

# The February 2012 Spanish Labour Market reform

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## Addressing some of the main structural flaws and challenges of the Spanish labour market

*The February 2012 labour market reform seeks to address some of the main structural problems of the Spanish labour market that have fuelled the huge rise in Spain's unemployment since the onset of the crisis. The reform introduces changes in dismissals legislation that should decrease dismissal costs overall, as well as reduce "duality" (i.e. the gap between firing costs of permanent and temporary workers that has resulted in a disproportionate increase in temporary contracts). The reform also allows firms greater internal flexibility, encouraging adjustment through variables other than firing in times of economic downturn. Although not yet definitively approved by the Parliament, as it currently stands, the reform facilitates adjustment in wages and working conditions, making adjustment through layoffs less attractive.*

### How did we get to this situation?

At the beginning of 2007, the male unemployment rate in Spain was approximately 6% and the female rate was near 11%. In a similar vein, the male and female employment rates at that time were close to 65% and 43%, respectively. By 2011, the unemployment rates had skyrocketed to 21%-22% for both genders and the employment rates had fallen to around 52% for males and 42% for females.

Over this period, Spain, like the rest of the world, was negatively impacted by the external shock of the Lehman Brothers collapse in the summer-autumn of 2008. Additionally, in the autumn-winter of 2007, the country also began facing the fallout from a domestic shock related to the end of a speculative property-market bubble, affecting house prices and the construction sector.

The extremely poor performance of the Spanish labour market could be explained by two distinct factors. First, unfortunate circumstances - Spain was hit by two simultaneous, but diverse shocks within a very short period of time and second, inadequate labour market regulation.

Let us focus on the consequences of the property market shock. As employment in the construction sector is predominantly male, this would explain the relatively worse evolution of male employment rates with respect to female ones. In fact, the traditional gap in the unemployment rate of men relative to women has become almost non-existent. It is worth highlighting that some of the largest increases in employment by occupation in the period 1996-2007 were concentrated in those occupations related to construction and some of the largest decreases in employment in the period 2007-2010 were also concentrated in the same sector. For details, see the following link (in Spanish).

Nevertheless, other European countries such as Iceland or Ireland have also suffered speculative bubbles ending shortly before the onset of the financial crisis. These countries have not experienced such a pronounced increase in their unemployment rates (See Exhibits 1 and 2 in the linked report). The crucial difference between these countries and the Spanish case is the high reliance of Spanish firms on employment adjustment measures instead of on those related to adjustments in wages or working

hours - a consequence of Spanish Labour market regulation.

In Spain, the most important form of flexibility in the labour market is provided by the temporary contract. In fact, Spain is a clear example within the European Union of a dual labour market. Temporary contracts are used by firms not only in response to adjust to seasonal and temporary demand for labour, but they are also used by firms for screening purposes (as a sort of extended probationary period), as well as ways to facilitate rapid and “cheap” means of adjustment in the face of negative shocks. As is usually the case, adjustment under the temporary contract is less expensive as compared to other forms of adjustment, especially dismissals of workers with

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open-ended contracts. Therefore, the development of a dual labour market is based on the existence of a relevant gap in firing costs between temporary and open-ended contracts. For example, the firing costs for temporary contracts have ranged from 8 to 12 days of wages per year worked, while for open-ended contracts, the severance payment for fair dismissals on economic grounds is 20 days of wages per year worked. However, the strategic use of dismissal legislation by firms and workers has resulted in the severance payment for unfair dismissals serving as the reference point, and the most frequently applied payment in dismissal cases, even in those cases that never make it to court (for further details, see the linked report).

Prior to the latest reform, the severance payment for unfair dismissals was usually 45 days of wages per year worked (and 33 for some open-ended contracts to be described later). Why have Spanish firms been so prone to agree on such elevated severance payments? Because the whole bureaucratic firing process was limited to 2 days in the case that the dismissal was recognized as unfair. Moreover, firms also eluded to some relevant additional costs (such as intervening wages). This speedy process was

widely known as ‘express dismissal’. Under this model, workers lost legal protection provided by the Labour Law (as fair cause for dismissals became irrelevant in practice), but in return they obtained a much larger severance payment. Therefore, if we were to adhere to the dismissal costs stipulated by the Labour Law, the gap in firing costs would be 8 days of wages per year worked (20 for open-ended contracts versus 12 for temporary contracts). However, in practice, the gap was actually 33 days of wages per year worked (45 versus 12, respectively).

Moreover, Spanish collective bargaining has not allowed for much flexibility in terms of rapid adjustment in wages and working hours in response to shocks. Wage agreements contain a significant amount of time inertia. Therefore, firms rely on the most rapid way of adjustment - termination of temporary contracts. As the lack of flexibility in other variables is anticipated by firms, usually they have a sort of ‘buffer’ of workers hired under temporary contracts in the event of the need for a sudden adjustment in response to a downturn of the business cycle.

Therefore, the social and political debate has been focused on how to change labour market regulation in order to decrease ‘duality’ and to allow for a faster adjustment to the business cycle that does not rely so much on quantities (i.e., termination of temporary contracts and dismissals) but rather on other forms of adjustment such as wages, working hours, irregular distribution of working hours, etc.

## Dismissals

Tables 1 and 2 include a synthesis of severance payments and dismissal requirements, respectively, before and after the labour market reform of February 2012. For additional legal details about the strategic use of dismissal regulation (described below) and the so-called ‘express dismissal’, see also the linked paper.

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*A key difference (in the 2012 reform versus that of 2010) is the inclusion of an explicit numeric threshold to be used to support dismissals on the grounds of firms’ economic problems.*

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In the case of individual dismissals, new wording is introduced with respect to economic grounds for dismissals. In fact, the new definition closely follows the definition introduced in the labour market reform implemented in 2010 by the previous government. However, a key difference is the inclusion of an explicit numeric threshold to be used to support dismissals on the grounds of firms' economic problems. This threshold consists of declines over a 9 month period in a company's income or sales. This is relevant because on these grounds, the corresponding severance payment is 20 days of wages per year worked. After the 2010 reform, which contained a similar definition but did not include an explicit numerical threshold to define firms' economic problems, there was in fact a decrease in 'express dismissals' (i.e. those dismissals resolved in 2 days according to Act 45/2002, see Table 1) of around 10 percentage points with respect to total dismissals (and a corresponding increase in dismissals on economic grounds of around 8 percentage points). Presumably, this new change in the definition of economic grounds would help to decrease significantly the strategic use of dismissal regulation, which is the main reason behind the gap between firing costs in Spain.

In addition, the severance payment for unfair dismissals has been homogenized for all open-ended contracts to 33 days of wages per year worked (with a maximum of 24 months of salary). Previously, there were two different severance payments for unfair dismissals. The most frequent case corresponded to ordinary open-ended contracts, with an unfair dismissal severance payment of 45 days of wages per year worked (with a maximum of 42 months of salary). From 1997 to 2012, there has been in existence another open-ended contract with 33 days of wages per year worked in case of unfair dismissal (with a maximum of 24 months of salary). Therefore, the labour market reform has decreased the maximum severance payment in unfair dismissals for all workers, including the ordinary open-ended contracts. Notice that even in the event that the reform fails to eliminate the distorted use of dismissals regulation, this change of severance payments for unfair dismissals would decrease the dismissal costs (and, thus, close the gap in firing costs).

The 2012 reform has also eliminated the legal

procedure for 'express dismissals' (see Table 2). Therefore, the government implicitly considers that the reform will be so effective in promoting the use of fair dismissals on economic grounds that the previous method of express dismissals will no longer be needed.

Finally, and in line with fiscal austerity measures, the new reform clarifies how the Public Administration and public companies can use the definition of economic grounds for dismissals when they need to decrease their staff. Before this reform, such dismissals were theoretically possible, but in practice, there were problems and limitations to the use of the definition of economic dismissals, as it was mainly conceived for use by private firms.

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With respect to collective dismissals, the 2012 legal reform has addressed some bureaucratic aspects of the legal procedure (reducing costs). However, the most remarkable change is that previous authorization from the Public Administration has been eliminated. Many labour market experts noted that previous authorization requirements increased the bargaining power of workers' representatives when bargaining with a firm regarding severance payments, as consensual collective dismissals rapidly obtained authorization and thus could be easily executed. Therefore, since eliminating the authorization requirement increases the bargaining power of firms as does the new definition of fair economic grounds for dismissals, which also applies to collective dismissals, we can assume that severance payments in collective dismissals will also decrease.

Therefore, the changes in dismissals legislation may decrease firing costs and, in addition, decrease the firing cost gap between open-ended and temporary contracts. As an additional result, strategic use of dismissals legislation will have a smaller impact on dismissal costs.

## Internal flexibility

Another set of legal changes tries to encourage adjustment in variables other than the termination of temporary contracts or dismissals of workers with open-ended contracts.

First, the legal reform has introduced new regulation on how to change working conditions in the firm in the face of an economic downturn. These changes can be considered either collective or individual using the same thresholds as for dismissals (see Table 1 or 2 for details on these thresholds). For collective modifications of working conditions, consultation and bargaining with workers' representatives is required. However, under the established thresholds, the employer can make decisions regarding adjustments to working conditions with few limitations. This is a key difference with respect to previous legislation and it is a relevant change to Spanish Labour Law.

With regards to collective bargaining, there are new regulations on the duration of collective agreements. Once their initial duration expires, provided that there is no other agreement in place, the same agreement can be extended only for another two years. Workers will be covered by the next higher level collective agreement (for example, sectoral or inter-sectoral agreements). Previously, there were different time limits in place, but in practice, failure to reach agreement usually led to the extension of the previous agreement, with few limitations. Presumably, this change will reduce the time inertia of wages at the macro level.

There is also new regulation on opting out of the sectoral collective agreement in order to obtain more moderate working conditions (usually lower wages) for a specific firm. However, the procedure remains relatively long and complex, with different stages in case of non-agreement.

Presumably, firms will use another new feature of collective bargaining at the company level as *de facto* opting out with respect to sectoral agreements. After the current reform, the company-level agreement will supersede sectoral agreements regarding wages, working hours and, in general, working conditions. Therefore, firms negatively affected by a sectoral agreement

can reach a collective agreement at the firm level and be able to adjust wages and other working conditions to their specific circumstances (if workers' representatives agree, of course). The putting into practice of these changes will presumably create a sort of negotiated opting out, including bargaining with workers.

If these changes are effective, firms will have a wider menu of adjustment variables when facing crises other than the termination of contracts or dismissals alone. Therefore, one of the most negative side effects of a dual labour market (the large variations in employment and unemployment) will be mitigated. On the other hand, adjustment in wages and, in general, in working conditions will be much more frequent than in the past. This will be a very relevant novelty for Spanish industrial relations and, therefore, unions and employers will need some time to adapt to the new rules. Nevertheless, if the legal design of the current reform is clear and unambiguous, labour and legal conflicts will decrease in the medium term.

## Active labour market policies

A third component of the 2012 labour market reform is related to active labour market policies: hiring incentives, training and labour market intermediation.

The reform introduces a new contract to be used by small firms hiring new workers. It includes substantial financial incentives in terms of reduced Social Security contributions. This is problematic because there are different assessments of the various hiring incentives schemes implemented in the past showing that, for the most part, these hiring incentives are not effective (see for example the following linked article, in Spanish). Regarding training, the labour market reform establishes a 'right to training' for workers, in order to allow for a minimum level of annual training and for access to training in the face of the risk of firing. However, in the past, the training contract has been scarcely used and did not provide much training for young workers. The new regulation will not drastically change this situation. Finally, measures on labour market intermediation are exclusively related to temporary work agencies. The reform allows these agencies to become private placement services, i.e. private labour



market intermediaries, for any type of vacancy (and not only for temporary jobs). There are no measures concerning public employment services.

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To sum up, in spite of the significant scope for improvement, active labour market policies have a secondary role in the reform of 2012.

### **Appendix. A brief outline of labour market reforms in Spain (1980-2012)**

- 1980 (November). Workers' Charter. Adaptation of the main labour market regulation to the democratic political system (according to the 1978 Constitutional Act).
- 1984. First relevant change in the Workers' Charter: Temporary Contract to Promote Employment (breaking the 'causality principle' linking temporary contracts to temporary tasks and open-ended contracts with permanent tasks of the firm.)
- 1994. Reinstatement of the 'causality principle', regulation of a new type of dismissal (individual economic dismissal), legalization of temporary work agencies and a lot of legal changes affecting collective bargaining regulation.
- 1997. New open-ended contract with lower severance payment for unfair dismissal on economic grounds (33 wage days per seniority year instead of 45) and subsidies for open-ended contracts.
- 2002. 'Small' change in unemployment assistance law affecting dismissals procedures (no changes in the Workers' Charter) with a huge impact on the bureaucratic management of dismissals. This is the origin of the so-called 'express dismissal', finished in 48 hours if the firm 'recognises' that the dismissal was unfair.
- 2006. New (and more focused) subsidies for open-ended contracts.
- 2010. Labour market reform affecting different features of dismissals, collective bargaining, contracts and financial subsidies (especially for less-skilled young unemployed workers), and enhancing possibilities for private labour market intermediation of temporary work agencies.
- 2011. Emergency (short-term) Plan. (i) Programme for improving transitions toward stable employment promoting part-time work, including relevant decreases in contributions of the firm to Social Security. (ii) Professional re-training for those exhausting unemployment insurance and assistance, combining a subsidy for the worker and active measures. (iii) Mixed actions for individualised counselling (in public employment services) and training for unemployed workers.
- 2012. The new government elected at the end of December 2011 launches a new labour market reform in February 2012. This labour market reform affects to dismissal costs for open-ended contracts (see Table 2 for a synthesis of these changes) and internal flexibility, giving more discretion to the employer about working conditions and introducing prevalence of collective agreements at firm level respect to agreements at above levels. Active policies focus on financial incentives (rather generalised, especially for small firms), and not on labour market intermediation by public employment services (as the 2011 Emergency Plan). The new piece of legislation enhances the role of Temporary Work Agencies as full private labour market intermediaries for all types of contracts (and not only temporary contracts). A new 'training right' for workers is included in the labour market reform, but it heavily depends on further legal development.

**Table 1. Monetary costs, requirements and procedures for dismissals in Spain before the labour market reform of February 2012 (synthesis)**

		<i>Monetary Costs (Number of days wages per year worked in the firm)</i>	<i>Procedures (requirements and time periods)</i>
Individual dismissal†	Misbehaviour (disciplinary grounds)	Fair: 0. Unfair: 45 (maximum: 42 months of salary).	* Letter explaining dismissal reasons. * Advance notice is not required. * 'Express dismissal'. After Act 45/2002, when the employer accepts the dismissal as unfair in 48 hours after presenting the dismissal letter and provides the worker with severance payment for unfair dismissal, the employer will not have to pay any additional amount, even if the worker files a successful suit for unfair dismissal.
	(‘objective’ dismissal grounds)	- Fair: 20 (max. 12 months of salary). - Unfair: * Ordinary open-ended contracts: 45 (max. 42 months of salary). * Open-ended contracts for employment promotion (created in 1997): 33 (max. 24 months de salary).	* Letter explaining dismissal reasons. * Advance notice: 15 days (Act 35/2010). The employer can replace the advance notice with the corresponding wage. * 'Express dismissal'. After Act 45/2002, when the employer accepts the dismissal as unfair in 48 hours after presenting the dismissal letter and provides the worker with severance payment for unfair dismissal, the employer will not have to pay any additional amount, even if the worker files a successful suit for unfair dismissal. * Act35/2010 Act (labour market reform of 2010) introduced new wording for economic grounds in order to facilitate fair economic dismissals.
	Economic grounds)		
Collective dismissal	<i>Expediente de Regulación de Empleo</i> (ERE)	Minimum: 20. Maximum: Not fixed by law.	* Definition: Dismissals on economic grounds affecting at least: - 10 workers in firms with less than 100 workers. - 10% in firms between 100 and 300 workers. - 30 in firms with more than 300 workers. * There is a mandatory bargaining period between the firm and workers' representatives (bargaining issues include severance payments and the number of dismissals). * Public Administration must give previous authorization to the collective dismissal (in case of agreement between firm and workers the authorization is straightforward). The firm can apply for authorization even in case of disagreement.

† Individual economic dismissals can affect different workers at the same time below the threshold of collective dismissals (ERE). NOTE: Adapted from Table 1 in the linked report.

**Table 2. Monetary costs, requirements and procedures for dismissals in Spain after the labour market reform of February 2012 (synthesis)**

		<i>Monetary Costs</i> (Number of days wages per year worked in the firm)	<i>Procedures (requirements and time periods)</i>
Individual dismissal†	Misbehaviour (disciplinary grounds)	Fair: 0. Unfair: 33 (maximum: 24 months of salary).	* Letter explaining dismissal reasons. * Advance notice is not required. * The procedure for dismissals according to Act 45/2002 Act ('express dismissal') has been abolished.
	Economic dismissal ('objective grounds')	- Fair: 20 (max. 12 months of salary). - Unfair: * All open-ended contracts: 33 (max. 24 months of salary).	* Letter explaining dismissal reasons. * Advance notice: 15 days (Act 35/2010). The employer can replace the advance notice with the corresponding wage. * The procedure for dismissals according to Act 45/2002 ('express dismissal') has been abolished. * The RDL 3/2012 (labour market reform of 2012) introduced a new and even more precise and detailed wording for economic grounds in order to facilitate fair economic dismissals. This definition includes an explicit threshold of 9 months of decline in firm income and sales.
Collective dismissal	<i>Expediente de Regulación de Empleo (ERE)</i>	Minimum: 20. Maximum: Not fixed by law.	* Definition: Dismissals on economic grounds affecting at least: - 10 workers in firms with less than 100 workers. - 10% in firms between 100 and 300 workers. - 30 in firms with more than 300 workers. * There is a mandatory bargaining period between the firm and workers' representatives (bargaining issues include severance payments and the number of dismissals). * Previous authorization from Public Administration is no longer required.

† Individual economic dismissals can affect different workers at the same time below the threshold of collective dismissals (ERE).

# Recent Key Developments in the Area of Spanish Financial Regulation

**Prepared by the Regulation and Research Department of the Spanish Confederation of Savings Banks (CECA)**

**Royal Decree-Law on urgent budgeting, tax and financial measures (Royal Decree Law 20/2011, published in the Spanish Official Gazette – Boletín Oficial del Estado – of December 31st, 2011)**

This regulation reforms the legal and regulatory regime for institutional protection schemes and for the indirect exercise of savings banks' financial business activities. The main new features are:

## **A) Reform of the legal and regulatory regime for Savings Banks (“Cajas”)**

Spanish savings bank will be transformed into a special character foundation when it ceases to control (individually or collectively) the banking entity (previously the savings bank had to hold at least 50% of the capital of the instrumental bank).

## **B) Granting of new state guarantees**

The maximum amount of state guarantees to be provided during 2012 will be approximately €196bn. From these, €100bn will be directed towards new issuance of bank bonds, €3bn towards asset-backed fixed income securities issued by SPVs and €93bn towards ensuring the economic obligations committed to the European Financial Stability Facility.

## **C) Introduction of extraordinary tax measures**

The aim of these measures is to generate an additional income of €6.2 mn for the reduction of the public deficit. They include:

### **a) Personal Income Tax**

The introduction of a complementary, temporary and progressive taxation

### **b) Real Estate Value Tax**

The tax rate for urban real estate will increase during 2012 and 2013. This measure is temporary and exceptional.

### **c) Value Added Tax**

The application of the reduced VAT rate of 4% to housing is extended until December 31st, 2012.

**Order from the Spanish Ministry of Economy and Competitiveness on the requirements to grant state guarantees for new bond issuance (Order ECC 149/2012 published in Spanish Official Gazette – Boletín Oficial del Estado – of February 1st, 2012)**

This regulation determines the necessary requirements for provision of Spanish state guarantees for new bond issuance by Spanish credit entities, provided that they carry out significant business activity. The Order also stipulates procedural aspects, guarantee fees, and terms related to the usage of the guarantees granted.

The most important features of the Order are:

- Guarantee application form. State guarantees may be requested, before February 6th, 2012, by credit entities, credit entities' consolidating groups or credit entity groupings, provided that they carry out significant business activity.



- **Procedures for the granting of guarantees.** Credit entities will need an authorisation from the European Commission and the guarantees have a limited duration (the deadline for completion of guaranteed issuance is June 30th, 2012). This deadline may be extended by the Commission.
- **Interest rate.** The interest rate on the prospective guaranteed issuance may be fixed or floating.
- **Issuance amount.** The amount of each issuance should be a minimum of €10bn.
- **Fees.** A guarantee fee of 0.5% should be payable for the requested amount, which will be discounted from the underwriting fee payable by the issuing institution.
- **The guarantee is granted for the requested amount, provided that the maximum guarantee amount for the applying entity is not exceeded.**

**Royal Decree-Law on the clean up of the financial sector (Royal Decree-Law 2/2012, published in the Spanish Official Gazette – Boletín Oficial del Estado – of February 4th, 2012)**

Last February 4th, 2012, the Royal Decree-Law 2/2012 of February 3rd, 2012, on the clean up of the financial sector, entered into force. Its main objective is to clean up the credit entities' balance sheets in order to improve the confidence, reliability and strength of the Spanish financial system. The reform seeks to facilitate the entities access to capital markets and, in short, the regulation envisions the return of credit entities to their fundamental role - to channel savings to the real economy.

The major features are:

**D) MANDATORY CLEAN UP**

■ **Affected portfolio**

The exposures linked to real estate development up to December 31st, 2011, and the exposures subsequently arising from their refinancing.

■ **Appointment by portfolio**

The estimated impact of the measure is €52bn, as stated by the Spanish Ministry of Economy and Competitiveness. This amount can be disaggregated into: new specific provisions for impaired assets; additional general provisions for performing assets with exposure to real estate development; and an additional capital add-on.

■ **Proceedings**

The new provisions (both general and specific) should be accounted for by the income statement; while the capital add-on may come from eligible items, such as capital.

■ **Deadline**

December 31st, 2012. (For banks that opt for consolidation/merger, the time frame to have these provisions in place will be extended until the end of 2013.)

**B) CONSOLIDATION PROCESSES**

The credit entities that enter new consolidation processes (or have done so after September 1st, 2011), will benefit from the following incentives:

- They will have an extended deadline to meet new provisioning requirements, until the end of 2013.
- They will have access to the Spanish Fund of Orderly Bank Restructuring (FROB) support, through the issuance of convertible instruments – which would constitute basic equity or “capital principal”.

However, in order to benefit from these incentives, some requirements must be met:

- Upon the completion of the consolidation process, the resulting entity must reflect an increase of, at least, 20% relative to the balance sheet of the largest entity participating in the consolidation process.
- The consolidation process must entail an operation leading to a structural modification (merger, takeover, etc.); or

the purchase of entities owned mainly by the FROB.

- The entity must submit an application for authorisation, including a compliance plan, before December 31st, 2012.
- A plan of real estate divestments during the three years following the consolidation must be presented.
- The entity must make the commitment of reaching a measureable objective of increasing credit to households and SMEs during the three years following the consolidation.
- The entity must adopt corporate governance measures as well as a Board of Directors and senior managers compensation plan.
- The savings bank will be transformed into a foundation when it ceases to hold at least 25% of the voting rights in the entity through which the savings bank performs the activities of a credit institution.
- The savings bank's General Assembly will approve, together with the arrangement of transformation into a foundation, its statutes and the composition of its Board of Trustees.
- The government will supervise and control all such foundations whose main scope exceeds a single autonomous community in Spain (measured based on the scope of the instrumental bank activities).

### **C) SPANISH SAVINGS BANKS' CORPORATE GOVERNANCE**

Modifications in the Royal Decree-Law 11/2010 of July 9th, 2010, published in the Spanish Official Gazette – Boletín Oficial del Estado – of July 13th, 2010, on the governing bodies and legal and regulatory regime of the savings banks are as follows:

#### **■ Spanish savings banks' indirect exercise of financial business activities**

- The governing bodies will be the General Assembly, Board of Directors and, optionally, the Control Committee. The number of members in the governing bodies and the frequency of their meetings will be established in the Caja's statutes (with the aim of reduction in frequency).
- A savings bank under an indirect exercise agreement must not dedicate more than 10% of its unrestricted profits to cover operating expenses.
- A savings banks under an indirect exercise agreement will also be exempt from certain obligations (mainly organizational and reporting), as most of the requirements are expected to be covered by the new banking entity.

#### **■ Conditions for entities in a institutional protection scheme**

When the ownership of assets and liabilities is transferred to the central entity of an institutional protection scheme, the savings banks participating in the process will be understood to be under the regime for indirect performance in virtue of the Royal Decree-Law 11/2010.

### **D) REMUNERATION OF SENIOR MANAGERS AND DIRECTORS IN ENTITIES SUPPORTED BY THE SPANISH FUND OF ORDERLY BANK RESTRUCTURING (FROB)**

This regulation establishes limitations to both fixed and variable remunerations of the Board of Directors and senior managers within entities supported by the FROB, differentiating FROB 1 (based on the issuance of preference shares) and FROB 2 (based on the issuance of common shares).

#### **Royal Decree-Law on urgent measures to reform the labour market (Royal Decree-Law 3/2012, published in the Spanish Official Gazette – Boletín Oficial del Estado – of February 11th, 2012)**

Together with the concrete measures related to the labour market, this Royal Decree-law includes a specific regime which limits the termination

benefits for senior managers and the Board of Directors of credit entities, applicable to entities that are primarily owned by the FROB.

Additionally, several rules are established regarding the termination and suspension of the contract of managers and directors when the termination or suspension is due to (1) sanctions, (2) suspension, or (3) certain situations of provisional substitution.