

Treasury Management in Spain

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Spain Overview

Spain is one of the largest countries in the European Union (EU) and as a former colonial power maintains strong trade ties with Latin America.

The unit of currency is the euro (EUR) which is divisible into 100 cents. The Spanish peseta (ESP) became a denomination of the EUR on January 1, 1999 and will be eliminated as legal tender in 2002. The Peseta is one of 11 currencies comprising the Euro (EUR) which is freely traded on the foreign exchange market. The locking rate of the EUR to the ESP is EUR 1= ESP 166.386.

The Banco de Espana is the central bank and regulates all financial institutions in the country. With the advent of the Euro a key role of the Banco de Espana is coordination of the central monetary policy with the European Central Bank. Banco de Espana central bank reporting requirements have minimal impact on cash management activity and the regulatory environment has opened considerably with the advent of the Euro.

There are three clearing systems in Spain that relate to cash and treasury management.

1. The Clearing House of Madrid (CHM - referred to locally as the Sistema de Camara Unica) is a member owned system under the direct control and supervision of the Banco de Espana. It is used for low value check and electronic transfers up to EUR 300,000 equivalent. Checks or data are sent to the central administration which clears the items across member accounts with the Banco de Espana on a next day basis.
2. The Second Session of the Clearing House of Madrid is also owned by the CHM and is a high value net settlement system (RTNS) similar to CHIPS. Instructions are transmitted through SWIFT for settlement of transactions in member accounts with the Banco de Espana.
3. The Sistema do Liquidacion del Banco de Espana is owned by the Banco de Espana and operates The Ordenes de Movimientos de Fondos (OMF), an RTGS used for the settlement and exchange of Interbank payments among residents. The OMT is the RTGS link to the Trans-European Automated Real-Time Gross Settlement Express Transfer system (TARGET) which settles Euro transactions throughout the European Union.

A company is considered resident in Spain if it is incorporated under Spanish law or has its legal headquarters or management control in Spain. Resident companies in Spain are taxed on their worldwide income. Non residents are taxed only on Spanish-source income, which includes income from any kind of business activity conducted in Spain through a branch, office or other permanent establishment. Companies without a permanent establishment in Spain need a representative in Spain to represent them to the Spanish authorities. The current general rate of corporate tax is 35%.

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Associations

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Banks

[Banco Santander](#), [BCH](#), [Citibank](#), [Banco Sabadell](#), [Banesto](#), [BBV - Banco Bilbao Vizcaya](#), and [Argentaria](#)

News

[FT Survey](#) and [Inter Economy](#)

Specialist Sites

Spain is not a traditional financial center but its post colonial relationships with Latin America and membership in the EC make it a powerful center for trade in the Spanish speaking world. In addition to the political capital of Madrid, Barcelona in Catalonia, has had traditionally strong commercial relationships with the rest of Europe. Treasury management within Spain is a complex and often paper based process due to the use of bill-discounting facilities and a heavy reliance on compensating business in lieu of fees. Further, many payments are cleared through correspondent networks bypassing the main clearing systems altogether. As a result most companies maintain several accounts at each of their main group of banks.

All common treasury management techniques are permitted in Spain including leading/lagging, re invoicing, sweeping, and cash concentration. Multilateral netting is permitted without restriction. Pooling of Spanish pesetas is not permitted.

Multiple ESP accounts at a group of banks are traditionally held to facilitate cash management objectives and compensate the banks. Sweeping (zero balancing) and concentration between banks is permitted but not common business practice because of the need to maintain a large number of bank relationships.

Accounts

The basic ESP operating account is referred to as a current account and may be held by resident or non-resident corporations. Banks are not permitted to pay interest on current accounts maintained by corporations but it is possible to earn interest through a deposit account. Overdrafts are permitted on current accounts.

Resident and non-resident corporations may hold accounts in Spain that are denominated in Peseta, Euro, US Dollar, and other currencies.

Time deposits have a minimum tenor of one month and certificates of deposit are not in common use. Treasury bills (letras do Tesoro) are issued for up to 18 months but can have an effective tenor of 1 day through repurchase agreements.

Overdrafts are permitted but are not generally used because of their high cost. Term loans (polizas de credito) and discounting bills are both available through commercial banks which are the major source of short term funding. Commercial paper is available.

Payments and Receipts

Checks and electronic transfers are used to settle obligations which are typically paid on very extended terms. Larger settlements are also handled by check because slow/late payment is the commercial custom in Spain. Large payments can be processed electronically on a same day basis. In general, electronic payments from ATM access through high value systems are on the increase.

Lockbox type arrangements are permitted but still relatively uncommon.

Controlled disbursement is not possible because the timing of cleared check presentment through the various clearing houses and the short window on the second session do not permit coverage of check presentments. A functional

alternative is to have a disbursement account that is covered by book transfer from a deposit account at the same bank.

Technology and Marketplace

Spain has a modern telecommunications system including fiber optic cable and digital switches. Bandwidth is readily available.

Spain is a large country with a well developed banking system. Local commercial banks such as Banco Bilbao Vizcaya Argentaria (BBVA, formed by the merger of Banco Bilbao Vizcaya and Argentaria), Banco Santander Central Hispano (BSCH, formed by the merger of Banco Santander and Banco Central Hispano), and Banco Sabadell offer cash management services to their clients. Both BBVA and BSCH also have strong international networks in Latin America where they leverage their Spanish heritage. Virtually all of the major European banks have operations in Spain including Deutsche Bank, NatWest, and Barclays. International banks such as Bank of America, Citibank, Chase, and HSBC are also in the market.

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