



# Convergence from the perspective of smaller instituciones

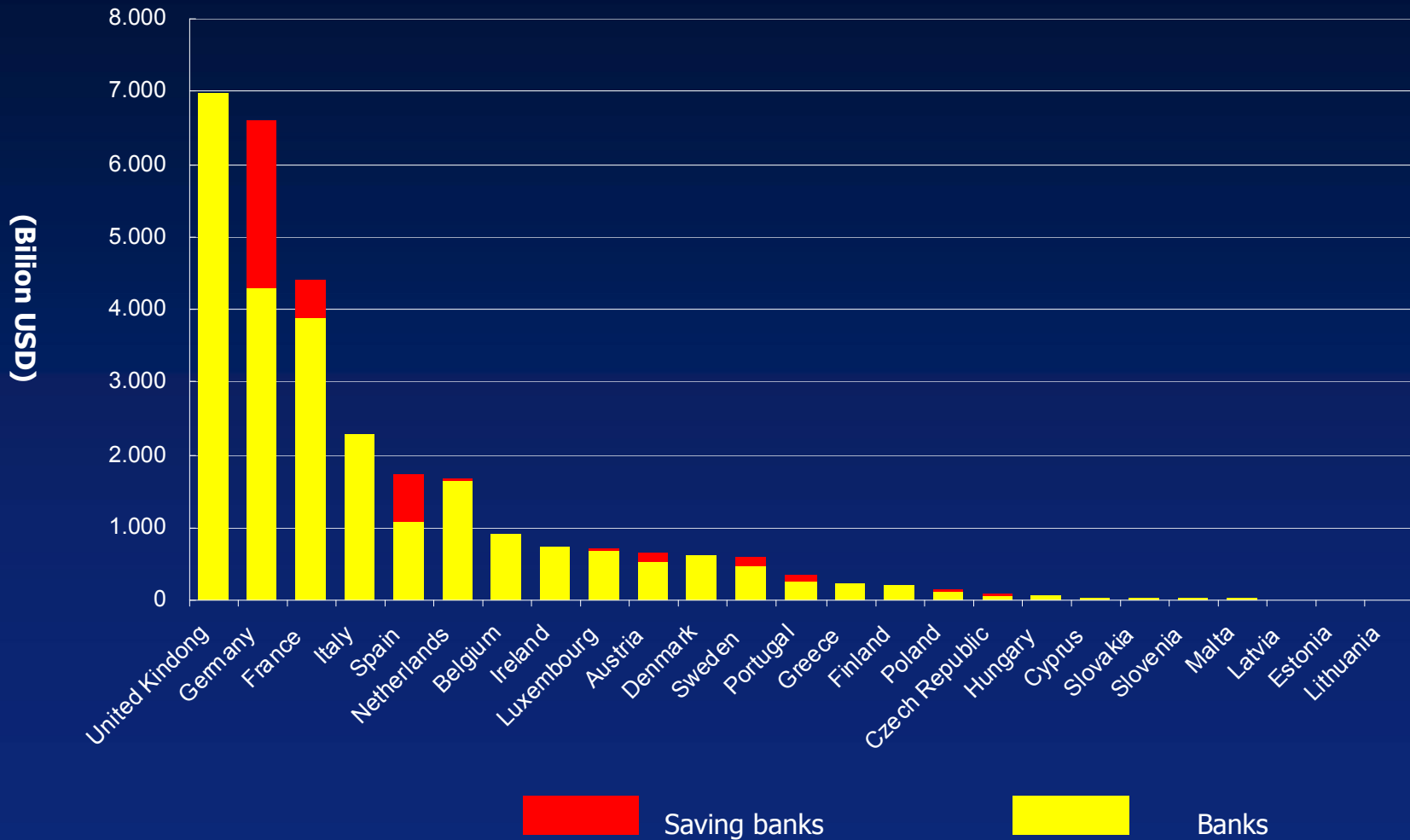
Antonio Ríos: Caja Madrid

London  
9May

# Index

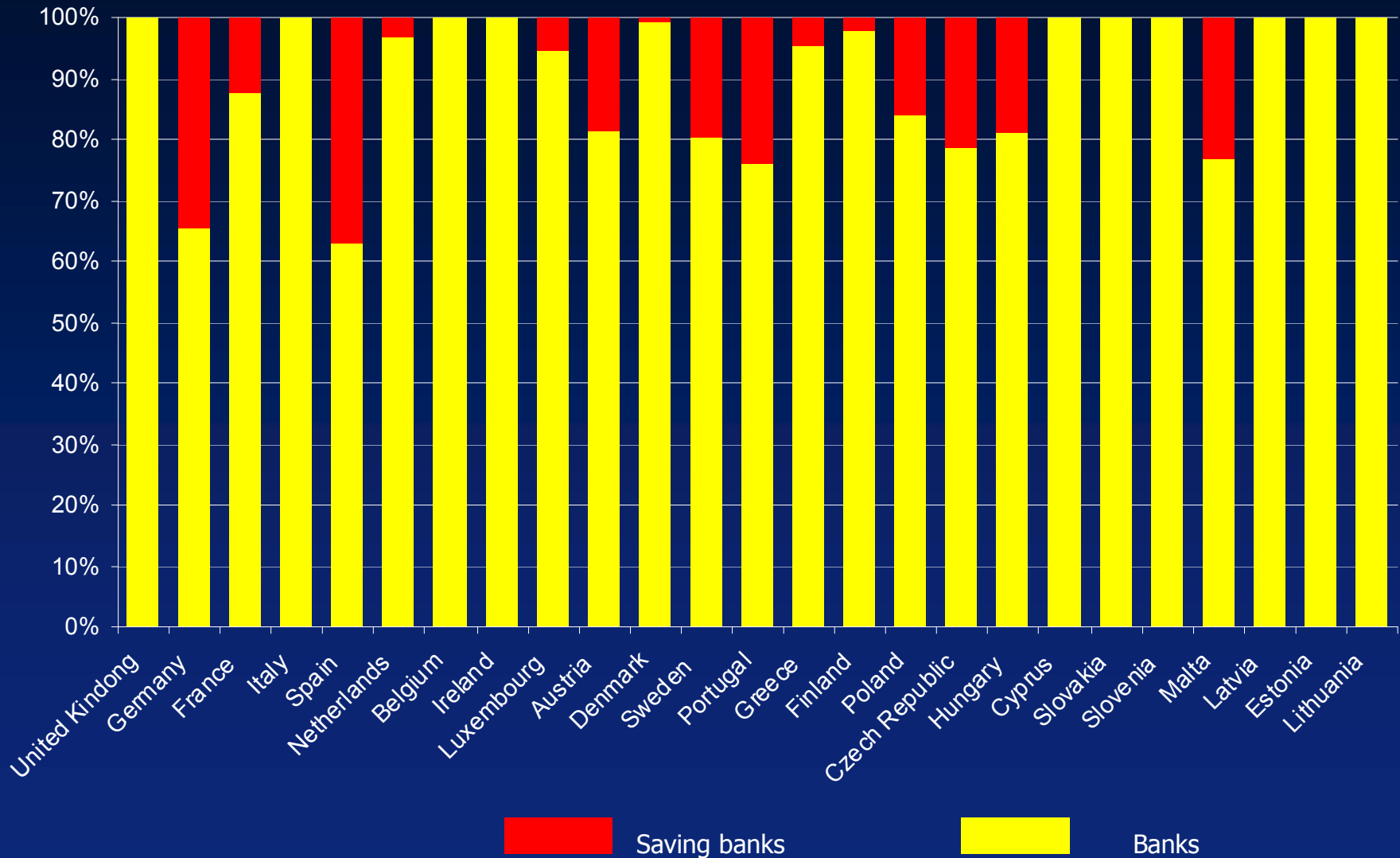
1. Some figures
2. What does proportionality mean?
3. What does proportionality mean in Spain?
4. The validation process in Spain

# 1. TOTAL ASSETS



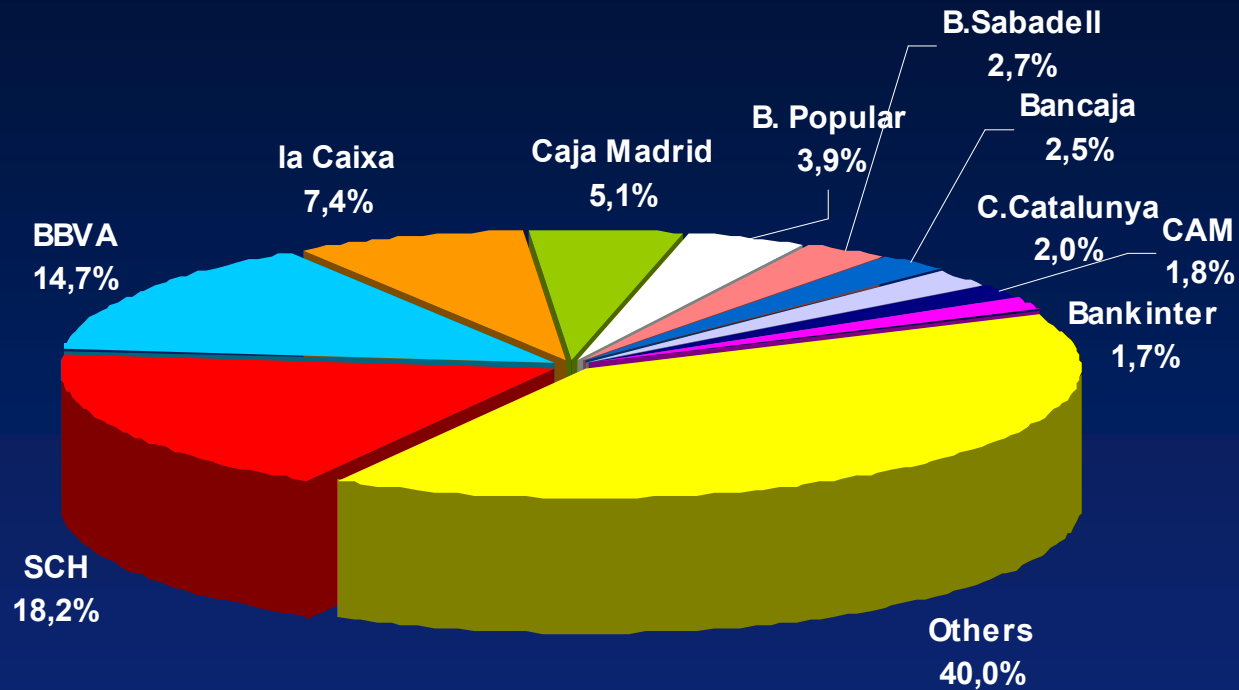
Source: ECB and ESBG (2004)

# 2. MARKET SHARE OF SAVINGS BANKS



Source: ECB and ESBG (2004)

# 3. SPAIN: Main banks and Saving banks



## **BIS II means:**

- **more risk sensitive and representative of modern banks' risk management practices**
- **It is more sensitive to the risks that firms face:**
  - **operational risk**
  - **more risk sensitive risk weightings against credit risk (IRB approach)**
  - **Other risks (Pillar 2)**
- **It provides incentives for firms to improve their risk management practices**
- **Overall level of capital held by banks collectively broadly unchanged**

# ¿What does proportionality mean?

## ***DIRECTIVE 2006/48/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 June 2006***

- (41)The provisions of this Directive respect the principle of proportionality, **having regard in particular to the diversity in size and scale of operations and to the range of activities of credit institutions.**
- Art 124.4 Competent authorities shall establish the **frequency and intensity of the review and evaluation referred to in paragraph 1 having regard to the size, systemic importance, nature, scale and complexity of the activities of the credit institution concerned and taking into account the principle of proportionality. The review and evaluation shall be updated at least on an annual basis.**

# ¿What does proportionality mean in Spain?

## Credit risk

- 8 entities accepted in the validation process of IRB models
- Represent 56% of total assets of the Spanish entities.

## Operational risk

- 3 Entities apply for AMA models
- Represents 19% of total assets of the Spanish market.



# Credit risk: The validation process

- Starting point.

March 2005	<b>Implementation Plan</b> sent to bank of Spain.-
July 2005	<b>IRB file</b> sent to bank of Spain.-
February 2006	<b>Bank of Spain acceptance</b> (8 entities)

# The validation process

March 2006-  
December 2007

## **Validation process** by Bank of Spain.

It represents:

- **Compliance** with BIS II requirements
- **Internal and external audit reports** per model twice a year
- **Effective implementation** of internal models in the credit management process
- **Documentation** in place
- **MIS and systems** in place
- **Regulatory Reporting** (COREP)
- **IRB dossier per internal model**



**CAJA MADRID**