposed by each of the Bank's departments were implemented. Similarly, after the methodology, which was used previously to determine the risks and processes, was adjusted, the first two-year review of the Bank's processes as a whole began, which will lead to the preparation of a new risk map at the end of 2011.

Lastly, as regards the Bank's international presence, it continued to work closely in respect of training with members of Latin American central banks.

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

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 2010 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; administration of the IT security of the Directorate General Banking Regulation; authorisations and administrative procedures of the Directorate General Banking Supervision; procurement processes of the Procurement and General Services Department; general government statistics; the processing of proceedings; advice for participation in international meetings; monitoring the access of individuals and merchandise to the buildings at the Cibeles complex; the ECB's strategic stock of banknotes; banknote production; recording of financial instruments related to monetary policy operations; monetary policy operations; maintenance and operation of IT infrastructures and systems, and payment systems oversight. Finally, it monitored the recommendations of the specific audits of the Banco de España and of those common to the ESCB.