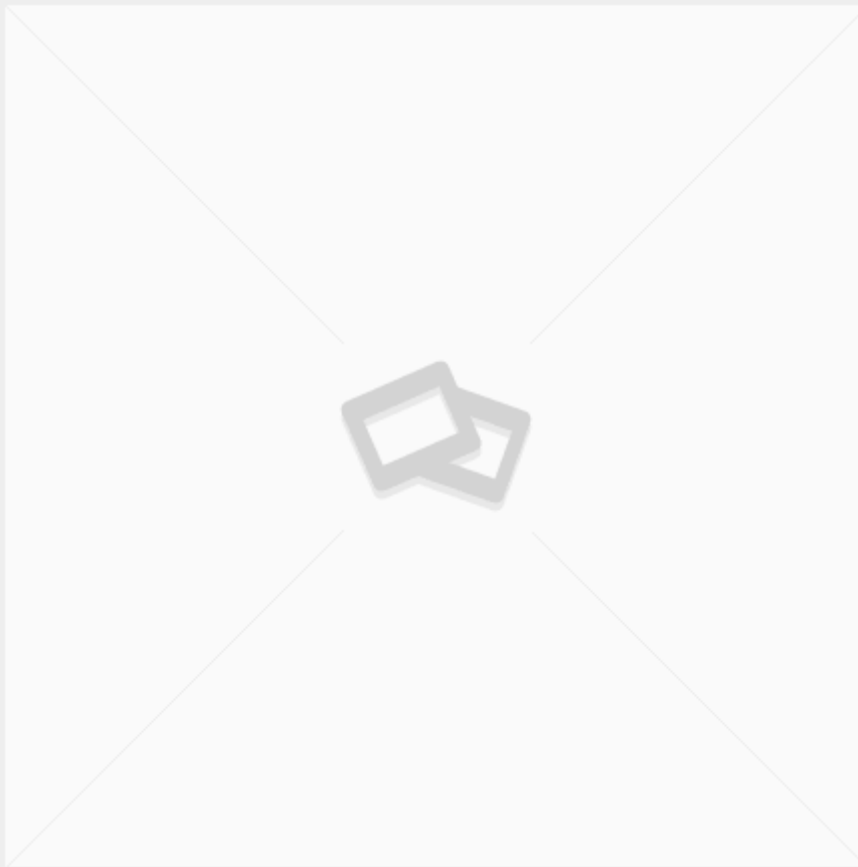


LESSONS FROM SPAIN'S MORE CAUTIOUS BANKING SYSTEM

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Companies' expansion plans are inevitably on hold until certainty returns to the international banking system, and to which the Bank of Spain's regulatory approach may suggest the way forward, says Sebastián Albella at Linklaters in Madrid.

The willingness of Spanish companies to invest internationally has increased considerably over the past decade, but the uncertainty that characterises the international finance community means that many will now be taking a "wait and see" approach to developments, believes Sebastián Albella finance partner at Linklaters in Madrid.

El posicionamiento del Banco de España en lo relativo a regulación bancaria ha comportado un menor impacto en la liquidez de los bancos españoles, afirma Sebastián Albella, socio corporativo de Linklaters en Madrid. Históricamente, ha habido cierta prudencia para con inversión y liquidez, y una prohibición de los vehículos de inversión excesivamente arriesgados, lo cual quizás sea indicativo de la forma futura que vaya a adoptar la regulación bancaria en Europa y en el marco internacional.

"Perhaps I am too influenced by the moment but the situation facing many companies may now be so uncertain as to put any expansion plans on hold. Currently I see little movement in any direction,"

he says.

What is required is a period of calm to allow companies, and their financial backers, to properly assess their own situations and how the events of recent weeks may have impacted on their strategic plans.

"Fundamental to companies' future plans is the solidity of the banking system and the attention that has been focused on the relative stability of the Spanish banks in the face of events internationally is well placed. The prudent approach of the Spanish banking regulation over recent years has worked well," says Albella.

As a former legal adviser to the Spanish Banking Association for 13 years and General Counsel of the Spanish Securities Commission, he is well placed to comment.

"The Spanish banking system went through its own crisis in the late 1970s and ever since the regulators and the supervisory system has put an emphasis on stability and transparency. It is one of the reasons why we are not seeing the same liquidity and confidence issues in Spain as are increasingly apparent elsewhere across Europe."

The Bank of Spain has always been regarded as an important and prestigious institution and despite the pressures that may have been applied, it has however always adopted a sober tone and promoted a prudent culture, says Albella.

"The major Spanish banks will themselves tell you that they are very closely supervised and that at times it seems that the regulators are a permanent presence in their offices. And while some in the past may have found such an approach frustrating, the adequacy provisions and anti-cyclical positions promoted by the Bank of Spain have however served them well."

Such an approach may therefore provide some guidance towards the likely future approach of banking regulators and of international banking regulation in the coming years, he believes.

"Within Spain we have not seen the regular use by banks of off-balance sheet accounting, structured credit or special investment vehicles (SIVs) which have come back to hurt so many banks elsewhere."

The UK's Northern Rock was nationalised as a result of incurring considerable liabilities associated with SIVs, while the Bank of America's 2007 fourth quarter earnings reported a 95% drop as a result of losses incurred in SIV earnings. The Sigma Fund, the oldest and once largest SIV player in what some estimate was a \$400bn industry collapsed at the start of October and effectively killed what some had termed a "shadow banking system".

"Spain's very restrictive regulatory system meant that risks could not be taken off the balance sheet and so had to be accounted for. While the lessons of the late 1970s meant that they also had to make provisions so that there was enough capital in reserve to cover the bad times when they came."

It will not be enough however to change only national banking regulatory systems to ensure that similar crises of confidence do not recur, emphasises Albella.

"The role of the international financial regulators will inevitably be strengthened as will their policies, and the Bank of Spain's position does perhaps offer an example of a way things may now go. But changes will also be needed in banking practices and inevitably to accountancy rules."

In the meanwhile however, companies will very likely have to continue to put their international expansion and strategic plans on hold.