

GUIDE

CNMV information guide

What you should know about **Securities orders**



This CNMV guide is for investors. It explains the essential terms, helps you to ask the right questions, sets out the information that an investor must request and tells you what to do if you have doubts.

What you should know about

Securities orders

This is a CNMV document

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YOU'VE DECIDED TO INVEST IN TRANSFERABLE SECURITIES, HAVE chosen your intermediary and have even opened a securities account. Now you have only a few more steps to take, but they are basic ones for achieving your objective. The first is to make an informed choice about the assets to invest in and the weight to be assigned to each. The second is to communicate your buy or sell decisions by means of a securities order, then check that this order has been filled and the transaction correctly settled.

Securities orders are the vehicle through which investors reach the markets. They also activate relationships with a series of market agents, which have their legal base in previously signed agreements. There are many types of orders and this diversity can be bewildering at first. But knowing and understanding them will help you work more confidently towards your goals.

One universal rule investors should follow is to request a copy of each order they place with their broker, giving the date and time of the instruction as well as a complete run-down of its contents. This will provide documentary evidence for verifying its execution or the eventual lodging of a complaint.

It is also important to realise that, in some cases, securities orders may not be forwarded to the market. Instead they may be filled directly by the intermediary firm, in the role of counterparty. As a rule, you will find it more in your interest to trade on a market where your broker is obliged to get you the best possible price. You also have

the right to demand that an order is forwarded to an organised secondary market for the sake of a speedier execution, the chance of better conditions, etc.

There are also products for which no centralised market exists, but for which brokers will quote you a buy or sell price as applicable at that moment. In this case, it is up to the investor to shop around for the best deal.

Knowing the scope of each order, its likely itineraries and the role taken by the intermediary will unquestionably give us more insight into how markets function, and a better understanding of the rights and obligations of those issuing the instructions.

This new CNMV guide seeks to shed light on the, at times, complex business of participating in markets as a private investor and dealing effectively with intermediaries. To do so, we look at the whole process from when an investment decision is made to when this desire or choice becomes a quantifiable reality, generating a flow of money and securities. The indications and advice given in the following pages draw on our accumulated experience as a regulatory agency.



1 **What are securities orders?** **How do they work?**

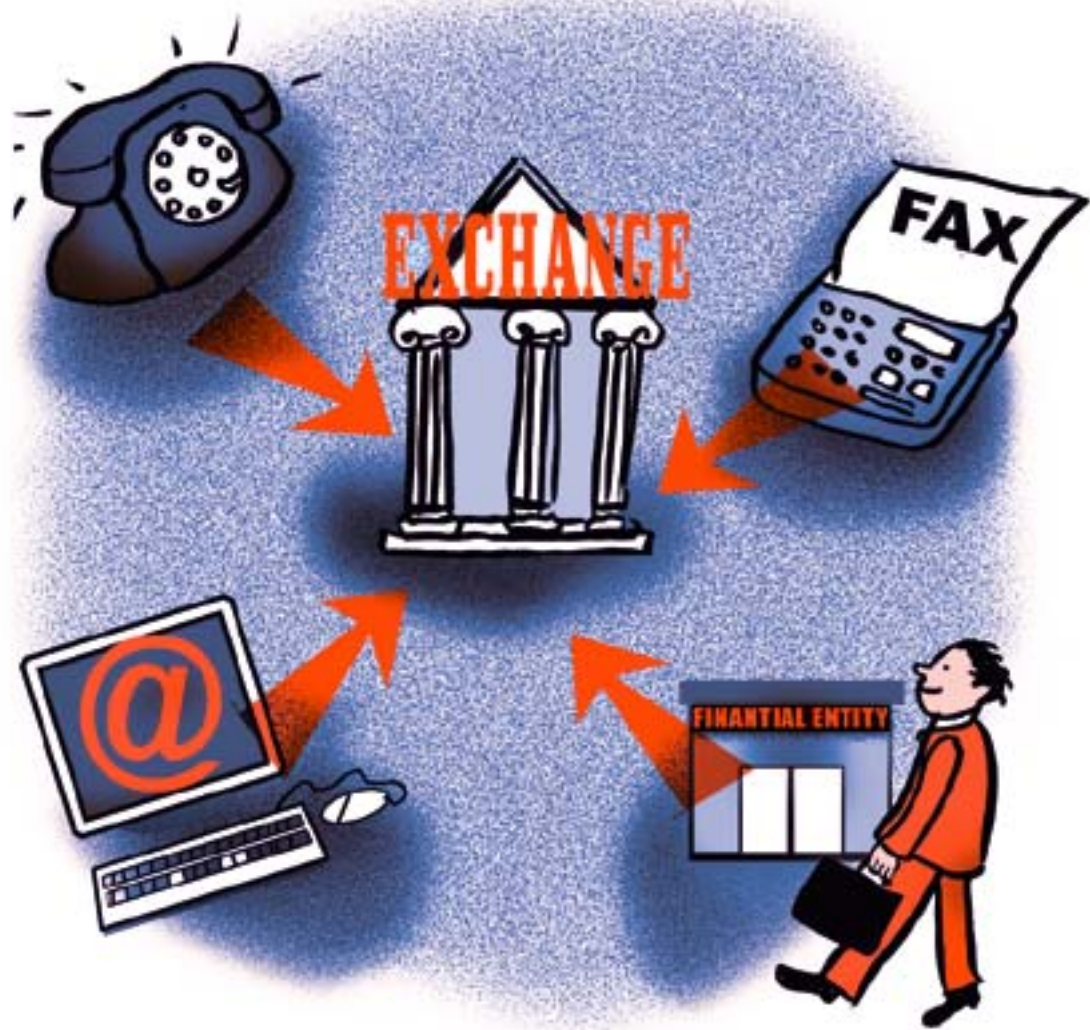
According to the Dictionary of the Spanish Royal Academy of Letters, an order is essentially a contract whereby one party entrusts the performance of one or more acts to another, who by accepting is bound to obey its terms and execute its contents. In the securities market sphere, orders can be understood as all the mandates and instructions issued by investors to an intermediary entity¹ under the terms of an existing agreement, so it executes a transaction in transferable securities via the channels established to this end.

It is impossible then to talk of a standard type of order — not just on legal grounds but due also to the variety of investment products they refer to, the differing nature and purpose of each, and the range of channels investors can use to deal with their provider entities.

In any event, there is no disputing their central role in market operations, and their importance in connecting investors with each other and with the entities who serve them.

Hence the need to be as knowledgeable as possible about the implications, characteristics and scope of securities orders, as contributing factors to the eventual return we will obtain from our investments.

¹ Securities brokers and broker-dealers authorised by the CNMV and qualified credit entities.



2 How to place a securities order

Orders can be placed *face to face*, or *by phone, fax or Internet*. Although some details may vary with the method used, the rules of conduct entities² must follow are the same in every case. This is especially so as regards minimum specifications, prior information, order processing and execution, etc.; conditions and procedures which all intermediaries must be scrupulous in fulfilling.

You can start to issue orders after the signing of an agreement between you and your financial entity.

Face to face

You can give a written order in the branch of the entity holding your account, filling and signing the form in the terms that you see fit. Whether or not an order is finally executed, the entity must keep all instructions on file during 6 years at least, for their possible review.

The option of giving verbal orders is best reserved for professional, and not individual investors, among other reasons because the notification that the operation has been filled also serves as a confirmation.

Once an order has been given, its terms are final, and it can be sent for execution to a market member if the intermediary is not one itself. It is therefore in your interest to place orders in writing.

² Securities brokers and broker-dealers authorised by the CNMV and qualified credit entities.

Telephone

Here we have to differentiate between orders placed regularly as part of a service the client has subscribed to via a telephone banking contract or similar, and one-off orders placed by phone without such a service contract.

In the first case, the client must demonstrate his or her identity in the form established by the entity (code or password). The order is recorded on a magnetic tape which the entity keeps for at least three months — to be extended if during this period the investor takes issue with the outcome of his or her transactions.

In the second, the order given must be confirmed in writing as well as tape-recorded at the time. The entity may even make the order's processing and execution dependent upon a client confirmation. An order of this kind is also deemed tacitly to be filled when the receiver notifies the principal of the transaction's execution and settlement, assuming the latter does not register his or her dissent within the term stated by the entity (in no event, less than 15 days from the receipt of this information).

Fax

A fax may be used if the entity accepts it as valid in the contractual relationship established with the client. Faxed orders must be kept on file under the same conditions as written orders.

Internet

The growing use of on-line services by financial intermediaries brings the advantages of greater accessibility, greater speed, etc., and, in some cases, cheaper fees.

To be able to offer such services, intermediaries must have the right resources and sufficient technical capacity to guarantee the security and confidentiality of transactions. They must also sign an agreement with clauses specifying the exact conditions under which the service is to be provided.

The points investors should watch for are the scope of the service offered, whether it incorporates anti-error tools and a risk profile assessment, which transactions are actually closed on-line, what margin exists for changes and cancellations, are there contingency channels for market access in case of incidents, and what rights do users have if the system is down. In this case too, the entity must keep a specific magnetic record of all orders.

Note that electronic and “direct line” telephone services must be equipped with a system enabling the correct identification of the principal (login, etc.). For written or face-to-face orders, this is done by the personal signature of the securities account-holder, who must also show his or her ID, or some document accrediting the representation of a third party.



3 Before placing an order...

What points should I bear in mind?

- Check that the entity you have signed an agreement with for the routing of orders is authorised to provide investment services in Spain. This information can be found in the official registers of the CNMV³ or of Banco de España in the case of credit entities.
- Where there is a secondary market for the securities you wish to buy or sell, decide the top or bottom prices respectively at which you are willing to transact. The range of possible orders in each market invariably includes the so-called limit orders, i.e. those specifying a price.
- Before giving any instructions, consider all the possible costs attached to your order, including the cost of its modification or cancellation, the transaction settlement cost and the custody fee. If the trade involves only a small number of securities and there are fixed commission charges, you may find that these are actually higher than your expected income from the sale. Consult the fee brochure delivered by your provider.
- Analyse market conditions in general and those of the particular security your order is for; its recent performance, prospects, etc. Read the information published by specialist providers of financial news and analysis, the significant events disseminated by the CNMV, and market price lists or gazettes.
- In every case, and especially with on-line services, check the chances that your order will go through at the latest prices posted on the market, and the time lag that is reasonable until it is actually entered, depending on the channel.
- Do not make investment decisions on the basis of purely verbal advice. Make sure the product you are going to buy fits your personal requirements concerning risk level, expected return and liquidity, and get your intermediary to give you all the mandatory information.
- Before sending in an order, take time to read it through and make sure all the details you want to include are faithfully reflected - price, volume, period of validity, etc. and that you have the securities or cash to meet it.

³ Available on the website (www.cnmv.es).

- Find out when and under what conditions you can cancel a securities order. This will enable you to respond more effectively in case of need.
- Trading procedures may not be exactly the same on foreign securities markets. Find out about the way these markets work before you place your order, and how this will affect your tax obligations and the fees you pay.

What questions should I ask my intermediary?

Fees

Financial entities are obliged to state the exact amount charged for a given service, and to offer a rough calculation, on clients' request, of the fees attached to a specific transaction. But it is up to you, as the interested party, to ascertain the total cost. You can then decide whether to go ahead or whether it is preferable to wait till later (especially if you plan to transact on a small number of securities, when fixed minimum fees could wipe out your gains).

As regards the processing and execution of orders on secondary market securities, remember these are two separate steps which are not necessarily handled by the same entity. One entity may receive and forward your order, then a second one may execute it as a member of the market where the security is traded. The final amount payable, as figuring in the statement sent to your home address after each operation, could be the sum of several, differentiated items:

- The fees of the entity whose client you are, which charges you for processing the order (processing).
- The fee corresponding to the market member when other than your broker (execution).
- The trading, settlement or brokerage fees charged by market governing councils, clearing and settlement services, etc. In the case of a sell order, you will also pay a sum for the custody and administration of the securities transferred, as detailed in each entity's registered fee schedule.

Note that some intermediaries offer all-in rates with these cost items included.

Spanish law supports the freedom of pricing, so lets entities set their own fees or chargeable expenses for all standard services which are effectively rendered at the client's request. Hence the fees charged for market intermediation and the transfer of securities may vary from one supplier to another.

A pre-condition for applying these fees is that they should be notified to the CNMV. Entities must also publish a brochure with the top rates applicable to all standard operations, filed previously in the official registers of the CNMV. No fee may be charged for any standard investment service which does not have a price listed, or which does not figure in this brochure. In other words, entities must be able to produce a brochure entry for every sum or item they claim in payment, and this also holds true for chargeable expenses. Nor can they charge fees higher than the corresponding registered amount.

Example⁴: An investor has signed an agreement with the entity X for the administration and custody of securities. By virtue of this agreement, he issues a buy order for 120 shares of the company SOTISA, listed on the stock exchange, at a top price of 15 euros.

Entity X is not a market member, so it approaches an entity which is (the broker-dealer Y) for it to fill the client's instructions. Y then executes the order in a single trade.

Entity X's fee brochure, as filed with the CNMV, stipulates a fee for equity purchases equal to 0.25% of the effective amount as of a minimum of 6.01 euros, plus the expenses incurred in order execution.

In our example, these expenses would be the execution fee of broker-dealer Y, which comes to 0.25% of the effective amount with a minimum of 3 euros, plus the stock exchange trading fee corresponding to a 1,800 euros transaction (2.88 euros) plus the settlement fee of Iberclear (0.05 euros).

The total costs assignable to the purchase order can thus be itemised:

<i>Fee of entity X (0.25% x 1,800=4.50 €), assuming the 6.01 euro minimum would be applied</i>	<i>6.01 €</i>
<i>Fee of broker-dealer Y</i>	<i>0.25% x 1,800 = 4.50 €</i>
<i>Stock exchange trading fee</i>	<i>2.88 €</i>
<i>Settlement fee</i>	<i>0.05 €</i>
<i>Total</i>	<i>13.44 €</i>

⁴ Assuming the fees applied are the maximum i.e. the registered rates.

In the case of certain sell orders, we would also have to add the securities administration and custody fee⁵. This is a periodic fee paid to the custodian entity for the servicing, on the client's behalf, of the registration codes⁶ accrediting his or her ownership (in the case of book-entry securities) or the safekeeping of physical certificates.

All this is extrapolable to any other kind of order involving marketable securities: non-market transactions, change of title, transfer of securities, etc., and the same distinction must be made between fees as such and chargeable expenses, as figuring in the fee brochure.

After filing with the CNMV, fee brochures must be available to the public in the head offices and on the branch notice boards of each provider entity. They can also be consulted in the CNMV's official registers and accessed from its website.⁷

Investment services firms should also give clients a copy of the fees applicable to their chosen operations along with the corresponding agreement, or else include them directly among its clauses. What is not permissible is a general reference to the fee brochure without its physical delivery.

Any changes to fee schedules should be notified to clients, who will have at least two months from receipt of this information to modify or cancel their contractual relationship, during which time the new rates may not be applied.

Mutual funds have their own fee schedules, as reflected in the fund rules and prospectus that each must register with the CNMV. Fees for the subscription and redemption of fund units are subject to a legally established ceiling.

Nowadays management companies can also modify the fees of a mutual fund in determined cases. First, however, unitholders must be informed and a period stipulated over which they can opt to withdraw from the fund without the new rates being applied.

Provision of funds or securities

Financial entities must fulfil the orders placed by clients, but can make their execution contingent on the client putting up sufficient cash or securities. This is obligatory, in fact, for brokers, while broker-dealers and credit entities can use some discretion.

⁵ Investors should read through the fee brochures received to check how often this fee is charged, and whether it is applied to the whole interval or only to the period when securities are actually held (proration).

⁶ See "What are registration codes?" in the *Frequently Asked Questions* section.

⁷ www.cnmv.es

However, market-member credit entities or broker-dealers may engage in intraday margin trading, while a session is still running. What they cannot do is sell on margin at the market close, i.e. without having the relevant securities in their power. In such cases, the sale must be compensated by a buy transaction during the following session, and Iberclear will apply the penalties and sanctions envisaged in current regulations.

Another thing entirely is that some ISFs may offer securities lending agreements to their clients. So before you give instructions, check first if your intermediary requires you to provide the funds and/or securities to cover your orders.

Which points do I need to specify?

For a securities order to be properly processed and filled, it must give clear, precise instructions so the issuer and the receiver are agreed on its scope.

This means specifying details like the number and nature of the securities involved, the direction of the order, its execution price (where appropriate), its period of validity, the accounts for the deposit or withdrawal of securities, the associated cash account, the ID of the order principal, and any other information required under the rules of each market, or due to the nature of the channel used. For instance, orders on securities traded in the Spanish market system can state details like a minimum volume for execution, the hiding of all or part of the order volume, etc.

Orders on derivative products traded on MEFF must give indications like the exact denomination and the whole number of contracts they refer to, the month of expiry, the exercise price and the premium, in the case of options, or the price of the future.



QD E F G H I J K L M N O P

Are all securities orders the same?

4

The variety of orders routed to securities markets is so wide that we can classify them by many different criteria. The following list makes no claim to be exhaustive, but focuses on the main groups, by nature and finality, which investors should be aware of:

1. Sale or purchase of fixed-income or equity securities and derivative products on secondary markets
2. Acquisition of securities in a public offering
3. Acceptance of a takeover bid
4. Instructions on a capital increase
5. Transfer of securities between Iberclear affiliates
6. Change of ownership for non transactional reasons: inheritance, donation, etc.
7. Subscription, redemption and transfer of mutual fund units
8. Subscription of a reverse convertible.

The modification or cancellation of any of the above are also considered orders.

Sale or purchase of fixed-income or equity securities and derivative products on secondary markets

Markets admit different types of orders according to the trading platform used for the exchange of securities.

(i) Stock exchanges

Two trading systems currently coexist in the Spanish stock exchanges. First we have the *open outcry market*, thin on volumes, whose members physically congregate between 10:00 and 12:00 each day to call out buy and sell orders. Then we have the stock exchange interlinking system *SIBE*, an order-driven electronic market which channels 99% of total equities trades in Spain, and takes in a number of different trading segments.

Figuring below are the different types of orders than can be crossed in the general segment during open trading (9:00 to 17:30):

Price conditions

Type of order	Characteristics
Limit	Drawn up with a top price for purchases and a bottom price for sales. Buy orders go through at the price stated or lower and sell orders at the price stated or higher. ⁸
Market	Entered with no price restriction and filled at the best counterparty prices available. This is a high-risk proposition for investors, as if the trade is not closed on entry or is only partially closed, the unfilled portion stays in the system subject to the counterparty prices on offer.
At best	Like market orders, entered with no price restrictions and filled at the best counterparty price. The difference is that if counterparty demand is insufficient, the unfilled part must go through at the same rate or better.

Volume conditions

Type of order	Characteristics
Minimum volume	Specifying a minimum number of securities that must be executed; the remainder gets treated as an unrestricted order. If this minimum volume cannot be met, the order is automatically withdrawn from the system i.e. no trading takes place.
All or none	A variant of the minimum volume order, but this time the minimum applies to all the securities. The order goes through in its entirety or is rejected by the system.
Fill or kill	Executed automatically, with the unfilled part withdrawn from the system.
Hidden volume	Only part of the volume to be traded is entered in the system. Once this part has been filled, the hidden part is fed out in batches.

⁸ The system rejects any buy or sell limit orders which stand higher or lower, respectively, than the limits of the static range of each security and session. When putting a top or bottom price on your order, you must weigh up the situation of the security, its past trading ranges, likely performance, etc. These are all factors influencing whether or not an order can be posted.

Some entities offer to receive and process other types of orders (stop-loss, stop-profit, etc.). However these are not technically part of the SIBE repertoire and it is up to the provider to deploy the necessary means to guarantee their performance. You are advised to check beforehand that this is so.

Remember any change to an order loses its preference in time (it goes to the back of the queue of those with the same price and direction).

Term of validity:

Orders are good for the term they specify, which can be up to 90 calendar days from the date of entry. Failing execution by the end of this period, the whole order or its unfilled portion are automatically cancelled. When no term is stated, orders are good only for the day when they are entered.

Execution priority:

Orders are prioritised by their price and time of entry: precedence goes to the best price (the highest in purchases and the lowest in sales) and, prices being equal, to the longest standing. Unexecuted orders remain in the book until a counterparty appears or until their term expires.

Modification or cancellation of orders:

All the details of orders entered but not filled in their entirety can be modified by the principal, except for the direction (buy or sell) and the security itself. When the price and/or volume are changed, however, the order goes back to the end of the queue.

It is also possible to cancel all of an order or its unfilled part, but be aware you may still be charged a brokerage fee. Also, allowance must be made for a reasonable time lag in relaying the instruction to the market.

Number of securities:

Generally speaking there are no limitations as to the minimum volume of an order, and any quantity is acceptable as of one share (the exception is the Latibex segment, where the trading unit may be other than one). At the other extreme, the rules of the Stock Exchange Company (Sociedad de Bolsas) are that large-volume orders placed by Internet – cash volume more than 2% of average daily trading in the previous quarter – must be verified by the operator. Also, on-line orders may have to go through filters put there by the intermediary.

Price:

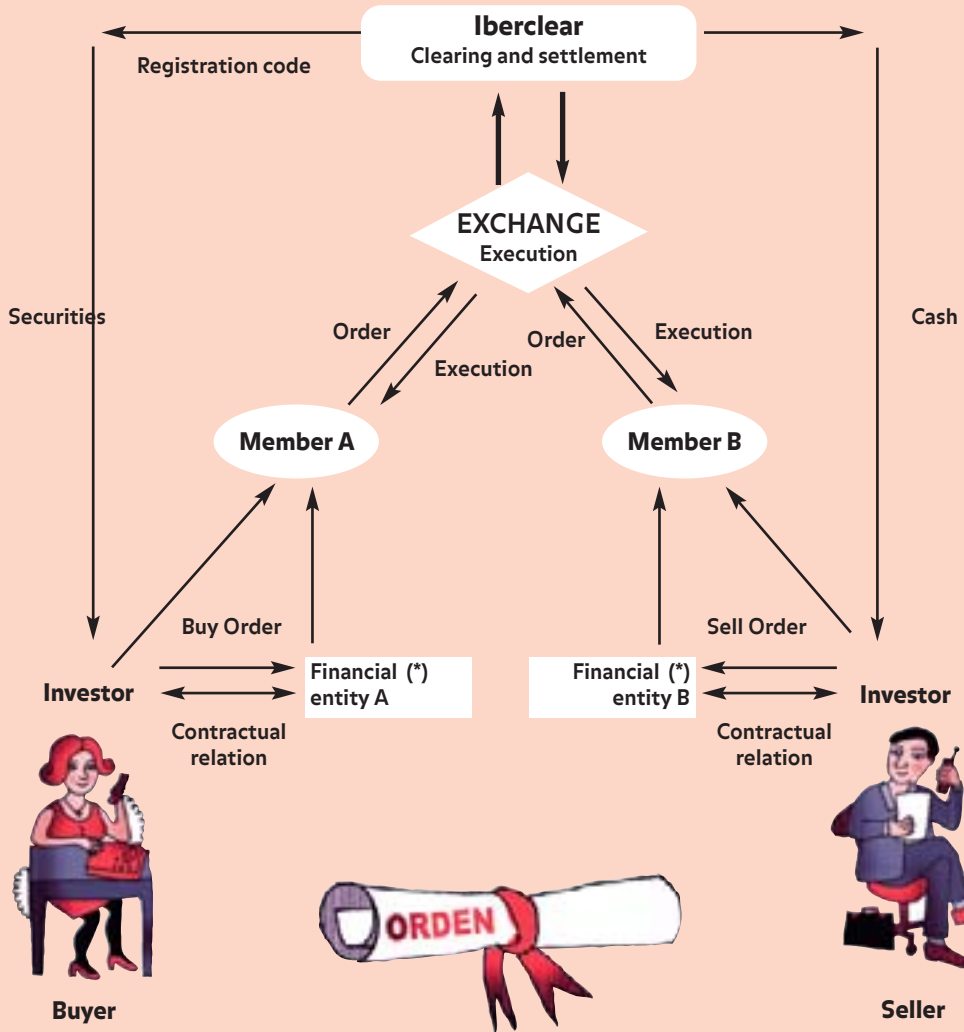
As to variations in the price unit (*tick*), note that all securities traded in Spain are quoted in euros. The tick is thus 0.01 euros for stocks priced up to 50 euros, and 0.05 euros for stocks priced above 50 euros.

Settlement:

Iberclear clears and settles stock exchange transactions three working days after the trade date (T+3), at which point the securities movements arising from settlement are entered in the corresponding IT registers, with the allocation of registration codes.

In any case, the report that an order has been executed implies the availability of the corresponding securities or cash, so investors can operate outside these constraints and gain agility via mechanisms like the provisional settlement or pre-settlement of trades.

Itinerary of a stock market order



(*) Securities brokers and brokers dealers authorised by the CNMV and qualified credit entities.

Finally, the special stock market segment for trading in certificates and warrants accepts only three types of orders - limit, market and at best – good only for the same day's session.

(ii) M.E.F.F

Investors in the derivatives market can place the following types of orders:

Limit order: Specifying a top buy price or a bottom sell price and the volume to be filled. The order is stored in the system until it has been fully executed or cancelled by the trader or until it exceeds the limits of the session.

Immediate limit order: Specifying a top buy price or a bottom sale price and the volume to be filled. This time, though, the system only tries to execute the order the moment it is entered. If this cannot be done, the unfilled part is immediately withdrawn.

At best order: Specifying only the volume to be traded. The order is executed on entry against the best counterparty (ies) available for the full volume stated. If it cannot be executed in full due to a lack of counterparties, the unfilled part is automatically cancelled.

Stop-limit order (on rise or fall): Specifying the volume to be bought or sold and a stop price, that is, the price which will trigger a limit order when the market reaches or exceeds it (rise) or stands equal to or below it (fall).

All or none order: Similar to the immediate limit order but with the condition that the complete transaction must be executed. If the price and volume specified cannot be simultaneously met, the order is automatically cancelled.

Fill and kill: An immediate limit order in which the operator does not set the price. Instead, the terminal selects it automatically by initiating a counterparty search the moment the contract code is entered. If prices move just as the order reaches the system, one of two things can happen:

- a) If the counterparty price moves against the order (goes up in a buy and down in a sell), it is cancelled.
- b) If the counterparty price improves, the order goes through at the best available price for the corresponding volume. If the volume conditions are still not met, the rest will be matched at the next best prices until as much as possible has been taken up.

It is also possible to give combined orders in fulfilment of a given strategy in options. All orders forwarded to MEFF are firm and binding from the moment they enter the trading system. While still unfilled, however, they can be changed or cancelled at any time.

Orders are good until the end of the current session and execution priority is set first by price then, prices being equal, by time of entry.

(iii) A.I.A.F.

Private fixed-income securities market A.I.A.F. deals in commercial paper, medium- and long-term bonds, mortgage and territorial bonds, securitisation issues and preference shares.⁹ When trading in these securities, the first thing you should do is find out the latest prices posted on the market and compare them with those offered by your broker. This is equally important whether the latter proposes to fill your order through its internal distribution network or route it to another entity. Either way, its duty is to find you the best counterparty among those offered by all intermediaries.

Transactions are settled on the working day agreed at the time of execution. The main features of the A.I.A.F. settlement system coincide with those described for the Public Debt Book-Entry Market.

Finally, on issuing an order for an A.I.A.F. traded security, be aware that you are operating on a decentralised, direct search market in which small investors coincide with large wholesale players.

⁹ **Preference shares** have become an increasingly popular investment instrument in the past few years. A recent regulatory change authorises their issuance in Spain, so investors need no longer go through subsidiaries domiciled abroad. Given the complexity of these assets, their long duration and, at times, liquidity differences between issues, you should read carefully through the prospectus and leaflet filed with the CNMV.

Acquisition of securities in a public offering

The procedure here is to approach one of the distributors (banks, savings banks, credit cooperatives, securities brokers and broker-dealers, etc.) appointed to place the offering with the public under the terms and conditions established in the prospectus filed with the CNMV.

Once the prior notification of the offering is registered with the CNMV, these entities can give out information on its contents and take in “bookings” from their clients. However they may **in no event** accept firm orders during this period, since the offering’s final characteristics are not yet known.

Only when the CNMV has received and registered the prospectus and leaflet can the ordering period begin. Never sign an order before this date. It would be like buying a product that doesn’t exist or about whose properties you have no idea – a decision that no one would rationally take.

As to your possibility of cancelling an order:

- In the case of a public offering or rights issue, most prospectuses state a period in which buy instructions can be cancelled. Find out about this option, remembering that cancellation must be total. And be aware that some offerings give you no chance of cancelling, i.e. all orders placed are irrevocable.
- In the case of fixed-income securities, preference shares and other products, orders are usually irrevocable, i.e. once signed they cannot be cancelled.

Also, when an offering is overbid, requiring proration or some other share-out format, the steps followed will be those established in the prospectus, including which orders are to be given preference. As a rule, preference goes to orders or bids received before a given cut-off date. It is unwise, therefore, to ask for more securities than you really want. Remember an offering may also be undersubscribed, in which case you will get all the securities you bid for, and may end up overdrawn in your current account and paying a higher execution fee.

Offering prospectuses will frequently spell out the treatment of orders placed under a co-ownership regime, regarding investment caps and proration arrangements.

Acceptance of a takeover bid

This kind of order is placed through the custodian holding your securities and marks your acceptance of a bid, i.e. your willingness to sell. Remember these orders are irrevocable and you have up until the last day of the acceptance period to meditate your decision.

Remember also you may choose not to accept the bid and still remain a company shareholder. If the takeover bid is successful and it is a cash consideration that is being offered, the trade date for settlement purposes will be the date the outcome is published in the Stock Exchange Gazette. Other types of consideration will be dealt with as explained in the bid prospectus.

Be aware that takeover bids are not all the same in their design or in their motives, and may include qualifying clauses which affect shareholders' acceptance orders as well as the final deal that they come out with.

For instance, when a takeover bid is partial, i.e. does not target all of a company's capital, and the global amount of capital taking up the offer is more than the bidder wants to buy, this triggers a proration round whose characteristics are expressly defined in Spanish law and reproduced in the prospectus.

Note also that in many bids, the holder of shares need not pay the brokerage fees incurred on their sale, provided he or she accepts the offer through a company appointed by the bidder. Simply instruct the custodian of your shares to confirm your acceptance through the said company. However, other fees or expenses (stock exchange or Iberclear charges, custody fees...) may have to be borne by the seller. A detailed breakdown of costs and of who pays what can be found in chapter III of the prospectus, and also in the notice of the takeover bid.

Instructions on capital increases

Except where preferential subscription rights have been waived by resolution of the Shareholders' Meeting, these rights will be assigned to the shareholders of the issuing company through the medium of their custodian entities. These entities must then send each holder a notification to his or her home address.

From this point on, shareholders may:

- sell all their rights
- sell some of their rights and exercise the rest
- subscribe for their full share entitlement
- subscribe for part of their share entitlement and waive the exercise of remaining rights. This may be because fees on the sale of the extra rights would exceed the revenue obtained.
- purchase more rights on the secondary market and subscribe for a greater number of shares.

If custodian entities do not receive any instruction before the period expires, they may decide to subscribe for a client's share entitlement¹⁰, in the case of free or bonus issues, so that person does not miss the chance to exercise his or her inherent rights. Under the same circumstances, and to the same end, the usual practice is to sell the rights on their last day of trading.

Note that this is an exception. In all other cases (capital increase with pay-in, purchase of rights on the secondary market, etc.), a custodian will only act on receipt of specific instructions from its account holders. Remember you have the whole of the subscription period – up to the closing day – to decide on and order your transactions.

Transfer of securities between Iberclear affiliates

The order to transfer Spanish fixed-income or equity securities between entities affiliated to Iberclear (formerly SCLV) must invariably issue from the holder of the securities, either through a direct instruction to the present custodian or by approaching the entity of destination.

¹⁰ In the terms specified in the Securities Administration and Custody Agreement.

In finance industry practice, this operation tends to take 3-4 working days depending on how quickly messages can be passed between the entities and Iberclear, and provided the transfer request has been correctly presented and the designated current account has funds enough to cover possible transaction expenses.

Given that you might one day want to cancel a contract with your financial provider or simply order the transfer of your securities, it is a good idea to ascertain the charges this may involve.

Change of ownership for non transactional reasons: inheritance, donation, etc.

In these less frequent cases, the details of the securities held by a given owner can be got from the registration code. Note, however, that the names of the proprietors behind these codes are known only to the custodian entities, so in the case of death it may be necessary to enquire at all the entities where the deceased person was a client.

The maximum charges applicable will figure in the entity's fee brochure. This is another of the not-so-obvious cost items you should bear in mind when choosing an intermediary.

Subscription, redemption and transfer of mutual fund holdings

Although the role of receiving and transmitting orders may be performed by a distributor, the legal relationship is established directly between the unitholder and the fund manager. The terms of this relationship are set out in the fund rules section of the full prospectus, which the client must be given on request.

The most common types of orders when dealing with collective investment schemes are those for the **subscription and redemption** of unitholdings, or their **transfer** to another scheme.

They should specify the exact name of the fund, the number of units or shares to be subscribed, redeemed or transferred, the term of validity of the order, the associated cash account, the ID of the principal, the signature arrangements, the scheme to which holdings should be transferred, etc.

Fund managers should issue and redeem national fund holdings the moment an order is received, the exception being subscription orders to certain funds in pre-specified periods. The price or net asset value (NAV) of unitholdings is worked out on a daily basis, and the fund's regulations and prospectus will determine how it should apply to each day's subscriptions and redemptions.

In no event does mutual fund subscription entail the obligation to open a securities account or associated current account with either the custodian or the marketing entity.

Execution and settlement terms:

No **subscriptions** may be made in newly created mutual funds until their prospectus has been filed with the CNMV. One reason is that prospective investors must first be suitably informed and provided with a simplified prospectus by the fund's distributors. In any case, before subscribing to any scheme, new or long-standing, you should be given this simplified prospectus plus the latest six-monthly report. You are also entitled to receive, on request, a copy of the full prospectus and the latest quarterly and annual reports released.

As a rule, the monetary flows arising from **redemption** orders are channelled by the custodian in accordance with the deadlines set. Payment may be in cash, by account-payee cheque or by transfer to a designated current account.

Note that real estate funds have their own subscription and redemption system, differing from that of financial funds, whereby net asset values are set at minimum intervals of one month, and investors are allowed to subscribe and redeem units at least once a year.

Transfers between mutual funds:

In the case of transfers between funds with different management companies, you should first approach the manager of the fund of destination, stating your instructions in a written order. The latter must then forward your request to the manager of the fund of origin within one working day from its receipt, assuming all details have been correctly completed (at least, the data of the fund of origin and the account to which cash should be transferred).

The manager of origin has two working days from receipt of the request to run such checks as it sees fit, and must invariably deliver the cash by bank transfer. All related tax and financial information should be passed on as of the third working day from receipt of the request, within the regulatory deadlines set for payment of redemptions or the disposal of shares.

Subscription of a reverse convertible (CFA - Contrato Financiero Atípico)

Reverse convertible are **not traded on organised secondary markets**. How they work is that a credit entity receives money or securities from its clients which it undertakes to remunerate in line with the market performance of one or several securities, but without being obliged to repay the full capital amount.¹¹ Reimbursement can be in the form of listed securities, a sum of money, or both.

Subscribing a reverse convertible means more than just signing an order or pro forma agreement. Given the characteristics of the product and the risk of losing some or all of the principal invested, it is important that clients are guaranteed full and sufficient information. Credit entities must therefore insert the text of the prospectus, as verified and registered by the CNMV¹², within the body of the contract signed with the investor.

Some of these products can be cancelled at any time by paying the sum required to unwind the corresponding hedge arrangement. But many make no such provision, so must be considered illiquid products up to their maturity.

¹¹ CNMV Circular 3/2000, of 30 May

¹² Idem.

MARKETS



What points should I watch for after giving an order?

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Remember a number of steps intervene between you giving an order and its actual execution. In other words, an accepted or transmitted order is not equal to a filled order or even to an order posted on the market. The process it goes through can be summarised as follows:

- a. The client gives the order to his or her broker, through any of the channels the latter makes available and that are recognised as valid by the CNMV (in person, by fax, telephone, Internet...).
- b. On receiving the order, the broker should check that the funds or securities are in practice available, the ID of the principal, etc. If the intermediary is a market member it can enter the order directly. Otherwise, it must forward it to a credit entity or broker-dealer which fulfils this condition.
- c. The member takes charge of entering the order. Depending on the conditions set (price, volume, etc.) and the situation of trading, it may be executed straight away, stay in the order book until a counterparty shows up, or perhaps even miss the market altogether (i.e. with no possibility of entry).

The time to allow for the first two stages will depend more on the medium used to place the order and the technical features of the broker's system than on the actual route it takes. The duration of the third phase, meantime, is contingent upon market circumstances.

This means the only way to get an approximate time-frame for order execution is to keep track of the market's progress, notwithstanding the legal obligation on all agents to act with due care and diligence.

In sum, the best advice is to keep abreast of market developments and check on your order's status with your broker. Taking an active role will give you more room for manoeuvre in the event of unforeseen changes in market circumstances.

Also, remember your broker is obliged to give you a receipt for all orders placed in writing. Keep this document or, if you have not received it, request it from your broker. Finally, note that the above points hold equally true for orders placed through other systems (telephone, routing, Internet...).

DETAIL

ATTENTION!



Confirming execution

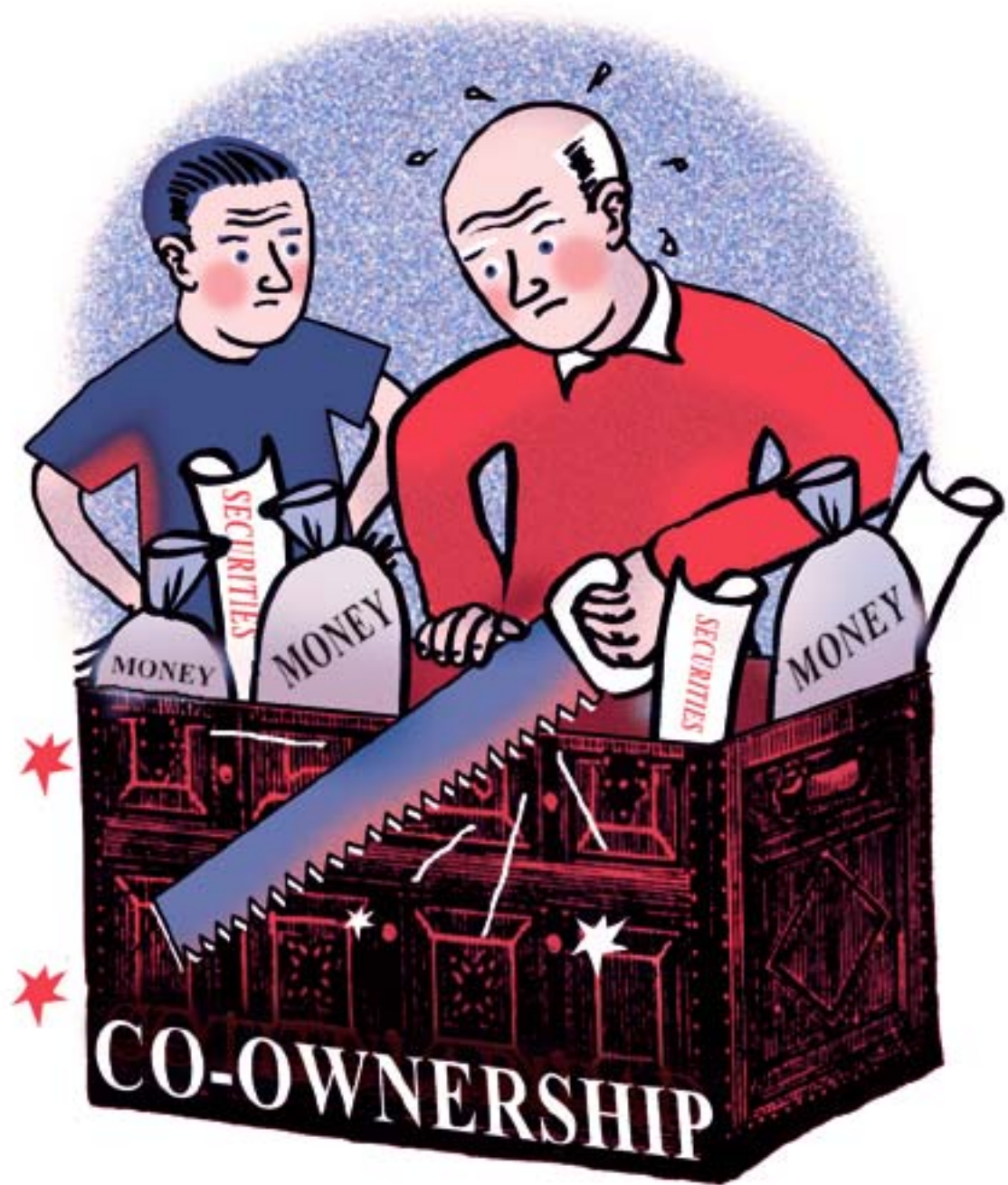
6

Whichever method you use to place an order, your broker should provide a document or statement for each settlement practised, itemising all relevant details: transaction type, calculation base and accrual period for fees and charged-on expenses, tax withholdings, securities, prices, etc.

Intermediaries are obliged to provide clear, detailed information, when expressly requested to do so, on any aspect of the transactions ordered.

Note also that when you sign a securities administration and custody contract for more than one year or for an indefinite period, the entity in question must send you information on the composition of your portfolio; on a quarterly basis if some change has taken place, on a monthly basis in the case of derivative or high-risk products and annually at the very least.

Mutual fund managers too are subject to reporting requirements whose content and frequency are as stipulated in collective investment scheme regulations (quarterly, six-monthly, annual reports, etc.).



Frequently Asked Questions

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Might I have to pay more than one set of fees for a single stock market order?

Unless you have specified some restrictive condition (all or none), orders may not be executed all at once but in various lots and at different prices, depending on the market conditions of the time.

This usually means that costs are passed on for not one but several transactions. If your orders involve only a small volume of securities, the fees you pay can add up to a large part of the total operation. In such cases, you may wish to consider a restrictive clause like all or none, though be aware that this will also limit your trading opportunities.

Is it possible to place contingent orders for stocks?

These are orders of the type “buy x shares in company A, but only if you can first sell shares in company B”, and vice versa. The stock exchange interlinking system SIBE does not accept these kinds of mandate, so the operator must deal with them as two separate orders, taking care to fill one before the other.

Is it possible to enter orders during stock exchange auction periods?

At least two auctions take place each day in the SIBE general trading segment; an opening auction from 08:30 to 09:00 and a closing auction from 17:30 to 17:35. Any investor can enter, change or cancel orders during these two periods. The market displays the prices that would hypothetically obtain if the market were in open session, but without actually closing trades. Trading in the fixing segment (for less liquid stocks) is organised along similar lines.

Can orders specify a global amount rather than a number of securities?

At times, buy orders may state the total amount to be invested in a marketable instrument, without expressing the number of securities sought and/or a limit purchase price. This kind of open mandate is not recommendable, and could end up going against your interests. The most typical example is when an investor bases an order on the security's price at the time it is placed, and it eventually goes through as a market or at best order.

What are registration codes?

The keeping of securities ownership records is the work of affiliated entities in coordination with Iberclear. All stock exchange traded assets, with the exception of subscription rights, are assigned a registration code by the system, as a form of control on their ownership and changes in the same. It thus serves to accredit the ownership of securities.

A registration code identifies a set of homogeneous securities recorded in the system as a result of a single transaction, ordered by the same party, which are registered at an entity affiliated to Iberclear. No credits or debits can be made in the securities accounts of any entity without the issue or cancellation of the corresponding registration codes.

The composition of these codes and the rules for their issue are set by Iberclear. They take the form of a numerical sequence of 15 digits, including the date when registered and the market where traded, and allow each transaction to be individually identified.

Investors may request registration codes from their custodians, who should be ready to provide them while the code remains operative. When this is no longer the case, codes should still be kept on record for a period of 5 years.

How do drawing arrangements affect securities orders in the case of co-ownership?

The drawing arrangements for securities determine how and by whom orders can be issued. Such arrangements should be clearly stated in the contract signed. The possibilities are:

joint powers: meaning any type of buy, sell, subscription, redemption or transfer operation requires the signature of all co-owners.

concurrent powers: meaning that each individual owner may unilaterally avail themselves of all the securities, with the remaining owner(s) jointly and severally liable for the effects of the transaction.

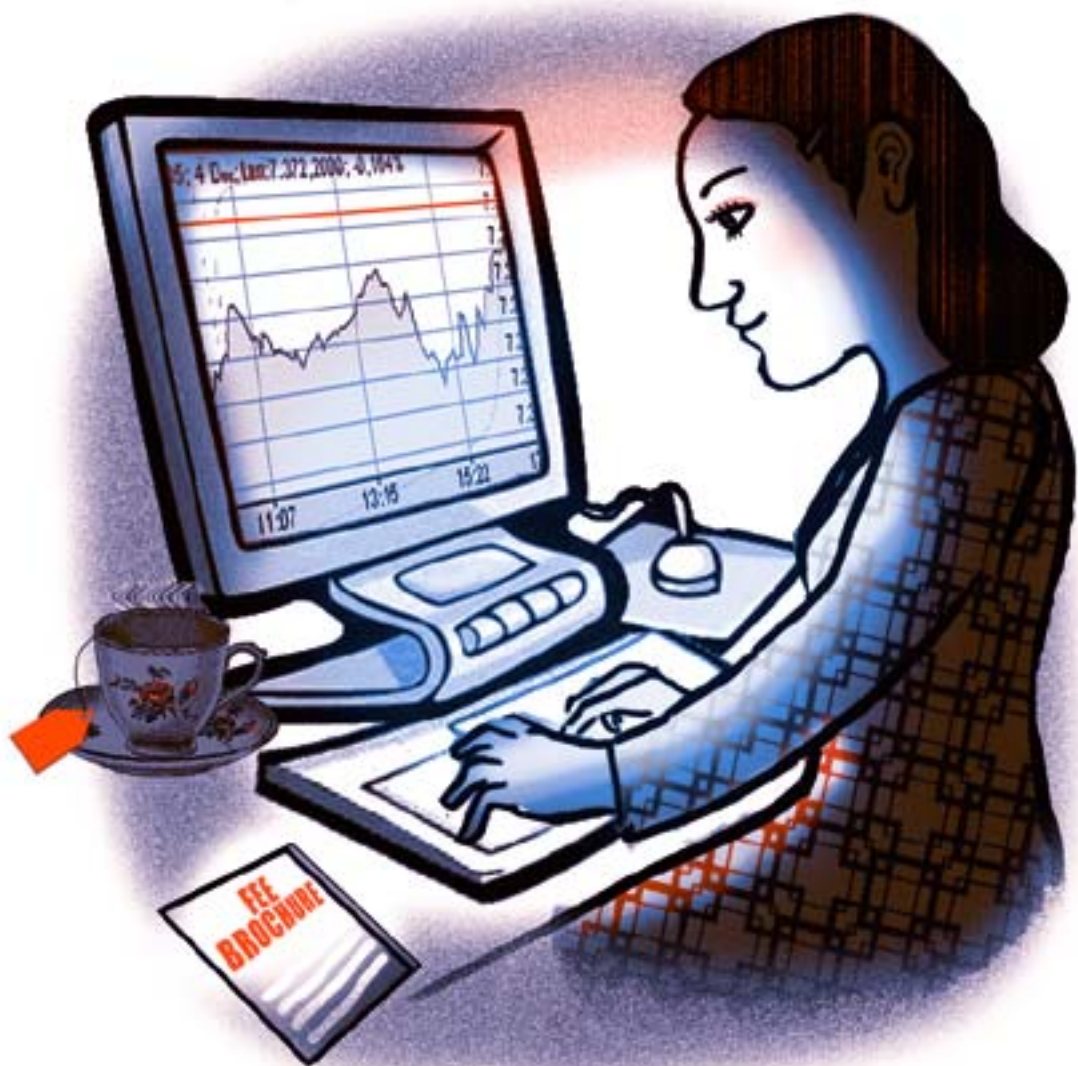
Can I transfer units from one fund to another without paying a fee?

Although current legislation makes no reference to a transfer fee as such, remember that what you are actually doing is redeeming units in one fund to reinvest the proceeds in another. And the law envisages fee payments on both operations, though it exempts them from tax payment under determined conditions.

Note also that the transfer of cash between the two fund managers should not involve any additional charge to the unitholder.

I have placed a limit buy order at a price reached by the market. Is there a chance my order may not have gone through?

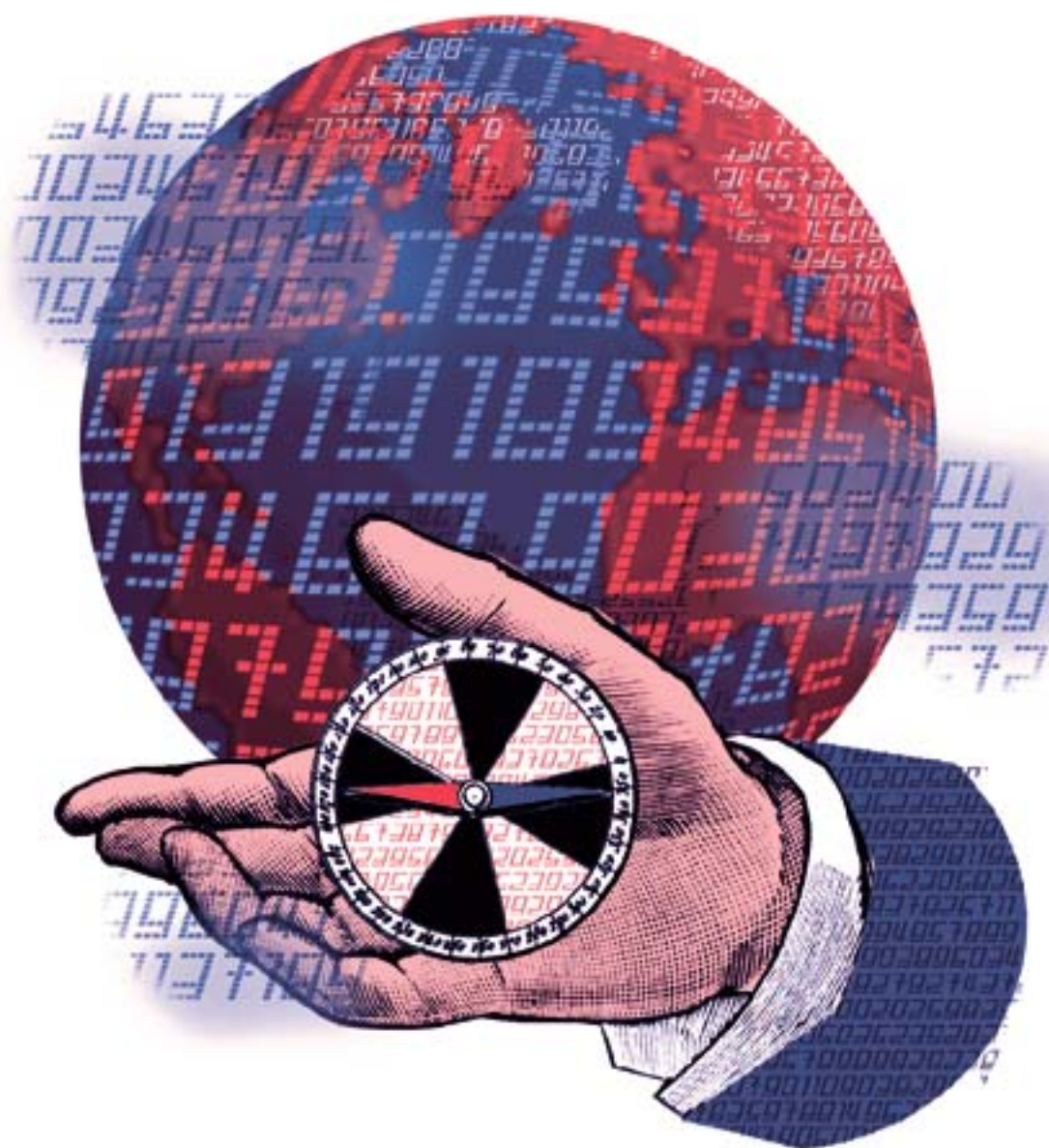
As orders in the book are assigned priority by price and time of entry, there may be others specifying the same limit price which are further up the queue. And if there are insufficient counterparties to fill these positions first, later orders may simply miss the market.



Tips for investors



- Take your investment decisions **rationally** and make a special effort to check all verbal information.
- Think carefully before you put in for a public offering, “Inflating” your bid in the expectation of a proration round could mean you get more securities than you bargained for if the demand is not that strong.
- Be careful also about opening joint accounts so you get more in a proration. These accounts will generate costs, and any later switch to a single account will involve an ownership change with its associated expenses.
- The length of the acceptance period for a takeover bid is as stated in the corresponding prospectus, and may not be unilaterally shortened by share custodians for commercial or technical reasons. You are entitled to take the whole of the legally established period to make up your mind. Do not forget that your order will be irrevocable unless some competing bid emerges.
- When you operate via internet, remember the speed with which data are transmitted means your order is placed faster – not executed faster. So even though you get an onscreen message saying order “accepted” or “generated”, you still need to follow the market closely for news of its effective execution.
- Before you place an order, find out in what cases and conditions it can be **cancelled** or **modified**. This will tell you what room for manoeuvre you have, especially in situations of heightened market volatility. Remember also that both **modification** and **cancellation** may have fees attached.
- Calculate the total amount of **fees** you will be paying before sending in your order.
- A **reverse convertible** is not a savings product but an investment product, with the very real risk that you may lose what you put in. Read all written information carefully before you subscribe, and make sure the investment’s time horizon fits your particular needs.



Where can I go if I have doubts?

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If you have any doubt about the characteristics of a securities order, ask your financial provider for more information. You can also address your enquiries to the CNMV Investors Division through the Investor Assistance Office.

On the CNMV website you will find a full description of the rules of conduct governing entities' relations with their clients, along with the standard contracts and fee brochures filed by investment services companies and other useful information. Our "Investor's Corner" section also gives general information and recommendations on these and other aspects of securities market operations.

CNMV

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CNMV Investor Guides

Guides published:

What you should know about securities orders

What you should know about the rights and responsibilities of shareholders

What you should know about fixed-income products

What you should know about fly-by-night operations

What you should know about mutual funds and collective investment

What you should know about investment service companies

The aim of this guide is to inform the public in general about different aspects of the securities markets. The text is for information purposes only and, as such, cannot constitute a support for subsequent legal interpretations. The prevailing regulations are the only ones applicable for these purposes.

