

**Once bitten twice shy?
A study on the effectiveness of administrative sanctions
to discipline bank board members**

Marina Brogi¹

Abstract

Inadequate corporate governance and risk management practices have been indicated among the determinants of the recent financial crisis and this refuelled the debate on the effectiveness of supervision and the overall architecture of prudential supervision for the safeguard of the stability of the overall banking system and of single banks. The design of the right incentives for a sounder and more prudent management of banks has attracted increasing attention. Though bank compensation issues are often addressed, little research focuses on board responsibility, reputation, name shame and hence on the role that well-designed administrative sanctions could play in the discipline of board members.

First and foremost it is important to include sanctions in the corporate governance framework and to consider their impact on reputation. Secondly it is important to understand sanction effectiveness as a corporate governance measure.

Based on a complete data set of inspections conducted and administrative sanctions issued by the Bank of Italy, the paper pursues the twofold objective of proposing a framework for the role of sanctions within the corporate governance of banks and assessing sanction effectiveness in the discipline of board members and in improving bank organization thereby enhancing sound and prudent management.

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1.

INTRODUCTION

Inadequate corporate governance and risk management practices have been indicated among the determinants of the recent financial crisis (Kirkpatrick (2009)) and this has refuelled the debate on the effectiveness of supervision and the overall architecture of prudential supervision for the safeguard of the stability of the overall banking system and of single banks. The design of the right incentives for a sounder and more prudent management of banks has attracted increasing attention. Though bank compensation issues are often addressed, little research focuses on board responsibility, reputation, name shame and hence on the role that well-designed administrative sanctions could play in the discipline of board members.

First and foremost it is important to include sanctions in the corporate governance framework and to consider their impact on reputation. Secondly it is important to understand sanction effectiveness as a corporate governance measure.

Based on the entire population of inspections conducted and administrative sanctions levied by the Bank of Italy, the paper pursues the twofold objective of proposing a framework for the role of sanctions within the corporate governance of banks and assessing sanction effectiveness in the discipline of board members and in improving bank organization thereby enhancing sound and prudent management.

The paper unravels as follows. Section 2 provides the backdrop by describing bank regulations in Italy and for role of inspections and sanctions. Section 3 proposes a framework in which sanctions play a role in the corporate governance of banks. Section 4 contains a review of the relevant literature which may be divided into two main strands the peculiarities of bank corporate governance and the disciplining role of administrative sanctions. Section 5 describes the data set, the methodology and findings as concerns recidivism (i.e. persons sanctioned more than once in the period under observation) which it is argued represents evidence of sanction ineffectiveness in the discipline of board members. Section 6 concludes with the identification of future research directions.

2.

BANK REGULATION IN ITALY AND THE ROLE OF INSPECTIONS AND SANCTIONS

The Consolidated Law on Banking governs supervision of banks, and entrusts to the Bank of Italy. The latter's objectives are to ensure the stability, management of intermediaries and compliance with credit and financial law and regulations. The Bank of Italy is also assigned powers of prudential supervision over intermediaries active in investment services and asset management provided for by the Consolidated Law on Finance which specifies that the purposes of supervision of are to safeguard confidence in the financial system, protect investors and ensure the stability, sound functioning and competitiveness of the system, in compliance with financial law and regulations.

Bank regulation in Italy over the years has become increasingly detailed as concerns corporate governance, bank risk taking activities and internal control systems also as a result of EU regulations².

Since the corporate governance of banks is particularly important in the stability of the financial system (Draghi, 2008a: 17) it is subject to specific regulations:

- board members and the general manager must comply with additional integrity, independence and professional requirements (provided for Regulations of the Treasury Minister 161/1998), and therefore already comply with the principles issued by the OECD³ and the Basel Committee⁴;

- the role of governance bodies in the prudential supervision framework is specifically set out in the New regulations for the prudential supervision of banks (Bank of Italy Circular 263/2005);

- in March 2008 the Bank of Italy issued comprehensive Supervisory provisions on bank governance that provide a detailed framework of principles which banks must comply with and require a thorough self assessment and the preparation of a corporate governance plan⁵.

Italian regulations must provide for the three different board structures, which companies may choose from (horizontal two-tier model – Italy’s traditional model, the vertical two-tier model and the one-tier model which were introduced with the company law reform which entered into force in 2004). Indeed, the new prudential regulations clearly define activities to be performed by the bodies in charge of the supervisory function, of the management function and of the control function (see Figure 1).

² Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC of 14 June 2006 on the capital adequacy of investment firms and credit institutions.

³ OECD: “Principles of Corporate Governance”, 2004, pag 25, 60, 62, 64 ,65; “The Corporate Governance Lessons from the Financial Crisis”, 2009a pag 17, 19, 24; “Corporate Governance and the financial crisis: Key findings and main messages”, June, 2009c, pag 10, 20, 32, 33, 43, 45; “The financial crisis: reform and exit strategies”, September, 2009d, pag 86; “Conclusions and emerging good practices to enhance implementation of the Principles”, February, 2010, pag 4, 6, 10, 14, 17, 19, 20, 22.

⁴ Basel Committee on Banking Supervision: “Enhancing corporate governance for banking organizations”, July, 2006, pag 7, 9, 13, 14 and “Principles for enhancing corporate governance”, October, 2010, pag 8, 9, 10, 11, 16, 23, 24, 31.

⁵ Bank of Italy (2008: 1) specifies “For all companies, efficient organizational and corporate governance structures are an essential prerequisite for the pursuit of the company’s objectives. For banks they take on special importance because of the characteristics that distinguish banking and the public interests that are given specific consideration in legislation. Banks’ organizational and corporate governance structures must not only respond to the corporate interest but also ensure conditions of sound and prudent management, the essential objective of regulation and supervisory controls”.

Figure 1

Current regulatory framework

Banks' governing bodies play a key role in risk management and control. They are required, inter alia, to develop risk management strategies and policies, verify their continuing effectiveness and efficiency, specify the duties and responsibilities of the various corporate functions and units and, more generally, ensure that all the risks to which banks could be exposed are adequately covered. The role of the governing bodies is examined in full in this Chapter (Part 4) to ensure that it is treated consistently and comprehensively and to enhance bank officers' involvement in and **awareness of the issues associated with risk management and control**.

These arrangements are part of the more general regulation of bank organization and internal control systems to ensure operations are managed efficiently, effectively and with integrity.

The primary responsibility for these tasks lies with the bank's governing bodies, each in accordance with its specific duties.

Supervisory body	Management body	Control body
<p>The supervisory body plays a key role in an effective and efficient risk management and control system. In particular, this body:</p> <ul style="list-style-type: none"> - shall establish strategic risk management guidelines and policies, periodically reviewing them in order to ensure their continuing effectiveness. It shall be aware of the risks to which the bank is exposed, and understand and approve the procedures for identifying and assessing risks; - shall ensure on a continuing basis that tasks and responsibilities are assigned in a clear and appropriate manner, with special regard to mechanisms for delegating powers; - shall verify that risk control functions have been 	<p>The management body shall be responsible for the establishment and maintenance of an effective risk management and control system, implementing strategic policies. In particular, it shall:</p> <ul style="list-style-type: none"> - verify on a continuing basis the overall efficiency and effectiveness of the risk management and control system, taking remedial action to correct any shortcomings or irregularities and adapt the system to changes in the business environment or the introduction of significant new products, lines of business or processes; - specify the responsibilities of the units and functions involved in a manner that clearly assigns their tasks and avoids potential conflicts of interest. It shall also ensure that the related activities are directed by qualified personnel with adequate independence of judgement, and experience and 	<p>The control body shall monitor the adequacy and compliance of the risk management and control system as well as the ICAAP with the requirements laid down by applicable law and regulations.</p>

<p>established in a manner consistent with strategic policies, that such functions have appropriate independence of judgement and have been provided with qualitatively and quantitatively adequate resources;</p> <ul style="list-style-type: none"> - shall ensure the establishment of a system providing accurate, complete and timely information concerning risk management and control; - shall ensure that the functionality, efficiency and effectiveness of the risk management and control system are periodically reviewed and that the findings of such review are reported to the strategic oversight body; where shortcomings or irregularities are found, the oversight body shall adopt appropriate remedial measures; - shall, with regard to the ICAAP, establish and approve the general structure of the process, ensure its prompt adaptation to significant changes in strategic policies, organizational arrangements and the business environment and shall take steps to ensure the full use of the results of the ICAAP for strategic and decision-making purposes. <p>With regard to credit risk, the supervisory body shall approve the general structure of the system for managing risk mitigation techniques that governs</p>	<p>knowledge commensurate with the tasks they must perform;</p> <ul style="list-style-type: none"> - establish the internal reporting flows necessary to ensure the governing bodies and control functions have the information necessary to fully understand and govern risk factors; - implement the ICAAP, ensuring that the process complies with strategic policies and meets the following requirements: it shall consider all material risks; incorporate prospective assessments; use appropriate methodologies; be understood and agreed with internal units; be adequately formalized and and units; be supported by a sufficient number of qualified personnel with the authority necessary to enforce compliance with plans; and be an integral part of management activity. <p>With specific regard to credit risk, the management body, in line with the strategic policies, shall approve specific guidelines designed to ensure the</p>	<p>In the performance of its functions, the control body shall receive adequate information from the other company bodies and internal control functions.</p>
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<p>the entire process of acquiring, assessing, controlling and implementing CRM tools.</p> <p>At banks that adopt internal risk measurement systems for calculating capital requirements, the supervisory body shall also:</p> <ul style="list-style-type: none"> - approve the adoption of such systems. In particular, it shall approve the choice of an appropriate system and the related plan setting out the activities associated with the preparation and implementation of the system, identifying responsibilities, specifying the timetable for implementation and the planned investment of human, financial and technological resources; - periodically verify the continuing validity of the decisions taken, approving significant modifications to the system and exercising overall supervision of its correct operation; - monitor, with the support of the competent internal control units, the effective use of internal systems for management purposes (use test) and their conformity with other regulatory requirements; - examine, at least once a year, the annual report prepared by the internal audit unit and the reports of the validation function and shall issue, having received the opinion of the control body, a formal statement of compliance with the requirements for the use of the systems selected. 	<p>effectiveness of the system for managing credit risk mitigation techniques and guarantee compliance with the general and specific requirements of such techniques.</p> <p>The management body of banks that adopt internal risk measurement systems for calculating capital requirements shall also:</p> <ul style="list-style-type: none"> - assume responsibility for the establishment and operation of the systems selected. In order to perform this task, the members of the body shall have an adequate understanding of the significant issues involved; - issue instructions to ensure that the system selected is implemented in accordance with the strategic policies, assigning tasks and responsibilities to the various company functions and ensuring the formalization and documentation of all the phases of measuring, managing and controlling risk; - take steps to ensure that the risk measurement system is integrated into decision-making and operational management processes (use test). <p>In performing the tasks for which it is responsible, the management body shall have regard to the recommendations produced following the validation process and the review conducted by the internal audit unit.</p>	<p>The control body of banks that adopt internal risk measurement systems for calculating capital requirements, acting with the support of the internal control functions, shall assess – within the framework of its broader duties of reviewing the risk management and control process – the functionality and adequacy of the system as well as its compliance with the requirements of applicable law and regulations.</p>
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Source: BANCA D'ITALIA, New regulations for the prudential supervision of banks, December, 2006.

The new prudential regulations introduced in 2006 provide for the Supervisory review process (SRP) according to which supervised entities must periodically perform an Internal Capital Adequacy Assessment Process (ICAAP) in which administrative and control bodies play specific roles (see table above) and the Bank of Italy through the Supervisory Review and Evaluation Process (SREP) evaluates the results of the ICAAP process.

The approach used by the Bank of Italy, which features the integration of macro- and micro-prudential analysis and off-site monitoring and on-site inspections, is illustrated in detail in the Guide for Supervisory Activity issued in mid-2008 and was applied in full in 2009 for the first time. The new approach focuses on consolidated situations, on risks and on proportionality. The coordination between off-site supervision and monitoring and on-site inspection makes it possible to guard against excessive risk exposure. Early detection of risk factors is the means used to prevent overexposure, thereby strengthening the capacity of the system and intermediaries to deal with possible financial crisis.

Alongside more detailed regulations, inspections and sanctions complement the regulatory framework by inducing and/or enforcing compliance. In particularly severe cases where serious administrative irregularities or serious violations of laws, regulations or bylaws governing the bank's activity emerge, the Bank of Italy may forbid that authorised banks take on new transactions or impose the closure of branches (Supervisory instructions for banks, Bank of Italy Circular 229/1999) or even propose to the Minister of the economy and finance to dissolve the administrative and control bodies. Sanctions are inflicted to board members, general manager and other persons as provided for by art. 144 of the Consolidated Law on Banking.

In addition to inflicting sanctions, Bank of Italy officials normally present to board members inspection reports containing corrective organizational measures to be implemented. Therefore inspections and sanctions could be designed to play a key role in favouring prudent and sound behaviour within banks.

A significant increase in sanctions has occurred over the years both in sheer numeric terms (from 82 in 1998 to 113 in 2009) and in percentage of total assets of supervised entities (Figure 2). This is attributable, on the one hand, to the fact that supervisory controls were stepped up, in order to guard against the heightening of some risk profiles due to the financial crisis (Bank of Italy, Report to Parliament and to the Government, 2010) and, on the other hand, the considerable concentration process that occurred in Italian banking system in recent years that also favoured the increase in the portion of the banking system subject to inspections (the changes in the number of entities supervised by the Bank of Italy is contained in Table 1 in the Annexes).

Figure 2

Inspections and Sanctions levied by the Bank of Italy

Inspections and Sanctions						
Years	Supervised entities*		Inspections			Sanctions
	Total	Banks	Total ¹	Banks	Tot. Assets ² (%)	
1998	2817	921	202	185	11,4	82
1999	2687	876	186	167	10	81
2000	2681	841	180	164	11	110
2001	2763	830	195	178	11	98
2002	2889	814	196	175	15,7	86
2003	2926	788	217	184	22,3	65
2004	2952	778	209	180	14	85
2005	2971	784	184	162	19,8	71
2006 ³	1547	793	194	165		36
2007	2851	806	175	141		71
2008 ⁴	2811	799	190	150	55	58
2009	2695	788	205	154	67	113

* See Table 1 in the annexes

¹ In 2005 and 2006 since there is no official data on the total number of inspections the number is the sum of inspections of banks, Italian asset management companies, Italian investment companies and of the financial companies registered ex art.107 of the Banking Law

² Represents the proportion of the system's total assets

³ As of 2006 the Bank of Italy was attributed the power to inflict sanctions by Law 262 of 28th December 2005

⁴ The measures adopted were 58, 21 against which an opposition was filed to the Rome Court of Appeal. In two cases the opposition has been accepted

Source: Bank of Italy, Report to Parliament and the Government from 2006 to 2010

Bank of Italy, Annual Report from 1998 to 2006

On-site inspections by supervisory authorities, which may give rise to disciplinary actions, also considerably increased.

As illustrated in Bank of Italy's 2010 Report to Parliament and the Government, actions with respect to banks, in the form of reprimands or interviews with bank officers, numbered more than 924 in 2009 and involved 332 banks, representing over 40% of all supervised institutions. Apart from actions concerning the bank's overall situation, the most common themes were organizational shortcomings and credit risk.

Inspections rose in 2009 to 205 from 175 in 2007 and 190 in 2008. Another 138 inspections commenced between January and May 2010. The Bank of Italy specifies inspections were calibrated according to the size and complexity of the intermediary, and that the number of on-site controls at large and at problem institutions increased, with flexible, targeted modulation of the range of the controls. Priority was given to evaluation of the procedures for credit risk management and control.

In 2009 there was a significant increase both in sanctions levied (from 58 to 113 fines) and in the application of crisis procedures (from 4 to 20). Special administration procedures were instituted at 11 banks, one of which ended in forced liquidation. In most cases, problem intermediaries were characterized by serious defects in borrower selection and loan management, with severe irregularities in the activities of

corporate bodies and major organizational and control shortcomings, and sometimes even large-scale capital losses.

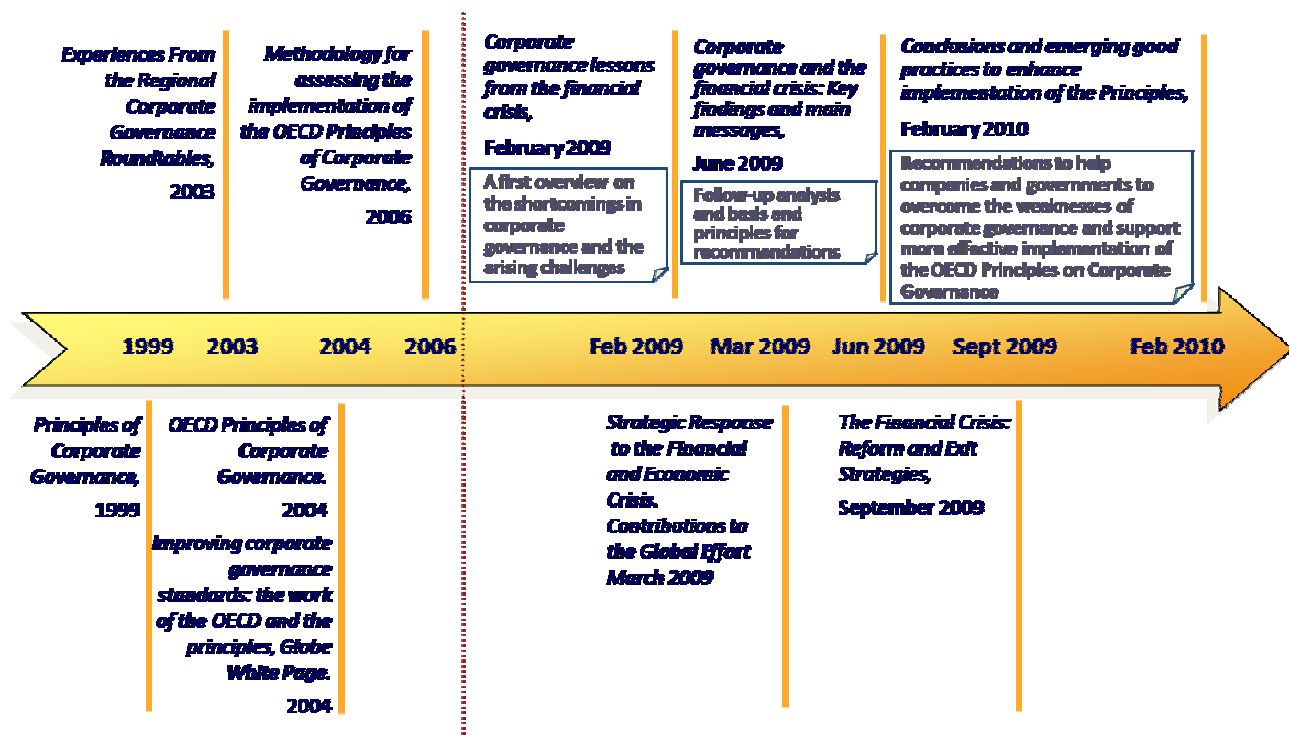
3.

SANCTIONS WITHIN THE CORPORATE GOVERNANCE FRAMEWORK

The recent financial turmoil refuelled the debate on corporate governance. In addition to identifying ineffective corporate governance practices as one of the causes of the crisis, the OECD started a process aimed at assessing whether to modify its 2004 principles (Figure 3).

Figure 3

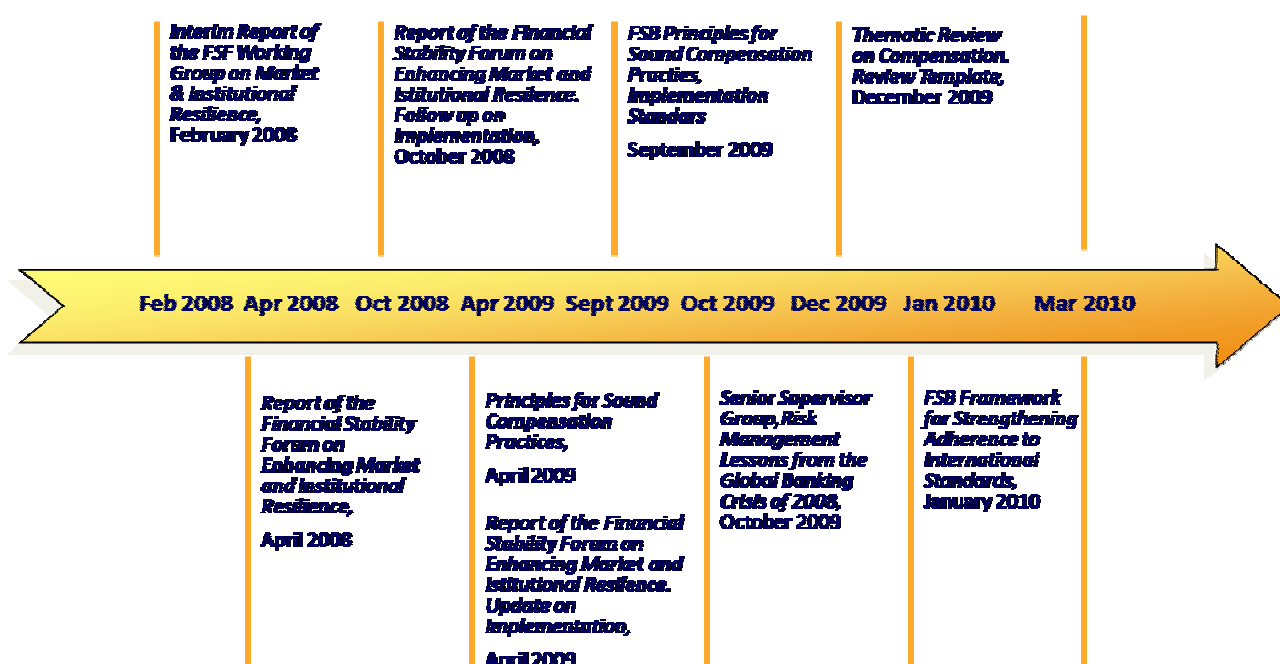
The role of corporate governance in the crisis according to the OECD



The Financial Stability Board, which has been charged by the G20 to propose the reform of financial system rules, also identified poor risk management practices and distortive compensation structures among the reasons for the crisis (Figure 4).

Figure 4

The role of banks corporate governance in the crisis



Though bank compensation issues are often addressed, little research focuses on board responsibility, reputation, name shame and hence on the role that well-designed administrative sanctions could play in the discipline of board members. In actual fact enforcement and sanctions ex post appear to be the natural complement of regulations, supervision and professional and integrity requirements which must be met by bank directors and top officers ex ante. The OECD has recently again stressed this point, OECD (2009c: 10) Board member liability and how their duties are specified and disclosed should remain on the political agenda since it is not clear that effective arrangements are yet in place ... In companies and industries where “fit and proper person tests” are applied by regulators for public policy reasons, so that board membership is not solely a shareholder decision, the criteria could be extended to technical and professional competence of potential members, including general governance and risk management skills. The reason for this lack of interest for may stem from the fact that administrative sanctions may be industry-specific for banks (and/or financial firms).

However, in heavily-regulated and highly-supervised industries such as banking, public enforcement may be useful to complement private enforcement. How to make the most of sanctions as a disciplining corporate governance measure, is an important policy issue in addition to being an interesting research question.

4.

REVIEW OF THE LITERATURE

4.1

Peculiarities of governance within financial firms

A considerable body of literature addresses how banks are different (Allen, 2001; Allen, Santomero, 2001) and provides rationale for why banking and indeed bank corporate governance justify specific legal provisions and the attribution of special supervisory powers to an independent supervisory authority.

Banks must comply with rules concerning capital adequacy which, in addition to setting the thresholds of minimum requirements and describing the risks to be considered, provide for the processes to be undertaken by company bodies in order to assess and allocate capital. Indeed, the importance of bank corporate governance has been underlined on many occasions by the Basel Committee (1999, 2006, 2010).

Various studies have pointed out the peculiarities of bank corporate governance (Adams, Mehran, 2003; Levine 2004; Laeven, Levin, 2008). Other research has indicated that industry affects governance (Black, Jang and Kim, 2005; Gillan, Hartzell and Starks, 2003). If we consider the three generic agency problems that arise within any firm (Armour, Hansmann and Kraakman, 2009) - Shareholders vs. managers; Minority vs. majority shareholders; the firm and its owners vis-à-vis the other parties with which the firm contracts – that actually provide the rationale for corporate law, banks are more complex than industrial firms since they must also manage relations with a wider number of stakeholders, which include depositors and supervisors.

The scope of duties and obligations of bank corporate officers and directors should be expanded compared to those of other industries due to the liquidity production role of banks, the deposit insurance fund, the conflict between fixed claimants and shareholders and asset structure and liquidity problems (Macey, O'Hara, 2003).

Other research explores the specific characteristics of bank boards. Using different samples they show that bank boards are larger without negatively affecting performance (Adams, Mehran 2005; Schwizer, Farina and Carretta, 2006; Hayes, Mehran, Schaefer, 2006; Brogi, 2008). Szego, De Vincenzo and Marano (2008) investigated the evolution of the corporate governance of listed Italian banks.

4.2

The disciplining role of enforcement and administrative sanctions

The other relevant strand of literature refers to the disciplining role of enforcement and administrative sanctions.

The way in which rules are enforced will clearly affect people's incentives to comply. According to some studies, enforcement, more than regulations, law on the books or voluntary codes is key to effective corporate governance (Berglöf and Claessens (2004)).

One would expect that higher sanctions have a strong impact on private compliance efforts since they are imposed in response to regulatory infractions (Jackson (2005)).

Though banking is special and bank board members and other key officials must meet integrity, independence and professional requirements, there is surprisingly little research on enforcement and sanctions applied to banks. This is probably because administrative sanctions levied by supervisory authorities are unique to the banking (and insurance) industry which due to the peculiarities mentioned above is subject to a more binding regulatory and supervisory framework.

Literature can be found relating to enforcement and sanctions in securities markets.

Literature on financial market regulation is often related to literature on economic development. Indeed, La Porta, Lopez-de-Silanes, Shleifer and Vishny (LLSV) in the first seminal paper in 1997 suggested that a strong financial system represents a strong driver for economic development.

In 1998 the same authors analysed the characteristics of the legal systems in various countries and identified a significant relationship between the legal system and development of its financial markets. They identified three different legal systems (the German and Scandinavian civil law system, the French civil law system and the common law system) and via the analysis of the norms which safeguard minority shareholders and creditors they showed that common law systems present more developed capital markets.

In 2005 Jackson measured supervisory authority effectiveness in terms of number and size of sanctions inflicted to market participants by the regulators of the main industrialised countries. Following from La Porta et al., Jackson separates civil from common law systems and compares the activities of the Securities and Exchange Commission in the US and the Financial Services Authority in the UK and BaFin (Bundesanstalt für Finanzdienstleistungsaufsicht) in Germany in the 2000-2002 period. Jackson concludes that enforcement in common law systems is much more active than in civil law countries: the number of sanctions inflicted by the SEC is three times that of the FSA and more than five times the sanctions inflicted by BaFin. Even more marked differences emerge as concerns sanction size: US sanctions are ten times the size of UK fines.

In 2006 La Porta, Lopez-de-Silanes and Shleifer perfected the study conducted in 1997 and analysed the differences between public and private enforcement. Based on certain regulator characteristics (independence from political power, investigative power, possibility of imposing sanctions and range of criminal sanctions which may be levied), they find that there is no direct relation between public enforcement and the degree of financial market development. Compared to private enforcement public enforcement activities are irrelevant for financial development.

In 2009 Jackson and Roe explore competition between public and private enforcement and conclude that co-operation between administrative and private enforcement is preferable, providing evidence of complementarity between the two types of enforcement. Moreover, contrary to La Porta et al. they suggest that public enforcement is more important than the type of legal system in determining development and robustness of financial markets.

Karpoff, Lee and Martin (2007) investigated enforcement by the SEC and the Department of Justice in the 1978-2004 period concerning financial misrepresentation. Authors prove that managers responsible for misconduct which damaged shareholders had to face serious consequences: in most cases (93%) they lost their jobs. According to Karpoff, Lee and Martin this indicates the effectiveness of internal governance systems in disciplining the behaviour of board members. Regulators impose additional costs in terms of civil and criminal sanctions and in terms of barring persons from reaching similar posts in other companies.

Lastly, Dyck, Morse and Zingales (2008) analyse those who contributed to the discovery of financial frauds in the US and, surprisingly the SEC and shareholders did not play a significant role.

Most of studies referred to enforcement and sanctions in banking take a different viewpoint and focus on the impact of on-site inspections (Berger, Davies and Flannery, 2000; Deyoung et al., 2001; Bhattacharya et al., 2002; Gunther and Moore, 2003) and few are empirical (Delis and Staikouras, 2009; Murè and Pesic, 2010).

Another interesting study investigates the correlation between the frequency of internal controls and the number of sanctions inflicted by supervisory authorities and intermediaries' risk containment propensity. More specifically, Delis, and Staikouras (2009) point out that sanctions inflicted by supervisory authorities, as well as internal control systems (on-site audits) are a more effective indicator of bank risk-taking than traditional measures based on financial ratios or other unspecified measures (e.g. governance efficiency) used for ratings.

Murè and Pesic (2010) explore the effect of sanctions in the improvement of bank organization (thus leading to sound and more prudent management as provided for by art.5 of the 1993 Banking Law) measured by the evolution of key financial indicators drawn from Bankscope for the 2 years prior and 3 years subsequent to the sanction.

Based on literature presented above there seems to be a gap to be filled regarding the role of sanctions as a disciplining corporate governance measure.

5.

DATA SET, METHODOLOGY AND RESULTS

5.1

Data set

The analysis is based on an extensive data set construed from the official documentation provided by the Bank of Italy. All data in the period from 1998 to 2009 on inspections and administrative sanctions has been manually collected. Information on inspections in recent years is derived from Banca d'Italia, *Report to Parliament and to the Government* while data on sanctions stems from the "Bollettino di Vigilanza", the official monthly supervisory bulletin of the Bank of Italy. Of the 144 supervisory bulletins published in the period, 124 included data on sanctions. In total, information was gathered on the entire population of sanctionatory measures taken in the period, in total 898, of which 735 inflicted to banks: 141 inflicted to SPA ("Banche Società per Azioni", i.e. banks incorporated as joint stock companies), 71 to BP ("Banche Popolari", i.e. cooperative banks) and 523 to BCC (Banche di Credito Cooperativo", i.e. mutual banks).

The 898 sanctionatory measures taken by the Bank of Italy led to a total of 10,406 personal sanctions for which the following information was hand-gathered: name of the sanctioned entity, name of the sanctioned person, motivations for the sanction, amount of the sanction inflicted to each entity, amount of sanction inflicted per person, role of the sanctioned person in the sanctioned entity (CEO, director, member of the board of statutory auditors). In order to correctly identify recidivism, i.e. entities sanctioned more than once,

each entity was attributed its code drawn from the Bank of Italy register which permits to track entities in the period despite changes in name, mergers, acquisitions and so on.

5.2

Methodology

In addition to providing a complete picture on Bank of Italy sanctions, sanction effectiveness is assessed by considering the disciplining effect of sanctions on the behaviour of board members (which should imply that once the board member has been sanctioned he/she will not be sanctioned again). If sanctions are effective deterrents, one should observe a “once bitten twice shy” effect as the combined result of a) banks change directors, management and personnel responsible for sanctioned misconduct and b) once they have been sanctioned persons are more disciplined and try to avoid more sanction. For both of these reasons one would predict that there is no recidivism in the sanction population.

This is investigated by verifying how often board members are sanctioned more than once in the period under observation. The presence of people sanctioned more than once means that the administrative sanctions inflicted by the supervisory authorities tend to have a negligible effect on reputation. If, on the contrary, administrative sanctions concur in the determination of the reputation of a board member one would expect that few repetitions of sanctions to the same person.

The database was therefore used to check for any recidivism over the twelve-year period, analysing if the sanction was incurred again in the same entity or in a different one. Recidivism in the same entity and after a short period of time could suggest that environmental or business problems may be attributable to the bank instead of governance and sanction ineffectiveness.

5.3

Results

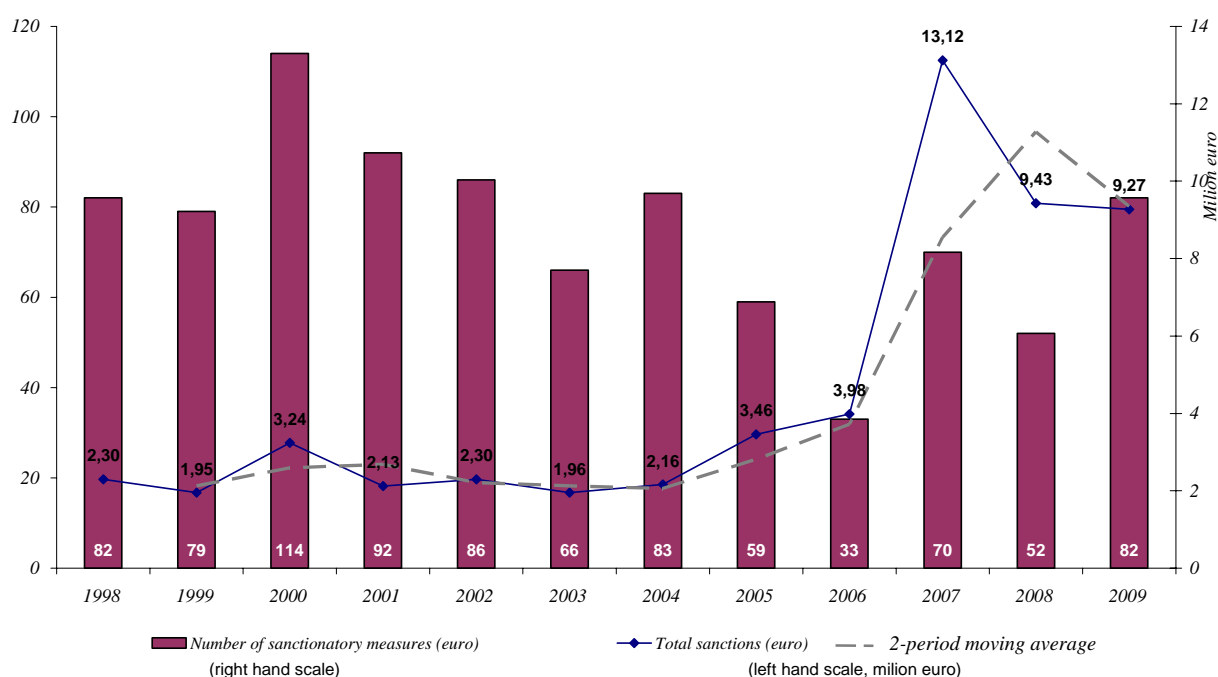
5.3.1

Sanctions inflicted by the Bank of Italy in the 1998-2009 period

Total sanctions in the twelve years exceeded 55 million euro and showed an overall rise with a peak in 2007. Even though the number of sanctionatory measures resolved upon by the Bank of Italy is the same in the two extreme years, sanction amount per year almost quadrupled: 82 sanctions corresponded to a total of 2.3 million euro in 1998 compared to 9.2 million euro in 2009 (Figure 5).

Figure 5

Bank of Italy sanctions: breakdown of sanctionatory measures (1998-2009)



The highest sanction was inflicted to Banca Popolare Italiana in 2007 and amounted to almost 3.5 million euro. Banca Popolare Italiana was also sanctioned twice in 2006 for a total of approximately 1.5 million euro. The top five sanctions amounted to almost 8 million euro.

The average sanction per entity also considerably increased: it remained practically stable in the 1998-2004 period, (between a minimum of 23,106 euro in 2001 and a maximum of 29,641 euro in 2003) then it doubled both from 2004 to 2005 and from 2005 to 2006. In the Annexes, Table 2 summarises sanctions inflicted in the period by the Bank of Italy, providing a breakdown by type of entity and year of sanction.

Breakdown by type of entity shows that Mutual banks are the most sanctioned, in terms of both number of sanctions (58%, 523 of the 898 sanctions) and total sanctions inflicted (35%, 19.5 million euro of the total 55.3 million euro). Highest average sanctions refer to Banche Popolari (Cooperative banks) and then to SGR (Italian asset management companies).

The 898 sanctionary measures correspond to 10,406 personal sanctions (Figure 6).

Figure 6

Bank of Italy sanctions: sanctionary measures and personal sanctions (1998-2009)

Year	Total sanctions (euro)	Number of sanctionary measures (euro)	Average sanction per measure (euro)	Standard deviation (%)	Number of personal sanctions	Average sanction per person (euro)
1998	2.300.557	82	28.056	9%	997	2.307

1999	1.951.694	79	24.705	6%	969	2.014
2000	3.239.218	114	28.414	10%	1.345	2.408
2001	2.125.737	92	23.106	11%	1.106	1.922
2002	2.299.252	86	26.735	10%	981	2.344
2003	1.956.334	66	29.641	9%	798	2.452
2004	2.164.314	83	26.076	12%	954	2.269
2005	3.455.293	59	58.564	10%	652	5.300
2006	3.981.634	33	120.656	7%	413	9.641
2007	13.123.080	70	187.473	10%	856	15.331
2008	9.427.804	52	181.304	8%	624	15.109
2009	9.270.480	82	113.055	9%	711	13.039
Total	55.295.397	898			10.406	

5.3.2

Breakdown of personal sanctions by post of sanctioned person

Over 80% of sanctions were inflicted to directors (61%) and statutory auditors (19%). Very few sanctions were levied on bank officials responsible for misconduct, included in the “other” category that was under 3%. In 10% of cases sanctions were levied on former directors, statutory auditors or general managers.

The size of the sanction depends on the responsibility attributed to the person. Executive committee members, Chairpersons (of both the Board of directors and the Board of statutory auditors), CEOs and General managers tend to be inflicted higher sanctions than, for example, other board members (Figure 7).

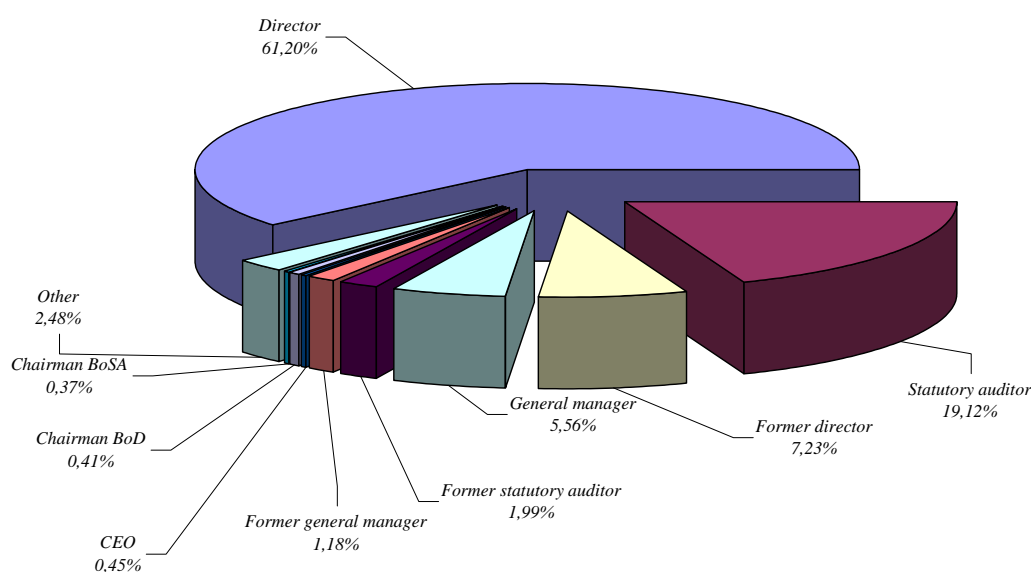
Breakdown of personal sanctions by post of sanctioned person considering just banks is included as Table 3 in the Annexes. The phenomena described above – sanctions inflicted mainly to directors and higher sanctions based on responsibility - are confirmed.

Figure 7

Breakdown of personal sanctions by post

Post	Number of personal sanctions	% incidence (number)	Total amount of sanctions inflicted	% incidence (sanction amount)	Average sanction
Director	6368	61,20%	31.001.455	56,07%	4.868
Statutory auditor	1990	19,12%	9.430.800	17,06%	4.739
Former director	752	7,23%	4.676.463	8,46%	6.219
General manager	579	5,56%	2.515.940	4,55%	4.345
Former statutory auditor	207	1,99%	1.255.942	2,27%	6.067
Former general manager	123	1,18%	679.865	1,23%	5.527

CEO	47	0,45%	905.058	1,64%	19.257
Chairman BoD	43	0,41%	355.770	0,64%	8.274
Chairman BoSA	39	0,37%	239.702	0,43%	6.146
Other	258	2,48%	4.234.399	7,66%	16.412
Total	10.406	100%	55.295.394	100%	



5.3.3

Recidivism

Recidivism, that is entities and persons sanctioned more than once over the twelve years, is analysed as concerns both sanctioned entity and sanctioned person. Consequently, focus shifts from the total number of sanctionary measures (898) and total personal sanctions (10,406) to the number of entities and persons sanctioned which leads to identify respectively 623 sanctioned entities and 8,059 sanctioned persons.

In the twelve-year period of the 623 entities sanctioned, 195 (31%) were sanctioned more than once. Considering just the three categories of bank, in total 484 banks were sanctioned, of which 176 were sanctioned more than once (corresponding to a slightly higher percentage 36%, 176/484).

Banks represent 78% of sanctioned entities. Of this subgroup, 69% are BCC (mutual banks) (54% of sanctioned entities), 21% are SPA (banks incorporated as joint stock companies) (16% of sanctioned entities), while Banche Popolari (cooperative banks) represent just under 10% (8% of sanctioned entities).

Figure 8

Recidivism of sanctioned entities: breakdown by type of entity and number of sanctions

Type of sanctioned entity	Number of sanctioned entities	% of sanctioned entities	Recidivism of sanctioned entities											
			Number of entities for each number of sanction						Percentage of entities for each number of sanction					
			1	2	3	4	5	Total	1	2	3	4	5	Total
Banks joint stock companies	102	16%	74	19	8	1	0	102	73%	19%	8%	1%	0%	100%
Cooperative banks	47	8%	31	10	4	1	1	47	66%	21%	9%	2%	2%	100%
Mutual banks	335	54%	203	87	35	9	1	335	61%	26%	10%	3%	0%	100%
Italian investment companies	40	6%	30	8	1	1	0	40	75%	20%	3%	3%	0%	100%
Italian asset management companies	16	3%	16	0	0	0	0	16	100%	0%	0%	0%	0%	100%
Financial intermediaries ex art. 106 and ex art.107 of the Consolidated Law on Banking	69	11%	61	6	2	0	0	69	88%	9%	3%	0%	0%	100%
Sole proprietor company (inappropriate use of the term "bank")	5	1%	5	0	0	0	0	5	100%	0%	0%	0%	0%	100%
Stockbrokers	4	1%	4	0	0	0	0	4	100%	0%	0%	0%	0%	100%
Other companies	3	0%	2	1	0	0	0	3	67%	33%	0%	0%	0%	100%
Limited liability companies	2	0%	2	0	0	0	0	2	100%	0%	0%	0%	0%	100%
Total	623	100%	428	131	50	12	2	623	69%	21%	8%	2%	0%	100%

Contrary to what may be postulated, recidivism in the period is actually quite widespread. Indeed, one Banca Popolare and one BCC were sanctioned 5 times in the twelve years. At the other extreme 308 banks were sanctioned only once (64%). Recidivism is particularly widespread in mutual and cooperative banks (Figure 8).

As concerns sanctioned persons, the 898 sanctionatory measures inflicted 10,406 personal sanctions to 8,059 persons. While 6,254 people, approximately 4 out of 5, were sanctioned only once, 1,805 people (22%) were sanctioned more than once. Since there are persons who held posts in various sanctioned entities, recidivism is more severe for persons than for entities. Indeed there are 3 people sanctioned 7 times and 5 people sanctioned 6 times whereas the entity which was inflicted the highest number of sanctionatory measures was only sanctioned 5 times.

Most of the persons sanctioned more than once, were sanctioned in the same entity (86% of persons sanctioned more than once, 1,551/1,805, 19% of sanctioned persons), this means that in such cases the sanction did not produce any effects on the reputation of the person.

The lower incidence of recidivism per person compared to entity seems to confirm that the disciplining effect is more significant for single board members than for supervised entities.

Figure 9

Recidivism of sanctioned persons: breakdown by number of sanctions

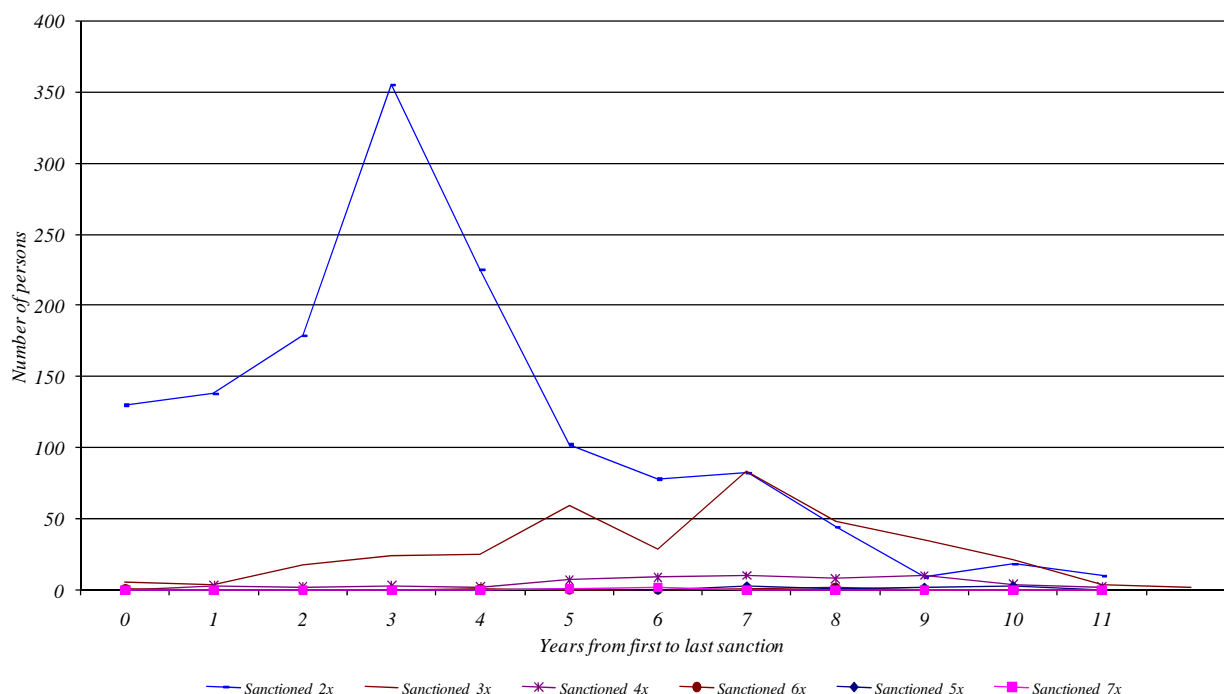
	Number of sanctioned persons	% of sanctioned persons	Number of persons sanctioned in the same entity	% of number of persons sanctioned in the same entity	% of sanctioned persons
Sanctioned 1x	6.254	77,60%			
Sanctioned 2x	1.370	17,00%	1.247	80,40%	15,47%
Sanctioned 3x	357	4,43%	265	17,09%	3,29%
Sanctioned 4x	60	0,74%	37	2,39%	0,46%
Sanctioned 5x	10	0,12%	1	0,06%	0,01%
Sanctioned 6x	5	0,06%	1	0,06%	0,01%
Sanctioned 7x	3	0,04%		0,00%	0,00%
Total	8.059	100%	1.551	100%	

Figure 10 below shows distribution of recidivism over time by measuring in the case of persons sanctioned more than once (classes from 2 to 6 times), the number of years between the first and the last sanctionary measure. It is interesting to note that considerable time passes from the first to the last sanction and that this is even more significant for persons sanctioned more than twice.

On average three years pass between the first and the second sanction in the case of people sanctioned more than twice.

Figure 10

Recidivism of sanctioned persons: distribution over time



6.

CONCLUSIONS

This paper analyses the effects of sanctions in the discipline of board members based on the idea that sanctions should attract the same attention as compensation from researchers and policy-makers. As concerns the latter, there has been increasing attention on the role of sanctions within a more general supervisory framework (Committee of European Banking Supervisors, 2009) and on the need to improve the sanction effectiveness (European Commission, 2010). In December 2010, the European Commission adopted a communication setting out possible ways to reinforce sanctioning regimes in the EU's financial services sector. Today, rules vary greatly between Member States and, arguably, often do not serve as an effective deterrent. The starting point of the Commission is the conclusion of the Larosi re Group report (2009: par. 201), "Supervision cannot be effective with weak, highly variant sanctioning regimes. It is essential that within the EU and elsewhere, all supervisors are able to deploy sanctioning regimes that are sufficiently convergent, strict, resulting in deterrence."

As concerns the former, i.e. the role of research, the review of the literature supports the need for an investigation on sanctions both from a theoretical standpoint, aiming to include sanctions in a broader corporate governance framework, and from an empirical perspective. The paper mainly addresses the second aspect based on a data set made up of the entire population of Bank of Italy sanctions in the 1998-2009 period. Italian sanctions provide useful insight for measures aimed at improving bank corporate governance proposed by the OECD such as the introduction of integrity and professional requirements, since Italian banks are already required to meet both sets of requisites. Moreover, the Bank of Italy regards governance as

particularly important, as testified by the fact that it was the first to introduce comprehensive corporate governance regulations in 2008.

Results confirm that the Bank of Italy has been increasingly active in its supervisory role as concerns both inspections and sanctions.

However, Bank of Italy sanctions do not seem to be effective in disciplining board members or banks. Recidivism is extremely widespread (37% of sanctioned banks and 22% of sanctioned persons are sanctioned more than once in the twelve-year period). The fact that most people sanctioned more than once are sanctioned again in the same entity after 3 years of the first sanction suggests that administrative sanctions do not prevent re-election of bank board members, which in turn means that they neither affect decisions by the Shareholders' Meeting nor do they affect integrity and professional requirements imposed by the Bank of Italy.

There could be many explanations for the ineffectiveness of sanctions in influencing the reputation of bank board members and top executives:

- insufficient transparency. Though sanctions must be published in two daily newspapers in addition to the Bank of Italy supervisory bulletin, it may be that shareholders are not aware of them;

- sanctions which are too low. In order to be effective deterrents, sanctions must be adequate and paid by the sanctioned persons;

- shortcomings in sanction determinants. To mar the reputation of the sanctioned person, sanctions must be accompanied by moral stigma. In turn this requires that sanctions be perceived to be related to individual responsibility. Sanctions are normally inflicted to the entire board of directors and board of statutory auditors and this may be a weak point. If the rationale behind sanctions is not deemed to be correct then no moral stigma ensues, thus leading to ineffectiveness;

- sanction timing. Sanctions are levied long after the problems have occurred and this also may negatively impact on effectiveness.

Greater uniformity in the supervision of banks and enforcement is required (Committee of European Banking Supervisors, 2009). For example, as concerns Italy, the introduction of the CRD 3 could be the occasion to attribute to the Bank of Italy the power of changing members of administrative bodies (Enria, 2010), as requested by the International Monetary Fund and the Financial Stability Board and as is already within the powers of other supervisory authorities. However, improvements in sanction definition in the areas indicated above are also probably needed in order to improve sanction effectiveness.

Lastly, other possible research directions could be, on the one hand, an empirical investigation of the corporate governance determinants of sanctions and, on the other hand, the analysis of the impact of Bank of Italy sanctions on the stock price performance of listed Italian banks.

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Annexes

Table 1

Structure of the Italian Financial System

Type of intermediary	31 st December 1998		31 st December 1999		31 st December 2000		31 st December 2001		31 st December 2002		31 st December 2003		31 st December 2004		31 st December 2005		31 st December 2006		31 st December 2007		31 st December 2008		31 st December 2009		
	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	Included in the groups ¹	Total	
Financial Conglomerates ²																			9		9 ⁽³⁾				
Banking groups		85		79		74		76		78		82		83		85		87		82		81			75
Banks	200	921	208	876	217	841	226	830	231	814	225	788	227	778	227	784	227	793	224	806	223	799	217	788	788
of which: Banks joint stock companies		243		239		240		252		253		197		244		198		243		198		249		196	247
Cooperative banks		56		49		44		44		40		18		38		18		36		18		38		16	38
Mutual banks		563		531		499		474		461		10		445		11		439		11		440		10	432
Branches of foreign banks		59		57		58		60		60		0		61		0		66		0		79		1	82
Italian investment companies		191		183		171		162		158	35	132	25	115	25	108	18	106	21	107	16	113	15	115	
Italian asset management companies and Sicavs		72		86		101		132		142	66	153	69	162	69	182	67	199	63	214	54	214	39	204	
Financial companies entered in the register under Article 107 of the Banking Law		206		203		211		263		316	98	359	99	376	98	376	99	444	100	480	101	491	64	172	
Electronic money institutions																	0	3	0	3	0	3	0	3	
Other institutions under supervision ⁴													0	2	0	2	0	2	0	2	0	2	0	2	
Financial companies entered in the special register under Article 106 of the Banking Law		1427		1339		1357		1376		1459	206	1494	213	1519	213	1519		0	1239	0	1189	72	1411		
Total Intermediaries		2817	208	2687	217	2681	226	2763	231	2889	424	2926	420	2952	419	2971	411	1547	408	2851	394	2811	335	2695	

¹ Including the parent banks

² Legislative Decree 142 of 30th May 2005 regulated financial conglomerates

³ The conglomerates primarily engaged in banking were: 5 in 2007; 6 in 2008; 3 in 2009

⁴ Bancoposta and the Cassa Depositi e Prestiti S.p.A, the latter was transformed into a joint stock company by Law 326 of 24th November 2003

Source: Bank of Italy, Report to Parliament and the Government from 2007 to 2010

Bank of Italy, Annual Report from 1999 to 2006

Table 2

Bank of Italy Sanctions: breakdown by type of entity and year of sanction

Type of entities	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	1998-2009	
Banks joint stock companies	Totals sanctions (euro)	587.728	510.518	726.138	370.816	572.164	386.506	671.270	1.213.000	171.000	2.012.500	3.521.304	2.014.500	12.757.444
	Number of sanctionatory measures (euro)	14	12	17	11	11	10	20	13	2	11	8	12	141
	Average sanction per entity (euro)	41.981	42.543	42.714	33.711	52.015	38.651	33.564	93.308	85.500	182.955	440.163	167.875	90.478
	Minimum sanction per entity (euro)	2.582	2.582	1.549	1.549	1.032	1.549	3.098	3.000	80.000	4.500	5.160	51.000	1.032
	Maximum sanction per entity (euro)	105.357	92.962	151.064	139.443	413.120	118.772	83.915	615.000	91.000	420.000	2.070.144	446.000	2.070.144
	Standard deviation	31.988	24.307	38.380	35.675	114.761	40.187	20.477	170.041	5.500	137.845	643.088	109.396	
	Standard deviation (%)	76%	57%	90%	106%	221%	104%	61%	182%	6%	75%	146%	65%	0%
	Average sanction per person (euro)	3.689	3.077	2.955	2.185	3.584	2.968	2.938	7.589	9.056	12.837	22.333	19.143	
Cooperative Banks	Totals sanctions (euro)	692.052	507.677	397.155	397.930	509.656	348.038	156.977	0	2.287.634	4.316.000	1.004.000	1.714.000	12.331.120
	Number of sanctionatory measures (euro)	12	8	5	7	12	7	4	0	4	4	4	4	71
	Average sanction per entity (euro)	57.671	63.460	79.431	56.847	42.471	49.720	39.244	0	571.909	1.079.000	251.000	428.500	173.678
	Minimum sanction per entity (euro)	9.296	24.790	5.165	4.648	1.032	6.196	19.362		74.000	78.000	68.000	324.000	1.032
	Maximum sanction per entity (euro)	258.228	98.127	255.646	237.570	234.444	149.756	59.902	0	901.645	3.488.000	540.000	560.000	3.488.000
	Standard deviation	65.815	26.726	90.610	74.834	60.222	46.748	16.051	0	334.576	1.400.979	179.207	94.893	
	Standard deviation (%)	114%	42%	114%	132%	142%	94%	41%		59%	130%	71%	22%	0%
	Average sanction per person (euro)	3.989	4.272	5.570	4.147	2.573	3.193	3.040	0	25.468	46.797	13.500	20.275	
Mutual banks	Totals sanctions (euro)	896.827	850.091	1.517.609	1.046.083	1.036.688	776.406	841.787	1.510.293	1.227.000	4.229.580	2.236.500	3.331.713	19.500.578
	Number of sanctionatory measures (euro)	49	52	81	64	55	38	42	34	21	41	23	23	523
	Average sanction per entity (euro)	18.303	16.348	18.736	16.345	18.849	20.432	20.043	44.420	58.429	103.160	97.239	144.857	37.286
	Minimum sanction per entity (euro)	2.066	516	516	775	516	1.032	4.128	12.000	5.000	3.000	24.000	24.000	516
	Maximum sanction per entity (euro)	58.876	56.294	79.534	69.722	89.066	84.999	96.000	125.000	255.000	324.000	261.000	477.000	477.000
	Standard deviation	14.002	12.677	16.788	10.856	18.709	19.800	22.111	29.311	59.404	86.072	62.300	120.610	
	Standard deviation (%)	77%	78%	90%	66%	99%	97%	110%	66%	102%	83%	64%	83%	0%
	Average sanction per person (euro)	1.367	1.263	1.520	1.289	1.468	1.404	1.564	3.468	4.571	8.078	7.193	11.166	
Italian investment companies	Totals sanctions (euro)	59.393	25.823	449.576	186.441	20.656	123.666	96.563	249.000	268.000	1.874.000	203.000	451.000	4.007.117
	Number of sanctionatory measures (euro)	2	2	9	7	1	2	4	6	5	8	1	4	51
	Average sanction per entity (euro)	29.696	12.911	49.953	26.634	20.656	61.833	24.141	41.500	53.600	234.250	203.000	112.750	78.571
	Minimum sanction per entity (euro)	28.405	28.405	28.405	28.405	28.405	28.405	28.405	28.405	28.405	28.405	28.405	28.405	28.405
	Maximum sanction per entity (euro)	30.987	23.241	191.089	56.810	20.656	92.682	46.476	56.000	83.000	360.000	203.000	147.000	360.000
	Standard deviation	1.291	10.329	54.266	15.515	0	30.849	13.133	11.687	19.845	115.185	0	21.394	
	Standard deviation (%)	4%	80%	109%	58%	0%	50%	54%	28%	37%	49%	0%	19%	0%
	Average sanction per person (euro)	3.873	3.228	5.587	4.238	10.328	10.306	2.582	5.803	6.875	27.653	20.300	14.544	
Italian asset management companies	Totals sanctions (euro)	0	39.509	0	20.658	0	1.549	48.019	0	0	0	1.010.000	764.000	1.883.735
	Number of sanctionatory measures (euro)	0	1	0	1	0	1	3	0	0	0	5	5	16
	Average sanction per entity (euro)	0	39.509	0	20.658	0	1.549	16.006	0	0	0	202.000	152.800	117.733
	Minimum sanction per entity (euro)	0	39.509	0	20.658	0	1.549	12.392				54.000	78.000	1.549
	Maximum sanction per entity (euro)	0	39.509	0	20.658	0	1.549	21.686	0	0	0	504.000	227.500	504.000
	Standard deviation	0	0	0	0	0	0	4.066	0	0	0	161.076	54.968	
	Standard deviation (%)	0%	0%	0%	0%	0%	0%	25%				80%	36%	0%
	Average sanction per person (euro)	0	3.039	0	2.582	0	1.549	1.549	0	0	0	19.379	13.648	
Financial intermediaries ex art. 106 and ex art.107 of the Consolidated Law on Banking	Totals sanctions (euro)	59.393	16.010	148.740	0	160.088	284.020	347.117	483.000	28.000	673.000	1.429.000	955.267	4.583.635
	Number of sanctionatory measures (euro)	4	2	2	0	7	7	8	6	1	5	7	32	81
	Average sanction per entity (euro)	14.848	8.005	74.370	0	22.870	40.574	43.390	80.500	28.000	134.600	204.143	29.852	56.588
	Minimum sanction per entity (euro)	3.099	5.165	4.648	0	2.065	18.071	5.676	28.000	28.000	49.000	105.000	2.582	2.065
	Maximum sanction per entity (euro)	46.481	10.846	144.091	0	56.810	98.116	82.624	140.000	28.000	245.000	308.000	172.000	308.000
	Standard deviation	18.286	2.841	69.722	0	17.626	26.537	24.268	44.728	0	63.601	69.872	42.104	
	Standard deviation (%)	123%	35%	94%		77%	65%	56%	56%	0%	47%	34%	141%	0%
	Average sanction per person (euro)	1.678	3.357	7.979	0	3.935	5.232	7.780	10.944	7.000	21.095	27.637	6.599	
Sole proprietor company (inappropriate use of the term "bank")	Totals sanctions (euro)	0	0	0	0	0	0	0	0	0	18.000	18.000	25.000	61.000
	Number of sanctionatory measures (euro)	0	0	0	0	0	0	0	0	0	1	3	1	5
	Average sanction per entity (euro)	0	0	0	0	0	0	0	0	0	18.000	6.000	25.000	12.200
	Minimum sanction per entity (euro)	0	0	0	0	0	0	0	0	0	18.000	6.000	25.000	6.000
	Maximum sanction per entity (euro)	0	0	0	0	0	0	0	0	0	18.000	6.000	25.000	25.000
	Standard deviation	0	0	0	0	0	0	0	0	0	0	0	0	
	Standard deviation (%)										0%	0%	0%	0%
	Average sanction per person (euro)	0	0	0	0	0	0	0	0	0	18.000	6.000	25.000	
Stockbrokers	Totals sanctions (euro)	5.165	0	0	1.549	0	0	1.549	0	0	0	0	15.000	23.263
	Number of sanctionatory measures (euro)	1	0	0	1	0	0	1	0	0	0	0	1	4
	Average sanction per entity (euro)	5.165	0	0	1.549	0	0	1.549	0	0	0	0	15.000	1.939
	Minimum sanction per entity (euro)	5.165	0	0	1.549	0	0	1.549	0	0	0	0	15.000	1.549
	Maximum sanction per entity (euro)	5.165	0	0	1.549	0	0	1.549	0	0	0	0	15.000	15.000
	Standard deviation	0	0	0	0	0	0	0	0	0	0	0	0	
	Standard deviation (%)	0%			0%			0%					0%	0%
	Average sanction per person (euro)	1.033	0	0	1.549	0	0	1.549	0	0	0	0	7.500	
Other companies	Totals sanctions (euro)	0	2.066	0	102.258	0	36.149	0	0	0	0	0	0	140.473
	Number of sanctionatory measures (euro)	0	2	0	1	0	1	0	0	0	0	0	0	4
	Average sanction per entity (euro)	0	1.033	0	102.258	0	36.149	0	0	0	0	0	0	11.620
	Minimum sanction per entity (euro)	0	1.033	0	102.258	0	36.149	0	0	0	0	0	0	1.033
	Maximum sanction per entity (euro)	0	1.033	0	102.258	0	36.149	0	0	0	0	0	0	102.258
	Standard deviation	0	0	0	0	0	0	0	0	0	0	0	0	
	Standard deviation (%)		0%		0%		0%							0%
	Average sanction per person (euro)	0	1.033	0	17.043	0	6.025	0	0	0	0	0	0	
Limited liability companies	Totals sanctions (euro)	0	0	0	0	0	0	1.032	0	0	0	6.000	0	7.032
	Number of sanctionatory measures (euro)	0	0	0	0	0	0	1	0	0	0	1	0	2
	Average sanction per entity (euro)	0	0	0	0	0	0	1.032	0	0	0	6.000	0	586
	Minimum sanction per entity (euro)	0	0	0	0	0	0	1.032	0	0	0	6.000	0	1.032
	Maximum sanction per entity (euro)	0	0	0	0	0	0	1.032	0	0	0	6.000	0	6.000
	Standard deviation	0	0	0	0	0	0	0	0	0	0	0	0	
	Standard deviation (%)							0%				0%		0%
	Average sanction per person (euro)	0	0	0	0	0	0	1.032	0	0	0	6.000	0	
Totals sanctions (euro)		2.300.557	1.951.694	3.239.218	2.125.737	2.299.252	1.956.334	2.164.314	3.455.293	3.981.634	13.123.080	9.427.804	9.270.480	55.295.397
Number of sanctionatory measures (euro)		82	79	114	92	86	66	83	59	33	70	52	82	898
Average sanction per entity (euro)		28.056	24.705	28.414	23.106	26.735	29.641	26.076	58.564	120.656	187.473	181.304	113.055	61.576
Minimum sanction per entity (euro)		2.066	516	516	775	516	1.032	1.032	3.000	5.000	3.000	5.160	2.582	516
Maximum sanction per entity (euro)		258.228	98.127	255.646	237.570	413.120	149.756	96.000	615.000	901.645	3.488.000	2.070.144	560.000	3.488.000
Standard deviation		2.427	1.567	2.913	2.656	2.627	2.755	3.030	6.033	8.735	18.843	15.104	10.678	9.044
Standard deviation (%)		9%	6%	10%	11%	10%	9%	12%	10%	7%	10%</			

Table 3

Breakdown of personal sanctions by type of post: Banks

Post	Number of personal sanctions	% incidence (number)	Total amount of sanctions inflicted	% incidence (sanction amount)	Average sanction	Standard deviation (%)
Director	5907	63,32%	26.678.737	59,83%	4.516	1,78723
Statutory auditor	1702	18,24%	6.890.198	15,45%	4.048	2,57511
Former director	633	6,79%	2.953.904	6,62%	4.667	1,25020
General manager	563	6,03%	2.363.537	5,30%	4.198	2,34155
Former statutory auditor	170	1,82%	707.292	1,59%	4.161	1,49219
Former general manager	115	1,23%	515.593	1,16%	4.483	1,52536
CEO	21	0,23%	572.169	1,28%	27.246	1,98569
Chairman BoD	22	0,24%	202.039	0,45%	9.184	1,27959
Chairman BoSA	14	0,15%	63.144	0,14%	4.510	0,98042
Other	182	1,95%	3.642.525	8,17%	20.014	
Total	9.329	100%	44.589.138	100%		

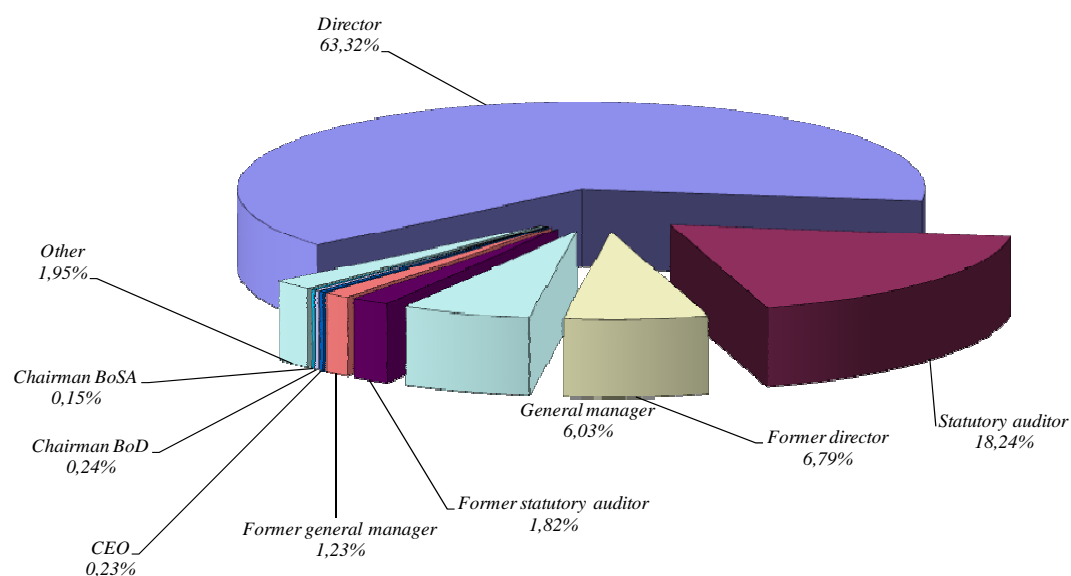


Table 4

Recidivism of sanctioned persons: distribution over time

				Years from first to last sanction													
	Number of sanctioned persons	% of sanctioned persons	Average period from first to last	0	1	2	3	4	5	6	7	8	9	10	11	0	
Sanctioned 1x	6.254	77,60%															
Sanctioned 2x	1.370	17,00%	3	130	138	179	355	225	102	78	82	44	9	18	10	0	
Sanctioned 3x	357	4,43%	5	4	18	24	25	60	29	84	49	36	22	4	2	0	
Sanctioned 4x	60	0,74%	7	0	3	2	3	2	7	9	10	8	10	4	2	0	
Sanctioned 5x	10	0,12%	8	0	0	0	0	0	1	0	3	1	2	3	0	0	
Sanctioned 6x	5	0,06%	6	1	0	0	0	1	0	0	1	2	0	0	0	0	
Sanctioned 7x	3	0,04%	7	0	0	0	0	0	1	2	0	0	0	0	0	0	
Total	8.059	100%															