The Bank of the State and the state of the Bank: Annual Accounts of the Banco de España, 1872–94

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ABSTRACT

This paper examines the disclosure practices in the Annual Reports of the Banco de España spanning the period 1872 to 1894. Although established as a privately owned bank, the Banco de España developed a close and increasingly symbiotic relationship with the Spanish State during the nineteenth century. This relationship was further strengthened in 1874 when the State conferred upon the Bank the exclusive right to issue bank notes for use throughout the country. With this privilege, the relationship between the Bank and the State was sealed. The paper argues that it was more this relationship rather than factors associated with it size, nature of operations or the nature of its competitive environment that influenced the disclosure practices of the Bank.

1. INTRODUCTION

Accounting historians have shown increasing interest in investigating accounting and disclosure practices prevalent during the nineteenth century (Michael, 1996; Previts and Samson, 2000; Storrar and Pratt, 2000; Jones, 1992; Toms, 1998). In the light of the low regulatory regime that characterized this accounting environment, it is generally felt that the nineteenth century context presents a potentially useful laboratory for examining the non regulatory motives for accounting disclosure and resultant studies could make valuable contributions to the ongoing debates on accounting regulation. Whilst this emerging body of research has enhanced our understanding of such practices, and has provided important insights into the broader processes involved in the production of accounting information, much of this research has focused on Anglo American settings. Unsurprisingly therefore, given the significance of shareholder equity

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financing in these contexts, the competing theories which have emerged all link nineteenth century financial reporting practices to phenomena related to the separation of ownership and control (Edwards, 1989; Watts and Zimmerman, 1979; Bryer, 1993; Toms, 1998).[1] To date little is known about the nature of and motives behind such practices in contexts where this variable may have been absent or relatively weak and, as a result, questions relating to the existence and nature of non capital market motives for accounting disclosures have yet to be answered.

This paper, by examining the financial reporting practices of the Banco de Espana during the twenty two year period spanning 1872 94, will explore this issue. At the same time it aims to contribute to our growing stock of knowledge on nineteenth century disclosure practices by drawing attention to the Spanish nineteenth century environment, an environment for which the scarcity of such evidence has already been acknowledged (Hernández Esteve, 1995).

The Banco de Espana was the first bank to be established in Spain, and until 1844 it was the only bank in the country (Garcia Lopez, 2000). The majority of its shares were privately held by a small powerful elite that dominated the political, military, administrative and commercial spheres of nineteenth century Spanish life (Carasa, 1999). Thus by focusing attention on this organization, the paper will not only be investigating the early reporting practices of the oldest and most influential institution in the Spanish financial sector, but also one for which the well established capital market determinants of financial disclosure were virtually non existent. The remainder of the paper will proceed as follows. The following section gives a brief historical review of the Banco de Espana, setting it within the context of the mid nineteenth century Spanish banking system. Importantly the section aims to highlight the increasingly symbiotic relationship that developed between the Bank and the Spanish State a relationship which we later argue is central to understanding the observed disclosure practices of the Bank. Section 3 presents a review of the Bank's Annual Reports for the period 1874 94 and in the subsequent section the factors which may have given rise to the nature and levels of disclosure in these reports are discussed. Finally we develop a conclusion to our work.

2. HISTORICAL BACKGROUND

A developing relationship with the State

From its inception the Banco de Espana had always enjoyed a close relationship with the Spanish State. Its earliest predecessor the Banco Nacional de San Carlos established in 1782 under Royal decree was the official bank of the Spanish Crown and was vested with the remit to administer the public debt. By the early decades of the nineteenth century as the 'San Carlos' faced certain bank ruptcy, it was the State that came to its rescue.[2] By investing some 77.4 million pesetas, it established (in 1829) the Banco Espanol de San Fernando which through a share for share exchange with the then existing shareholders of the 'San Carlos', took over the operations of the beleaguered 'San Carlos'. In return, for all of its nineteen year life, the operations of the Banco Espanol de San Fernando were devoted almost exclusively to government lending (Tortella, 1995).

On two other occasions during the mid nineteenth century, the State was forced to intervene in an attempt to rescue the fortunes of this serially beleaguered institution. The first was in 1848, with the state engineered merger between the 'San Fernando' and the Banco Isabel II.[3] This gave rise to the Nuevo Banco Espanol de San Fernando which only eight years later with the passage of the 1856 Law of Emission was transformed into the Banco de Espana with the specially conferred privilege to issue bank notes. It was this second intervention the granting of the right to issue bank notes which finally brought stability to the Bank's operations and which laid the foundation for its ultimate dominance within the Spanish banking sector throughout the remainder of the century and beyond.

The organization of the mid-nineteenth-century Spanish banking sector

The 1856 passage of the Law of Emission marked a critical turning point in the Spanish banking system. The Law dichotomized banking institutions into two mutually exclusive categories. *Bancos de emisión* which had the right to issue bank notes; and *sociedades de crédito* which were organized to operate as commercial banks and were free to involve themselves in all classes of banking business except the issue of bank notes. With the passage of the law, the Banco de Espana along with two other banks the Banco de Barcelona and the Banco de Cádiz fell into the former category. Accompanying their special privilege was the requirement that they maintain sufficient reserves in metals (gold and silver) and that they limit their activities to short term lending.

The introduction of the new 1856 law was part of a wider system of monetary reform aimed at bringing stability and order to a monetary system plagued with perennial crisis, chaos and instability. At this time a variety of coinages were in use and this, coupled with a high level of public debt, and chronic instability of banks created uncertainty, confusion and low public confidence in the system. Accordingly the cost of transacting was high (Anes, 1974) and to compound this, by the 1850s the price of gold on the international market had plummeted (Tortella, 1995) giving rise to a contraction of the money supply and a corresponding shrinkage of the banking sector. It was therefore hoped that with the formal introduction of bank notes as a medium of exchange, these critical ills would be alleviated.

The measures were met with partial success. By the 1860s, less than ten years after these reforms, the banking system had witnessed phenomenal growth. The number of *bancos de emisión* had increased from the original three to twenty, and there were some thirty five *sociedades de crédito* (Tortella, 1995). In 1863, in

Madrid alone there were seven *sociedades de crédito* (Comellas, 1996: 227). Moreover, the activities of individual banks also witnessed phenomenal growth. For instance, whereas in 1856 the Banco de Espana issued notes to the value of 39 million pesetas, by 1860 this had risen to 66 million pesetas. Likewise the Banco de Barcelona had issued 2.6 million pesetas in bank notes in 1856; by 1861 this figure had reached 15 million pesetas (Comellas, 1996: 227). These events in turn led to a substantial increase in the money supply during the period 1856 60, a corresponding decline in interest rates (Hernández, 1996: 152), and a general increase in the volume of economic activity for the period. But this expansionary trend was short lived. By the mid 1860s the system was once again in crisis. This was in part attributed to the lack of diversification of banking activities (Tortella, 1995). The system envisaged that while on the one hand the *bancos de emisión* would confine their activities exclusively to short term lending transactions,[4] *sociedades de crédito* on the other would offer a full range of banking facilities and devote a substantial part of their activities to long term lending. These latter institutions instead concentrated their activities heavily towards the railroad industry almost to the exclusion of any other activities. Thus when in 1864, it was discovered that railroads were unlikely to be a viable business (Tortella, 1995; Comellas, 1996: 227), many of these banks suspended payments and closed permanently leaving millions of debts unpaid (Tortella, 1995). This crisis was closely followed by the crashes of the Barcelona and Madrid stock markets and, to aggravate these problems, in 1868 a revolution broke out. As a consequence, the period of the mid 1860s to the mid 1870s was marked by a steady contraction of the banking sector. By 1873, therefore, the number of *bancos de emisión* had declined to fifteen and there were fewer than ten *sociedades de crédito*.

In the six years following the 1868 Revolution, the Spanish political scene was marked by the confusion and instability, which had characterized its banking sector. During this six year period there were eighteen different governments. This was a period also characterized successively by: a dethronement; a provi sional regime; a regencia; a democratic monarchy; an abdication; a unitary republic; a federal republic; a revolution in Cuba; two distinct and simultaneous civil wars; a coup d'état; another provisional rule and a new trial at regencia, and finally the restoration of the monarchy (Comellas, 1996: 221). These successive crises left the 1874 Spanish State desperately short of funds (ibid.: 228) and it was in this context that the Banco de Espana was granted the monopoly for the issue of bank notes.

The Monopoly of Issue

There is a consensus amongst Spanish economic historians that the conferring of the monopoly of emission to the Banco de Espana had less to do with the dictates of monetary policy and more to do with its granting a 3% interest rate loan of 125 million pesetas to the impoverished Spanish State (Hernández, 1996;

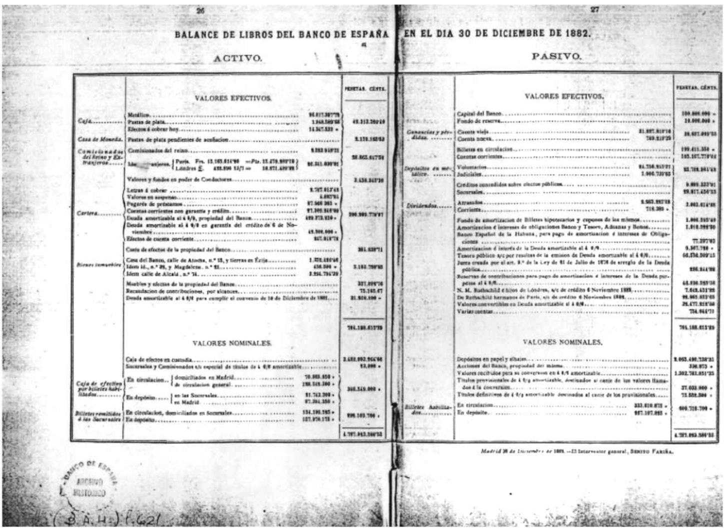
Tortella, 1970: 287; 1995). Through the passage of a decree dated 19 March 1874, the right to issue bank notes was withdrawn from fourteen of the existing fifteen *bancos de emisión*. The decree also meant that all the existing *bancos de emisión* were to be transformed into branches of the Banco de Espana.[5] The latter itself had also to be transformed; for it had immediately grown from a bank which until then operated with only two branches, into one, which by the end of 1874 was operating with seventeen branches.[6] The following section therefore describes how the Annual Reports of the Banco de Espana were prepared in this light.

3. THE FORM AND CONTENT OF THE ANNUAL REPORTS OF THE BANCO DE ESPAÑA, 1874–94

The two characteristics that immediately stand out as extraordinary from the review of the Annual Reports of the Banco de Espana over the twenty year period following the granting of the monopoly are, first, the detailed amount of disclosures contained therein and, second, the high degree of uniformity in reporting (both in terms of content and volume of disclosures). The volume of disclosures stands out as unusual given the low financial regulatory environment that prevailed at the time. The existing Commercial Code (1885) which called for the annual production and publication of the balance sheet for limited companies gave no guidance as to its form or contents. Similarly, the reporting requirements of the special legislation for banking institutions (the law of 19 October 1869; Article 4, Paragraph 2) merely required all banks to publish their balance sheet in the *Madrid Gazette* during the thirty day period following the date of its Annual General Meeting. But again, this legislation was silent on the required disclo sures. Yet, in the period examined, the Banco de Espana produced Annual Reports that not only contained a detailed Balance Sheet, but also an Income Statement and detailed information on its operations, including highly segmental operational information about its branches. Moreover, such information was provided consistently both in terms of its content and volume over the period under review. These observations are particularly surprising given some of the changes witnessed by the Bank during this period. For instance over this period the Banco de Espana had changed from an institution owned by 2,321 share holders represented by a share capital of 20 million pesetas, to one which by December 1894 had over 5,000 shareholders represented by a share capital of 150 million pesetas. Whereas in March 1874, the operations of the Bank were confined to Madrid and its two smaller branch offices operating in Alicante and Valencia, by 1894, the Bank had established a network of over fifty eight branches spread throughout Spain. During this period the Bank's competitive environment also underwent drastic change. Rather than operating as one of Spain's fifteen *bancos de emisión*, the Bank had emerged as the monopoly supplier of bank notes in Spain. A further aspect of the Bank's transformation over this period was also the fact that in 1887 the Bank diversified its activities through its acquisition of 20% of the Spanish Tobacco Monopoly (Carmona and Macías, 2001). As the analyses that follow will demonstrate, these factors did not seem to significantly affect either the nature or the volume of disclosures contained in the Annual Reports of the Bank. Below is a brief description of the contents of the Annual Reports for first twenty years of the monopoly that is, from the period spanning 1874 to 1894. Later, we compare these disclosure practices with those which prevailed two years before the conferral of the monopoly.

The Balance Sheet

Figure 1 presents the Balance Sheet for the year ended 1882. As can be seen, it is presented in horizontal format with a high degree of disaggregation for all categories of items. The only major change in the nature of the Balance Sheet over the period is that up until 1884 the reported Balance Sheets are not consolidated balances of the Bank and all its branches. Instead, they only reflect the balances of the Madrid operations, and the net balance between Madrid and other branches. The Balance Sheet of 1884 is the first for which consolidated balances are presented. This perhaps reflects the gradual manner in which the Bank's monopoly of issue was introduced. As pointed out by Tortella (1970: 288), it was not until 1884 that the Banco de Espana operated as the sole issuer of bank



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BALANCE DE LIBROS DEL BANCO DE ESPAÑA EN EL DIA 30 DE DICIEMBRE DE 1882.

ACTIVO. PASIVO.

VALORES EFECTIVOS.

VALORES NOMINALES.

Figure 1 Balance Sheet for the Banco de España, as at 31 December 1882 notes in any true sense. In the period immediately after the granting of the monopoly, each of the Bank's branches issued their own bank notes and these were only convertible at the branch of issue. In 1880 convertibility amongst regional branches was achieved. Finally it was in 1884 that national convertibility was attained. Effectively therefore prior to 1884, the branches of the Banco de Espana operated as autonomous *bancos de emisión* in much the same manner as they had operated prior to the granting of the monopoly. The year 1884 represented the first year in which the operational link between the Bank and its branches was truly established. Analysis of the Bank's Balance Sheet over this period confirms that the State was the Bank's principal customer, for during this period an average of 50% of the Bank's assets was devoted to the State lending.

Despite the fact that the post 1884 Annual Reports consolidated the balances of the Madrid operations with those of the branches operating in the provinces, for every year investigated, immediately following the Balance Sheet was a statement which contained a summarized Balance Sheet of all of the branches. This two part statement was produced in columnar format with the upper half identifying categories of assets. The columns eleven in all represented assets; with the branches (listed alphabetically) constituting individual rows. The lower half of the schedule followed the same format but related instead to the distribution of liabilities and other credits. Thus each row of this schedule's upper half indicated the values and constitution of assets for each branch, whereas each row on the lower half indicated the values and constitution of individual branch liabilities.

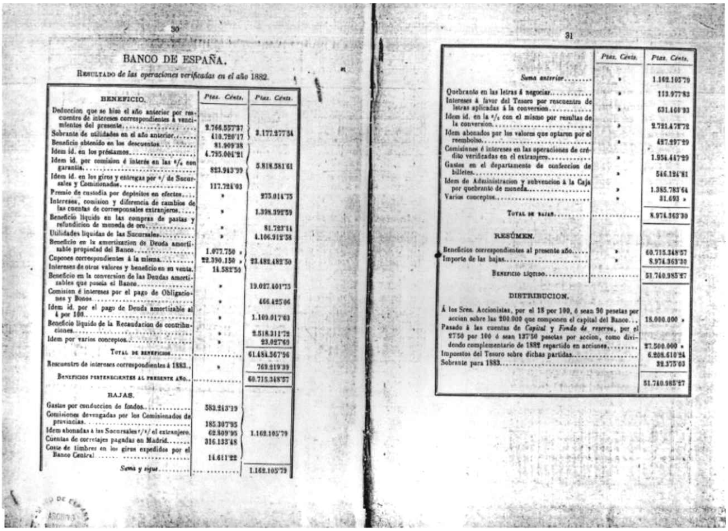
The Income Statement

Although the production of an Income Statement was not legally required, one was included in each of the Annual Reports examined. The Bank's Income Statement for the year ended 30 December 1882 is presented in Figure 2. The net results of the branches were included in income, which was measured as the difference between revenues and variable costs, administrative costs and general expenses. A charge for depreciation was also deducted. Taxation and dividends were treated as distributions of income.

Very much like the Balance Sheet, the Bank's Income Statements reveal a high level of detail indicating the various sources of income and categories of expenses. Interest Income reflected cash collections but was converted to an accruals basis by including current year interest received in the previous year as a source of revenue and by treating interest collected in the current year but pertaining to the following year as a revenue deduction.

Notes and schedules on operations

The values on the Balance Sheet and the Income Statement were further supported by a series of detailed schedules on operations and balances. These



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BANCO DE ESPAÑA.

RESULTADO *de las operaciones verificadas en el año* 1882.

BENEFICIO.	*Ptas. Cénts.*	*Ptas. Cénts.*
Deduccion que se hizo el año anterior por rescuentro de intereses correspondientes á vencimientos del presente	2.766.557'37	
Sobrante de utilidades en el año anterior	410.720'17	3.177.277'54
Beneficio obtenido en los descuentos	81.909'38	
Idem id. en los préstamos	4.795.004'21	
Idem id. por comision é interés en las c/c con garantía	823.913'99	5.818.581'61
Idem id. en los giros y entregas por c/ de Sucursales y Comisionados	117.724'03	
Premio de custodia por depósitos en efectos	»	275.014'75
Intereses, comision y diferencia de cambios de las cuentas de corresponsales extranjeros	»	1.398.392'59
Beneficio líquido en las compras de pastas y refundicion de moneda de oro	»	81.723'11
Utilidades líquidas de las Sucursales	»	4.106.912'58
Beneficio en la amortizacion de Deuda amortizable propiedad del Banco	1.077.750 »	
Cupones correspondientes á la misma	22.390.150 »	23.482.482'50
Intereses de otros valores y beneficio en su venta	14.582'50	
Beneficio en la conversion de las Deudas amortizables que poseía el Banco	»	19.027.401'75
Comision é intereses por el pago de Obligaciones y Bonos	»	466.425'06
Idem id. por el pago de Deuda amortizable al 4 por 100	»	1.109.017'03
Beneficio líquido de la Recaudacion de contribuciones	»	2.518.311'72
Idem por varios conceptos	»	23.027'69
TOTAL DE BENEFICIOS		61.484.567'96
Rescuentro de intereses correspondientes á 1883	»	769.219'39
BENEFICIOS PERTENECIENTES AL PRESENTE AÑO		60.715.348'57
BAJAS.		
Gastos por conduccion de fondos	583.243'19	
Comisiones devengadas por los Comisionados de provincias	185.307'95	
Idem abonadas á las Sucursales y/c/ el extranjero	62.809'95	1.162.105'79
Cuentas de corretajes pagadas en Madrid	316.133'48	
Coste de timbres en los giros expedidos por el Banco Central	14.611'22	
Suma y sigue		1.162.105'79

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	Ptas. Cénts.	*Ptas. Cénts.*
Suma anterior	»	1.162.105'79
Quebranto en las letras á negociar	»	113.977'83
Intereses á favor del Tesoro por rescuentro de letras aplicadas á la conversion	»	631.400'93
Idem id. en la c/c con el mismo por resultas de la conversion	»	2.721.478'72
Idem abonados por los valores que optaron por el reembolso	»	427.297'29
Comisiones é intereses en las operaciones de crédito verificadas en el extranjero	»	1.954.447'29
Gastos en el departamento de confeccion de billetes	»	546.124'81
Idem de Administracion y subvencion á la Caja por quebranto de moneda	»	1.385.783'64
Varios conceptos	»	31.693 »
TOTAL DE BAJAS		8.974.363'30
RESÚMEN.		
Beneficios correspondientes al presente año	»	60.715.348'57
Importe de las bajas	»	8.974.363'30
BENEFICIO LÍQUIDO		51.740.985'27
DISTRIBUCION.		
Á los Sres. Accionistas, por el 18 por 100, ó sean 90 pesetas por accion sobre las 200.000 que componen el capital del Banco		18.000.000 »
Pasado á las cuentas de *Capital* y *Fondo de reserva*, por el 27'50 por 100 ó sean 137'50 pesetas por accion, como dividendo complementario de 1882 repartido en acciones		27.500.000 »
Impuestos del Tesoro sobre dichas partidas		6.208.610'24
Sobrante para 1883		32.375'03
		51.740.985'27

Figure 2 Income Statements for the Banco de España, 1882

schedules constituted a significant portion of the Bank's Annual Reports. For the years 1874 and 1875, they were located within the discursive section of the Reports. In subsequent years, the discursive material was slightly expanded and referred to the schedules which were now located immediately after the financial statements. The presentation of these schedules became standardized after 1875. Table 1 lists those schedules that were consistently presented over the period and gives a brief description of their formats and contents.

In addition to the standard schedules described in Table 1, other schedules or statements appeared on an ad hoc basis. These seemed to have been presented in a bid to justify operational changes made in the previous year or proposed for the coming year.

The amount and level of disclosure that characterized the Annual Reports of the Banco de Espana for the period 1874 94 rendered the operations of the Bank highly transparent. In addition to presenting a detailed account of the operational activities of the Madrid and other branches, the Report (in its discursive section) gave lengthy discussions of significant events during the year and the manner in which these events impacted the Bank. It also highlighted significant changes in balances and provided seemingly credible explanations for these changes. Future plans were also briefly discussed. The Annual Report of the Banco de Espana was therefore a sizeable document. During the period 1874 to 1883, the report averaged some thirty five pages in length. By 1885, it had reached seventy three pages and by 1894 it was over 100 pages long. The growth in the size of the report,

Table 1 Standardized schedules presented in the Annual Reports of the Banco de España, 1874 94

Title of schedules		*Brief description of contents*
(i)	Circulation of bank notes	Gives information on the minimum and maximum value of bank notes issuable by each branch and the value actually issued. Consistently has been the first supplementary schedule.
(ii)	Interest on lending and discounting operations	Identifies for each branch (a) the number of discount/loan transactions for the year, (b) the principal values involved, (c) the interest collected and (d) the total value of collateral. For the Madrid operations the interest amounts were directly traceable to the Income Statement. For the provincial branches, these amounts are traceable to the branch net gains and losses statement.
(iii)	Special current account movements	Activity reports revealing amongst other things (a) number of accounts opened during the year, (b) number and value of deposits existing at the end of the year, (c) the number and value of withdrawals. Information provided for both the Madrid operations and the branches.
(iv)	Current account movements	
(v)	Deposit account movements	
(vi)	Commissions earned on giros and letters of credit	Discloses information on the principal amounts and commissions earned from the issue of giros and letters of credit during the year for Madrid and all branches.
(vii)	Changes in gold, silver and coin balances	Explains movements in metallic resources for the year. Additions were separately identified by source, and depletions were identified by destination (e.g. dividends, return of bank notes etc.). The opening and closing balances of each item (gold, silver and coinage) could be traced to the prior and current years' Balance Sheets, respectively.
(viii)	Balances and movements in other liquid funds	Similar to above.
(ix)	Share movements	Indicates the number of shares and investors associated with each branch of the Bank. Also reveals changes in the constitution of these figures over the year.
(x)	Administrative costs	Gives a breakdown of the administrative cost associated with the Madrid operations. Prior year comparatives are given. Significant departures between current and previous years' amounts explained in the discursive section of the Annual Report.

Table 1 (*continued*)

Title of schedules	*Brief description of contents*
(xi) Branch administrative expenses and gains	Presents information only on the branches and not on Madrid operations. One column reveals the administrative costs incurred by each branch, and another reveals its results (gain or loss).
(xii) Operations with the Treasury	Series of schedules presenting information on holdings of public debt.
(xiii) Values in suspense	Schedule of suspense items for Madrid operations and branches indicating opening and closing balances as well as additions and reductions.

however, substantially reflected the growth in the number of branches that the Bank had created over the period. By the end of the century the Bank had established a network of fifty eight branches. Increasingly many of these branches were eligible to hold their own Annual General Meetings three months before that of the Madrid.[7] Increasingly therefore individual branch Annual Reports would be included with the Bank's Annual Report and this substantially accounted for the increases in the size of the document. Though almost three times as large as it was at the beginning of the period, left unchanged were the form, content and structure already described.

4. FACTORS DRIVING DISCLOSURE PRACTICES OF THE BANCO DE ESPAÑA

The purpose of the above descriptive material has been to present some of the salient features of the Annual Reports produced by the Banco de Espana for the first twenty years that it operated as the monopoly supplier of bank notes in Spain. The material has attempted to illustrate the high level of detail therein and the high degree of standardization associated with these reports over the period. As was previously mentioned, in the context of the low regulatory environment within which these Annual Reports were produced, the level of detail and the consistency with which the Bank produced such information are considered unusual. Our purpose here is to consider the likely factors that might have given rise to what seems to be an excessive level of disclosure practised by the Banco de Espana.

In characterizing the disclosure practices of the Banco de Espana as 'exces sive', the term 'excessive' is used to describe two dimensions of disclosure: (a) what is in fact disclosed and (b) the level of detail associated with what is disclosed. The Bank's continuous production of the Income Statement and the prominence given to it in the Annual Reports would be an example of the former, for the disclosure of such a statement was not legally required. An example of second dimension of 'excessive' would be the high level of disaggregation contained in the Balance Sheet; or the production of numerous schedules designed to give a fuller understanding of the composition of financial statement balances and the changes in those balances over the period.

A number of accounting studies have sought to identify the factors affecting a firm's willingness to disclose more than what is legally required. Some studies focus specifically on voluntary disclosure in terms of what we describe as falling into the first dimension of excessive such as the provision of profit forecasts (Brennan, 1999; Sudarsanam, 1991, 1995; Krinsky *et al.*, 1988; Gray *et al.*, 1991). Others focus on the level of detail such as the provision of segmental information (Aitken *et al.*, 1997; Mitchell *et al.*, 1995). In general, a range of factors has been identified as providing managers with incentive to disclose excessively. Sengupta (1998: 473), for instance, suggests that the incentives to disclose more in terms of degree of detail, timeliness and clarity may be linked to a firm's desire to lower its cost of borrowing. Other factors are related to the size and leverage of the firm (Bradbury, 1992), its ownership diffusion, the presence of minority interest and the nature of the industry (McKinnon and Dalimunthe, 1993). Most of these factors relate to capital market phenomena. As will be explained later in this paper, in the context of nineteenth century Spain, the role of capital market monitoring in influencing the disclosure practices of the Banco de Espana seem inappropriate. Of these factors therefore we consider the industry factor as the most probable to offer reasons for the excessiveness associated with the disclosure practices of the Banco de Espana.

Industry practice

In brief the industry hypothesis argues that a firm's disclosure practices may be excesive if the industry within which it operates is politically sensitive. Given the importance of the financial sector to the national economy and also given the high concentration of financial expertise in this sector, it is perhaps likely that banking institutions in general might have been more progressive than other firms with respect to their disclosure practices. As a consequence, rather than being seen as excessive, it is likely that the nineteenth century disclosure practices of the Banco de Espana may have merely reflected those which prevailed in the Spanish financial sector at that time. In order to establish whether this was the case, the Annual Reports of the Banco de Bilbao, the Banco de Santander and the Banco de Barcelona were examined. These banks, like the Banco de Espana, were major *bancos de emisión* prior to the decree of 1874. They did not merge with the Banco de Espana at that time, but instead continued to operate without the right of issue. A review of the Annual Reports of these entities during an extended period would shed some light on the practices common for the industry at that time. For the Banco de Santander and the Banco de Barcelona we reviewed their Annual Reports of the period 1873 to 1894, and for the Banco de Bilbao, Annual Reports for the period 1871 to 1877 were reviewed. Table 2 summarizes the findings.

Table 2 Summary of voluntary disclosure practices of the Banco de Barcelona, the Banco de Bilbao and the Banco de Santander, 1871–94

	Banco de Barcelona	*Banco de Bilbao*	*Banco de Santander*
Average length	7 pages	12 pages	5 pages
Issues discussed	• Movements in deposits • Movements in current accounts • Movements in liquid assets	• Movement in metals • Movement in cash • Movements of guaranteed deposits • Movements in voluntary deposits • Movement in current accounts • Movement in bank notes • Movement in fixed assets	• Movement in cash • Circulation of notes • Movement in current accounts • Movement in deposits • Movement in metals
Income Statement	Yes	Yes	Yes
Other schedules	• Changes in deposits, current accounts and liquid resources • Table of discount operations	• Savings six-month report • Savings history report	None
Frequency	February and August	January and December	January and July

The general structure of these Annual Reports did not differ significantly from that of the Banco de Espana. Each opened with a discursive section, which was followed by their respective Balance Sheets. The Balance Sheets of the three banks were prepared in much the same format as that of the Banco de Espana's, except that they were somewhat more condensed. In addition, as indicated in Table 2, it seems to have been quite a common practice for nineteenth century Spanish banks to prepare an Income Statement. The Banco de Barcelona and the Banco de Santander produced their Income Statements in vertical format similar to that of the Banco de Espana, and computed net gains in a similar manner, i.e. after charging administrative expenses and expenses reflecting charges for depreciation and the amortization of pre operating costs. The format adopted by the Banco de Bilbao was somewhat different. It produced its statement of gains and losses in a 'T' account format. All revenue items were listed as credits, whereas debits to the account included not only expenses, but also other distributions such as dividends and transfers to reserves. Hence, for the Banco de Bilbao, the net gain or loss for the period is not immediately discernible from the statement but has to be computed by carefully discriminating between those entries that represent expenses and those representing distributions. None the less, similar to the other banks, the Bilbao also did include as debits, amounts representing charges for the depreciation of fixed assets.

With respect to the level of detail associated with the Income Statement, the Bancos de Barcelona and Santander provide very little information on their sources of revenue. Indeed for both banks, revenue is represented by only one line item (compared to nine line items for the Banco de Espana in its 1875 Annual Report, and eighteen in its 1882 Annual Report). For these banks it is therefore impossible to determine the relative contribution to revenue from lending, discounting and other activities. The Banco de Bilbao, however, was more transparent with respect to its various sources of revenue, disclosing them in four to five line items in its 'T' account. For all these banks, there was more disclosure with respect to the various categories of expenses. These were detailed in an average of five categories for the Banco de Barcelona and the Banco de Bilbao, and seven categories for the Banco de Santander.

As to the inclusion of other information in the Annual Accounts, in all cases there was a relative paucity of additional schedules and tables. With varying degrees of detail, each of the Annual Accounts gave some additional information on the movement of certain assets and liabilities, but in no case was the information presented as detailed as that of the Banco de Espana. As illustrated in Table 2, the Banco de Barcelona did discuss movements in its deposit and current accounts. However, these discussions were limited to two or three sentences which indicated the balances for the current and previous years, the change for the period, and the number of new accounts opened and closed during the period. With respect to the movements of its liquid resources, the Annual Reports reviewed only mentioned the total value of payments made with these funds. The superficiality of these discussions is further indicated by the fact that on average this discursive section constituted two pages of text. Throughout the period examined, immediately following this material were two tables. The first was an untitled table in which the quantitative information on deposits, current accounts and liquid resources which was previously discussed in the text is merely reproduced. The second table, titled *Discount Operations*, gives some information on the discount operations for the period in terms of the number of transactions, the value of transactions and various discount rates applied. The value presumably relating to revenue earned on these transactions is, however, not traceable to the Income Statement.

The Banco de Bilbao seemed to be more transparent about its activity. Its 10 12 page Annual Report opened with discussions on the movements of a number of Balance Sheet items (see Table 2). These discussions went beyond that of merely computing the change. Instead they attempted to explain the reasons for the increase or decrease. Usually ten to twelve lines of text were devoted to discussing each of these items. Immediately after the discursive material were two tables which appeared throughout the period. The first was a six month report on savings activity, indicating number and value of new accounts opened, the number and value of accounts renewed for each of the six months prior to the balance sheet date. This information was then reproduced on the subsequent table, which gave a history of these items for every six month period since the inception of the bank. None of the values on either of these tables related to the financial statements. Instead these tables seemed to be designed to give readers an idea of the savings trends with the bank.

The Annual Reports of the Banco de Santander were the least detailed of the three. The discussion of the items listed in Table 2 was limited to a maximum of two sentences which stated the balance for the current year and the increase or decrease over the previous year. No explanations for the changes were given. From 1882 onwards the only change to this format was the inclusion of a short paragraph which explained the results for the period. At no time over the period investigated were supplementary tables or schedules provided.

The review of disclosure practices of these major banking institutions suggests that, whereas in terms of format and content, the Banco de Espana appeared to be following a general trend within industry, with respect to the quantum of disclosures, those of the Bank far exceeded that of its peers. This conclusion holds for both the pre and post monopoly periods. Thus with respect to one dimension of 'excessive' there seems to have been an industry influence. That is the provision of certain types of information beyond that which was required by the law   such as the Income Statement, and comparative information on current and deposit accounts, notes in circulation etc.   seemed to have been governed by what prevailed in the industry. However, other factors seemed to have influenced the disclosure practices of the Banco de Espana, for as the above discussion has revealed, the degree of detail with which the Banco de Espana provided such information was far in excess of that which might have been usual for the industry, thus it was indeed 'excessive'.

The terms of the monopoly

It is perhaps reasonable to expect that the conferral of the monopoly of issue to the Banco de Espana might have imposed some degree of additional disclosure on the Bank. The existing literature suggests two possible reasons why the conferral of the monopoly may have caused the Banco de Espana to produce more detailed financial information. The first relates to the size hypothesis, which suggests that the disclosure practices of monopolistic firms are governed by their desire to reduce political costs (Watts and Zimmerman, 1986). Alternatively, the contracting literature suggests that the disclosure practices of the Banco de Espana may have been influenced by specific conditions associated with the granting of the monopoly. In the context of the Banco de Espana, the first argument seems somewhat inappropriate, given that it was the State itself that had initiated and had indeed sanctioned the monopoly. Thus it seems unlikely that the disclosure practices adopted by the Banco de Espana were an attempt to reduce the likelihood of its loss of monopoly. The second argument therefore seems to hold more promise. However, this is not immediately evident in the terms of the 1874 decree.

Whilst the decree did place operational limits on the Bank which were expressed in terms of Balance Sheet values, it made no mention of additional disclosure requirements. Specifically the decree fixed a capital ceiling of 150 million pesetas and limited the issue of bank notes to five times the value of capital. Later these limits were adjusted in an attempt to meet the budgetary requirements of the State. Thus in 1890, a new law permitted the Bank to double the maximum amount of notes that it was permitted to issue.[8] Accompanying this increased flexibility to issue notes were a number of restrictions, which again were based on Balance Sheet variables. These restrictions concerned the relation ship between the Bank's metallic assets and the value of bank notes issuable; the relationship between gold and other metallic assets; and the relationship between liquid assets and current liabilities.[9] It is perhaps reasonable to assert therefore, that the detail with which the Bank prepared its Balance Sheet, and the emphasis placed on showing the constitution of certain categories of assets and liabilities might have been on account of its need to signal to the State that it was adhering to the terms of the monopoly.

We therefore conducted a review of the Bank's Annual Reports for the two years prior to the conferral of the monopoly so as to determine the extent to which this argument can be supported.

Annual Reports of the Banco de España, 1872–73

The Annual Reports for the years ending 1872 and 1873 bear the same level of detail as those produced during the post monopoly period. Accompanying the Bank's main financial statements were Balance Sheets of the Bank's two existing branches (Valencia and Alicante) as well as segmental information on their operations. The latter included information on discount and loan transactions, movements in current accounts and metal deposits, administrative expenses, gains and losses for the year, and transactions in giros and letters of credit. Moreover, the examination revealed that ten of the thirteen standard schedules identified in Table 1 were present in the Annual Reports of 1872 and 1873 although they were not displayed as separate schedules but were instead presented as tables within the discursive section of the reports. The Annual Reports for 1872 and 1873 were 32 and 33 pages in length, respectively. These Reports, both with respect to the nature and quantum of information disclosed, were identical to those produced in the period spanning 1874 to 1894. It is thus difficult to conclude that the conferral of the monopoly via the decree of 19 March 1874 significantly affected the regime of disclosure practised by the Banco de Espana.

The State of the Bank and the Bank of the State

The above analyses have indicated that throughout the period 1872 94, the disclosure practices of the Banco de Espana did not undergo significant change. Indeed the sameness in the nature and quantum of disclosure emerged as a surprising result given the significant changes in the size and nature of the Bank and its competitive environment during this period. It has been suggested that the *nature* of the disclosures made by the Bank was to a very large extent influenced by what may have been standard practice in the industry. However, the detailed manner in which these disclosures were made was far in excess of industry practice. Importantly, it was noted that this level of detail prevailed both in the pre and post monopoly era. None of the factors identified by the literature as influencing disclosure seem able to explain the *lack* of change in the disclosure practices of the Banco de Espana over the period 1872 to 1894. The most popularly espoused explanation for a firm's tendency to disclose excessively is the signalling argument. Briefly, this argument states that managers have incentives to voluntarily disclose information because such disclosures serve to (a) signal their effective and efficient management and (b) reduce the perceived riskiness of the business which they manage. Voluntary disclosure therefore serves both to distinguish good managers from poor managers and to reduce a firm's cost of capital.

In the context of nineteenth century Spain neither of these arguments serve to explain the Banco de Espana's disclosure practice. In the first place, in nineteenth century Spain there existed a narrow elite who circulated within the ranks of public administration, corporate management and the military (Carasa, 1999). It was not unusual to observe the movement of one individual from high public office in one year, to corporate management in another, and then resuming a role in public office or the military soon after (Ringrose, 1996). Closure and rigidity therefore characterized the market for corporate managerial expertise in nineteenth century Spain. In such a context, voluntary disclosure as a means of ensuring managerial job security was of little value. The second reason for the failure of the signalling argument to explain the case of the Banco de Espana relates to the inapplicability of capital market phenomena to this environment.

Although during our observation period the shares of the Banco de Espana were listed on the Madrid Stock Exchange, the cost of capital argument collapses for two reasons. First, is the fact that the Stock Exchange was not a vehicle for providing capital to the nineteenth century Spanish corporate sector. Indeed during this period, the Madrid Stock Exchange was primarily devoted to the trading of public debt (ICACBM, 1981). Second, as extant studies of nineteenth century Spain reveal, during this period ownership of the corporate sector was in the hands of a small capitalist elite (Cruz, 1996, 2000; de la Fuente, 2000; Ringrose, 1996; Tedde, 1974, 1984, 1988). Within the banking sector, share ownership was highly concentrated; shareholders had intimate knowledge of the financial operations of their businesses and directors held substantial share holdings (Mateo del Peral, 1974; Anes, 1974). It seems likely, therefore, that the target audience of the Bank's Annual Reports was not its shareholders, but instead the State. We believe that a plausible explanation for the constancy in the Bank's disclosure practices over the period thus lay in the nature of the relationship between this institution and the State.

As the history of the Bank reveals at every juncture in its life where it was faced with certain demise, the State had intervened and had secured its resuscitation.[10] Thus full disclosure of the state of the Bank whether perilous or not could never be 'costly' to the Bank (managers or shareholders). Indeed such transpar ency may have served to further endear the State towards the Bank, reducing the State's uncertainty about its operations, increasing its confidence in the Bank as the manager of the public purse. The disclosure practices of the Banco de Espana thus ensured that the State at all times was fully cognizant of the state of the Bank, and this ensured the Bank's continuing role as the Bank of the State.

5. CONCLUSION

This paper adds to a growing body of research which seeks to study nineteenth century disclosure practices. Such studies are useful because given the low regulatory environment that prevailed in the nineteenth century, greater light can be shed on the incentives of companies to voluntarily disclose information. The disclosure practices of the Banco de Espana between the period of 1872 and 1894 were studied because of the significant changes that the institution underwent during that period. The study revealed that despite changes in the size and nature of its operations, and in the nature of its competitive environment, the content and volume of the Bank's disclosures remained largely unchanged. The low financial reporting regulatory context in which the Bank operated rendered its disclosures 'excessive' both in terms of what was disclosed and the level of detail associated with the disclosures. Whilst the nature of the industry explained 'excessive disclosure' in terms of what was disclosed, it did not provide an explanation for the detailed level of disclosures. This paper has argued that none of the established factors for such behaviour could explain the disclosure practices of the Banco de Espana. Instead it has suggested that its disclosure practices may have been linked the historic role which the Bank has played as the principal banker of the State. This observation, though somewhat tentative, has served to unmask the firm State relationship as a possible determinant of financial disclosure in contexts where the role of capital markets is significantly less than that in the well studied Anglo American environments.

ACKNOWLEDGEMENTS

Financial support from SEC 98 0282 and SEC 01 0890 is gratefully acknowl edged.

NOTES

1 Admittedly in the case of Toms (1998), it is argued that financial accountability was more influenced by the social character of share ownership than by the mere separation of ownership and control.
2 In reality the bankruptcy of the Bank was brought about by the fact that over 90% of its total assets represented public debt which had been repudiated by the financially distressed Spanish State (Santillán, 1865).
3 Isabel II was established in 1844 and almost immediately established stiff rivalry with the San Fernando. By the end of the 1840s the stiff competition between the two banks put both on the brink of bankruptcy (Tortella, 1995).
4 This was so given that a large part of their resources were in the form of short term demand notes and current accounts.
5 This was, however, strenuously resisted by five of the existing *bancos de emisión*: the Banco de Barcelona, the Banco de Reus, the Banco de Santander, the Banco de Tarragona and the Banco de Bilbao. The latter, however, finally merged with the Banco de España in 1878 whilst the rest continued to operate without the rights of issue (Hernández, 1996: 153).
6 The process of absorption was effected through a share for share exchange with the shareholders of the affected banks (Tortella, 1970: 287). This resulted in an augmenta tion of the Bank's capital from 20,000,000 escudos at the end of 1872, to 98,006,000 pesetas at the end of 1875.
7 By the Bank's 1874 statutes, branches which had thirty or more shareholders owning more than twenty shares were allowed to have their own Annual General Meeting three months before that of Madrid. Later, in 1882, this number of shares was reduced to ten. As a result, more branches were eligible to hold an AGM and their Annual Reports were then included in the Annual Report of the Bank.
8 Thus raising it to ten times the value of capital.
9 Specifically the operational restrictions were that: (a) metallic assets (coins, gold and silver) be equivalent to one third of the volume of bank notes in issue, (b) half of the Bank's metallic assets must be in gold and (c) the sum of bank notes and deposits could not exceed the sum of liquid assets.
10 This was despite the fact that, over the life of the Bank, the Spanish State itself was not a constant entity.

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