

## **SUMMARY**

### **Summary of Report 23/2018, relating to the system of governance at the Catalan Finance Institute, years 2011-2016**

*Barcelona, 3 December 2018*

The Public Audit Office for Catalonia has issued Report 23/2018, relating to the system of corporate governance at the Catalan Finance Institute (ICF), years 2011-2016, in accordance with its Annual Programme of Activities.

The report, which was presented by the Chairman, Mr Jaume Amat, was approved by the Audit Office Board at its meeting on 25 October 2018, with one dissenting vote against, by Board Member Mr Jordi Pons i Novell.

The subject of the report is the audit of corporate governance at the ICF by analysing its arrangements for good governance and reviewing the regulatory changes which took place in the period covering years 2011 to 2016 in order to adapt the ICF's decision-making systems and corporate governance and internal control structures to those of a lending institution.

The concept of *governance* refers to the set of principles and standards regulating how an entity is designed, put together and run; in other words, its processes for making decisions and the structures set up to implement and monitor them.

The ICF has gradually adapted its legal and operational status to bring it in line with the requirements of European regulatory and supervisory bodies, in order to be able to carry out its activities within the framework of the European banking union. In the most recent modification of its regulatory framework, the ICF was defined as an entity with its own separate legal identity, subject to civil law and also to the specific statutory requirements applying to lending institutions. As such, the ICF can offer loans and provide bank guarantees or sureties, for example, but cannot take deposits from the general public. It has its own independent assets and money reserves and acts to fulfil its aims with organisational, financial, asset-holding, functional and managerial autonomy, and full independence from all government administrations.

The most recent adaptations of the ICF's statutory regime (Act 7/2011, of 27 of July, and Decree-Act 2/2015, of 28 of July) modernised key aspects of the ICF's corporate governance arrangements, modified its organisational structure and legal regime to achieve its classification as a banking institution under the terms of ESA 2010, and reinforced the ICF's independence vis-a-vis the Catalan Government.

The international banking system, through the Basel Committee on Banking Supervision (BCBS), determines the corporate governance rules to be followed to ensure banks'

liquidity and good health and their application of risk management policies, as a response to the failures of the banking system, particularly after the global financial crisis which began in 2007.

The audit work carried out for this report was directed at reviewing and analysing the following aspects:

- The development of the ICF's statutory regime in order to adapt its governance arrangements to those of a lending institution.
- The extent to which regulatory changes had actually been implemented in the activity of its governing bodies.
- The procedures used in the ICF's main areas of activity: its investments in capital instruments and its lending activity.
- How the guiding principles included in the document approved by the BCBS, as principles of corporate governance for lending institutions, had been implemented.

From the analysis of the ICF's corporate governance arrangements in the period between 2011 and 2016 it was possible to conclude that there had been positive developments in the application of good governance practices, since the ICF had gained greater independence from the Catalan Government, both in its relations with the relevant government department and in the composition of its governing bodies, with a majority of independent members.

As regards its decision-making and organisational structure, the Board of Governors had set up subcommittees and specific committees for risk management, such as the Combined Committee for Audit and Control (CMAIC) and the Committee for Appointments and Salaries (CNIR), and had adapted its policies and procedures to those of a lending institution. Nevertheless, the Audit Office noted certain weaknesses when it came to following the recommendations contained in the guiding principles for corporate governance published by the BCBS.

The following are some of the most significant findings arising from the audit work carried out:

- Rules 26 and 27 from the Bank of Spain's Circular number 2/2016, of 2 February, stipulated that the CMAIC and the CNIR should be comprised of at least three non-executive members. The ICF's own rules for its governing bodies stated that these committees should have a maximum of three and a minimum of two members, who should all be independent. In year 2016 both of these committees comprised only two independent members. They therefore did not comply with the minimum statutory requirement for lending institutions.
- The ICF had not produced a Risk Appetite Statement (RAS) with clear lines of responsibility for risk management, in particular, and for controlling and monitoring, in general; however, it *had* drawn up several risk-related policy documents and procedures.
- The chief executive officer (CEO) and the chair of the Board of Governors are appointed and dismissed by the Catalan Government, at the proposal of the minister for the

department in charge of the economy and finance, following a prior report by the CNIR. The BCBS recommends that it is Board, which has ultimate responsibility for business strategy and financial soundness, that selects the CEO and other key officials at the organisation, and that the chair of the Board is an independent or non-executive member.

- The occurrence of conflicts of interest and the procedures for managing them were regulated in the Code of Good Practice and the Code of Conduct, signed by all of the ICF Group's professional staff, but the ICF did not have a specific, formal policy regarding conflicts of interest.
- The ICF was not drawing up the annual internal evaluation report on pay policies as required by rule 37 of the Bank of Spain's Circular number 2/2016, of 2 February, and by article 33.2 of Spain's Organisation, Supervision and Solvency of Lending Institutions Act (Act 10/2014, of 26 of June).
- The Audit Office detected that, until year 2018, the ICF did not have a transparency section on its website bringing together all the information content required by law. The transparency web portal set up lacked some of the content which should have been published there, such as the information required by articles 9, 13 and 14 of the Transparency, Access to Public Information and Good Governance Act (Act 19/2014, of 29 of December), regarding its organisational arrangements and administrative structure, its procurement and its cooperation agreements.

This summary is solely for information purposes. The audit report (in Catalan and Spanish) can be consulted at [www.sindicatura.cat](http://www.sindicatura.cat).