CNMV
Comisión Nacional del Mercado de Valores

Annual Report 2018

CNMV Annual Report
2018

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Abbreviations

AA. PP.	Public Administration Services
ABS	Asset-Backed Security
ACGR	Annual Corporate Governance Report
AIAF	Asociación de Intermediarios de Activos Financieros (Spanish market in fixed-income securities)
AIF	Alternative Investment Funds
ANCV	Agencia Nacional de Codificación de Valores (Spain's national numbering agency)
ARDR	Annual Report on Director Remuneration
ASCRI	Asociación Española de Entidades de Capital, Crecimiento e Inversión (Spanish Association of Capital, Growth and Investment Entities)
AV	*Agencia de valores* (broker)
BIS	Bank for International Settlements
BME	Bolsas y Mercados Españoles
BTA	*Bono de titulización de activos* (asset-backed bond)
BTH	*Bono de titulización hipotecaria* (mortgage-backed bond)
CADE	Central de Anotaciones de Deuda del Estado (public debt book-entry trading system)
CC. AA.	Autonomous regions
CCP	Central Counterparty
CDS	Credit Default Swap
CDTI	Centro para el Desarrollo Tecnológico Industrial (Centre for the Development of Industrial Technology)
CFD	Contract For Differences
CIS	Collective Investment Scheme
CNA	Competent national authority
CNMV	Comisión Nacional del Mercado de Valores (Spain's National Securities Market Commission)
CP	Crowdfunding platforms
CSD	Central Securities Depository
CSDR	Central Securities Depositories Regulation
DLT	Distributed Ledger Technology
EAFI	*Empresa de asesoramiento financiero* (financial advisory firm)
EBA	European Banking Authority
EC	European Commission
ECA	*Entidad de crédito y ahorro* (credit and savings institutions)
ECB	European Central Bank
ECR	*Entidad de capital riesgo* (venture capital firm)
EICC	*Entidad de inversión colectiva de tipo cerrado* (closed-ended collective investment entity)
EIOPA	European Insurance and Occupational Pensions Authority
EIP	*Entidad de interés público* (public interest entity)
EFAMA	European Fund and Asset Management Association
EMIR	European Market Infrastructure Regulation
EMU	Economic and Monetary Union (euro area)
ESFS	European System of Financial Supervisors
ESI	*Empresa de servicios de inversión* (investment firm)
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-Traded Fund
EU	European Union
EuSEF	European Social Entrepreneurship Fund
EuVECA	European Venture Capital Fund
FCR	*Fondo de capital riesgo* (venture capital fund)
FCR-pyme	*Fondo de capital riesgo pyme* (SME venture capital fund)
FI	*Fondo de inversión de carácter financiero* (mutual fund)
FICC	*Fondo de inversión colectiva de tipo cerrado* (closed-ended investment firm)
FII	*Fondo de inversión inmobiliaria* (real estate investment fund)

FIICIL	*Fondo de instituciones de inversión colectiva de inversión libre* (fund of hedge fund)
FIL	*Fondo de inversión libre* (hedge fund)
FIN-NET	Financial Dispute Resolution Network
FINTECH	Financial Technology
FOGAIN	Fondo General de Garantía de Inversiones (Investment Guarantee Fund)
FRA	Forward Rate Agreement
FROB	Fondo de Reestructuración Ordenada Bancaria (Fund for Orderly Bank Restructuring)
FSB	Financial Stability Board
FTA	*Fondo de titulización de activos* (asset securitisation trust)
FTH	*Fondo de titulización hipotecaria* (mortgage securitisation trust)
HFT	High Frequency Trading
IAS	International Accounting Standards
ICO	Initial Coin Offering
IFRS	International Financial Reporting Standards
IICIL	*Institución de inversión colectiva de inversión libre* (hedge fund)
IIMV	Instituto Iberoamericano del Mercado de Valores (Ibero-American Securities Market Institute
IMF	International Monetary Fund
INFO	International Network of Financial Services Ombudsman Schemes
IOSCO	International Organization of Securities Commissions
IRR	Internal Rate of Return
ISIN	International Securities Identification Number
KIID	Key Investor Information Document
Latibex	Market in Latin American securities, based in Madrid
LEI	Legal Entity Identifier
MAB	Mercado Alternativo Bursátil (Alternative Stock Market)
MAD	Market Abuse Directive
MAR	Market Abuse Regulation
MARF	Mercado Alternativo de Renta Fija (Alternative Fixed-Income Market)
MEFF	Mercado Español de Opciones y Futuros Financieros (Spanish Financial Futures and Options Market)
MFP	Maximum Fee Prospectus
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MMU	CNMV Market Monitoring Unit
MREL	Minimum Requirement of Eligible Liabilities
MTS	Market for Treasury Securities
MOU	Memorandum of Understanding
NCA	National Competent Authority
NPGC	Nuevo Plan General de Contabilidad (New General Chart of Accounts)
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight Indexed Swaps
OPS	Public offering (for subscription of securities)
OPV	Public offering (for sale of securities)
OTC	Over the Counter
PER	Price to Earnings Ratio
PPI	Periodic Public Information
PRIIP	Packaged Retail and Insurance-based Investment Product
REIT	Real Estate Investment Trust
RENADE	Registro Nacional de los Derechos de Emisión de Gases de Efecto Invernadero (Spain's National Register of Greenhouse Gas Emission Allowances)
RFQ	Request for Quote
ROE	Return on Equity
SAC	*Servicio de atención al cliente* (Customer service)
SAMMS	Sistema Avanzado de Monitorización de Mercados Secundarios (Advanced Secondary Market Tracking System)
SAREB	Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria (Asset Management Company for Assets Arising from Bank Restructuring)
SCLV	Servicio de Compensación y Liquidación de Valores (Spain's Securities Clearing and Settlement System)
SCR	*Sociedad de capital riesgo* (venture capital company)
SCR-pyme	*Sociedad de capital riesgo pyme* (SME venture capital company)
SENAF	Sistema Electrónico de Negociación de Activos Financieros (Electronic Trading Platform in Spanish Government Bonds)
SEND	Sistema Electrónico de Negociación de Deuda (Electronic Debt Trading System)
SEPBLAC	Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales e infracciones monetarias (Bank of Spain Unit to Combat Money Laundering)

SGC	*Sociedad gestora de carteras* (portfolio management company)
SGECR	*Sociedad gestora de entidades de capital riesgo* (venture capital firm management company)
SGEIC	*Sociedad gestora de entidades de inversión colectiva de tipo cerrado* (closed-ended investment scheme management company)
SGFT	*Sociedad gestora de fondo de titulización* (asset securitisation trust management company)
SGIIC	*Sociedad gestora de instituciones de inversión colectiva* (UCITS management company)
SIB	*Sistema de interconexión bursátil* (electronic market in securities)
SIBE	Sistema de Interconexión Bursátil Español (Spain's Electronic Market in Securities)
SICAV	*Sociedad de inversión de carácter financiero* (open-end investment company)
SICC	*Sociedad de inversión colectiva de tipo cerrado* (closed-ended investment undertaking)
SII	*Sociedad de inversión inmobiliaria* (real estate investment company)
SIL	*Sociedad de inversión libre* (hedge fund in the form of a company)
SMN	*Sistema multilateral de negociación* (multilateral trading facility)
SNCE	Sistema Nacional de Compensación Electrónica (National Electronic Clearing System)
SON	*Sistema organizado de negociación* (organised trading facility)
SRB	Single Resolution Board
SREP	Supervisory Review and Evaluation Process
SSS	Securities Settlement System
STOR	Suspicious Transaction and Order Report
SV	*Sociedad de valores* (broker-dealer)
TER	Total Expense Ratio
TRLMV	*Texto refundido de la LMV (RDL 4/2015, de 23 de octubre)* (recast text of the Securities Market Act)
T2S	TARGET2-Securities
TVR	Theoretical Value of the Right
UCITS	Undertaking for Collective Investment in Transferable Securities
XBRL	Extensible Business Reporting Language

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1 Economic and financial environment

1.1 International environment

World growth remained strong in 2018, although a slowdown was recorded in some economies and there was less synchrony among the different countries. According to IMF estimates, the world economy grew by 3.6% in 2018, 0.2 percentage points less than in 2017. Among advanced economies, the United States continued to lead the pace of growth, while among emerging economies, Asian countries recorded particularly strong growth, in many cases of over 5%. The year was marked by the presence of several sources of uncertainty, including doubts relating to restrictions to world trade, tensions in some emerging economies, such as Turkey and Brazil, Brexit and the initial lack of agreement between the Italian Government and the European Commission with regard to the Italian public accounts. In this context, the normalisation of monetary policy in the United States continued, with four interest-rate hikes in 2018, while in the United Kingdom, the Bank of England raised interest rates in August, with this being the second rate hike since the start of the financial crisis. In contrast, in Japan and in the euro area, the monetary policy stance remained unchanged with regard to interest rates, as they stayed at the same level, although the ECB ended its debt purchase programme at the end of the year.

International financial markets followed a somewhat unstable path over the year. Short-term rates in the advanced economies followed the path set by official rates, while yields on long-term sovereign bonds only recorded insignificant changes over the year except in the United States and in Italy, where they rose significantly. For their part, in equity markets, the aforementioned uncertainties gave rise to occasional falls in share prices and upturns in volatility, which did not prevent significant price gains in the United States and Japan for much of the year. However, in the final stretch of the year, the perception of a possible sharper-than-expected slowdown in world growth triggered a widespread fall in share prices in all geographical areas. This in turn led to annual losses of varied significance in the most important indices, which stood at over 10% in most cases.

The outlook for growth in 2019 is less favourable than in previous years (the IMF expects growth of 3.3%), as a significant part of the uncertainties of last year are still present this year. One of the most significant sources of risk is the possibility of a worsening of trade tensions between China and the United States, and the possibility of the United Kingdom leaving the European Union without a deal. Other sources of geopolitical risk in some emerging economies may also give rise to periods of instability.

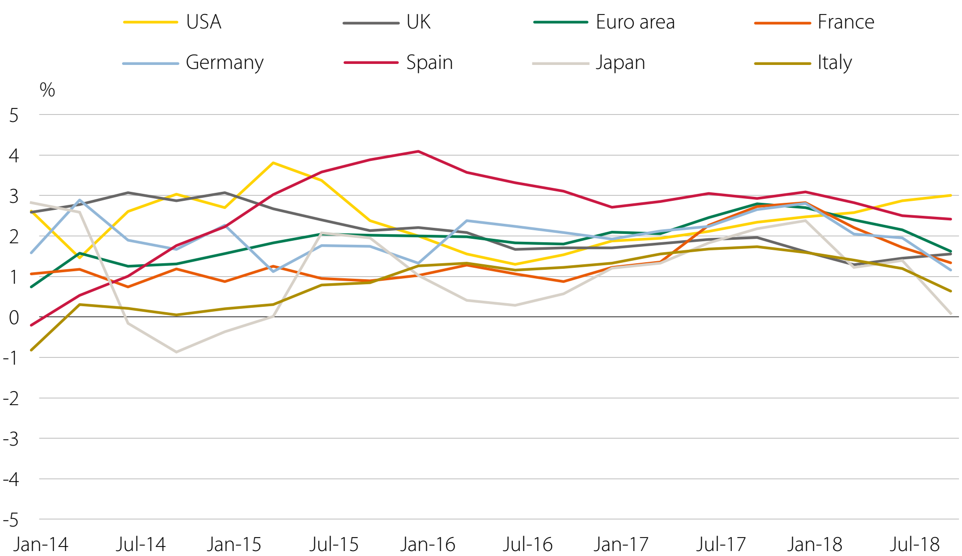
1.1.1 The world economy

World GDP grew by 3.6% in 2018, slightly down on the rate recorded in 2017

According to IMF estimates,[1] the world economy grew by 3.6% in 2018, 0.2 percentage points less than in 2017. Growth in the advanced economies stood at 2.2%, 0.2 percentage points lower than in 2017, while growth in the emerging economies stood at 4.5%, 0.3 percentage points down on the previous year. The political uncertainties present in the international economic and financial landscape, together with the restrictions on international trade and effects of the shift in monetary policy of the United States in some emerging economies, led to this slowdown, which was sharper in European economies.

Within the advanced economies, it is worth noting the progress in the United States, practically the only member of this group that recorded an acceleration in growth (from 2.2% in 2017 to 2.9% in 2018), which was driven by fiscal policy. This increased buoyancy offset a large part of the slowdown in growth of other advanced economies. In the euro area, GDP rose by 1.8% in 2018, 0.6 percentage points less than in 2017, with a significant slowdown in growth recorded in the larger economies (except Spain). Particularly noteworthy was the slowdown in GDP growth in Germany (from 2.5% to 1.5%). This was the result, among other factors, of the introduction of the Worldwide harmonized Light-duty vehicles Test Procedure (WLTP) and restrictions to world trade; in France (from 2.2% to 1.5%), as a result of the so-called “yellow vests” and in Italy (from 1.6% to 0.9%), which was affected by the increase in financial risks. Growth in Spain was also lower than in the previous year (2.6% compared with 3% in 2017), although the slowdown was less intense than in other European economies. In the United Kingdom, GDP grew by 1.4% (1.8% in 2017).

GDP: annual change FIGURE 1.1.1



Source: Thomson Datastream.

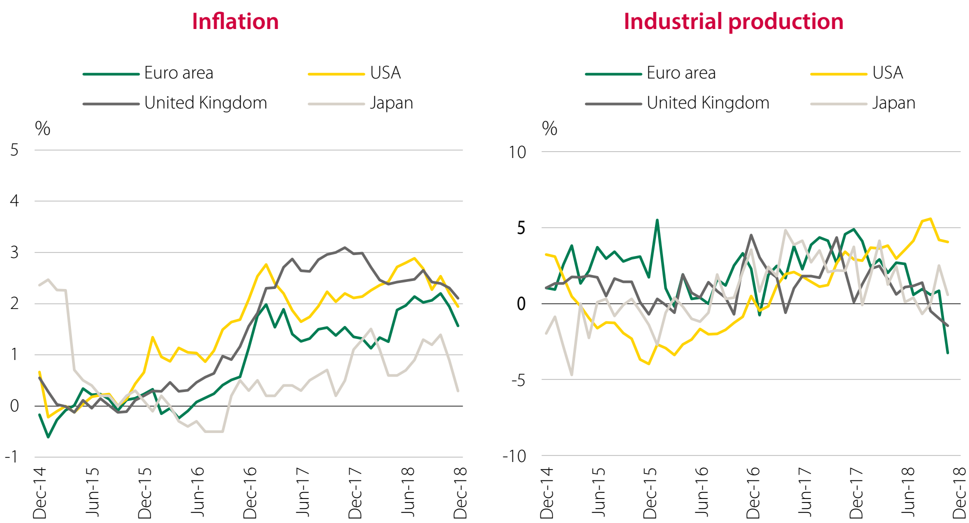
1 *World Economic Outlook* (April 2019).

Emerging and developing economies also recorded a slight slowdown, which was more intense in Eastern European countries. Overall, these countries recorded growth of 3.6% (6% in 2017), with the crisis in Turkey being a key factor. In contrast, the emerging Asian economies grew by 6.4% (6.6% in 2017), thanks to strong activity in India, which recorded annual growth of 7.1%, which offset the lower pace of growth in China (6.6% in 2018 compared with 6.8% in 2017).

Inflation rose around the middle four months of the year as a consequence of the increase in the price of oil in that period

Inflation rates in the euro area and the United States followed an upward trend over much of last year as a result of higher oil prices.[2] The highest rates of inflation were recorded in the second four-month period of the year and the start of the third, with year-on-year highs of 2.9% in the United States (July) and 2.2% in the euro area (October). In the final months of the year, these rates fell and inflation ended the year at 1.9% in the United States and at 1.6% in the euro area. Core inflation rates, which exclude changes in the most volatile elements of the index (fresh food and energy), were much more stable over 2018, although at a higher level in the United States. Core inflation in the United States stood at 2.2% in December, while in the euro area it stood at 1.0%.

Inflation and industrial production (% annual change) FIGURE 1.1.2



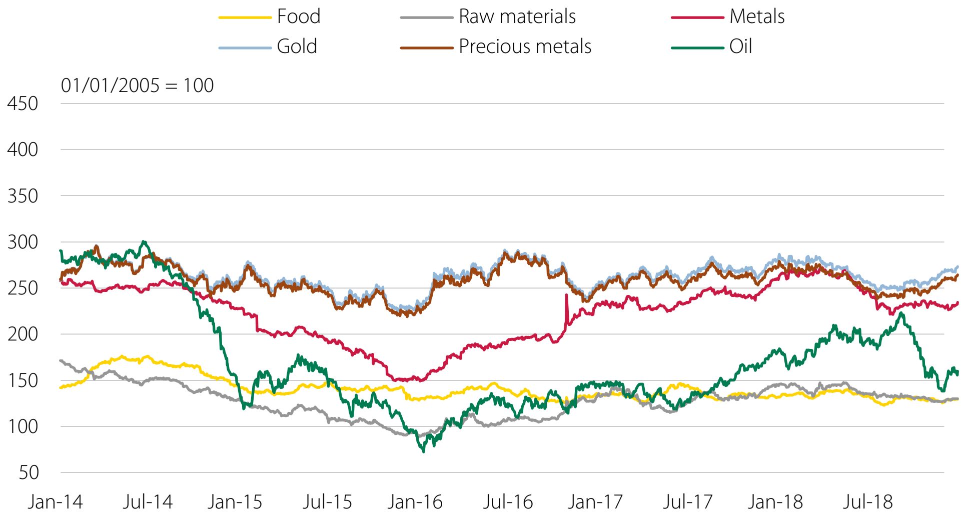
Source: Thomson Datastream.

The inflation rate in the United Kingdom began 2018 at levels close to 3% and then fell progressively, with occasional upturns in the third quarter, to end the year at a rate of 2.1% (see Figure 1.1.2). In turn, core inflation fell from 2.5% to 1.9%. Finally, inflation in Japan over 2018 ranged between 0.3% and 1.5%, without showing a clear trend in the year and with upturns in the first and third quarters.

2 Between February and October 2018, the price of oil in dollars rose by 28% and in euros by 36%.

Commodity prices

FIGURE 1.1.3



Source: Thomson Datastream.

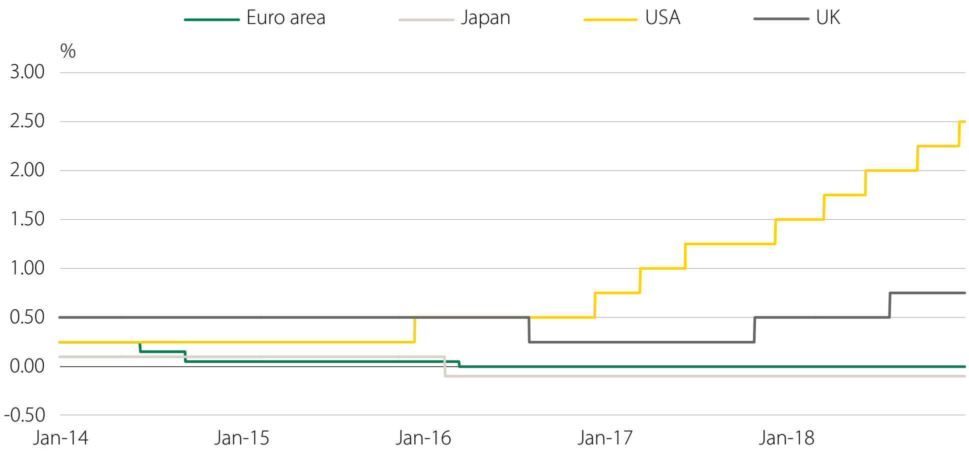
The monetary policy stance in the United States and in the euro area diverged further in 2018

The stance of the monetary policies applied on each side of the Atlantic remains divergent, as a result of the differences in movements in prices and economic activity in general in both areas. In the United States, the Federal Reserve decided to raise interest rates four times in the year based on the growth in economic activity, the conditions of its job market – close to full employment – and inflation. The last hike in the year in December left official interest rate in the range of 2.25-2.5%. The Federal Reserve also continued to reduce the size of its balance sheet.[3] In the United Kingdom, the Bank of England also raised interest rates to 0.75% in August (previously, in November 2017, it had raised its bank rate by 25 basis points (bp) to 0.50%, with these two hikes being the only rises since the start of the financial crisis). With this decision, the bank aimed to contain the rise in inflation, which at year-end 2018 stood at close to the 2% target, and to maintain economic growth and employment.

In contrast, the monetary policy stance in the euro area and in Japan remained accommodative. In all its meetings of the year, the ECB maintained the main refinancing rate, the deposit facility rate and the marginal lending rate unchanged at 0%, -0.4% and 0.25%, respectively. Nevertheless, the ECB announced in December, as the first stage of the planned shift in its monetary policy, that its asset purchase programme would end that same month, although it announced that it would reinvest the maturing debt for an extended period of time and, in any case for as long as necessary to maintain favourable liquidity conditions and a sufficiently accommodative monetary policy stance. For their part, official interest rates in Japan have remained at -0.1% since February 2016, with the central bank having expressed its intention to keep them unchanged for a long period of time as a result of the uncertainty relating to economic activity and price movements.

3 This has been reduced by approximately 8.4% since 2017.

Official interest rates FIGURE 1.1.4



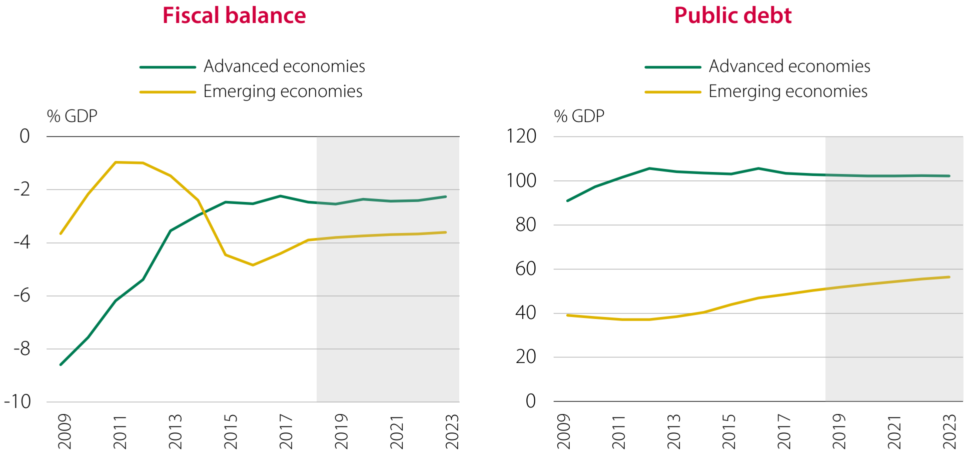
Source: Thomson Datastream.

In 2018, the public deficit rose slightly in advanced economies and fell by half a percentage point in emerging economies

According to IMF estimates, the aggregate government deficit of advanced economies rose slightly in 2018 to stand at 2.5% of GDP (2.2% in 2017), while that of emerging and developing economies decreased by 0.5 percentage points to 3.9% of GDP. In the case of the former, it was the expansive fiscal policy stance, particularly in the United States, that led to the slight increase in the public deficit. In the emerging economies as a whole, despite lower oil prices in the second half year, the downward trend in the public deficit recorded in 2017 continued in 2018. With regard to public debt, advanced economies recorded a slight fall in the aggregate ratio (from 104.5% of GDP in 2017 to 103.8% in 2018), while emerging economies recorded a slight increase of 2 points to 50.7% (see Figure 1.1.5).

The IMF forecasts a slight reduction in the public deficit of both advanced and emerging economies in the next 5 years, to 2.3% of GDP in the case of the former and to 3.6% in the case of the latter. The public debt in advanced economies would maintain the downward trend, albeit very slight, remaining at around 103% of GDP over the coming years. In contrast, the public debt of emerging economies would continue an upward trend to 57% of GDP.

Fiscal balance and public debt FIGURE 1.1.5



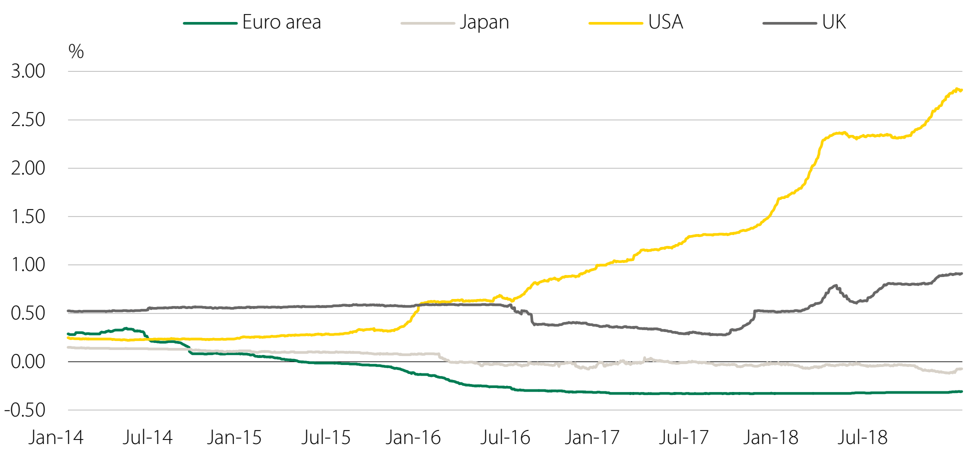
Source: IMF.

1.1.2 Developments in international financial markets

The difference between 3-month interest rates in the United States and the euro area exceeded 300 basis points

Short-term interest rates in the major advanced economies continued to drift apart over 2018, due to the different pace of the measures for normalising monetary policy applied by their central banks. In the United States, 3-month interest rates followed an upward trend throughout the year, standing at 2.81% in December, 111 bp up on year-end 2017, in line with the decisions of the Federal Reserve, which, as mentioned above, raised its benchmark interest rate four times in 2018. These levels of short-term rates were the highest from among the advanced economies, with a difference of over 300 bp compared with those in the euro area (see Figure 1.1.6). In the United Kingdom, 3-month interest rates also rose gradually in 2018, to 0.91% in December (39 bp more than at the beginning of the year).

Short-term interest rates[1] (3 months) FIGURE 1.1.6



Source: Thomson Datastream. (1) 3-month Libor.

For their part, 3-month interest rates in Japan followed a slightly downward path in 2018, which intensified in the final quarter, and they ended the year at around -0.07% (-0.02% in December 2017). In the euro area, 3-month interest rates remained stable at around -0.32% throughout the year, in line with decisions taken by the ECB.

As regards interest rate expectations, forward rates (FRAs) suggest that the differences in short-term rates in the euro area and the United States will tend to continue over 2019. In the euro area, stability in this aspect is expected throughout the year, which is in line with the ECB's intention to keep official interest rates at 0% at least through the summer of 2019 or even longer, in view of the slowdown in growth and the statements made by the bank itself. In the case of the United States, a period of few changes in rates in the short term is also expected, following the numerous rate hikes by the Federal Reserve since 2016.[4] This is due to the opening of a period of a certain slowdown in economic growth, which will delay or, at least, mitigate the pace and size of rate hikes in the short term.

Debt markets were characterised by stable bond yields and rising risk premiums

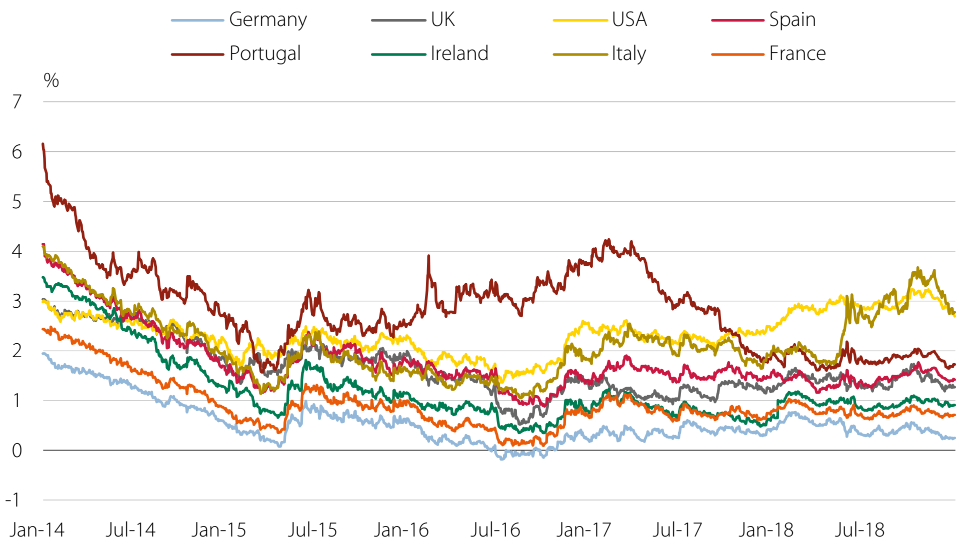
Long-term yields on sovereign bonds in most advanced economies remained relatively stable over 2018, with slight upturns in the early months of the year and falls between November and December. The performance in the last part of the year was the result of the worsening outlook for global growth and, in the case of Europe, also as a consequence of confirmation that the changes in the ECB's monetary policy would be slow and progressive.

Only the United States and, particularly, Italy recorded an increase in yields over the year as a whole, which rose by 28 bp in the case of the former (from 2.41% to 2.69%) and by 77 bp in the case of the latter (from 2.00% to 2.77%). In the United States, the rise in long-term yields was lower than the rise in short-term yields, which led to a marked flattening of the yield curve, which is compatible with inflation expectations that are, for the moment, relatively contained. There is some concern with regard to the slope of this curve as in the past very small values (sometimes negative) of the difference between the 10-year and 3-month yield have tended to precede periods of economic recession. In the case of the Italian bond, the significant increase in its long-term yield is mainly the result of the uncertainty relating to the public accounts of the Italian economy and the failure of the Italian Government and the European Commission to reach an agreement.

In the United Kingdom, the yield on the 10-year government bond stood at 1.27%, compared with 1.19% at the end of 2017. Long-term yields in the euro area, with the exception of Italy, recorded slight falls in 2018, which ranged between 8 bp in France and 21 bp in Portugal (14 bp in Spain), which led to them standing in December 2018 at 0.71% and 1.72%, respectively (1.42% in Spain). In the case of Germany, its debt status as a safe-haven asset may at least partially explain the fall in its yield. Accordingly, the long-term yield stood at 0.25% at the end of 2018 (18 bp down on 2017).

4 Since December 2016, the cumulative rise in the official interest rate is 2 pp.

10-year government bond yields FIGURE 1.1.7

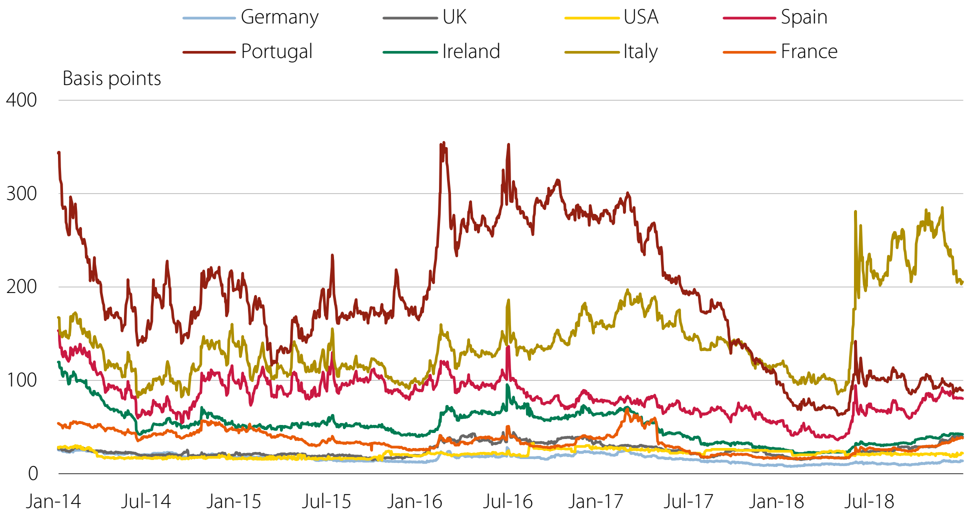


Source: Thomson Datastream.

Sovereign risk premiums (as gleaned from 5-year CDS contracts) of advanced economies grew, in general terms, throughout 2018, echoing the downward corrections to world growth forecasts. In the case of the peripheral euro area countries, this increase was exacerbated by the results of the elections in Italy in May. The Italian risk premium recorded a first upturn at the end of that month (to 281 bp, 163 up on the end of 2017) and then subsequently between October and November due to the failure of the Italian Government and the European Commission to reach an agreement with regard to the 2019 budget. Uncertainty in this area fell at the end of the year, which allowed the risk premium to drop to 205 bp. The risk premium in Spain rose by 23 bp, to 80 bp, and in Greece it reached 458 bp (76 bp up on year-end 2017). In Portugal, it rose by 47 bp in the first five months of the year to 142 bp, and fell in the following 7 months to 89 bp. In the other European economies, which were barely affected by the uncertainty in Italy, risk premiums edged up gradually over 2018. For example, risk premiums rose by 21 bp in France and by 4 bp and 20 bp, respectively, in Germany and the United Kingdom. In contrast, the US sovereign risk premium remained practically constant throughout the year and stood at 22 bp at the end of December, only 2 bp down on the figure for year-end 2017 (see Figure 1.1.8).

In line with the performance of sovereign debt, risk premiums of European banks rose over 2018 as they were affected by the same factors that contributed towards the increase in sovereign risk premiums: the outlook of lower growth, the rise in uncertainty relating to the public sector accounts in Italy and the delay in normalisation of the ECB's monetary policy. In this context, the spreads of the banking sector as a whole in the euro area rose from the lows of the end of January, close to 65 bp, to 155 bp at the end of December. In the United States, the risk premium of the banking sector also rose, from 33 bp to 72 bp, with practically all the growth concentrated in December, when doubts about the intensity of the economic slowdown grew.

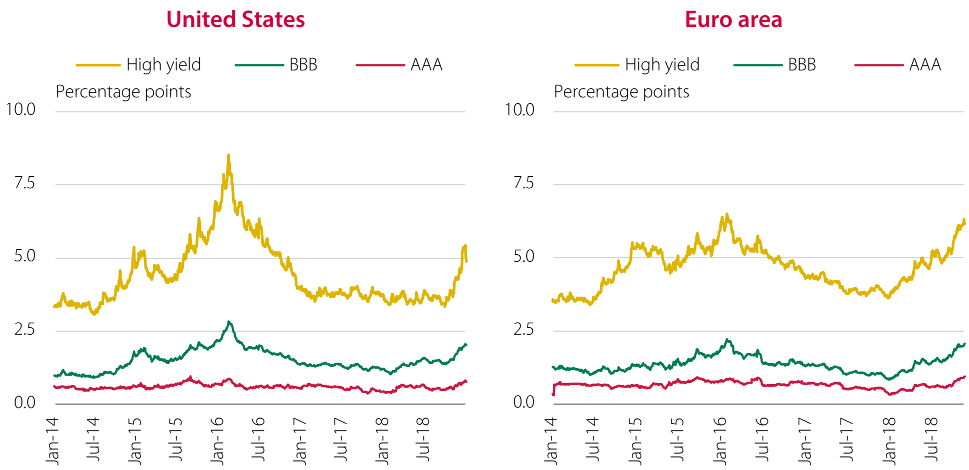
Sovereign CDS spreads FIGURE 1.1.8



Source: Thomson Datastream.

Spreads on corporate debt rose in 2018 in the major advanced economies, particularly in lower quality corporate bonds, after two years of continuous falls. These increases were more moderate in the United States, where spreads on high-yield bonds stood at 532 bp at the end of December, accumulating annual growth of 158 bp. Over the same period, the spread on corporate debt with the worst credit rating in the euro area recorded a much higher increase (227 bp), to stand at 618 bp, as a result of the aforementioned environment of uncertainty (see Figure 1.1.9).

Corporate bond spreads[1] FIGURE 1.1.9



Source: Thomson Datastream (BofA, Merrill Lynch and IBOXX indices). (1) Expressed as the difference between the IRR of the set of bonds belonging to a determined maturity and credit rating index and that of 10-year government bonds (the German bond is used in the case of the euro area).

Significant fall in net debt issuance in international markets in 2018

Net issuance on global debt markets amounted to 2.04 trillion dollars in 2018, 19.0% down on 2017. Debt issues fell in every sector except the financial sector, where they amounted to 846 billion dollars, 16.0% up on the figure for year-end 2017, as a result of the significant increase recorded in Europe (see Figure 1.1.10).

In the United States, net debt issuance fell significantly to 753 billion dollars (1.12 trillion dollars in 2017) against the backdrop of the interest-rate hikes by the Federal Reserve. While the fall took place both in the private sector and the public sector, it was much more dramatic in the former, where debt issuance shrank by 39.5% to 544 billion dollars in net terms. Of this amount, 327 billion corresponded to the financial sector, which issued 21.5% less than in 2017. Net issuance of government bonds amounted to 209 billion dollars in 2018, a very similar figure to that recorded in 2017 (only 8 billion dollars down).

In Europe, in contrast, net debt issuance grew by 24.8% over 2018 to 308 billion dollars. This growth was driven by the financial sector, whose net issues stood at 213 billion dollars, after 3 consecutive years at negative values, as many institutions took advantage of the good financing conditions in the context of the planned imminent end of the ECB's bank-specific longer-term refinancing operations. In contrast, issuance by non-financial companies fell significantly to 124 billion dollars, 18% down on 2017, while net issuance of government bonds was negative for the first time since the start of the crisis (-29 billion dollars), as gross issues, which fell by 5.8%, were less than the debt that matured during the year.

Net international debt issuances FIGURE 1.1.10

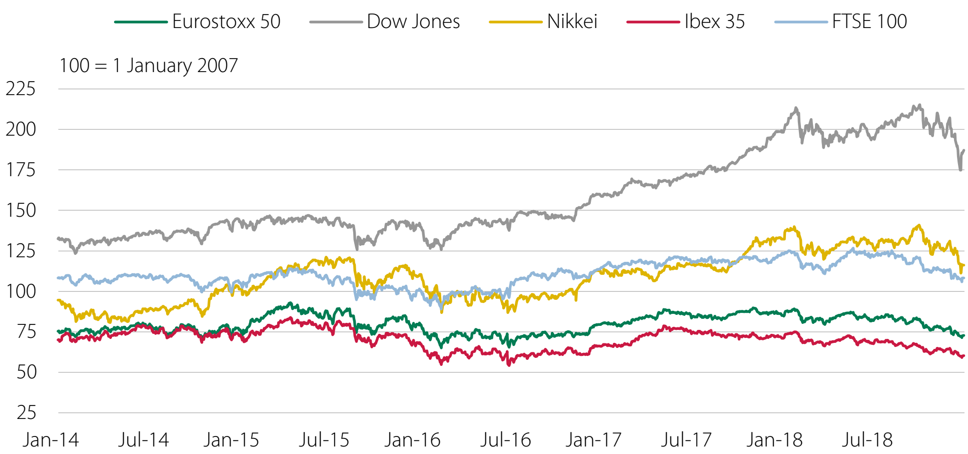
Source: Dealogic. Half-yearly data.

International stock markets fell significantly due to the presence of various types of uncertainties and there were occasional upturns in volatility

In the year as a whole, the leading stock indices recorded significant falls as a result of the aforementioned elements of uncertainty, such as the perception of an economic slowdown in the leading economies and the prolongation of trade tensions. The largest falls were recorded in European stock markets, which were particularly affected by doubts about Brexit and the lack of agreement between the European Union and the Italian Government relating to the latter's budget. The losses ranged between 11% and 18.3% (the Ibex 35 lost 15%). The falls in the United States were concentrated in the final part of the year and were more moderate, ranging between 3.9% and 6.2%, in a context characterised by the positive tone of economic activity and the job market, where unemployment levels are at lows not seen since 1969.

The falls recorded across the board by the major stock indices were accompanied by low levels of volatility, if the annual average is compared with historical averages. However, the market turmoil in the first and last quarters of the year gave rise to temporary upturns in volatility to levels lower than those recorded in other moments of uncertainty. For example, the historical volatility of the Dow Jones and Nikkei indices grew to values of close to 30% and 25% in February and December, compared with averages of 15% and 16.6%, respectively, during the year (see Figure 1.1.8). Volatility on European stock markets reached occasional highs of close to 20%, with annual averages slightly above 10%, which are low levels. Similarly, implied volatility indicators reached temporary highs during the same months, although the upturn in December was slightly higher, reaching levels of close to 40% in some indices (for example, the Japanese Nikkei).

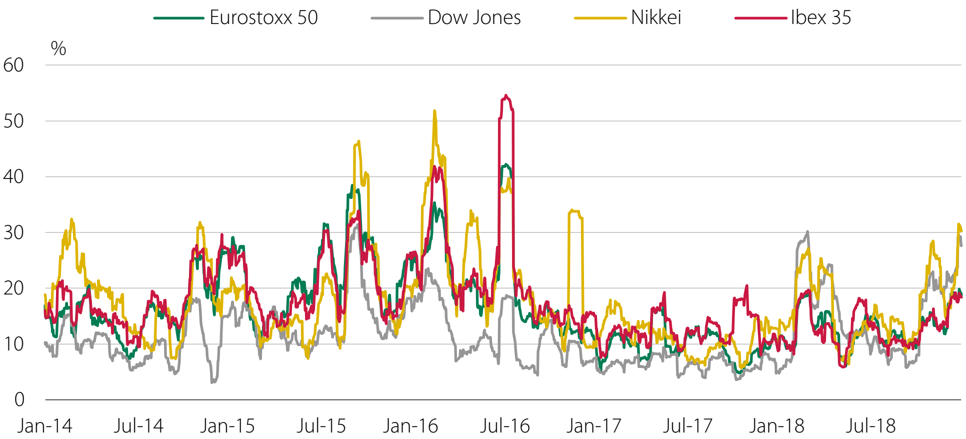
Performance of main world stock indices FIGURE 1.1.11



Source: Thomson Datastream.

Historical volatility[1] of main stock indices

FIGURE 1.1.12



Source: Thomson Datastream. (1) The index's historical volatility on day t is calculated as the standard deviation of daily index returns in the 20 preceding sessions.

Performance of main world equity markets

TABLE 1.1.1

		Change[1] (%)				
Stock market	**Contents**	**2014**	**2015**	**2016**	**2017**	**2018**
Developed countries						
United States	Dow Jones Ind. A.	7.5	-2.2	13.4	25.1	-5.6
United States	Nasdaq Composite	13.4	5.7	7.5	28.2	-3.9
United States	S&P 500	11.4	-0.7	9.5	19.4	-6.2
Japan	Nikkei	7.1	9.1	0.4	19.1	-12.1
United Kingdom	FTSE 100	-2.7	-4.9	14.4	7.6	-12.5
Euro area	Euro Stoxx 50	1.2	3.8	0.7	6.5	-14.3
Euronext	Euronext 100	3.6	8.0	3.0	10.6	-11.2
Germany	Dax 30	2.7	9.6	6.9	12.5	-18.3
Italy	Mib 30	0.2	12.7	-10.2	13.6	-16.1
Spain	Ibex 35	3.7	-7.2	-2.0	7.4	-15.0
Latin America, Asia and Eastern Europe						
Argentina	Merval	59.1	36.1	44.9	77.7	0.8
Brazil	Bovespa	-2.9	-13.3	38.9	26.9	15.0
Chile	IGPA	3.5	-3.8	14.2	35.0	-7.3
Mexico	IPC	1.0	-0.4	6.2	8.1	-15.6
Peru	IGBL	-6.1	-33.4	58.1	28.3	-3.1
South Korea	Korea Cmp Ex	-4.8	2.4	3.3	21.8	-17.3
Hong Kong	Hang Seng	1.3	-7.2	0.4	36.0	-13.6
China	Shanghai Composite	52.9	9.4	-12.3	6.6	-24.6
Russia	Russian RTS Index	-45.2	-4.3	52.2	0.2	-7.6

Source: Thomson Datastream. (1) In local currency.

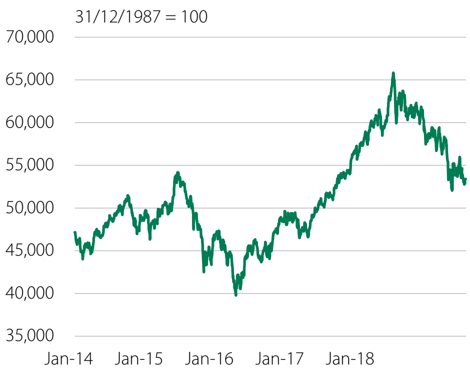
Throughout the year, the performance of emerging economies was marked by escalating trade tensions between China and the United States and the uncertainty seen in countries such as Turkey and Argentina. All of this led to notable rises in risk premiums and significant falls in stock market prices, particularly in the second half of the year (the MSCI emerging market stock index fell by 8.7% over the third and fourth quarters). In 2018 as a whole, the MSCI index fell by 12.3% and the risk premium (EMBI) rose by 123 pb, to stand at 435 bp at the end of December (see Figure 1.1.13).

As shown in Table 1.1.1, the stock markets of emerging economies generally recorded significant falls in 2018. However, in Latin America, Brazil's Bovespa index gained 15% in the year, driven partly by the positive market reaction to Jair Bolsonaro's victory in the October general election. Particularly noteworthy in Asia, where significant losses were recorded in most stock indices, was the Shanghai Composite, which fell by 24.6% between January and December. The Russian RTS Index performed unevenly throughout the year. In the absence of major international economic sanctions, but with a drop in oil prices in the final stretch of the year, this index fell by 7.6% in 2018 as a whole.

According to figures published by the World Federation of Exchanges and the Federation of European Securities Exchanges, movements in trading volumes on leading stock markets and Multilateral Trading Facilities (MTFs) were uneven in the different geographical areas over 2018. In the United States, trading grew across the board, reaching a total of 45.6 trillion euros, approximately 35% up on 2017. Among the European platforms, the most notable increase was seen in the Deutsche Börse, with growth of 21.5% on the figure for 2017, followed by NYSE Euronext and Cboe Equities Europe, with growth of around 12%. Trading volumes in the markets of London and Japan also rose, but more moderately. At the opposite end was, once again, the Turquoise MTF, with a decline of over 23%, and BME, with a fall of approximately 9%.

Emerging economy financial markets FIGURE 1.1.13

Emerging market stock index (MSCI)



Emerging market bond spreads (EMBI)

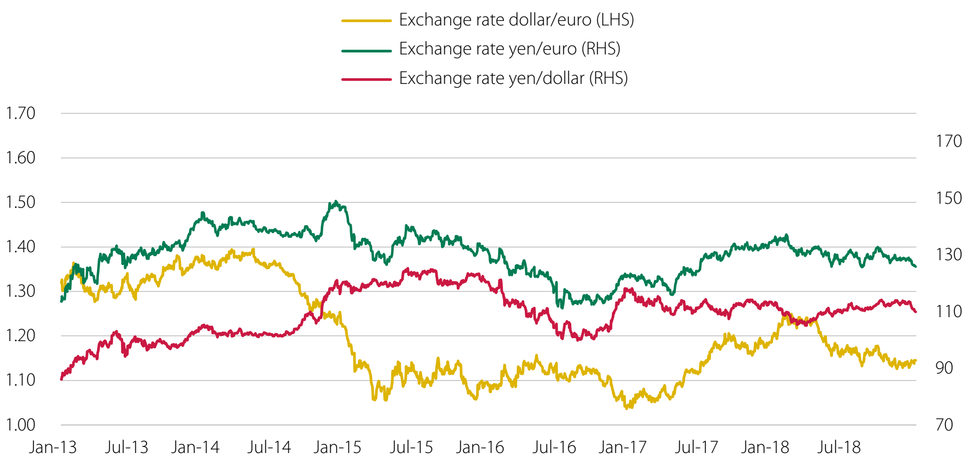
Source: Thomson Datastream and Bloomberg.

In the first few months of 2019, equity markets recovered a large part of the losses recorded in the previous year (in many cases, all the losses) after discovering the position of the ECB and the Federal Reserve, which are more willing to delay (in the case of the former) and to make more gradual (in the case of the latter) interest rate rises in the current context of a slowdown in growth. Certain progress in the negotiations on trade agreements between China and the United States and the fact that many companies recorded attractive share prices for a good number of investors, following the losses of 2018, also had a positive impact. In this context of rises in equity prices, the leading stock markets generally recorded falls in trading volumes.[5] However, there are still various sources of uncertainty that make markets highly sensitive to the emergence of new information and occasional episodes of volatility cannot be ruled out, against a backdrop of a slowdown in global economic activity.

The rate hikes in the United States and uncertainties in Europe weigh on the price of the euro

In exchange markets, over the first few months of 2018, the euro appreciated against the major currencies, but it then mainly depreciated, although not very sharply. In relation to the US dollar, the exchange rate began the year at 1.20 dollars per euro and it remained above this figure for the first 4 months of the year, from when it began a downward trend to end the year at around 1.15. This change in the trend was influenced by, on the one hand, the appeal of the US dollar as a result of the higher yield of its assets and, on the other hand, the existence of various elements of uncertainty in Europe (Italy and Brexit), which weakened the price of the European currency. The euro/yen exchange rate followed a similar path to that of the dollar/euro rate over the year, with the consequent slight depreciation of the European currency. Between December 2017 and December 2018, the exchange rate dropped from 135 to 126 yen per euro.

Euro exchange rates against the dollar and the yen FIGURE 1.1.14



Source: Thomson Datastream.

1.1.3 Outlook and risks

According to the forecasts published in April 2019 by the IMF, global GDP growth will continue to slow this year and will stand at 3.3%, before rising slightly to 3.6% in 2020. Compared with its January report, the forecast for this year has been downgraded by 0.2 percentage points, while the forecast for 2020 remains the same. A large part of the slowdown in economic growth is due to trade restrictions, the loss of the impact of factors that had a positive effect in the past and the presence of

5 In some cases, the fall in trading in the first quarter of 2019 was over 15% year-on-year.

various sources of political and financial uncertainty. In the advanced economies, GDP is expected to grow by 1.8% this year (2.2% in 2018) with growth in the euro area of 1.3% (1.8% in 2018) and in the United States of 2.3% (2.9% in 2018). The emerging and developing economies are forecast to grow by 4.4% this year and by 4.8% next year (0.1 percentage points down on the previous forecast in both cases).

The most significant risks that loom over this scenario include the uncertainty about the future of trade negotiations between the United States and China, and the possibility that these might lead to an increase in global protectionism. There are also significant doubts about the development of some emerging economies. In Europe, there are still risks relating to the possibility that the United Kingdom might leave the European Union without a deal being reached between the two parties (hard Brexit) and risks resulting from the accumulation of financial imbalances in a prolonged environment of extremely low interest rates. These include the greater willingness of some participants to invest in higher risk assets and to raise their level of borrowing. These risks will continue in the short term, given the likely delay in the process of interest-rate rises by the ECB.

1.2 Spanish environment

The Spanish macroeconomic environment was favourable in 2018 as a whole. Although at a slower rate than in previous years, GDP and employment continued to grow, inflation remained under 2% for almost all the year (despite higher oil prices) and the public deficit fell below 3% of GDP. The different sources of uncertainty that were present in 2018, some of an economic or financial nature (trade agreements, problems of emerging economies and fiscal consolidation and energy) and others of a political nature (Brexit, Catalonia, etc.), had a relatively limited impact on Spanish economic activity, but they did have an effect on financial markets. Stock market indices were therefore affected by the falls in other global stock markets and risk premiums recorded slight temporary upturns.

Against this background, GDP grew by 2.6% in 2018 (3% in 2017), 0.7 percentage points more than in the euro area, in a year of economic slowdown and less synchrony among the leading economies. Despite the economic slowdown, the number of people in work rose by over 560,000 and therefore the average unemployment rate in 2018, although high, was almost 2 points down on 2017 and stood at 15.3% of the active population. The financial position of households continued to improve as a result of the increase in their incomes, the reduction in their debts and the increase in their wealth. However, their savings fell to historical lows, placing some of them in a vulnerable position in the event of a change in economic circumstances. Banks continued to face difficulties in increasing their profitability due to the low level of interest rates, although the rate of growth in lending was consolidated in some segments and there was a further fall in the NPL ratio.

In bond markets, yields remained relatively stable despite the prevailing uncertainties. Short-term yields underwent few changes, in line with the continuity of the monetary policy adopted by the ECB. The yields on longer-term government bonds, which benefited from the upgrades to their credit rating, fell in the early months of the year but then later recorded some rises at the times of greatest uncertainty in Italy, which also triggered temporary upturns in the risk premium. The balance for the year was practically neutral as yields ended December at very similar levels to those of 2017.

In equity markets, the Ibex 35 recorded a fall of 15%, similar to that reported in other leading European stock markets, in an environment of relatively low volatility and favourable liquidity conditions. The largest falls, although partially reversed during the early months of 2019 as a result of the good market performance across the board,[6] were recorded in the financial sector and in the consumer goods and services sector.

1.2.1 Economic environment

The Spanish economy grew by 2.6% in 2018 and widened the gap with the rest of the euro area

Spain's GDP grew by 2.6% in 2018, and therefore continued the growth that began in 2014, although at a somewhat lower rate than in previous years (3% in 2017 and 3.2% in 2016), in line with the environment of a slowdown in other economies. However, the slowdown in domestic growth was lower than in the euro area (where growth dropped from 2.5% to 1.8%, mainly as result of the poor performance of Germany), which raised the difference in growth from 0.5 percentage points (pp) to 0.7 pp.

Key variables of the Spanish economy (growth rates) TABLE 1.2.1

	2014	2015	2016	2017	2018
GDP	1.4	3.6	3.2	3.0	2.6
Private consumption	1.5	3.0	2.8	2.5	2.3
Government consumption	-0.3	2.0	1.0	1.9	2.1
Gross fixed capital formation, of which:	4.7	6.7	2.9	4.8	5.3
Capital goods	6.0	11.8	5.3	6.0	5.4
Exports	4.3	4.2	5.2	5.2	2.3
Imports	6.6	5.4	2.9	5.6	3.5
Net exports (contribution to growth, pp)	-0.5	-0.3	0.8	0.1	-0.4
Employment[1]	1.0	3.3	3.1	2.8	2.5
Unemployment rate (% of active population)	24.4	22.1	19.6	17.2	15.3
Consumer price index	-0.1	-0.5	-0.2	2.0	1.7
Current account balance (% GDP)	1.1	1.2	2.3	1.8	0.8
Public authority balance (% GDP)[2]	-6.0	-5.3	-4.5	-3.1	-2.5

Source: Ministry of Economy and Competitiveness, European Commission and Thomson Datastream. Annual change unless otherwise stated. (1) Full-time equivalent jobs. (2) Figures for 2015, 2016, 2017 and 2018 include government aid to credit institutions amounting to 0.1%, 0.2%, 0.04% and 0.01% of GDP, respectively.

The contribution of domestic demand to GDP remained constant at 2.9 pp in 2018, while the contribution of the external sector, which had not ended the year in negative numbers since 2015, stood at -0.4 pp (0.5 pp less than in 2017). With regard to the components of domestic demand, growth in public consumption picked up speed between 2017 and 2018 (rising from 1.9% to 2.1%), as did gross fixed capital formation (from 4.8% to 5.3%), while the growth in private consumption recorded

6 The Ibex 35 gained 11.4% up to 29 April.

a slight slowdown (from 2.5% in 2017 to 2.3% to 2018). With regard to the components of the external sector, both exports and imports recorded a lower rate of growth, affected by the situation of international trade. Imports grew by 3.5% (5.6% in 2017) and exports by 2.3% (5.2% in 2017). The sharper slowdown of the latter meant that the contribution of the external sector to growth was negative throughout last year.

On the supply side of the economy, stronger growth was recorded in the construction sector, whose value added grew by 6.8% in 2018 (6.2% in 2017), while slower growth was recorded in the industrial sector (including the energy sector, which grew by 1.2% compared with 4.4% in 2017. For its part, the services sector and the primary sector recorded growth in the year as a whole, with a noteworthy increase in the value added of the primary sector, which changed from a fall of 0.9% in 2017 to positive figures in 2018 (annual average of 1.8%). In the case of services, value added rose by 2.6% (2.5% in 2017) with a noteworthy increase of 2.3% in financial and insurance activities (0.4% in 2017).

The rate of inflation, which exceeded 2% in the middle months of 2018 as a result of the upturn in energy prices, later fell as energy inflation returned to normal.[7] The average inflation rate for the year stood at 1.7% (1.2% in December), while the core rate – IPSEBENE, which excludes the more volatile elements of the index, such as energy and unprocessed food – remained at much lower levels throughout the period (between 0.8% and 1.2%), recording an annual average of 0.9% (the same rate as in December). The inflation gap versus the euro area fluctuated at values close to 0 during the whole year to end at a slightly negative figure of -0.3 pp. The annual average of this gap was negligible, compared with an average of 0.5 pp in 2017.

In the job market, the buoyancy of the economy allowed employment to grow significantly, by 2.5% on average in 2018, but at a slightly lower rate than in previous years (2.8% in 2017 and 3.1% in 2016). Information from the Labour Force Survey (EPA) indicates that last year the number of employed people rose by 566,200 (2.42 million in the last 5 years) and that the unemployment rate fell to 14.5% in the fourth quarter (16.6% at the end of 2017). Furthermore, year-on-year growth in unit labour costs was slightly positive in 2018, as the increase in the remuneration per employee was somewhat higher than the increase in apparent labour productivity.

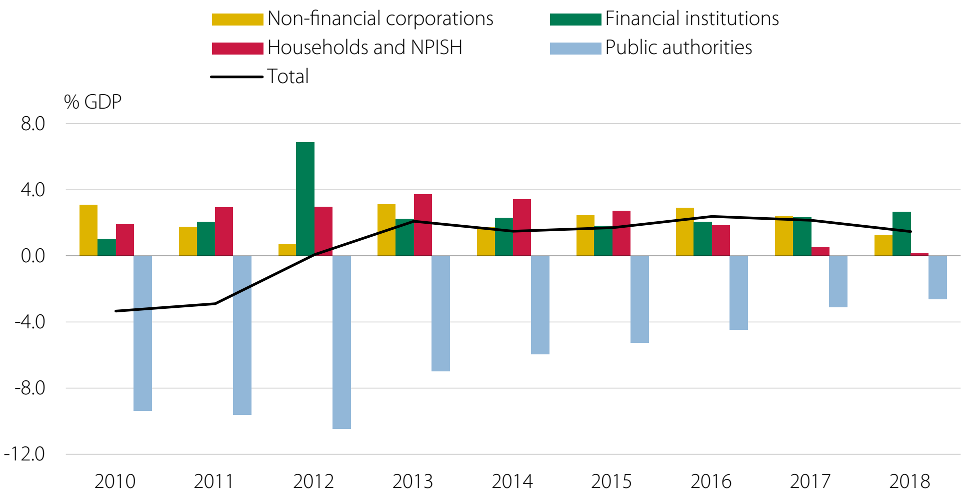
Public sector finances improved significantly in 2018 as a result of the growth in the economy and lower spending on servicing debt. The public deficit ended the year at a rate of close to 2.5% of GDP (3.1% in 2017), which is therefore compatible with Spain leaving the excessive deficit procedure which it has been subject to since 2009. All levels of public authorities that require financing reduced the amount borrowed. Particularly noteworthy was the fall in the deficit of the central government, which dropped from 1.9% in 2017 to 1.6% in 2018, and that of the regional governments, which stood at 0. 2% (0.4% in 2017). The deficit of the social security funds also fell, although to a lesser extent, dropping from 1.44% in 2017 to 1.41%. For their part, local authorities recorded a slight fall in their surplus, which slipped from 0.6% to 0.5% of GDP. Government debt stood at 97.1% of GDP (fourth-quarter data), recording very few changes since the middle of 2014.

7 The year-on-year rate of change in energy prices fell from 12.0% in September to 2.1% in December.

Net lending of the Spanish economy with regard to the rest of the world fell in 2018 to 1.5% of GDP

The recovery in the investment of the Spanish economy in a context of stable savings led to a slight fall in its lending, which stood at 1.5% of GDP in 2018 (2.2% of GDP in 2017). By sector, net borrowing by the public authorities fell, for the sixth consecutive year, in line with the fall in the public deficit. The non-financial sectors of the economy recorded a fall in lending, which in the case of households was due to the fall in their savings rate. Lending by non-financial companies fell from 2.4% to 1.3% of GDP, in line with the recovery in gross fixed capital formation.

Net lending (+) / Net borrowing (-) of the Spanish economy FIGURE 1.2.1



Source: Bank of Spain.

The improvement in the financial position of households continues, but their savings rates remain at record lows

The latest data on the financial position of households reveal that both their savings rates and their debt-to-income and debt burden ratios continued to fall in 2018. The fall in the savings rate, which dropped from 5.5% of gross disposable income (GDI) at the end of 2017 to 4.7% in the third quarter of 2018, is the result of buoyant aggregate consumption in a context of only a marginal increase in remuneration per employee. The debt-to-income ratio fell from 100.2% of GDI at year-end 2017 to 98.3% in September 2018 as a result of both a reduction in the level of debt and an increase in the level of disposable income. The debt burden ratio fell slightly (from 11.5% of GDI to 11.4%) given the stability of the average cost of debt, at low levels in the context of growing income. Net household wealth rose in 2018 (from 542.6% of GDP to 553.1%) mostly due to the increase in the value of real estate assets. Financial wealth fell slightly to 182% of GDP.

Households' net financial investments rose to 1.9% of GDP in 2018[8] (1.5% in 2017), maintaining the trend of previous years, but with amounts that were generally smaller. Households continued investing in payment instruments (4.2% of GDP)

8 Cumulative data from four quarters, up to the third quarter of 2018.

and reducing their investments in term deposits and bonds (3.5% of GDP) and in shares (1.4% of GDP). Households once again purchased units in mutual funds, although for a slightly lower amount than in previous years, probably as a result of market turmoil at the end of the year. In total, they invested in these products a volume of resources equivalent to 1.8% of GDP (2.4% in 2017).

Unit-holders in mutual funds continued to prefer higher-risk categories, thus following the trend of recent years, although volumes were much lower as the investor profile changed in the final part of the year, coinciding with the periods of sharp stock market falls, which led to higher risk aversion and greater preference for more conservative categories. In 2018 as a whole, these most conservative categories recorded net redemptions of close to 6.8 billion euros, while higher-risk categories received a significant inflow of investment (close to 17.6 billion euros in total). Among the latter category, there was significant investment in global funds (over 9.4 billion euros). Net subscriptions in equity funds (mixed, euro and international) ranged between 1.79 billion euros and 3.86 billion euros depending on the category.

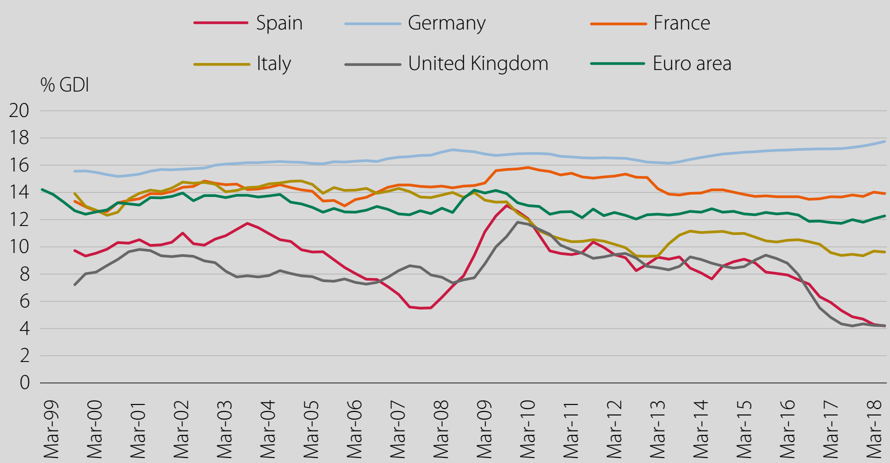
Latest trends in savings and investment decisions of Spanish households

EXHIBIT 1

The saving, borrowing and investment decisions of the agents of an economy are decisive for shaping a country's productive economy model and also the level of development of its financial markets. This Exhibit presents the most important trends of the decisions taken by Spanish households compared with those of comparable countries and suggests possible explanations for the differences found.

Savings rate

FIGURE E1.1

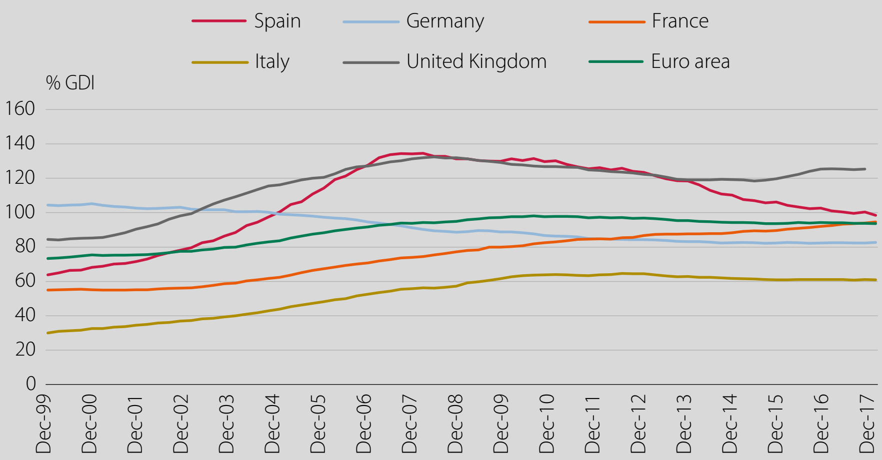


Source: Thomson Datastream.

As shown in Figure E1.1, in the time period under consideration (since 1999), the savings rate of Spanish households has been systematically lower than the average for the euro area and most of the European countries analysed. This trend has continued even at times of rises in precautionary savings following the financial crisis of 2008. Data for the third quarter of 2018 indicate that savings stood at 4.2% of Gross Disposable Income (GDI), compared with 12.3% in the euro area. In parallel with this low level of saving, Spanish households borrowed significantly more than European households until the start of the crisis (see Figure E1.2), when the gap between both reached 40 pp of GDI (134% in Spain and 93% in the euro area). This borrowing was mainly used to acquire non-financial assets (in particular, housing) as opposed to other assets.

It may be argued that before the crisis there was a series of factors which allowed and even intensified these trends: i) the economy was growing strongly and rising incomes led to households making more ambitious investment decisions; ii) the fall in interest rates following Spain joining the euro area together with a sharp increase in the supply of credit significantly boosted borrowing by the private sector; and iii) the existing tax system encouraged the acquisition of housing rather than other assets and as opposed to the option of renting. Following the crisis, the bursting of the real estate bubble and the significant increase in unemployment, Spanish households began a sharp process of debt reduction, which now places the level of household debt at rates very close to the average for the euro area, while the saving rate has once again returned to historic lows. Part of the reduction in savings might be associated with the high number of low-income households, whose saving capacity is very limited. There may also be a significant number of households that had postponed the consumption of certain durable goods during the crisis that they can now afford.

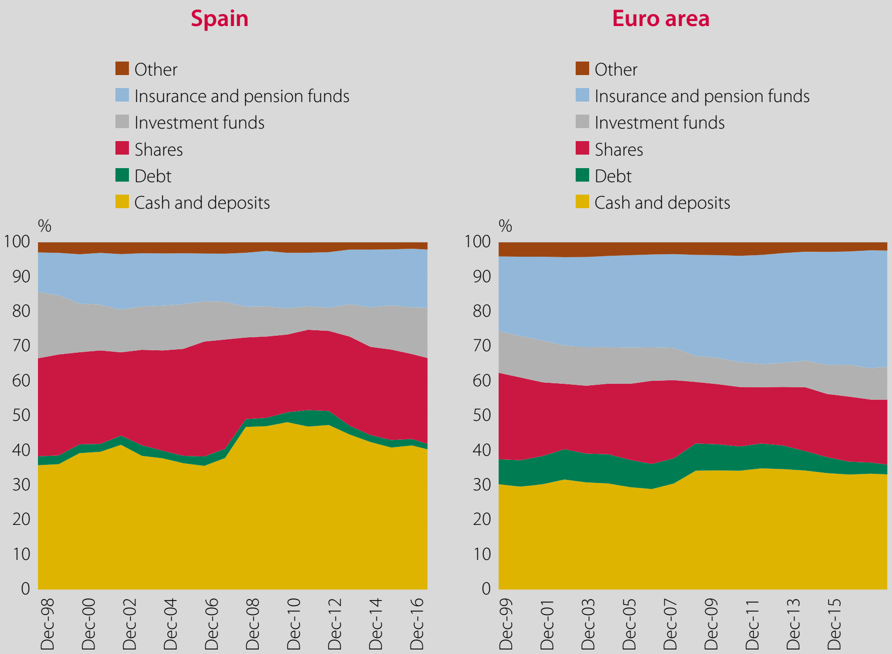
Debt ratio FIGURE E1.2



Source: Thomson Datastream.

It can be deduced from the behaviour of households that their resources have come from small domestic savings and larger debt, and that these have mainly been used to acquire real estate assets, while investment in financial assets has been much less significant. In aggregate terms, Spanish households have a level of wealth that is higher than the average in the euro area, but this is exclusively the result of the greater weight of real estate assets (453% of GDP in Spain compared with 271% in the euro area), with (net) financial assets accounting for 95% of GDP, compared with 130% in the euro area. With regard to households' investment and financial assets, it is observed that the volume of investment by Spanish households in financial assets was lower than the euro area average throughout the period considered (between 25 and 30 pp of GDP). However, the composition of the financial assets is not significantly different, although the relative importance of cash and deposits and investment in shares and mutual funds is somewhat higher in Spain. In contrast, investment in insurance and fixed-income assets is lower (see the panels of Figure E1.3).

Breakdown of the balance of financial assets by asset class FIGURE E1.3



Source: ECB.

It is possible that an economy in which households systematically save little, borrow more and demonstrate a clear preference for real estate assets brings favourable consequences in the short term, generated by higher growth (based on the strength of consumption). However, there would be an imbalance between domestic and foreign demand and growth would be somewhat biased towards construction and real estate activities, which are less productive sectors. The consequences seem to be more unfavourable in the medium and long term to the extent that this context favours the accumulation of certain financial imbalances (excess leverage) and the formation of (real estate) asset price bubbles, which may be unsustainable at a particular time and generate negative effects on economic agents and growth. This preference for home ownership may also lead to a less mobile labour supply within the country itself. Finally, this model leads to less developed financial markets, which has clear effects on the economic development of any country.

Looking ahead, it would be desirable for Spanish households' savings to be somewhat higher and for their investments to be more balanced between real estate assets and financial assets. This would allow, *inter alia*, more developed financial markets and, in the medium term, higher economic growth.

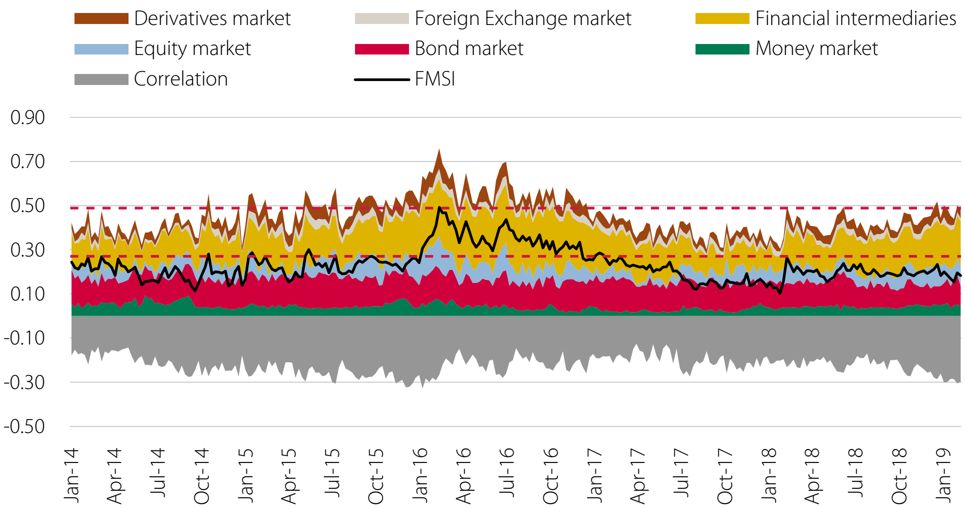
However, this process has at least two short-term limitations: i) the high proportion of low-income households, which are unable to increase their savings and are more vulnerable in financial terms and ii) the level of financial literacy of certain strata of the population, which is a decisive factor in their saving, borrowing and investment decisions. Finally, it is important to note the major challenge that is already present in society resulting from the ageing of the population in Spain. It may be assumed that this process will take on increasing importance in households' financial decisions and that it is likely to have a positive impact on capital markets.

1.2.2 Financial environment

The financial market stress index remained at very low levels, although with occasional small upturns throughout the year

The Spanish financial market stress index remained low throughout practically the whole year, standing at 0.18 at the end of December (stress is considered to be low at under 0.27). The indicator recorded small upturns throughout 2018, such as that recorded in February (to 0.27), due to the turmoil in US markets or, later on in the year, those of June and October (to 0.24 and 0.22, respectively), which were related to doubts about public finances in Italy and, to a lesser extent, other sources of uncertainty (the so-called "trade war", tensions in emerging economies and regulatory uncertainty). The highest stress level has generally been found in the financial intermediary segment, which was affected by the prolonged fall in share prices of banks, and in the fixed-income segment due to occasional upswings in volatility and the loss of liquidity of these instruments. This index, which the CNMV has published since 2017, is based on information on risk spreads, volatility, liquidity and, in addition, sharp falls in prices. It therefore measures the current stress in the market which, as in the rest of Europe, is very low, but it does not forecast future stress.

Stress index of Spanish financial markets[1] FIGURE 1.2.2



Source: CNMV. (1) For further information on the methodology of this index see Cambón M.I. and Estévez, L. (2016). "A Spanish Financial Market Stress Index (FMSI)". *Spanish Review of Financial Economics*, Vol. 14, No. 1, pp. 23-41, or as CNMV Working Paper No. 60 (http://www.cnmv.es/portal/Publicaciones/monografias.aspx).

Bond yields underwent few changes in the year with only an occasional temporary upturn in longer-term bonds as a result of the doubts about Italy

In domestic bond markets, short-term government bond yields recorded few changes in 2018, in line with the ultra-expansive monetary policy maintained by the ECB. These yields ended the year at figures that were slightly less negative than in 2017, although they remained close to historical lows. In particular, the 3-month, 6-month and 12-month yields on Spanish Treasury Bills stood at -0.55%, -0.42% and -0.37%, respectively, above the values for year-end 2017 (-0.62%, -0.54% and -0.47%, respectively). Medium and long-term yields recorded substantial falls in the early part of the year as a result of the improvement in the credit rating of the sovereign bond.[9] Subsequently, the times of greater uncertainty relating to the sustainability of the public accounts in Italy and the failure to reach an agreement with the European Union and, to a lesser extent, other events, led to small rises in the yield on the 10-year bond, which rose from lows of close to 1.15% in March to levels of over 1.6% at the end of May and to 1.75% in October. At the end of the year, the narrowing of the differences between Italy and the European Union and the outlook of a sharper-than-expected slowdown in the economy, with its likely effects on monetary policy, led to falls in the yields on long-term debt, which in the case of the 10-year bond closed the year at 1.42%, 15 bp below the figure for year-end 2017 (1.57%).

The sovereign credit risk premium recorded temporary upturns in 2018 as a result of the aforementioned uncertainties and recorded an annual high of 134 bp in May. It then dropped significantly to a low of under 90 bp in June and, in the final part of the year, after recording some ups and downs relating to doubts about Italy, ended the year at 118 bp, 4 bp up on year-and 2017. The performance of risk premiums in the private subsectors of the economy was more unfavourable than in the public sector, particularly the risk premium of financial institutions, which grew over practically the whole year. This indicator was negatively affected by some banks' exposure to emerging economies with problems (Turkey or Argentina), by the difficulties in increasing their net margin in the current context of low interest rates and by some regulatory and tax uncertainties. Thus, the average CDS of Spanish financial institutions at the end of December stood at 108 bp, above the 70 bp at the start of the year, and the average for non-financial companies stood at 78 bp, compared with 58 bp at the start of the year.

In a context that is favourable to fixed-income issues, and despite the efforts by the authorities and market infrastructures to facilitate and lower the cost of issues in national markets, companies have continued to replace their issues in Spain by issues abroad. Corporate bond issues registered with the CNMV fell by 8% over the year to 101.08 billion euros, while those performed abroad grew by 5.4% to 89.36 billion euros. However, issues registered with the CNMV recovered in the fourth quarter thanks to several issues of mortgage bonds and of asset-backed securities and, above all, to an issue of bonds of the SAREB (Asset Management Company for Assets Arising from Bank Restructuring) for an amount of close to 30 billion euros.

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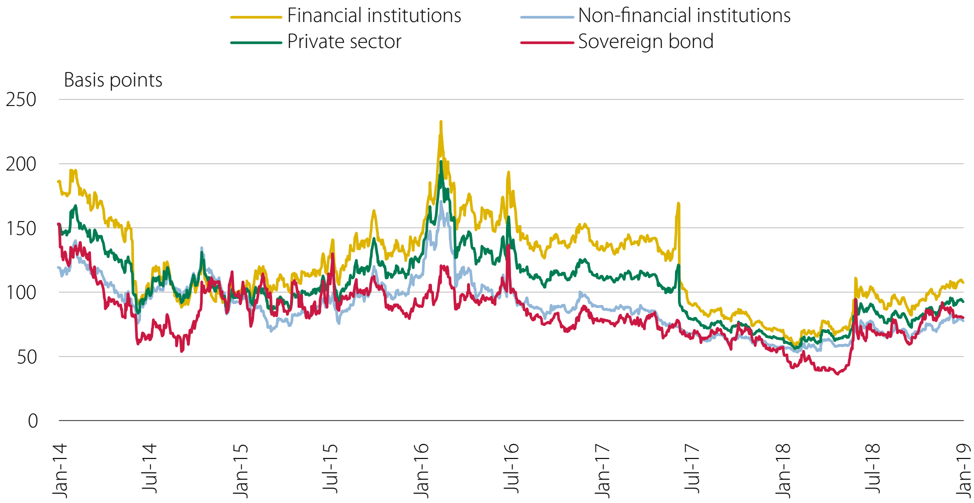
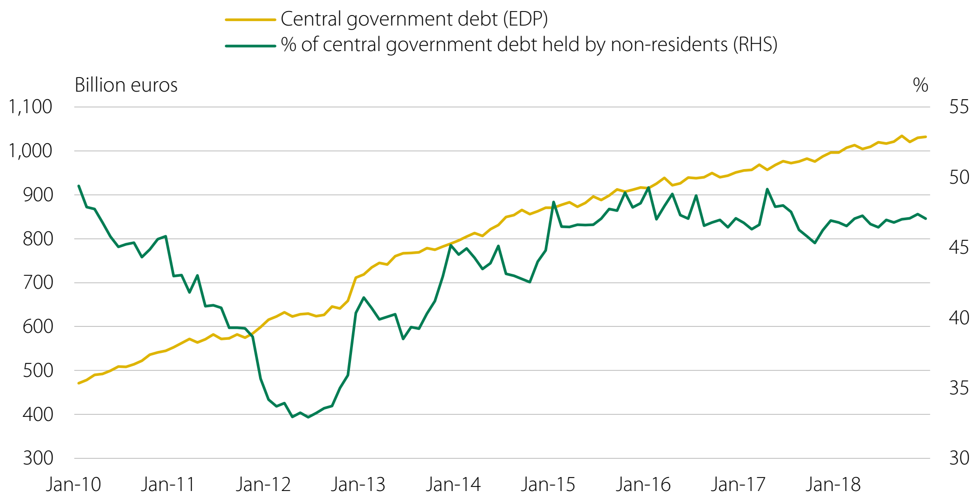
9 At the end of March, S&P upgraded the rating of the Spanish sovereign bond from BBB+ to A- (with a positive outlook) and, in April, Moody´s raised it from Baa2 to Baa1 (stable outlook).

Risk premium paid by Spanish issuers[1] FIGURE 1.2.3



Source: Thomson Datastream. (1) Credit derivatives market. 5-year maturity. Simple average, except for Spanish sovereign CDS.

Central government debt and non-resident holdings FIGURE 1.2.4



Source: Bank of Spain.

The Alternative Fixed-Income Market (MARF), which is mainly used for funding SMEs through the issuance of fixed-income securities and is focused on institutional investors, continued to grow in 2018. The nominal amount issued in 2018 stood over 6.37 billion euros, an increase of 60% on the previous year. Most of this amount corresponded to commercial paper issues (85%) made by 28 companies, including large companies such as El Corte Inglés, Elecnor, Grupo Barceló or Sacyr. Trading of securities listed on the MARF continued to primarily be carried out on a bilateral basis.

The low interest rate environment continued to weigh on bank profits, although the NPL ratio continued to fall

Pending increases in official interest rates (which are likely to be delayed in view of the slowdown in economic growth in the euro area), the bank sector continues to operate in an environment of low interest rates which prevent significant improvements in the net interest margin and to face some structural changes, such as increasing competition from FinTech companies. On a positive note, it is important to highlight the fact that the buoyancy of the economy and the favourable performance of the job market continue to allow falls in the NPL ratio, which stood at 5.8% in December (7.8% at the end of 2017), where it stands at the lows recorded in March 2011.

Bank income statements show that their activities in Spain led to a profit of 12.38 billion euros in 2018 (losses of 3.92 billion euros in 2017, as a result of the losses of Banco Popular, which are estimated at 12 billion euros). As mentioned above, bank profits are still restricted by the context of low interest rates, which prevents them from improving their net interest margin, which stood at 23.28 billion euros in 2018 (23.23 billion euros in 2017). Operating expenses fell slightly to 25.99 billion euros in 2018 (26.67 billion in 2017). It was therefore the significant improvement in impairment of financial assets and other assets that marked the sharp growth in aggregate profit for the sector (which was the highest recorded since 2009).

Bank lending to the non-financial resident sector (companies and households) continued to grow slightly in 2018 and exceeded the rate of growth recorded in 2017. Lending to non-financial companies rose by 1.2% in December (0.4% in the same month of 2017), due to the growth in borrowing through securities other than shares (9.4%) and foreign loans (4.3%). In contrast, borrowing through loans from resident credit institutions fell by 2.0%. Lending to households rose by 0.15% in December, thus reversing the trend of recent years (-1.3% and -0.6% in 2016 and 2017, respectively). The expansion of consumer lending (4.8%) offset the fall in the outstanding balance of home purchase loans.

The size of the banking sector, in terms of the aggregate volume of assets from its activity in Spain, fell in 2018 to 2.58 trillion euros (2.65 trillion euros in 2017), thus resuming the downward trend that began in 2012 but was temporarily interrupted in 2017. Some of the most important sources of funding, such as deposits from resident households and companies or borrowing from the Eurosystem,[10] recorded falls. Bank equity recorded a slight fall in 2018, which was much sharper in the item that includes the provisions to cover impairment losses of both loans and other assets.

The profits of non-financial listed companies fell in 2018 as a result of the poor performance of a few companies

Non-financial listed companies obtained aggregate profit of 22.15 billion euros in 2018, 34% down on 2017. This performance was uneven between sectors and companies as, if the unfavourable performance of 4 companies[11] (out of a total of 119) is discounted, the total aggregate profit would have grown by 4.9%, which would be more in line with the buoyancy of the domestic economy. By sector, the largest

10 Borrowing from the Eurosystem (deducting the amount of the debt purchase programmes) at the end of 2018 amounted to 143 billion euros (164 billion in 2017).

11 Naturgy (energy), Abengoa (retail and services), OHL and Ferrovial (both from the construction and real estate services sector).

increases took place in industrial companies, whose profits grew by 8.4% in the year to over 5.7 billion euros and in companies from the retail and services sector (deducting the figures of Abengoa), which recorded profit growth of 7.8%. The consolidated profit for the year of energy sector companies grew by 4.2%.[12] Construction and real estate companies recorded a significant fall in aggregate profit that was also concentrated in a small number of companies,[13] although the performance of their accounts was more evenly spread (profits fell even after deducting those of the largest companies).

Profit by sector: non-financial listed companies TABLE 1.2.2

Million euros

	Operating profit		Profit before tax		(Consolidated) profit for the year	
	2017	2018	2017	2018	2017	2018
Energy	11,562	9,571	10,043	7,739	9,727	5,773
Industry	7,491	7,560	6,753	7,162	5,269	5,714
Retail and services	15,158	15,959	17,651	12,669	13,588	8,540
Construction and real estate	5,877	5,370	4,958	4,397	5,009	2,124
Aggregate total	**40,088**	**38,460**	**39,405**	**31,967**	**33,593**	**22,150**

Source: CNMV.

The aggregate debt of non-financial listed companies recorded very little change in 2018, with an increase of 0.7% to a little over 230 billion euros. This increase was the result of growth in the debts of retail and services companies, which rose from 81.19 billion euros in 2017 to 84.87 billion euros in 2018 and, to a lesser extent, industrial companies (from 19.71 billion euros to 21.13 billion euros). In contrast, the debt level of energy companies and construction and real estate services companies fell over the year a whole. The aggregate leverage ratio, measured as the debt to equity ratio, barely changed in 2018, rising from 0.97 to 0.98. At the end of the year, the lowest ratio corresponded to industrial companies (0.57) and those related to the energy business (0.73). Lastly, the debt coverage ratio, measured using the ratio of debt to operating profit, worsened slightly as a result of the aforementioned fall in margins.

The Ibex 35 fell by 15% in 2018, in line with other European stock markets, affected by several sources of international and domestic uncertainty

In domestic equity markets, the Ibex 35 ended the year with significant falls (15%, in line with the performance of most leading European markets, as indicated in Section 1.1) as a result of several uncertainties discussed above, including the exposure of Spanish companies to Italian debt assets and to several emerging economies with difficulties, the restrictions on global trade, doubts about the withdrawal agreement of the United Kingdom to leave the European Union and some fiscal and regulatory uncertainties. By sector, there were gains in the oil and energy sector, while the losses were concentrated in companies from the financial sector and from the services and consumer goods sectors.

12 Excluding Naturgy's losses, which were close to 2.6 billion euros in 2018.

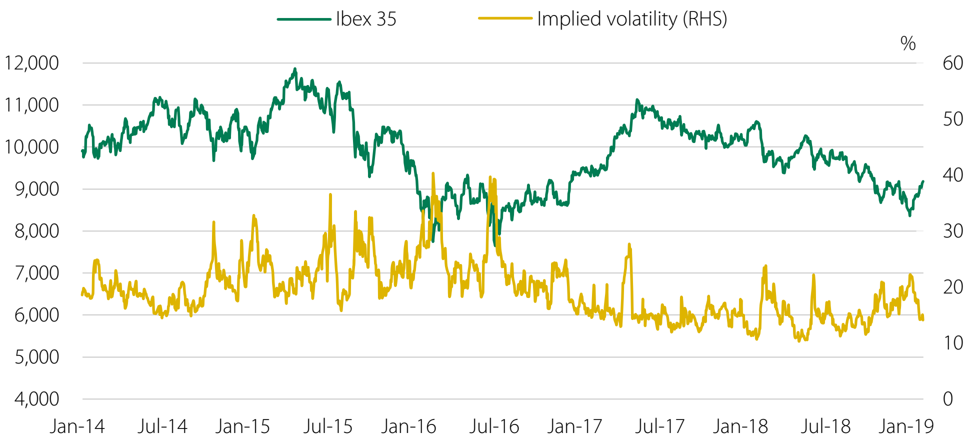
13 OHL, Ferrovial and Colonial.

Small-cap companies, which had performed well in the first half of the year, fell sharply and recorded losses for 2018 as a whole as a result of the possible repercussion that the slowdown in the Spanish economy might have on their accounts and the difficulty to offset this with business abroad. The indices representing Latin American shares that are listed in euros also recorded significant gains in 2018 in an environment of high volatility of some exchange rates of Latin American currencies with regard to the euro (the FTSE Latibex All-Share and FTSE Latibex Top indices gained 10.3% and 14.8%, respectively).

Stock market capitalisation fell for the first time following 6 straight years of growth to an amount of approximately 593 billion euros, 15% down on the previous year. The reduction was mainly due to the fall in share prices, supported by the lower amount of funds raised through capital increases (7.39 billion euros, 71% down on 2017).

As in other leading international stock markets, the volatility of the Ibex 35 remained low throughout the year. Despite market turmoil in the first and last quarters of the year, which gave rise to temporary upturns in volatility, the values reached were lower than those recorded at other times of uncertainty. At the end of the year, the implied volatility of the Ibex 35 stood at levels of slightly over 20%, in line with the average recorded between 2016 and 2017, but still below its historical average. Against this backdrop, trading of Spanish shares exceeded 930 billion euros in 2018 (0.2% down in year-on-year terms), of which almost 580 billion euros corresponded to the Spanish regulated market (8.5% down) and 351 billion euros corresponded to competing Multilateral Trading Facilities (MTFs) and regulated markets, which allowed them to reach a record market share (37.4%) of trading subject to market rules (28.1% and 31.7% in 2016 and 2017, respectively).[14]

Ibex 35 performance and implied volatility[1] FIGURE 1.2.5



Source: Thomson Datastream.

The Ibex 35, which had reached lows of under 8,400 points at the end of 2018, recovered to 9,500 in the early months of 2019.[15] Despite the prolongation of some sources of uncertainty and market sensitivity to the appearance of information that was not in line with analysts' expectations, many companies had attractive share

14 Data on trading subject to market rules (lit and dark).

15 Data to 29 April.

prices due to the sharp falls in the last quarter of the previous year and, therefore, purchases predominated. The rise in the index in the year (11.4%) was similar to that of the UK index (10.6%), but lower than that of other benchmark European indices, which gained between 16% and 18%.

Performance of Spanish stock market indices and sectors TABLE 1.2.3

%

	2014	2015	2016	2017	2018
Indices					
Ibex 35	3.7	-7.2	-2.0	7.4	-15.0
Madrid	3.0	-7.4	-2.2	7.6	-15.0
Ibex Medium Cap	-1.8	13.7	-6.6	4.0	-13.7
Ibex Small Cap	-11.6	6.4	8.9	31.4	-7.5
FTSE Latibex All-Share	-16.1	-39.2	71.0	9.0	10.3
FTSE Latibex Top	-11.1	-34.6	67.8	7.3	14.8
Sectors[1]					
Oil and gas	-9.8	-21.0	32.7	-11.9	-1.5
Chemical	-17.1	56.7	198.2	55.4	8.8
Basic materials	17.8	-8.5	24.0	26.1	-10.0
Construction and construction materials	9.9	6.3	-4.3	15.8	0.2
Industrial goods and services	-1.4	9.1	8.4	29.8	-12.8
Healthcare	1.1	23.9	-7.8	12.9	-3.6
Utilities	27.3	7.9	-0.7	3.1	12.0
Banks	8.1	-22.7	-1.1	11.9	-28.1
Insurance	-9.2	-5.1	15.5	0.1	-12.8
Real estate	46.3	12.6	-5.0	15.6	-8.3
Financial services	5.3	-2.7	-1.3	7.3	-7.5
Telecommunications and media	3.8	-8.2	-8.3	-3.2	-11.9
Consumer discretionary	-0.1	29.7	3.1	-9.5	-23.4
Consumer staples	-7.8	5.5	-6.0	-1.0	-35.7

Source: Thomson Datastream. (1) Thomson Datastream classification.

1.2.3 Outlook and risks

According to the IMF's forecast published in April this year, the GDP of the Spanish economy will grow by 2.1% in 2019 and by 1.9% in 2020. These forecasts were 0.1 percentage points down for 2019 and the same for 2020 compared with the previous forecasts published in January and, therefore, fell outside the IMF's generalised downgrades in growth forecasts for the most important economies. With these figures, the growth differential between Spain and the euro area would stand at 0.8 percentage points this year and 0.4 points next year (0.8 pp on average between 2016 and 2018).

The most significant risks to the national economic outlook relate to: i) the need to further consolidate the public accounts and, in particular, reduce the level of public debt; ii) the high, although falling, unemployment rate, together with the challenges resulting from the ageing population; iii) the possible prolongation of the political uncertainty resulting from both parliamentary fragmentation and the conflict in Catalonia; and iv) the negative impact on the business of Spanish exporters with greater exposure to markets with trade restrictions and also to those which are suffering a sharper slowdown in demand.

The most important financial risks include those relating to the maintenance of interest rates at low levels for longer than expected a few months ago, in view of the intensity of the economic slowdown in the euro area. This environment will continue, on the one hand, to apply downward pressure on bank profits and, on the other hand, to encourage borrowing by agents and the search for yield. Neither should the triggering of occasional episodes of turmoil in financial markets be ruled out as a result of any of the existing sources of uncertainty (for example, the possibility of a hard Brexit).

The creation of a macro-prudential authority in Spain (AMCESFI) EXHIBIT 2

The aim of macro-prudential policy is to preserve the stability of the financial system as a whole by strengthening its resilience and mitigating systemic risks. Policies related to financial stability have traditionally been focused on the banking system, placing special emphasis on the size of banks. However, the last financial crisis revealed that other agents and activities performed outside the banking business might be a source or a channel for transmitting systemic risk in certain circumstances. Since then, and following the recommendations of the G20, national authorities and international institutions have been working on improving the resilience of activities and entities related to non-bank financial intermediation (previously known as shadow banking) and on building an institutional and regulatory framework for detecting and analysing systemic risks that will include all segments of the financial system. At a European level, this work resulted in the European Systemic Risk Board (ESRB) being set up in 2011, responsible for macro-prudential oversight of the European Union's financial system and for preventing and mitigating systemic risk.

In 2011, the ESRB issued a recommendation[1] that called on EU countries to designate an authority responsible for macro-prudential oversight. This recommendation was justified as a result of the improvement in the effectiveness of macro-prudential policy as the responsibility for taking measures to maintain financial stability was placed at a national level. In addition, in its latest review of the Spanish financial system,[2] the IMF also indicated, among other aspects, that Spain should establish a Systemic Risk Council for inter-agency coordination on systemic risk factors, surveillance, and system-wide financial sector policies. Following the recommendation by the ESRB, most Member States of the European Union (with the exception of Italy) have established their macro-prudential authorities in recent years. They have done this by creating a new authority with the participation of the pre-existing supervisory authorities or, in many cases, by designating the central bank as the authority, or by setting up an inter-agency cooperation structure with a leading role for the central bank or the pre-existing integrated supervisory authority.

Although the formal creation of an actual macro-prudential authority in Spain began in the final months of last year, there already was a committee with similar functions to those planned for the new macro-prudential authority. This precursor committee, which was called CESFI (Financial Stability Committee), was set up in 2006 and was made up of members representing the Bank of Spain, the CNMV and the Directorate-General for Insurance and Pension Funds, and the Ministry of Economy. The CESFI met frequently during the most complicated years of the sovereign debt crisis in Europe but was then inactive for several years. The CESFI met again in June 2018 under the authority of the Minister for Economy and Business, and gave its full support for her initiative to set up a proper macro-prudential authority in Spain, following the recommendations of the ESRB and the IMF.

A draft Royal Decree creating the Macro-prudential Authority Financial Stability Board (AMCESFI) was published at the end of 2018. This draft Royal Decree was submitted to public consultation until 26 December and finally approved on 1 March.[3] According to the content of this Royal Decree, the AMCESFI, which has held its first meeting in April, seeks to improve the coordination of macro-prudential oversight at a national level and help to prevent or mitigate systemic risks, which should help the financial system to support rather than hamper economic growth. The Authority is made up of a Board, a Technical Committee as support body and the sub-committees that the Board decides to create. The Board is made up of the Minister for Economy and Business, who acts as chairperson, the Governor of the Bank of Spain, who takes on the vice-chair, the President of the CNMV, the Deputy Governor of the Bank of Spain, the Vice-President of the CNMV, the State Secretary for Economy and Support for Business, and the Director-General for Insurance and Pension Funds. The Deputy Governor of the Bank of Spain acts as chairperson and the Secretary-General for the Treasury and International Financing acts as vice-chairperson of the Technical Committee. All bodies are granted the possibility of inviting other public authorities to attend, such as the Fund for Orderly Bank Re-structuring (Spanish acronym: FROB) and the Independent Fiscal Responsibility Authority.

The AMCESFI's mission is, firstly, to monitor and analyse those factors that might affect systemic risk and, secondly, to issue the opinions, warnings and recommendations that it deems appropriate in view of its prior analyses. It may also make macro-prudential policy recommendations to supervisors for them to take specific measures. The recipients of the Authority's recommendations must explain how they will comply with them or provide appropriate justification, as the case may be, of the reasons why they deem it unnecessary or inappropriate to follow them. Supervisory powers are maintained by the competent national authorities that have exercised them to date, which have more information and experience in monitoring the supervised entities. Their independence is therefore respected.

In addition, sector supervisors must inform the AMCESFI in advance about their intention to activate, recalibrate or deactivate any of their macro-prudential tools. In particular, they must report on measures relating, for example, to capital buffer requirements, the establishment of limits to sectoral concentration, the setting of conditions for the granting of loans and other operations, or the application of higher risk weightings for real estate exposures. The measures falling under the remit of the CNMV include the suspension of redemptions of collective investment scheme units, decisions aimed at strengthening the level of liquidity of collective investment schemes and the banning or restriction of short selling. A few months before this, Royal Decree-Law 22/2018, of 14 December, establishing macro-prudential tools, had granted additional powers to the Bank of Spain, the CNMV and the Directorate-General for Insurance and Pension Funds to address possible risks to the Spanish financial system from a macro-prudential perspective. In the specific case of investment funds, the CNMV is granted the power to set, in certain circumstances, liquidity requirements for collective investment schemes and undertakings.[4]

Finally, in order to contribute towards maintaining financial stability within the European Union, the requirement to cooperate with the macro-prudential authorities of other Member States as well as with the competent European institutions is regulated. The AMCESFI will be accountable through the preparation of an annual report and the appearance of the Authority's chairperson before the corresponding committee of the Lower House of Parliament.

1 Recommendation of the European Systemic Risk Board of 22 December 2011 on the macro-prudential mandate of national authorities (ESRB/2011/3). https://www.esrb.europa.eu/pub/pdf/recommendations/ESRB_2011_3.en.pdf?da108dbb14efccdf98f4544534e2ef4e

2 Spain Financial System Stability Assessment. IMF Country Report No. 17/321. This assessment is part of bilateral surveillance under Article IV of the IMF's Articles of Agreement.

3 Royal Decree 102/2019, of 1 March, creating the Macro-prudential Authority Financial Stability Board, establishing its legal regime and implementing certain aspects relating to macro-prudential tools.

4 Royal Decree-Law 22/2018, of 14 December, establishing macro-prudential tools.

2 Markets and issuers

2.1 Equity markets

Share prices on Spanish equity markets followed a downward path for much of the year 2018, which worsened in the second half, leading the Ibex 35 to close the year with losses of 15%, which were spread across most sectors. In this context, equity market capitalisation fell as the amount of funds raised through capital increases was the lowest figure in recent years and insufficient to offset the falls in share prices. In addition, the unfavourable performance of stock markets limited the number of new companies going public.

Trading of Spanish shares remained stable in 2018, with a rearrangement between the activity on national markets, which fell following the slight recovery in 2017, and the activity on other regulated markets, multilateral trading facilities and competing trading venues, which continued to rise. This growth led to the market share of the latter standing close to 37% at the end of 2018 when taking total trading into account (lit plus dark).[1, 2]

2.1.1 General overview

The Spanish equity markets started 2018 with significant falls, following on from the downward trend of the second half of 2017, in the expectation that the first steps to normalise European monetary policy would start to be taken shortly, following the path set by the Federal Reserve.[3] Subsequently, the announcement of protectionist measures by the Trump Administration increased fears of a trade war between the United States and China[4] and the rise in political uncertainties in Europe prevented a substantial recovery in prices. In this context, the Ibex 35 fell by 4.4% in the first quarter and ended the second quarter with hardly any changes.

The weak market performance in the first half of the year worsened along the second half as the aforementioned uncertainties were compounded by tensions between the Italian government and the European Union with regard to the Italian budget, the problems of some emerging economies where Spanish companies hold significant economic interests and, at the end of the year, the fear of a slowdown in the world economy and doubts relating to Brexit. The Ibex 35 fell by 2.4% in the third quarter and by a further 9% in the fourth. This raised the annual losses to 15%,

1 Both type of trading (lit plus dark) are subject to market rules but to different transparency regimes, less demanding for dark trading.
2 Only taking lit trading into account, the market share of the competing trading venues stands at 38%.
3 The Federal Reserve has raised interest rates nine times in a row since 2015. For further details about the monetary policy decisions of the leading central banks, see Heading 1.1.
4 The first measure of the trade war was the United States and China establishing a series of reciprocal tariffs.

in line with the European Eurostoxx 50 index and with other European benchmark indices,[5] with the exception of the German Dax 30, which recorded the worst performance of them all.

The implied volatility of the Ibex 35 remained low for most of the year, while recording temporary upturns linked to various episodes of uncertainty. These upturns were similar to those of other European indices but lower than those recorded by US indices. At the end of the year, the implied volatility stood at 21.8%, slightly higher than in December 2017 (15.5%). The annual averages were not very different: 15.1% in 2018 and 15.5% in 2017, and similar to those of most European indices with the exception of the Italian index, which recorded higher volatility.[6]

Stock-market capitalisation fell sharply and stood at 595.66 billion euros, the lowest figure in the last 5 years. This reduction is the result of the fall in share prices (which amounted to 15%,[7] the worst performance since 2010), the lower value of the new companies admitted to trading compared with delisted companies and the drop in the amount of funds raised through capital increases, which also recorded their lowest figure of the last 5 years.

The volumes traded in the Spanish stock market recovered in the first half-year and fell in the second, coinciding with the time of the largest shift of trading to other regulated markets, multilateral trading facilities and competing trading venues. In the year as a whole, equity trading on official secondary markets fell by 8% to around 580 billion euros, its lowest volume since 2003. Domestic stock markets continue to account for a large part of the trading of the Spanish securities listed on them, but they once again lost relative weight in favour of their competitors, which at year-end accounted for around 40% of total trading, 6 percentage points (pp) up on 2017.[8] The trend towards fragmentation of the Spanish market is therefore consolidated as it now stands at a similar level to that of the main European markets, which had already passed through this process.

As is the norm, non-resident investors once again played a very important role in the Spanish equity market, both in terms of trading and in ownership, which reached a record high at the end of 2017. According to the BME's *Market Report 2018*, foreign investors accounted for a little over 80% of trading, maintaining their status as the main pillar for market liquidity. For their part, Spanish households accounted for a little over 20% of share ownership, worth 111.43 billion euros in September 2018, 14% less than at year-end 2017.[9]

Table 2.1.1 compares the size of the main international equity markets by using capitalisation and trading to nominal GDP ratios. In 2018, the capitalisation to GDP ratio decreased for all markets as a result of the price falls in the leading

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5 In 2018, the European Eurostoxx 50, Dax 30, Cac 40 and Mib 30 indices fell by 14.3%, 18.3%, 11.0% and 16.1%, respectively, while the US Dow Jones, S&P 500 and Nasdaq indices fell by 5.6%, 6.2% and 3.9%, respectively. The Japanese Nikkei 225 and Topix indices recorded annual losses of 12.1% and 17.8%, respectively.

6 The average implied volatility of the European Eurostoxx 50, Dax 30, Cac 40 and Mib 30 indices was 13.2%, 14.9%, 13.6% and 19.4% respectively, while for the US Dow Jones, S&P 500 and Nasdaq indices, it stood at 14.5%, 13.3% and 18.5%, respectively.

7 The Ibex 35 fell 15% in the year, as did the IGBM.

8 Includes trading subject to market rules (lit and dark).

9 According to the *Financial Accounts* of the Bank of Spain.

international stock markets in the context of GDP growth worldwide, with particularly significant falls in Canada and China. The falls in the United States and in Europe were more moderate, reflecting the more discreet and stable performance of these markets. There is greater heterogeneity in the case of trading, with rises in the United States and, to a lesser extent, in Canada and Japan, stability in regulated European markets and a fall in China. As in 2017, the performance of trading in regulated European markets was affected by the impact of competition from other regulated markets, MTFs and competing trading venues, as well as by volatility remaining at low levels, which discouraged algorithmic and high-frequency trading (HFT). The fall in the ratio in Spain was sharper than in other European markets as it was affected by the loss of market share to the benefit of its competitors.

Market capitalisation and trading on regulated markets as a percentage of nominal GDP TABLE 2.1.1

%

	Market capitalisation[1]		Trading volume	
	2017	2018	2017	2018
USA[2]	162.7	148.5	131.1	176.2
Canada	173.7	148.8	94.4	106.0
China[3]	100.2	75.4	147.2	114.5
Japan	127.7	106.6	118.6	126.9
London Stock Exchange[4]	128.8	107.8	65.7	68.9
Euronext[5]	100.3	86.4	46.7	49.4
Germany	57.8	45.3	39.8	45.4
Italy[4]	37.3	30.9	36.6	35.7
Spain	60.2	49.3	55.8	49.0

Source: World Federation of Exchanges; Eurostat; statistical offices of the United States, Canada and Japan; Datastream and CNMV. (1) In local currency, the market capitalisation figures correspond to the last working session of the year. (2) The numerator is the combined total of the NYSE Euronext US and Nasdaq. (3) Includes data from the Hong Kong, Shanghai and Shenzhen stock markets, as well as the GDP of the People's Republic of China and Hong Kong. (4) Although Borsa Italiana was integrated into the LSE Group, here the percentages of capitalisation and trading over GDP corresponding to each country are provided separately. (5) The denominator is the sum of the nominal GDP of France, the Netherlands, Belgium and Portugal.

2.1.2 Listed companies and capitalisation

Spanish stock markets closed 2018 with 148 listed companies, two less than at year-end 2017.[10] Five companies joined the electronic market, all of them newly listed companies: one real estate company (Metrovacesa),[11] one SOCIMI (Arima Real Estate), one energy company (Solarpack), one mining company (Berkeley Energía) and one restaurant operator (Amrest Holding). Meanwhile, there were seven delistings, six from the electronic market and one from the open outcry market.[12] Among the companies delisted from the electronic market, four were delisted following

10 This total refers to the official equity markets and hence does not include the companies listed on the Latibex or on the MAB, which are multilateral trading facilities.

11 Metrovacesa returned to the market in February 2018 after being delisted in 2013 as a result of a delisting bid.

12 Annex I.3 provides further information on new listings and delistings.

the settlement of the corresponding takeover bids (Abertis, Saeta Yield, Funespaña and Sotogrande), another as a result of a merger by acquisition (Axiare Patrimonio, SOCIMI, which was taken over by Inmobiliaria Colonial, SOCIMI) while another was delisted as a result of a resolution of the CNMV's Executive Committee (Reyal Urbis, which was in liquidation following an insolvency procedure). In addition, Ronsa, S.A. was delisted from the open outcry market of the Bilbao Stock Exchange.

Number of companies listed on Spanish stock markets[1]

TABLE 2.1.2

		Electronic market			Open	Second
	All markets	Total	National	Foreign	outcry	market
Listed at 31/12/17	150	134	127	7	12	4
Listed at 31/12/18	148	133	125	8	11	4
New listings in 2018	**5**	**5**	**4**	**1**	**0**	**0**
New listings	5	5	4	1	0	0
Listed due to merger	0	0	0	0	0	0
Change of market	0	0	0	0	0	0
Delistings in 2018	**7**	**6**	**6**	**0**	**1**	**0**
Delistings	6	5	5	0	1	0
Delistings due to mergers	1	1	1	0	0	0
Change of market	0	0	0	0	0	0
Net change in 2018	**-2**	**-1**	**-2**	**1**	**-1**	**0**

Source: CNMV. (1) Totals do not include MAB, Latibex or ETFs.

Stock market capitalisation fell by a little over 15% in 2018 to 592.66 billion euros, its lowest level for the last 5 years. This decrease was mainly the result of the fall in the value of companies,[13] but also due to the fact that the value of the delisted companies was greater than that of the new companies admitted to trading and the fact that the amount of the funds raised through capital increases was the lowest of the last five years.

The performance of the prices of the sectors represented in the Spanish stock market was unfavourable in most cases, although the falls were not across the board, either in terms of sectors or in terms of shares. The greatest falls were recorded by banks, companies from the transport and communications sector, companies from the textile sector, the mining sector and from the basic metals sector. The impact of these falls on the general index largely depends on the weightings of the sectors, which showed significant differences in the case of Spain, with the financial sector being particularly important (see Table 2.1.4 and Annexes I.5 and I.7). The largest falls in terms of capitalisation corresponded to banks and, to a lesser extent, to companies in the transport and communications sector, which lost one of its leading members following the settlement of the takeover bid for Abertis. The loss of this company, together with the fall in stock market prices, significantly reduced the capitalisation of the sector. It is also important to note the negative performance, for the second consecutive year, of the leading company in the textile sector, which suffered the effects of the doubts relating to its business model in a context of sharp growth in e-commerce competitors.

13 The most representative indices of the Spanish markets, the Ibex 35 and the IGMB, fell by 15% in 2018.

Capitalisation[1] of equity on Spanish stock markets TABLE 2.1.3

Million euros

	2015	2016	2017	2018	% change 18/ 17
All markets	**626,700.2**	**630,995.3**	**701,029.6**	**592,662.6**	**-15.5**
Electronic market	625,639.3	629,589.7	699,691.2	591,166.2	-15.5
National	624,640.4	628,080.6	697,909.0	590,057.8	-15.5
Foreign[2]	998.9	1,509.1	1,782.3	1,108.4	-37.8
Open outcry[3]	1,040.3	1,291.6	1,288.5	1,459.1	13.2
Madrid	296.9	289.9	165.9	219.4	32.3
Barcelona	887.7	1,136.6	1,134.3	1,318.4	16.2
Bilbao	943.3	54.0	54.0	56.5	4.5
Valencia	150.1	349.2	211.3	257.0	21.6
Second Market	20.6	114.1	49.9	37.4	-25.2

Source: CNMV. (1) Only includes capitalisation of companies that were traded at some time during the year. Excludes Latibex, MAB and ETFs. (2) The capitalisation of foreign companies listed on Spanish markets is based on the number of shares registered by Iberclear. (3) The market capitalisation of companies traded by open outcry in more than one market has been included in the figures for each market at the price for that market, but only once in the total for all markets.

The increases, which on average were smaller than the falls, were concentrated in companies from the energy sector (electricity companies), which, in turn, was the sector that recorded the largest growth in capitalisation. In addition, the capitalisation of the food and the real estate sectors also rose as each sector received a new medium-sized company: a new restaurant company in the case of the former and a real estate company in the case of the latter.

In terms of capitalisation, concentration in the market remains high, although there is a little more dispersion than in the previous year. As a result of this greater dispersion, in 2018 a total of 7 securities accounted for around half the market capitalisation, compared with the 6 companies that were necessary the previous year, although once again 17 Ibex 35 securities accounted for 75% of capitalisation. Similarly, as has been the case in previous years, the percentage of the 5 Spanish securities included in the Eurostoxx 50 index in the total capitalisation of the Spanish stock market continued to fall to stand at 42%, its lowest level of recent years (44%, 47% and 55% in 2017, 2016 and 2015, respectively), which reflects the greater growth of medium-sized companies compared with the traditional large companies and leading banks.

Number of listed companies and capitalisation by sector[1] TABLE 2.1.4

Million euros

Sector	2017	2018	2017	2018	% change 18/17
Oil	1	1	22,521.5	21,505.7	-4.5
Energy	9	9	95,910.3	105,712.9	10.2
Mining & basic metals	7	8	7,677.4	5,891.8	-23.3
Cement and construction materials	3	3	3,157.7	3,060.5	-3.1
Chemical and pharmaceuticals	8	8	19,362.0	18,774.1	-3.0
Textile and paper	10	10	94,443.0	73,879.3	-21.8
Metal-mechanical	15	15	13,402.8	11,213.2	-16.3
Food	13	14	7,353.5	8,708.8	18.4
Construction	9	8	35,730.5	33,827.2	-5.3
Real estate and SOCIMIs	20	19	16,023.6	17,197.6	7.3
Transport and communications	8	7	111,801.3	83,934.6	-24.9
Other non-financial	30	29	66,976.4	57,173.8	-14.6
Total non-financial sector	**133**	**131**	**494,359.9**	**440,879.5**	**-10.8**
Banks	10	10	190,682.5	137,697.9	-27.8
Insurance	2	2	12,679.8	11,056.6	-12.8
Portfolio companies	5	5	3,307.4	3,028.7	-8.4
Total financial sector	**17**	**17**	**206,669.8**	**151,783.2**	**-26.6**
Total	**150**	**148**	**701,029.6**	**592,662.6**	**-15.5**

Source: CNMV. (1) Only includes capitalisation of companies that were traded at some time during the year. Excludes Latibex, MAB and ETFs.

2.1.3 Listings, issues and public offerings

80 capital increases were carried out in 2018, 4 fewer than in the previous year, corresponding to a total of 45 companies listed on Spanish stock markets, the same number as in 2016 and 2017 (see Annexes I.1 and I.2 for further details). The decrease in the number of transactions of this type was allied to a significant decrease in the amount of funds raised, which amounted to a little over one third of the amounts obtained in the previous year, with a total of 11.33 billion euros.

65% of the capital increases were aimed at raising funds compared with 87% the previous year, while the remaining 35% were capital increases against reserves. The value of capital increases raising funds fell significantly, from 25.79 billion euros in 2017 to a little under 7.4 billion euros in 2018. This fall was the result of the lower needs of the financial sector, which has increased its capital base and strengthened its balance sheets on an ongoing basis over recent years, as well as the conclusion of the capital restructuring of the major industrial companies that has been undertaken in recent years.

As in 2017, capital increases with non-monetary consideration accounted for a significant portion of capital increases aimed at raising funds, although their amount fell significantly compared with the previous year. In contrast, accelerated book builds grew to almost 2 billion euros (822 million euros in 2017). Particularly noteworthy was the placement of Amrest Holding for an amount of 1.91 billion euros, which in turn joined the electronic market through a direct listing. The volume of the other capital increases aimed at raising funds was low: even traditional increases with pre-emptive subscription rights only amounted to 900 million euros, the lowest volume recorded over recent years.

Capital increases, 15 of which were associated with scrip dividend transactions (2 more than in the previous year) rose slightly (3.5%) after falling for 3 years running (see Table 2.1.5). This slight increase, both in terms of number and volume, might represent a change in the trend of the dividend policies followed by some companies in recent years, in which they had chosen to cancel this format or reduce the amount in favour of the traditional policy of paying in cash. Faced with a scenario of lower growth prospects, companies might be choosing to reduce remuneration in cash again to the benefit of payment in shares with the aim of retaining more financial resources on the balance sheet for the future.

Primary and secondary public offerings[1] TABLE 2.1.5

Million euros

	2015	2016	2017	2018	% change 18/17
Capital increases aimed at raising funds	**19,106.1**	**13,846.7**	**25,786.2**	**7,389.8**	**-71.3**
With pre-emption right	7,932.6	6,513.3	7,831.4	888.4	-88.7
Without pre-emption right[2]	0.0	807.6	956.2	200.1	-79.1
Accelerated book builds	8,092.3	0.0	821.8	1,999.1	143.3
Increases with non-monetary consideration[3]	365.2	1,791.7	8,469.3	2,999.7	-64.6
Capital increase by conversion	1,868.7	2,343.9	1,648.8	388.7	-76.4
Other	847.4	2,390.2	6,058.8	913.8	-84.9
Bonus issues	**9,627.8**	**5,898.3**	**3,807.3**	**3,939.7**	**3.5**
Of which, scrip dividend	9,627.8	5,898.3	3,807.3	3,915.2	2.8
Total capital increases	**28,733.9**	**19,745.1**	**29,593.6**	**11,329.5**	**-61.7**
Secondary offerings	**8,331.6**	**500.6**	**2,944.5**	**733.7**	**-75.1**

Source: CNMV. (1) Does not include data from the MAB, ETF or Latibex. (2) Primary offerings. (3) Capital increases with non-monetary consideration have been recorded at market prices.

Despite the growth of the economy and the interest of several companies in going public over the year, the poor performance of stock markets led to these plans being cancelled or delayed. These include cancellation of the operation of the second largest oil company in Spain (Cepsa), the prospectus of which had even been registered with the CNMV. There was only one public offering, that of a real estate company (Metrovacesa) in an amount of a little over 700 million euros, merely a quarter of the almost 3 billion euros raised in the 7 public offerings in 2017. The only offering in 2018 took place in the electronic market, where there were two companies that went public through a primary offering, one SOCIMI and one energy company.

2.1.4 Trading

Spot trading

The trading of Spanish securities admitted to trading on Spanish markets remained practically unchanged in 2018, standing at 931.02 billion euros (933.42 billion euros in 2017). Trading in these securities has followed a downward trend for several years, which was temporarily interrupted in 2017, but which resumed in 2018. Furthermore, trading on Spanish markets continued its decline. This trend began following implementation of MiFID I[14] has been consolidated with MiFID II and MiFIR.[15] This legislation, which allows securities trading in trading venues other than the home regulated market, has led to a process of fragmentation characterised by a shift of some securities trading to these competing venues.[16] The fragmentation began earlier in other European countries and although Spain joined this trend subsequently, the market shares of competing markets in the trading of Spanish securities has now reached levels similar to those of other European countries.

As mentioned above, the trading of securities in Spanish stock markets recovered slightly in 2017, which continued in the first few months of 2018. This trend was reversed in the second half of the year as a result of intensified competition from other trading venues. The amount traded over the year as a whole in Spanish markets fell by 8.5% to 579.81 billion euros. This amount still accounts for the bulk of the trading and, in relative terms, corresponds to a little over 62% of the total (compared with 68% in 2017 and 72% in 2016).

At the same time, the amount traded through BME's competing trading venues grew by 17.2% to 350.8 billion euros in 2018 (see Table 2.1.6). Their market share stood at around 40% of total trading of Spanish securities,[17] a percentage that has practically doubled over the last three years. The increase in trading in these venues also took place in a context of low volatility that does not favour some types of trading such as algorithmic and high-frequency trading (HFT), which are traditionally executed to a greater extent in such venues.

Particularly noteworthy once again among the competing trading venues was the Cboe Global Markets (Cboe) regulated market, which operates through two different order books, Chi-X and BATS. Aggregate trading on this market grew to over 278 billion euros, accounting for almost 80% of the market share of these alternative trading venues and 30% of the total amount traded with Spanish equity securities admitted to trading on official Spanish markets. Cboe thus consolidates its position as BME's main competitor as its volume of trading is now almost 50% of the size of the latter, compared with 30% in 2017. Similarly, Cboe has changed the composition of the trading between its two order books, so that the relative weight of Chi-X has been falling in favour of BATS, which has recorded a fourfold increase in trading over the last three years. Other competitors have gradually been losing relative weight, with the only significant one being Turquoise, with a market share of a little over 12% of the trading of BME's competitors.

14 MiFID I entered into force in 2007 and allowed the trading of securities in European regulated markets and MTFs other than the home regulated markets.

15 They were implemented in 2017.

16 This process of relocation from traditional regulated markets to competing trading venues has spread throughout Europe, affecting an increasing number of markets, including small-sized markets. One of the leading trading venue operators – Cboe Global Markets (Cboe) – performs this activity in a total of 15 European markets, including smaller markets such as Helsinki and Copenhagen.

17 Calculation made on trading subject to market rules (lit and dark).

Total trading in Spanish equity listed on official Spanish markets[1] TABLE 2.1.6

Million euros

	2014	2015	2016	2017	2018	% change 18/17
Total	**1,002,992.8**	**1,162,979.7**	**878,329.9**	**933,416.3**	**931,019.3**	**-0.26**
Admitted on SIBE	**1,002,095.8**	**1,161,222.9**	**877,408.4**	**932,763.1**	**930,607.1**	**-0.23**
BME	849,934.5	925,978.7	634,914.5	633,385.7	579,810.4	-8.46
Chi-X	95,973.0	150,139.9	117,419.4	117,899.2	106,869.7	-9.36
Turquoise	28,497.5	35,680.5	51,051.8	44,720.1	42,883.4	-4.11
BATS	18,671.0	35,857.6	44,839.8	75,411.6	171,491.3	127.41
Other[2]	9,019.8	13,566.2	29,182.9	61,346.5	29,552.2	-51.83
Open outcry	**92.5**	**246.1**	**7.9**	**8.1**	**8.2**	**1.50**
Second Market	**0.7**	**13.8**	**3.2**	**0.7**	**0.8**	**8.56**
ETF[3]	**803.9**	**1,496.8**	**910.4**	**644.5**	**403.2**	**-37.44**

Source: Bloomberg and CNMV. (1) Includes trading subject to market or MTF rules (lit plus dark) of equity instruments admitted to trading on Spanish official secondary markets and identified by means of an ISIN issued in Spain. Hence, this does not include foreign securities admitted to trading on those markets whose ISIN is not issued in Spain. (2) It is calculated as the difference between the amount traded of the EU Composite calculated by Bloomberg for each share and the amount traded for the markets and MTF included in the Table, and hence includes trading on other regulated markets and MTFs, as well as OTC trading. (3) Only ETFs with Spanish ISIN.

In the main European regulated markets considered as a whole,[18] trading fragmentation in 2018 was very similar to the Spanish case, although some of them recorded a slight reversal of this trend with a certain recovery of the share of the regulated market to levels above 60%. In aggregate terms, around 40% of European equity trading subject to market rules takes place outside the regulated market on which the securities are admitted to trading. Even though one of the basic aims of the new regulatory framework established by the MiFID II Directive and the MiFIR Regulation was to increase transparency levels in the market and redirect OTC trading to regulated environments, reported trading (including systematic internalisation) would have fallen very slightly to under 40% of total trading, which reveals the reluctance of operators to increase the transparency of their transactions and redirect OTC trading to environments subject to greater transparency.

Trading on official markets operated by BME

Equity trading on the markets operated by BME took place predominantly on the SIBE trading platform (see Table 2.1.7) – known as the electronic market – with a reduction in trading on the open outcry market and on the second market to insignificant levels. Aggregate trading of the two MTFs operated by BME – MAB and Latibex – barely amounted to 1% of the volume traded on the SIBE. The amount traded on the SIBE fell by 9% and stood at a little over 586 billion euros,[19] while the number of trades fell by 13.2% to a little over 44 million. The number of trades has fallen for 4 years running as a result of both greater competition from other trading venues and the fall in market volatility, which discourages the activity of high-frequency trading

18 Including the main stock markets in the euro area and the London securities markets.
19 This figure includes the trading of Exchange-Traded Funds (ETFs), which amounted to 3.03 billion.

and the number of high-frequency trades. Despite the fall in the number of total trades, the fall in the number of high-frequency trades meant that the cash average per trade rose to 13,284 euros, 4% up on the previous year, with 2 consecutive years of rises.[20]

Equity trading on markets operated by BME TABLE 2.1.7

Million euros

	2015	2016	2017	2018	% change 18/17
Total	**957,990.7**	**652,226.2**	**649,883.3**	**590,852.6**	**-9.1**
Official markets	**951,290.3**	**647,003.2**	**644,766.7**	**586,364.1**	**-9.1**
SIBE	**951,030.4**	**646,992.6**	**644,757.8**	**586,355.1**	**-9.1**
of which ETFs	12,633.8	6,045.2	4,464.1	3,027.6	-32.2
Open outcry	**246.1**	**7.5**	**8.1**	**8.2**	**0.9**
Madrid	19.4	3.2	1.8	0.8	-57.4
Bilbao	7.5	0.0	0.1	0.0	-24.3
Barcelona	219.1	4.2	6.3	7.4	17.4
Valencia	0.1	0.0	0.0	0.0	21.0
Second Market	**13.8**	**3.2**	**0.7**	**0.8**	**8.6**
MAB	**6,441.7**	**5,066.2**	**4,985.8**	**4,336.9**	**-13.0**
Latibex	**258.7**	**156.7**	**130.8**	**151.6**	**15.9**

Source: CNMV.

The number of orders fell by 3.1% on 2017 to 409.7 million, the lowest figure since 2014.[21] The order to trade ratio rose to 9.26 (8.3 in 2017), but so did the amount per trade, which confirms the fall in algorithmic and high-frequency trading as many orders were eventually executed or cancelled as a result of the scenario of low market volatility.[22]

With regard to the types of trading on the electronic market, Table 2.1.8 shows the fall in trading of all "regular trading", with falls of over 10% in the amount traded in the two most significant types: order-based trading (52% of the total) and block trading (35%). In terms of trading volume, order-based trading fell by almost 36 billion euros, while block trading fell by almost 28 billion euros. Regulated markets, multilateral trading facilities and trading venues that are competitors of BME account for a large part of block trading. The volume attributed to other types of trading grew by 53% as a result of the high volume of trading corresponding to the settlement of the takeover bid for Abertis.

20 Algorithmic trading is characterised by a high number of orders that are usually of a small volume, which leads to a reduction in the average size of the trades.
21 In 2015, 2016 and 2017, there were 645, 611 and 422 million orders, respectively.
22 High frequency trading is characterised by the performance of a very high number of trades of securities with a very short average life (less than one session), the aim of which is to benefit from small changes in the price of securities. This type of trading is best suited to scenarios of high market volatility.

Trading on BME by type[1]

TABLE 2.1.8

Million euros

	2014	2015	2016	2017	2018	% change 18/17
Regular trading	831,962.6	903,397.2	618,600.9	619,108.6	552,716.8	-10.7
Order-based	453,294.9	475,210.0	350,783.5	335,917.3	300,107.8	-10.7
Applications	73,056.8	96,187.7	68,631.6	51,316.0	48,644.1	-5.2
Block trades	305,610.8	331,999.5	199,185.8	231,875.3	203,965.0	-12.0
Off-hours	7,568.9	3,137.9	2,196.1	2,373.8	1,667.3	-29.8
Other types	24,912.5	31,861.5	20,150.4	18,811.3	28,833.5	53.3

Source: CNMV. (1) Does not include data for Latibex, MAB or ETFs.

Stock market trading continued to be highly concentrated in a small number of shares. In 2018, 6 and 14 shares were necessary to account for 50% and 75%, respectively, of the cash amount traded on SIBE (5 and 16 shares in 2017). The shares with the highest level of trading were the same as in the preceding two years – Banco Santander, BBVA, Telefónica, Inditex and Iberdrola – all of which are components of the Spanish Ibex 35 index and the European EuroStoxx 50 (see Annexes I.6 and I.8 for further details regarding trading and distribution).

Short positions

The aggregate position of short sales according to information received by the CNMV rose slightly during 2018 to a year-end 0.84% of total share capitalisation of the electronic market, more than the 0.7% at year-end 2017. At the end of the year, there were 5 and 12 shares in short positions of 5% and 2% of their individual capitalisation, respectively, compared with the 5 and 16 shares in the same situation in 2017. Three companies of the distribution, telecommunications, and engineering sectors, which headed up this list in the previous year, remained among the individual shares with the highest short positions. There were also significant short positions in other shares from the construction, real estate, media and banking sectors.

Short positions

TABLE 2.1.9

	% short positions/ capitalisation[1]	No. companies with short positions > 2%[2]	No. companies with short positions > 5%[2]
2014	0.57	14	2
2015	0.86	20	7
2016	0.97	18	6
2017	0.70	16	5
2018	0.84	12	5

Source: CNMV. (1) The figure for aggregate net short positions includes the sum at the end of each reference year of the individual positions declared (equal to or greater than 0.5%), plus the sum of all positions equal to or greater than 0.2% and less than 0.5% for all securities included in the SIBE. (2) Number of companies whose aggregate net short positions at the end of each reference year were greater than 2% and 5%, respectively, of their capital (including the sum of the individual positions declared - equal to or greater than 0.5% – plus the sum of all positions equal to or greater than 0.2% and less than 0.5%).

The information on aggregate short positions provided in this section comes from communications made in compliance with the rules set out in Regulation 236/2012 and its delegated regulations, which make it obligatory to report short positions if they account for 0.2% of share capital and therefore do not include short positions accounting for smaller percentages.

The CNMV decided to stop publishing information on short positions as from 2019 and apply the same criteria as other European regulators for several reasons. On the one hand, this periodical publication was a particular feature of the Spanish market, which made it somewhat asymmetric compared with other European securities subject to supervision by other competent authorities. In addition, the fact the prevailing European regulations on short positions oblige the same percentage thresholds to be applied for reporting, regardless of the capitalisation of the company, means that information on short positions of companies with low market capitalisation may be wrongly interpreted and give rise to a perception of a greater accumulation of these positions compared with those of larger companies, with the consequent generation of distorted signals to the market. After analysing the issue and undergoing a consultation process with the sector, the CNMV decided to stop publishing these fortnightly positions.

2.1.5 Takeover bids (OPAs)

In 2018, 6 takeover bids for a potential amount of 23.84 billion euros were authorised (25.3 billion if we include the acquisitions agreed on previously), much higher than the figure recorded in recent years and the highest figure in recent years (see Table 2.1.10). A list of the takeover bids authorised during the last year can be found in Annex I.9.

By volume, the largest transaction was the voluntary takeover bid by Hochtief AG for Abertis Infraestructuras, S.A. in an amount of 18.18 billion euros, which accounted for over 75% of the total amount. This bid competed with that made initially by Atlantia SpA, which had been authorised the previous year. The process concluded in 2018 with an agreement between the two bidders.

The other bids were a delisting bid for Funespaña, S.A. made by its controlling shareholder, Mapfre; a mandatory bid for NH Hotel Group, as the Thai group Minor had acquired an interest greater than 30%; and another three voluntary bids to take over and subsequently promote delisting made by Terp Spanish Holdco, S.L.U. for Saeta Yield, S.A., Alzette Investment, S.à R.L. for Hispania Activos Inmobiliarios SOCIMI, S.A., and DS Smith, Plc for Papeles y Cartones de Europa, S.A. (Europac).

All the bids were made with payment in cash at a price defined as fair by applicable legislation and in all except the bid for NH Hotel Group, the price was supported by a valuation report. Similarly, the four voluntary bids were made subject to certain conditions allowed in this type of transaction, which were met in all cases.

The results obtained in the bids for Saeta and Europac allowed in both cases a squeeze out of all the shareholders as they both received acceptance equal to or greater than 90% of the shares covered by the respective bids, with the bidders obtaining 90% or more of the capital, which led to the delisting of the shares.

Takeover bids TABLE 2.1.10

Million euros

	2014	2015	2016	2017	2018
Authorised[1]					
Number	7	9	5	5	6
Potential amount	478	5,049	1,682	18,183	23,842
Potential amount plus agreements prior to acquisition[2]	644	7,360	1,743	19,902	25,298
Carried out[3]					
Number	7	8	5	4	6
Amount	216	4,394	853	1,309	19,582
Amount plus agreements prior to acquisition[2]	382	6,705	914	1,502	21,038

Source: CNMV. (1) Authorised during the year. (2) Potential amount of takeover bids plus cash volume of acquisitions agreed prior to each bid. (3) All bids authorised during the year, even if completed in the following year, except where the bid was unsuccessful or was withdrawn. Does not include the amounts for squeeze outs.

2.1.6 Multilateral trading facilities

Latibex

Securities traded on Latibex performed positively in most quarters of the year, in the context of high volatility of exchange rates but stable commodity prices[23] and relatively high oil prices.[24] Latin American economies found themselves in a process of slowing economic growth – with particular problems in the Argentinian economy. However, they improved on expectations in the second half of the year, particularly the Brazilian economy,[25] which allowed a significant gain in share prices over those months as Brazilian companies are widely represented in this market. As was the case in the previous year, the depreciation of the Brazilian real weighed down on the prices of the Latibex index, which was partially offset by the rising value of the Mexican peso.[26] In this context, the two indices representative of Latin American securities included in this MTF, the FTSE Latibex All-Share and the FTSE Latibex Top, recorded gains of 10.3% and 14.8% in 2018, respectively, compared with 9% and 7.3% in 2017.

It should be noted that the securities traded on Latibex[27] account for a very small part of the total number of shares admitted to trading for the different companies in their main trading markets in Latin America. In fact, the market value of the shares admitted to trading on this MTF – which fell by 4.5% to 233.3 million euros – accounts for only 0.1% of the capitalisation of the companies traded there. As in previous years, most of the balance registered in Iberclear corresponded to Brazilian companies, although their relative weight fell to 70% to the benefit of Mexican companies, whose share rose to 29%. The total number of companies traded on this market was 19, one fewer than the previous year.

23 The CRB raw industrials index in euros fell by 2% in 2018 (-8.5% in 2017).
24 Oil prices rose from an average of 54.75 dollars per barrel in 2017 to 71.67 dollars in 2018.
25 The IMF expects its growth to stand at 1.3% in 2018 (1.1% in 2017), but raised its forecast to 2.5% in 2019.
26 In 2018, the Brazilian real depreciated by 11.2% against the euro, while the Mexican peso appreciated by 4.2%.
27 These securities must be previously registered in Iberclear.

Unlike what happened with the market value of the companies traded on Latibex, the trading of these shares grew by 15.8% to 151.6 million euros, of which 65% corresponded to Brazilian companies and 35% to Mexican companies. The trading of shares of Peruvian companies stood at very low levels while there were hardly any transactions with the shares of Argentinian companies.

Companies listed on Latibex by country TABLE 2.1.11

Million euros

	No. of companies		Negotiable securities at market price[1]			Trading volume		
Country	2017	2018	2017	2018	% change 18/17	2017	2018	% change 18/17
Argentina	2	2	4.2	2.4	-43.4	0.2	0.0	-84.3
Brazil	10	10	194.2	155.4	-20.0	108.3	98.2	-9.3
Mexico	7	6	34.9	64.8	86.0	0.0	53.1	142.4
Peru	1	1	0.0	0.0	0.0	0.0	0.3	-35.2
Total	**20**	**19**	**233.3**	**222.7**	**-4.5**	**130.8**	**151.6**	**15.8**

Source: CNMV. (1) Securities deposited in Iberclear.

The Alternative Stock Market (MAB)

The various segments traded on the MAB multilateral trading facility once again recorded a similar performance to that of the previous year, maintaining the number of companies in expansion, noteworthy growth in the number of SOCIMIs and a slight decline in the number of SICAVs.

Companies listed on MAB by segment TABLE 2.1.12

Million euros

	No. of companies		Market capitalisation[1]			Trading volume		
	2017	2018	2017	2018	% change 18/17	2017	2018	% change 18/17
Growth stocks	41	41	1,734.7	1,318.2	-23.4	294.2	157.1	-46.6
SICAV	2,864	2,722	33,702.3	27,720.1	-17.7	4,566.5	3,973.9	-13.0
Hedge funds	14	15	448.7	458.9	2.3	55.5	15.4	-72.2
SOCIMIs	46	64	7,919.0	10,513.4	32.8	69.6	69.9	0.4
Total	**2,965**	**2,842**	**43,804.8**	**40,020.7**	**-8.6**	**4,985.8**	**4,216.3**	**-15.4**

Source: CNMV. (1) Includes only the value of those entities for which there was trading during the year.

SOCIMIs have accumulated 4 consecutive years of strong growth supported by specific tax legislation to a total of 64 companies, which confirms the recovery of the real estate market. A total of 19 SOCIMIs entered the Spanish markets in 2018, 18 of which joined the MAB. SOCIMIs are the Spanish adaptation of the real estate investment vehicles (REIT) that exist in other countries[28] and are characterised by having a tax treatment which exempts them from paying corporate income tax and allows them to enjoy a 95% credit on transfer tax and stamp duty. In return, they are required to distribute 80% of the profits obtained from rental income and 50% of the gains generated by the sale of assets. Their activities focus on the promotion, refurbishment and transaction of leased real estate, holdings in other SOCIMIs and the performance of ancillary real estate activities. They are also required to have a minimum capital of 5 million euros, through either a monetary or a non-monetary contribution, and be listed on a regulated market or multilateral trading facility such as the MAB. This type of company allows investors to diversify their investment and access a real estate portfolio with greater ease and liquidity than in the case of direct investment in real estate assets.

The number of companies listed in the growth stock segment remained unchanged at 41 because, although 3 companies joined the market – Robot, Tier1 Technology and Alquiber —another 3 were delisted — Gowex, Vousse Corp and Carbures. This last company merged with Inypsa to create a new company named Airtificial, which is listed on the electronic market. The amount traded fell by nearly 47% to 157 million euros, while capitalisation fell by almost 23% to under 1.32 billion euros, its lowest level since 2013, which is largely explained by the delisting of the company Carbures. In addition, the companies listed in this segment conducted 11 capital increases[29] for an aggregate amount of 115 million euros, 26 million more than in the previous year.

Lastly, the number of SICAVs fell again in 2018, with 142 delistings to stand at a total number of 2,722, with capitalisation that fell to almost 6 billion euros. This fall in the capitalisation of SICAVs can be explained both by the delisting of companies and by the unfavourable market trend in 2018.

At the end of 2016, BME and the investor association Big Ban Angels created a joint initiative called Pre-Market Environment (EpM) so as to allow companies with great growth potential to discover the functioning of stock markets and access new investors. The project currently has 13 companies in the start-ups segment, belonging to 11 different sectors of activity, that obtain aggregate revenue of 70 million euros and represent a committed private investment of 25 million euros. In addition, for more mature companies, a growth segment has been created with specific development programmes that will facilitate their access to the MAB.

2.1.7 Exchange-Traded Funds (ETFs)

The trading of Exchange-Traded Funds (ETFs) began on the Spanish market in 2006 and reached a figure of close to 70 in 2011. However, this form of trading has dropped off and had almost disappeared by 2018. Although they are a simple and transparent product with low management costs, which allow, due to their

28 Law 11/2009, 26 October, regulating SOCIMIs.
29 Source: BME.

flexibility, investors to diversify positions by type of asset, market, sector, geographic area and even strategy, their expansion in the Spanish market has been penalised by their different tax treatment compared with traditional (non-listed) investment funds. In addition, ETFs listed on the Spanish stock exchange have also been penalised in comparison with those distributed in Spain and listed on international markets, to which the tax deferral of gains could be applied. In this regard, the position of the CNMV has always been to standardise tax treatment so as to eliminate the competitive edge of the relatively high tax penalties for those listed on the Spanish market compared with those listed abroad. As a consequence of these factors, ETFs listed on Spanish markets have lost a great deal of the interest of both issuers and fund managers present in the Spanish stock market, which have decided to delist their less liquid issues to the benefit of ETFs listed on other markets.

At year-end 2018, a draft bill was being processed to standardise the tax treatment of ETFs irrespective of the market on which they are listed so as to extend the same tax system that existed for ETFs listed in Spain to ETFs listed abroad and distributed in Spain.

In this context, trading volumes of these products fell for the third consecutive year to 3.03 billion euros, 32% down on 2017 and the lowest volume since 2013, while assets managed fell to 1.17 billion euros at year-end 2018, a fall of 37%. Trading became even more concentrated in a small number of funds (those referenced to the Ibex 35 accounted for over 95% of the total trading volume), of which one single fund accounts for over half. At year-end, six ETFs were traded on Spanish stock markets managed by two financial institutions (in 2015, over 55 different ETFs were traded), two fewer than in 2017. Entities have continued to delist the less liquid issues and one German entity abandoned this activity. Of the six issues currently traded, four correspond to a French entity and two to a Spanish entity, whose references are linked to the performance of the Ibex 35 and Eurostoxx 50 stock market indices.

Half of the funds traded follow passive management strategies based on tracking the above indices, while the others are inverse and leveraged funds linked to the Spanish index, which concentrate almost one third of the amount traded in the segment.

At any event, it is worth pointing out the anomaly in the Spanish market of the low investment in this type of product which amount to an investment in the rest of Europe of approximately 630 billion euros.

2.2 Fixed income

During 2018, activity in the primary fixed-income markets by Spanish issuers was underpinned by a context of low interest rates, but there were also other factors pushing in the opposite direction, such as changes in borrowing needs over the year and the existence of alternative sources of financing. As a whole, both aggregate gross and net issues were lower than in 2017, although they resulted in a 2% increase in the outstanding debt balance (very similar to that of the euro area, although with significant differences between sectors).

Total gross issues fell by close to 5% in 2018 as a result of both fewer issues by public authorities – in parallel with the reduction in borrowing needs as a result of the gradual reduction in the public deficit – and the fall in issues by financial institutions, which continued to find the financing offered by the Eurosystem a more attractive alternative. In contrast, debt issues by non-financial companies increased significantly as low interest rates and the expectation that they would be raised in the short term encouraged these companies to obtain financing in capital markets.

In 2018, Spanish issuers continued registering fewer private fixed-income issues with the CNMV and increasing their issues abroad. These issues abroad reached an amount that was close to the 90% of the total volume registered with the CNMV, with a substantial increase in commercial paper, which exceeded 50 billion. Also noteworthy was the increase in fixed-income issues abroad by the subsidiaries of Spanish companies and, within these, those made by financial institutions. These are foreign subsidiaries of Spanish companies and therefore their issues do not count as Spanish private fixed income, but they may be an alternative source of financing for the Spanish parent companies.

In 2018, debt assets were traded in a new context resulting from the entry into force of MiFID II and MiFIR on 3 January, which introduced greater competition by allowing these assets to be traded on regulated markets, Multilateral Trading Facilities (MTFs), Organised Trading Facilities (OTFs) and Systematic Internalisers (SIs). From the point of view of Spanish trading venues, it is worth noting the fall in private debt trading on the AIAF regulated market, which is the result of increased competition among trading venues and a change in the channelling of bilateral trades, which are now also performed through SIs or considered as OTC trades. With regard to Spanish OTFs, it is important to note that two facilities began operating: CIMD and CAPI.

2.2.1 General overview

While the ECB maintained its expansive monetary policy stance in 2018, at the end of the year it began to reduce the volume of net asset purchases as a first step in the scheduled shift in its policy stance. Net asset purchases fell from 30 billion euros per month in October to 15 billion in December 2018, the month in which the end of the purchase programme was confirmed. However, the ECB announced that it would maintain a sufficiently accommodative monetary policy stance throughout 2019, and reinvest the principal payments from maturing securities purchased under the programme. With regard to the planned interest rate hikes, for much of 2018 the ECB favoured making the first rate rise at the end of the summer of 2019. However, the sharp slowdown in growth in the euro area, which began to become evident at the end of 2018, once again delayed the date of this first rate hike, which is unlikely to take place at all in 2019.

The confirmation that the change in the trend of the ECB's monetary policy would be slow and gradual led to interest rates, both of public debt and private fixed income, to close 2018 at similar levels to those of 2017 and close to their historic lows.

In 2018, both volumes of gross and net fixed-income issues fell compared with 2017, during which they had grown substantially. However, net issues remained positive, which contributed to a moderate increase in outstanding debt. In 2018, Spanish issuers placed fixed-income securities in the primary market for an amount of 416.66 billion euros, which exceeded the maturities by 31.37 billion euros. This led to a 2% increase in outstanding securities, which is in line with that recorded in the euro area (2.1%). However, while in the euro area financial institutions were the main contributors to this increase, in Spain their net issues were negative (-14.43 billion euros). The increase in the outstanding balance of fixed-income instruments was mainly concentrated in public authorities, with net issues of 37.93 billion euros. Non-financial companies also contributed to the increase in the outstanding balance, although with a much more moderate volume, with net issues of 7.87 billion euros.

The lower level of issues by Spanish financial institutions in 2018 contrasted with the behaviour of these institutions in the rest of the euro area, where their issues led to an increase in the outstanding debt balance of 2.8% (-2.3% in the case of Spanish financial institutions). One of the reasons for this difference might be the intensive use by Spanish credit institutions of the low-rate financing facilities offered by the ECB. At year-end 2018, the balance of lending granted by the Eurosystem to Spanish credit institutions amounted to 167.42 billion euros, accounting for 23% of all Eurosystem lending and a share that almost triples the share that the Bank of Spain holds in the ECB's capital (8.34%). It may therefore be deduced that Spanish institutions make use of this type of financing to a greater proportion than other European institutions. This fact, together with the moderate fall in lending and the reduction in the problematic assets of Spanish banks might explain them having less need to obtain financing from the debt market.

Issues and outstanding balances: breakdown by issuer TABLE 2.2.1

Million euros

	Amount[1]			*Pro memoria:* euro area	
	2017	2018	% change 18/17	2018	% change 18/17
Gross issues[2]	**437,872**	**416,664**	**-4.8**	**7,275,245**	**-1.4**
Public authorities	241,868	219,420	-9.3	2,308,559	-3.7
Financial institutions	180,229	176,356	-2.1	4,298,833	-0.9
Non-financial companies	15,774	20,888	32.4	667,854	3.6
Net issues[2]	**37,187**	**31,373**	**-15.6**	**274,415**	**32.1**
Public authorities	46,903	37,929	-19.1	111,599	-31.9
Financial institutions	-18,032	-14,428	20.0	120,374	535.4
Non-financial companies	8,315	7,873	-5.3	42,442	-40.7
Outstanding balances[3, 4]	**1,678,646**	**1,712,005**	**2.0**	**16,947,261**	**2.1**
Public authorities	989,023	1,026,951	3.8	8,117,355	1.4
Financial institutions	653,103	637,848	-2.3	7,546,161	2.8
Non-financial companies	36,521	47,206	29.3	1,283,745	2.3

Source: Bank of Spain, CNMV and ECB. The data for the debt of public authorities in this table are not directly comparable with the data drawn up according to the Excessive Deficit Protocol, mainly due to the fact that the latter methodology excludes securities held in the portfolios of public authorities and includes currency swaps. (1) Includes issues by Spanish companies in Spain and abroad. (2) For currency issues of public authorities, the exchange value in euros is used by applying the average exchange rate for the month published by the ECB. For currency issues of financial institutions and non-financial companies, the exchange value in euros is used by applying the exchange rate for the last day of the month published by the ECB. (3) For the outstanding balances of currency issues, the exchange value in euros is used by applying the exchange rate of the ECB at the end of the period. (4) Outstanding balances cannot be adjusted with net issues because of the use of different exchange rates for currency issues.

There was also a notable increase in gross issues by subsidiaries of Spanish financial institutions abroad, the volume of which doubled in 2018, rising from 19.46 billion euros to 41.97 billion euros. To a certain extent, the financing obtained abroad by the subsidiaries might be an alternative source of financing for the group's Spanish parent company.

2.2.2 Public debt

The movements in government bond yields in 2018 were the result of decisions and expectations relating to the ECB's monetary policy, upgrades in the credit ratings given by the leading rating agencies and the presence of some uncertainties. Movements in the first few months of the year were largely the result of the effect of the improvement in the credit rating given to the Kingdom of Spain by the four rating agencies considered by the Eurosystem, which resulted in a slight fall in the risk premium and the yield on government bonds. In contrast, in the second half of the year, uncertainty relating to Italian public finances and the possibility that the accommodative monetary policy would be reversed faster than expected led to certain temporary upturns in yields. Finally, the narrowing of the differences between the positions of the Italian government and the European Union with regard to Italian public accounts and the confirmation by the ECB that its monetary policy would remain accommodative at least until the second half of 2019[30] led to government bond yields at most maturities and the sovereign credit risk premium to close the year at similar levels to those of 2017.

In this context, short-term government bond yields remained in negative terrain for the fourth consecutive year and closed 2018 at levels close to historic lows. Consequently, the yield in the secondary market of 3-month, 6-month and 12-month treasury bills at the end of December (on average) stood at -0.50%, -0.41% and -0.33%, respectively. These values are in line with the minimum annual yield of -0.40% established by the ECB in its debt purchase programme (deposit facility rate). With regard to the longer terms, the yield on 3-year, 5-year and 10-year government bonds in December (on average) stood at -0.04%, 0.43% and 1.43%, respectively. These values are very close to those recorded at the end of 2017, with a slight increase in 5-year yields (12 bp), while 10-year yields closed the year at almost exactly the same level as year-end 2017 (see Table 2.2.2).

30 In mid-December, the ECB's president reiterated the bank's commitment to maintaining rates at current levels (0%) at least through the summer of 2019, and in any case for as long as necessary. By the end of December 2018, the ECB had acquired public debt for 2.17 trillion euros, of which 260.82 billion euros corresponded to Spanish debt.

Interest rates for public debt[1] TABLE 2.2.2

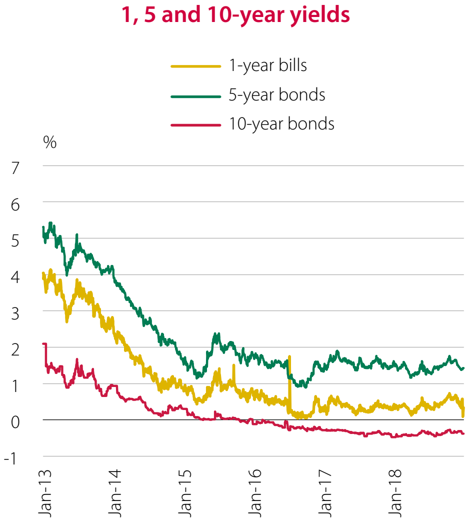
%

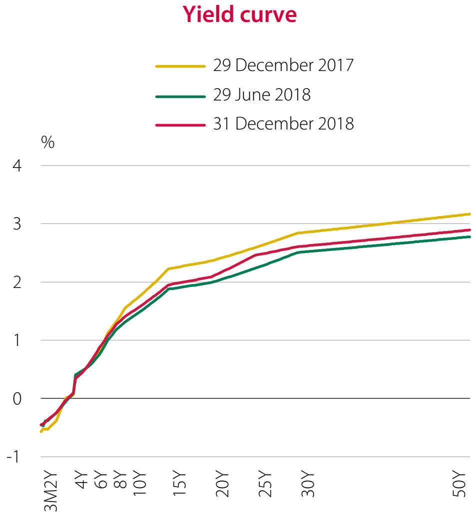
	Dec-15	Dec-16	Dec-17	Dec-18
Treasury bills				
3 months	-0.15	-0.47	-0.62	-0.50
6 months	-0.01	-0.34	-0.45	-0.41
12 months	-0.02	-0.25	-0.42	-0.33
Medium and long-term government bonds				
3 years	0.24	0.04	-0.09	-0.04
5 years	0.72	0.35	0.31	0.43
10 years	1.73	1.44	1.46	1.43

Source: Thomson Datastream. (1) Monthly average of daily data.

The yield curve of Spanish government bonds at year-end 2018 was practically identical to that of year-end 2017 up to maturities of 8-10 years. However, at longer maturities, yields at 31 December 2018 were slightly below those of year-end 2017.

Spanish government debt yields FIGURE 2.2.1



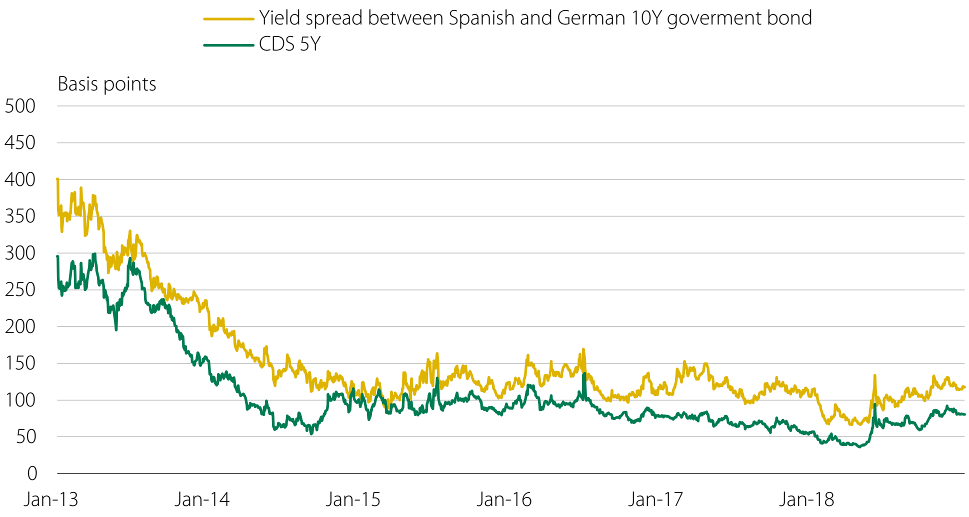


Source: Thomson Datastream and Bloomberg.

The risk premium, measured as the spread between the yields on the Spanish 10-year sovereign bond and the 10-year German bond, stood at 118 bp at the end of 2018, a figure similar to that recorded at the end of 2017 (114 bp), but in the higher part of the range between the annual high of the end of May (134 bp) and the low recorded in April (66 bp). The risk premium measured by using the CDS of the Spanish sovereign bond – whose market is less liquid than that of the German bond – recorded more significant increases and stood at 80 bp at the end of 2018, compared with 57 bp at the end of 2017 (see Figure 2.2.2).

Risk premium paid by Spanish issuers: public sector

FIGURE 2.2.2



Source: Thomson Datastream and CNMV.

2.2.2.1 Primary market

The volume of gross issues registered by the public authorities in 2018 stood at 219.42 billion euros, 9.3% below the figure for the previous year. The breakdown by type of issuer shows that Central Government was responsible for 98.3% of all issues (215.7 billion euros), while the amount issued by the regional governments (3.72 billion euros) accounted for a very low percentage of the total (1.7%). The State provides financing to both autonomous regions and local authorities through various mechanisms, such as the Fund for Financing of the Autonomous Regions and the Fund for the Financing of Local Authorities, which explains their extremely low need to obtain financing directly from the markets.

Gross issues by public authorities

TABLE 2.2.3

Nominal amount in million euros

	2015	2016	2017	2018	% change 18/17
State	**240,594**	**223,067**	**236,506**	**215,702**	**-8.8**
Short-term	97,871	100,996	94,439	80,984	-14.2
Long-term	142,723	122,071	142,067	134,717	-5.2
Regional governments	**4,046**	**4,866**	**5,305**	**3,718**	**-29.9**
Short-term	424	482	532	458	-13.8
Long-term	3,621	4,384	4,774	3,260	-31.7
Local authorities	**0**	**0**	**56**	**0**	-100.0
Short-term	0	0	0	0	–
Long-term	0	0	56	0	–
Total public authorities	**244,639**	**227,933**	**241,868**	**219,420**	**-9.3**

Source: Bank of Spain and CNMV.

Total net issuance by the public authorities in 2018 amounted to 37.93 billion euros, 19.1% down on the net volume in 2017, a year in which they had increased significantly. Despite the fall, it contributed towards a 3.8% increase in the balance of outstanding debt. Net issues by Central Government stood at 41.68 billion euros, while net issues by regional governments and local authorities were negative (-3.62 billion euros and -134 million euros, respectively), as the redeemed volume was higher than the issued volume.

Long-term issues by Central Government amounted to 50.08 billion euros, while in shorter-term debt, redemptions were 8.44 billion euros higher than issues. This made it possible once again to increase the average life of outstanding debt, which stood at a historic high of 7.45 years at the end of 2018. The aim of extending the average life is to take advantage of the current context of interest rates at historic lows to reduce the refinancing risk of the debt and the level of vulnerability relating to the financial burden in the event of a period of interest rate hikes.

2.2.2.2 Secondary market

As a result of the changes introduced by incorporation into Spanish law of the new European legislation on securities markets (MiFID II and MiFIR), which entered into force on 3 January 2018, new issues by the Spanish Treasury are registered and admitted to trading on the AIAF fixed-income market. These changes led to the suspension, on 16 April 2018, of publication of the Bank of Spain's *Public Debt Market Bulletin*.

Spanish public debt is traded on AIAF (regulated market), on SENAF (multilateral trading system), on CAPI OTF and on CIMD OTF (two Spanish organised trading facilities). SENAF (the Electronic System for Trading Financial Assets) is a multilateral trading facility for Spanish sovereign debt run by Bolsas y Mercados Españoles Renta Fija (BME RF), aimed at market creators in order to meet their liquidity commitments.

AIAF is a regulated fixed-income market perfectly adapted to MiFID II legislation, which extended its scope of action in 2018 to admit to trading sovereign debt issues from other countries, such as Germany, France, the Netherlands, Belgium, Austria, Portugal and Ireland and those under the European Stability Mechanism (ESM).

In 2018, the public debt traded in AIAF platform rose by almost 500 times, so that it grew from an insignificant figure in 2017 – 120 million euros in government bonds and 4 million euros in treasury bills – to 56.12 billion euros and 24.77 billion euros in bonds and bills, respectively, in 2018. One of the reasons that explains its rise, as mentioned previously, lies in the fact that it is adapted to the MiFID II legislation, meeting the pre-and post-trading transparency obligations imposed under this new legislation. For its part, public debt traded on SENAF was somewhat lower than that of AIAF in 2018.

In relation to the two Spanish organised trading facilities – CAPI OTF and CIMD OTF – authorised by the CNMV in January 2018, it should be pointed out that the volume of Spanish public and private debt traded in 2018 stood at 92 billion euros in the case of CAPI OTF (35.3 billion in foreign debt) and 257.66 billion euros in the case of CIMD OTF (52.25 billion in foreign debt). Debt and derivative financial instruments can be traded on these facilities (see Section 2.3.3).

Total trading of fixed-income instruments in Spanish trading venues. 2018 TABLE 2.2.4

Venue	Type of debt	Nominal amount (million euros)
AIAF		
	Corporate	429
	Sovereign	
	Spanish	80,899
	Foreign	12,913
SENAF		
	Sovereign	70,918
MARF		
	Corporate	8
OTF[1]		
CAPI	Corporate and sovereign	
	Spanish	92,000
	Foreign	35,301
CIMD	Corporate and sovereign	
	Spanish	257,662
	Foreign	52,252

Source: CNMV. (1) Sovereign debt (the majority) is not distinguished from corporate debt.

As regards the trading of Spanish public debt on other foreign trading venues, noteworthy is MTS Spain, a public debt trading platform that forms part of MTS Markets, an entity of the London Stock Exchange group, which is authorised as a multilateral trading facility by the FCA. The volume of trading of Spanish government bonds on this platform fell by 17.4% in 2018 (28.59 billion euros), representing 1% of the total, while trading of treasury bills fell by 62% (117.42 billion), representing 6.4% of all trading of these instruments.

As shown in Table 2.2.5, the bulk of public debt trading was registered in the section of other platforms and OTC. This heading includes both volumes traded through different MTFs of the three market operators reflected in the Table (SENAF, MTS and EuroMTS), as well as the amount traded through other OTFs, SIs and OTC trades.

The volume of government bonds traded on other platforms and OTC trades rose significantly in 2018, which was much greater in the case of government bonds. This rise in the trading of government bonds on the secondary market would be in line with that seen in the primary market, in which net issues of bonds were positive, while net issues of treasury bills were negative. It might also have been influenced by other factors, such as the evolution of both types of asset, or purely statistical effects.[31]

31 Until 2017, trading data came from the Bank of Spain, while in 2018 the data are obtained from the General Secretariat of the Treasury, using data from Iberclear on the settlement of both own-account transactions and transactions on behalf of third parties, and therefore the statistics may not be fully comparable.

Public debt trading by trading platform TABLE 2.2.5

Million euros

	2015	2016	2017	2018	% change 18/17
Unstripped bonds					
SENAF	15,039	14,580	37,818	26,242	-30.6
AIAF/SEND	233	112	120	56,121	46,738.8
MTS Spain	136,430	164,814	164,722	136,132	-17.4
EuroMTS	18,807	11,648	6,051	7,083	17.1
Other platforms and OTC	10,143,946	8,047,692	9,080,255	13,880,941	52.9
Total	**10,314,455**	**8,238,845**	**9,288,965**	**14,106,518**	**51.9**
Treasury bills					
SENAF	48,121	100,883	70,905	44,676	-37.0
AIAF/SEND	30	8	4	24,767	596,114.3
MTS Spain	146,458	247,257	189,080	136,828	-27.6
EuroMTS	8,641	6,604	2,903	1,294	-55.4
Other platforms and OTC	1,702,494	1,710,623	1,504,502	1,975,475	31.3
Total	**1,905,744**	**2,065,376**	**1,767,394**	**2,183,040**	**23.2**

Source: General Secretariat of the Treasury and International Financing and BME RF.

2.2.3 Private fixed income

In parallel with the case of public debt, the yield on short-term private fixed-income assets closed the year at all-time lows and slightly lower than at the end of 2017. In December, the yields on commercial paper when issued stood at values ranging between 0.07% for the 12-month benchmark and 0.24% for the 3-month benchmark. The fact that the average yield on shorter-term commercial paper is higher than that of longer-term commercial paper is due to the low number of instruments considered in the average and the higher credit quality of the issuers that issue long-term commercial paper.

Yields on private fixed income[1] TABLE 2.2.6

%

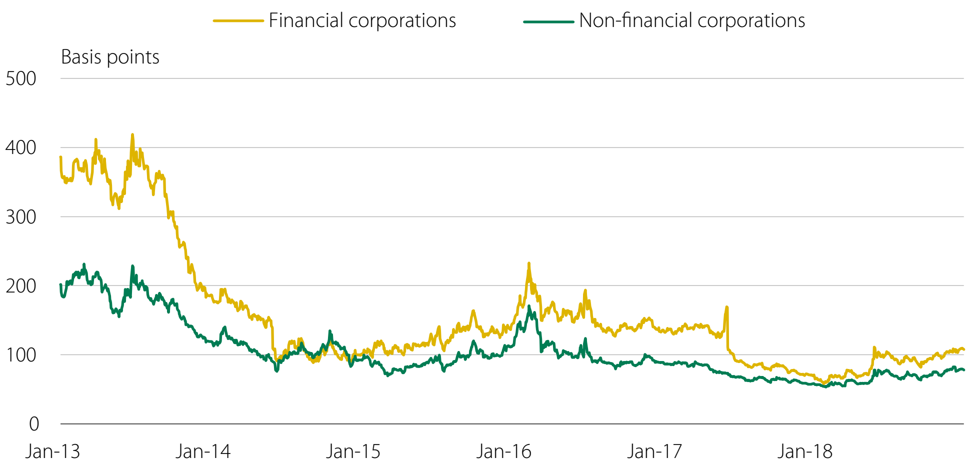
	Dec-15	Dec-16	Dec-17	Dec-18
Short term (commercial paper)[2]				
3 months	0.31	0.18	0.39	0.24
6 months	0.42	0.20	0.26	0.19
12 months	0.53	0.15	0.19	0.07
Medium and long-term				
3 years	0.66	0.69	0.44	0.67
5 years	1.95	1.43	0.41	0.55
10 years	2.40	2.14	1.16	1.52

Source: Thomson Datastream and CNMV. (1) Monthly average of daily data. (2) Interest rate at issuance.

The yields on longer-term corporate bonds were affected by the negative impact of the termination of the ECB's corporate sector purchase programme,[32] as well as the increase in the corporate bond risk premium. Both factors, together with the perspective that the slowdown in economic growth would affect the growth rates of corporate earnings in a context of expected rate hikes in the medium term, led corporate bond yields to rise slightly across most maturities on the curve. In the first three quarters of 2018, long-term corporate bonds recorded a negative spread with respect to government bonds thanks to the positive effect of the purchase programme for these assets, both in primary and secondary markets. However, the termination of the programme reversed the trend at the end of the year and the yields once again moved above those of government bonds across all maturities on the curve. At year-end 2018, yields on 3-, 5- and 10-year corporate bonds stood at 0.67%, 0.55% and 1.52%, respectively, which implies a spread with regard to government bonds of 71 bp, 12 bp and 9 bp, respectively, and a certain increase on the level of these yields at year-end 2017.

The credit risk premiums of Spanish issuers obtained from 5-year CDS followed a slight upward trend in 2018, which was more intense in the case of financial institutions as they are more exposed to some of the sources of uncertainty present in 2018 (exposure to Italian debt assets, emerging economies in difficulties, regulatory and tax uncertainties, etc.). At the end of the year, the average risk premium of financial institutions stood at 108 bp (70 bp in 2017), while those of non-financial companies stood at 78 bp (58 bp in 2017).

Risk premium paid by Spanish issuers: private sector[1] FIGURE 2.2.3



Source: Thomson Datastream and CNMV. (1) Simple average of the 5-year CDS of a sample of issuers.

2.2.3.1 Primary market

Debt issues registered with the CNMV in 2018 followed the downward trend of recent years and recorded the lowest volume of the decade, standing at 101.3 billion euros, 7.5% down on 2017. Issues of most debt assets, both long and short term, fell. Increases were recorded in issues of long-term bonds, with a volume of 35.84 billion

32 The corporate sector purchase programme had purchased a cumulative volume of 178.19 billion euros up to mid-February 2019, of which around 10% corresponded to Spanish issuers.

euros, of which 29.75 billion euros were issued by the SAREB.[33] Debt issued by the SAREB, which accounted for 83% of total long-term bonds and almost one third of total private fixed-income issues registered with the CNMV, is not placed in the market, but is fully subscribed by its shareholders.

With regard to the other categories, issues of asset-backed securities fell by 38% to 18.15 billion euros. This reduction is mainly the result of the sharp fall in issues of mortgage-backed securities, which fell from 14.89 billion euros to 683 million euros, which could not be offset by the increase in securitisations of loans to SMEs (from 3.75 billion euros to 10.44 billion euros).

As in recent years, the amount of securitisation bonds subscribed by the issuer or assignor of the receivables was very high – 71.8% compared with 82% in the previous year. Since the start of the financial crisis, financial institutions have used this way of issuing debt in order to provide these assets as collateral to the ECB and obtain funding from the Eurosystem. The other securitisation issues, i.e., those that effectively went to the market, were mainly securitisation bonds of debt issued to finance the electricity deficit (2.68 billion euros) and car loans. Annexes I.17 and I.18 provide greater detail about securitisation bond issues registered with the CNMV.

Gross issues registered at the CNMV: breakdown by instrument TABLE 2.2.7

Nominal amount in million euros

	2014	2015	2016	2017	2018
Long-term	**96,604**	**109,298**	**116,068**	**91,576**	**85,987**
Non-convertible bonds and debentures	41,155	39,100	40,170	30,006	35,836
Subordinated debt	1,000	500	512	1,550	500
Convertible bonds and debentures	750	53	0	0	0
Mortgage bonds	23,838	31,375	31,643	29,824	26,575
Territorial bonds	1,853	10,400	7,250	350	2,800
Asset-Backed Securities (ABS)	29,008	28,370	35,505	29,415	18,145
Mortgages	17,310	9,458	19,621	14,885	683
Companies (SMEs)	8,750	14,124	7,500	4,850	10,442
Other	2,948	4,788	8,384	9,680	7,020
Preferred shares	0	0	0	1,000	2,850
Other issues	0	0	1,500	981	0
Short term[2]	**33,654**	**27,310**	**22,960**	**17,911**	**15,089**
Commercial paper	33,654	27,310	22,960	17,911	15,089
Asset-backed	620	2,420	1,880	1,800	240
Total	**130,258**	**136,607**	**139,028**	**109,487**	**101,295**

Source: CNMV. (1) Issued by mortgage securitisation funds. (2) The figures for commercial paper issues correspond to the amounts placed.

33 Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria [Management Company for Assets Arising from the Banking Sector Reorganisation].

The volume of commercial paper issues registered with the CNMV and admitted to trading on AIAF also fell in 2018, thus prolonging the downward trend of recent years. These issues stood at 15.09 billion euros, a fall of 16% on the figure recorded in 2017. In parallel, there was a significant increase in issues of commercial paper abroad by Spanish issuers. In 2018, these issues amounted to 50.93 billion euros, much more than double the figure recorded in the previous year. The leading Spanish issuer abroad was the Official Credit Institute (Spanish acronym: ICO), with a total issued amount of 22.38 billion euros, accounting for 44% of the commercial paper issued abroad.

In parallel with the increase in commercial paper issues abroad, there was a significant fall in issues of long-term bonds, with the volume issued abroad falling by 31.5% on the previous year (from 49.88 billion euros to 34.18 billion euros).

The volume of issues by the subsidiaries of Spanish companies abroad rose by 39% to 90.18 billion euros. Particularly noteworthy was the increase in issues by financial institutions, which more than doubled in amount in 2018, rising from 19.46 billion euros to 41.97 billion euros.

Gross private fixed income issued by Spanish issuers in foreign markets TABLE 2.2.8

Nominal amount in million euros

	2014	2015	2016	2017	2018
Long-term	**35,281**	**33,362**	**31,655**	**61,125**	**38,425**
Preferred shares	5,602	2,250	1,200	5,844	2,000
Subordinated debt	3,000	2,918	2,333	5,399	2,250
Bonds and debentures	26,679	28,194	28,122	49,882	34,175
Securitisation bonds	0	0	0	0	0
Short-term	**21,441**	**32,984**	**26,932**	**23,646**	**50,933**
Commercial paper	21,441	32,984	26,932	23,646	50,933
Asset-backed	0	0	0	0	0
Total	**56,722**	**66,347**	**58,587**	**84,771**	**89,358**
***Pro memoria*: Gross issues of subsidiaries of Spanish companies resident abroad**					
Financial institutions	10,201	14,875	11,427	19,459	41,966
Non-financial companies	31,969	40,411	45,247	45,361	48,212
Total	**42,170**	**55,286**	**56,674**	**64,820**	**90,178**

Source: Bank of Spain.

There was a noteworthy increase recorded by the MARF. Designed in 2013 as an MTF, it incorporates into fixed-income markets issues by smaller companies, many of which were not present in capital markets. This market has grown continuously since its creation, with a sharp rise in commercial paper admitted to trading in 2018. The nominal amount placed grew by 60% on 2017 and stood at 5.76 billion euros, accounting for over one third of the volume of new issues of commercial paper admitted to trading on AIAF in 2018.

Admission to MARF

TABLE 2.2.9

Nominal amount in million euros

	2015	2016	2017	2018
Non-convertible bonds and debentures	355.5	398.6	75.8	365.0
Securitisation bonds	0.0	1,782.5	242.5	234.1
Commercial paper	431.7	23.5	3,651.6	5,759.6
Total	**787.2**	**2,204.6**	**3,969.9**	**6,358.7**

Source: CNMV.

2.2.3.2 Secondary market

As with the trading of public debt, the information relating to the trading of private fixed-income instruments has been affected by the entry into force of MiFID II on 3 January 2018. The objectives of this Directive include attracting more trading towards multilateral trading environments subject to organised and transparent trading rules, to the detriment of bilateral OTC trading. Multilateral facilities operate according to three possibilities: regulated markets, MTFs and OTFs. Bilateral trading can be channelled through SIs or be strictly OTC.

This new legislative framework has encouraged increased competition between the different facilities and trading venues, which seems to have negatively affected activity on AIAF, the Spanish regulated market. Trading of private fixed-income instruments on this market fell from 66.78 billion euros in 2017 to 429 million in 2018, as a consequence not only of this increased competition, but also the change in the channelling of bilateral trading, which, as mentioned above, is currently performed through SIs on a strictly OTC basis (AIAF is no longer involved). As mentioned previously, the CNMV authorised two Spanish OTFs in January 2018 (CAPI OTF and CIMD OTF), on which private fixed-income instruments began to be traded (see Table 2.2.4).

It should be noted that the trading of private debt assets on Spanish trading venues accounts for a small proportion of the total trading of these assets. Some preliminary estimates suggest that the most significant trading continues to be OTC (with an approximate relative share of 45% of total trading), followed by that performed on the Bloomberg Multilateral Trading Facility. This MTF is based in the United Kingdom and would have been the MTF that concentrated the largest trading volume in 2018 (a little over 30% of total). Two other MTFs (Tradeweb and MarketAxees), also domiciled in the United Kingdom, together would have performed a little over 10% of private fixed-income trading.

Total trading of private fixed-income instruments issued by Spanish companies.[1] 2018 TABLE 2.2.10

Million euros

	2018
Bilateral trading (OTC)	93,198
Bloomberg (MTF)	64,418
Tradeweb (MTF)	17,804
MarketAxees (MTF)	5,716
Other MTFs and SIs[2]	26,238
Total	**207,374**

Source: CNMV. (1) Data estimated from information contained in TREM (Transaction Reporting Exchange Mechanism). (2) This heading includes the sum of the volumes traded on multilateral trading facilities other than those indicated above, whether regulated markets (including AIAF in Spain), other multilateral trading facilities (including MARF), organised trading facilities (including CAPI OTF and CIMD OTF, registered in Spain) and other systematic internalisers (Banco Santander and BBVA are SIs authorised in Spain).

2.3 Derivatives markets

The activity of Spanish organised derivatives markets (the MEFF Exchange, where financial derivatives and electrical power contracts are traded) fell slightly, which contrasted with the growth of these markets worldwide. In addition, the first two OTFs where derivatives are traded were created. These are a new type of trading venue introduced by MiFID II. In addition, as in recent years, both the trading of warrants on the secondary stock market and the volume of those issued in the primary market continued to fall compared with previous years.

The volume of derivative contracts traded on international financial markets recorded a new all-time in 2018, with a total of 30.28 billion contracts traded (20.2% up, the highest growth rate since 2010). This growth was spread over the two segments existing in the market, which in both cases set a new record, with 17.15 billion contracts (15.6%) for futures and 13.13 billion contracts for options (26.8%).

By geographic area, there was an increase in trading in all the major regions, with significant growth in the number of contracts recorded in the Asia-Pacific (27.1%) and Latin American (40.8%) regions, although Asia-Pacific and North America are still the regions with the highest market shares (37% and 34.9%, respectively). Trading in Europe grew by 6.7% up to an all-time high of 5.27 billion contracts (of which, 4.17 billion corresponded to futures and 1.1 billion to options), accounting for 17.4% of the global market. Particularly important among the European markets due to their size are the Eurex and ICE Futures Europe markets, which recorded the highest contract volumes and growth rates.

Trading on European financial derivatives markets TABLE 2.3.1

Thousands of contracts

	2016	2017	2018	% change 18/17
Eurex	1,727,460	1,675,898	1,951,763	16.5
ICE Futures Europe	973,858	1,166,947	1,276,090	9.4
Euronext	126,241	140,276	149,254	6.4
Nasdaq Exchange Nordic Markets	91,077	86,420	87,272	1.0
London Stock Exchange Group	54,065	42,538	46,105	8.6
MEFF	40,205	39,246	38,396	-2.2

Source: Eurex, Futures Industry Association, Intercontinental Exchange and CNMV.

2.3.1 MEFF Exchange

Financial derivatives

Trading of derivative contracts on the MEFF fell by 2.2% in 2018 on the previous year as the growing activity in contracts on indices (1%) was not enough to offset the decline in derivative contracts on shares (-2.9%). Also, despite this market having a futures contract on the Spanish 10-year sovereign bond, there was no recorded activity – as had been the case in 2017 – due to competition from a similar contract on the German Eurex market.[34]

In the segment of Ibex 35 financial derivatives, the most traded contracts were Ibex 35 futures, which grew by 1.3% due to the increase in the larger Plus contracts (1.2%) and, to a lesser extent, in Ibex 35 dividend impact contracts (63.1%). In contrast, the smaller-sized Mini contracts fell (-7.9%) as did contracts on banks and energy sector indices (-64.6%), which remain concentrated in the banking sector. In addition, Ibex 35 option contracts fell by 2.8%.

Trading of equity derivatives fell by 2.9% in the year due to the fall in the traded volume of stock futures contracts (-8.3%), while the number of stock option contracts remained practically the same (-0.4%). In addition, as in previous years, trading was concentrated in a small number of underlying assets (Banco de Santander, BBVA, Telefónica, Iberdrola and Repsol), that accounted for around 92% of total trading both of futures and options, similar percentages to those recorded in 2017. Banco de Santander stock futures and options alone accounted for 73% and 33% of the total, respectively. Dividend futures grew by 36.1%, with their traded volume reaching an all-time high since their introduction in 2012.

34 On 26 October 2015, Eurex launched its Euro-BOND Futures contract, a future whose underlying asset is the Spanish sovereign 10-year bond. In 2018, 173,450 contracts of this type were traded on this market (Source: Eurex).

Trading on MEFF Exchange[1]

TABLE 2.3.2

Number of contracts

	2015	2016	2017	2018	% change 18/17
Debt contracts	**8,012**	**360**	**0**	**0**	**–**
10-year bond future	8,012	360	0	0	–
Ibex 35 contracts	**8,279,939**	**7,468,299**	**6,911,671**	**6,983,287**	**1.0**
Ibex 35 futures[2]	7,735,524	7,146,060	6,481,301	6,564,971	1.3
Plus	7,384,896	6,836,500	6,268,290	6,342,478	1.2
Mini[2]	318,129	249,897	161,886	149,023	-7.9
Dividend impact	32,499	58,044	43,372	70,725	63.1
Sector		1,619	7,753	2,745	-64.6
Ibex 35 options[2]	544,416	322,239	430,370	418,315	-2.8
Contracts on shares	**31,769,507**	**32,736,458**	**32,335,004**	**31,412,879**	**-2.9**
Stock futures	10,054,830	9,467,294	11,671,215	10,703,1912	-8.3
Dividend futures	292,840	367,785	346,555	471,614	36.1
Dividend futures plus	1,152	760	880	200	-77.3
Stock options	21,420,685	22,900,619	20,316,354	20,237,873	-0.4
Total	**40,056,458**	**40,205,117**	**39,246,675**	**38,396,166**	**-2.2**

Source: CNMV. (1) The differences in the nominal value of the different products make it impossible to compare them based on the number of contracts traded. However, the evolution of trading over time in each type of product can be tracked. (2) In the case of the Mini futures and options, the number of contracts traded is calculated by dividing by ten so as to standardise the individual size of the contract with those of the Ibex 35 Plus future (it is taken into account that the multiplier of the index used to calculate the nominal value of the contract is one euro in the first two cases and ten euros in the latter case).

New developments in the financial derivatives segment

The main new development in the financial derivatives sector since the start of the year was the establishment of a new RFQ (request for quote) system. This trading system, which is added to the existing electronic trading system (with orders and pre-arranged trades), allows members to enter requests for quotes to other members on the contracts admitted to trading on MEFF's financial derivatives segment. Requests may be initiated by any participant in the market and recipients are able to enter the corresponding responses, which may be an acceptance (accepting the price proposed by the applicant) or a proposal (in the event that the request was made without a price), without the option to propose a contract other than that referred to in the request to which they are responding.

With regard to products, the main new aspect was the introduction from December of Ibex 35 Micro futures, which are characterised by having the Ibex 35 index as underlying, standard weekly and monthly maturities and a multiplier of 0.1 euros, compared with the 10 euros and 1 euro of the Ibex 35 future and Ibex 35 Mini future, respectively. Approval of this new contract entailed changes to the general conditions and to some market circulars, which were modified in order to include the particular features of this new product.

In addition, as from December the timetable for accepting trades within the pre-arranged trade system in the financial derivatives segment was extended to 7 pm for contracts with short hours (those other than Ibex 35 futures, Ibex 35 Mini futures and Ibex 35 Micro futures), maintaining 8:15 pm as the deadline for accepting pre-arranged trades for contracts during extended hours (Ibex 35 futures, Ibex 35 Mini futures and Ibex 35 Micro futures).

In addition, BME launched a new range of daily indices related to the MEFF options and futures market and the Ibex 35 index. These include a volatility index, a volatility trend index and a set of options strategy indices.

Market members

At year-end 2018, MEFF Exchange had a total of 88 market members, 2 fewer than the previous year. Of these 88, 56 traded in the financial derivatives segment and 36 in the power segment. During the year, the members of the power derivatives segment remained the same while the number of members of the financial derivatives segment fell by 2.

Number of members in MEFF Exchange TABLE 2.3.3

Segment	Traders	Own account traders	Total entities	Change 18/17
Financial derivatives	43	13	56	-2
Power	7	29	36	0
Total entities[1]	**46**	**42**	**88**	**-2**
Change 2018	**-2**	**0**	**-2**	-

Source: MEFF Exchange and CNMV. (1) The total is lower than the sum of members in each segment due to there being entities participating in more than one segment.

2.3.2 MEFF Power

The total trading volume in this segment fell to 12.3 TWh in 2018, a fall of 31.2% on the previous year. The cash value of the registered contracts amounted to 683 million euros, compared with 854 million euros in 2017, a fall of 20.1%. The decrease in this cash value is lower than that recorded in the energy volume as a result of the year-on-year increase in the prices of Spanish electricity futures, in line with other European electricity markets. This explains the fact that the reduction in the cash value is lower than the absolute value of the recorded decrease in energy volume.

In a context of very low trading volume, the period of greatest activity was the last quarter of the year, with highs in October and November, in contrast with the summer months, in which hardly any activity was recorded, unlike in 2017. The fall in year-on-year activity affected all types of contracts except monthly contracts, which grew by 9.4%, and was particularly sharp in the longer contracts. Quarterly and annual contracts fell by 42.8% and 34.8%, respectively, in year-on-year terms. In addition, there were fewer transactions recorded over the year (1,894, 4.3% down on 2017 and an average of 7.5 trades per day), which were also of a smaller size (15 contracts and 6.5 GWh on average, compared with 17.2 contracts and 9.1 GWh on average in 2017).

The open position at year-end 2018 stood at 5.5 TWh (with closing prices valued at nearly 317 million euros), lower than the 8.0 TWh of the open position at the end of the previous year, then valued at 422 million euros. The underlying volume fell by 31.8% in year-on-year terms, while the valuation of the position was 24.9% lower as a result of the increase in prices.

Despite the overall reduction in the open position in 2018, that relating to annual contracts almost doubled (1.1 to 2.1 TWh), accounting for 37.6% of the total position, compared with 13.2% at the end of 2017. The composition of the terms of the trades changed because, although the overall volume of annual contracts fell, trades with more distant maturity periods started to be made (annual for 2020 and beyond), which had been very rare up to the previous year.

At the end of 2018, this market had a total of 201 participants, 3 more than in 2017.

2.3.3 Organised Trading Facilities (OTFs)

MiFID II Directive introduced a new category of trading venue called Organised Trading Facilities (OTFs), where only fixed-income instruments and derivatives may be traded. In OTFs, unlike on regulated markets and MTFs, trading may be carried out under discretionary rules. Furthermore, under certain circumstances, the OTF operator is allowed to carry out matched principal trading in fixed-income securities and derivative instruments and to trade on its own account in those sovereign debt instruments for which there is no liquid market.

In January 2018, the CNMV authorised the operation of the first two OTFs – CAPI OTF and CIMD OTF. The former operates in financial derivatives and foreign exchange, while the latter operates in two differentiated segments: financial derivatives and electricity derivatives.

Trading on Organised Trading Facilities (OTFs) TABLE 2.3.4

Financial derivatives segment	No. of trades	Cash amount (million euros)
Financial derivatives[1]	2,250	737,350
FX derivatives[2]	1,247	367,268
Total	**3,497**	**1,104,618**
Energy derivatives segment	**2,041**	**1,344**

Source: CNMV. (1) Correspond to trades with swaps, basis swaps, futures on interest-rate indices and overnight indexed swaps. (2) Correspond to trades with foreign exchange futures.

In their first year of activity, OTFs performed 3,497 trades with financial derivatives and 2,041 with energy derivatives, for a cash amount of 1.1 trillion and 1.34 billion euros (as will be discussed below), respectively. Among the financial derivatives, around two thirds of the transactions and the cash amount traded corresponded to interest-rate derivatives, such as different types of swaps and futures, while the remaining third were transactions with derivatives whose underlying were foreign exchange rates.

Energy derivatives segment

CIMD's energy derivatives segment is where swaps with financial settlement against the daily average of the price of the Spanish (SPEL) and Italian (ITEL) electricity spot markets are traded. These contracts have settlement periods ranging from one day (daily contracts) to one year (annual or calendar), in addition to contracts of intermediate duration: weekly, monthly and quarterly. The relevant times of the settlement period for calculating the average of the spot price against which the derivative is settled may be all of the times of the period (base load contracts) or only those between 8 am and 10 pm on the days from Monday to Friday included in the settlement period (peak load contract). In the energy segment of CIMD's OTF, SPEL derivatives in base load and ITEL derivatives in base and peak load are traded.

In the year as a whole, the total trading of these instruments amounted to a volume of 25.1 TWh, 74.6% in SPEL derivatives and 25.4% in ITEL swaps, mostly in base load. The total cash trading volume amounted to 1.34 billion euros, 71.5% in Spanish derivatives and 28.5% in the Italian electricity underlying, a more balanced distribution than in the physical volume as a result of the higher average price of the Italian electricity swaps than those for Spanish electricity.

With regard to the contract settlement periods, particularly noteworthy was the trading of annual contracts of SPEL derivatives, which amounted to 11.5 TWh (61.2% of total trading of "Spanish" derivatives), while trading was more evenly spread for Italian contracts as the annual contracts accounted for 42.8% of total volume, with more small trades in contracts with a settlement period of less than one month.

2.3.4 Warrants and certificates

In 2018, both the number of warrants issued and the volume issued continued to fall, while their trading on the secondary market remained practically unchanged compared with the previous year. This took place in a scenario of low market volatility, which discourages the use of this type of instrument. In the case of certificates, the primary market once again recorded no activity (there have been no issues since 2010), while activity on the secondary market continued to shrink, with a fall of 11.5% in the amount of the premiums traded down to their lowest ever level.

Issues

5,231 warrants were issued in 2018, an 8.7% drop on 2017 and the lowest figure since 2006. The number of issuers decreased to 5, all of which are banks, with the de-registration corresponding to an engineering company that issued warrants in the previous year as part of its restructuring process. The total amount of premiums was 2.09 billion euros, 14.3% less than in 2017, the majority being contracts whose underlying assets were shares and indices, although indices lost relative weight to the benefit of other underlying. In aggregate terms, the total amount of issues was the lowest in recent years, with significant falls of almost 20% in the premiums of index issues. In contrast, despite their low volume, there were significant issues of currencies and commodities, whose premiums grew by 50.4% and 204.1%, respectively. Meanwhile, as mentioned previously, no issue of certificates was registered with the CNMV.

Warrant issues registered with the CNMV

TABLE 2.3.5

Thousand euros

	Number		Amount of premium				
	Issuers	Issues	Total	Shares	Indices[1]	Currencies	Commodities
2014	6	8,574	3,644,239	1,770,915	1,697,295	99,964	76,065
2015	8	9,059	3,479,064	1,807,276	1,486,148	106,199	79,441
2016	5	7,809	2,688,574	1,438,206	1,153,143	57,305	39,920
2017	6	5,730	2,433,614	939,528	1,443,030	32,415	18,642
2018	5	5,231	2,084,891	818,952	1,160,478	48,767	56,695

Source: CNMV. (1) Includes baskets of securities and of indices.

Secondary market

The trading of warrants on the secondary market fell slightly in 2018 to 456.6 million euros, its lowest level in the last 15 years. Trading was mainly concentrated in index warrants, which accounted for 70% of the total, and, to a lesser extent, stock warrants, which accounted for 29%. Contracts with the other assets (currencies and commodities), which had grown in the year in the primary market, saw a reduction in trading to less than half the figure recorded in 2017 and only accounted for 1% of the total market.

Trading in warrants on the electronic market

TABLE 2.3.6

Premiums traded, in thousand euros

		Premiums traded, by type of underlying				
	No. of Issues	Indices[1]	Shares	Currencies[2]	Commodities	Total
2014	7,612	364,302	430,984	14,209	8,202	817,698
2015	7,530	691,995	370,256	20,004	13,604	1,095,859
2016	6,296	420,353	280,953	5,025	9,209	715,541
2017	5,082	266,016	186,717	2,018	7,837	462,588
2018	4,191	317,881	133,863	1,390	3,542	456,676

Source: CNMV. (1) Includes baskets of securities and of indices. (2) Includes fixed-income warrants in the years in which these were traded.

Trading in certificates on the electronic market

TABLE 2.3.7

Premiums traded, in thousand euros

		Premiums traded, by type of underlying				
	No. of issues[1]	Indices[2]	Shares	Currencies	Commodities	Total
2014	2	0.0	0.0	0.0	1,682.5	1,682.5
2015	2	0.0	0.0	0.0	1,135.1	1,135.1
2016	2	0.0	0.0	0.0	400.5	400.5
2017	2	0.0	0.0	0.0	362.2	362.2
2018	2	0.0	0.0	0.0	320.4	320.4

Source: CNMV. (1) The number of issues states the issues that recorded trading in each period. (2) Includes baskets of securities and of indices.

The amount of premiums traded in the certificates segment was once again very low due to the absence of new issues of this type of asset. Trading fell to 0.32 million euros, corresponding to the only two issues active on the market, whose underlying assets are gold and oil (both were issued by the same bank in 2007 and 2010, respectively).

2.3.5 Atypical financial contracts

During the year, 11 issues of atypical financial contracts were registered with the CNMV whereby a credit institution receives money from its clients and undertakes to reimburse them according to how one or a number of securities perform in the market, with no commitment to repay the principal received in full. Reimbursement consists of either the delivery of certain listed securities, or the payment of a sum of money, or both. These contracts are characterised by not being admitted to trading on organised secondary markets. The amount of the traded premiums totalled 953 million euros, less than half the 1.96 billion euros traded in 2017, with the underlying being mostly shares.

Issues of call and put options registered with the CNMV TABLE 2.3.8

Thousand euros

	Number		Amount of premium				
	Issuers	Issues	Total	Shares	Indices[1]	Commodities	Exchange rates
2014	0	0	0	0	0	0	0
2015	1	1	5,000	5,000	0	0	0
2016	1	4	650,000	650,000	0	0	0
2017	2	15	1,964,500	1,950,000	14,500	0	0
2018	2	11	953,000	950,000	3,000	0	0

Source: CNMV. (1) Includes baskets of securities and of indices.

A new feature of regulation in this regard in 2018 is Royal Decree-Law 14/2018, of 28 September, which attributes jurisdiction over structured deposits (type of atypical financial contract that guarantees 100% of the capital) to the CNMV.

2.4 Clearing, settlement and registry

2.4.1 Iberclear

The Securities Registry, Clearing and Settlement Management Company (Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal), which operates under the business name of Iberclear, is the Spanish central securities depository. It provides the initial registration service (notary service), the service of provision and maintenance of securities accounts (central maintenance service or central deposit function) and manages the ARCO securities settlement system (settlement service), as well as other related ancillary services, in the terminology of the CSDR.[35]

35 Regulation (EU) No. 909/2014 of the European Parliament and of the Council, of 23 July 2014, on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 (CSDR).

At the end of 2018, Iberclear had 67 participating entities (including central counterparties and other CSDs with which Iberclear has links), 1 fewer than at year-end 2017. In 2018, 4 entities registered and 5 entities deregistered, most as a result of merger processes.

2.4.1.1 Registration activity

Since its integration into Target2-Securities (T2S) in September 2017, Iberclear manages one single platform (ARCO), in which all securities are integrated.

At the end of the year, a total of 8,499 issues were registered with Iberclear, with a nominal amount of 1.66 trillion euros. Compared with the figures of the previous year, there was a fall both in the number of outstanding issues (-7.2%) and in their amount (-0.3%). This overall fall took place despite the increase in the number of issues and the amount of sovereign debt securities admitted, as shown in Table 2.4.1.

Iberclear ARCO. Registry TABLE 2.4.1

Million euros

Securities registered	2017	2018	% change 18/17
Number of issues	**9,155**	**8,499**	**-7.2**
Public debt	472	486	3.0
Corporate debt	2,254	2,129	-5.5
Other securities	6,429	5,884	-8.5
Nominal balance registered	**1,666,693**	**1,661,254**	**-0.3**
Public debt	989,698	1,036,073	4.7
Corporate debt	530,290	485,873	-8.4
Other securities	146,705	139,308	-5.0

Source: Iberclear and CNMV.

2.4.1.2 Settlement activity

The total figure for settlement is not directly comparable with that for 2017 as fixed income was incorporated into the ARCO platform in September 2017, with implementation of phase II of the reform carried out in Spain in the clearing, settlement and registration systems, and the coding of the transactions does not allow for an exact match. However, according to the estimate made, it should be noted that, with regard to fixed income and in overall terms, activity fell significantly (by 56% in terms of the number of transactions and by 63% in cash terms). This is due to the fact that, following incorporation into Target2-Securities, balance movements within the same third-party account are no longer reported and calculated in Iberclear as they do not give rise to settlement instructions through the system.

With regard to equity trades from CCPs, the activity continues to shrink, in line with the market's lower level of activity. With regard to bilateral trading, it is estimated that there was an increase of 2.3% in the number of trades and 1.3% in the cash amount.

Iberclear SCL/ARCO. Registry

TABLE 2.4.2

Million euros

	2017		2018	
	Trades	Amount	Trades	Amount
Trades from CCPs	**2,367,529**	**2,782,727**	**2,512,771**	**7,850,520**
Sovereign debt[1]	78,490	2,092,330	282,626	7,167,911
Corporate debt[1]	–	–	–	–
Equity	2,289,039	690,397	2,230,145	682,609
Bilateral and platform trades	**8,538,996**	**33,278,388**	**6,652,376**	**12,884,526**
Sovereign debt[1]	2,703,625	30,742,801	1,167,172	11,520,441
Corporate debt[1]	556,919	1,321,559	85,074	134,177
Equity	5,278,452	1,214,028	5,400,130	1,229,909
TOTAL	**10,906,525**	**36,061,115**	**9,165,147**	**20,735,046**

Source: Iberclear and CNMV. (1) For 2017, sovereign and corporate debt securities include all types of transactions in the periods before and after 15 September, the date of phase II of the reform, when Iberclear was incorporated into T2S and fixed income into the ARCO platform. In addition, prior to incorporation into ARCO, transactions from fixed income CCPs could not be identified as they were processed as bilateral trades.

Iberclear. Settlement incidents ARCO

TABLE 2.4.3

Million euros

	2017		2018	
	Trades	Amount	Trades	Amount
Sovereign debt[1]	24,999	436,864	51,138	761,471
Corporate debt[1]	1,726	2,618	5,965	7,590
Equity	745,317	239,366	917,761	294,144
Total failed trades	**772,042**	**678,848**	**974,864**	**1,063,205**
Buy-ins and settlement in cash	104	2	78	9

Source: Iberclear and CNMV. (1) For 2017, the information on sovereign and corporate debt securities only corresponds to the period subsequent to 15 September, the date of phase II of the reform, when Iberclear was incorporated into T2S and the fixed income into the ARCO platform.

The figures on efficiency in fixed income and the total for 2018 are not directly comparable with those of 2017. This is due to the fact that for that year only the incidents corresponding to the period subsequent to 15 September, once the fixed-income securities were incorporated into the ARCO platform, were calculated. However, considering efficiency on this platform from that date, the percentage of failed trades in 2018 was lower than in the last 14 weeks of 2017 (4.3% of failed trades compared with 5.5% in 2017), with better performance of sovereign debt (4.1%) compared with corporate debt (7.5%).

For its part, inefficiency in equity rose to around 2%. This is due to the greater weight of bilateral trades, which generally have worse efficiency ratios.

2.4.2 BME Clearing

BME Clearing is the Central Counterparty (CCP) authorised to provide clearing services in Spain in accordance with Regulation (EU) 648/2012 of the European

Parliament and of the Council, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories (EMIR).

Table 2.4.4 shows the distribution of active members in BME Clearing, differentiated by segment and by type of member. In 2018, 10 new entities registered while 10 deregistered, leaving the number of BME Clearing members at 132 at year-end.

Number of members in BME Clearing by segment TABLE 2.4.4

	Clearing			Non-clearing				
Segment	General	Individual	Special indiv.	Non-clearing	Ordinary	Propietary	Total entities	Change 18/17
BME Clearing Financial Derivatives	7	27	–	10	–	13	57	1
BME Clearing Energy	6	–	–	–	–	31	37	2
BME Clearing Repo	–	25	–	–	–	–	25	-3
BME Clearing Swap	–	8	–	–	–	–	8	0
BME Clearing Equity	9	16	5	–	24	–	54	-1
TOTAL ENTITIES (*)	**17**	**50**	**5**	**10**	**24**	**44**	**132**	–
Change 2017	-1	-1	-2	-1	1	4	0	–

Source: BME Clearing and CNMV. (*) The "total entities" row does not correspond to the sum by segments as one entity may participate in several segments.

2.4.2.1 BME Clearing Derivatives

Transactions in financial derivatives traded on MEFF are cleared in this segment. In the course of 2018, 7 entities deregistered and 6 registered, leaving the number of members at 57 at year-end (1 less than in 2017), as shown in Table 2.4.4.

2.4.2.2 BME Clearing Energy

The main new development in this segment in 2018 was the launch on 24 May of the new clearing service for natural gas contracts. Unlike electricity contracts, these contracts are settled by physical delivery at a Spanish virtual balancing point (VBP).[36] The new contracts that BME Clearing accepts for clearing are natural gas futures and spot transactions, as well as loan or deposit transactions. Specifically, the contracts traded on BME Clearing are day-ahead contracts and the whole range of natural gas futures (with weekly, monthly, quarterly, seasonal or annual maturities).

BME Clearing manages the risk and the margins as well as registering the positions, notifying the Spanish gas Transmission System Operator (TSO), Enagás, while performing the settlements and corresponding invoicing.

Current trading of gas derivatives in Spain is performed through bilateral OTC transactions. The volume of deliveries resulting from this trading is reported by means of notifications of gas transfers and acquisitions to the TSO (Enagás). In this

36 The virtual balancing point is the virtual exchange point of the transport network where users can transfer ownership of gas as entry or exit thereof.

context, BME Clearing clears contracts for two different types of gas: natural gas and liquefied natural gas. This latter type of gas must be processed in a regasification plant as a prior step to its conversion into natural gas and its subsequent commercial distribution. Natural gas contracts are settled by means of the notification to the TSO of the delivery of gas at the virtual balancing point, while liquefied natural gas contracts are settled by means of notification of the delivery to a regasification plant.

This activity was approved in 2017 and in April 2018, the CNMV Board approved the establishment of agreements between BME Clearing and three OTFs, the new category authorised under the MiFID II framework, for CCP clearing of the gas contract transactions executed therein. Since then and up to the end of the year, 22 participating entities have joined, with a registered volume up to December of 1.4 TWh.

In addition to gas, electricity derivatives (traded on MEFF) continued to attract the interest of entities active in the industry to become market participants, the number of which rose from 146 at the end of 2017 to 156 in the final months of 2018. Despite this trend, a lower number of contracts were registered and hence the registered volume of electricity derivatives fell by 30% in 2018 and stood at 12.5 TWh.

Activity in BME Clearing Energy TABLE 2.4.5

Nominal volume in million euros

	2017			2018		
	Electricity	Gas	Total	Electricity	Gas	Total
Cash volume	854	–	**854**	689	35	**724**
Number of transactions	1,982	–	**1,982**	1,908	48	**1,956**
TWh	17.9	–	**17.9**	12.5	1.4	**13.9**

Source: CNMV and BME Clearing.

With regard to the number of members registered in this segment of BME Clearing, 1 entity de-registered in 2018 and 3 new entities were added, leading the total number of members to stand at 37 (2 more than in 2017), as shown in Table 2.4.4.

2.4.2.3 BME Clearing Equity

The equity segment is the central counterparty service for transactions in securities traded on the stock exchange. This segment began operating on 27 April 2016, the starting date of the new clearing, settlement and registry system, which made it obligatory for trading on shares and subscription rights carried out through multilateral segments of official secondary markets to be cleared through a CCP.

Another milestone was reached in September 2017 with the connection of Iberclear and BME Clearing to the pan-European securities settlement platform Target2-Securities, thus completing the second and final phase of the reform.

In 2018, a cash volume of 1.14 trillion euros was registered, 12.2% down on 2017, as shown in Table 2.4.6.

Activity in BME Clearing Equity TABLE 2.4.6

	2017	2018
Nominal volume in million euros	1,294,553	1,136,782
Number of transactions	101,960,566	88,278,588

Source: CNMV and BME Clearing.

At the end of 2018, this segment had 56 clearing members, 2 more than at year-end 2017, after 4 new additions and 2 de-registrations (see Table 2.4.4).

2.4.2.4 BME Clearing Repo

The Repo fixed-income segment offers the central counterparty service for Spanish public debt repos, thus eliminating counterparty risk for participating entities.

In April 2018, the CNMV Board approved the establishment of an agreement between BME Clearing and BrokerTec to register trades of this platform in the repos segment. Financial institutions trade repos bilaterally and clear them in BME Clearing. Through this agreement, the banks that operate through the BrokerTec platform – the main platform for trading Spanish debt repos – can clear their transactions in BME's CCP, thus benefiting from access to greater liquidity.

Nevertheless, activity in this segment fell significantly in 2018. The total registered volume stood at 155.64 billion euros, with a monthly average of 190 trades. At the end of 2018, the average open position of the last 10 days, equivalent to the financing provided, stood at 8.24 billion euros, with an average financed term of 26 days.

A total of 3 members de-registered from this segment in 2018 and therefore the number of active members stood at 25 at the end of the year, all of which were individual clearing members.

Activity in BME Clearing Repo TABLE 2.4.7

	2017	2018
Nominal volume (in million euros)	295,256	155,639
Number of transactions	4,915	2,145

Source: CNMV and BME Clearing.

2.4.2.5 BME Clearing Swap

This segment offers the central counterparty service for the trading of OTC interest-rate derivatives. It began operating in 2016.

Despite the changes over the past year, activity in this segment continued to fall. In 2018, only 11 transactions were registered for a nominal amount of under 150 million euros, well below the 47 transactions of 2017 for an amount of over 2.2 billion euros.

At year-end 2018, this segment had eight clearing members (no change on 2017), all individual clearers.

2.4.3 European initiatives in changes to registry, counterparty, clearing, and settlement services

Progress in the implementation of Regulation (EU) 909/2014 on improving securities settlement in the European Union and on central securities depositories (CSDR)

The Central Securities Depositories Regulation (CSDR) provides, together with T2S, a key basis for a single capital market. The aim of this Regulation is to establish standardised requirements for the settlement of financial instruments throughout the European Union and to harmonise the organisation and conduct of European CSDs.

The development of Level 2 implementing measures of the CSDR (level 1) began in 2017 and was completed on 13 September 2018 with publication in the *Official Journal of the European Union* of Commission Delegated Regulation (EU) 2018/1229, of 25 May 2018 (level 2), supplementing Regulation (EU) No. 909/2014 of the European Parliament and of the Council, with regard to regulatory technical standards on settlement discipline. This level 2 measure will enter into force in September 2020.

With regard to Level 3 measures, in order to help achieve the aim of ensuring supervisory convergence and a standardised implementation of the CSDR and of associated Level 2 measures, in 2018 ESMA published a series of guidelines, recommendations, opinions, and Q&As.

Among the most important guidelines were those concerning the process for calculating the indicators used to determine the most important currencies in which trades are settled, guidelines referring to the process for calculating the indicators used to determine the substantial importance of a CSD of a host Member State, and guidelines on the cooperation between authorities pursuant to Articles 17 and 23 of the CSDR. These sets of guidelines were published on 28 March 2018 on ESMA's website, and the CNMV has notified its intention to comply with them.

Lastly, in application of the provisions of Article 17 of the CSDR, since October 2017 Iberclear's authorisation process of as a CSD has been taking place under the terms of that Regulation. Work relating to this process by Iberclear, the CNMV and the Bank of Spain continued in 2018.

Finally, it is important to note the creation by the CNMV at the end of 2018 of a contact group on the clearing, settlement and registry system, as a channel for dissemination and for consultation with regard to national and European Union regulatory initiatives in the context of post-trading and also as a forum for discussion on application of issues that affect this sector and proposals for improvement.

3 Financial institutions and investment services

3.1 Collective investment

Following six years of uninterrupted growth, the assets under management of financial investment funds shrank slightly in 2018. This was mainly a result of the fall in the value of the investment portfolio due to the instability present in financial markets for much of the year. In contrast, new inflows of investments continued, although at a much lower rate than in previous years, and in the last quarter of the year many categories even recorded net redemptions. The relative weighting of higher-risk fund categories continued to increase, although less strongly than in 2017, with global funds recording by far the largest growth.

As was the case in the previous year, there was a reduction in the number of SICAVs (investment companies). However, while a good deal of the collective investment schemes de-registered in 2017 were absorbed by other CIS, this was the reason for only 20% of total de-registrations in 2018.

The growth in assets under management and market share of foreign collective investment schemes marketed in Spain continued in 2018. Information on these schemes was also affected by the entry into force of a new circular that seeks to improve the information that they report.

3.1.1 Mutual funds

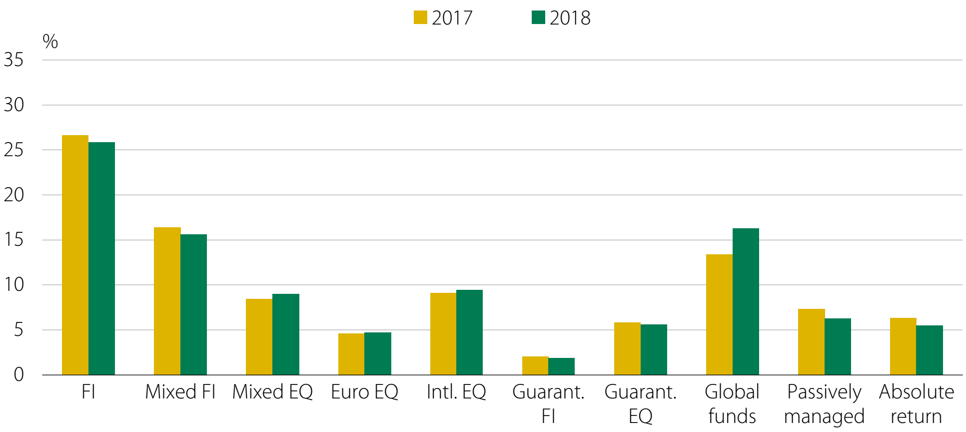
The assets managed by Spanish mutual funds, which had grown on a continuous basis since 2012, accumulating gains of over 120%, shrank in the last quarter of 2018. This reduction offset the growth in previous quarters and led to a 2.3% fall in assets under management compared with year-end 2017 (5.7% in the last 3 months), which stood at 259.1 billion euros. This reduction was exclusively due to the negative net yield of the portfolio of mutual funds, of almost 20 billion euros, as subscriptions of units (in net terms) were positive, specifically amounting to 7.84 billion. However, in the fourth quarter of the year, as mentioned above, negative net subscriptions of almost 4 billion euros were recorded as a result of increasing risk aversion triggered by stock market turmoil.

As shown in Statistical Annex II.1, the fund categories that recorded the largest falls in assets under management were, in this order, fixed-income funds (3.68 billion euros down on 2017, a drop of 5.2%) and passively managed funds (down 3.34 billion euros, a drop of 17.1%). It should be noted that assets under management in both these categories had already fallen in 2017. Mixed fixed-income funds, for their part, recorded a fall of 2.94 billion euros (6.7% down on 2017), while absolute return funds recorded a fall of 2.53 billion euros. These two last categories, unlike those referred to above, had recorded significant gains in 2017, which were particularly high in the case of absolute return funds, whose assets under management grew by 36.8% compared with average growth in the sector of 11.5%.

By far the largest increase in assets under management was recorded by global funds, with a rise of 6.63 billion euros, 18.7% up on year-end 2017, thanks to the high level of subscriptions made during the year (9.45 billion in net terms). Equity funds also received inflows of investments from unit-holders (between 1.79 and 3.86 billion euros) although, as there had been a significant contraction in the value of the portfolio, the effect on assets under management at the end of the year was much lower. Accordingly, mixed equity funds and international equity funds increased their assets under management by 869 and 340 million euros, respectively, while euro equity funds closed the year with a slight reduction in assets under management of 26 million euros.

As has been the case since 2013, the changes in assets under management recorded over the year in the different fund categories led to a decrease in the joint relative weighting of more conservative formulas (fixed-income funds and guaranteed fixed-income and equity funds) in the total assets managed by mutual funds, although with much lower intensity than in previous years, slipping from 34.5% in 2017 to 33.4% in 2018. In contrast, there was an increase in the joint share of higher risk categories, which results from investors seeking out higher returns. However, although in 2017 this increase in higher risk categories was very high, with significant subscriptions in global funds and in international and euro equity funds, in 2018 these were only significant, as mentioned above, in global funds (see Figure 3.1.1).

Mutual fund asset breakdown FIGURE 3.1.1



Source: CNMV.

The aggregate yield of mutual funds in the year as a whole stood in negative numbers, with a figure of -4.9%, mainly as a result of the poor performance recorded in the last quarter of the year (the portfolio's yield was -4.13% in that quarter). With the exception of guaranteed fixed-income funds, whose yields stood at 0.09%, the other mutual fund categories recorded negative yields over the year. In line with the downward trend in stock market prices, the least profitable funds were euro equity funds, with a yield of -13.01% in 2018 (-11.94% in the fourth quarter) and international equity funds, with -12.34% (-13.06% in the last quarter), followed by mixed equity funds (-6.45% in the year as a whole and -5.83% in the last 3 months).

Mutual fund asset breakdown[1] TABLE 3.1.1

Million euros

	2017	%	2018	%	% change 18/17
Assets	**265,195**	**100.0**	**259,095**	**100.0**	**-2.3**
Financial investment portfolio	**244,598**	**92.2**	**241,016**	**93.0**	**-1.5**
Spanish securities	83,032	31.3	74,486	28.7	-10.3
Debt securities	55,389	20.9	50,538	19.5	-8.8
Shares and equity instruments	10,912	4.1	10,868	4.2	-0.4
Collective investment schemes	7,626	2.9	6,985	2.7	-8.4
Deposits in credit institutions	8,657	3.3	5,855	2.3	-32.4
Derivatives	441.4	0.2	235	0.1	-46.8
Other	6.8	0.0	5	0.0	-26.5
Foreign securities	161,557	60.9	166,522	64.3	3.1
Debt securities	67,794	25.6	74,079	28.6	9.3
Shares and equity instruments	27,082	10.2	26,661	10.3	-1.6
Collective investment schemes	66,100	24.9	65,624	25.3	-0.7
Deposits in credit institutions	74.7	0.0	21	0.0	-71.9
Derivatives	504.7	0.2	136	0.1	-73.1
Other	1.4	0.0	1	0.0	-28.6
Doubtful, delinquent or in litigation investments	9.3	0.0	8	0.0	-14.0
Cash	**19,988**	**7.5**	**16,897**	**6.5**	**-15.5**
Net balance (debtors/creditors)	**608**	**0.2**	**1,182**	**0.5**	**94.4**

Source: CNMV. (1) Excluding hedge funds and funds of hedge funds.

As has been the case since 2013, the breakdown of the aggregate assets of mutual funds changed in 2018 in favour of foreign securities, whose relative weighting stood at 64.3% at year-end, 3 percentage points more than in 2017 and 12 points up on 2016 (to 166.52 billion euros). The size of the domestic portfolio fell in both absolute and relative terms to 74.49 billion euros, 28.7% of the total.

It is interesting to note, at any event, that the shift towards a greater proportion of international assets in the total assets managed by funds was basically focused in 2018 in fixed-income assets. Both in absolute and in relative terms, direct investment by Spanish funds in Spanish and international equity remained at similar levels to those of 2017: 4.2% and 10.3% of assets under management, respectively. A similar situation occurred with regard to the part of the portfolios invested in other collective investment schemes, which at year-end 2018 amounted to 6.99 billion euros invested in Spanish schemes and 65.62 billion in foreign schemes.

Management companies continued the process of streamlining the supply of funds, although, as was the case in 2017, at a much lower rate than in the period between 2012 and 2016. This led to the number of funds dropping by over 450. At year-end 2018, there was a total of 1,617 mutual funds, following 101 new registrations and 160 de-registrations over the year (see Table 3.1.2). A total of 157 funds were de-registered after being taken over by other mutual funds. This reduction in the number of vehicles, and despite the fall in assets managed by the funds, led to a slight increase in the average assets per fund in the year, which rose from 158.2 million euros in 2017 to 160.2 million euros in 2018.

With regard to the supply of funds, it is important to note the evolution of the funds traded on the stock market since they were first marketed in Spain in 2006. From the outset, there was a relatively high number of Spanish ETFs listed on the Spanish market together with others offered by foreign entities and not listed on the Spanish market. Their evolution has been uneven, partly as a result of the different tax treatment of these products (see Chapter 2), which has led to those traded on the Spanish market almost completely disappearing. In addition, both Spanish investors and managers have shown very little interest in this collective investment segment and their participation is very low. This contrasts with the situation in other European countries, in which these products have been extremely successful over recent years due to their simplicity, high level of flexibility and low fees. According to data from Thomson Reuters Lipper, their net assets at the end of the year stood at over 630 billion euros, similar levels to those of 2017.

Registrations and de-registrations in 2018 TABLE 3.1.2

Type of firm	Firms registered at 31/12/17	New registrations	De-registrations	Firms registered at 31/12/18
Total financial CIS	**4,564**	**111**	**289**	**4,386**
Mutual funds	1,676	101	160	1,617
Investment companies	2,833	6	126	2,713
Funds of hedge funds	8	0	1	7
Hedge funds	47	4	2	49
Total IIC inmoa Total real estate CIS biliarias	**7**	**0**	**0**	**7**
Real estate mutual funds	3	0	0	3
Real estate investment companies	4	0	0	4
Total foreign UCITS marketed in Spain	**1,013**	**117**	**106**	**1,024**
Foreign funds	455	47	73	429
Foreign companies	558	70	33	595
CIS management companies	**109**	**11**	**1**	**119**
Depositories	**54**	**0**	**17**	**37**

Source: CNMV.

In contrast with the fall in assets under management, the number of unit-holders rose by 9.0% in 2018 to 11.2 million (see Statistical Annex II.1). This was despite the fact that, like other figures for these schemes, the numbers fell in the last 3 months of the year (-48,000 unit-holders). Global funds recorded the highest growth, with 414,793 more unit-holders, followed by international equity funds, with an increase of 359,999. In contrast, passively managed funds recorded the largest fall in unit-holders, 95,774 fewer than at year-end 2017. The percentage of unit-holders in mutual funds who were natural persons stood at 98%, the same figure as in 2017, and they accounted for 83.3% of total assets, 0.9 percentage points down on the previous year.

EXHIBIT 3

CNMV Circular 1/2019, of 28 March, amending Circular 1/2009, of 4 February, on categories of collective investment schemes according to their investment profile, partially amended by Circular 3/2011, of 9 June

Regulation (EU) 2017/1131 of the European Parliament and of the Council, of 14 June 2017, on money market funds (hereinafter, the Regulation) sets out a new definition of money market funds and their evaluation criteria in order to establish common rules in the European Union with regard to, among other aspects, portfolio composition, eligible assets, their maturity, liquidity and diversification, as well as the credit quality of issuers and of the money market instruments in which they invest. This new definition aims to avoid different levels of investor protection and prevent and mitigate any potential contagion risks resulting from possible runs by investors on money market funds. These changes make it necessary to amend the definition of the policies relating to money market funds included in the Annex of CNMV Circular 1/2009, of 4 February, on categories of collective investment schemes according to their investment profile.

As the Regulation applies directly in all Member States and is extremely extensive in terms of the characteristics and requirements of the different types of money market funds, it has been decided to only include the new money market profiles in the new Circular and to refer to compliance with the Regulation.

Coinciding with the adaptation required by the Regulation and in view of the high number and level of assets and heterogeneity according to the duration of their portfolio of the funds included in the category of euro fixed income,[1] it has been considered appropriate to create a new category of CIS according to the investment policy and to divide it into two: Short-term euro fixed income and Euro fixed income.

The fact that the characteristics of CIS with a non-guaranteed specific target return are different from those of CIS that track or reproduce an index or those of exchange traded funds – even though all of them are passively managed – has led to the category of passively managed CIS being divided into two: CIS that track an index (which replaces the name of passively managed CIS) and CIS with a non-guaranteed specific target return.

The Council of State issued its mandatory opinion on 14 February 2019. The draft circular examined did not give rise to any observation with regard to legality or timeliness and was therefore approved.

New classifications of money market CIS of Regulation (EU) 2017/1131

In order to adapt the investment profiles to the types of money market funds (MMFs) defined in the Regulation, it has been proposed to amend the Annex of Circular 1/2009, in which the Short-term money market and Money market profiles are replaced by the following:

- Short-term public debt constant net asset value MMFs.
- Short-term low volatility net asset value MMFs.
- Short-term variable net asset value MMFs.
- Standard variable net asset value MMFs.

The objective of MMFs generally remains to maintain the principal and offer returns in line with money market rates. However, standard MMFs have the objective of offering returns slightly higher than money market returns and may have a weighted average maturity and a weighted average life longer than short-term MMFs.

In addition, MMFs may not make short sales or have exposure to equity or commodities, enter into securities lending or borrowing agreements or lend or borrow cash.

In addition, the manager of an MMF must:

- Establish an internal credit quality assessment procedure based on prudent, systematic and continuous assessment methodologies.
- Regularly conduct stress testing for different possible scenarios of future changes in economic conditions which could have unfavourable effects on the MMFs.
- Establish and apply procedures with a view to anticipating the effect of concurrent redemptions by several investors.

Specifically, the main characteristics of each one of the types of MMFs established by the Regulation are as follows:

Short-term public debt constant net asset value MMFs: They invest at least 99.5% of their assets in money market instruments issued or guaranteed by the public administrations and bodies listed in Article 70.7 of the Regulation and reverse repurchase agreements secured with government debt of the same type and in cash. However, they may also invest in other assets, such as securitisations and asset-backed commercial paper, deposits, repurchase agreements or reverse repurchase agreements, other short-term MMFs and ancillary liquid assets. These MMFs aim to maintain the net asset value of the unit unchanged and its assets are generally valued by using the amortised cost method. Subscriptions and redemptions may be made at constant net asset value.

Short-term low volatility net asset value MMFs: The portfolio assets of these MMFs – which have less restrictive criteria than those required for short-term public debt constant net asset value MMFs – will be valued using mark-to-market or, if this is not possible, they will be valued conservatively by the manager using mark-to-model. Subscriptions and redemptions may be made at constant net asset value if this figure does not differ from the net asset value calculated using mark-to-market or mark-to-model by more than 20 bp.

Short-term variable net asset value MMFs: They may invest in the same assets and the portfolio may have the same weighted average maturity and weighted average life as short-term low volatility net asset value MMFs, although established liquidity requirements are lower. Their assets may only be valued using mark-to-market or by the manager using mark-to-model.

Standard variable net asset value MMFs: They may invest in the same assets as the above MMFs with some additional flexibility with regard to the maturity of the money market instruments and the securitisations and asset-backed commercial paper and, in addition, they may invest in other short-term and standard MMFs. As with short-term variable net asset value MMFs, their assets may only be valued by means of mark-to-market or mark-to-model.

1 In March 2018, there were 203 funds with a Euro fixed income profile, with assets of 55.84 billion euros, of which 81 had a duration of less than 1 year and assets of 23.18 billion euros.

3.1.2 Open-ended investment companies (SICAVs)

As in 2017, the number of SICAVs registered with the CNMV fell in 2018, as there were 126 de-registrations and only 6 new registrations. At the end of the year, there was a total of 2,713 registered SICAVs, compared with 2,833 in December 2017. This decrease was also reflected in the number of shareholders, which fell by 1.2% to 416,029. Almost all SICAVs, over 99% of the total, were listed on the Alternative Stock Market.

Partly as a result of the high number of de-registrations, the assets managed by SICAVs fell by 11.4% to 27.84 billion euros. Average assets per SICAV fell slightly from 11.1 million euros at the end of 2017 to 10.3 million euros in 2018, while the average assets per shareholder rose from 74,595 to 67,296 euros.

The moderately negative performance of this collective investment segment in Spain in 2018, in terms of the number of entities and the volume of net assets, reflected the fact that, although falling, there was still a certain level of uncertainty about possible regulatory changes that might affect it. This is a segment that has been, and may continue to be, significant from the perspective of the development and sophistication, in the best sense of the words, of investment services in Spain and which contributes to there being a good number of professionals with high-level experience in various facets of asset management.

With regard to the distribution of the assets managed by these vehicles, Table 3.1.3 shows that in 2018 there was an increase in cash of 310 million euros, a rise of 12.8%. However, this increase was lower than the reduction in the portfolio of financial investments (-13.8%), which led to the aforementioned fall in assets under management. The relative weighting of the foreign portfolio within the total portfolio, after several years of significant increases, remained practically unchanged, with a percentage of around 79% (71.1% of total assets managed). Among the different categories of foreign investment, debt securities rose slightly in relative importance, while the weighting of CIS and of shares and equity instruments fell by 0.9 and 0.7 percentage points, respectively.

Breakdown of investment company assets[1] TABLE 3.1.3

Million euros

	2017	%	2018	%	% change 18/17
Assets	**31,425**	**100.0**	**27,836**	**100.0**	**-11.4**
Financial investment portfolio	**28,805**	**91.7**	**24,841**	**89.2**	**-13.8**
Spanish securities	6,229	19.8	5,031	18.1	-19.2
Debt securities	1,654	5.3	1,434	5.2	-13.3
Shares and equity instruments	2,675	8.5	2,194	7.9	-18.0
Collective investment schemes	1,626	5.2	1,194	4.3	-26.6
Deposits in credit institutions	236	0.8	164	0.6	-30.5
Derivatives	-0.6	0.0	-0.2	0.0	-66.7
Other	39.7	0.1	46.2	0.2	16.4
Foreign securities	22,566	71.8	19,804	71.1	-12.2
Debt securities	4,397	14.0	4,242	15.2	-3.5
Shares and equity instruments	6,988	22.2	5,979	21.5	-14.4
Collective investment schemes	11,154	35.5	9,541	34.3	-14.5
Deposits in credit institutions	0.0	0.0	0.0	0.0	–
Derivatives	19.3	0.1	27.6	0.1	43.0
Other	8.9	0.0	14.5	0.1	62.9
Doubtful, delinquent or in litigation investments	9.3	0.0	5.6	0.0	-39.8
Intangible assets	**0.0**	**0.0**	**0.0**	**0.0**	**–**
Property, plant and equipment	**0.6**	**0.0**	**0.5**	**0.0**	**-16.7**
Cash	**2,421.7**	**7.7**	**2,731.9**	**9.8**	**12.8**
Net balance (debtors/creditors)	**197.5**	**0.6**	**262.6**	**0.9**	**33.0**
***Pro-memoria*: No. of shareholders**	**421,273**	**–**	**416,029**	**–**	**-1.2**

Source: CNMV.

Despite the significant reduction in absolute terms (-19.2%), the relative weighting of the domestic portfolio remained almost unchanged (a reduction of a little under 0.2 percentage points). The distribution between the different instruments was similar to that of 2017: Spanish debt instruments recorded a slight increase in relative weighting within the domestic portfolio (from 26.6% to 28.5%), as did shares and equity instruments, up 0.7 percentage points to 43.6%. In contrast, investment in CIS lost relative importance within the domestic portfolio, falling from 26.1% to 23.7%. At any event, it is interesting to note that the percentages invested by SICAVs in Spanish equity and in Spanish collective investment schemes are higher than those of mutual funds (7.9% and 4.3% compared with 4.2% and 2.7%, respectively).

3.1.3 Hedge funds

Hedge funds continue to have a very low share of collective investment in Spain as they account for less than 1% of total assets. This collective investment segment is made up of two types of vehicle: those that invest directly in assets (hedge funds) and those that invest through other hedge funds (funds of hedge funds). In both cases, the vehicle may be set up as a fund or a company.

The aggregate assets managed by hedge funds, which rose significantly in 2017 (up 26.8%), remained practically stable in 2018, shrinking by 1.3%, to end December at 2.73 billion euros. In the case of hedge funds, assets managed fell by 1.5% to 2.26 billion euros, while assets managed by funds of hedge funds hardly recorded any change, falling by only 1.5 million euros, to 467.2 million.

At the end of the year, hedge funds accounted for 74.2% of the segment's total (73.1% in 2017). Funds of hedge funds continue to be relatively less important, accounting for 7.8% of the total (7.5% in the previous year). Companies operating in both sectors accounted for the remaining 18.0%.

The performance of the portfolio was in line with market performance, particularly equity markets, and was negative for all the different categories: while hedge funds recorded a return on their portfolio of -6.23% to December, funds of hedge funds recorded a negative return (-2.05%). As with mutual funds, the lowest returns were obtained in the last quarter of the year.

The total number of unit-holders and shareholders in the segment remained practically constant in 2018, with only 6 fewer than at year-end 2017, and stood at 7,246 at the end of December. However, an analysis by category reveals that there was an increase in the case of hedge funds of 21.5% during the year, to 4,442, while the number of funds of hedge funds fell by 22%, to end December at 2,804 unit-holders.

The total number of these vehicles registered with the CNMV at year-end amounted to 56, 1 more than at the end of 2017. As shown in Table 3.1.2, the number of hedge funds rose from 47 to 49, following 4 new registrations and 2 de-registrations, while the number of funds of hedge funds fell from 8 to 7 as a result of 1 de-registration.

Non-bank financial intermediation in Spain[1]

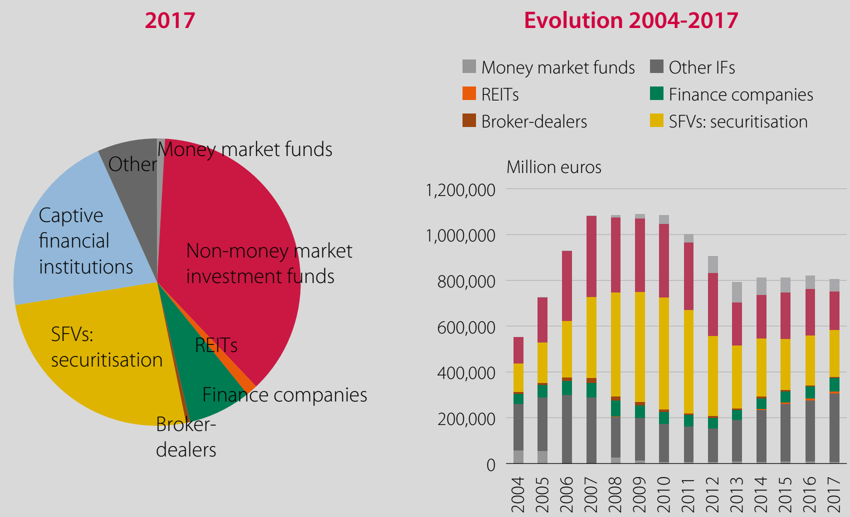
EXHIBIT 4

Non-bank financing is a valuable alternative to bank financing as it increases the available sources of resources for businesses and households, while at the same time promoting healthy competition with traditional banks. The experience gained as a result of the financial crisis that began in 2007 shows, however, the capacity of some of the entities that provide non-bank financing to generate certain risks for financial stability that are similar to those generated by banks. These risks may be generated both directly and through the interconnectedness of these entities with the regular banking system. The name of this sector (which was originally "shadow banking" as its activities fell outside the scope of banking regulation) has evolved towards non-bank financial intermediation (NBFI), following several years of debate in various international forums, so as to avoid the negative connotation of the initial term used. Given its systemic importance, quantifying the size of NBFI and the associated risks to financial stability has become a crucial objective of many bodies, including the European Systemic Risk Board (ESRB) and the Financial Stability Board (FSB).

The volume of assets of the Spanish financial system stood at 4.7 trillion euros in 2017, approximately 4 times the GDP, with banks accounting for slightly under 60% of the total. Far behind banks were Other Financial Intermediaries

(OFIs), with over 17% of the total. In the early years of the analyses of shadow banking (and in some current analyses), the assets of OFIs were taken as a broad measure of NBFI. However, subsequent analyses started to select certain types of entities within OFIs which might be considered part of NBFI. These include investment funds, structured finance vehicles (SFVs), broker-dealers and finance companies. The entities that fall under the category of OFIs but not NBFI are captive financial institutions and moneylenders (the most important due to their volume of assets), REITs and other relatively small-sized entities.[2]

Distribution of Other Financial Intermediaries (OFIs) FIGURE E4.1



Source: CNMV with ECB data.

Following several years of significant growth, the assets of OFIs reached their highest level in the period 2007-2010, when they exceeded 1 trillion euros (see right hand panel of Figure E4.1). Between 2010 and 2013, their assets fell (mainly due to securitisations) and have remained stable since then, although there has been a certain rearrangement (lower importance of securitisations and greater importance of investment funds). In the euro area, in contrast, OFIs have been enjoying positive growth since 2011, with a cumulative increase of 17% to 2017.

In 2013, the FSB developed a framework based on five economic functions in order to identify and classify shadow banking entities. The aim was for competent authorities to categorise non-bank financial institutions not so much based on their legal form, but rather on the type of activity that they perform. This would achieve international consistency when identifying the risks associated with NBFI. According to this classification, the entities that belong to NBFI in Spain are as follows:

– **Economic function 1 (EF1):** investment funds whose characteristics make them susceptible to runs. This category includes fixed-income funds, mixed funds, money-market funds, hedge funds and SICAVs.

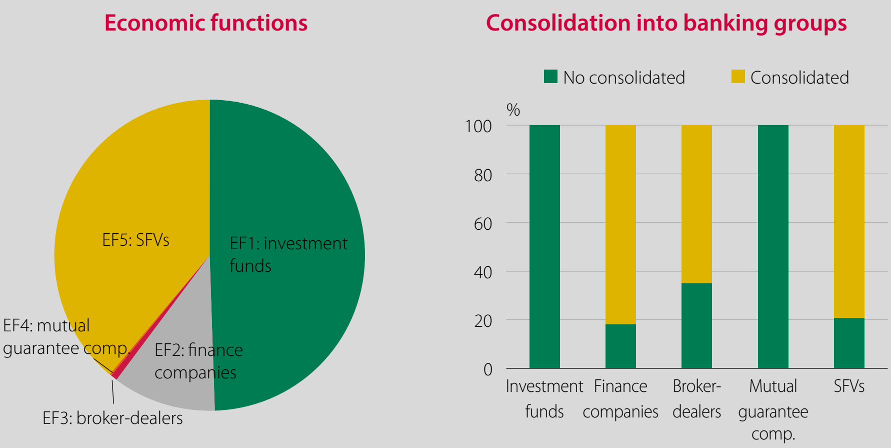
– **Economic function 2 (EF2):** loan provision that is dependent on short-term funding. In the case of Spain, this category covers finance companies, crowdfunding platforms and vehicles which in recent years have been performing the activity known as direct lending.[3]

– **Economic function (EF3):** intermediation of market activities that is dependent on short-term funding or on secured funding of client assets. It is made up of broker-dealers.

– **Economic function 4 (EF4):** entities that perform "facilitation" of credit creation. In Spain, mutual guarantee companies belong to this category.

– **Economic function 5 (EF5):** securitisation-based credit intermediation and funding of financial entities. Structured finance vehicles (SFVs) for the purpose of asset securitisation are included in this category.

Distribution of non-bank financial intermediation. 2017 FIGURE E4.2



Source: CNMV with ECB data.

According to this classification, NBFI assets in Spain at the end of 2017, in their broad measure – i.e., without eliminating consolidation into banking groups – amounted to 531.92 billion euros, 1.9% up on 2016. After eliminating the portion that is consolidated into banks, the figure for NBFI stands at 319.08 billion euros, accounting for 6.8% of the Spanish financial system and 39.6% of the OFI subsector. Entities belonging to EF1 and EF5 are those that account for a higher percentage of the total, with 49.5% and 38.9%, respectively (see left-hand panel of Figure E4.2), followed by EF2, finance companies, with 10.8% of the total. However, if the entities that are consolidated into banks are deducted, these values change significantly. Investment funds, in which there is no consolidation, gain relative importance to 82.5% of total NBFI, while securitisation vehicles and finance companies, in which consolidation into banks is very significant (see right-hand panel of Figure E4.2), see their relative importance fall to 13.5% and 3.3% of NBFI, respectively.

In order to identify and monitor the potential risks associated with NBFI, indicators have been calculated that attempt to quantify the credit risk, maturity transformation, liquidity risk and leverage of the entities with the most significant activity (investment funds,[4] finance companies, broker-dealers and SFV).[5] Table E4.1 shows a representation of the intensity of the risks analysed on the basis of: i) the result of a relevant indicator for each one of the risks and types of entity and ii) the position of the value of this indicator in relation to some previously determined thresholds. As can be seen, the most important risks associated with Spanish investment funds are credit risk (since, due to their nature, these funds have a high percentage of credit assets in their portfolios – except mixed funds) and liquidity risk, which is at a medium level and growing in the three categories analysed.

In securitisation funds, only the maturity transformation risk is at a moderate level, with the rest at a high level. However, some of these high levels arise due to the specific business model of the entity. This is the case, for example, of credit risk, which will always be high to the extent that the assets of SFVs are made up of loans transferred by the originator or assignor, or of leverage (as defined uniformly across entities), which will also be high as these entities have no own funds.

In the case of finance companies, credit risk is high, as around 90% of the financial assets correspond to loans granted, as is liquidity risk. For broker-dealers, it can be seen that at the end of 2017, credit risk was high (above 80%), the level of leverage was moderate and the liquidity risk and the maturity transformation risk were at a low level.

Risks associated with NBFI (2017)[1]

TABLE E4.1

	Investment funds					
	Money market	Fixed income	Mixed	Finance companies	Broker-dealers	SFVs: securitisation
Credit risk	●	●	◔	●	●	●
Maturity transformation	○	◔	○	○	○	◔
Liquidity risk	◐	◐	◐	●	○	●
Leverage	○	○	○	◐	◔	●
Interconnectedness with the banking system	○	○	○	○	○	●
Relative importance (%)	1.3	13.0	28.7	10.8	0.7	38.9

Source: CNMV. (1) The absence of colour indicates the presence of low risk, while purple colours indicate moderate, medium and high risk depending on the intensity of the colour (light, medium and strong).

1 This Exhibit is a summary of the report "Non-bank financial intermediation" prepared by Anna Ispierto and published in the CNMV's Quarterly Bulletin for the first quarter of 2019.

2 The heading of "Others" includes Central Counterparties (CCPs), the SAREB (Management Company for Assets Arising from the Banking Sector Reorganisation) and venture capital entities (although their investments in loans may be included under EF2).

3 Direct lending refers to loans or credit that are granted generally to small and medium-sized companies by, among others, closed-ended collective investment vehicles.

4 The risks associated with money market funds, fixed-income funds and mixed funds are analysed separately.

5 Mutual guarantee companies are not included as their proportion of the sector is lower than 0.5%.

3.1.4 Real estate CIS

Since the height of the financial crisis, real estate collective investment schemes have suffered a continuous and uninterrupted fall in the assets managed and the number of unit-holders to such an extent that they may now be considered an insignificant sub-sector within the collective investment sector, managing around 1 billion euros, after managing over 9.5 billion euros in the middle of 2007. For some years now, the business related with the real estate sector is carried out through real estate investment listed companies or SOCIMIs (Spanish REIT companies).[1]

In 2018, there were hardly any movements in the CNMV's register of real estate CIS, with only one de-registration of a real estate investment fund, the number of which had remained constant since January 2015. There were therefore six entities at the end of the year, two real estate investment funds and four real estate investment companies. It should be noted, however, that these two operating real estate investment funds informed the CNMV in 2011 and 2015 that they were beginning a liquidation process.

With the de-registration of the aforementioned real estate investment fund, the assets managed by these vehicles fell by 14.1% over 2018 to 309.4 million euros, while the number of unit-holders shrank by 56.0% to 483. The return of these funds, for the first time since the crisis began, left negative figures and stood at an annual rate of 0.25%. This was the result of the gains in the first quarter, as in the following nine months of the year the return was practically zero. These figures, however, are not yet close to those of the real estate sector, which has recovered strongly in recent years.

The number of real estate investment companies has remained constant since the third quarter of 2017 and hence, at the end of 2018, there was a total of four entities. The total assets managed by these companies rose by 18.6% to 749 million euros, while the number of shareholders grew from 327 to 425. This was due to the fact that the last company registered in 2017 increased the number of shareholders from 1 to 100 (the legal minimum) by the legally established deadline.

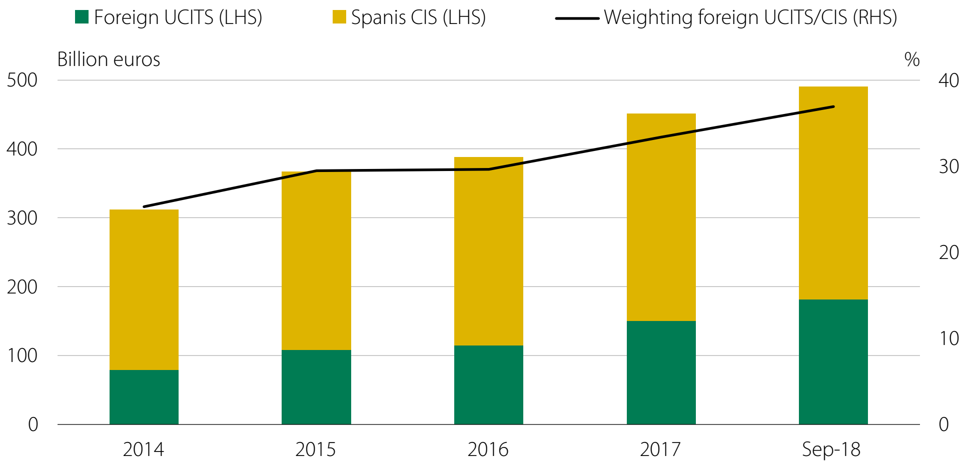
3.1.5 Foreign UCITS marketed in Spain

The volume of foreign UCITS marketed in Spain has continued to grow over recent years, as shown in Figure 3.1.2. Indeed, between the middle of 2012 and the end of 2017 this figure increased five-fold. As shown in the figure, investment once again grew sharply over the last year, to stand at over 180 billion euros at the end of September. However, it should be noted that this last figure may not be fully comparable with the information published up to December 2017 as entry into force of

1 Law 11/2009, of 26 October, regulating Real Estate Investment Listed Companies. SOCIMIs are characterised by having a specific tax regime that exempts them from paying corporate income tax and allows them to enjoy a 95% rebate on property transfer tax and stamp duty. In return, they are required to distribute 80% of the profits obtained from the rental income and 50% of those generated by the sale of assets. Their activity focuses on development, refurbishment and operation of rental property, the holding of interest in other SOCIMIs and the performance of ancillary real estate activities. They are also required to have a minimum capital of five million euros and be listed on a regulated market or multilateral trading facility, such as the MAB.

CNMV Circular 2/2017, of 25 October, led to an increase in the number of entities required to submit statistical information (see Exhibit below). This figure was equivalent to 36.9% of the total assets of CIS marketed in Spain, 6 percentage points up on 2017.

Assets of foreign UCITS marketed in Spain[1] FIGURE 3.1.2



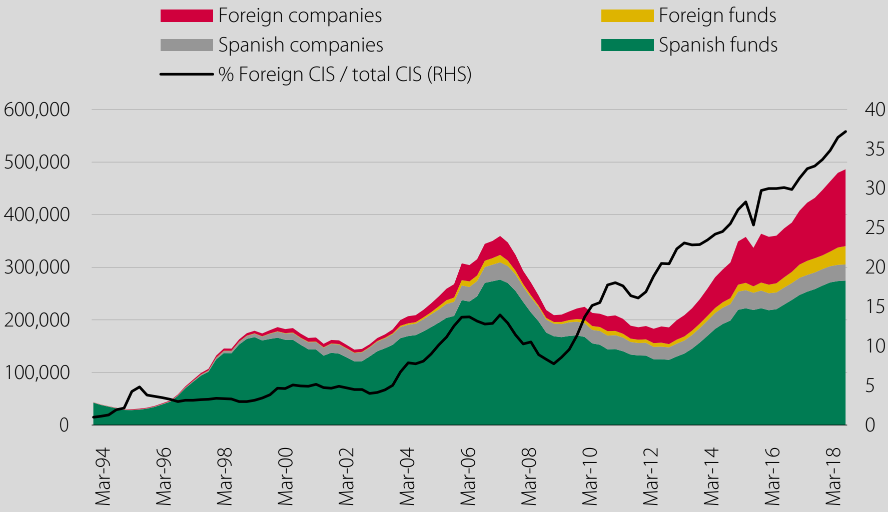
Source: CNMV. (1) As from the first quarter of 2018, the data on unit-holders and investment volume are estimated with the data received to date: 99.2% of the reporting entities in the first quarter, 95.5% in the second and 93.9% in the third.

In line with the trend of recent years, the number of foreign UCITS registered with the CNMV grew by 11 companies in 2018, and hence at year-end there were a total of 1,024 undertakings of this type (429 funds and 595 companies). This increase was exclusively due to the high number of registrations of investment companies, as the number of funds fell by 26. As in previous years, most of the new registrations corresponded to undertakings from Luxembourg and Ireland, with 18 and 16 more, respectively. In contrast, the number of French vehicles with investors in Spain fell by 29 (see Statistical Annex II.5).

New Circular on Foreign CIS EXHIBIT 5

CNMV Circular 2/2011, of 9 June, on information on foreign collective investment schemes registered with the CNMV, regulates the information that foreign CIS that are marketed in Spain must report to the CNMV and to shareholders and unit-holders. In addition, it lays out the statistical statement that they must also send to the CNMV on a quarterly basis. Over recent years, several situations have made it recommendable to amend this Circular. Firstly, there were certain doubts relating to the certainty that the CNMV had all the information that it needs. Secondly, the need also arose to have information on non-harmonised CIS, an aspect that was not provided for in the Circular. This took place in a context of sharp growth in the cross-border marketing of collective investment products. Over the last ten years, the assets managed by foreign CIS marketed in Spain have risen from around 20 billion euros (8% of the total assets managed by CIS) to over 180 billion euros (35% of those assets) (see Figure E5.1).

Assets managed by Spanish and foreign CIS marketed[1] in Spain FIGURE E5.1



Source: CNMV. (1) The sending of the data is mandatory for all "distributor-CIS" combinations, whether or not they have been marketed in the quarter.

This led to adoption of CNMV Circular 2/2017, of 25 October, amending Circular 2/2011, of 9 June, on information on foreign collective investment schemes registered with the CNMV. This amendment provides that each "distributor-CIS" combination, whether harmonised or not, must collect the following data in addition to that required by the original Circular:

– **Identification data:** ISIN, name of the compartment, name of the manager, name of the depository, LEI of the CIS, LEI of the compartment, LEI of the manager, LEI of the depository, LEI of the main CIS, country of the manager, country of the depository and country of the main CIS.

– **Other qualitative variables:** ETF (yes/no), self-managed (yes/no), subordinate (yes/no), fund of funds (yes/no), investment profile of the CIS (ESA 2010) and investment profile (ESA 2010) of the main CIS if subordinate.

– **Quantitative variables:** net asset value at the end of the previous quarter and of the current quarter, percentages of management fees (on assets, on results or mixed), depository fees, subscription fees and redemption fees effectively charged, breakdown of unit-holders/shareholders into natural persons and legal persons, breakdown of volume of investment into natural persons and legal persons (with details of volume corresponding to other distributors) and marketed amount that comes from, or goes to, another CIS distributor in Spain.

The level of detail of the information required from foreign CIS together with the extension of the range of schemes required to provide information mean that the receipt and processing of statistical data remain in progress. However, when this has been completed, the CNMV will have very useful information that will be used both for its supervisory tasks and for analysing the sector and identifying risks. The latest available data, referring only to UCITS, correspond to the third quarter of 2018 and have been obtained from the information provided by 93.9% of the entities required to submit information. These data reveal that the investment volume of foreign investment companies stood at 146 billion euros, while that of funds was slightly under 35 billion euros. The number of investors exceeded 3.03 million, spread over 2.44 million companies and 593,000 in investment funds. The number of CIS marketed in Spain stood at over 1,000 (57% were companies and 43% were funds).

3.1.6 Collective investment scheme management companies

A total of 119 CIS management companies were registered with the CNMV at year-end 2018, 10 more than at the end of 2017. There were 11 new registrations and 1 de-registration (see Statistical Annex II.6). This trend prolongs the expansion that began in 2014. Assets managed by CIS management companies fell by 3.2% to slightly above 290 billion euros, in line with the general trend of the sector. This reduction was largely due to the negative performance of real estate investment funds, which account for almost 90% of the total assets managed, with a fall of 2.3%, followed by SICAVs, whose assets managed shrank by 11.4%. This sector also continued to be extremely concentrated: the three largest management companies held a combined share of 42% of total assets managed at year-end 2018, the same figure as in 2017.

Despite the fall in the assets managed by management companies, their aggregate profits before tax rose by 47.8% on 2017, to 1.12 billion euros. This growth was a result of the increase in net commissions, both as a result of those received (7.2% growth to 3.19 billion euros) and a fall in commissions paid (15.3% fall to 1.49 billion euros). Within the commission revenue, it is important to note the significant growth in commissions included under the heading of "Other", specifically those relating to portfolio management, which doubled their amount. CIS management commissions – which are by far the largest, with around 83% of total commissions received by management companies (almost 90% in 2017) – remained practically stable (1.5 million euros more, to 2.65 billion euros). These commissions accounted for 0.91% of assets under management, above the figure of 0.88% for the end of 2017 (see Table 3.1.4).

Income statement of CIS management companies

TABLE 3.1.4

Thousand euros

	2017	2018	Change (%)
Interest margin	**3,361**	**1,745**	**-48.1**
Net commissions	1,219,956	1,702,106	39.5
Commission revenue	2,975,368	3,188,844	7.2
CIS management	2,647,397	2,648,974	0.1
Front-end and back-end fees	21,555	11,386	-47.2
Other	306,412	528,484	72.5
Commission expenses	1,755,412	1,486,738	-15.3
Profit from net financial investments	12,362	216	-98.3
Earnings on capital instruments	10,302	5,320	-48.4
Net exchange differences	-635	-270	-57.5
Other products and net operating charges	-479	23,210	-4,945.5
Gross profit	**1,244,867**	**1,732,326**	**39.2**
Operating expenses	466,615	584,485	25.3
Personnel	285,496	358,061	25.4
General expenses	181,119	226,424	25.0
Depreciation, amortisation and other provisions	24,840	20,995	-15.5
Impairment losses on financial assets	303	9,495	–
Net operating profit	**753,109**	**1,117,351**	**48.4**
Other gains/losses	1,455	-1,926	-232.4
Profit (loss) before tax	**754,564**	**1,115,425**	**47.8**
Income tax expense	-204,655	-312,116	52.5
Profit from continuing operations	**549,909**	**803,309**	**46.1**
Profit from discontinued operations	0	0	-
Net profit (loss) for the year	**549,909**	**803,309**	**46.1**

Source: CNMV.

Although there was a significant improvement in the sector's results, the year ended with 26 loss-making entities, 7 more than in 2017, and aggregate losses rose by 85.9%, to 12.3 million euros (see Table 3.1.5).

Profit before tax, No. of loss-making firms and amount of loss

TABLE 3.1.5

Thousand euros

	Profit before tax	No. of loss-making firms	Amount of loss
2014	545,484	14	2,828
2015	626,446	11	3,526
2016	600,818	13	7,369
2017	754,562	19	6,630
2018	1,115,425	26	12,323

Source: CNMV.

3.1.7 CIS depositories

In 2018, the number of depositories registered with the CNMV fell substantially as there were 17 de-registrations, bringing the total number to 37 at the end of the year. However, all the de-registrations in the year corresponded to entities that had not been effectively performing the activity of CIS depository and which the CNMV had contacted to suggest they should consider whether not to remain in the registry. At the end of 2018, the number of operational depositories remained at 24. Of these, banking groups clearly predominated among the active depositories as they accounted for 94.8% of total assets deposited by CIS at year-end 2018, the same percentage as in 2017; of this amount, 10.7% corresponded to branches of foreign financial institutions (11.8% in 2017), mostly from Member States of the European Union. The remaining 5.2% was divided among credit cooperatives, broker-dealers and insurance companies.

3.2 Provision of investment services

Investment services may be provided by different types of entity: credit institutions, investment firms, a category that includes portfolio management companies and financial advisory firms, and CIS management companies. Credit institutions are by far the main providers of investment services in Spain and account for the bulk of commission revenue in the different types of services. For their part, broker-dealers and brokers continue to have a significant relative importance, particularly in order transmission and execution. Portfolio management companies, financial advisory firms and CIS management companies offer a more limited catalogue of financial services than broker-dealers and brokers.

Irrespective of the type of entity, a review of their business model and its link with traditional commercial banks reveals that almost 70% of the business related to the provision of investment services in a broad sense[2] (measured through the commissions received) is performed by commercial banks or entities that are consolidated into commercial banks (broker-dealers or CIS management companies), while the rest corresponds to entities or groups whose activity is mostly not related to commercial banking. Noteworthy among the latter, in view of the size of the revenue that they receive for this activity (see Section 3.2.3), are some banks that are specialised in providing investment services.

This section provides a detailed description of the activity and the economic and financial position of entities subject to prudential supervision by the CNMV.[3] It also focuses some attention on the activity of credit institutions that provide investment services and are therefore also subject to supervision by the CNMV with regard to compliance with market and customer conduct of business rules. In this latter case, the CNMV does not conduct a comprehensive supervision of the entities – that includes solvency and conduct of business rules –, as is the case with investment firms and CIS management companies (see Section 3.1).

2 Including the activity of CIS management.

3 The CNMV oversees broker-dealers and brokers, portfolio management companies and financial advisory firms both with regard to prudential supervision and in order to ensure compliance with conduct of business rules. In the case of credit institutions, the CNMV only supervises this second aspect with regard to the provision of investment services.

The activity of broker-dealers and brokers in 2018 fell compared with previous years, particularly for the former. The results of both types of entities were marked by the gradual change in their business models, particularly in the case of broker-dealers. Traditionally, commissions for order processing and execution have been the main source of revenue for brokers and broker-dealers. However, this shift of the activity of broker-dealers belonging to credit institutions to their parent companies and the transfer of an amount of the trading of securities admitted to trading on Spanish stock markets towards trading platforms located in other European countries (see Section 2.1) has led to a reduction in the relative importance of this item over recent years. It is also important to point out that 2018 was a year in which broker-dealers recorded a fall in their revenue in every item except for commissions for investment advice. Brokers recorded an increase in their revenue, led by the rise in commissions for investment advice and portfolio management. In both cases, the increase in revenue linked to the investment advice service might be related to the implementation of MiFID II.

The fall in the revenue of broker-dealers led to a lower aggregate gross margin for the sector compared with the previous year. The fall in the sector's activity was also reflected in lower operating expenses, particularly for broker-dealers. Despite these lower expenses, the sector's profit before tax fell on the previous year. As a whole, profit fell by 34.0% on 2017 (34.5% for broker-dealers and 25.2% for brokers).

A high number of firms (39 out of 91) closed the year with losses (18 broker-dealers and 21 brokers). The aggregate amount of losses rose by more than 70% on the previous year. In the case of broker-dealers, the losses almost doubled. The combination of worse aggregate profits and a significant number of loss-making entities is a reflection of a significant process of adjustment in the sector, which results from the shift of part of the business of credit institutions and the process of reorienting the business from traditional investment services to other investment services, which at the moment are not as profitable. At any event, the sector continued to enjoy a large surplus equity over minimum requirements required by law, although for a significant number of these entities the real buffer provided by the excess equity over minimum requirements is low as these are not significant amounts in absolute terms.

With regard to financial advisory firms, both the total volume of assets under advice and the profits of these firms fell marginally. It is important to highlight that the weight of retail customers rose significantly for the second consecutive year.

With regard to portfolio management companies, only one entity was registered with the CNMV at the end of 2018, the same one as at year-end 2017. This does not mean that over recent years no entities have been created whose main business model is managing their clients' portfolios, rather that these entities have preferred to operate as brokers. The requirements to set up a portfolio management company or a broker with a similar programme of activities are not very different, which favours the creation of brokers due to their flexibility when deciding to progressively provide other investment services.

3.2.1 Credit institutions

At the end of 2018, a total of 114 Spanish credit institutions (banks, savings banks and credit cooperatives) were registered with the CNMV to provide investment services, 8 fewer than in 2017. This fall is linked to the consolidation of the reorganisation process undertaken in the banking sector as a result of the financial crisis. A total of 467 foreign credit institutions were authorised to provide investment services in Spain, 1 fewer than in the previous year. 412 of the registered foreign credit institutions operated under the free provision of services regime and 56 through branches. Almost all of these institutions were from other Member States of the European Union (461 institutions, see Statistical Annex II.12).

Table 3.2.1 shows the revenue of credit institutions from the provision of securities services and marketing of mutual funds and non-bank financial products. It is important to indicate that in 2017 there was an accounting modification that affected the confidential statements that credit institutions submit to the Bank of Spain. They had to be adapted to the preparation criteria, terminology, definitions and formats of the FINREP (FINancial REPorting) statements of the European Union.[4] This accounting change means that the data on bank commission revenue for 2016, 2017 and 2018 are compared on a non-homogeneous basis.

Credit institution revenue from the provision of securities services and marketing of non-bank financial products TABLE 3.2.1

Million euros

	2015	2016	2017	2018	% of total commissions CI[1]
For security services	**1,476**	**1,334**	**1,436**	**1,575**	**10.6**
Placement and underwriting	218	190	231	187	1.3
Securities trading	488	410	457	367	2.5
Administration and custody	632	596	551	562	3.8
Asset management	138	138	197	459	3.1
Marketing of non-bank financial products	**4,211**	**4,389**	**4,380**	**4,268**	**28.6**
Mutual funds	2,296	2,187	2,290	2,074[1]	13.9
Pension funds	458	520	498	492[1]	3.3
Insurance	1,224	1,446	1,330	1,507	10.1
Other	236	236	262	195	1.3
***Pro memoria*:**					
For securities services and marketing of mutual funds	3,772	3,521	3,726	3,649	24.5
Total revenue from commissions	**13,617**	**13,486**	**14,295**	**14,924**	**100.0**

Source: Bank of Spain. In 2017, the confidential statements that credit institutions submit to the Bank of Spain were modified as a result of adaptation to the preparation criteria, terminology, definitions and formats of the FINREP (FINancial REPorting) statements of the European Union. (1) Estimated data.

At any event, it is important to highlight the increase in commissions that credit institutions received for securities services, particularly for the management of third-party assets linked to the implementation of MiFID II. In contrast, there was a significant fall in revenue for securities trading, which might be related to the fact

4 The European regulation for preparing supervisory reporting is known as FINREP (Commission Implementing Regulation (EU) No. 680/2014, of 16 April 2014, laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013).

that a significant part of the trading of Spanish securities is performed in foreign markets. The revenue received for the marketing of non-bank products fell by 2.6%, with differences between the various products. There were gains in the revenue for marketing insurance and reductions in the revenue for investment funds and pension funds. The combined proportion of revenue from providing securities services and marketing mutual funds in total commissions received by these entities fell from 26.1% in 2017 to 24.5% in 2018.

The comparison of the commissions received by credit institutions and investment firms shows the preponderant importance of the former in providing investment services. As can be seen in the table, this type of service is mainly provided by credit institutions. This was largely due to the fact that a significant number of investment firms (broker-dealers and brokers) whose leading or sole shareholder was a credit institution have disappeared with their activities now taken on by the credit institutions themselves.

As shown in Table 3.2.2, credit institutions clearly exceed broker-dealers and brokers in services for processing or executing securities trading, a segment in which investment firms accounted for the bulk of the commissions for many years. This trend changed in 2013 and over recent years credit institutions have increasingly gained more market share in this segment, which now amounts to almost two-thirds of the total.

Commissions received for investment services. 2018 TABLE 3.2.2

Million euros

	Broker-dealers and brokers[1]	Credit institutions (CI)	Total	% CI/total
Total investment services	**385**	**3,649**	**4,033**	**90.5**
Placement and underwriting	12	187	199	94.0
Securities trading	180	367	547	67.1
Asset management	29	459	488	94.1
Administration and custody	44	562	606	92.7
Mutual fund marketing	119	2,074[2]	2,193	94.6

Source: CNMV and Bank of Spain. (1) Includes portfolio management companies. (2) The breakdown between the marketing of investment funds and the marketing of pension funds is not available.

3.2.2 Investment firms[5]

3.2.2.1 Broker-dealers and brokers

Authorisation and registration

At the end of 2018, a total of 91 broker-dealers and brokers were registered with the CNMV, two more than at the end of 2017. This increase in the number of firms seems to confirm the end of the negative trend in the sector resulting from the

5 In accordance with Article 143 of the recast text of the Securities Market Act, investment firms cover broker-dealers, brokers, portfolio management companies and financial advisory firms.

significant adjustment process of recent years (in 2008 there was a total of 101 broker-dealers and brokers). Although banking groups continue with the integration processes of their broker-dealers and brokers into the parent bank, the number of new registrations of independent entities was much higher than the number of de-registrations. This shows how the sector is transforming towards a greater presence of independent entities that provide investment services other than order reception and transmission and the subsequent order execution.

A total of 39 firms ended the year with losses, 19 more than in 2017. The aggregate volume of the losses was significantly higher both for broker-dealers and for brokers. In the case of the former, the losses almost doubled, while the increase for brokers stood at 37.7% (see Tables 3.2.5 and 3.2.7).

As shown in Table 3.2.3, seven new firms registered and five firms de-registered over the year. Six of the new registrations corresponded to independent firms and the other belongs to a company in the insurance sector. Three of the de-registrations corresponded to broker-dealers that were integrated into their parent bank. The other two de-registered firms were independent brokers, one of which became a collective investment scheme management company (see Statistical Annex II.8).

No corporate activity generating a change in control among brokers and broker-dealers took place in 2018 (see Statistical Annex II.9). In contrast, there was a significant change in the number of representatives used by investment firms, which dropped from 6,208 at the end of 2017 to 2,441 at the end of 2018.

As usual, most of the broker-dealers and brokers that use an EU passport to operate in other countries of the European Union do so under the free provision of services system. Specifically, at the end of 2018, 48 firms were under this regime (2 up on the previous year, see Statistical Annex II.10), while 7 Spanish firms had branches in other countries. This figure is the same as at the end of 2017, although the number of European countries in which these firms operate grew (France, the Netherlands and Sweden were added to the list).

Registrations and de-registrations of firms TABLE 3.2.3

Type of firm	Firms at 31/12/17	New registrations	De-registrations	Firms at 31/12/18
Spanish firms	**89**	**7**	**5**	**91**
Broker-dealers	41	1	3	39
Brokers	48	6	2	52
Foreign firms	**2,869**	**215**	**82**	**3,002**
With a branch	53	11	3	61
Free provision of services	2,816	204	79	2,941
***Pro memoria*:**				
Representatives	6,208	351	4,118	2,441

Source: CNMV.

As shown in Table 3.2.3, 215 firms authorised in other Member States informed the CNMV in 2018 of their intention to begin providing investment services in Spain. A total of 82 firms notified that they were ceasing to operate. Most of these notifications, both for registrations and de-registrations, corresponded to entities under the free provision of services regime, which increased in number to 2,941, above the figure of 2,816 in 2017. Most of these entities were authorised in the United Kingdom or Cyprus. In turn, the number of foreign entities with a branch rose from 53 to 61, of which half were located in the United Kingdom, which is currently involved in the Brexit process for leaving the European Union (see Statistical Annex II.7).

With regard to the entities authorised in other Member States that operate in Spain under the freedom to provide services, although the CNMV (as authority of the host Member State) does not receive information on the activity that they perform, it is likely that many of them are not active entities (situation which is often referred to as "just in case notifications").

The need to ensure minimum levels of oversight of these entities with cross-border operations under the freedom to provide services has led to a debate in ESMA relating to the possibility that the host authority should have a minimum amount of information on their activity in its territory and to the establishment of formulas for cooperation between the home and the host authorities. The CNMV is taking on a particular active role in this debate.

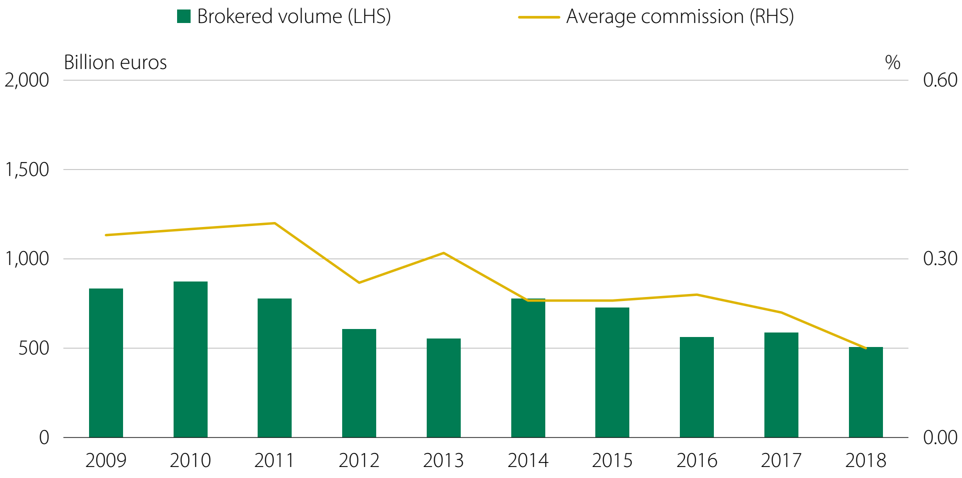
Results

Broker-dealers and brokers obtained profit before tax of 115.9 million euros in 2018, a fall of 34.0% on the previous year. The fall was greater in broker-dealers (34.5%) than in brokers (25.2%). Part of the difference was due to the de-registration of three broker-dealers that belonged to credit institutions. However, the performance of the other entities was also not favourable as deducting the figures of the three broker-dealers that de-registered, profits before tax fell by 28.2%, from 155.4 million euros in 2017 to 111.5 million in 2018.

As shown in Table 3.2.4, broker-dealers suffered a significant reduction in their revenue on the previous year. This was the result of falls in all items except the interest margin, which rose significantly. Particularly noteworthy due to its importance was the fall in net commissions (down 26.4%), which led to this item accounting for 71.5% of the revenue of this type of entity in 2018 (81.1% 2017). This change is mainly the result of the fall in commissions for order processing and execution, marketing CIS and portfolio management. There was also a noteworthy fall in the profit from financial investments (down 38.0%).

Commissions from order processing and execution remained the most important of the sources of revenue from the provision of services to third parties. These commissions mainly come from brokering in Spanish equity markets. It should be noted, as mentioned above, that the revenue for this item shrank by 26.3% on the previous year. Part of this fall was once again the result of the de-registration of two broker-dealers that belonged to credit institutions and whose main activity was trading brokerage. Brokered volumes in these markets fell last year, in line with the fall in trading in Spanish stock markets (see Section 1.2) and the greater relative importance in securities brokerage of credit institutions, while average brokerage fees fell significantly. The combination of both factors led to the aforementioned fall in revenue (see Figure 3.2.1).

Broker-dealers that are stock market members: brokered volume and average effective commission in Spanish equity FIGURE 3.2.1



Source: CNMV.

With regard to other commissions, those received for marketing CIS and for portfolio management fell significantly, by 33.4% and 72.8%, respectively. On the positive side, the fees for deposit and entry of securities and for investment advisory services rose. The rise in the latter was significant (up 72.1%) and may be related to the implementation of MiFID II. This may also be a reason to explain the fact that commissions paid to other entities also fell significantly – 19.4% on the previous year, in line with lower activity in the sector – and were the equivalent of 28.6% of the commissions received.

The operating expenses of broker-dealers once again fell (by 7.7%). This trend is the result both of the prolongation of the adjustment of the expenses of these entities, which began as a result of the financial crisis in order to adapt to the changes in financial markets, and as result of the lower presence of companies linked to credit institutions, which were of a significant size.

Depreciation, amortisation and other provisions rose considerably (52.9%). The fall in the gross margin was partially offset by lower expenses. However, the fall in expenses was not enough to prevent a decrease in the operating profit (down 40.9%), which fell from 145.4 million euros in 2017 to 85.8 million euros in 2018. Profit before tax shrank by 34.5% to 103.8 million euros.

Movements in the aggregate income statement over recent years reveal the change in the business model of broker-dealers. Their traditional main business, brokerage in securities markets, has been losing its relative importance, while marketing, management and advice services provided to third parties are increasingly important in their income statement. It should be pointed out that, as shown in Table 3.2.4, proprietary trading – which is extremely important for investment firms in most comparable countries – is very low in Spain for the broker-dealers.

Income statement for broker-dealers[1]

TABLE 3.2.4

Thousand euros

	2017	2018	% change 18/17
Interest margin	**21,377**	**73,969**	**246.0**
Net commissions	**402,154**	**296,037**	**-26.4**
Commission revenue	549,298	414,595	-24.5
Order processing and execution	217,601	160,320	-26.3
Placement and underwriting	17,553	11,090	-36.8
Deposit and entry of securities	38,200	42,958	12.5
Marketing CIS	83,354	55,483	-33.4
Portfolio management	49,720	13,505	-72.8
Investment advisory services	5,555	9,562	72.1
Other	137,315	121,677	-11.4
Commission expenses	147,144	118,558	-19.4
Profit from financial investments	**43,725**	**27,088**	**-38.0**
Net exchange differences	4,353	283	-93.5
Other products and operating charges	24,154	16,331	-32.4
Gross profit	**495,763**	**413,708**	**-16.5**
Operating expenses	342,176	315,951	-7.7
Personnel	216,587	194,594	-10.1
General expenses	125,589	121,357	-3.4
Depreciation, amortisation and other provisions	7,369	11,267	52.9
Impairment losses on financial assets	854	653	-23.5
Net operating profit	**145,364**	**85,837**	**-40.9**
Other gains/losses	13,197	18,016	36.5
Profit (loss) before tax	**158,561**	**103,853**	**-34.5**
Income tax expense	37,878	12,082	-68.1
Profit from continuing operations	**120,683**	**91,771**	**-24.0**
Profit from discontinued operations	**36,382**	**0**	**-100.0**
Net profit (loss) for the year	**157,065**	**91,771**	**-41.6**

Source: CNMV. (1) Includes information from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

As has been the case in recent years, a small number of firms generated most of the profits in this sub-sector. Specifically, four broker-dealers generated 92.1% of the aggregate profits, which indicates greater concentration than in previous years. This is due to the fact that the sub-sector of broker-dealers is becoming smaller and larger firms are gaining relative size. In general, the firms with the largest size tend to be increasingly profitable, while the smaller companies are finding it increasingly difficult to remain viable.

An analysis by entity shows that 18 broker-dealers posted losses before tax, 11 more than at year-end 2017 (see Table 3.2.5). 8 of these had already suffered losses in 2017. 15 of the 18 companies are independent firms, 2 belong to Spanish credit institutions and 1 to an international credit institution. The accumulated losses almost doubled those of the previous year, rising from 14.7 million euros in 2017 to 28.8 million euros in 2018.

Profit before tax, No. of loss-making broker-dealers and amount of the losses before tax TABLE 3.2.5

Thousand euros

	Profit before tax (total)[1]	No. of loss-making firms	Amount of the losses before tax
Broker-dealers			
2015	192,776	8	-14,829
2016	181,194	7	-8,957
2017	158,561	7	-14,701
2018	103,853	18	-28,789

Source: CNMV. (1) Includes results from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

Brokers, for their part, obtain revenue mostly from providing services to third parties because, unlike broker-dealers, they may not invest on their own account. While some of the brokers obtain the bulk of their revenue from processing and executing orders, most of them tend to specialise in certain services, such as marketing CIS or portfolio management. Most of the firms in the sub-sector were independent (30 out of a total of 52 brokers), unlike broker-dealers, which are mostly controlled by a financial group (only 9 firms out of a total of 39 are independent).

Aggregate profits before tax of brokers fell by 25.2% to 12.5 million euros. This fall in profits was due to the increase in the ordinary expenses of brokers, particularly personnel expenses, which was greater than the increase in revenue in the year.

Net commissions rose by 13.0% on the previous year. Within gross commissions (commissions received), there were noteworthy increases in the items of investment advisory services (up 122.3% on 2017, which might be related to the implementation of MiFID II), CIS marketing (7.4%) and portfolio management (23.4%). These items accounted for over 67.0% of the commissions received. The most significant falls were recorded in commissions for placement and underwriting of issues (down 67.3%) and other commissions (down 12.8%).

The greater activity of brokers in several of their business lines did not, in this case, result in an increase in commissions paid to third parties, as these fell by 5.8%. The aggregate gross margin reflected the improved performance of net revenue from services and rose by 11.6%.

Operating expenses rose significantly, by 18.0% on the previous year. Within operating expenses, personnel expenses rose by 23.9%, while general expenses increased by 7.3%. The increase in operating expenses led net operating profit to stand at 12.0 million euros, 28.9% down on 2017.

The fall in profit before tax was very unevenly spread among brokers. In particular, half of those which were registered both at year-end 2017 and year-end 2018 recorded better results. The worsening of the aggregate results for the other half led to an increase in the number of loss-making brokers (from 13 to 21). Accumulated losses rose by almost 3 million euros, increasing from 7.9 million euros in 2017 to 10.9 million euros in 2018 (see Table 3.2.7). 11 of the 21 loss-making brokers at the end of the year had already suffered losses in the previous year.

Income statement for brokers[1]

TABLE 3.2.6

Thousand euros

	2017	2018	% change 18/17
Interest margin	**3,127**	**1,583**	**-49.4**
Net commissions	**120,194**	**135,782**	**13.0**
Commission revenue	142,323	156,624	10.0
Order processing and execution	20,459	20,018	-2.2
Placement and underwriting	3,427	1,120	-67.3
Deposit and entry of securities	924	824	-10.8
Marketing CIS	59,398	63,821	7.4
Portfolio management	12,492	15,412	23.4
Investment advisory services	11,572	25,725	122.3
Other	34,051	29,704	-12.8
Commission expenses	22,129	20,842	-5.8
Profit from financial investments	**1,139**	**-51**	–
Net exchange differences	-578	85	–
Other products and operating charges	-1,128	-364	67.7
Gross profit	**122,754**	**137,035**	**11.6**
Operating expenses	103,052	121,611	18.0
Personnel	66,372	82,237	23.9
General expenses	36,680	39,374	7.3
Depreciation, amortisation and other provisions	2,783	3,381	21.5
Impairment losses on financial assets	-10	12	–
Net operating profit	**16,929**	**12,031**	**-28.9**
Other gains/losses	-163	501	–
Profit (loss) before tax	**16,766**	**12,532**	**-25.2**
Income tax expense	4,876	5,073	4.0
Profit from continuing operations	**11,890**	**7,459**	**-37.3**
Profit from discontinued operations	**0**	**0**	–
Net profit (loss) for the year	**11,890**	**7,459**	**-37.3**

Source: CNMV. (1) Includes information from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

Profit before tax, No. of loss-making brokers and amount of the losses before tax

TABLE 3.2.7

Thousand euros

	Profit before tax[1]	No. of loss-making firms	Amount of the losses before tax
Brokers			
2015	22,781	12	-3,689
2016	10,822	11	-7,402
2017	16,766	13	-7,952
2018	12,532	21	-10,947

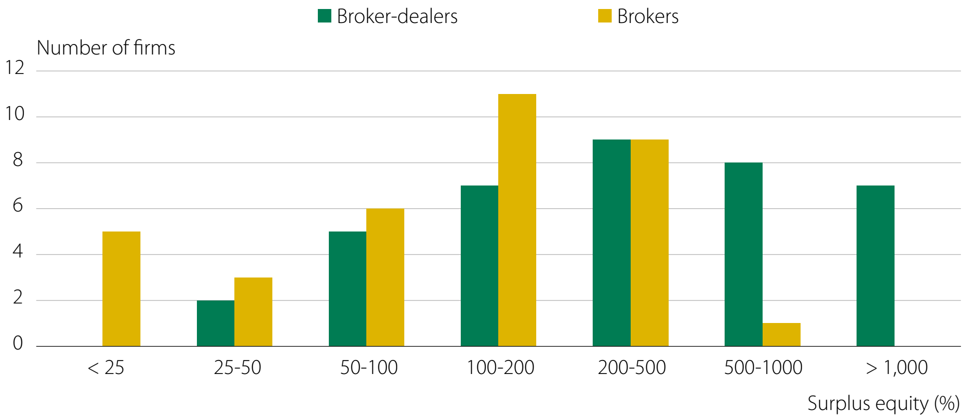
Source: CNMV. (1) Includes results from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

Solvency

The solvency of the sector as a whole remained high in 2018: at the end of the year, the equity surplus was 4.3 times the capital requirements, slightly higher than the figure of 3.2 recorded at the end of 2017. However, it should be remembered that the real buffer of these surpluses is limited as they are low amounts in absolute terms.

As is usual, this margin was generally greater in broker-dealers than in brokers. While the equity surplus for broker-dealers was around 4.7, it remained at 1.7 for brokers. With regard to the distribution of this ratio, Figure 3.2.2 shows that most broker-dealers at the end of 2018 continue to have surplus equity greater than 200%, while brokers showed a greater spread. No broker-dealer closed the year with an equity deficit. In contrast, two brokers did close the year with an equity deficit (although of a small amount).[6]

Surplus equity over minimum requirements for broker-dealers and brokers FIGURE 3.2.2



Source: CNMV.

3.2.2.2 Financial advisory firms

Financial advisory firms are a type of investment firm which was introduced as a result of the transposition of MiFID I Directive to Spanish law. These firms, which offer their clients the reserved activity of advisory services in financial investments, have an extensive portfolio of retail clients, although their revenue mainly comes from advising large investors, including CIS and other institutional investors. At year-end 2018, 158 financial advisory firms were registered with the CNMV, 13 less than in 2017. There were 6 new registrations and 19 de-registrations, all of which were independent firms except for 3 of the de-registrations: one linked to an insurance company, another to an international credit institution and the third linked to a Spanish credit institution. It is important to indicate that two of them were de-registered as they were converted into CIS management companies, while the third was converted into a broker. Total assets under advisory services amounted to 30.49 billion euros, a fall of 1% on the previous year. The bulk of the advisory service contracts signed corresponded to retail clients (92.0% of a total of 6,542), although these contracts only accounted for 31.2% of assets under advisory services.

6 As part of its supervisory tasks, the CNMV closely monitored the firms that have revealed net worth or solvency incidents.

At any event, it should be pointed out that, as in 2017, the assets under advisory services for retail clients grew significantly while the assets under advisory services for professional or non-retail clients fell (see Table 3.2.8). Finally, the overall profit of these firms fell slightly from 11.3 million euros in 2017 to 10.7 million euros in 2018, which reflects a decrease in revenue from retrocession commissions and other commissions from other entities. Specifically, these fell from 13.7 million euros in 2017 to 10.8 million in 2018.

Financial advisory firms: number of contracts and volume of assets under advisory services[1] TABLE 3.2.8

Thousand euros

	2017	2018	% change 18/17
Number of contracts			
Retail clients	6,321	6,020	-4.8
Non-retail clients	454	522	15.0
Total	**6,775**	**6,542**	**-3.4**
Assets under advisory service (thousand euros)			
Retail clients	9,096,071	9,501,755	4.5
Non-retail clients	21,694,464	20,989,794	-3.2
Total	**30,790,535**	**30,491,549**	**-1.0**

Source: CNMV. (1) Provisional data for 2018 with 92.9% of registered firms.

3.2.3 Considerations on the provision of investment services in Spain by credit institutions and investment firms

Information on the provision of investment services in Spain from a broad point of view (i.e., including the activity of CIS management even though it is not strictly an investment service from a legal point of view) is usually presented in accordance with the type of entity performing said activity: credit institution, investment firm or CIS management company. However, a less formalistic approach, and therefore one that is more substantive and in line with the entities' business model and their link to commercial banks, makes it recommendable to delineate more accurately what part of the business related to providing investment services is performed by banks that may be defined as commercial banks, i.e., whose income mainly comes from providing typical bank services (deposits, loans etc.), and what part is performed by entities that may be considered to be specialised in providing investment services. This latter group of entities would be made up of investment funds and CIS management companies that are independent, i.e., not the subsidiaries of commercial banking groups, and by banks specialised in providing investment services. One of the most important pieces in this analysis consists of identifying the companies that have the form of a bank, but whose business model is mostly based on providing investment services. For this purpose, the ratio of revenue received for providing investment services over the entity's total revenue can be taken. Those entities with a ratio greater than two thirds have been identified as banks specialised in investment services.[7] It is estimated that the amount of

7 The most important entities by volume of revenue received include Allfunds, Banco Inversis, Cecabank, and Renta 4.

revenue for providing investment services in Spain[8] received by these entities was greater than 900 million euros in 2018 as a whole. However, if the volume of commissions that these entities pay as retrocession commissions to third parties are taken into account, which in some cases are of a significant amount due to their specific business model, the volume of revenue would fall to a figure of slightly over 350 million euros (around 8% of total commissions received by the credit institutions in this business).

In the case of non-bank financial entities (broker-dealers, brokers and CIS management companies), those belonging to a commercial banking group and which, therefore, would fall within the scope of the provision investment services of this type of entity, have been identified. In the scope of brokers and broker-dealers, these entities are currently insignificant as credit institutions have been absorbing their broker-dealers and brokers over recent years in the context of a major reorganisation of the Spanish financial sector. In 2018, for example, Bankinter and Banco Santander absorbed the broker-dealers belonging to their respective financial groups. At the end of 2018, there were a total of 7 broker-dealers belonging to a Spanish credit institution whose main business was commercial banking. These broker-dealers accounted for 4% of the total assets of broker-dealers in 2018 and around 7% of the revenue received by this type of entity. In the field of CIS management companies, the importance of those linked to commercial banks is higher as they account for almost 60% of the net retrocession fees resulting from CIS management and half of the total amount of the fees received by management companies as a whole.

In view of all these considerations, it is estimated that approximately 70% of the business related to providing investment services in Spain (including the marketing of CIS and measured through the commissions received for these activities) is performed by traditional commercial banks or by entities that belong to their groups, while the rest is performed by financial entities that are specialised in providing investment services and without links to commercial banking.

It is desirable and positive to have an independent sector specialised in investment services that is as strong as possible. The more important the independent entities are, the greater the innovation, dynamism and competition will be in the sector. In addition to the resulting benefits in terms of lower costs and improved service for investors, this is also interesting from two other perspectives: i) the desirable increase in the balance between pure bank financing and financing of companies through markets and ii) the efforts to boost the investor culture of Spanish people, which, in addition to being characterised by a low propensity to save, is more focused on investments in real estate and in very low-risk products when compared with the patterns seen in other European economies.

8 Some of these entities (e.g., Allfunds) have a very significant business outside Spain.

Horizontal review of compliance with the obligations of the PRIIPs Regulation

EXHIBIT 6

In accordance with the 2018 Activity Plan, the CNMV performed a horizontal review of compliance with the obligations of the PRIIPs Regulation (Regulation (EU) No. 1286/2014 of the European Parliament of the Council, of 26 November 2014, on key information documents for packaged retail and insurance-based investment products), which started to apply on 1 January 2018.

This Regulation requires that a Key Information Document (KID) be prepared so as to be delivered to retail clients before selling or recommending certain products to them. The KID is a highly standardised and short document – maximum of three sides of paper – which must include key information on the product in a concise manner and in non-technical language so as to facilitate understanding by retail investors and comparison with investment alternatives. In addition to explanations about the functioning of the product, the KID includes numeric elements with a risk indicator on a scale of one to seven, a table with possible results in different scenarios and a table of costs, which involve calculations according to methodologies defined in the Regulation.

The general objective of this review was to check that the content of the documents is in line with the Regulation, that the producers publish them on their websites and that distributors deliver them to clients sufficiently in advance. The review was performed on a representative sample of 17 entities, which accounted for approximately 90% of the volume of PRIIPs subject to the CNMV's supervision and distributed to retail clients. In the framework of this review, the CNMV analysed KIDs of structured debt, financial contracts, derivatives and CFDs.

In general terms, the KIDs analysed provide the expected information on the functioning, characteristics and objectives of the products in a concise form, as well as information on costs – including those implicit in the prices – and are considered to be a useful document for the investor. However, the PRIIPs Regulation is currently being revised with the aim of incorporating the amendments deemed necessary after noting the deficiencies of the Regulation that have come to light since its application.

In addition, the CNMV has detected aspects for improvement with regard to the drafting of the documents in order to make them more understandable for retail investors and incidents in the calculated indicators (some of which were significant), which might currently hinder the achievement of the objectives of understandability and comparability pursued by the Regulation.

The following incidents are considered particularly relevant:

– Deficiencies in the information on the costs implicit in the price (entry costs). Differences were identified in estimating the fair value of the product which imply that in some cases costs are being reported that are lower than the actual costs. The fair value must reflect the price at which an instrument may be exchanged between duly informed interested parties. This value must be the same whether the product is bought or sold and must not include specific costs which may be incurred by the parties.

– Lack of specific information on the costs incurred by the customer in the event of the investor cashing in before the end of the term.

– KIDs that are excessively generic on OTC derivatives and, in particular, on CFDs, which do not inform the client of the conditions that apply to the product they are going to acquire. The KID that is delivered to clients must include a sufficient level of detail on the terms and conditions of the transaction and provide information, in all cases, on the currency, the term, the prices, the barrier levels and representative costs. It is therefore normally considered appropriate to prepare different KIDs for specific underlyings.

It is important to highlight the lack of pre-contractual information on costs effectively applied that results from preparing excessively generic KIDs and of using these to comply with MiFID obligations.

Furthermore, in the calculation of return scenarios, in addition to certain specific errors in applying the Regulation – such as analysing ratios in products with a term of less than one year – the CNMV identified aspects that are not dealt with in detail in said Regulation that hinder a uniform implementation of the methodology by entities. An example of this last point is the treatment of coupons and partial redemptions, or that of autocallable products, for which entities have used different approaches, which, at any event, they should explain in the KID to facilitate understanding.

Although the CNMV did not perform a full analysis of the PRIIP methodology for calculating the scenarios, the analysis of the data in the KIDs examined in this review suggests that the scenarios presented are generally consistent, although in some cases an inappropriate historical bias was observed.

The CNMV will continue promoting publication of clarifications in the working group of the Joint Committee of the three European supervisory authorities (ESAs) and will update the Questions and Answers published where appropriate.

The information collected in this review will be taken into account, at any events, in the work to be performed by the ESAs in 2019 for the revision of the PRIIPs Regulation.

3.3 Venture capital firms and crowdfunding platforms

3.3.1. Venture capital firms and other closed-end collective investment undertakings

Firms registered with the CNMV

In 2018, private equity and venture capital activity followed the upward trend of the previous years, recording a high number of registrations of both vehicles and management companies. A total of 59 closed-end investment vehicles and 8 new management companies of closed-end vehicles were registered. The CNMV register closed the year with a total of 369 closed-end investment vehicles and 94 management companies, a rise of 13.2% and 5.6%, respectively, on the figures for year-end 2017 and set a new historic high for the register.

With regard to closed-end investment vehicles, among the aforementioned 59 new registrations, there was once again a wide variety of legal forms and investment objectives. With regard to venture capital vehicles – venture capital funds and venture capital companies – there were 37 new registrations. In the case of SME venture capital vehicles, both funds and companies, there were 2 new registrations. In addition, 3 European venture capital funds (EuVECAs) were registered and 1 European social entrepreneurship fund in the form of a company (EuSEF), structures that were provided for, respectively, by Regulation (EU) No. 345/2013 of the European Parliament and of the Council, of 17 April 2013, on European venture capital funds and Regulation (EU) No. 346/2013 of the European Parliament and of the Council, of 17 April 2013, on European social entrepreneurship funds. These funds can be marketed to investors who contribute over 100,000 euros, both in Spain and in European Union countries. At 31 December 2018, there was a total of 8 European venture capital funds and 1 European social entrepreneurship fund registered, an increase of 80% on the previous year.

Finally, in 2018, registrations of closed-end collective investment undertakings were also significant, with 16 new undertakings added to the register, of which 10 were closed-end collective investment funds. This new investment category, which is subject to the general taxation regime for Corporate Income Tax, was introduced by Law 22/2014, of 12 November, and it enjoys a great deal of flexibility with regard to investment rules both in terms of investment policy and compliance with investment ratios. In 2018, for example, two closed-end collective investment companies with an investment policy focused on the real estate sector and one closed-end collective investment fund focused on the infrastructure sector were registered. In addition, six new closed-end collective investment funds were registered that were former venture capital vehicles and which converted to this new category in order to have a more flexible regime with regard to compliance with investment ratios. It should also be noted that in 2018 one European Long-Term Investment Fund (ELTIF) began operating in Spain (another fund began operating in 2019). These funds do not appear in the CNMV registry as they are subject to direct EU regulation.

The initiative of the ICO [Spanish Official Credit Institute], through the FOND-ICO Global venture capital fund remained extremely important in raising funds from the private sector through co-investment. In this regard, it should be noted that last year there was an increase of 500 million euros in committed capital from this fund, leading to a total amount of 2 billion euros. It is also important to note that in 2018, it was decided to carry out a new call, the tenth, with the selection of 7 funds, most of which were registered with the CNMV.

The number of management companies of closed-end collective investment undertakings rose by 8, leading to a total of 94 such companies registered with the CNMV at 31 December 2018. Four of the new management companies of closed-end collective investment undertakings were set up in compliance with all the requirements to this effect set out in the Alternative Investment Fund Managers Directive,[9] which involves the possibility of obtaining the EU passport for the managed vehicles, as well as the ability to market the managed venture capital vehicles to both professional investors and non-professional investors, providing that the latter undertake to invest at least 100,000 euros and state in writing that they are aware of the risks associated with the investment.

Registrations and de-registrations in 2018 TABLE 3.3.1

Type of entity	Firms at 31/12/17	New registrations	De-registrations	Firms at 31/12/18
Venture capital companies	105	16	0	121
Venture capital funds	173	21	13	181
SME venture capital companies	16	1	0	17
SME venture capital funds	12	1	3	10
European venture capital funds	5	3	0	8
European social entrepreneurship funds (EUSEF)	0	1	0	1
Total venture capital undertakings	**311**	**43**	**16**	**338**
Closed-end collective investment companies	13	6	0	19
Closed-end collective investment funds	2	10	0	12
Total closed-end collective investment undertakings	**15**	**16**	**0**	**31**
Total venture capital undertakings + closed-end collective investment undertakings	**326**	**59**	**16**	**369**
Management companies of closed-end collective investment undertakings	**89**	**8**	**3**	**94**

Source: CNMV.

Key figures on the venture capital sector

According to ASCRI (Association of Spanish venture capital firms), 2018 ended with a record figure in terms of volume of private equity and venture capital investment, close to 5.85 billion euros spread over a total of 670 deals, an increase of 17% on the figure recorded in 2017.

With regard to the size of the investments, a total of 8 megadeals were recorded in 2018, each of which exceeded 100 million euros (3 of them were greater than 1 billion euros). These deals accounted for a total investment volume of around 3.7 billion euros (63% of the total). The segment of medium-scale deals (between 10

9 Including Oquendo Capital, SGEIC, S.A.; Avior Capital, SGEIC, S.A.; Asterion Industrial Partners, SGEIC, S.A.; and Qualitas Equity Funds, SGEIC, S.A.

and 100 million euros) recorded a volume of around 1.47 billion euros, spread over 56 deals, very similar figures to those recorded in 2017.

International operators accounted for 77% of total investment with a very significant presence in megadeals, while Spanish venture capital undertakings and other operators generally participated in a higher number of small-scale deals.

The investment of venture capital funds, i.e., funds that invest in the early stages of a company's development (seed capital and start-up), continuing with ASCRI data, maintained a prominent role in 2018 with an investment volume of 417 million euros (538 million euros in 2017) spread over a total of 510 deals. Spanish private operators and public funds played a more prominent role than international funds in this segment. As has become customary over recent years, there is still significant support in this segment from the investment of public funds through the Fond-ICO Global and the CDTI Innvierte programmes.

With regard to the volume of disinvestments, the estimated figure dropped considerably compared with that recorded in 2017 and amounted to slightly over 2 billion euros spread over 295 divestments.

The sectors that received the highest volume of investment last year were the energy and natural resources sector (20.4%), and the hospitality/leisure sector (17.9%), while the IT sector recorded the highest number of deals, accounting for 46% of the total.

3.3.2 Crowdfunding platforms

A total of 12 applications were submitted in 2018 for authorisation of crowdfunding platforms. Consequently, as from the publication of Law 5/2015, of 27 April, which regulates said entities, up to the end of 2018, the number of applications totalled 66, with the number submitted in 2018 higher than for 2017, although the figure remains far from the numbers recorded in the first two years: 24 in 2015 and 21 in 2016 (see Table 3.3.2). This fall is due to the fact that most of the applications received in the first two years related to platforms that were already operating as such and which, as a consequence of the new regulation, had to adapt to the legislative requirements in order to be able to continue their business.

Number of crowdfunding platform applications TABLE 3.3.2

Platform type	2015	2016	2017	2018	Cumulative total
Equity	10	7	3	2	22
Lending	12	7	3	4	26
Mixed	1	7	3	6	17
No data[1]	1	–	–	–	1
Total	**24**	**21**	**9**	**12**	**66**

Source: CNMV. (1) The application for authorisation did not indicate the type of crowdfunding platform.

However, the number of crowdfunding platforms authorised in 2018 was lower than in the previous year: 2, compared with 9 in 2017. The 2 authorised platforms were equity platforms, while in 2017 4 equity platforms, 2 lending platforms and

3 mixed platforms were authorised. In addition, in 2018, 1 platform project was rejected (4 in 2017) and 13 others were withdrawn or deemed withdrawn (4 in 2017). One of the authorisations granted to an equity crowdfunding platform project expired in 20187 after more than one year elapsed without the platform being registered with the CNMV.

Number of authorised crowdfunding platforms TABLE 3.3.3

Platform type	2015	2016	2017	2018	Cumulative total
Equity	1	7	4	2	14
Lending	0	8	2	0	10
Mixed	0	2	3	0	5
Total	**1**	**17**	**9**	**2**	**29**

Source: CNMV.

Number of rejected or withdrawn crowdfunding platforms TABLE 3.3.4

	2016		2017		2018		Cumulative total	
Platform type	Rejected	Withdrawn	Rejected	Withdrawn	Rejected	Withdrawn	Rejected	Withdrawn
Equity	1	2	1	1	–	2	2	5
Lending	0	4	2	2	–	5	2	11
Mixed	0	0	1	1	1	6	1	7
No data[1]	0	1	0	0	–	–	0	1
Total	**1**	**7**	**4**	**4**	**1**	**13**	**5**	**24**

Source: CNMV. (1) The application for authorisation did not indicate the type of crowdfunding platform.

At the end of 2018, the CNMV Register contained a total of 26 platforms, of which 5 were registered in 2018, 8 in 2017, 12 in 2016 and 1 in 2015. The key features of the registered platforms include:

– 11 are equity platforms, 10 are lending platforms and 5 are mixed.

– 4 are real estate platforms, 1 lending, 1 mixed and 2 are equity platforms.

– 14 have their registered address in Madrid, 7 in Barcelona, 2 in Valencia, 1 in Soria, 1 in Santa Cruz de Tenerife and 1 in Bilbao.

– 1 lending crowdfunding platform and 1 equity crowdfunding platform, both registered in 2016, are controlled by foreign companies engaged in crowdfunding activities.

– Only 1 platform, registered in 2016, is a hybrid platform (it is authorised to act as a crowdfunding platform and as a payment institution).

Number of registered crowdfunding platforms

TABLE 3.3.5

Platform type	2015			2016			2017			2018			Cumulative total		
		of which			of which[1]			of which[1]			of which[1]			of which	
	Total	Madrid	Barcelona	Total	Madrid	Barcelona	Total	Madrid	Barcelona	Total	Madrid	Barcelona	Total	Madrid	Barcelona
Equity	1	1	0	4	3	1	3	0	2	3	1	1	11	5	4
Lending	0	0	0	8	4	2	1	1	0	1	1	0	10	6	2
Mixed	–	–	–	0	0	0	4	3	0	1	0	1	5	3	1
Total	**1**	**1**	**0**	**12**	**7**	**3**	**8**	**4**	**2**	**5**	**2**	**2**	**26**	**14**	**7**

Source: CNMV. (1) In addition, one crowdfunding platform with registered address in Soria and another in Valencia were registered in 2016. In addition, one crowdfunding platform with registered address in Santa Cruz de Tenerife and another in Valencia were registered in 2017. In 2018, a crowdfunding platform with its registered office in Bilbao was also registered.

The information received from the platforms on their activity in 2018 reveals that these entities raised 103.5 million euros, a significantly higher volume than that raised in 2017 (61 million euros). In addition, the number of published projects amounted to 3,618 (647 in 2017) and the number of investors stood at 20,028 (24,614 in 2017). There is a great deal of disparity in the sector, as two of the platforms accounted for 54.4% of total financing raised and 54.8% of the investors, while a third platform alone accounted for three quarters of the projects.

In short, it can be seen that the development of this activity in Spain is still extremely limited, as is the case in most benchmark European countries. This is one of the reasons why the European Commission is promoting a regulatory initiative that might promote this type of financing by implementing a European passport regime that might co-exist with the purely local regimes of each Member State. At any event, the guiding principle would be that the total amounts to be financed should always be below the quantitative limits set for issues to be deemed a public offering (a maximum of 8 million euros in accordance with current EU legislation on prospectuses).

Horizontal review of adaptation of information on costs and inducements to MiFID II

EXHIBIT 7

In accordance with its Activity Plan, in 2018 the CNMV performed a horizontal review on the level of adaptation to the new obligations on information relating to costs and inducements contained in MiFID II. The review was performed on a representative sample of 15 entities that at year-end 2017 accounted for 86% of the retail clients of credit and savings institutions, 80% of the amount of the purchases of retail clients of financial instruments, 76% of the amount of assets effectively managed and 90% of the amount of the purchase recommendations issued to retail investors. The verification was performed during the entities' stage of adaptation to the new obligations and with part of the applicable legislation pending transposition.

The institutions subject to the review were informed of the results of the analysis performed in each one of the aspects analysed: i) information on costs and associated charges, ii) order execution confirmation forms and iii) requirements for receiving inducements. In this regard, the new legislative requirements, as well as the adaptation of the reviewed entities to such changes, are summarised in the following four sections:

1. Adaptation to new requirements on *ex ante* information regarding costs and associated charges

– Under the new applicable legislation, the costs and charges reported must be those that will actually be paid by the client although, where appropriate, they may be based on an assumed amount of investment. In the case of equity, fixed income and derivative instruments traded on MEFF, most entities chose to refer their information to a standardised amount or to maximum rates and not to each transaction in process. This is deemed to be insufficient in the aforementioned instruments as the cost may vary significantly depending on the rates agreed with each client and the amount of the transaction.

  However, in instruments such as the equity or derivative instruments of MEFF, with a flexible interpretation of the legislation and the possibility of more repetitive trading, it is considered sufficient to detail the information relating to the rates agreed with the client and the amount of the transaction in the first transaction of each calendar year, together with a general description of the applicable rates. In this case, the *ex ante* detailed breakdown may be omitted in subsequent transactions during the year.

– The information must be aggregated in such a way that the customer can understand the total cost, and must be provided both in amount and in percentage. The costs for the product and for the services, and for the inducements received, must also be broken down separately. A minority of institutions presented a general cost total – both in amount and in percentage – and, as a rule, did not provide a separate breakdown of the costs corresponding to the product and to the services. Furthermore, in none of the cases did they explicitly indicate that any of these items were non-existent where necessary.

– The information must include all the costs related to the services and to the products and reflect both entry and exit costs and recurring costs. It must also cover both explicit and implicit costs, which include any implicit margins and exchange costs.

  For equity and fixed-income securities, third-party fees and charges were not always added. It was also rare for institutions to detail the costs of corporate transactions (such as those applied to collecting dividends or coupons) or, in the case of fixed-income securities, for them to consider possible implicit margins included in the price. However, in the case of CIS, entities had generally aggregated the corresponding transaction costs.

  In equity and fixed-income instruments, entities did not always detail the exit costs at the time of the purchase or only referred to their possible application without quantifying them. If the client has been accurately informed about the exit costs at the time of the purchase, it is considered to be unnecessary to report them *ex ante* when processing the sales transaction unless the applicable fees at that time have changed with regard to those indicated at the time of purchase.

In addition, institutions did not usually consider the exchange costs implicit in trading in a non-euro currency.

The amount of any inducements received was not always detailed as information was often only provided in percentage terms.

– With regard to illustrating the cumulative effect of costs on returns, institutions had generally chosen to show costs in different terms or scenarios, with a generic reference to the fact that they would reduce returns. Other institutions chose to present an unreasonable simulated indicative return on which to compare the effect of the costs or simply did not make any reference to this aspect. In no case was the information provided deemed to be adequate.

– In harmonised CIS and other PRIIP instruments, information must be given on any costs and associated charges of the product that had not been included in the KID, as well as the costs and charges corresponding to the provision of the service and, as the case may be, the inducements received. With this specific case of CIS, transaction costs are among those that do not appear in the KID. In structured products and OTC derivatives, institutions generally delivered the PRIIP KID as the only document informing about costs. This approach is only appropriate when the client cannot incur extra costs – such as custody charges in structured products or exchange costs in foreign-exchange transactions – which it would be necessary to report.

– Finally, the information relating to costs and charges must be provided to clients sufficiently in advance and on a durable medium or via a website (providing the client regularly accesses the Internet). In the case of the telephone channel, institutions either did not inform about the establishment of specific procedures or simply provided information orally, thereby failing to comply with the requirement of a durable medium.

2. Adaptation to the new requirements in execution confirmation forms

The order execution confirmation must detail the total sum of the fees and charges. Institutions have generally opted for a separate breakdown of the different cost items, without informing about their total amount. It was also common for institutions not to add the internal margins applied to total costs. Although the exchange rate was usually detailed, institutions rarely made reference to implicit exchange costs, which should be included in total costs.

3. Adaptation to new *ex post* information requirements regarding costs and associated charges

With some specific differences, the requirements for *ex post* information on costs and associated charges are similar to those for *ex ante* information. This information must be sent at least annually and must be based on actual costs and provided in a personalised manner.

With regard to services other than portfolio management, institutions generally provided information on the total amount of the costs and often broke them down separately into product costs and service costs. In contrast, there was usually no illustration provided of the cumulative effect of costs on returns.

In the case of portfolio management, institutions usually presented the total amount and the percentage of costs. In contrast, management costs and execution costs were not always broken down separately. Institutions often made no mention that the client could request further details on the costs incurred.

4. Adaptation to the new requirements for receiving inducements

In the area of discretionary portfolio management, institutions generally opted to include classes of CIS without retrocession fees, and they therefore mostly no longer received inducements for this activity. However, given the possible existence of CIS or compartments in which there are no classes without retrocession fees, not every institution had established tools that allow them to identify, allocate and transfer inducements received to their clients.

Institutions have generally opted to provide the advisory service as non-independent, combined with added value tools or services that justify continuing to charge retrocession fees.

In distribution outside the context of advice and portfolio management, institutions generally maintained the charging of inducements offering to clients third-party CIS, together with additional added value tools, such as CIS search and comparison tools, reports on the performance of investments, reports on returns and costs or a combination of the above. With regard to this issue, it is important to bear in mind that comparison tools do not always make it possible to simultaneously compare CIS of the group and third-party CIS, while reports on returns and costs do not always refer to each one of the instruments in the portfolio, which is considered insufficient. In addition, two entities had linked the distribution of CIS of the group to the exclusive provision of a simplified advisory service, while another three were in the process of migrating to this model.

II CNMV actions in the securities markets

4 Issuers' financial and corporate governance disclosures

4.1 Financial disclosures

Annual financial reporting[1]

Issuers of securities listed on an official secondary market or any other regulated market domiciled in the European Union, when Spain is their home Member State, are obliged to file an annual financial report with the CNMV, comprising their annual financial statements, the audit report, the management report and statements of responsibility for their content, with the exceptions provided for in current legislation.[2]

The CNMV received 297 annual reports for 2017 (including both separate and consolidated reports) from 155 issuers, excluding asset securitisation funds and bank asset funds. The number of issuers was 6% down on the previous year, mainly as a result of the delisting of several companies, in some cases because they had been taken over or merged with other companies, and other issuers no longer being required to submit a report following the cancellation of their fixed-income instruments. This effect was partially offset by new listings of non-financial companies.

The percentage of audit reports with an unqualified opinion stood at 98.3%, slightly higher than the figure of 97.7% for the 2016 annual accounts. For the tenth consecutive year, all Ibex 35 companies submitted an auditor's report with an unqualified opinion. As was the case for the 2016 accounts, no company submitted a report with a disclaimer of opinion.

The number of audited annual accounts of securitisation funds stood at 340 (362 in 2016), including those of funds in liquidation and private funds. A total of 13 audit reports included some type of emphasis of matter paragraph, mainly related to the early liquidation of the fund. It is worth noting the significant fall in the number of emphasis of matter paragraphs compared with the previous year (13 reports in 2017 compared with 175 in 2016). This fall is related to entry into force of the new audit report, with the information that the auditor wishes to highlight now transferred to the section on "Key audit matters". The key matters highlighted relate to the volume of impairment of securitised assets and the reserve fund.

1 Annual financial reporting is available at www.cnmv.es, in the section of regulated information on issuers under the heading of "Annual financial reports", where the official registries of the audited annual accounts of companies that issue securities may be consulted.
2 See Article 121 of the recast text of the Securities Market Act.

Summary of issuer audits received by the CNMV (excluding asset securitisation funds and bank asset funds) TABLE 4.1.1

	2015		2016		2017	
	Number	%	Number	%	Number	%
Audits received by the CNMV	**317**	**100.0**	**309**	**100.0**	**297**	**100.0**
Separate accounts	170	53.6	165	53.4	155	52.2
Consolidated accounts	147	46.4	144	46.6	142	47.8
Special reports under Ministerial Order 30/09/92	9	-	7	-	5	-
Audit opinion						
Unqualified opinion	307	96.8	302	97.7	292	98.3
Qualified opinion	9	2.8	7	2.3	5	1.7
Disclaimer of opinion or adverse opinion	1	0.3	0	0.0	0	0.0
Type of qualification						
Audits with exceptions	1	0.3	3	1.0	2	0.7
Audits with scope limitations	9	2.8	7	2.3	5	1.7
Effects of exceptions						
Effects on profit						
Audits with positive effects	0	0.0	2	0.0	0	0.0
Audits with negative effects	1	0.3	0	0.0	0	0.0
Effects on equity						
Audits with positive effects	0	0.0	2	0.0	0	0.0
Audits with negative effects	1	0.3	0	0.0	0	0.0
Nature of emphasis of matter paragraphs						
Going concern related	36	11.4	34	11.0	25	8.4
Asset recovery related	15	4.7	10	3.2	0	0.0
Other circumstances	14	4.4	7	2.3	1	0.3

Source: CNMV.

The Securities Market Act entrusts the CNMV with the task of verifying that the periodic public information has been prepared in accordance with applicable standards. In order to perform this duty – which is considered to be extremely important as it contributes year after year to improving the quality of the financial information of Spanish issuers –, the CNMV is empowered to require listed companies to publish additional information, reconciliations, corrections and, if necessary, reformulations of their published financial information.

As part of this process, where necessary, the CNMV approaches issuers requesting written clarifications or data on specific issues. The additional information issuers provide in response to such letters is generally published in the official registers and can be consulted on the CNMV website.

Firstly, all financial reports received by the CNMV are submitted to review, focusing on their formal correctness and compliance with the applicable rules and standards, as well as other questions relating to specific regulatory changes. In the formal review of 2017 financial statements and management reports, this involved checking that: i) the statement of responsibility for the content of the annual financial statements is signed by all the directors (Article 8 of Royal Decree 1362/2007); ii) the

Annual Corporate Governance Report (ACGR) is included as part of the management report and includes a description of the Internal Control over Financial Reporting (ICFR); iii) there are no material differences between the annual financial statements and the financial reporting of the second half-year submitted previously; and, in the event that such differences do exist, that they have been reported within the period of 10 business days following preparation of the accounts, in accordance with Article 16.3 of the Royal Decree 1362/2007; and iv) where called for, the audit partner signing the audit report has been duly rotated (Article 40 of Law 22/2015, of 20 July, on Account Auditing). The content of the qualifications and the emphasis of matter paragraphs in the audit report were also analysed and the matters identified in the reviews of previous years were followed up on.

The 2017 annual accounts were the first year's accounts subject to the requirements of Directive 2014/95/EU, which was incorporated into Spanish law by means of Royal Decree 18/2017. These requirements include the obligation for entities that meet certain criteria to include a non-financial statement as part of the management report. The CNMV verified that the issuers subject to this requirement had included this non-financial report.

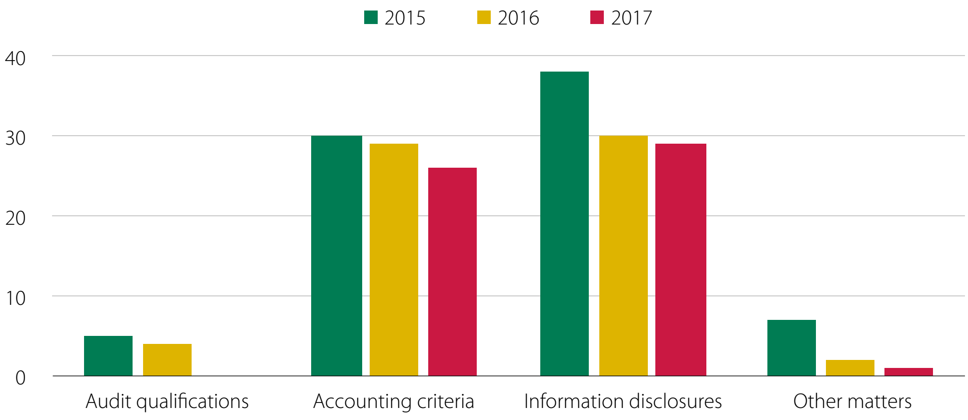
Secondly, the CNMV performs a substantive review of a certain number of audited annual accounts. Entities are chosen to be the subject of this review on the basis of a mixed selection technique based on risk and random rotation, in accordance with the ESMA Guidelines on Enforcement. In this regard, it should be pointed out that in 2012 European supervisors agreed to establish annually – in coordination with ESMA – common enforcement priorities for financial statements so as to promote the consistent application of International Financial Reporting Standards (IFRS) throughout the European Union. In addition, the CNMV incorporates other critical review areas into its work plan which supplement the priorities established by ESMA.

In 2018, no company subject to the substantive review was sent a deficiency letter in respect of qualifications in their audit reports. However, 27 of the companies subject to the substantive review were sent deficiency letters for one or several of the following reasons: i) to provide additional information on issues relating to accounting policies on recognition or measurement (24 companies); and ii) to extend the disclosures included in the annual financial report (27 companies). Figure 4.1.1 shows the main reasons deficiency letters were sent to listed companies over the last three years.

For the purpose of facilitating the dissemination of financial information, every year the CNMV publishes on its website the ***Report on the review of the annual financial reports and main enforcement priorities for the following financial year***,[3] which sets out the main incidents detected in the review of annual and interim financial statements. A key section of this report identifies the priority areas which will be subject to closer scrutiny in the following year's review process, including both the common review priorities established by ESMA and the specific areas selected by the CNMV following analysis of the economic climate, changes in accounting regulations and the experience acquired in prior-year reviews.

3 This report provides more detailed information about the CNMV's actions summarised in this section.

Reason for deficiency letters sent to issuers (excluding securitisation funds and bank asset funds)[1] FIGURE 4.1.1



Source: CNMV. (1) The deficiency letters include those sent to issuers subject to formal and substantive review.

In 11 cases, the supervisory work performed on the 2017 annual accounts led to a commitment to correct the financial information in the future and 5 issuers included a corrective note in their response to the letter. In addition, one issuer restated the figures for 2017 included for comparative purposes in the financial information for the first half of 2018 in order to correct the value of a financial liability so as to adapt it to a refinancing agreement subject to conditions precedent.

As of 2010, the financial disclosures of securitisation funds have also been subject to two levels of review: formal and substantive. In addition, the CNMV received the audited annual accounts to 31 December 2017 of three bank asset funds (the same as in 2016). The CNMV's oversight function regarding the financial information of bank asset funds is the same as that which it performs on securitisation funds and is also divided into two levels of review: formal and substantive. No action was taken by the CNMV with respect to the 2017 or 2016 annual accounts as a result of its supervision.

The CNMV publishes on its website (www.cnmv.es) the full text of issuers' separate and consolidated annual accounts, management report and audit report, as well as a summary of the audit qualifications, the supplementary information that issuers provide in response to deficiency letters and other supplementary information related to the accounts, and special audit reports.

Half-yearly and quarterly reporting

Issuers of securities listed on an official secondary market or on any other regulated market domiciled in the European Union, where Spain is the home Member State, are obliged to send financial information to the CNMV on a quarterly and half-yearly basis.[4] The review of this information has a narrower scope than that of the annual accounts, since interim financial statement forms contain summarised information.

4 Articles 119 and 120 of the recast text of the Securities Market Act.

If the half-yearly financial report is voluntarily audited, the audit report will be published in full therein. Otherwise, the half-yearly financial report will contain a statement from the issuer expressly noting that it has not been audited or reviewed by the auditors.

In addition, in the event that entities decide to voluntarily submit their quarterly financial report to some type of review by their auditor – whether a full audit or a limited review – this audit report must be sent to the CNMV's auditor together with the aforementioned quarterly financial report.

53.1% of issuers[5] (54.8% in the same period of the previous year) submitted their financial information for the first half of 2018[6] to some type of review by auditors. This percentage climbs to 96.9% if we only consider Ibex 35 companies (94.1% in the same period of the previous year).

In the event of a full audit (8 companies), the auditor provides reasonable assurance regarding the interim financial statements, while in limited reviews (68 companies), the assurance offered by the auditor is only moderate. No qualified opinions were issued by the auditors.

New Circular 3/2018 on periodic reporting

It is important to note the entry into force of the new templates for periodic quarterly and half-yearly reporting of Circular 3/2018 on periodic reporting by issuers of securities, which adapts the content of the templates of the separate and consolidated half-yearly financial reports, the interim management statements and the quarterly financial reports to the changes in:

i) International accounting standards, mainly the entry into force, as from 1 January 2018, of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contracts with Customers), which amend the accounting criteria for financial instruments and revenue, respectively.

ii) National standards, mainly Bank of Spain Circular 4/2017, of 27 November, and Royal Decree 583/2017, of 12 June, amending the Accounting Plan for insurance and reinsurance companies and standards on the preparation of consolidated annual accounts of groups of insurance and reinsurance companies, approved by Royal Decree 1317/2008, of 24 July.

Some of the most noteworthy changes introduced by this Circular are as follows:

– Adaptation of the consolidated financial statements of the general template included in Chapter IV to the modifications introduced by IFRS 9. In particular, the classification of financial assets has been adapted to the new requirements established by IFRS 9, which will essentially focus on the business model and its features. As a result, the breakdown of financial instruments of

5 Does not include certain issuers whose year-end does not coincide with the end of the calendar year.

6 In the case of companies in which the financial year does not correspond to the calendar year, the latest financial information of the first half of the year filed by 31/12/2018 has been considered.

Section 13 of Chapter IV has been removed, and these instruments are now disclosed in the balance sheet itself.

- Modification of the financial statements of the credit institution template in order to adapt them to Bank of Spain Circular 4/2017 and to include the modifications introduced by IFRS 9.

- Adaptation of the consolidated financial statements of the insurance company template to Royal Decree 583/2017 in all aspects that do not breach the international accounting standards adopted. For the purposes of the consolidated statements, these do not incorporate the modifications introduced by IFRS 9 due to the option included in the amendment to IFRS 4, adopted by the European Union on 3 November 2017, which allows its application to be deferred until 2021.

Some of the main changes to the templates are as follows:

- The content of Chapter IV of the three templates has been modified so that the statistical information to be provided in the second half of the year by issuers of debt securities and issuers of shares submitting their annual financial report in the two months after the end of the reporting period matches Chapter IV of the first half of the year with the aim that the "standardised" information submitted in XBRL format on both periods may be the same.

- A row has been added to the section on "Dividends paid" in Chapter IV in order to include information on flexible payments.

- The content of the section on "Segment information" in Chapter IV has been simplified so that entities must report: i) the distribution of revenue by geographic area (Spanish and international market) and differentiating between the European Union (euro area and non-euro area) and Other; and ii) the revenue and profit (loss) for each segment.[7] However, information on the ordinary revenue from external clients and total assets and liabilities associated with each segment must be included in the explanatory notes.

- In the section on "Remuneration received by directors and managers", the remuneration items have been amended to adapt them to the items included in the *Annual Report on the Remuneration of Directors*.

- A third table has been added to the section on "Related-party transactions" in Chapter IV to reflect the closing balances and the level of disclosure of expenses and income and other transactions has been reduced.

- Information for the current period has been included in the "Consolidated statement of other comprehensive income", which will make it possible to distinguish between the information for the second half of the year and the cumulative figure for the year.

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7 In addition, in the individual profit and loss account and in the consolidated income statement of Chapter IV of Annex I, the percentage columns relating to revenue have been deleted.

- Chapter V – Half-yearly financial information – will be used to include the condensed or full half-yearly accounts, or the explanatory notes, together with the individual interim management report and, where appropriate, the consolidated report. This chapter shall include the full audit report or a limited review of these condensed or full half-yearly accounts.

- Chapter VI has been expressly reserved for adding, as the case may be, the special audit report.

Content of the Non-Financial Statement in accordance with Law 11/2018 EXHIBIT 8

Law 11/2018, of 28 December, amending the Code of Commerce, the recast text of the Capital Companies Act and the Auditing Act, in the matter of non-financial information and diversity, was published on 29 December 2018 and will apply for reporting periods beginning on or after 1 January 2018. This Law was preceded by Royal Decree-Law 18/2017, of 24 November, which incorporated into Spanish law Directive 2014/95/EU of the European Parliament and of the Council, of 22 October 2014, amending Directive 2013/34/EU.

The new Law expands the scope of the previous Royal Decree-Law 18/2017 as it lays out in more specific detail the issues that should be addressed in the non-financial statement: i) environmental; ii) social and employee-related (including aspects such as the wage gap, remuneration, implementation of "right to disconnect" policies, work organisation, absenteeism, reconciliation measures, health and safety, social dialogue, training, universal accessibility for disabled people, and equality of men and women); iii) respect for human rights; iv) anti-corruption and bribery matters; and v) information on the company (its commitment to sustainable development, subcontracting and suppliers, consumers, tax information and grants received).

Furthermore, the number of companies required to file the non-financial statement is increased from the number under Royal Decree-Law 18/2017, which was limited to public-interest entities meeting certain requirements. Under the new Law 11/2018, the status of being a public-interest entity is only one of the criteria to take into account with regard to the entities subject to this obligation.

In addition, the new Law eliminates the exceptional possibility offered by Royal Decree-Law 18/2007 for companies to omit information relating to imminent events or issues that are subject to negotiation when, in the duly justified opinion of the management body, dissemination of such information might seriously harm the group's commercial position.

The non-financial information report must be submitted to a vote at the general shareholders' meeting and the information included must be verified by a provider of independent verification services. In addition, and without prejudice to the disclosure requirements provided by law, the report will be made available to the public free of charge and will be freely accessible on the company's website for a period of five years.

Supervision of the process of preparing and submitting the financial reporting and the management report, which will include, where appropriate, the mandatory non-financial information, will be a power of the board of directors of listed companies that may not be delegated (new letter j) of Article 529 *ter* of the Capital Companies Act.

4.2 Information relating to significant shareholders, directors, managers and treasury shares

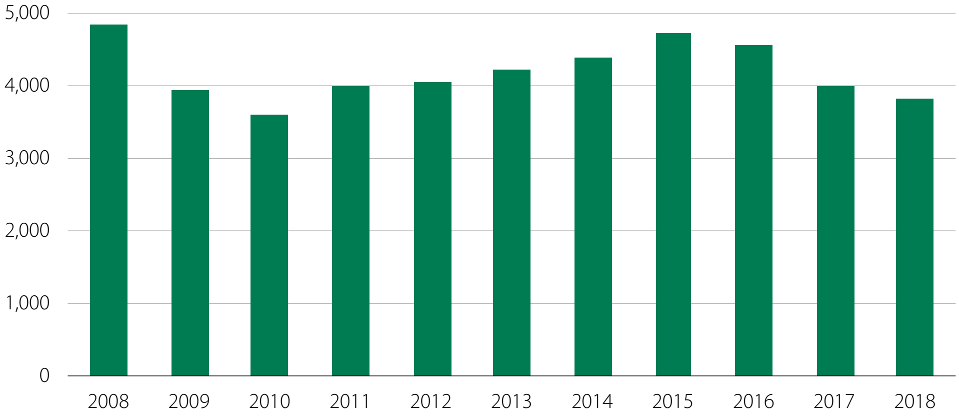
The reporting of significant shareholdings and transactions by directors, managers and closely associated parties, and the disclosure of listed company own share transactions (hereinafter notifications) are governed by Royal Decree 1362/2007, of 19 October, implementing Securities Market Act 24/1988, of 28 July, with regard to the transparency requirements of issuers whose securities are listed on an official secondary market or on another regulated market of the European Union (Royal Decree on Transparency), and by Regulation (EU) No. 596/2014 of the European Parliament and of the Council, of 16 April 2014, on market abuse (Market Abuse Regulation), whose Article 19 regulates the notification requirement for persons discharging managerial responsibilities as well as persons closely associated with them. Template III on managers[8] no longer applies as from 1 May 2018. This template is replaced by a form available through a new procedure that is in line with the provisions of Commission Implementing Regulation (EU) 2016/523.

A total of 3,397 notifications were validated in 2018, a fall of 4.0% on 2017. By subject, 45% corresponded to non-director significant shareholders (35% in 2017), 39% to directors (37% in 2017), 4% to treasury share transactions (5% in 2017) and the remaining 12% (23% in 2017) corresponded to notifications made by managers up to 1 May 2017, the date from which these notifications started to be registered in accordance with the template established by market abuse legislation.

In this regard, it should be highlighted that one of the objectives of the CNMV's Activity Plan for this year in the area of corporate governance is automatic publication of notifications of voting rights and financial instruments. To date, unlike notifications of inside information (price sensitive information), those relating to voting rights and financial instruments that are received by the CNMV have been disseminated following a prior general or formal review. This year, their publication will become automatic, which will not exclude, as with price sensitive information, their *ex post* review by the CNMV.

8 Model Form III of CNMV Circular 8/2015, of 22 December, approving the model forms for the notification of significant holdings, of directors and persons discharging managerial responsibilities and persons closely associated with them, own share trading by issuers and other model forms.

No. of notifications registered annually (2008-2018) FIGURE 4.2.1



Source: CNMV.

Notifications cancelled and rectified

Validated notifications accounted for 89% of all those received (4,295), while the remainder were either cancelled or replaced, where appropriate, by new notifications. The number of notifications cancelled due to error was 4.2% lower than in 2017.

Most notifications were cancelled at the request of the CNMV when, in exercising its supervisory functions, it detected errors, omissions or inconsistencies. As in previous years, the most common reasons for rectification were: i) errors in the date, price or volume of reported transactions; ii) incomplete information regarding the indirect ownership of voting rights, caused, for example, by a failure to identify the chain of control of the companies through which the obligated party exercises control of the declared voting rights; and iii) inconsistency between the initial position declared by the obligated party in its new notification with the final position declared in the last notification registered. Another frequent error is that, after increases or reductions in the listed company's capital, obligated parties make erroneous disclosures of the total number of the issuer's voting rights and/or their own percentage holding.

45% of cancelled notifications were filed by directors, 44% by significant shareholders, 6% by members of the listed company's senior management and by entities or persons closely associated with the directors and managers of the listed company, and the remaining 5% corresponds to company declarations of treasury share transactions.

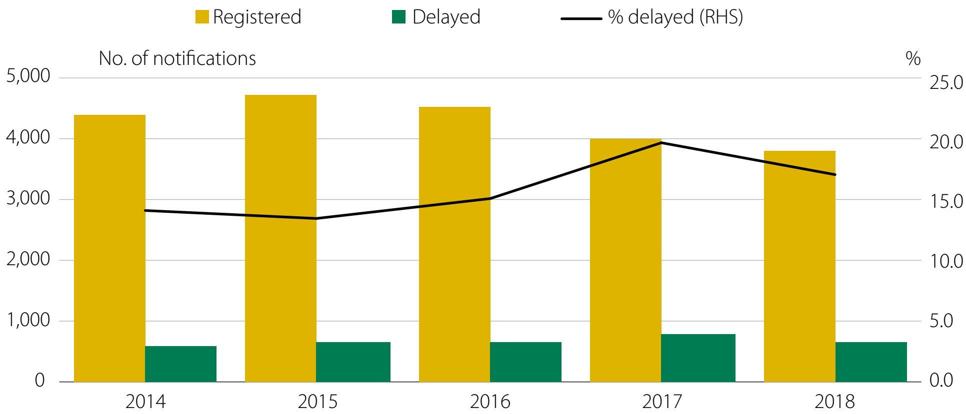
Up to 2018, the notifications received were verified *ex ante*, i.e., before making the notification available to the public on the CNMV's website. However, the strategic objective for 2019 is that, once the application for managing these notifications has been modified and certain technical aspects resolved, all notifications received electronically through the specific corresponding procedure of the CNMV's virtual office will be made immediately available to the public following receipt and any modifications, where appropriate, will be made *a posteriori*.

Notifications submitted late

A total of 665 notifications (797 in 2017) were received outside the maximum time frame established by the regulations, equating to 17% of the total (20% in 2017). 87% of late notifications were filed by directors and significant shareholders (73% in 2017).

The proportion of notifications filed in 2018 with a delay of fewer than 7 days was 53.6% (54.3% in 2017). Delays exceeding 90 days accounted for 16.2% of the cases (20.4% in 2017).

Notifications submitted late FIGURE 4.2.2



Source: CNMV.

Notifications relating to non-director significant shareholders

Under the Royal Decree on Transparency, the first notification threshold for significant shareholder voting rights is set at 3% of share capital. If the shareholder is resident in a tax haven, this threshold drops to 1% and its respective multiples. The average annual number of notifications per significant shareholder stood at 5.0 (4.1 in 2017). The 1,746 notifications received in 2018 (1,393 in 2017) concerned significant shareholdings in 109 listed companies (118 in 2017) and were submitted by 351 separate shareholders (338 in 2017). Table 4.2.1 gives a breakdown of notifications received, grouped by intervals of voting rights and the market capitalisation of the companies involved.

Number of notifications regarding significant shareholder voting rights TABLE 4.2.1

	Total notifications	Under 5%	5 to 15%	15 to 30%	30 to 50%	Over 50%
Ibex 35	570	451	95	10	2	12
Over €500 million	790	477	230	32	36	15
Under €500 million	386	181	143	30	4	28
Total	1,746	1,109	468	72	42	55
% of total	100	64	27	4	2	3

Source: CNMV.

Shareholders must also notify the CNMV of the purchase or transfer of financial instruments which entitle the holder to acquire a significant shareholding in terms of voting rights. Royal Decree 1362/2007 entered into force on 27 November 2015 and incorporates as financial instruments those instruments which have a similar economic effect to those which give the right to acquire shares, whether or not these are settled by physical delivery.

Notifications relating to directors

The Royal Decree on Market Abuse obliges, among other persons, directors of listed companies to disclose all transactions involving shares or financial instruments whose underlying instrument is shares of the listed company on whose board they sit. Such transactions are notifiable whether the director makes them directly or indirectly through third parties or persons with whom they are closely associated, as long as the director is able to exercise the voting rights at his/her own discretion. In addition, the Royal Decree on Transparency obliges directors to disclose their final position in voting rights or financial instruments. As shown in Table 4.2.2, in 2018, directors submitted 1,474 notifications on 128 companies, a rise of 0.4% on the number of notifications received in 2017.

Number of notifications regarding director voting rights TABLE 4.2.2

	Issuers			Notifications			Directors		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Ibex 35	33	34	35	1,786	534	537	279	252	281
Over €500 million	35	41	40	431	377	406	187	210	221
Under €500 million	53	59	53	580	556	531	239	239	236
Total	**121**	**134**	**128**	**1,797**	**1,467**	**1,474**	**705**	**701**	**738**

Source: CNMV.

Notifications relating to managers and persons closely associated with directors and managers

The Market Abuse Regulation (Article 19 of which regulates the obligations relating to managers' transactions) entered into force on 3 July 2016, as did Commission Implementing Regulation (EU) 2016/523, of 10 March 2016, laying down implementing technical standards with regard to the format and template for notification and public disclosure of managers' transactions in accordance with Regulation (EU) No. 596/2014 of the European Parliament and of the Council. One of the most important modifications is that persons closely associated with directors and managers must submit their notifications directly. Template III of Circular 8/2015 was repealed on 1 May 2018 and replaced by another form available in the new procedure authorised by the CNMV that is in line with the provisions of the aforementioned Implementing Regulation. Consequently, this section of the report only calculates notifications relating to managers made up to 1 May 2018. A total of 443 notifications relating to managers were received up to that date (924 in the whole of 2017), which affected 49 companies (65 in 2017).

Disclosures of treasury share transactions

According to the Royal Decree on Transparency, an issuer of shares admitted to trading on an official secondary market or on another regulated market domiciled in the European Union for which Spain is the home Member State is obliged to notify the CNMV of the share of voting rights in their possession when they make acquisitions amounting to or exceeding 1% of the company's total voting rights. In April 2009, the ceiling for treasury share holdings under the Capital Companies Act rose from 5% to 10%. In 2018, the CNMV validated a total of 154 notifications of treasury share transactions (192 in 2017) which affected 55 issuers, the same number as in the previous year. Table 4.2.3 shows the breakdown of notifications received last year, grouped by market capitalisation and percentage of final holdings of treasury shares.

Number of treasury share notifications according to the final percentage declared TABLE 4.2.3

	Total notifications	Under 1%	1 to 2%	2 to 3%	3 to 4%	4 to 5%	Over 5%
Ibex 35	81	50	11	6	11	2	1
Over €500 million	32	19	10	1	-	1	1
Under €500 million	41	24	10	1	2	1	3
Total	**154**	**93**	**31**	**8**	**13**	**4**	**5**

Source: CNMV.

Shareholder agreements and concerted actions

The Capital Companies Act[9] requires disclosure of any shareholder agreements affecting listed companies or their controlling shareholders. Such notifications are registered as significant events. An agreement may regulate the exercise of voting rights or restrict the free transferability of shares and, in the first case, the CNMV analyses its effect on significant shareholding notifications. The CNMV received a total of 39 notifications of significant events relating to shareholder agreements in 2018 (26 in 2017), affecting 21 listed companies (17 in 2017).

The Royal Decree on Transparency provides that any agreement entered into with a third party whereby the parties use their voting rights to impose a lasting common policy in relation to the company's management or to significantly influence the course of the same must be notified as a concerted action. A total of 22 concerted action notifications were registered in 2018 (5 in 2017), involving shareholders at 11 listed companies (4 in 2017).

9 Royal Legislative Decree 1/2010, of 2 July, approving the recast text of the Capital Companies Act.

Content of CNMV Circular 2/2018, of 12 June EXHIBIT 9

CNMV Circular 2/2018,[1] of 12 June, which applies to the ACGRs and the ARRDs for financial periods ending on or after 31 December 2018, maintains, in general terms, the structure and content of such reports, adapting their content to the new legislation[2] and introducing technical improvements.

One of the main new aspects lies in allowing entities that do not wish to use the standardised electronic document to file the ACGR and the ARRD in a free format, the content of which must respect the minimum content established in the Capital Companies Act, in Order ECC 461/2043, of 20 March, and in CNMV Circulars. However, these free format reports must, in all cases, be accompanied by statistical appendices that will form part of the corresponding annual report (ACGR or ARRD), so that investors and other users may at all times have access to certain information in a standardised format.

The Circular also extends the scope of the information that must be included in the ACGR with regard to the company's diversity policies. Accordingly, the report must not only address gender diversity, but also diversity relating to the age, disability, training and professional experience of directors.

Also noteworthy is the addition of a new ACGR template for entities belonging to the institutional public sector that issue securities which are traded on official markets. This template is more simplified and adapted to the particular features of these entities.

With regard to the ACGR, in addition to some technical adjustments – such as the remuneration of some sections – Sections A, C and D are reformulated. Specifically, Section A (remuneration policy of the company for the current financial year) and Section C (overall summary of how remuneration policy has been applied during the year ended, which now becomes Section B) are reformulated so that companies will include clearer and more precise information. In Section D (itemised individual remuneration accrued by each director, C in the new Circular) the remuneration for the year, through application of the accrual principle, is deemed to include the gross profit from vested shares or financial instruments even if it is not exercised, in the case of optional instruments, and the remuneration from the vesting of rights from saving systems or plans, without waiting for their execution or for the occurrence of any of the contingency situations provided for in the plan.

1 CNMV Circular 2/2018, of 12 June, amending CNMV Circular 5/2013, of 12 June, establishing the templates for the Annual Corporate Governance Report for listed companies, savings banks and other entities that issue securities traded on official securities markets, and CNMV Circular 4/2013, of 12 June, establishing the templates for the Annual Report on the Remuneration of Directors of listed companies and of the members of the Board of Directors and of the Control Committee of savings banks that issue securities traded on official securities markets.

2 Royal Decree-Law 18/2017, of 24 November, amending the Code of Commerce, the recast text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Account Auditing, in the matter of non-financial information and diversity.

4.3 Corporate governance report

In 2018, 137 public listed companies and 25 fixed-income issuers filed their 2017 Annual Corporate Governance Reports (ACGRs), as provided in Article 540 of the Capital Companies Act; in Article 31 of Law 26/2013, of 27 December, on savings banks and bank foundations; and in the seventh additional provision of the recast text of the Securities Market Act.

In general, there were no incidents with the electronic receipt of the reports, though a notice was sent to one company (nine in 2017) for filing after the deadline.

On the basis of companies' ACGRs, the CNMV prepares and publishes on its website an annual report in which it analyses, in aggregate terms, issuers' main corporate governance practices and disseminates a wide range of statistical data for each individual entity.

According to the 2017 Annual Corporate Governance Report of entities with securities admitted to trading on regulated markets, the **most important aspects and trends in the corporate governance practices** of listed companies are as follows.

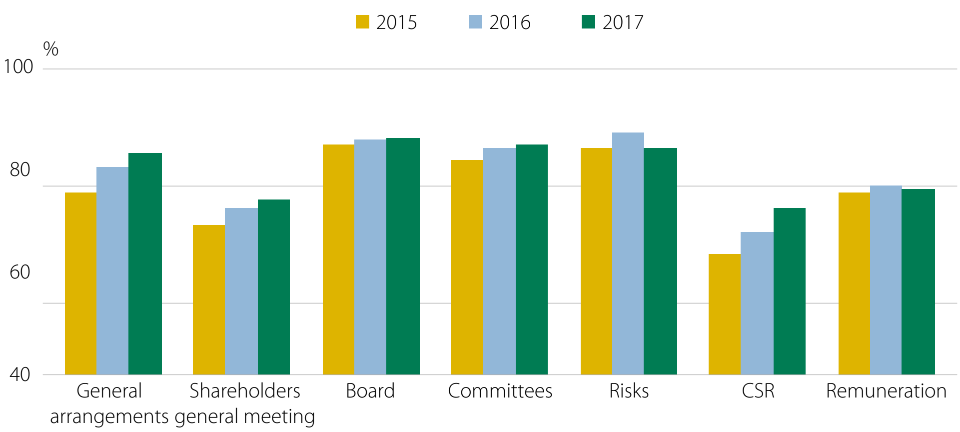
Application of the "comply or explain" principle

The level of compliance with the Good Governance Code of Listed Companies in its third year of application (it was approved in February 2015) was high. Listed companies complied on average with 84.6% of the new Code's recommendations (in 2016 the level of compliance stood at 83.9%) and partially with a further 7% (7.4% in 2016). Therefore, on an aggregate level, listed companies do not follow, even partially, only 8.4% of the total recommendations.

As in previous years, Ibex 35 companies present an average percentage of compliance (89.4%) higher than the average recorded by listed companies as a whole.

Figure 4.3.1 tracks average compliance with the Good Governance Code recommendations, with a breakdown by category.

Degree of compliance with the Good Governance Code recommendations FIGURE 4.3.1



Source: Companies' ACGRs and CNMV.

The CNMV analysed a sample of 407 explanations for not following the recommendations included in the 2017 ACGRs (34.6% of the total), all of which related to the 10 least followed recommendations of the Good Governance Code.

As a result of the review of the criteria used by listed companies in their ACGRs to inform on the level of compliance with the Good Governance Code recommendations or to explain the reasons for non-compliance, the CNMV sent notices to 17 companies (26 in 2017) requesting information, additional clarifications or correct information with regard to compliance with certain recommendations set out in the Code. Most letters sent included guidelines on how to improve the quality of the explanations given when not following the recommendations and suggested that the company should follow the *Technical guide on good practices for the application of the "comply or explain" principle*, published on the CNMV's website in July 2016.

In other cases, the notices requested clarifications on discrepancies or certain inconsistencies between the information disclosed in the ACGRs and other publicly available information on the company, its shareholders or directors.

General shareholders' meeting

The average percentage of capital taking part in general meetings held in 2017 was 69.3% (68.3% in 2016). Average participation, in terms of the percentage of capital present or represented at the meeting, remains inversely proportional to the companies' free float, such that attendance tends to be higher when the free float of companies is lower.

Board of directors and director categories

The total number of board members of listed companies rose to 1,367 (1,346 in 2016). The percentage corresponding to Ibex 35 companies fell slightly to 33% (34% in 2016).

The average board size stood at 9.8 members (the same number as in 2016), falling to 12.9 board members in Ibex 35 companies (13.1 in 2016). In 2017 in 92.1% of companies (90.5% in 2016), board size lay within the 5 to 15 range recommended in the Good Governance Code. Boards with over 15 members (5%) were once again almost exclusively concentrated within Ibex 35 companies.

The chairpersons of the boards of listed companies continued to be mostly executive directors (53.2% of the companies, 1.5 percentage points up on 2016). The percentage of independent directors chairing the board rose to 11.5% (10.9% in 2016).

There was a majority of non-executive members on the boards of 98.6% of the companies (98.5% in 2016).

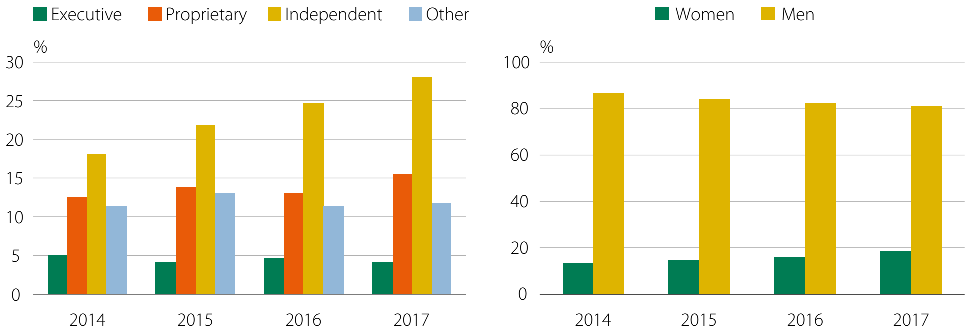
In 2017, independent directors accounted for at least half of the board members in 60% of Ibex 35 companies. Of the other companies, in 68.3% at least one third of the directors were independent.

The percentage of women on the boards rose by 6.9 percentage points between 2013 and 2017 to stand at 18.9% (16.6% in 2016) and at 22.8% in Ibex 35 companies (19.7%

in 2016). This percentage is still far from the target of 30% of women board members by 2020 established in Recommendation 14 of the Good Governance Code of Listed Companies. By category, there was a noteworthy increase of 3.4 percentage points in the proportion of female independent directors, which rose to 28.2% of total independent directors in 2017. There was also a rise in the percentage of female proprietary directors to 15.7%, and of other external directors to 12.1%. In contrast, the percentage of female executive directors fell on the previous year (4.5%).

Figure 4.3.2 shows the presence of women on boards by category.

Women board members as percentage of the total FIGURE 4.3.2



Source: Companies' ACGRs and CNMV.

Board committees

In 2017, 36% of listed companies had established board committees with executive functions (38% in 2016). All listed companies are required to establish an audit committee and an appointments and remuneration committee (or, in the latter case, two separate committees).

Finally, for the last five years the CNMV has published on its website an ***Annual Report on the Remuneration of Directors of Listed Companies*** (ARRD), which describes in aggregate terms the main features of the remuneration policies and practices applied to directors, obtained from the information included in the Annual Report on Direct Remuneration published by each listed company.

In 2018, 139 listed companies filed their 2017 report, in accordance with the provisions of Article 541 of the Capital Companies Act.

The average remuneration per board and per director stood at 3.7 million euros and 369,000 euros per annum, respectively, in 2017. The average remuneration per director was 6% up on the previous year. This increase was mostly the result of the maturity of multi-year incentive schemes in two companies.[10] Excluding these two companies, the average remuneration per director would have fallen by 1.1%.

The average overall remuneration received by the boards of directors of listed companies was 15.9% higher than the previous year. Without taking into account the

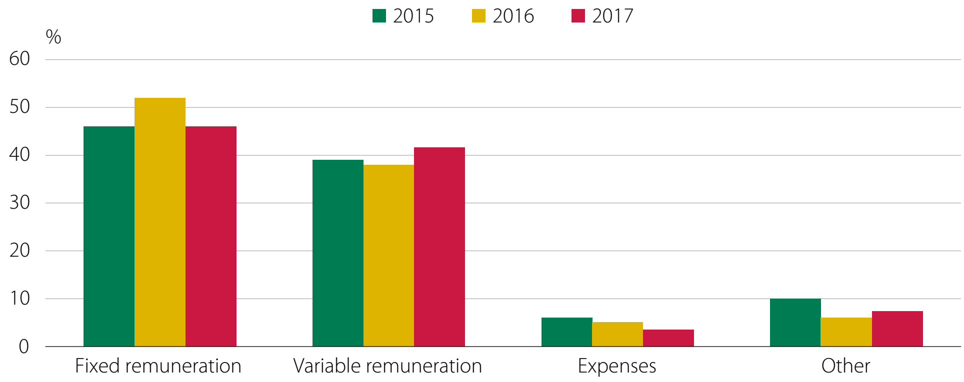
10 Acciona and Cie Automotive.

maturity of the multi-year remuneration systems in two companies,[11] the increase would have been 6.3%.

Since 2013, the first year in which this Report on the ARRDs of listed companies was published, there has been an upward trend in board remuneration, with average remuneration rising by 29% between 2013 and 2017.

Figure 4.3.3 tracks the remuneration per board by item:

Remuneration by item FIGURE 4.3.3



Source: Companies' ACGRs and CNMV.

Although its proportion of the total fell in 2017 (as it did in 2016), fixed remuneration remains the most significant component making up remuneration, accounting for 46% of the total. The proportion of variable remuneration with regard to total remuneration rose by 6 percentage points to 43% of the total and continues to be more significant in high capitalisation companies. In particular, and for Ibex 35 companies, variable remuneration (representative of what might be deemed a short-term incentive) accounts for an average of 33% of the estimated remuneration of CEOs. In addition, the value of restricted shares and options (representative of what might be deemed a medium or long-term incentive) granted to the CEOs of the same companies accounts for an average of only 5% of their estimated annual remuneration, compared with an average of 19% in comparable countries.

11 ACS and Cie Automotive.

CNMV initiative to promote the presence of women on boards of directors and in senior management

EXHIBIT 10

In October 2018, the CNMV approved an initiative to make public also in a separate report information on the presence of women on boards of directors and in senior management that listed companies report in their Annual Corporate Governance Reports (ACGRs).

The first report of this type, which was published at the end of October 2018, contains individualised information for each of the listed companies, which were then grouped together into the following categories depending on their stock-market capitalisation: Ibex 35 companies, companies with a level of capitalisation of over 500 million euros and other companies.

For each company, the number of women directors by category (executive, proprietary, independent and other external directors) was published and their percentage with regard to the boards as a whole in each one of these categories, as well as the total number of women directors and their percentage of the board as a whole.

These figures were also disseminated with regard to women in senior management, i.e., the number of women in senior management of each listed company and their percentage with regard to the total number of senior managers as reported by listed companies.

A summary table of the data published is included below:

Presence of women on the board of directors and in senior management

TABLE E10.1

			2017					
	Total women		Ibex 35		Over €500 million		Under €500 million	
	Number	% total	Number	% total	Number	% total	Number	% total
Total women board members	**258**	**18,9**	**103**	**22,8**	**81**	**18,4**	**74**	**15,6**
Proprietary	72	15,7	19	16,5	30	17,7	23	13,2
Executive	10	4,5	3	4,2	2	2,8	5	6,4
Independent	163	28,1	77	33,9	46	27,5	40	21,4
Other external	13	12,2	4	10,3	3	9,4	6	16,7
Women in senior Mgmt. (ex. senior Mgmt. board members)	**156**	**14,8**	**62**	**14,3**	**60**	**16,9**	**34**	**12,9**

The aim of publishing this data is to promote a significant presence of women at the highest level of corporate governance, in line with the various provisions and recommendations established both in the recast text of the Capital Companies Act and in the Good Governance Code of Listed Companies, with regard to these companies approving policies that ensure diversity on their boards of directors.

5 Supervision of the markets

5.1 Trading and post-trading

One of the aims of supervising secondary markets is to detect and prevent possible market abuse conduct. With this aim, the CNMV uses various sources of information, particularly the daily reporting of transactions in financial instruments executed by investment firms, credit institutions and, in certain circumstances, markets. The information contained in this reporting is entered into an alarm system, referred to as the advanced system for monitoring secondary markets (Spanish acronym: SAMMS). Another important source of information is the reporting by firms of suspicious transactions.

Over 2018, the CNMV completed implementation of the new reporting system in accordance with the new legislation applicable as from 3 January: reporting instructions, schemas and validations in order for entities not only to comply with this obligation, but also do so with high quality levels. The new regulatory framework has expanded the set of entities subject to the requirements and has increased the level of detail in transaction reporting. For this purpose, the CNMV has provided entities support in order to deal with incidents and respond to the most frequent enquiries and it has emphasised the importance of high-quality compliance. In this regard, the CNMV sent several general notices to reporting entities as a result of the general quality tests performed. In certain cases, it also established bilateral contact with entities in order to correct particular areas and it individually reviewed the transaction reporting of other entities, which gave rise to seven deficiency letters relating both to the lack of quality of the content of the reports and the failure to report transactions.

In 2018, the CNMV received over 110 million registrations (10% up on 2017) of reports of transactions executed in financial instruments. The number of registrations received remained stable compared with the previous year, although both the type of transactions reported and the universe of entities required to report are different. The number of entities required to report to the CNMV stood at 177 on average, and reports were also received from some markets, from their members or from participants not subject to the MiFID. It should be noted that the Spanish branches of foreign entities now report to the competent authority of their parent company and several of them continue being major operators in Spanish markets.

Implementation of the MiFID II markets regime

EXHIBIT 11

On 3 January 2018, the new regulatory framework consisting of MiFID II[1] and MiFIR[2] came into force. This has led to significant new developments from the point of view of trading venues and financial instruments:

Trading of equity instruments

One of the main new aspects introduced by MiFIR is the cap applicable to trading in shares that may be performed outside trading venues and systematic internalisers (share trading obligation).

As from the application date of the new framework, the trading percentages show that internalisers account for a significant proportion of total trading. It should be noted that some of the transactions that were included under OTC activity prior to 2018 are now covered by systematic internalisers with entry into force of the new framework. Internalisers are subject to requirements on transparency and on the quotes they offer, with the aim of preventing unfair competition with markets.

Another of the new obligations introduced is the application of a regime for minimum tick sizes for trading venues. From the very moment that the new regime began to be applied, both the need to extend it to systematic internalisers and the desirability of exempting third country shares were detected. Both changes are being addressed through regulatory review processes.

The limit to the use of certain waivers to order and quote transparency (double volume cap), both with regard to the trading venue itself (4%) and to the European Union (8%), is also having a significant effect on the structure of the European market. In the case of Spain, application of the volume cap mechanism affected 20 instruments as the 8% threshold with regard to the European Union was exceeded, but in no case because the trading of domestic trading venues had exceeded the 4% threshold.

Furthermore, since the new framework entered into force, there has been an emerging proliferation of periodic auction systems in some European trading venues. Although their levels of trading still remain at moderate percentages, ESMA and the National Competent Authorities (NCAs) have begun a process of reviewing these systems in order to analyse how some of their characteristics fit in with current legislation and to provide a regulatory response to any doubts that may emerge.

Trading of fixed income and derivative instruments

The new aspects of MiFID II and MiFIR, both from the point of view of market structure and application of the transparency regime, have also brought about important changes in the trading of fixed income and derivative instruments.

In general, and at a European level, there has been an increase in fixed-income trading through trading venues, largely corresponding to pre-arranged transactions that are reported to trading venues and to the sector's reaction to a possible involuntary classification of entities dealing on own account in the OTC area as systematic internalisers.

From the point of view of market structure, CAPI OTF (managed by CM Capital Markets Brokerage, S.A., AV) and CIMD OTF (managed by CIMD SV, S.A., of Grupo CIMD Corretaje e Información Monetaria y de Divisas, S.A.) started trading as Organised Trading Facilities (OTF) in January 2018. These two Spanish OTFs are also among the 13 trading venues in Europe that trade derivative instruments subject to the trading obligation of these instruments set out in Article 28 of the MiFIR.

In addition, a total of six entities have notified the CNMV about the performance of systematic internalisation activity, mainly in fixed-income and derivative instruments.

Activities of data reporting services providers

MiFIR introduces the obligation to report, via an Approved Publication Arrangement (APA), OTC trades on a general basis as well as those performed by systematic internalisers as a particular case of OTC trading.

In Spain, BME Servicios Regulatorios began operating an APA at the start of the year. In the European context, there has been a certain level of concentration in the reporting of OTC trading (including that of systematic internalisers) via a low number of APAs at a European level.

The new scenario of greater fragmentation has revealed the need of participants to consolidate information from different sources. From the beginning of the new framework, the absence of a Consolidated Tape Provider (CTP) as a private initiative has brought difficulties for market participants that need to have a single point of access to the information on the activity of a given financial instrument.

Sale of market data and free access to 15-minute delayed market data

ESMA and the National Competent Authorities (NCAs) share the view that market participants must be allowed to take full advantage of the data generated through the new legislative framework. In this context, users of the data generated have identified several difficulties: i) access to data on a reasonable commercial basis, ii) the cost of maintaining a multiple connectivity structure and iii) the lack of development or barriers for accessing data with a 15-minute delay from publication.

In this first year of the new regulatory framework, the NCAs have undertaken, in the context of ESMA, to adopt convergent supervisory practices on obligations relating to the sale of market data. Furthermore, ESMA has coordinated supervisory work on access to 15-minute delayed market data. This coordinated supervisory effort is expected to lead to improved accessibility in the short term.

Information on reference instruments and on transparency calculations

A joint effort has been made by trading venues, APAs, NCAs and ESMA to develop the system for transaction reporting and for transparency calculations (FITRS, Financial Instruments Transparency System). Both systems are supported by the Financial Instrument Reference Data System (FIRDS), which makes it possible to identify instruments admitted or traded on trading venues. These instruments are subject to the transaction reporting requirement and application of the transparency regime. In the case of the transaction reporting system, the obligation extends to instruments whose underlying is admitted or traded on a trading venue. FIRDS manages a very high volume of instruments on a daily basis, which leads to millions of registrations.

The complexity and size of the project for the collection of data, calculations and publication of the activity of the instruments has meant that the situation is not yet optimal and several initiatives have been developed to increase the coverage of the instruments and the quality of the data.

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1 Directive 214/65/EU of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

2 Regulation (EU) No. 600/2014 of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments and amending Regulation (EU) No. 648/2012 (EMIR). In addition, over 285 million registrations were received relating to transactions in Spanish financial instruments from the competent authorities of other EU Member States (8.3% up on the previous year). In turn, the CNMV sent over 23 million registrations (a similar figure to that of 2017) to the competent authorities of other Member States.

In addition, over 285 million registrations were received relating to transactions in Spanish financial instruments from the competent authorities of other EU Member States (8.3% up on the previous year). In turn, the CNMV sent over 23 million registrations (a similar figure to that of 2017) to the competent authorities of other Member States.

This entire system, in turn, rests on another reporting obligation relating to data on instruments carried out by our markets in order to consolidate, on a daily basis, the European instrument database published by ESMA (the FIRDS, Financial Instrument Reference Data System).

Like other competent authorities, over 2018, the CNMV, in its work overseeing the quality of the information submitted to the FIRDS, paid particular attention to the quality of the reference data, such as correct use of the issuer's LEI code, the CFI code of the instruments and the correlation between the instruments submitted to the FIRDS system and to the transparency regime. For this purpose, it has maintained ongoing contact with trading venues in order to correct any incidents detected.

At the end of 2018, there were 6 regulated markets, 4 multilateral trading facilities, 2 organised trading facilities and 6 systematic internalisers registered with the CNMV's FIRDS. The regular daily flow in the year consisted of 21 files, corresponding to 19 different Market Identifier Codes (MICs), while the number of reported instruments rose from around 28,000 per day at the start of the year to over 35,000 per day at the end of 2018. The active instruments in ESMA's database whose relevant competent authority was the CNMV amounted to 123,652 at 31 December.

As shown in Table 5.1.1, the number of transactions on the trading venues supervised by the CNMV fell by 12% on 2017. In contrast, the volume traded rose by 92% due to the addition of the statistics of 2 OTFs (CIMD OTF and CAPI OTF).

Number of trades and volume TABLE 5.1.1

	No. of trades (thousands of trades)			Notional/effective amount: (million euros)		
Markets	**2017**	**2018**	**% change 18/17**	**2017**	**2018**	**% change 18/17**
Equity	50,947	44,225	-13.2	651,489	587,507	-9.8
Fixed income	73	76	4.1	213,666	678,369	217.5
Regulated market	59	31	-47.5	76,048	112,476	47.9
MTF	14	15	7.1	137,618	101,088	-26.5
OTF	–	30	–	–	464,805	–
Derivatives	3,534	3,803	7.6	726,158	1,788,998	146.4
Total markets	**54,553**	**48,104**	**-11.8**	**1,591,313**	**3,054,874**	**92.0**
Settlement	10,907	9,165	-16.0	36,061,115	20,735,046	-42.5
Clearing	105,398	91,992	-12.7	2,317,536	1,976,536	-14.7
Total	**170,859**	**149,261**	**-12.6**	**39,969,964**	**25,766,456**	**-35.5**

Source: CNMV.

The **deficiency letters** sent by the CNMV in the course of its market supervision, as well as the reports prepared in this area, are shown in Table 5.1.2.

The obligation imposed by Article 16 of the Market Abuse Regulation on investment firms and markets to report to their competent authority orders or transactions that might infringe market abuse rules constitutes another basic supervisory instrument for the CNMV. The number of **suspicious transactions reported** – STORs: Suspicious Transaction and Order Reports – totalled 232 (a similar number to those received in 2017). As in previous years, the bulk of the STORs related to actual or attempted insider dealing (66%) and the others to possible market manipulation.[1] Most (69%) of the STORs received related to electronic market shares, followed in second place by reports on derivative instruments, although these fell from 15% to 10%. In contrast, reports related to fixed income trading rose to 7%.

1 Article 1 of Commission Delegated Regulation (EU) 2016/957, of 9 March 2016, defined suspicious transactions as: market manipulation, insider dealing, attempted market manipulation and attempted insider dealing.

Summary of market supervisory activities TABLE 5.1.2

Markets	Deficiency letters	Supervision reports	Reports sent to other bodies and agencies	Periodic reports
Equity				
2017	160	96	26	26
2018	171	74	35	26
Fixed income				
2017	19	4	18	8
2018	6	0	9	0
Derivatives				
2017	1	1	0	30
2018	3	2	0	27
Settlement				
2017	1	1	1	0
2018	5	0	0	0
Clearing				
2017	28	21	0	12
2018	23	1	2	0
Other				
2017	14	7	0	50
2018	36	0	0	23
Total				
2017	**223**	**130**	**45**	**126**
2018	**244**	**77**	**46**	**76**

Source: CNMV.

Reports of suspicious transactions relating to Spanish instruments received from other regulators accounted for 40% of the STORs (a similar percentage to the previous year) compared with 7% of the total for reports forwarded by the CNMV to other regulators (slightly lower than the number forwarded in 2017).

Supervisory actions

Equity

One of the basic activities performed by the CNMV for supervising market integrity consists of overseeing compliance by issuers with the obligation imposed by Article 17.1 of the Market Abuse Regulation. The number of **disclosures of price sensitive information** submitted to the CNMV in 2018 stood at 8,691 (3.4% down on the previous year). Table 5.1.3 provides a breakdown of price sensitive information notices by type.

Price sensitive information notices received by the CNMV TABLE 5.1.3

Type	2017	2018	% change 18/17
Financial instruments	**5,087**	**4,759**	**-6.4**
Capital increases and reductions	189	183	-3.2
Public offerings for sale or subscription	46	41	-10.9
Dividend information	211	210	-0.5
Block trades	57	29	-49.1
Trading halts and resumptions	33	28	-15.2
Credit ratings	117	115	-1.7
Asset funds	3,275	3,117	-4.8
Other financial instruments	1,159	1,036	-10.6
Business and financial position	**2,201**	**2,084**	**-5.3**
Earnings information	1,550	1,530	-1.3
Insolvency proceedings	11	3	-72.7
Other business and financial position	640	551	-13.9
Corporate transactions	**425**	**559**	**31.5**
Transformations, mergers, spin-offs and liquidations	36	64	77.8
Strategic agreements with third parties	18	45	150.0
Transfers and acquisitions of shareholdings	108	161	49.1
Other corporate transactions	263	289	9.9
Corporate governance and official notices	**1,281**	**1,289**	**0.6**
Notices and resolutions of general meetings and assemblies	476	494	3.8
Composition of board of directors	318	312	-1.9
Annual corporate governance report	171	166	-2.9
Other corporate governance	316	317	0.3
Total	**8,996**	**8,691**	**-3.4**

Source: CNMV.

A **temporary trading halt** is an exceptional measure that the CNMV may adopt in severe cases of asymmetrical or insufficient information that does not allow proper price discovery. Both the number of issuers affected and the number of trading halts fell slightly in 2018.

Temporary trading halts TABLE 5.1.4

	2017	2018
Number of issuers suspended	15	13
Number of halts	18	16
Due to the need to disclose price sensitive information	12	11
Due to expiry of acceptance period for delisting bids	5	4
Other	1	1

Source: CNMV.

Market sounding prior to the sale of a significant share package is an action that normally entails a significant number of entities accessing inside information. The CNMV therefore checks that this practice complies with the conditions established by the Market Abuse Regulation. A total of 11 accelerated book builds for large packages of shares affecting 9 issuers (1 of them was the subject of 3 book builds over the year) took place in 2018. A total of 12 and 18 book builds were carried out in 2016 and 2017, respectively.

The following may take place through book builds: i) the sale of shares of one issuer on behalf of the company itself and, therefore, a sale of treasury stock; ii) the sale of shares of an issuer on behalf of a significant shareholder; and iii) the placement of the issuer's newly issued shares through a capital increase without pre-emptive subscription rights. The aim of some of the book builds performed over the year in this last category was, firstly, to raise finance and, secondly, an interest in finding shareholders whose investor profile meant that they were expected to remain long-term shareholders.

Eight of these operations involved issued shares held by one of the issuer's significant shareholders, while the other three involved shares resulting from capital increases or treasury stock held by the issuer. The percentages of the book builds ranged between 2.4% and 15.2%. One of the book builds was performed without a discount with regard to the closing price of the session, while the discounts for the others ranged between 12.6% and 1%. All the book builds, with the exception of one in which the trading of the share had previously been suspended, began following the market close and were completed prior to the start of the following stock market session.

In addition to these accelerated book builds of shares, in 2018 there was an accelerated book build of subscription rights performed by a shareholder of the issuer.

In this type of operation, it is common for the issuer or the significant shareholder to give a mandate to one or several financial institutions for them to carry out market sounding with the aim of determining investor appetite for the securities offered. It is also common for inside information to be disclosed in the context of the market soundings.

In this regard, the Market Abuse Regulation and its implementing standards define what is understood by market sounding and indicate the obligations that must be met so that disclosure of inside information made in the course of a market sounding is deemed to be made in the normal exercise of a person's employment, profession or functions and does not therefore constitute the unlawful disclosure of inside information. Such obligations apply both to the market participant that discloses information in the context of a market sounding and those that receive it. They refer to aspects such as whether the information disclosed is deemed insider information or the need to create and maintain records of the information that they disclose and to maintain a record of potential investors that they contact.

Due to the importance of regulatory compliance in this area for the integrity of Spanish markets, the CNMV once again actively supervised the book builds performed over the year. Firstly, by monitoring the price of the shares affected by said book builds and supervising the price sensitive information published in this regard. Secondly, through intervention, by sending requests for information to the entities responsible for performing the market sounding and to the entities that receive the information in said sounding in order to determine whether their actions are in line with market abuse legislation with regard to market soundings and whether there may have been any illegal use of inside information. As a result of these actions, the CNMV sent various warning letters to several entities.

Another important aspect of the CNMV's supervisory work relates to treasury stock trading by issuers and, in particular, **discretionary treasury stock trading**. As the CNMV has reiterated for several years, there are two possible risks associated with discretionary treasury stock trading. The first of these relates to the generation of false or misleading signals on volume, which might mislead investors with regard to the share's level of liquidity. The second risk relates to the possible generation of misleading signals with regard to price, which might affect price discovery to the extent that investors obtain volumes that are high or at prices far from the prevailing market range.

The CNMV therefore reiterates its warning about the need to exercise prudence in discretionary treasury stock management and the appropriateness of channelling these transactions through the buy-back programmes of the Market Abuse Regulation and the liquidity contracts provided for in CNMV Circular 1/2017, of 26 April, when the aim of the purchases corresponds with those provided for in these two regulatory frameworks. Both buy-back programmes in line with the Market Abuse Regulation and the provision of liquidity – as an accepted market practice in accordance with said Regulation and the CNMV Circular – constitute a safe harbour for treasury stock trading with regard to market abuse regulations.

Buy-back programmes are regulated under the Market Abuse Regulation and Commission Delegated Regulation (EU) 2016/1052, of 8 March 2016, and must have one of the following objectives: i) to reduce the capital of an issuer, ii) to meet obligations arising from debt financial instruments that are exchangeable into equity instruments or iii) to meet obligations arising from share option programmes, or other allocations of shares, to employees or to members of the administrative body of the issuer or of an associate company.

Buy-back programmes must also comply with a series of transparency and operational conditions. In order to verify compliance with these conditions, the supervision of the CNMV in 2018 was essentially focused on the following aspects: i) supervision of the price sensitive information published by the issuer prior to the start of the buy-back programme; ii) supervision of the price sensitive information published by the issuer with the details of the transactions performed under the framework of the buy-back programme; iii) supervision of compliance with the conditions for operating in terms of volume to verify that the issuer did not buy more than 25% of the average daily volume of the shares; iv) supervision of operations in auctions; and iv) supervision of compliance with the restrictions to trading implemented in the framework of the buy-back programme.

There were 20 buy-back programmes in force and operative in 2018 corresponding to 18 issuers (1 issuer had 3 buy-back programmes). 14 of these programmes aimed to buy back shares for their subsequent cancellation, while the remaining 6 were for share option programmes.

For their part, the **liquidity contracts entered into by issuers** with a financial intermediary are regulated in Circular 1/2017, which entered into force in July 2017. Since that date, the CNMV has been paying particular attention to supervising the liquidity contracts subject to this Circular. The supervisory effort began with the transition work from the previous circular to the new one, which included: adaptation of contracts, analysis of the operations resulting from the cancellation of the former contracts, responding to multiple enquiries and supervision of the price sensitive information disclosures of the cancellation and notification of the new contracts. This supervision has remained very intense since then.

In addition to the supervision performed on a day-to-day basis – which includes that relating to price sensitive information, dealing with enquiries, analysing liquidity contracts and sending requests for information – the CNMV conducts a periodic and exhaustive analysis every quarter to determine the behaviour of liquidity contracts and compliance with the conditions laid down in Circular 1/2017.

As a result of this supervision, it may be stated that Circular 1/2017 and liquidity contracts play an important role in the provision of liquidity of issuers with equity instruments listed on Spanish markets, both in terms of the number of issuers that have entered into such contracts and in terms of the volume traded under them.

At year-end, 35 issuers held operating liquidity contracts.

The Market Abuse Regulation and Delegated Regulation (EU) 2016/1052 also regulate as safe harbours **stabilisation transactions** intended to provide support for the price of an initial or secondary offering of securities during a limited time period if the securities come under selling pressure, thus alleviating sales pressure generated by short-term investors and maintaining an orderly market, which contributes to greater confidence of investors and issuers in financial markets.

In order for stabilisation transactions to benefit from the safe harbour, they must comply with a series of transparency and operational conditions. In this regard, supervision of stabilisation transactions performed in the framework of public offerings for sale or subscription focus on verifying compliance with said conditions, with particular attention paid to the following aspects: i) the price at which the stabilisation transactions were executed, which may never be above the offer price; ii) the volume of the shares subject to stabilisation; and iii) the price sensitive information published in the context of the stabilisation, both relating to the transactions performed and to the start and end of the stabilisation.

A special situation that the CNMV analysed and with regard to which it had to form criteria in 2018 was one that affected three shares: Abengoa B, Vértice 360 and Urbas, which were persistently quoted at one euro cent as a result of the trading rules in force on Spanish stock exchanges, which included a rule that the minimum price should be one euro cent. On the one hand, this unduly restricted the liquidity of the aforementioned shares and, on the other hand, generated artificial signals about their price. The CNMV supported BME's initiative to lower the minimum trading price to one ten-thousandth of a euro and disseminated a criterion against the initiative to carry out stock splits, aimed at removing the effect of the modification promoted by BME, that were announced by some of the affected companies and which did not prosper. The modification introduced by BME solved the problem.

The CNMV supervises **changes in the composition of the Ibex 35** index in order to analyse whether such changes meet the technical rules of the index and to detect any distortions in trading in the market aimed at favouring a share remaining in, joining or being removed from the index. In the first ordinary review, in June, the technical advisory committee of the Ibex 35 agreed to add the shares of CIE Automotive to the selective index, after having previously decided to remove the shares of Abertis as a result of the takeover bid made by Hotchief AG (at which time the index was temporarily made up of 34 shares). In the second ordinary review conducted in December, the committee agreed to include Ence in the index to replace DIA.

In addition, the CNMV performed several supervisory interventions in 2018 with regard to transactions performed by **persons discharging managerial responsibilities**. In particular, it sent letters requesting information to several issuers and persons discharging managerial responsibilities in order to verify compliance with the obligations set out in Article 19 of the Market Abuse Regulation. With regard to issuers, the supervision consisted of determining whether the issuers complied with the obligation to notify in writing the persons discharging managerial responsibilities of their obligations under Article 19 and to draw up a list of all persons discharging managerial responsibilities and persons closely associated with them. With regard to the former, the supervision aimed to determine whether they complied with the ban on conducting any transaction on his/her own account or on the account of a third party, directly or indirectly, relating to the shares and debt instruments of the issuer or to derivatives or other financial instruments linked to them during a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report. As a result of this supervision, the CNMV sent warning letters to certain issuers and persons discharging managerial responsibilities.

A good deal of the CNMV's supervisory work focused on compliance with the obligations resulting from Regulation (EU) No. 236/2012 of the European Parliament and of the Council, of 14 March 2012, on **short selling** and certain aspects of credit default swaps. These obligations are mainly in the following areas:

– Transparency regime.

  The Regulation establishes a transparency regime with the obligation to notify net short positions in shares which reach or fall below 0.2% of the capital, as well as each additional 0.1% in excess of that percentage. In addition, the Regulation establishes the obligation to disclose positions which reach or fall below 0.5% of the capital, as well as each additional 0.1% in excess of that percentage.

  In 2018, the CNMV received a total of 5,848 notifications of net short positions in shares (25% up on 2017) and a total of 172 investors reported short positions, mostly US and UK hedge funds, as in previous years. At the end of the year, 67 issuers held net short positions, while a total of 90 were affected by short positions at some time during the year (86 issuers in 2017). The average of all the aggregate net positions weighted by market capitalisation stood at 0.86% of the capital at year-end 2018, compared with 0.70% at year-end 2017.

  The CNMV performs different supervisory actions aimed at verifying compliance with the Regulation. In this regard, the CNMV performs an analysis of the notifications of net short positions received and carries out periodic supervisions of notifications of net short positions of greater than six months so as to determine whether they remain in force or not. This work makes it possible to detect possible breaches of the Regulation by those holders who have not updated their net short positions by means of the appropriate notification, which led to the CNMV sending several letters requiring information. This analysis also allows the CNMV to keep an updated register of the positions of this type in listed issuers on Spanish markets.

- Creation and increase in net short positions and compliance with conditions for performing short sales.

  The CNMV sent various letters requiring information to determine how the reported net short positions had been generated and, as the case may be, to verify compliance with conditions for performing short sales. These letters were sent to various foreign entities that operate in Spanish securities markets.

This supervisory work is carried out on an ongoing basis and allows the CNMV to know which mechanisms and financial instruments are commonly used by investors to take a net short position in a security and the type of agreements reached in the short sales in order to comply with the Regulation.

Fortnightly publication of aggregate short positions

EXHIBIT 12

On 1 January 2019, the CNMV stopped publishing aggregate information on short positions on each listed company resulting from all the information contained in the reporting that it receives. The basic reason for this decision, which was adopted following the corresponding analysis and consultation process, was to apply the same criteria in this area as other European countries. None of them disseminate aggregate short positions, and therefore their regular publication was a unique feature of the Spanish market.

Regulation (EU) No. 236/2012 of the European Parliament and of the Council, of 14 March 2012, on short selling and certain aspects of credit default swaps establishes the obligation to inform the supervisor of net short positions equal to or above 0.20% of the issued share capital of a company, but it only provides that these should be made public when they are equal to or above 0.50%. Over recent years, the CNMV has published on a voluntary basis every 15 days the aggregate net short positions of each listed company, the result of adding together those that exceed 0.20% and the public positions of over 0.50%.

When making the decision to stop regularly publishing aggregate net short positions, the CNMV took the following considerations into account:

- The fortnightly aggregate publication represents an asymmetry of information with regard to the practice of other competent European authorities, which do not publish any type of aggregate information. This might give the impression that net short positions in Spanish listed securities are higher than their European counterparts.

  This situation is particularly noticeable with regard to small and medium-cap securities, in which the taking of reportable net short positions involves absolute amounts that are much lower than those required in the case of large-cap securities.

- There is no prospect of any aggregated net short positions being published at a European level. In December 2017, ESMA published technical advice to the European Commission on the evaluation of certain elements of the Short Selling Regulation and did not include any reference to such a possibility.

It is worth remembering that short trading is a matter that is regulated exclusively at a European level in the aforementioned Regulation and in its delegated regulations.

In 2018, three members of Spanish stock markets notified the CNMV of their intention to make use of the exemption for market-making activities. In accordance with the Regulation on short selling, these entities are not subject to the obligations relating to notification and transparency of net short positions or the restrictions on uncovered short selling with regard to their market making activities. The CNMV analysed the notifications received and verified whether they were in line with the aforementioned Regulation and the ESMA guidelines on the exemption for market making activities. The CNMV also notified ESMA that the applicant entities were going to make use of the exemption as market makers.

Fixed income

The CNMV's supervisory work was widened in 2018 with the addition of two new Spanish trading venues: CAPI OTF and CIMD OTF, authorised in 2017.

A new development relating to the AIAF regulated fixed-income market was the admission to trading from May 2018 of sovereign debt issues from Austria, Belgium, Germany, France, Ireland, Italy, the Netherlands and Portugal, as well as issues of the European Stability Mechanism (ESM). The trading of these issues accounted for 14% of the nominal amount of the total sovereign debt traded on AIAF. With regard to corporate debt, trading in 2018 of issues generally considered to be aimed at retail investors, as they have a nominal unit volume below 100,000 euros, totalled a nominal amount of 422 million euros, accounting for 97% of the total of this type of debt. With regard to the size of the trades, in overall terms (public and corporate debt), those with a nominal value equal to or greater than 100,000 euros accounted for 99.6% of total, corresponding to a nominal volume of 93.86 billion euros.

In 2018, the CNMV approved the modifications of the regulations of the Fixed Income Market (AIAF) and of the two MTFs – Alternative Fixed Income Market (MARF) and the Electronic System for Trading in Financial Assets (SENAF) – with the aim of completing their adaptation to MiFID II/MiFIR. The modifications include the new name of its operating company: Bolsas y Mercados Españoles Renta Fija, SAU.

With regard to the transparency requirements for trading venues, MiFIID II/MiFIR recognises the possibility for operators to make a request to the competent authority for application of waivers to the general pre-trade transparency obligation in the event of certain circumstances provided for by the legislation. The CNMV received a total of 46 waiver requests, of which 36 were exclusively for fixed-income instruments and 11 for fixed income and derivative instruments. ESMA issued a favourable opinion on the aforementioned 46 waiver requests that had previously been approved by the CNMV.

As a result of these requirements, ESMA periodically assesses the liquidity criteria for the bonds. The result for the bonds issued in Spain in the last quarter of 2018 was that 98% of the bonds were non-liquid (1,373 issues) and only 2% were liquid (25 issues). With regard to securitised issues, following the calculations performed, ESMA has classified all assets of this type as illiquid.

Derivative products

Supervision of derivative instrument markets has focused on three lines of activity: i) analysing and monitoring daily trading, ii) supervising compliance with, and adaptation to, new market legislation, and iii) preventing and detecting market abuse situations.

In addition to these three areas, as from January 2018, the CNMV has supervised the submission of information to ESMA as part of the aforementioned FIRDS project, both for instrument reference data (FIRDS) and for the data necessary for transparency calculations (FITRS).

Regulated markets

With regard to the first line of activity (analysing and monitoring daily trading), the supervision of derivative instruments traded on MEFF Exchange was performed by monitoring volumes traded and prices, volatilities, transactions, trading strategies and open positions, as well as any changes thereof. In this regard, it should be noted that during the weeks the contracts mature, the CNMV conducted a specific analysis of the roll-over of positions and of the accounts with the largest concentration of position in the nearest maturity. The CNMV also monitored the performance of the Ibex 35 over the period for calculating the settlement price at maturity of the future.

With regard to compliance with the new legislation, the CNMV's supervision of the transparency regime was extended to both MEFF and MEFF Power, in close contact with the markets so as to achieve the established level of compliance.

With regard to detecting market abuse situations, the CNMV closely monitored trading on dates close to the disclosure of price sensitive information by the issuers of securities with derivatives traded on MEFF, as well as trading on days close to suspensions of trading.

With regard to warrants traded on stock markets, the CNMV monitored daily and intraday trading and checked the specialists' compliance with their obligations. In addition, the CNMV monitored the publication of price sensitive information of the issuers of warrants and of the settlements corresponding to the different maturities.

Lastly, the CNMV reviewed potential market abuse situations linked to both spot trading and trading in derivative markets. These transactions were detected by direct analysis of the trading, as well as through the reporting of suspicious transactions.

Organised Trading Facilities (OTFs)

The CNMV's supervision took into account the start of operations of two Organised Trading Facilities (OTFs) that have been operating since 3 January 2018: CAPI OTF (managed by CM Capital Markets Brokerage, S.A., AV) and CIMD OTF (managed by CIMD SV, S.A., of the CIMD Group, Corretaje e Información Monetaria y de Divisas, S.A.).

Mainly interest-rate and foreign exchange derivatives are traded on CAPI OTF, while CIMD OTF has two differentiated segments: one for electricity derivatives and another for currency futures and interest-rate swaps.

Clearing, settlement and registry

The Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear) is supervised by the CNMV, which is the competent authority responsible for authorising, supervising and sanctioning Central Securities Depositories (CSDs).[2] A significant part of the supervision conducted by the CNMV over the year related to monitoring levels of efficiency following migration to the T2S platform, which Iberclear joined in September. During 2018, the supervisory activity also focused on reviewing the requirements imposed by Regulation (EU) No. 909/2014 of the European Parliament and of the Council, of 23 July 2014, on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 (CSDR) so that Iberclear might be authorised in accordance with this Regulation.

With regard to BME Clearing, in 2018, a very significant part of the CNMV's supervisory work was focused on verifying compliance by the Spanish Central Counterparty (CCP) with the requirements of Regulation (EU) No. 648/2012 of the European Parliament and of the Council, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories (EMIR). In this regard, the CNMV performed a series of assessments on the manner in which the CCP meets prudential, operational, corporate governance and service quality requirements. For all segments, the CNMV analysed the evolution of open positions and the collateral requested with the aim of verifying that the registered risk was suitably covered. With the start of the clearing of natural gas derivatives in the first half of 2018, the CNMV conducted special monitoring of the energy segment in general and of these contracts in particular.

Finally, the CNMV is developing a warning system based on the monthly information (contribution of margins by clearing members, collateral provided and analysis of the CCP's risk methodology) that BME Clearing must report to the college of supervisors in accordance with the new ESMA templates, implemented as from August 2018.

In addition, the CNMV performed specific supervisory actions during this period related to: i) liquidity risk management (in accordance with Article 44 of the EMIR,

2 In accordance with Regulation (EU) No. 909/2014 of the European Parliament and of the Council, of 23 July 2014, on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 (CSDR).

CCPs shall at all times have access to adequate liquidity to perform their services and activities); ii) preparation of a recovery plan (in line with that defined and developed in the principles for financial market infrastructures of CPMI-IOSCO and in anticipation of the future European regulation on the resolution of CCPs); and iii) the CNMV's participation in the European stress tests designed by ESMA, which will be developed over 2019-2020.

In addition, during 2018 the CNMV continued its work of **supervising the compliance of Spanish entities with their obligations under EMIR**. It monitored the level of accuracy of the reporting sent by entities to trade repositories. In addition, the CNMV participated together with other Spanish authorities in the analysis exercises coordinated by ESMA to assess the quality of the information reported at a European level. Following the application in November of Commission Delegated Regulation (EU) 2017/104, which amended the regulatory technical standards that specify the content of the information to be reported, the CNMV monitored the effect that implementation of this measure had on the notifications made by Spanish entities.

5.2 The Market Monitoring Unit

Through its Market Monitoring Unit (Spanish acronym: UVM), the CNMV undertakes in-depth investigations of situations in which actions contrary to market integrity may have been performed. Firstly, the investigations aim to detect cases of the illegal performance, recommendation or disclosure of insider dealing and, secondly, manipulation practices performed in securities markets. In both types of investigation, the CNMV also reviews such aspects as proper preparation and maintenance of insider lists or the effectiveness of the mechanisms, systems and procedures of entities providing investment services for identifying and reporting transactions suspected of market abuse to the CNMV. On completion of the UVM's investigations, the CNMV decides whether to apply measures, including disciplinary measures.

As a result of the aforementioned investigations, 7 disciplinary proceedings were initiated in 2018 affecting 11 legal or natural persons for the commission of the following infringements:

- A natural person for disclosure of inside information to three closely related persons, who have been accused of using said information.

  In the period in which a company was analysing whether to make a takeover bid for the shares of an issuer, one natural person – belonging to a law firm providing services in the operation – disclosed inside information relating to the imminent bid to three people, who used it to purchase shares of the Spanish issuer.

  In this case, the person performing their work in the law firm became aware in the context of their functions of the process initiated by the company to make a takeover bid for the issuer and, despite being included in the insider list, disclosed the inside information to three closely related persons. These persons purchased shares of the issuer on the same day on which, at the close of the session, the bidder announced its takeover bid, thus taking advantage of the inside information received.

- Two natural persons, for market manipulation in various shares as a result of the transactions of various owners.

A natural person, decision maker and ordering party of the purchase and sale of shares of several issuers in their own name, and occasionally in the name of a relative, performed concerted trading with another person – the administrator of a website that disseminates analyses of listed securities. This latter person sent misleading and biased information with regard to those issuers' shares to clients acquired through the website. Prior to sending that information, the natural person intervening in the market would take a long position that they would undo while the clients received the information and would thus obtain gains.

– A natural person and a broker-dealer that provided the former with investment services for market manipulation.

The natural person, with the collaboration of several operators of their broker-dealer, issued numerous orders for a small number of shares, which were not intended to take or undo a position, but rather to have an impact on the order book and trigger price oscillations, which allowed the natural person to take positions at advantageous prices and undo them with positive results. This strategy required performing a significant number of executions during the session that were of a small size but which generated most of the price movements, both up and down, which led to a positive difference between the price of the natural person's purchases and the price of their sales. Free price discovery was therefore altered during the open session.

– A natural person representing a legal person on the board of directors of an issuer, for the use of inside information.

In the framework of a significant corporate transaction, the natural person representing the director of an issuer was included in the insider list and warned of the corresponding obligations resulting from the information disclosed in the meetings of the board of directors with regard to the development of a corporate transaction. On different dates within the transaction trading period, that natural person bought shares of the company, which recorded significant gains in price once the corporate transaction was disclosed to the market.

People who have inside information with regard to an issuer may not prepare or perform any type of transaction with its securities during the period in which that information has not yet been disclosed. If they do so, they are presumed to be using the inside information that they have even when – as in this case – the natural person has bought the issuer's shares prior to and following the period in which they have access to the inside information.

– A broker-dealer, for market manipulation and performing uncovered short selling.

The strategy performed by the broker-dealer consisted of entering a high number of orders that alternated between cycles of share purchases and cycles of share sales. These cycles were repeated numerous times throughout the session and the prices evolved generating small oscillations between the higher and lower level by means of small-sized buy and sell orders that had an impact on the order book and which, in the end, were largely matched with each other. This strategy meant that the broker-dealer intervened in most of the executions in the open session, with small-sized trades of shares, thus triggering most of the upward and downward price movements.

In short, by using small-sized orders, the broker-dealer reduced the share price to a suitable level for buying and, subsequently, raised the price in order to make the sales in an optimal manner. This prevented free price discovery and led to up-and-down oscillations throughout the session.

In addition, on specific occasions, the broker-dealer took short positions that were not covered at any time, but which were closed subsequently during the session by means of purchases subsequent to the sales.

– A natural person, for market manipulation and their financial institution for not disclosing a suspicious transaction.

  A natural person performed transactions in which they were simultaneously the buyer and the seller of an issuer's shares. These transactions, without a real change of ownership, gave a distorted image of supply and demand and modified the closing price as they were entered during the auction period. In short, this recurring practice prevented free price discovery. The financial institution that provided investment services did not detect this practice and did not comply with the obligation to report its client's transactions to the CNMV as suspicious.

– A natural person, for market manipulation.

  A natural person with a long position in a security intervened on a recurring basis prior to the start of the closing auction period by means of transactions without any change of ownership. This person also traded during the auctions themselves by means of purchases that monopolised demand and led to price increases. These transactions were performed with the minimum number of shares that would generate the closing price and had no other purpose than to alter free price discovery and trigger price increases that would improve the possible results of the long position taken.

  Lastly, a cautionary letter was sent to a broker-dealer for it to establish effective mechanisms, systems and procedures to properly assess and detect transactions with inside information and market manipulation and to report them, once detected, as suspicious transactions that might constitute market abuse.

5.3 Credit rating agencies

The Credit Rating Agencies Regulation[3] assigns the supervision of rating agencies to ESMA. This means that the CNMV's supervisory actions basically focus on participating in the decision-making reserved to ESMA's Board of Supervisors (for example, that relating to disciplinary proceedings or authorisation procedures). In addition, at a technical level, the CNMV participates in ESMA's CRA Technical Committee, which is responsible for regulatory and strategic tasks in this area.

3 Regulation (EU) No. 462/2013 of the European Parliament and of the Council, of 21 May 2013, amending Regulation (EC) No. 1060/2009 on credit rating agencies.

In addition, the Credit Rating Agencies Regulation imposes certain ratings obligations on issuers. Supervision of these obligations is assigned to the national authorities. In this case, it is therefore the CNMV that performs the direct supervision. In the scope of these powers, in 2018 the CNMV continued to oversee the obligation of Spanish issuers to consider hiring small agencies when appointing two or more agencies to rate their issues or the issuer itself. It is worth noting both that the CNMV began to supervise this requirement, in accordance with the common European approach approved in 2017, and that it performed a supervisory exercise in the specific area of the MARF, which showed that the use of smaller agencies is prevalent.

The CNMV continues to actively cooperate with ESMA in the implementing regulations on rating agencies as well as disciplinary procedures, and authorisations and rejections of new agencies in Europe.

With regard to the above, it is important to note the approval and publication of the supplementary guidelines on endorsement of ratings prepared in non-EU countries for assessing whether their requirements are as stringent as those under European regulation. In this regard, it is also important to note the public consultation launched at the end of December 2018 relating to sustainable finance initiatives to support the European Commission's Sustainability Action Plan in the area of credit rating agencies.

Over 2018, ESMA registered four new rating agencies, with the addition of DBRS Ratings GmbH and A.M. Best (EU) Rating Services B.V. in Germany and the Netherlands, respectively, as part of a strategy to strengthen their presence in Europe in anticipation of the United Kingdom leaving the European Union after Brexit. The Nordic rating agencies Moody's Investors Service (Nordics) AB and Nordic Credit Rating AS were also registered. In contrast, the removal of SPMW Rating Sp. z.o.o. from the register was authorised.

In the disciplinary area, a fine was imposed on five Nordic banks for the issuance of credit ratings without being appropriately registered as rating agencies.

6 Supervision of entities

6.1 Investment firms

2018 was marked by the incorporation into Spanish law of MiFID II,[1] MiFIR[2] and the PRIIPs[3] Regulation, all of which apply as from January 2018.

Similarly, the process of approving a European directive and regulation on the solvency regime applicable to investment firms whose size and activity is not comparable to those of credit institutions is at a very advanced stage.

Table 6.1.1 shows that, as a result of these supervisory actions, the CNMV sent out a total of 865 deficiency letters to supervised entities, 659 of which originated from off-site supervision.

Supervision of investment firms and credit institutions: deficiency letters sent by the CNMV in 2018 TABLE 6.1.1

Type of deficiency letter	Off-site	On-site	Total
For late filing of information	149	12	161
Requests for information	319	118	437
Corrective measures or recommendations	98	22	120
Other notifications	93	54	147
Total	**659**	**206**	**865**

Source: CNMV.

Conduct of business rules and organisational requirements

The CNMV has carried out communication work with entities that provide investment services with the aim of resolving the various issues that have emerged with regard to the new legislation. In order to disseminate these issues as widely as possible, the CNMV has updated the various questions and answers on legislation published on its website.

In the field of supervision, the CNMV performed two horizontal reviews in which it conducted an early review of compliance with the new obligations that are considered particularly relevant by a representative sample of entities providing investment services. Specifically, it conducted a review on the level of adaptation of

1 Directive 2014/65/EU, on Markets in Financial Instruments.
2 Regulation (EU) No. 600/2014, on Markets in Financial Instruments.
3 Regulation (EU) No. 1286/2014, on key information documents for packaged retail and insurance-based investment products.

investment firms to the new reporting obligations relating to inducements and costs established in MiFID II (see detail in Exhibit 7) and the obligations established in the PRIIPs Regulation (see detail in Exhibit 6).

In the framework of the horizontal supervision activities, the CNMV also performed an analysis of the distribution of ETFs and CIS registered in the United States. This has resulted in a number of entities being reminded of the legal regime applicable to the distribution of these products in Spain. Specifically, the CNMV indicated that these CIS do not have a passport and that, among other requirements, it is necessary for them to be expressly authorised and registered by the CNMV. They have also been reminded that they cannot make recommendations or sales to a retail investor without first providing them with a key information document in line with the provisions contained in the PRIIPs Regulation.

In addition, in 2018 the CNMV worked in coordination with ESMA in order to adopt two decisions that, respectively, prohibit or restrict the marketing of binary options and Contracts For Differences (CFDs). In particular, exercises were conducted to gather information on the activities with these types of products and work was carried out on possible measures to be adopted by the CNMV upon the expiry of the aforementioned ESMA decisions.

Furthermore, the CNMV continues to perform both on-site inspections and off-site supervision, in which it analyses compliance with aspects of supervisory interest by entities that provide investment services. The actions are determined by taking into account the information that firms periodically report to the CNMV. During 2018, the CNMV has taken into account, for the first time, the whistleblowing received according to the new procedure established in the recast text of the Securities Market Act.

Obligation of entities to take measures aimed at ensuring the reliability of the information obtained from clients to assess the appropriateness or suitability of their investments

EXHIBIT 13

The CNMV believes it important, as it has highlighted in recent years in its inspection work, for entities to adopt measures and undertake actions aimed at ensuring that the information that they obtain from retail clients to assess the appropriateness and suitability of their transactions in accordance with the provisions of Articles 212, 213 and 214 of the Securities Market Act is consistent, in line with reality and up-to-date.

An inadequate assessment of the appropriateness or suitability of the transactions as a result of deficiencies or errors in the information obtained may result in selling or recommending products that are inappropriate for clients or failing to make or comply with the legally required warnings or handwritten texts in which the client acknowledges that he/she has been informed that a certain product is not appropriate for him/her. This, logically, may improperly make it easier for the entity to place its own securities and financial instruments, as well as those of third parties.

Article 54.7 of Commission Delegated Regulation (EU) 2017/565, of 25 April, which refers to the appropriateness and suitability evaluation, establishes that investment firms must take reasonable steps to ensure that the information collected about their clients or potential clients is reliable. It indicates that these include, but are not limited to, "taking steps, as appropriate, to ensure the consistency of client information, such as by considering whether there are obvious inaccuracies in the information provided" and "ensuring clients are aware of the importance of providing accurate and up-to-date information". Article 55 of the same Regulation establishes that firms shall be entitled to rely on the information provided by their clients for the purposes of assessing appropriateness and suitability except in the case that they are "aware or ought to be aware that the information is manifestly out-of-date, inaccurate or incomplete".

Although appropriateness and suitability assessments must be performed on a case-by-case basis, firms must also adopt measures and take reasonable steps to ensure that the information collected on clients is reliable in general terms.

In this regard, it is recommendable to analyse whether there are situations that *a priori* are atypical, which could be expected not to arise, or only to arise on a purely occasional or isolated basis. For this purpose, the following aspects or indications may be considered:

– Whether the overall data on the level of academic education of the retail clients, bearing in mind their sociological characteristics, are reasonable.

– Whether overall data for clients with a high degree of financial literacy are reasonable, in particular for groups of clients who do not have previous professional or investment experience or a commensurate level of academic training.

– Whether the overall data on retail clients with prior investment experience in complex instruments that are infrequently distributed to the retail public are reasonable, in particular where the experience of the clients does not correspond to their transactions carried out in the entity.

For the adequate detection and correction of situations such as those mentioned above, entities must have adequate procedures in place:

– Procedures applied during acquisition of the product. It is appropriate to establish mechanisms that allow the staff collecting information to detect situations that are atypical *a priori*. The inclusion of automatic alerts in the computer software used during the process of obtaining information may be very useful for these purposes.[1]

– Procedures for reviewing information aimed at periodically analysing whether the information is generally correct and consistent or whether, on the contrary, there are groups of clients in which it may not adequately reflect their general level of academic training, financial literacy or experience, regardless of whether these data are derived from the formalised appropriateness and suitability questionnaires.

– Procedures for the correction of incidents. In the event of inconsistencies, discrepancies or a high volume of atypical situations (situations that may arise for different reasons, one of which may be that the information has not been gathered correctly from the client), appropriate work should be carried out to check and validate the data, using alternative means to merely verifying that the information corresponds to that recorded in the formalised questionnaires.

1 In this regard, see also the Guidelines on certain aspects of the MiFID II suitability requirements of 6 November 2018, ESMA ref. 35-43-1163 (in particular, General Guideline No. 2 and its supplements) of which paragraph 32 states that: "Firms should design their questionnaires so that they are able to gather the necessary information about their client. This may be particularly relevant for firms providing robo-advice services given the limited human interaction. In order to ensure their compliance with the requirements concerning that assessment, firms should take into account factors such as: […] whether steps have been taken to address inconsistent client responses (such as incorporating in the questionnaire design features to alert clients when their responses appear internally inconsistent and suggest they reconsider such responses; or implementing systems to automatically flag apparently inconsistent information provided by a client for review or follow-up by the firm)".

The following incidents and weaknesses that were detected in the course of these actions are considered to be of particular interest:

Cases were identified in which the information obtained by the entities providing investment services in order to assess the appropriateness and suitability of their retail clients' transactions significantly overestimates their education, financial literacy and investment experience. In some cases, this incident affects a large number of clients.

Several inspections have revealed difficulties in obtaining the information requested by the CNMV during the procedure and weaknesses in entities' registration systems, which should be remedied. With regard to this issue, it should be noted that requests were sent to several entities to adopt additional enhancement measures for proper reporting of some specific aspects of the periodic information submitted to the CNMV in the confidential statements.

The CNMV detected occasional cases of failures to comply with the duty to behave diligently and transparently in the interest of the client. In addition, in the field of advice, the CNMV noted inadequate management of the conflicts of interest in placing structured products issued by the group with retail clients and their subsequent repurchase prior to maturity at prices seemingly far from their fair value (with significant spreads which, in the case of repurchases, the firms did not disclose to their clients). This fact was particularly significant in cases in which the repurchase before maturity is the result of a recommendation from the entity providing the service itself, in which it proposes to the client the sale of the structured bond that he/she holds in the portfolio and the investment in a new issue of structured bonds issued by group entities at a placement price higher than the fair value (of which, in this case, the client is informed).

In the case of one entity which had been inspected in previous years, the monitoring conducted revealed the existence of very significant deficiencies that affect several areas of its activity. In particular, these deficiencies relate to its organisational structure and to the provision of its advisory service, and they have generated proposals for additional administrative actions.

Particularly noteworthy are the facts identified in one entity as a result of the existence of improperly managed conflicts of interest resulting from management and advice in relation to securities registered on the Alternative Stock Market (MAB), securities that have a low level of liquidity.

In an inspection of one entity, it was observed that some of the agents had their own website in which, in addition to informing about the agency's products and services, they included information on other services for which the entity, and therefore the agent, was not authorised.

The CNMV also paid close attention to the preparation of the branches of UK entities that provide investment services in Spain with regard to the different scenarios in which the Brexit negotiations may conclude. For this purpose, the CNMV requested information on the plans of the aforementioned branches for this contingency, with particular emphasis on the duty to appropriately inform their clients about the corresponding effects. The specific supervision of one branch concluded with its removal from the CNMV's register.

With regard to crowdfunding platforms, which, despite not providing investment services, are supervised by the same CNMV department, supervision has continued to focus on a review of the diverse documents that they are required to submit on an annual basis. From the information obtained, it may be concluded that although this sector is small, it is recording high levels of growth. The CNMV has also performed specific case-by-case actions and some on-site inspections relating to crowdfunding platforms where deemed appropriate. The most significant incidents detected referred to significant defects in the information offered to clients and to the performance of activities not included in their corporate purpose.

Prudential requirements

The prudential supervision of investment firms is carried out, firstly, by analysing their economic-financial situation and net worth viability and, secondly, by verifying that they comply with the solvency requirements laid down in the specific legislation. The ultimate aim is to ensure that these firms have sufficient own funds to take on the risks associated with the activity that they perform. The bulk of this supervision is based on an analysis of the information sent periodically to the CNMV, which is complemented by on-site inspections.

In 2018, the sector as a whole had ample own funds in relative terms (see Chapter 3.2.2.1). As part of its supervisory tasks, the CNMV closely monitored the firms that had revealed net worth or solvency incidents.

The common procedures and methodologies for the Supervisory Review and Evaluation Process (SREP), on which some calibration adjustments were performed, were once again applied during 2018. In accordance with these procedures, supervisory authorities must give different scores to each entity, which will serve as a reference not only for the purposes of supervising the entities, but also in order to set the time at which the recovery measures planned by the entities should be initiated where necessary.

With the technical support of the Bank of Spain, work began in 2018 on reviewing the internal models for determining the own-fund requirements of a large firm which, as a result of a likely Brexit, decided to transfer a significant part of its business in the United Kingdom to Spain. In addition, for that same firm, the CNMV assessed the appropriateness of applying certain exemptions provided for large exposures. The conclusions of this assessment were reported to the European Banking Authority.

Similarly, the CNMV has continued reviewing the risk profile of all entities, and reporting to the FROB those that fall within the scope of Directive 2014/59/EU of the European Parliament of the Council, of 15 May 2014, establishing a framework for the restructuring and resolution of credit institutions and investment firms.

6.2 Collective investment schemes and closed-end investment undertakings

As in previous years, the CNMV focused the bulk of its supervision of mutual funds and SICAV on preventive analysis to ensure that CIS management companies adequately comply with their obligations, that conflicts of interest are solved appropriately and that unit-holders and shareholders receive sufficient information about their investments.

In any event, the two categories of supervision of CIS and their management companies performed by the CNMV continue to be reciprocal and complementary. On the one hand, off-site supervision based on analysing the statements of the CIS submitted to the CNMV on a monthly basis, which include a list of individual positions of the portfolio assets and derivatives of all registered CIS. On the other hand, on-site inspections are basically focused on verifying less standardised or more specific aspects of the CIS that do not appear in the standardised reporting.

Off-site supervision is basically conducted on two levels. The first level consists of performing general periodic analyses for ongoing control of aspects such as adequacy of resources and the internal controls of CIS management companies, the prevention of conflicts of interest and compliance with legally established ratios and the suitability of investments. The other level includes non-recurring analyses, whether general or specific, of issues which arise or are detected during the supervision.

The main periodic controls performed in 2018 are summarised below:

– Control of CIS legality. The aim is to supervise appropriate compliance with the limits established in CIS legislation, including: structural limits (of assets and minimum number of unit-holders and shareholders), limits on diversification by issuer, and counterparty risk and exposure in trading with derivatives.

– Analysis of returns and price comparison. This aims to detect atypical changes in net asset values based on a regression analysis of the daily performance of the market compared with the performance of the CIS. The CNMV also performs comparative analyses to identify discrepancies in the valuation applied by entities to the same asset.

These analyses allow the CNMV to detect incidents and deficiencies in the asset valuation procedures and in the controls implemented by management companies, as well as any other incorrect recording of transactions and allocation of expenses and fees.

– Trading of assets. By means of automated processes, the CNMV identifies transactions that might reveal conflicts of interest, including: asset applications (transactions in which one or several CIS acquire a fixed-income or equity asset and other CIS from the same management company sell it), purchases of structured products, placements in the primary market and secondary market transactions in assets with low liquidity.

  In all these cases, the CNMV, where appropriate, must verify proper compliance with the rules on related-party transactions established in current legislation. Specifically, the CNMV must verify that the entity has a formal authorisation procedure which demonstrates that such trading is performed in the interest of both CIS and at arm's length.

– Analysis of CIS audits. CIS regulations require firms to send audit reports and annual accounts electronically to the CNMV. This information must be delivered to investors as part of the annual report. No significant incidents were detected in the CIS audit reports in 2018, with only one of them containing any qualification.

Legislative changes in CIS and venture capital undertakings and relevant criteria

EXHIBIT 14

Following the significant legislative changes in 2016 resulting from transposition of the Alternative Investment Fund Managers Directive and UCITS V, the regulation of collective investment and venture capital is currently at a stage of consolidation. However, a series of rules modifying the specific and individual aspects of these vehicles has recently been published. The most noteworthy changes are as follows:

– Law 35/2003 on CIS has been amended with regard to the regulation of omnibus accounts for the distribution of national funds with the aim of allowing such accounts to also be used to hold positions of pre-existing unit-holders and not only new unit-holders, as provided for in the previous legislation. In addition, a two-tier omnibus account scheme is allowed, as a mediating entity may be placed between the manager and the distributor, with the scheme of **manager-mediating entity-distributor-final investor being valid**.[1]

– The regulation of the expenses corresponding to the financial analysis service that may be borne by investment funds and SICAVs is amended in the CIS Regulation so that they may be regulated independently and separated from brokerage costs. CIS will therefore be able to bear the analysis costs provided that they do not depend on the volume of brokerage transactions, they appear in the prospectus, they entail original thought, they are related to the investment category of the CIS and they contribute to improving investment decision-making.[2]

– In the area of transparency, the Law on CIS has been amended to allow the yearly and half-yearly reports of CIS to be submitted to investors electronically (unless the investor does not provide the necessary data for this purpose or declares a preference to receive the reports physically). This constitutes a full change with regard to the previous obligations whereby the information had to be submitted on paper by default. Similarly, in the case of renewals of funds with a specific target return, it will not be necessary to deliver the half-yearly report prior to subscription and only the Key Investor Information Document (KIID) must be delivered.[3]

– Another more technical amendment was the updating of the disciplinary regime provided for in the Law on CIS to align it with that provided for in the UCITS V Directive, with a significant increase in the maximum amount of the penalties. Similarly – and in line with the provisions of the Securities Market Act for investment firms – management companies must enable an internal channel so that employees may report the commission of infringements and therefore guarantee both their protection with regard to reprisals and the confidentiality of the person reporting the alleged infringement (internal whistleblowing).[4] Infringements classified in Regulation (EU) 2017/1131 on money market funds[5] are also incorporated.

– In the area of systemic risk control, amendments are made to the Law on CIS and Law 22/2014 on venture capital undertakings and other closed-ended collective investment undertakings, in order to grant powers to the CNMV to require management companies to strengthen the level of liquidity of the portfolios of CIS, venture capital undertakings and other closed-ended collective investment vehicles and, in particular, to increase the percentage of investment in particularly liquid assets. This has been done taking into account the recommendations made by international bodies relating to the introduction in the short term of the macroprudential tools necessary to address possible vulnerabilities for the financial system.[6]

In addition to these regulatory amendments, in November 2018 the CNMV published an update of its Questions and Answers on CIS legislation that aim to disseminate clarifications with regard to this legislation as well as criteria resulting from its supervisory practice. The most significant new aspects of this update are as follows:

– As an exception to the general principle of valuation at market prices, it is clarified that the amortised cost method may be used to measure all short-term public debt constant net asset value money market funds, as well as assets with a residual maturity of 75 days in short-term low volatility net asset value money market funds, providing the limits set by European legislation on such funds are not exceeded.

– It is considered to be allowed and in line with the regulations that CIS may apply the anti-dilution mechanism known as "swing pricing" in order to preserve equity among CIS investors. Swing pricing entails making an adjustment to the net asset value so that the trading costs of the buy and sell transactions necessary as a result of movements in subscriptions and redemptions may be passed on to the unit-holders that give rise to them (protecting the other investors) on those days in which certain thresholds are exceeded. Managers who wish to apply it must inform about this in the fund's prospectus and initially by publishing price sensitive information.

– It is communicated that it is not possible to allocate fees to CIS for managing the collection of interest and amortisation of securities, the transfer of securities, the collection of dividends and coupons and other financial transactions given that the collection of dividends and coupons is already remunerated by the deposit fee as these procedures are associated with the custody of the assets in the portfolio of the CIS and are part of the depository's obligations.

– Lastly, it is clarified that it is possible to allocate to the fund the non-usual expenses (legal defence, advice, consulting, etc.) incurred for extraordinary claims for withholdings made in foreign securities that have formed part of the portfolio, providing certain conditions are met.

1 First Final Provision of Law 11/2018, of 28 December, amending the Code of Commerce, the recast text of the Capital Companies Act and the Auditing Act.
2 Second Final Provision of Royal Decree 1464/2018, of 21 December, which transposes level 2 of MiFID II by amending Royal Decree 217/2008 on investment firms.
3 Idem note 1.
4 Idem note 1.
5 Second Final Provision of Royal Decree-Law 19/2018, of 23 November, on payment services and other urgent financial measures.
6 Article 1 of Royal Decree Law 22/2018, establishing macroprudential tools.

With regard to one-off or non-recurring supervisory analyses, which are normally the result of the special circumstances of entities or markets, the CNMV continued the general analyses of the sector for certain issues or aspects in 2018, which included the following:

– In accordance with its 2018 Activity Plan, the CNMV performed a review of intermediaries' selection procedures. This analysis covered a total of 28 management companies in which there might be a group entity (bank or investment firm) through which they operate. For this purpose, the CNMV requested information not only on their procedures, but also on the list of intermediaries and the volumes and fees applied with each of them.

– In accordance with its 2018 Activity Plan, the CNMV also conducted a review of compliance with the requirements established in the Technical Guide on non-recurring related-party transactions (published in January 2017). This review was carried out by means of an analysis of a sample of transactions performed by each entity in order to verify that there is sufficient documentary support showing that they were performed in the exclusive interest of the CIS and on an arm's length, or better, basis.

– Following publication of a statement[4] on the need to enhance the transparency of the information provided in the Key Investor Information Document (KIID) of CIS and in the periodic public reporting on the type of management carried out,[5] the CNMV sent a letter to 17 managers for them to send, in the case of 43 investment funds, the commitment to modify the KIIDs before the end of the year and inform in the periodic public reporting of the second half of the year about the new requirements established in this statement.

– With regard to the liquidity of CIS portfolios, as a preventive measure, the CNMV performed an analysis of investment funds that hold significant exposures (over 25% of assets managed) to subordinate/preferred debt assets, securitisations and other assets with lower levels of liquidity, so as to verify that they have internal liquidity management controls and appropriate procedures to protect the interests of unit-holders and avoid conflicts of interest. Noteworthy among these mechanisms for liquidity control and conflict prevention is the creation in a series of CIS of so-called "side pockets" which contain certain low liquidity assets.

– In the area of eligible assets, the CNMV conducted an analysis to quantify the exposure of CIS to funds of the GAM family, which, due to a series of circumstances linked to their manager, were closed to redemptions and placed in liquidation. With regard to eligible assets, the CNMV also conducted an analysis to check whether Spanish CIS are investing in cryptocurrencies, such as trackers linked to bitcoin and other virtual currencies. Hardly any investments were found in these assets.

– With regard to CIS expenses, an analysis was conducted on the TERs (Total Expense Ratios, percentage of total annual expenses over the fund's assets) of investment funds to ensure, on the one hand, their reasonableness and, on the other, that the funds are not incurring in ineligible expenses or are exceeding fee limits.

In addition to these sector-wide analyses of specific issues, the CNMV performed other analyses of specific issues affecting individual entities, such as asset valuation, investments in non-eligible assets or liquidity, conflicts of interest, etc.

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4 Published on the CNMV's website on 8 October.

5 Specifically, that in cases in which information on a benchmark is included, it must be specified whether such benchmark is used in merely informative or comparative terms or whether, on the contrary, to a greater or lesser extent management is linked to the benchmark.

Prior review of the marketing material of investment funds

EXHIBIT 15

The CNMV included in the horizontal reviews of its 2018 Activity Plan an analysis of the advertising used by investment fund management companies, covering the registration of new funds and the renewal of funds with a target return.

For this purpose, managers were asked to provide all the advertising that they were going to use and the CNMV checked compliance with Order EHA/1717/2010, of 11 June, on the regulation and control of the marketing material of investment products and services and Article 60 of Royal Decree 217/2008, of 15 February.

It was agreed that this review would only be carried out for a limited period of time, as the final objective was to set criteria that may serve as guidance for the market.

The review performed by the CNMV in this regard covered the 126 new funds and renewals of structured funds registered between 31 October 2017 and 30 November 2018, promoted by 41 different management companies. Of the total registrations, marketing material was used for the launch or distribution of 69 funds (54.76% of the cases), promoted by 18 management companies (43.9%).

From the results of the review, it is worth highlighting that so-called "commercial factsheets" are the main material used by financial institutions for the marketing of new investment funds. These factsheets often consist of a modified version of the Key Investor Information Document (KIID). In addition, some products were also advertised through banners, mass e-mails and social networks, and only in a minority were mass media (press or radio) used.

In the case of some management companies, the commercial factsheets exclusively show objective data on returns, net asset value, fees, etc., without reflecting any opinion or advertising message (they are rather a modified version of the periodic public reporting). In some cases, it is not the management company that prepared this factsheet, but an external entity.

Incidents detected: criteria transmitted to the sector

As a consequence of the incidents detected during this review, the following guidelines have been passed on to the 18 management companies that used marketing material:

– Marketing material must make reference to the KIID and the prospectus and indicate where these documents may be obtained. In addition, expressions that might lead investors to believe that the KIID is less important than any other information used as advertising for the fund must be avoided.

- The information in the advertising message must be consistent with that presented in the KIID. It is necessary to include essential information on the product's risks and conditions, in addition to any warning that may be required, in a format (size and letter type) that is easily legible and which is at least equal to the predominant font size in the information provided.

- Any mention of avoidance of liability of the management company or distributor with regard to the content of the advertising must be avoided.

- The relevant information must appear in the body of the message, ensuring that it does not appear in footnotes.

- Past performance may not be the most prominent element of the communication and may not be presented in a larger or highlighted font size.

- Expressions relating to the existence of advantages or a pre-eminent position or establishment of comparisons without any objective basis, with expressions such as "market leader" or "return higher than that of other financial products", must be avoided.

- In the case of guaranteed funds or structured funds with a non-guaranteed target return:

  i) The reference to the returns must always be linked to the period of the guarantee or structure, as well as to its maturity date. Information must also be provided on the consequences of redemptions before maturity.

  ii) The return scenarios, together with a graph that presents the historic performance of the Annual Equivalent Rate (AER), must be included. Similarly, entities must include the warnings required in the Technical Guide on the strengthening of the transparency of investment funds with a specific long-term target return, published by the CNMV on 19 March 2017.

  iii) The yield to maturity must be expressed in terms of the AER. The figure must be included in a sufficiently visible manner, which will allow investors to make comparisons with other investment alternatives.

  iv) The period during which the structure is open for the entry of investors must be specified.

- Information on charges and fees must be adequate. In some cases, the CNMV has noted that the information provided was deficient as entities omitted the subscription and redemption fees or the indirect fees in those funds which make their investments through other CIS.

In funds with mandatory redemptions, entities may not use expressions such as “annual return”, “quarterly payment”, “payment every three months”, etc., which may lead investors to believe that they are receiving income, when neither the return nor the initial investment are guaranteed, for which an express warning must be made.

The number of **venture capital vehicles** analysed rose by 9.1% on the previous year, which entailed an increase of 2.4% of total sector assets. The general periodic analyses performed revealed a slight improvement in the coverage of the mandatory investment ratios.

The analyses performed through the confidential information received on compliance both with the mandatory investment ratio and the mandatory diversification ratio have included SME venture capital vehicles and European venture capital funds, although these vehicles are still in the period of exemption from compliance provided for in the law.

A sectoral classification of investments was performed in accordance with the information analysed. The CNMV concluded that 39% of investments are made in firms classified within the services sector, followed by other venture capital vehicles, with 22%, and firms from the manufacturing sector, with 18%.

In addition, the CNMV studied the audit reports received, as well as the special reports provided for in Rule 20 of Circular 11/2008 on the additional information provided to auditors by the entities whose initial reports contained an auditor’s opinion with qualifications due to scope limitations.

In its supervisory work, the CNMV, in specific cases, paid particular attention to the information provided in the reports on the valuation method used in the different portfolio investments, as well as the explanations in the cases in which the valuation method had been modified or in situations where there have been sharp falls in specific investments. The aim of this analysis was to check compliance with accounting standards applicable to venture capital undertakings.

In 2017 – the last year for which these data are available – there was a sharp increase in the number of investors in the venture capital sector (18.5% up on 2016 to stand at 13,000). This is a sector largely reserved for professional investors.

As a consequence of the aforementioned increase in the number of investors in venture capital undertakings and closed-ended collective investment undertakings, which is in addition to the even greater increase of the previous year (up 48.1%, from 7,411 to 10,973), and also the requirements of the CNMV’s Activity Plan, an analysis was performed on the content of the delivery of the KIID in accordance with PRIIPs legislation where distributed to retail investors. In this regard, it should be noted that the PRIIPs Regulation entered into force on 1 January 2018 and closed-ended vehicles do not enjoy the temporary exemption until 2020 (extended by two more years) of CIS. The deficiencies detected in the information contained in the KIID (performance scenarios, cost data and qualitative information) were subject to the appropriate deficiency letters.

In 2018, as a result of these supervisory actions, the CNMV sent out 1,321 deficiency letters to supervised entities.

Of the total number of letters, 511 were for late filing of information, mostly audit reports of CIS.

In addition, 121 letters were sent requesting information necessary for supervision (other than that available on a general basis) from the entities subject to supervision.

A total of 610 letters were also sent requesting undertakings to adopt specific measures, improvements or recommendations to solve the incidents detected in the supervision performed and, finally, 79 letters corresponding to other notifications (basically responding to enquiries).

Supervision of CIS and venture capital undertakings: deficiency letters sent by the CNMV in 2018 TABLE 6.2.1

Type of deficiency letter	Off-site	On-site	Total
For late filing of information	511	0	511
Requests for information	81	40	121
Corrective measures or recommendations	571	39	610
Other notifications	36	43	79
Total	**1,199**	**122**	**1,321**

Source: CNMV.

6.3 Management companies: CIS management companies, management companies of closed-end collective investment undertakings and securitisation fund management companies

The general supervisory tasks carried out by the CNMV with regard to management companies remain geared towards prevention or, as the case may be, solving possible scenarios of capital deficits that might endanger their solvency.

In this regard, it should be noted that management companies as a whole have a high surplus of own funds. In the case of CIS management companies, eligible capital amounted to 980 million euros (6.9 times the required capital). The eligible capital of management companies of collective investment undertakings stood at 105.7 million euros (3.1 times the required capital). Finally, securitisation fund management companies are a different case as almost all of them hold the maximum required capital provided for in the law and adapt the eligible capital to said maximum. The sector's surplus is therefore very limited.

The assets under management of CIS management companies rose by 13% on 2017. The assets under management of management companies of collective investment undertakings rose by 8%, while the assets managed by securitisation fund management companies fell by nearly 6%.

The recurring supervisory tasks focused on analysing the confidential information received on a half-yearly basis, which allows the CNMV to monitor entities' level of solvency, the annual audited reports, the reports by entities' internal audit unit and a review of certain mandatory legal requirements.

The following aspects may be highlighted with regard to the specific or non-recurring supervisory analyses conducted with regard to CIS management companies:

– With regard to conduct of business rules, work was carried out over the year on **corporate governance**. This report was divided into two lines of work: the first analyses the legislative obligations relating to the existence of an audit committee, a remuneration committee, the independence of the members of the board of directors, etc., in all management companies. The second line of work involves an in-depth review of the organisational structure of recently-created management companies. The incidents found (directors that could not be considered independent, failure to comply with audit committee requirements, etc.) resulted in the corresponding deficiency letters.

– In the area of transparency, the CNMV analysed a sample of management companies to verify whether they included the mandatory information on the exercise of voting rights in the periodic public reports.

– With regard to **branches of European management companies** operating in Spain, a Circular was approved at the end of the year to obtain information on their activity and thus supervise application of conduct of business rules. An *ad hoc* request for quantitative data on their level of activity was made prior to approval of the Circular.

In the area of **management companies of collective investment undertakings**, the specific non-recurring supervisory analyses remain focused on improving the information received by conducting checks on the quality of the confidential information.

With regard to **securitisation fund management companies**, it is important to note the Draft Circular that included, in application of Law 5/2015, 27 April, on promoting business financing, the submission of confidential information statements by securitisation fund management companies to the CNMV, as a consequence of the entry into force on 1 January 2019 of Regulation (EU) 2017/2402 of the European Parliament and of the Council, of 12 December 2017, laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012. However, it was deemed appropriate to postpone said request for information from securitisation fund management companies pending definitive adaptation of Spanish law to this European regulation.

Finally, it is important to note the increase in the number of management companies over 2018: 11 new CIS management companies, 8 management companies of collective investment undertakings and 1 securitisation fund management company, and the greater general effort in the CNMV's general supervisory tasks.

6.4 Depositories

Following the analysis performed in 2017 to supervise the adaptation of depositories to the requirements of Circular 4/2016 on CIS depositories – which specifies and details how depositories should perform their custody, registration and supervision functions and oversight of the activities of management companies – supervision in 2018 focused on analysing the half-yearly reports on the supervision and oversight function that must be submitted to the CNMV. In these reports, depositories must include all the failures to comply with legislation or anomalies that have been detected in the management and administration of CIS. Within these, special attention has been paid to those prepared by the depositories of venture capital undertakings and closed-ended collective investment undertakings, given the new requirement for these investment vehicles to have a depository.

The above controls were supplemented by off-site supervision of the compliance of the depository function in two credit institutions, in its two aspects: the function of custody of the assets owned by the CIS and the function of supervision and oversight of the activity of the management companies. It also analysed the structure, resources and independence of this function within the organisation.

6.5 Cooperation in the prevention of money laundering

The Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (Spanish acronym: SEPBLAC) and the CNMV have applied the cooperation agreement entered into between the two entities, which takes into account both the CNMV's supervision plan and the priorities set by SEPBLAC in its analyses of money-laundering risks. In application of said agreement, in 2018 the CNMV submitted notifications to SEPBLAC with the conclusions reached on the level of compliance with the obligations in the prevention of money laundering by six investment firms and collective investment scheme management companies included in the reviews previously agreed between both bodies.

Similarly, the CNMV sent SEPBLAC relevant information relating to incidents of money laundering prevention identified in the review of the internal audit reports prepared by reporting entities.

6.6 Benchmarks

Benchmarks are regulated under Regulation (EU) 2016/1011 of the European Parliament and of the Council, which was published on 29 June 2016 and applies as from 1 January 2018. Some of its provisions, such as those relating to critical benchmarks and the colleges of supervisors, apply as from 30 June 2016.

This Regulation is the result of the cases of manipulation of benchmarks that took place in the past and it establishes mechanisms to reduce the vulnerability to similar scenarios. That is why in practically every European jurisdiction the securities regulator (in the case of Spain, the CNMV) has been the competent authority designated to apply the new rules.[6]

6 The regulation also confers on the Bank of Spain oversight, inspection and disciplinary functions relating to compliance with the obligations of supervised entities that are contributors of input data to benchmarks prepared by the Bank of Spain and compliance with obligations relating to the use of benchmarks in financial contracts applicable to entities subject to Bank of Spain supervision in the area of transparency and customer protection.

This legislation establishes new obligations for administrators and contributors of input data, as well as for supervised entities that use benchmarks. The CNMV, as the competent authority designated to apply the new regulation, also takes on additional powers relating to: i) the authorisation and registration of administrators of benchmarks located in Spain and ii) the supervision of administrators, contributors and any persons involved in the provision of these benchmarks.

Consequently, in 2018 the CNMV continued working on defining the scope of application of Regulation 2016/1011 and on performing actions to facilitate and promote implementation of the new rules, which include the following:

- The creation of a **section on the CNMV website** dedicated to benchmarks that allows access to all relevant national and international legislation and information.

- Publication of a **statement addressed to the sector** to inform about the new obligations contained in the Regulation and the CNMV's criteria in applying its supervision policy, which is proportionate to the nature and risks inherent to each case.

- The holding of a **seminar-workshop** for the dissemination and discussion of the new Benchmarks Regulation among, and with, the supervised entities. When holding this seminar, the CNMV was assisted by representatives from IOSCO and ESMA, as well as from associations and supervised entities, who participated in several roundtables.

- Publication of **Questions and Answers** that solve practical issues and which supplement the Questions and Answers prepared by ESMA.

In 2018 the CNMV continued to perform its activity as a member of the Euribor and Eonia colleges, as well as the Libor Supervisory College. One of the objectives of the college is to coordinate the supervisory policy and actions of the member authorities and in 2018, it discussed the supervision policy applicable to contributors to critical benchmarks.

In this context, in 2018 the CNMV initiated the review of compliance with the corresponding requirements of the new regulation of entities that participate in the panels of the critical benchmarks: Euribor and Eonia.

Last year, the CNMV continued paying particular attention to the reform of interest rate benchmarks, which follows the recommendations of the G20 and the FSB so as to evolve towards improved benchmarks that are less susceptible to manipulation and more representative of the economic reality that they aim to measure, as well as towards alternative risk-free rates, which will reduce the excessive concentration in the current benchmarks (see Exhibit 16).

Status of the reform of interest-rate benchmarks

EXHIBIT 16

The reduction in activity in money markets since the financial crisis, together with the cases of manipulation of interbank reference rates, led to the G20 and the FSB promoting reforms with the aim of evolving towards enhanced benchmarks (less susceptible to manipulation and more representative of the economic reality that they attempt to measure) as well as towards alternative risk-free reference rates, which will reduce excessive concentration in the current benchmarks.

Interest rate benchmarks perform a crucial economic function in the pricing of numerous instruments and contracts, in risk management and in the implementation and monitoring of monetary policy. This makes it necessary to strengthen the robustness and ensure the sustainability of these benchmarks with the aim of maintaining financial stability.

In Europe, these reforms have led to approval of Regulation (EU) 2016/1011 – which requires existing benchmarks to adapt their governance and calculation methodology – and to the creation of a working group – promoted by the ECB, the European Commission, ESMA and the Belgian FSMA (in its capacity as supervisor of the Euribor and the Eonia), with the participation of members of the industry – entrusted with: i) identify risk-free rates that may be used as an alternative to the current benchmarks, ii) defining paths for an orderly transition and iii) strengthening the robustness of current and future contracts.

Since 2013, EMMI – administrator of the euro area benchmarks (Euribor and Eonia) – has been working to strengthen its governance structure and transparency and to implement a methodology in line with the requirements of Regulation (EU) 2016/1011. The aim of the administrator over 2019 (without a continuity solution) is for the Euribor to change from being calculated based on the quotes of a group of banks to being calculated based on the real transactions of these banks and other sources of data when there are insufficient transactions. EMMI is working on implementing the new methodology with a view to being in a position to receive authorisation under the European regulation before the end of 2019.

As EMMI has made public, the Euribor must adapt its calculation methodology to the requirements of the new regulation, but it will continue to reflect the same underlying interest: the rate at which wholesale funds in the euro area could be obtained in the unsecured money market.

In the euro area, the ECB has decided to develop a short-term euro interest rate (€STR, Euro Short Term Rate) as from October 2019 which will reflect the wholesale euro unsecured overnight borrowing costs of euro area banks. This benchmark has been recommended by the working group as the euro risk-free rate to replace the Eonia. The group has also published a proposal for transition based on a methodological modification of the Eonia, which would be calculated as a fixed spread over the €STR for the time necessary to complete the transition.

The €STR will also act as a fallback rate for Euribor-linked contracts, which must include fallback clauses with provisions in the event of a disappearance of the benchmark. On the possible use of €STR as an alternative to Euribor, the working group is developing a methodology based on derivatives markets to build an €STR-based term structure.

With regard to contractual robustness, the group has concluded that the clauses in current contracts are inadequate or insufficient. In order to facilitate adaptation, it has published guidance on the introduction of robust fallbacks in the new contracts (as required by the European regulation as from 1 January 2018) and plans to publish recommendations relating to current contracts.

In the United Kingdom, the Bank of England has already introduced SONIA (Sterling Overnight Index Average) to replace the Libor, which is not expected to survive beyond 2021, the date on which the UK authorities announced they will no longer support the benchmark and they will allow the contributor panel banks to pull out if they so wish.

Other jurisdictions, such as the United States, Switzerland and Japan, have also initiated a process towards alternative benchmarks and work is being conducted to facilitate the transition to an environment of greater diversification in interest rate benchmarks and lower dependence on the current ones.

6.7 Resolution authority (preventive stage) of investment firms

Spanish legislation on recovery and resolution opted for a model that distinguishes between resolution functions in the preventive stage, which are entrusted to the CNMV with regard to investment firms and to the Bank of Spain with regard to credit institutions, and in the enforcement stage, which are assigned to the Fund for Orderly Bank Restructuring (Spanish acronym: FROB) for both types of entity.

The resolution framework comprises three phases: i) the preventive phase, in which the entity's ordinary activity includes an analysis of its capacity to address its own crisis and to be resolved in an orderly manner if it fails; ii) the early intervention phase, in which the supervisor may exercise new powers to act on entities when they start to weaken but are still viable; and iii) the resolution phase if, in the end, despite the preventive measures, the entity's failure cannot be avoided.

As preventive resolution authority, the CNMV must draw up and approve – following a report from the FROB and from the competent supervisor – the resolution plan of each investment firm or group subject to supervision on a consolidated basis, and thus identify the best strategy in the event of failure. On drawing up the resolution plan, the CNMV performs an assessment of the entity's resolvability in order to determine whether, in the event that it fails, the resolution or liquidation can be carried out in a credible and feasible manner, without undermining the continuity of the critical functions performed by the entity. This plan also identifies and, where appropriate, eliminates, any obstacles that may hinder or prevent the entity's resolution or liquidation.

The first planning cycle was completed in 2018 and nine resolution plans were drawn up. Table 6.7.1 shows the number of plans implemented since 2016.

Investment firm resolution plans TABLE 6.7.1

Type	2016 No. of plans drawn up	2016 Plans with possible obstacles	2017 No. of plans drawn up	2017 Plans with possible obstacles	2018 No. of plans drawn up	2018 Plans with possible obstacles	Total No. of plans drawn up	Total Plans with possible obstacles
Individual	5	-	5	4	-	-	10	4
Group	2	2	9	4	9	4	20	10
Update	-	-	1	-	-	-	1	-
Total	**7**	**2**	**15**	**8**	**9**	**4**	**31**	**14**

Source: CNMV.

In the resolution plans of investment firms, it is considered that the most appropriate strategy, in the event of failure, is liquidation in accordance with an ordinary insolvency procedure. This is deemed to be a credible and feasible procedure to the extent that it would make it reasonably possible to achieve, and at least to the same extent as a resolution process, the resolution objectives established by the Law on recovery and resolution in this area.

In the assessment of **resolvability**, some firms hold significant client assets (cash and financial instruments) and, therefore, in the event of failure, said resolvability may be affected by difficulties and delays in the restitution and transfer of these assets to other entities in the course of a liquidation through ordinary insolvency proceedings. The CNMV has proposed preventive measures to these entities, such as entering into agreements with third entities when certain early warning thresholds are reached. Consequently, in the event of failure, the transfer and redemption of client assets is assured, whether on a provisional or final basis, without incidents and in the shortest time possible.[7]

During the drafting of the resolution plan, the CNMV also assesses the possible **minimum requirements for own funds and eligible liabilities** (MREL), i.e., whether the entity has sufficient minimum own funds and eligible liabilities to absorb losses and to carry out the chosen (resolution or liquidation) strategy. In the cases analysed, no additional amount was considered necessary to recapitalise the firms, given that the strategy proposed was liquidation through ordinary insolvency proceedings, considering that the amount necessary to guarantee absorption of losses must match the minimum capital required at any time by the competent supervisor.

7 The recent modification of Royal Decree 217/2008, of 15 February, on the legal regime of investment firms and other entities that provide investment services by means of Royal Decree 1464/2018, of 21 December, sets out significant changes with regard to the internal organisation measures of investment firms in relation to asset management with effect as from 17 April 2019. In particular, it establishes the requirement for investment firms to reach agreements with entities outside the group so that, at the CNMV's request, in the event that they undergo financial difficulties or reasonable doubts emerge as to their viability or adequate investor protection, they may agree on the block transfer of the safeguarded financial instruments and cash of their clients to one or several entities.

The legislation allows the CNMV to establish **simplified obligations** in drawing up recovery and resolution plans. These will be based on a series of indicators of size, type of activity, risk, interconnections and impact of the firm or group on markets and the economy. In view of the specific characteristics of investment firms, the plans that have been drawn up are simplified resolution plans that must be updated at least annually.[8]

In 2018 all investment firms falling within the scope of application of resolution legislation submitted the update of their **recovery plans**. These plans have been reviewed independently by the supervision and resolution functional areas of the CNMV, as well as by the FROB – in its capacity as resolution authority at the enforcement stage – and it has been concluded that in no case did their content have a negative effect on the resolvability of the entities.

Coordination between Spanish resolution authorities is guaranteed institutionally as the CNMV, through its Vice-chairperson, and the Bank of Spain are members of the governing commission of the FROB since entry into force, in July 2015, of Law 11/2015.

With the aim of strengthening existing institutional cooperation and of specifying the obligations for cooperation and sharing information provided for in Law 11/2015, the CNMV and the FROB signed a cooperation agreement in 2018 in relation to the resolution and recovery of investment firms. Similarly, the FROB also signed an equivalent agreement with the Bank of Spain.

The CNMV, in the exercise of its resolution powers, has remained extremely active in the different forums and working groups worldwide. At an EU level, the CNMV is a member of the Resolution Committee (ResCo) of the European Banking Authority (EBA), which is responsible for developing standards, reports and guidelines relating to the Directive on the recovery and resolution of credit institutions and investment firms. The noteworthy work performed in 2018 includes the following: i) approval of a handbook on independent valuation for purposes of resolution, ii) monitoring the impact of MREL decisions, iii) work on sharing of information in the event of resolution, and iv) coordination of the preparatory measures for Brexit.

At an international level, the CNMV participated in 2018 in the Resolution Steering Group (ReSG) of the Financial Stability Board (FSB), which, in addition to analysing the resolution of banks, also works on coordinating and promoting the resolution of financial market infrastructures at an international level. The CNMV participates in the cross-border crisis management group for financial market infrastructures (fmiCBCM), which reports to the ReSG. This group has published the Guidance on Central Counterparty Resolution and Resolution Planning and, at the end of 2018, presented a discussion paper on financial resources to support CCP resolution and the treatment of CCP equity in resolution for public consultation.

8 Resolution legislation makes it possible to modify the frequency with which resolution plans are updated. It is the CNMV's intention to consider that the resolution plans should now be updated every two years, without prejudice to the fact that changes in the entity's legal or organisational structure might significantly affect the plan's effectiveness or require that it be changed. It must also be changed whenever the CNMV, as preventive resolution authority, at its own initiative or that of the FROB (Fund for Orderly Bank Restructuring), deems it advisable to update the plan within a shorter timeframe.

Centralised clearing of OTC derivatives – one of the G20 commitments to strengthen markets in response to the global financial crisis – has increased the criticality of CCPs with regard to the overall safety and robustness of the financial system. Similarly, this has led to the need to have appropriate tools and measures both to ensure continuity of the critical clearing services and to ensure that incidents may be resolved in an orderly manner, minimising the risks for financial stability and at no cost to the taxpayer.

Pending completion at an EU level of a regulatory framework on the recovery and resolution of CCPs, the member jurisdictions of the FSB have taken the commitment to promote resolution planning and to organise crisis management committees for systemic CCPs. In Spain, there is only one single CCP for the derivatives and spot market, both for fixed income and for equity, that the FSB considers to be systemic in Spain and in other jurisdictions due to the interconnections it has through its participants. In this context, the CNMV has been working on the analysis of the resolvability of the Spanish CCP in accordance with the international standards of the FSB and the resolution legislation in progress.

6.8 Investment Guarantee Fund (FOGAIN)

The Investment Guarantee Fund (FOGAIN) compensates customers who are unable to recover the money or securities entrusted to investment firms, except financial advisory firms, in the event of bankruptcy proceedings or a declaration of insolvency by the CNMV. The fund's coverage also extends to customers of CIS management companies and of management companies of closed-end collective investment undertakings in relation to the provision of investment and ancillary services to individual clients, and under the same insolvency situations as for investment firms. The maximum amount of the compensation following verification of the investor's net position stands at 100,000 euros.

At year-end 2018, FOGAIN had a total of 167 member entities, 7 up on the previous year. Table 6.8.1 shows the breakdown by type of entity.

Trend in number of member entities TABLE 6.8.1

Type of firm	2015	2016	2017	2018
Broker-dealers/brokers	77	81	89	91
Portfolio management companies	3	2	1	1
CIS management companies	56	58	68	73
Venture capital undertaking management companies		1	2	2
Total	**136**	**142**	**160**	**167**

Source: CNMV.

As indicated, the customers of financial advisory firms are not covered by the fund. Neither are customers of foreign entities operating in Spain covered by FOGAIN unless these operate through a branch and they have decided to join up to FOGAIN. There are currently no entities in this situation. Foreign entities are therefore attached to the guarantee funds of their home State, whose coverage may not be the same as that offered in Spain.

FOGAIN has continued to provide support and assistance to its member entities in all matters relating to their relationship with the fund and its coverage.

Following the security and liquidity criteria set out in its regulations, the fund continued to invest its assets in public debt with different maturities over the year and in bank deposits.

The FOGAIN's assets totalled 100.6 million euros at year-end, an increase of 13.8% on 2017. The rise was the result of the contributions of the member entities and the return on investments, as well as the amounts recovered by the fund over the year. The fund recovered 5.44 million euros in the bankruptcy proceedings of Interdín Bolsa, SV, S.A. in 2018, which means that to date it has recovered approximately 88% of the total amount paid by FOGAIN to the customers of said entity.

With regard to managing the recovery of the amounts paid out, FOGAIN remains party to several open legal proceedings relating to the claims which it has covered and it initiates all the actions available to it in order to achieve said objective.

During the year, FOGAIN operated different working groups of member entities on issues of common interest, and it was also present on the CNMV's Advisory Committee.

Finally, FOGAIN continues informing investors of its coverage, the entities that are covered and the procedures to request, as the case may be, compensation. This investor information service is another of the functions that are legally assigned to the fund and it is provided by telephone and through its website (www.fogain.com).

7 Investor assistance

7.1 Claims

Investors can file complaints with the CNMV's Claims Service for delays, failures to address their problems or other inadequate actions by financial institutions, as well as claims for specific actions or omissions that they believe harm their rights or interests. Nevertheless, they must prove that they previously filed these complaints or claims with the customer care service and/or customer ombudsman of the entity in question without obtaining satisfaction or a timely response from the latter.

In 2018, investors presented 1,018 claims and complaints likely to give rise to the opening of a claim file, a slight increase on those presented in the previous year.

The Claims Service analyses these claims and complaints which according to whether they meet the requirements to be admitted as claims from their submission, may go through several different phases (preliminary, processing and resolution, and subsequent). This work is performed subject to rules on operation and procedure. Adaptation of these rules to legislation on alternative dispute resolution for consumer disputes was published in the 2017 Report on Complaints and Enquiries received by the CNMV.

The claims and complaints that did not meet the requirements to be admitted for processing fell by 14.5% in 2018, while the claims and complaints processed over the year rose by 5.1%. The CNMV's Claims Service issued a higher number of final reasoned reports in 2018, with 59.8% favourable to the claimant and 40.2% unfavourable to the claimant.

The number of claims and complaints being processed at the end of 2018 fell by 12.1%.

Table 7.1.1 shows the data on the claims and complaints processed broken down by type of resolution.

Complaints processed broken down by type of resolution

TABLE 7.1.1

Number of claims and complaints

	2016		2017		2018		% change
	No.	%	No.	%	No.	%	17/18
Registered with the CNMV's Claims Service	**1,205**	**-**	**998**	**-**	**1,018**	**-**	**2.0**
Not accepted for processing	**400**	**-**	**407**	**-**	**348**	**-**	**-14.5**
Processed without final reasoned report	**141**	**19.0**	**108**	**16.3**	**107**	**15.4**	**-0.9**
Acceptance or mutual agreement	110	14.8	73	11.0	97	13.9	32.9
Complaint withdrawn	19	2.6	21	3.2	7	1.0	-66.7
Ex post facto non-admission	12	1.6	14	2.1	3	0.4	-78.6
Processed with final reasoned report	**602**	**81.0**	**555**	**83.7**	**590**	**84.6**	**6.3**
Report favourable to claimant	309	41.6	301	45.4	353	50.6	17.3
Report unfavourable to claimant	293	39.4	254	38.3	237	34.0	-6.7
Total processed	**743**	**100.0**	**663**	**100.0**	**697**	**100.0**	**5.1**
Being processed at the end of the year	**295**	**-**	**223**	**-**	**196**	**-**	**-12.1**

Source: CNMV.

The reasons for the claims made in the 697 claims and complaints concluded in 2018 amounted to 956[1] as broken down in Table 7.1.2.

Reasons for the claims concluded in 2018

TABLE 7.1.2

Investment firm/reason	Reason	Securities	CIS	Total
Marketing/execution Advisory service Portfolio management	Appropriateness/ suitability	50	24	**74**
	Prior information	85	47	**132**
	Purchase/sale orders	142	49	**191**
	Fees	111	50	**161**
	Transfers	9	31	**40**
	Subsequent information	178	52	**230**
	Ownership	13	5	**18**
***Mortis causa* acquisitions**	Appropriateness/ suitability	0	0	**0**
	Prior information	1	0	**1**
	Purchase/sale orders	3	1	**4**
	Fees	4	0	**4**
	Transfers	3	3	**6**
	Subsequent information	12	10	**22**
	Ownership	18	22	**40**
Functioning of the CCS		**24**	**9**	**33**
Total		**653**	**303**	**956**

Source: CNMV.

1 There may be several reasons stated in the same claim or complaint file.

With regard to the type of product, almost one third of the complaints concluded referred to collective investment schemes, while the other complaints related to different types of securities, such as capital instruments, bonds or debentures, and financial derivatives.

With regard to the reasons for the complaints, a significant number related to the information provided on the product after its purchase (26.4%), product purchase/sale orders (20.4%) and the fees charged by entities (17.3%).

7.2 Enquiries

The CNMV's Investors Department responds to enquiries on matters of general interest relating to the rights of users of financial services and the legal routes for exercising such rights. These requests for advice and information are provided for in Article 2.3 of Order ECC/2502/2012, of 16 November, which regulates the procedure for filing claims with the complaints services of the Bank of Spain, the CNMV and the Directorate-General of Insurance and Pension Funds.

In addition to responding to the enquiries defined in the aforementioned Order ECC/2502/2012, the CNMV helps investors search for information included on the website (www.cnmv.es) and whose content can be found in the official public registries of the CNMV and in other documents which it publishes, and it deals with various issues or doubts relating to securities markets that retail investors may have.

There are three channels available for submitting enquiries: by telephone, by post or through the virtual office (available at www.cnmv.es), where there is a section for submitting claims, complaints and enquiries and where identification is required by means of an electronic certificate or identity card or through a username and password, which can be used for future enquiries or claims with the CNMV (https://sede.cnmv.gob.es/SedeCNMV/SedeElectronica.aspx?lang=en).

The CNMV dealt with 10,772 enquiries in 2018. Most of the enquiries were made by telephone (88.7%) and were dealt with by call centre operators. These enquiries were limited to providing information contained in the CNMV's official registers or posted on its website (www.cnmv.es). By volume, the second most used method was the virtual office form (7.2%) followed by ordinary post or submission through the general registry (4%).

As shown in Table 7.2.1, the total number of enquiries dealt with in 2018 fell by 3.8% on 2017. This reduction was mainly due to the lower number of telephone enquiries (348 down on 2017), although there was an increase in enquiries received through ordinary post and submitted through the general registry (37 up on 2017). At any event, the number of enquiries was 34.2% and 21.5% up on the number received in 2016 and 2015, respectively.

One of the major reasons behind the fall in the number of enquiries dealt with in 2018 compared with 2017 is the higher number of enquiries received in 2017 following the decision taken by the Single Resolution Board[2] (SRB) to carry out the resolution of Banco Popular Español, S.A., which were particularly significant in 2017.

2 The SRB is the resolution authority of the European Union. It is a key element of the Banking Union and its Single Resolution Mechanism. Its mission is to ensure an orderly resolution of failing banks with minimum impact on the real economy and the public finances of participating Member States and beyond.

The average period of response times, apart from enquiries received by telephone and dealt with immediately, stood at 21 calendar days.

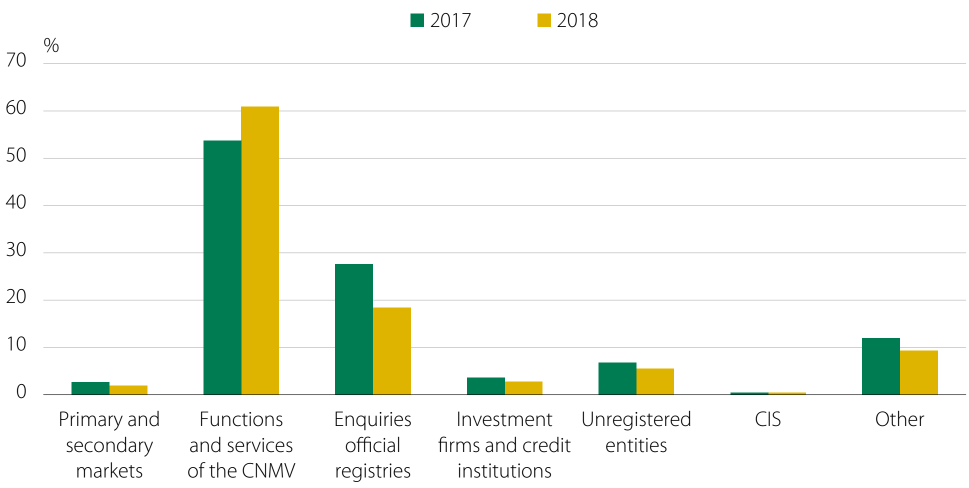
Enquiries by method of receipt TABLE 7.2.1

	2016		2017		2018		% change
	No.	% / total	No.	% / total	No.	% / total	18/17
Telephone	6,514	58.2	9,907	88.5	9,559	88.7	-3.5
Postal mail	331	3.0	399	3.6	436	4.0	9.3
Form	1,183	10.6	893	8.0	777	7.2	-13.0
Total	**8,028**	**71.7**	**11,199**	**100.0**	**10,772**	**100.0**	**-3.8**

Source: CNMV.

As in previous years, enquiries in 2018 were related to investors requesting information about data available on the CNMV's official registries: information on registered entities, fees for investment services, significant events, short positions, significant shareholdings, CNMV notifications, statistics and publications, among other content that is freely available to the public. Similarly, and as is now the norm, there were enquiries about the CNMV's functions and services and about the status of claim and complaint proceedings. The call centre also provided interested parties with telephone numbers and contact details of other bodies when the issues raised do not fall under the responsibility of the CNMV.

Enquiries by topic FIGURE 7.2.1



Source: CNMV.

Together with recurring issues, investors made other enquiries about issues relating to the market situation or certain events, including the following noteworthy matters:

– Enquiries and complaints relating to the stock market performance of the shares of the company Distribuidora Internacional de Alimentación, S.A. (DIA), the existing volume of short positions, the shareholder composition and the possible existence of a takeover bid.

- Enquiries and doubts relating to the modification of the minimum share price of certain securities in the Spanish Stock Market Interconnection System (Spanish acronym: SIB) carried out by Sociedad de Bolsas, S.A., as well as doubts arising as a result of the application of the trading requirement by a minimum lot of shares.

- Enquiries relating to the situation of shareholders of Abertis Infraestructuras, S.A. (Abertis) following completion of the voluntary takeover bid carried out by Hochtief Aktiengesellschaft for 100% of the share capital and which stated the intention of delisting the company (the delisting took place on 6 August 2018).

- Enquiries by an heir relating to an interest in knowing where the deceased's securities may be deposited, as well as information on purchase dates and prices.

- Enquiries relating to the delay in the listing of the capital increase carried out by Urbas Grupo Financiero, S.A. in 2015.

- Enquiries relating to unauthorised entities known as boiler rooms. Section 7.3 of this Report covers the actions performed in relation to these entities in greater detail.

- Other enquiries or complaints that were submitted over 2018 and which were already addressed in more detail in previous annual and specific reports were:

  • The resolution of Banco Popular Español, S.A., as well as issues related to the "loyalty action" performed by Banco Santander, S.A.

  • Enquiries relating to the price at which certain securities were purchased.

  • Enquiries relating to administration and custody fees for suspended and delisted securities. The enquiries mainly focused on the following companies: Fergo Aisa, S.A. (in liquidation), La Seda de Barcelona, S.A. (in liquidation), Indo Internacional, S.A. (in liquidation) and Reyal Urbis, S.A. (in liquidation).

  • Enquiries relating to takeover bids authorised by the CNMV; specifically, with regard to the companies Funespaña, S.A., Abertis Infraestructuras, S.A. and Bodegas Bilbainas, S.A.

  • Enquiries and incidents in relation to Cypriot investment firms registered in the official CNMV registries under the freedom to provide services (i.e., without a permanent establishment in Spain).

  • Enquiries relating to the possible securitisation of mortgage loans.

  • Enquiries which, due to their content, do not fall within the powers attributed to the CNMV. Noteworthy are the enquiries related to banking products or services, and those related to pension funds or insurance. In these cases, the CNMV transfers the enquiries to the competent supervisory body and reports this to the interested party. Another type of issue that does not fall within the powers assigned to the CNMV is that relating to tax, in which case the CNMV informs interested parties that they should get in contact with the competent tax authority.

7.3 Warnings about unregistered firms

Through its website, the CNMV issues warnings to investors about firms that are not authorised to provide investment services or activities reserved for collective investment schemes or crowdfunding platforms, provided for by law, and that have been detected by it or by other supervisors.[3]

Below is a summary of the information on the warnings issued over 2018 (detailed information is contained in the Investor Section on Warnings on the website of the CNMV):

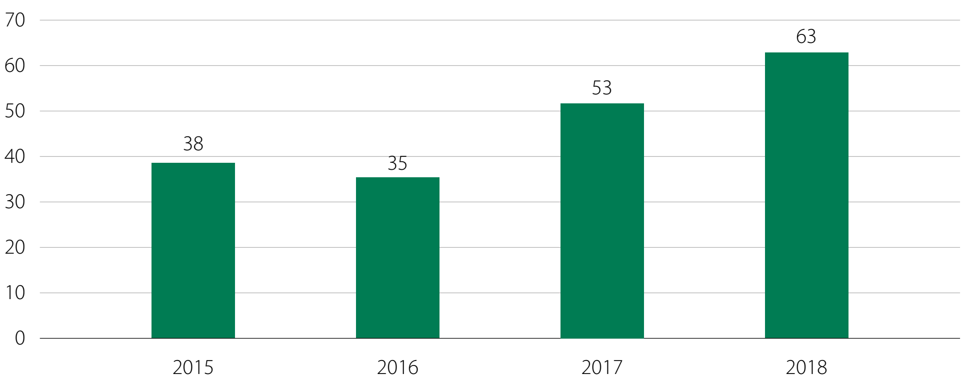
- A total of 63 warnings by the CNMV about entities not authorised to operate in securities markets, by virtue of the provisions of the Securities Market Act.[4] This figure is a rise of 18.9% on the number of warnings issued in 2017 (53), in line with those issued by other supervisory bodies in our peer countries.

- A total of 557 statements (447 in 2017) were received from supervisors in Member States of the European Union, of which 516 related to unauthorised firms, and 41 others were included under the heading "Other warnings", with alerts relating to improper conduct or actions.[5]

As a result of this activity, a total of 620 warnings were made over 2018 (24% up on 2017). It should be noted that 4 regulatory bodies (25% of the total), including the CNMV, made 76.6% of all warnings issued in Europe.

Figure 7.3.1 shows the trend in the number of warnings on unauthorised entities made by the CNMV over the last four years.

No. of warnings made by the CNMV on unauthorised entities FIGURE 7.3.1



Source: CNMV.

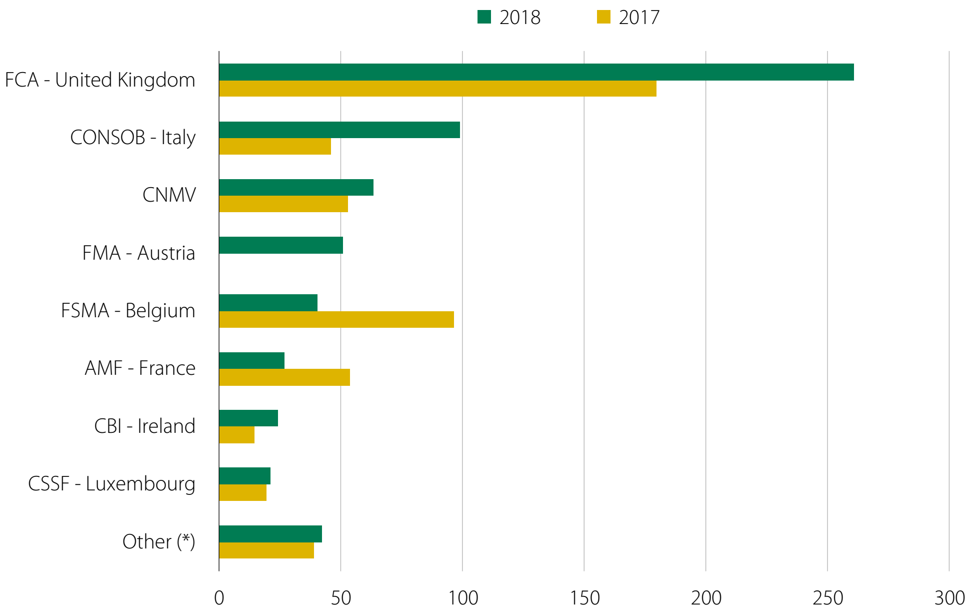
3 Since February 2018, anonymous and confidential notifications to the CNMV have been authorised on potential infringements regarding the securities market.

4 Articles 17 and 144 of the Securities Market Act.

5 In 2010, IOSCO enabled an alert service on unauthorised entities that includes those warnings issued by members of the organisation on its website. Given that not all warnings issued by IOSCO members are communicated, in turn, to the CNMV, you are recommended to visit this website for further information.

Figure 7.3.2 shows the number of warnings from supervisory bodies of EU Member States. It should be pointed out that the FCA (United Kingdom) and the FSMA (Belgium) also regulate the banking and insurance sectors and hence their warnings also cover these areas.

No. of warnings from EU Member States on unauthorised entities FIGURE 7.3.2



Source: CNMV. (*) Eight supervisory bodies with less than ten warnings in 2018.

7.4 Warnings about other entities

In 2018, 55 entities were added to a new list – called Other Entities, within the Public Warnings section of the CNMV's website – which informs about entities which, although they do not provide investment services, may be performing another type of activity to raise funds or may be providing some type of financial service without any kind of authorisation and without being registered for any purpose with the CNMV. These are mostly websites or entities that are engaged in the exchange of cryptoassets.

The list is not exhaustive and is taken mainly from searches and analyses conducted on the Internet and social networks. Being included on the list does not imply any statement on compliance, or not, of any of the corresponding entities' activities with current legislation.

7.5 Monitoring of ICOs

At the end of 2017, the CNMV set out in a press release the two statements that the European Securities and Markets Authority (ESMA) published on the Initial Coin Offerings (ICOs) of cryptoassets or tokens, one on the risks for investors and one on recommendations and rules aimed at firms involved in ICOs.

Both statements – which the CNMV helped to draw up – indicate that "given the proliferation in some countries of these types of transactions, ESMA estimates that investors are not aware of the high risk they would be assuming if they were to participate in them. Furthermore, ESMA expresses its concern about the possibility that the entities that promote or participate in ICOs are not complying with the relevant European legislation in this regard." In addition, "ESMA warns investors of the high risk of losing the capital invested in these types of offers, since they are generally very speculative high-risk investments about which inadequate information is provided in most cases. The price of the coin or token could be very volatile and investors may not have the possibility of recovering their investment over a prolonged period. [...] Certain ICOs could also entail the risk of fraud and money laundering".

Based on this generic warning,[6] in 2018 a search was performed for ICO projects that might be considered Spanish – as a result of the geographic location of their promoters or their nationality. This resulted in the opening of 73 preliminary investigations to discover the nature and situation of the project and, particularly, the legal nature of the tokens issued and their marketing to investors resident in Spain.

These preliminary investigations resulted not only in 44 token-issuing entities[7] being required to provide information, but also in the CNMV sometimes conducting daily or weekly monitoring of the process for marketing the tokens during the presale and sale periods.

Through these investigations, the CNMV was able to verify that the actual level of funds raised is very low, particularly compared with the expectations generated. The CNMV has passed on this information at different international forums.

7.6 Whistleblowing

Article 32 of Regulation No. 596/2014 of the European Parliament and of the Council, of 16 April 2014, on market abuse and repealing Directive 2003/6/EC of the European Parliament and of the Council, and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (MAR) provided for the need to create effective mechanisms to report actual or potential infringements.

This EU regulation was implemented by means of Commission Implementing Directive (EU) 2015/2392, of 17 December 2015, on Regulation (EU) No. 596/2014 of the European Parliament and of the Council as regards reporting to competent authorities of actual or potential infringements of that Regulation.

For its part, Article 73 of Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (known as MiFID II) establishes that Member States must establish effective mechanisms to enable reporting of potential or actual infringements of the provisions of Regulation (EU) No. 600/2014.

6 Supplemented by two other more technical CNMV statements, "CNMV considerations on cryptocurrencies and ICOs addressed to market professionals", on 8 February 2018, and the "Questions and answers for FinTech companies on activities and services that may be within the CNMV's remit" (particularly the July 2018 update).

7 Selected according to the activity sector (financial or non-financial), language used in the marketing, registration in Spain of the entity marketing them, status of the project (ongoing, completed, not started or paralysed) and target amount.

EU law on reporting infringements was transposed to Spanish law with the entry into force of Royal Decree-Law 14/2018, of 28 September, amending the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October.

Based on the EU regulation, on 8 January 2018, a channel for reporting possible infringements was established so that any person who is aware of actual or potential infringements relating to the organisation and discipline of securities markets, and who wishes to report it confidentially, may contact the CNMV. Without prejudice to the above, this channel is particularly aimed at employees, former employees and other persons who provide or who have provided services in entities that may have committed infringements relating to the securities market.

This led to the creation of a specific section on the CNMV's website – Infringement Reporting – which provides detailed information on this new service and sets out the measures for identity protection and for protection at a professional contractual level.

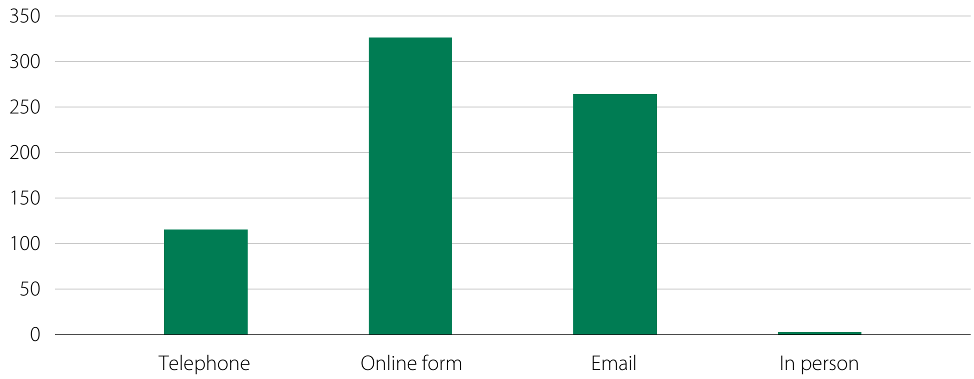
It should be highlighted that, under no circumstances may this channel be used to deal with complaints resulting from specific cases or enquiries, as these issues have their own specific channels.

The channels established for this purpose are: i) by telephone (900 373 363); ii) by email (comunicaciondeinfracciones@cnmv.es); iii) by writing to Infringement Reporting - Investors Department - CNMV. Edison, 4. 28006 Madrid / Passeig de Gràcia, 19. 08007 Barcelona; iv) using the form available in the Infringement Reporting section on the CNMV website (www.cnmv.es); and v) in person at the CNMV offices in Madrid.

These reports must necessarily contain factual evidence which may reasonably lead to at least a well-founded suspicion of infringement. They must therefore include a detailed description of the potential infringement, the identity of the persons or entities involved in the potentially illegal conduct and the dates on which the alleged infringements took place. At any event, the information provided should not be a repetition of information that has already been made public.

As from its implementation and up to 31 December 2018, a total of 704 reports were received, of which 114 were submitted by telephone, 263 by email, 326 through the form enabled on the CNMV's website and 1 in person at the CNMV offices.

Whistleblowing reports by channel FIGURE 7.6.1



Source: CNMV.

It should be noted that of the 704 reports, 41 fell within the scope of a complaint, 104 were enquiries and 34 related to issues that fell outside the remit of the CNMV. Of the remaining 525, 316 contained sufficient factual evidence for them to be analysed, while 209 did not.

7.7 Investor education

7.7.1 Financial Education Plan

In 2018, the CNMV continued paying particular attention to promoting the national financial education strategy, which society as a whole is increasingly recognising as a necessary goal. This is shown by the growing number of public entities, financial institutions and non-profit organisations that actively participate in the strategy with the joint goal of improving the public's financial literacy.

In particular, the CNMV continued working, together with the Bank of Spain, on developing the Financial Education Plan (hereinafter, the Plan). A large part of the actions undertaken in 2018 in this area were aimed at implementing strategic areas established for the period 2017-2021.

In this context, the CNMV continued promoting financial education in schools and, in particular, the Financial Education Programme for the 2017/2018 academic year (hereinafter, the Programme), for which around 700 schools are registered. The development of the Financial Literacy Competition has contributed towards this increase in participating schools. This is an initiative in which students have to demonstrate what they have learned in a competitive and attractive way.

The Programme's success was also helped by the fact that visits were made in 2018 to regional Education Departments with the aim of informing about the Programme so that it may be publicised in schools.

Another milestone relating to the Plan and which forms part of the promotion of financial education is the celebration of a Financial Education Day. This initiative – which in 2018 was held on 1 October – is supported by the institutions and associations that collaborate with the Plan and which, during that day or over several days, actively participate in a large number of activities throughout the country.

Survey of Financial Skills

EXHIBIT 17

Several international studies have shown that the population in many countries is unfamiliar with basic concepts relating to inflation, compound interest rates and risk diversification. Given the growing complexity of financial products, this lack of knowledge may hinder the choice of the most appropriate savings, insurance or debt vehicles for each individual.

Against this backdrop, the Bank of Spain and the CNMV have collaborated, within the framework of the Financial Education Plan, in performing the Survey of Financial Skills, which measures the knowledge and understanding of financial concepts of the Spanish population aged between 18 and 79, as well as the possession and use of different savings, debt and insurance vehicles.

This survey, included in the National Statistics Plan, has relevant features that allow a rigorous and comprehensive description of the financial knowledge of the adult population in Spain and its relationship with the financial system. The sample is representative of the entire Spanish territory and of each of its autonomous regions. It was performed on 21,221 individuals, while the final number of full interviews amounts to 8,952.

The Survey of Financial Skills is also part of an international project coordinated by the International Network on Financial Education – under the auspices of the Organisation for Economic Co-operation and Development (OECD) – which measured the financial knowledge, attitudes and behaviour of the population of a wide set of countries between 2015 and 2016. As a result, this study conducted in Spain between the fourth quarter of 2016 and the second quarter of 2017 makes it possible to place both the financial knowledge and the interaction of Spanish people with the financial system in an international context.

The Survey of Financial Skills includes the questions proposed in the international study, which focuses on assessing the level of knowledge on three general concepts: inflation, compound interest and risk diversification.

The Survey of Financial Skills incorporates additional questions that adapt the questionnaire to the case of Spain. Firstly, in addition to the financial skills of the selected person, the survey also collects information on the financial skills of the household. Secondly, it includes measures validated in international studies of the cognitive skills of individuals beyond strictly financial ones. Finally, the survey contains a module on the main residence in which information is obtained on the ownership decision, expectations regarding its price and, where appropriate, the manner in which the purchase was financed.

From among the conclusions obtained from the survey, it is worth noting that the financial literacy of the adult population in Spain is generally around the average of all the countries studied. Only the percentage of correct answers in Spain on the concept of risk diversification is clearly below the average (for all countries as well as those belonging to the OECD and the

European Union). In this context, another significant result is that the higher the level of education and income, the greater the financial literacy.

The level of financial literacy varies with age and the highest percentage of correct answers was obtained by individuals aged between 45 and 64. There are also differences between autonomous regions with regards to financial literacy, with Aragón scoring the highest percentage of correct answers. Part of the differences seen between autonomous regions may be associated with the differences relating to demographic composition and level of education, which are variables that are related to the level of financial literacy.

With regard to the possession of various financial products, 97% of the individuals surveyed have a current account. The most frequent savings vehicle is the savings account, which is held by 26% of respondents, followed by pension plans, which are held by 1 in 5 individuals aged between 18 and 79.

The possession of other financial assets is less frequent. The percentage of individuals who own shares or investment funds does not exceed 13%, while only 1% of the population in question owns a fixed-income asset. The holding of shares or investment funds is concentrated among individuals in households with incomes above 26,000 euros – approximately one third of the population with a higher level of income.

30% of individuals have life insurance and 21% have health insurance. The percentage with life insurance stands at 45% between the ages of 35 and 54, and this percentage increases with income and education level. The percentage of individuals with health insurance increases sharply with education level and household income.

41% of the population have some debt (a category that includes mortgages and personal loans) and the patterns of debt held are different from those of savings vehicles. The group that most frequently (63%) has some form of debt is that of individuals aged between 35 and 44, while this percentage decreases with older age groups. This is not the case for savings vehicles, where the holding of vehicles increases up to 64 years of age. The proportion of people in debt increases with their level of education and with their household income, and around 20% of the different income and education groups have a personal loan.

The conclusions obtained from the results of the Survey of Financial Skills make it possible to identify a series of priority groups when focusing the next strategy of the Financial Education Plan, such as people aged between 18 and 34, people over 65, people with annual incomes under 14,500 euros and people that have only completed primary education, among others. These conclusions also make it possible to consider that investment literacy and insurance literacy are not well consolidated in Spain and an extra effort should therefore be made to improve financial education in these areas.

The central event of this day was organised at the CNMV and enjoyed the presence of the CNMV Chairperson, the Governor of the Bank of Spain, the State Secretary for the Economy and the State Secretary for Education. The final of the Financial Literacy Competition took place during this event. The winner was the school Santísima Trinidad, Plasencia, and the runner-up was the school San Francisco Javier (Jesuitas), Tudela. In this event, the Finance for All awards were presented to the UCEIF Foundation and to the school Enrique Soler, Melilla.

The system for managing the Financial Education Plan was modified in 2018 with regard to its management and execution bodies in order to improve the efficiency of the Plan's development and to give greater prominence to its network of collaborators, whose work contributes to improving the dissemination and accessibility of financial education. Specifically, in order to make it easier for new collaborators to join, in 2018 the signing of collaboration agreements was replaced by adherence to a general collaboration protocol for promoting the Financial Education Plan.

Similarly, in 2018 contacts were intensified with public and private entities and bodies that collaborate in the Financial Education Plan and, in the same year, five entities were added as Plan collaborators.

In addition, active promotion of financial education has continued through the participation in training sessions organised by Financial Education Plan collaborators and various institutions.

International forums on financial education

At an international level, the CNMV took part in all the technical meetings of the International Network of Financial Education of the OECD – the leading financial education forum worldwide – and actively collaborated in the work carried out there.

The CNMV is also a member of IOSCO's Committee on Retail Investors (C8), which works towards improving investors' financial literacy. In 2018, the CNMV continued to participate in work on defining a framework of basic competencies for investors and the application of behavioural economics to improving investor protection. In addition, the CNMV has started to work and collaborate with other committees on issues of interest, such as sustainable finance, fintech and cryptoassets.

7.7.2 CNMV training activities

In addition to the educational activities performed in the framework of the Financial Education Plan, the CNMV performs training activities specifically aimed at investors.

Financial Education Volunteer Programme

EXHIBIT 18

I. The CNMV's Financial Education Volunteer Programme was launched in July 2017 with the aim of offering the professionals of this institution the opportunity to contribute their knowledge to improving their immediate social environment, disseminate financial education and, in this way, contribute towards investor protection, one of the CNMV's aims. The Volunteer Programme, which a quarter of the CNMV's staff have already joined, is focused on carrying out activities to disseminate financial education and to provide training in this area. These activities include giving talks to students and other groups, taking part in conferences, participating in radio programmes, answering telephone enquiries raised by investors at specific times (Financial Education Day) and preparing articles for the specialised press.

II. Implementation of this programme contributes towards enhancing the institution's public visibility, offers a new channel of communication with investors, helps to detect new challenges to be faced in the future, is an opportunity to improve the performance of employees and promotes a positive work climate.

The most noteworthy activities performed in the framework of this programme include disseminating the Financial Education Programme in schools. A large number of employees have visited multiple schools in order to give training sessions aimed at raising awareness of the school programme, which seeks to incorporate a basic knowledge of personal finance into classrooms to allow students to develop skills and abilities that will help them to deal with the basic financial challenges that they will face over their lives.

III. In addition, another activity performed in the context of the Volunteer Programme was the recording of the *Las cuentas claras* programme for Radio 5, which was broadcast weekly for approximately five minutes. Its aim was to transmit financial concepts and to make them more accessible by offering explanations by experts on these matters from the CNMV and the Bank of Spain. The objective is to improve the public's knowledge and provide them with tools and skills to make informed and appropriate financial decisions. This programme has addressed issues such as bank commissions, mortgages, boiler rooms, takeover bids and financial advice.

Another initiative in which the CNMV's volunteers have participated is Financial Education Day. This day is held in order to raise the public's awareness of the importance of having appropriate literacy to meet the financial challenges that they will face through the different stages of their lives. Numerous events are scheduled for this day, or for the days before or after, such as talks, workshops, round tables, online courses, websites, publications, etc., at different locations in Spain. The cooperation of experts from the CNMV is requested in order to perform some of these initiatives.

IV. In addition, thanks to its Volunteer Programme, the CNMV was able to get actively involved in the "4.º ESO + Empresa" initiative developed by the Department of Education of the Region of Madrid during the 2017/2018 academic year. This initiative consists of organising three-day educational visits to companies for students of the 4th year of Compulsory Secondary Education and are offered as a complement to their curriculum. Eleven students from different schools became familiar with the functioning of the CNMV under the supervision of various mentors and by attending talks related to stock markets.

V. In the coming months, the activities performed under this programme are expected to grow, as well as the number of people taking part. The participation of CNMV volunteers in the performance of initiatives in the area of financial education allows the institution to intensify its commitment in an essential area for improving the public's financial literacy.

Publications and resources for investors

The Investor Section offers news and information of interest for non-professional investors and warnings to the public. In addition, it is also possible to download and consult online the publications aimed at investors (investor fact sheets and guides). In this section, users of investment services can also make enquiries, claims and complaints.

In 2018, the CNMV completed the revision and updating, which began in 2017, of the content of the fact sheets and guidelines, in order to adapt them to regulatory change and establish a new strategy for their dissemination to allow their content to reach all investors and interested parties through new channels and formats.

Over 2018, the CNMV also published in its Investor Section information of interest for investors, such as aspects that should be taken into account with regard to cryptoassets, tips for avoiding boiler rooms, measures adopted by ESMA with regard to the marketing, distribution and sale of binary options and CFDs, and certain recommendations issued in the context of World Investor Week.

Training conferences and seminars

As in previous years, the CNMV participated in numerous conferences and seminars in 2018. It gave educational talks on matters relating to investor protection at universities (UNED – the National Distance Education University – and the Complutense University) and consumer protection departments. The CNMV also participated in the International Congress on Financial Education "Realities and Challenges", organised by the Edufinet Project.

8 Disciplinary action

8.1 Disciplinary proceedings

In 2018, the CNMV Executive Committee initiated 21 new disciplinary proceedings, investigating a total of 39 possible breaches (see Tables 8.1.1 and 8.1.2). Disciplinary proceedings were opened in relation to: 1 breach for a failure to report significant holdings in listed companies, 3 for breaches relating to the reporting obligations of listed companies, 3 for breaching rules on short selling, 14 for market abuse (market manipulation and use of insider information), 8 for breaches by public interest entities of the obligation to have an audit committee, 3 for breaching rules of conduct on client/investor relations and the rest for breaches of general regulations by investment firms, CIS and crowdfunding platforms.

One of these proceedings was suspended as a result of the existence of related criminal proceedings until the final court judgment is issued.

Proceedings initiated and concluded TABLE 8.1.1

	2017	2018
Number of proceedings initiated	**16**	**21**
Number of proceedings concluded	**16**	**23**
Of which:		
Initiated in 2009	1	-
Initiated in 2015	1	-
Initiated in 2016	11	-
Initiated in 2017	3	12
Initiated in 2018	-	11

Source: CNMV.

Over the year, the CNMV issued 24 disciplinary decisions that concluded 23 proceedings, which included a total of 36 breaches (12 were initiated in 2017 and 11 in 2018).

Breaches addressed in disciplinary proceedings TABLE 8.1.2

		Initiated		Closed	
		2017	2018	2017	2018
Very serious breaches		**14**	**17**	**21**	**21**
I.	Failure to disclose/incorrect disclosure of significant holdings or treasury stock transactions	4	1	1	4
II.	Breach relating to issuers	-	2	-	-
III.	Operating without authorisation	-	-	1	-
IV.	Breach of rules of conduct	1	3	4	4
V.	Breach of general investment firm regulations	2	1	3	1
VI.	Breach of general venture capital firm regulations	-	-	1	-
VII.	Breach of general crowdfunding platform regulations	-	2	-	-
VIII.	Breach of general CIS regulations	2	1	2	1
IX.	Breach of legislation on short selling	3	3	3	4
X.	Market manipulation	1	-	1	1
XI.	Insider information	1	4	5	6
Serious breaches		**9**	**22**	**8**	**15**
I.	Breach of annual reporting requirements of issuers	1	1	-	-
II.	Breach relating to the audit committee of issuers	-	8	-	-
III.	Market abuse breaches	2	2	1	3
IV.	Breach of rules of conduct	-	1	-	1
V.	Breach of general investment firm regulations	1	-	-	1
VI.	Breach of general CIS regulations	1	1	1	-
VII.	Breach of general crowdfunding platform regulations	-	1	-	-
VIII	Insider information	-	1	3	1
IX.	Market manipulation	4	7	3	9
Minor breaches		-	-	-	-

Source: CNMV.

In 17 of these proceedings, the alleged infringers took advantage of early termination as provided for in Article 85 of Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Administrations, which allows termination of the proceedings as a result of voluntary recognition of liability by the alleged infringer or as a result of voluntary payment, with application of reductions to the monetary fines provided for in the Law.

Without prejudice to the processing time depending on the complexity of each case, this contributed towards reducing the average processing time in the year to six months.

Table 8.1.2 shows the nature of the breaches addressed in the different disciplinary proceedings concluded in 2018 and Statistical Annex III.3 shows a summary of the decisions adopted by the CNMV.

As shown in Table 8.1.3, 39 fines were imposed for a total of 9,080,000 euros.

Penalties imposed TABLE 8.1.3

	2017			2018		
	No.	Amount[1]	Period[2]	No.	Amount[1]	Period[2]
I. Fine	27	13,964	-	39	9,080	-
II. Removal/general disqualification	1	-	5	-	-	-

Source: CNMV. (1) Thousand euros. (2) Years.

Various disciplinary decisions relating to serious or very serious breaches were added to the **public register of penalties** in 2018 and may be consulted on the CNMV's website.

8.2 Litigation department: Judicial review of disciplinary proceedings and other actions

In 2018, a total of 9 appeals to a higher court were brought against the disciplinary decisions with the Ministry of Economy, 6 of which had been dismissed as at year-end 2018. In addition, the liability in 1 case was declared to have expired as a result of the death of the appellant during the appeal proceedings. In addition, the Ministry rejected 10 appeals to a higher court lodged in 2017. Furthermore, the CNMV rejected 1 motion to set aside the decision lodged against a decision to take no further action on a complaint (see Table 8.2.1.).

A total of 23 appeals were filed with the administrative courts in 2018, 21 of them relating to disciplinary proceedings. The 2 appeals relating to other decisions were filed against the decision to take no further action on a complaint and against the rejection of a motion to set aside lodged by a crowdfunding platform against a supervisory action.

A total of 23 of the judicial decisions handed down in 2018 related to disciplinary proceedings. Specifically, the National High Court handed down 12 decisions ruling against appeals, 1 ruling terminating the appeal as a result of withdrawal of the appellant and 1 decision declaring the appeal inadmissible, which meant that the contested decisions were fully upheld, and 3 rulings partially upholding the appeal, which reduced some of the fines imposed. In addition, the 6 appeals for judicial review (4 court orders and 2 judgments declaring appeals inadmissible) ruled by the Supreme Court were favourable to the CNMV and ratified the contested disciplinary decisions (see Table 8.2.1 and Annex III.4).

All the rulings handed down by the courts in appeals lodged against non-disciplinary decisions found in favour of the CNMV. The judgments handed down by the National High Court include the dismissal of 1 appeal brought against a decision to take no further action on a complaint and 3 judgments, declared to be final, which dismissed the appellants' claims for compensation as a result of the alleged liability of the CNMV with regard to two mutual funds. 2 of these judgments implied the withdrawal of the numerous appeals brought against the dismissal of a claim of liability made by a number of claimants. In addition, 9 appeals to the courts against administrative decisions brought against the dismissal of a claim of liability lodged against the Ministry of Economy and the CNMV for actions relating to the IPO process of one financial institution were withdrawn. Finally, it is important to note

1 judgment handed down by the Supreme Court that confirmed the revocation of the authorisation of one financial advisory firm.

Furthermore, in compliance with the general principle to provide collaboration to legal authorities, CNMV experts provided support to judges and courts of all types in the exercise of their functions. The number of requests for collaboration received in 2018 (135) decreased with regard to the total processed in the previous year (186). Although there was noteworthy collaboration with criminal courts – mainly relating to fraud or embezzlement –, most of the requests (78) were from the civil courts. These requests basically related to the following issues: asset securitisation; information on whether or not entities are authorised to provide investment services; identification of securities and ownership of people or entities (knowledge of which corresponds to the depositories of said securities); disciplinary proceedings ruled on in the framework of the proceedings handled by the CNMV; financial reporting of registered entities; information on the issuing and marketing of financial instruments; notices of attachment (which are the competency of governing councils); and, in general, the attainment of evidence in proceedings of various types brought before the different courts, with requests for data or documentation.

Cases in which the CNMV participated in 2018 TABLE 8.2.1

	Presented	Decided
Administrative appeals	**10**	**18**
Appeals to a higher court	9	17
Motions to set aside the decision	1	1
Appeals to the courts against administrative decisions/judicial review	**23**	**40**
		Requests received for assistance
Assistance to courts		**135**

Source: CNMV.

8.3 Claims

In 2018, a total of four claims were filed with the CNMV, mostly relating to the conduct of issuers or listed companies.

The claims focused on alleged breaches of market abuse legislation and on possible irregularities relating to the obligation to provide information to investors and a failure to comply with accounting duties.

At 31 December 2018, after the CNMV had performed in each case the appropriate investigations (the scope and content of which are subject to the duty of secrecy), the processing of two claims was completed, while the others remain outstanding.

Claims made in 2018

TABLE 8.3.1

Type of entity claim brought against	No. of claims
Securities issuers/listed companies	3
Management companies	1
Total	**4**
Content of claims	**No. of claims**
Market abuse	2
Information/Accounting obligations	2
Total	**4**
Situation of claims at 31-12-2018	**No. of claims**
In process	2
Closed	2
Total	**4**

Source: CNMV.

9 International activities

The new responsibilities of the CNMV's senior management in ESMA, where, in addition to being a member of the Board of Supervisors (BoS), it is a member of the Management Board and Chairperson (through its Vice-chairwoman) of the Corporate Reporting Standing Committee (CRSC), its promotion of IOSCO's work on sustainable finance and FinTech and the Vice-Presidency of the Mediterranean Partnership of Securities Regulators have required intense work by the CNMV in 2018. Over 104 people from the institution took part in 400 international meetings (compared with 360 meetings in the previous year), not including staff attendance at 27 training courses and seminars. This chapter reviews the most important actions of the European Securities and Markets Authority (ESMA), the International Organisation of Securities Commissions (IOSCO), the European Systemic Risk Board (ESRB) and the Financial Stability Board (FSB), with the focus on the ESRB and the FSB relating to their responsibility to promote financial stability. It also describes the main activities of the Ibero-American Institute of Securities Markets, whose foundation is chaired by the CNMV, the Mediterranean Partnership of Securities Regulators and the Iberian Electricity Market.

9.1 European Securities and Markets Authority (ESMA)

ESMA's activity in 2018 was marked by the start of the application of two pieces of legislation that are fundamental pillars of European markets in financial instruments, MiFID II and MiFIR, preparation for the withdrawal of the United Kingdom from the European Union (Brexit), particularly if this takes place with no deal, and its contribution to the European Commission's Capital Markets Union Action Plan.

In the first year of application of MiFID II/MiFIR, ESMA continued to devote a significant part of its activity and resources to ensuring that their implementation was consistent and effective in all Member States.

One of the most important new aspects introduced by this legislation in the area of investor protection was the exercise, for the first time and at a EU level, of powers of intervention by ESMA. The measures adopted established the prohibition as from 2 July 2018 of the marketing, distribution or sale of binary options to retail clients and imposed restrictions as from 1 August 2018 on the marketing, distribution and sale of Contracts For Differences (CFDs), also when aimed at retail investors. In addition, greater demands with regard to the information provided to retail clients on the costs of the products in which they invest, as a result of the application not only of MiFID II/MiFIR, but also of the PRIIPs Regulation, aim to increase confidence in capital markets. Another important new aspect is the ban on incentives for third parties in portfolio management and independent advice, which should make it easier to manage conflicts of interest.

The impact of MiFID II/MiFIR has been particularly significant in the area of secondary markets. One of the main intended objectives of both pieces of legislation is to ensure correct price discovery in the trading of financial instruments. To this end, they promote transactions being performed on organised and regulated trading venues, with various pre-trade and post-trade transparency obligations applicable to equities and equity-like financial instruments, and to structured products, derivatives, bonds and emission allowances (non-equity financial instruments).

The Capital Markets Union

EXHIBIT 19

With the mandate of the "Juncker Commission" coming to an end, the European Commission has undertaken the measures announced in 2015 on its Action Plan on Building a Capital Markets Union in 2019, as well as the nine priority measures identified in the review of this Plan carried out in June 2017.

The main measures adopted by the European Commission in the area of capital markets in 2018 regarding the following objectives are listed below:

i) **Facilitating access of unlisted companies to financing.**

- **Pan-European Venture Capital Funds-of-Funds Programme (VentureEU)**, launched by the European Commission jointly with the European Investment Fund. It is expected that thanks to public and private savings raised by this programme, up to 6.5 billion euros may be allocated to financing projects of 1,500 start-ups and scale-ups.

- **Proposal for a legislative amendment to facilitate medium-sized companies obtaining finance through private placements of debt.** Following the study performed on this issue, the European Commission has proposed an exemption from the market sounding regime for private placements of bonds with qualified investors in its proposal to promote the use of SME growth markets.

- **FinTech Action Plan**, which sets out 19 measures on the use of new technologies in the financial sector. The issues that will be subject to coordinated action at a European Union level include the creation of a financial technology laboratory and a blockchain observatory, cybersecurity and sandboxes.

- **Commission proposal for a regulation on European crowdfunding service providers for business**. This initiative aims to establish a framework that will allow platforms that meet a series of requirements to access a European label and thus be able to offer their services throughout the European union.

ii) **Facilitating access of European companies to trading venues.**

– **Legislative proposal to promote the use of SME growth markets.** This initiative consists of a proposal to amend the Prospectus and Market Abuse Regulations, as well as a proposal for a delegated act amending certain MiFID II requirements. Its aim is to reduce the administrative burdens for SMEs that request admission to trading on "growth SME markets" of the financial instruments that they issue, as well as to promote the liquidity of their shares when they are listed on these markets.

iii) Facilitating long-term investment in infrastructure and sustainable finance.

– **Action plan on sustainable finance** with specific legislative proposals (see Exhibit 21).

iv) Helping banks to finance the European economy.

– **Legislative proposal on covered bonds.** This initiative comprises a proposal for a directive and for a regulation. The former aims to regulate the requirements for issuing these instruments as well as their structural elements, the supervision to which they are subject, the requirements for being able to use the "European Covered Bonds" label and competent authorities' publication obligations. These obligations will consist of publication of information on the legislation and general guidance adopted, the credit institutions that will be allowed to issue covered bonds and the list of bonds that may use the European Covered Bond label on the website of the designated competent authorities. They must also publish the administrative penalties and remedial measures imposed in this area. The second proposal aims to strengthen the conditions that must be met for these instruments to enjoy preferential treatment with regard to capital requirements.

v) Facilitating cross-border investment.

– **Legislative proposal for reducing barriers to cross-border distribution of investment funds.** This initiative comprises a proposal for a regulation and for a directive. The latter amends the Directive on undertakings for collective investment in transferable securities and the Directive on alternative investment fund managers. The Commission's aim is to improve transparency in the marketing of these products through harmonisation of national requirements and fees. It also harmonises the procedural requirements for verification by the national competent authorities of marketing communications used for the marketing of funds to retail clients. The aim of the second proposal is to harmonise the conditions under which a fund may leave a national market and to allow managers to discover the appetite of professional investors for new investment strategies by means of pre-marketing activities.

With regard to these new transparency obligations, as from this year ESMA has taken on the function of calibrating the liquidity level of traded instruments, as well as the thresholds for applying exemptions from requirements for compliance, such as in the case of large-scale orders or orders which are large in scale compared with the average or standard size for the instrument. In order to carry out these calculations, ESMA has made use of the information provided by trading venues, systemic internalisers, authorised publication arrangements and national competent authorities, which has been processed in different databases, such as the Financial Instruments Reference Database (FIRDS), the Financial Instruments Transparency System (FIRTS) and the double volume cap (DVC) mechanism.

It should be noted that, despite ESMA's efforts to perform these calculations, only a few financial instruments other than equities and equity-like financial instruments have become subject to the transparency regime. In addition, the double volume cap mechanism, devised to restrict the waivers from the pre-trade transparency obligation of orders traded outside trading venues or orders at reference prices from another European market in relation to liquid shares and similar financial instruments, has favoured more correct price discovery as it subjects these transactions to the general transparency framework when trading exceeds certain limits. However, ESMA is studying whether, in order to avoid the cap involved in applying this mechanism, part of this trading is migrating to periodic auction trading systems and systematic internalisers.

Other noteworthy consequences of application of the new legislation include the emergence of a new category of trading venues: organised trading facilities, and an increase in the number of registered systematic internalisers.

With regard to ESMA's contribution to the Capital Markets Union Action Plan in 2018, it is important to highlight its proposals relating to the regulatory developments required by application of the new Prospectus Regulation and the Securitisation Regulation. It is also worth noting the first annual statistical report on performance and costs of retail investment products, published in January 2019. The study performed by ESMA covered undertakings for collective investment in transferable securities (UCITS), alternative investment funds and structured products in the framework of a broader mandate from the European Commission (which is also addressed to EBA and EIOPA). With regard to this last study, the CNMV, together with other national authorities, has expressed certain fundamental reservations with regard to the quality and limitations of the data used, and has expressed its intention to conduct an equivalent study for the entities under its jurisdiction.

Finally, an important part of ESMA's activity this year has been focused on Brexit. In addition to monitoring the negotiation process, this authority devoted time to identifying the risks and consequences that might arise from the United Kingdom leaving the European Union without a deal on 29 March 2019. In 2018, ESMA also adopted various measures in case a no-deal Brexit turns out to be the final scenario. Consequently, it has published various messages requesting participants in financial markets in the United Kingdom and the rest of the European Union to adopt the measures necessary to limit, as far as possible, the consequences of the loss of the European passport following the United Kingdom's withdrawal. It has also requested coordination of the criteria applicable by NCAs in processing requests for authorisation submitted by UK entities that have decided to fully or partially transfer their business to the EU27. In addition, ESMA has analysed the third country regime in EU financial legislation, which has allowed it to detect several legal loopholes or disadvantageous conditions for the financial sector in Europe, which it has reported to the European Commission. Other important measures on which it worked over the year in preparation for the United Kingdom's withdrawal from the European Union were the necessary Memoranda of Understanding with the competent UK authorities, modification of certain technical standards to facilitate the continuity of derivative contracts after Brexit when one of the counterparties is British, and initiating the procedure for recognition of UK central counterparties.

A brief description of some of the main work performed by ESMA over the year (including those already mentioned in the preliminary introduction) is given below.

Product intervention measures

The aforementioned measures on binary options and CFDs were adopted for an initial period of three months. Specifically, the restrictions on CFDs consist of setting limits to the leverage of open positions, imposition of a margin close out rule on a per account basis, the establishment of negative balance protection on a per account basis, a prohibition on incentives offered to trade CFDs by providers and the establishment of a standardised risk warning on the risks associated with these products.

On their expiry, and considering that there was still significant concern in relation to investor protection, ESMA renewed both measures in 2018, extending them for a period of three months, as from 2 October for binary options and 1 November for CFDs. However, in the first renewal of the prohibition on binary options, ESMA modified its scope, excluding those in which the client cannot lose more than what they have paid or where the term from emissions to maturity is at least 90 calendar days.

Secondary markets and market integrity

In 2018, ESMA worked on the amendment of two Commission Delegated Regulations in relation to the tick size regime: Commission Delegated Regulation (EU) 2017/587 (RTS1) and Commission Delegated Regulation (EU) 2017/588 (RTS11).

The proposed amendment to RTS1 aims, among other aspects, to prevent systemic internalisers from having a competitive edge with regard to trading venues in relation to the minimum price increment (tick size) of shares and depositary receipts traded on both, by obliging the former to comply with this requirement.

The proposed changes to RTS11 aim to ensure that the minimum tick size regime is applied to third country financial instruments under the same conditions as it is applied to those of the European Union. Specifically, it will allow national competent authorities to decide on a case-by-case basis whether it is necessary to adjust the average daily number of transactions used to calculate the tick sizes in order to take into account the available liquidity in third country trading venues.

In the area of derivatives, it should be noted that the obligation to trade certain interest-rate swaps and credit default swaps on trading venues became effective as from 3 January 2018. In addition, over 2018 ESMA issued favourable opinions on the limits proposed by competent national authorities on the size of a net position which a person can hold at all times in commodity derivatives traded on trading venues and economically equivalent OTC contracts. Specifically, the ESMA opinions referred to gasoil, power and natural gas derivative contracts.

MiFID II provides for the obligation to register as an investment firm for non-financial companies whose dealing on own account in commodity derivatives may be considered a main business. After discussing this issue, the European Commission established that the status of main or ancillary activity should be determined by taking into account the ratio of the transactions in commodity derivatives performed by each entity in comparison with the aggregate overall balance at the level of the business group. As a result of this decision, no non-financial company has had to register as an investment firm.

Furthermore, in December ESMA approved the annual report to the European Commission on Accepted Market Practices (AMPs), which are not considered market manipulation under European market abuse legislation. The report, which contains ESMA's non-binding opinion on the application of AMPs, as well as recommendations for competent national authorities, includes the favourable opinion on the practice approved by the CNMV in 2017 on liquidity contracts.

With regard to the review of the Short-Selling Regulation, in March ESMA submitted its technical advice relating to market making, the procedure for imposing short-duration restrictions on short selling in the event of a significant fall in prices and the transparency of short positions together with their public notification and disclosure. The CNMV, for its part, considers that the level of transparency of these positions should be raised by lowering the thresholds for disclosure and establishing different levels depending on the size of the affected companies measured by their capitalisation.

Finally, it should be noted that the CNMV informed ESMA of its intention not to comply with part of the guidelines on the exemption for market-making activities and transactions in primary markets under the Short-Selling Regulation. Specifically, it will not comply with the requirement to be a member of a trading platform in order to apply the aforementioned exemption with regard to the range of financial instruments indicated in Sections 30 and 32 of the document. This is mainly due to the fact that unequal conditions of competition have been noted as a result of the failure of some key European jurisdictions to comply with these requirements.

Status of the review of the European System of Financial Supervision EXHIBIT 20

The review of the European System of Financial Supervision continued through the procedures of the European co-legislators (European Commission, Council and European Parliament) over 2018, although a final agreement was not reached in the year.

While the position of the European Parliament, largely following the proposal of the European Commission, is favourable to granting more powers to the European supervisory authorities (European Securities and Markets Authority – ESMA –, European Banking Authority and European Insurance and Occupational Pensions Authority), the position of the Council, which reflects the will of the Member States, is generally more reticent about granting new powers.

The objectives of the various legislative proposals making up the package reviewing the European System of Financial Supervision include those relating to the European Supervisory Authorities, particularly those focused on promoting greater supervisory convergence, achieving greater independence of their decision-making bodies and the granting of new powers.

The most noteworthy aspects of the negotiation being conducted by the co-legislators with regard to the legislative proposal affecting ESMA are as follows:

– **Enhancing supervisory convergence.** Some of the measures proposed to move forward in supervisory convergence, such as ESMA preparing strategic supervisory plans and supervisory handbooks at a EU level or monitoring by ESMA of third country equivalence decisions, are reflected in the final positions of both the European Parliament and of the Council. However, the Council is not in favour of ESMA being given coordination functions with regard to arrangements for delegation and outsourcing in third countries of entities established in the European Union or in market abuse matters in the case of suspicious transactions with significant cross-border implications.

– **New direct supervisory powers.** Both the final position of the European Parliament and that of the Council are in favour of attributing to ESMA direct powers over consolidated tape providers, but the Council, unlike the Parliament, does not want to also entrust to ESMA powers over approved publication arrangements and approved reporting mechanisms. With regard to benchmarks, the European Parliament supports attributing powers to ESMA on critical and third country benchmarks, in contrast with the position of the Council, which only intends to assign it powers on non-national critical benchmarks. The European Parliament supports, in line with the European Commission's proposal, granting ESMA powers to authorise certain prospectuses (basically fixed-income securities aimed at wholesale investors, asset-backed securities and with regard to third country issuers), in contrast with the Council, which does not wish to grant it any powers in this matter. However, the final position of the European Parliament and of the Council does not contemplate, unlike the initial proposal from the Commission, granting powers to this authority in relation to harmonised collective investment funds (EuVECA, EuSEF and ELTIF).

– **Governance and funding.** With regard to the governing bodies, the proposal of the European Parliament provides for an executive board which would replace the current management board and which would be made up solely of independent full-time members. However, the Council's position is to maintain the management board, although it proposes that some of the members should be independent and full-time. With regard to funding, the Parliament's proposal provides, together with contributions from the European Commission and the national competent authorities, for annual contributions paid by financial institutions, while the final position of the Council has excluded contributions from the industry.

The CNMV's position in relation to this important reform, which was shared at all times with the Ministry of Economy, was to support the strengthening of ESMA as the coordinating entity responsible for promoting effective supervisory convergence, but at the same time favourable to making a greater integration of the supervisory system in Europe compatible with local supervisory bodies with a significant role and functions that will contribute towards maintaining a large number of financial markets and centres in Europe with a critical mass. This is essential in order to achieve a European capital market with greater penetration and which will truly help to improve the financing of companies, not only of large companies, and to reduce the level of dependence on bank lending, one of the main objectives of the Capital Market Union. This position, in particular, was defended by the CNMV's president in a hearing to which he was called before the Economic and Monetary Affairs Committee of the European Parliament in February 2018.

Financial reports

In 2018, ESMA contributed to the public consultation conducted by the European Commission on the fitness of the European Union framework for public reporting by companies admitted to trading, by collecting the position of all its members. In addition, as in previous years, this authority worked on identifying the enforcement priorities in this area on which the national competent authorities will focus with regard to the 2018 financial year, such as application of IFRS 15 – Revenue from Contracts with Customers – and IFRS 9 – Financial Instruments. It also published a report on the evaluation of compliance with the priorities identified in 2016, as well as on the coordination of issues that were discussed with regard to the priorities identified in 2017.

Collective investment schemes

With regard to collective investment, ESMA focused a significant part of its work on the developments required by Regulation (EU) 2017/1131 of the European

Parliament and of the Council, of 14 June 2017, on money market funds (MMFs), which has been fully applicable since July 2018.

In addition, it performed a peer review in which it analysed the supervision that competent authorities perform with regard to the use of efficient portfolio management techniques (EPM) by UCITS managers. The evaluation focused on the authorities in Estonia, France, Germany, Ireland, Luxembourg and the United Kingdom, and identified weaknesses in supervisory practices relating to operational aspects of costs, fees and revenues relating to the use of EPM and collateral management issues. It also indicated the need to improve the information provided to investors when these techniques are used.

Finally, it is important to note some of the conclusions of the first annual statistical report on performance and costs of retail investment products in relation to UCITS. The analysis shows that the total cost of these funds significantly reduces gross returns, with the fees for retail clients being on average twice those for institutional investors, particularly management fees, which account for over 80% of total costs. In terms of overall returns, passive equity funds consistently outperform active equity funds due to the fact that the costs of the latter are significantly higher.

Prospectuses

In April, ESMA published its technical advice to the European Commission on the content and format of the prospectus (including the base prospectus and the final terms), the format and content of the EU Growth Prospectus and, finally, examination and approval of prospectuses (including the universal registration document).

Securitisation

ESMA has worked intensively over 2018, in close collaboration with the European Banking Authority and the European Insurance and Occupational Pensions Authority, in order to submit to the European Commission on time the regulatory work provided for by the new Securitisation Regulation, applicable as from 1 January 2019, as well as the technical advice requested by the Commission.

Noteworthy among the technical standards proposed by ESMA, and pending endorsement by the European Commission, are: i) the information and format that the originators and sponsors of securitisation products must adhere to when notifying ESMA that a securitisation transaction meets the STS criteria; and ii) the information to be provided to the competent authorities in the application for the authorisation of a third party assessing the compliance of securitisations with the STS criteria.

FinTech

In 2018, ESMA, like other supranational and national authorities, continued to conduct an in-depth analysis of the phenomenon of initial coin offerings (ICOs) and cryptoassets.

In February, the European supervisory authorities jointly published a warning aimed at investors on the high risk of buying virtual currencies, as they are not issued by a central bank or public authority and are generally not backed by any tangible assets or regulated at an EU level and do not, therefore, offer any legal protection to investors.

Furthermore, ESMA worked intensively over the second half of 2018 on advice, published in January 2019, addressed to the European Union Institutions (European Commission, Council and European Parliament) on initial coin offerings and cryptoassets, the legal nature of the latter and how they fit into applicable legislation. ESMA clarifies in this document the circumstances in which cryptoassets qualify as financial instruments. It states that EU legislation in this respect would be applicable and reports on its position in relation to any gaps and issues in the current regulatory framework. With regard to cryptoassets that do not qualify as financial instruments, ESMA proposes a bespoke regime limited to establishing minimum requirements which, at any event, will include aspects relating to the prevention of money-laundering and the obligation to properly inform investors about the risks and lack of protection or limited protection associated with this type of investment.

Finally, it should be noted that a significant part of ESMA's activity in 2018, in compliance with its 2016-2020 strategic orientation, has consisted of enhancing supervisory convergence in the different areas under its remit. To this end, it has made use of the different tools available to it, such as guidelines, opinions, questions and answers, statements and peer reviews.

9.2 European Systemic Risk Board (ESRB)

The European Systemic Risk Board (ESRB) has continued its supervisory work in the macro-prudential area in order to prevent and mitigate, as the case may be, the impact of systemic risk. The scope of the ESRB covers the entire financial system, including banks, insurance companies and pension funds, asset managers, entities and activities related to non-bank financial intermediation (previously known as shadow banking) and other financial institutions and markets.

As a member of the ESRB, the CNMV participates on the Advisory Technical Committee and in groups of experts that analyse the formation of systemic risk in areas related to securities markets. Furthermore, a member of the CNMV Board sits on the General Board of the ESRB as a non-voting member.

In 2018, the most significant issues that were addressed in the areas relating to the CNMV were: i) analysis of the most significant risks and vulnerabilities for financial stability, ii) the possible formation of systemic risk associated with interconnectedness in derivatives markets and iii) the risk inherent to activities and entities related to non-bank financial intermediation. It also conducted an in-depth analysis of the risk associated with the commercial real estate sector, performing horizontal evaluations in every Member State in the European Union. It also started to examine vulnerabilities relating to cyber risk. Furthermore, it carried out the update of an annual report describing the macro-prudential policy of the European Union, considering the macro-prudential measures as a whole used both by Member States and by supranational bodies.

In addition to its participation in the Advisory Technical Committee, the CNMV actively participated in the Shadow Banking Expert Group. This group was asked to analyse the growth and risks associated with the different types of entities and activities making up the non-bank financial intermediation sector. In 2018, one of its actions was to prepare the *Shadow Banking Monitor* (SBM), in which it highlights as possible vulnerabilities: risks associated with excessive leverage among some types of investment funds; the risk of contagion and interconnectedness across different financial sectors; procyclicality, leverage and liquidity risk created through the use of derivatives and securities financing transactions; and significant data gaps in the category of "Other financial intermediaries". In addition, this group also analysed the contagion risk between entities belonging to the shadow banking sector and banks, and began a thematic study on systemic risk in the ETF sector. Finally, in line with other international bodies, in 2019 this group will change its name to the "Expert Group on Non-Bank Financial Intermediation", in order to avoid the negative connotations associated with the term "shadow banking".

9.3 International Organization of Securities Commissions (IOSCO)

A significant aspect to be highlighted in 2018, in the area of the governance and structure of the organisation, was the establishment of a framework for determining the jurisdictions that supervise the most developed financial markets, which will be part of the IOSCO Board for four-year periods.

The importance of this work lies in the fact that, on the basis of the results obtained through the criteria for calculating certain data from each market, the composition of the IOSCO Board will be established. Since unification in 2013 of the former Technical Committee, Executive Committee and the members of the Emerging Markets Committee Advisory Board, this body is made up of: i) 18 members from the 16 jurisdictions representing economies with the most developed financial markets; ii) 12 elected members, from jurisdictions of the 4 regions into which the organisation is divided; iii) 4 members elected from emerging markets supervisors; and iv) 2 observer members, 1 representative of the affiliated members, representatives from the industry and ESMA.

This framework, agreed in May and October 2018, henceforth establishes a clearer and more transparent procedure with regard to the selection of the specific sources and the data used to determine the most developed markets, as well as with regard to their weighting. The procedure establishes that IOSCO will first identify the 50 most developed jurisdictions according to their gross domestic product (using the data published by the World Bank) and that it will then perform calculations based on: i) the average stock market capitalisation over the last five years, excluding ETFs; ii) the average debt issued over the last five years, excluding sovereign debt and debt issued by supranational entities; iii) assets under management of collective investment schemes, excluding pension funds as they are considered to be mostly outside the scope of securities market supervisors; iv) exchange-traded derivatives (ETDs), based on four semi-annual data points over two years; and v) OTC derivatives based on turnover by jurisdiction for the most recent available period. With these new criteria and their new weighting, the CNMV will be represented on the IOSCO Board.

Another new aspect in the work performed by IOSCO in 2018 was the setting up of information sharing networks in three areas of action: the Fintech network, the sustainable finance network and a consultation and support framework relating to Initial Coin Offerings (ICOs).

These information sharing networks, set up by the IOSCO Board and governed by a Steering Committee, allow any member of the organisation interested in the matter to join.

The approach of these sharing networks is mainly to exchange specific information and regulatory experiences or draft legislation under development among the members. These networks also have an educational aspect based on some members' experience with regard to regulatory work already carried out. Finally, they also aim to submit issues of importance for discussion by the Board.

The Fintech network was set up in May 2018 and, after a variety of preliminary projects carried out over the previous year, it was decided that the work to be performed in the immediate future should focus on four priority areas: i) distributed ledger technology (DLT, known as blockchain), with the aim of exploring practical applications in the context of securities markets; ii) ethics in artificial intelligence and machine learning; iii) RegTech/SupTech, on the regulatory challenges in financial services as a result of the development of new technologies; and iv) encouraging innovation, based on the practical experience of the different members.

The sustainable finance network was created at the end of 2018 with the aim of providing members with a forum for sharing experiences, obtaining better understanding of sustainability-related issues and holding structured discussions that might respond to the growing role of environmental, social and governance factors in financial markets. The aim is for this initiative to also include the dissemination of non-financial information, given its importance in investment decision-making, and monitoring the different proposals and initiatives on sustainable finance made by different governments, bodies and institutions locally, regionally and globally, as well as their implementation by the industry.

Financial sustainability EXHIBIT 21

In March 2018, the European Commission published its Action Plan for a greener and cleaner economy, which has laid the foundations for integrating the European Union's targets on climate change and sustainability into the financial system.

Recent years have seen the incorporation of aspects relating to climate change and sustainable development into the financial agenda of various international bodies, such as the Task Force on Climate-Related Financial Disclosures (TCFD)[1] of the Financial Stability Board (FSB), the OECD and the Global Reporting Initiative (GRI). This interest has been reflected in the publication of guidelines, standards and principles that now report on the activity of many companies and bodies from the private and public sectors.

Spain has not lagged behind in this task. Law 11/2018, of 28 December, amending the Code of Commerce; the recast text of the Corporate Enterprises Act, approved by Royal Legislative Decree 1/2010, of 2 July; and Law 22/2015, of 20 July, on Account Auditing, in the matter of non-financial information and diversity, strengthen the obligations relating to the reporting of this type of information, which the CNMV must oversee.

This legislation transposes into Spanish law Directive 2014/95/EU of the European Parliament and of the Council, of 22 October 2014, amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by large undertakings and groups. The new legislation aims to identify risks that might affect sustainability and to increase the trust of investors, consumers and societies in general and, to this end, increase the disclosure of non-financial information, such as social and environmental factors.

In addition, Directive 2014/95/EU extends the content required in the annual corporate governance report that must be published by public limited companies, in order to improve transparency by facilitating the understanding of the business organisation and affairs of the undertaking concerned. Consequently, some large companies are required to disclose the diversity policies that they apply to their administrative, management and supervisory bodies with regard to issues such as age, gender or educational and professional backgrounds. Disclosure of the diversity policy should be part of the corporate governance statement and, if no diversity policy is applied, the statement should include a clear explanation as to why this is the case.

The CNMV has contributed towards the validation of sustainable projects, particularly in the area of its entity authorisation and registration task, but it has also promoted the creation of an informal group of national regulators and supervisors made up of the Bank of Spain, the Directorate-General of the Treasury, the Directorate-General for Insurance and Pension Funds and the Office of Climate Change. The aim of this group is to cooperate and share knowledge and experience on sustainability-related financial initiatives.

In addition, the CNMV is actively participating, together with the aforementioned bodies, in drafting the legal provisions of the Draft Law on Energy Transition and Climate Change that will affect its supervisory tasks. These provisions include obligations to disclose the financial impact of risks related to climate change and energy transition on the activity of financial institutions, insurance companies and listed companies of a certain size.

At a European level, the CNMV accompanies the Ministry of Economy in the working groups of the Council of the European Union in order to develop the Commission's Action Plan and the ESMA committees that fulfil the Commission's mandate to introduce sustainability factors in various areas of MiFID II, UCITS, AIFMD and the Regulation on Credit Rating Agencies. Particularly important is the CNMV's role in the Corporate Reporting Standing Committee, chaired by the CNMV's Vice-chairperson, which addresses compliance with the obligation to disclose non-financial information as a priority.

With regard to IOSCO, it is important to note the significant role played by the CNMV in the recently created Sustainable Finance Forum, which acts as a platform for sharing knowledge and experience. One of its working groups, the one charged with studying the initiatives undertaken in this field by national regulators and supervisors, is also chaired and led by the Vice-chairperson of the CNMV.

2019 is lining up to be a crucial year for financial sustainability as it is one of the priorities of the Japanese Presidency of the G20, as it was for the previous Argentine Presidency. It is, therefore, an opportunity for achieving greater involvement of regulators and the financial industry in this area.

1 The Task Force on Climate-Related Financial Disclosures was set up in December 2015. It is chaired by Michael Bloomberg and in 2017 it published a report with recommendations on the disclosure of financial information about the risks and opportunities presented by climate change.

With regard to the ICO consultation and support framework, the network was set up in 2017 in order to facilitate the sharing of experiences amongst members about incidents in this area and to analyse the legislative responses or the criteria that were being developed in order to respond to the new initiatives relating to digital assets. These meetings were held regularly on a monthly basis, by means of telephone conferences.

This consultation network led, in May 2018, to the creation of the current consultation and support framework for initial coin offerings, or cryptoassets in general, as an internal educational resource aimed at helping members to consider domestic cross-border ICO-related problems. As support, a regulatory risk assessment framework was set up for this type of operation that establishes a common set of concepts in this regard, such as the characteristics of an ICO and the role of securities regulators and supervisors with regard to a product other than traditional negotiable securities, considered in many jurisdictions to fall outside the scope of securities market oversight and regulation.

In addition to this new approach for sharing knowledge among members, noteworthy work was performed on markets, intermediaries and securitisation. Specifically, in April IOSCO published a *Report on Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets*, which examines the situation of several jurisdictions and analyses the relationship between transparency and liquidity. The report offers regulators the opportunity to study the existing reporting requirements for these markets, as well as the gathering of information that may be compared and used across borders, particularly to assess liquidity.

With regard to intermediaries, in September IOSCO published a *Report on Retail OTC Leveraged Products*, which include rolling spot forex contracts, CFDs and binary options. The report, coordinated by several committees, offers three toolkits: i) policy measures that may be adopted to address the specific risks arising from the offer and sale of the relevant products by intermediaries; ii) ways to design investor education programmes to inform retail investors about the nature and risks of the relevant products; and iii) challenges faced by regulators when trying to make intermediaries comply with the requirements for offering these products and it describes some practices that have been effective in certain jurisdictions for mitigating the risks of companies offering these products illegally.

Finally, in the area of securitisation, in May IOSCO and the Basel Committee on Banking Supervision published the *Criteria for identifying simple, transparent and comparable short-term securitisations*, building on criteria issued previously by IOSCO in July 2015, which set out 17 criteria specifically adapted to short-term securitisations, particularly related to ABCP conduits, which are a key part of securitisation markets in some jurisdictions and can provide a significant source of funding to the economy.

9.4 Financial Stability Board (FSB)

The Financial Stability Board (FSB) is structured around the Plenary, the Steering Committee and four standing committees: Standing Committee on Assessment of Vulnerabilities (SCAV), Standing Committee on Supervisory and Regulatory Cooperation (SRC), Standing Committee on Standards Implementation (SCSI) and Standing Committee on Budget and Resources (SCBR). The FSB has also established specific working groups on priority areas such as non-bank financial intermediation, resolution and Over-The-Counter (OTC) derivatives. Finally, there are currently six FSB Regional Consultative Groups.

The CNMV participates in the FSB's work through the following committees and working groups:

– Full member of the SCSI, in which its Chairperson participates.

– Member of the following working groups:

  i) Non-Bank Financial Intermediation (NBFI).

  ii) OTC Derivatives Working Group (ODWG).

  iii) Cross-border Crisis Management Working Group for FMIs (fmiCBCM), set up as a subgroup of the Resolution Steering Group (ReSG).

In 2018, the FSB continued developing and applying the recommendations and demands of the G20 relating to the financial sector, particularly in the areas deemed a priority: strengthening the resilience of the financial sector, procedures to address global systemically important institutions, non-bank financial intermediation and OTC derivatives.

The FSB also focused its attention on new emerging risks for the international financial system, such as the implications for financial stability of cryptoassets and it continued assessing the application and effects of the financial reforms promoted by the G20.

The FSB's most important areas of action relating to stock markets in 2018 were as follows:

– Non-bank financial intermediation (previously referred to as "parallel banking" or "shadow banking") as an alternative source of financing for the real economy and which may, at the same time, contribute towards reducing systemic risks. In this regard, for the eighth consecutive year, the FSB published its Global Monitoring Report on Non-Bank Financial Intermediation 2018 at the start of 2019, in which it presents the results of its monitoring exercise that assesses global trends and risks associated with this activity. The report covers data from 29 jurisdictions which together represent over 80% of global GDP. It is worth noting the attention given to the activity of non-bank entities that engage in direct lending. The CNMV forms part of the working group that prepares this report, providing statistical data on the financial institutions supervised and evaluating possible risks to financial stability.

– Implementation of the reforms of OTC derivative markets. In 2018, the FSB published two reports in this area: one on legal barriers to reporting of OTC derivatives trading and the other on regulators' access to trade repository data.

– Systemic importance of Central Counterparties (CCPs). The obligation of centralised clearing in a CCP has significantly increased the systemic importance of these entities. In this regard, the CNMV continued its analysis of CCPs and drew up a discussion paper for public consultation on financial resources to support CCP resolution and the treatment of CCP equity in resolution. The above document was prepared by the fmiCBCM, a subgroup of the ReSG, in which the CNMV participates. Furthermore, and with the aim of complying with the FSB's recommendations on systemic CCPs, the CNMV will lead the creation of a Crisis Management Group for BME Clearing, the Spanish central counterparty.

– Continuation of the analysis of the risks associated with asset management, in particular those arising from possible mismatches of liquidity and high leverage.

– Disclosures on the risks associated with climate change. The FSB Task Force on Climate-related Financial Disclosures (TCFD) published its first Status Report, in which it analyses the level of implementation and compliance with its 2017 recommendations. This exercise will continue over 2019.

– Risks associated with the "digitalisation" of the financial sector and cybersecurity. The FSB continued in 2018 to assess the risks associated with these activities. Its initial conclusion is that, at present, cryptoassets do not pose a significant risk to financial stability, but it recommends their ongoing monitoring due to their high rate of growth. To this end, among other measures, a global directory of cryptoasset regulators,[1] which will include the CNMV, will be established.

Finally, as regards the Standing Committee on Standards Implementation (SCSI), of which the Chairperson of the CNMV is a member, its main lines of action are as follows: i) to ensure implementation of financial standards agreed by the G20 and the FSB; ii) to report to the Plenary Session of the FSB – and indirectly to the G20 – on the level of implementation of the standards in each one of the member jurisdictions; iii) undertake thematic and country peer reviews amongst its members and iv) encourage global adherence to prudential regulatory and supervisory standards approved by the FSB and drawn up by standards issuers, such as IOSCO and the Basel Committee.

In 2018, the SCSI addressed issues including the following: i) completion and publication of the Hong Kong and Singapore peer reviews, concluding the FSB's first round of jurisdiction analyses; ii) the start of the thematic peer reviews on implementation of the LEI (Legal Entity Identifier) and bank resolution planning, which will be completed in the first half of 2019; and iii) coordination of the assessment of

1 This directory was eventually established in April 2019.

the impact and effects of financial regulatory reforms in infrastructure finance and incentives to centrally clear OTC derivatives. These exercises will continue in 2019, with the completion of the assessment of regulatory reforms in small and medium-sized enterprise financing and in entities included in the "Too-big-to-fail" category, on which a report is expected to be published towards the end of 2020.

Finally, it should be noted that, in the framework of the country peer reviews, a member of the CNMV Board will lead the peer review of Mexico, which is focused on application of the reforms of OTC derivative markets.

9.5 Other international forums

The **Mediterranean Partnership of Securities Regulators** presented the different legislative proposals at its Annual Conference of presidents, held in Athens, and reported on the current state of affairs and the outlook for progress in different economies.

In the elections that take place on a biannual basis, in which the Presidency and the Vice-Presidency are rotated between members from the north and south of the Mediterranean, the Presidency will be held by the Egyptian Financial Regulatory Authority (FRA) and the positions of Vice-President and Secretary will be held by the CNMV. In 2018, Cyprus joined as a new member of the association, bringing the total to 11.

As is usual at the meetings of presidents, the different legislative proposals and activities performed as a result of the global financial reform promoted by the G20 and the FSB, the proposals and work plans for the year and other recommendations from these forums were presented.

A report was also presented on the activities performed by ESMA and the legislation adopted by the European Union on collective investment, financing information, and cooperation and information sharing relating to market abuse practices.

The agreed objective for the coming year, proposed by the southern countries, is to incorporate technology issues in the papers or seminars planned for 2019 and to hold seminars on ICOs, crowdfunding platforms, cyber security, FinTech and sandboxes, among others. Seminars have also been proposed on small and medium-sized enterprise financing through capital markets, and on monitoring sustainability-related programmes and initiatives.

In addition, the papers, activities and proposals of IOSCO were presented, with special emphasis on those suggested by southern countries with regard to technology issues, which will be the subject of the aforementioned seminars.

The **Ibero-American Institute of Securities Markets (IIMV)** organised 11 in-person training courses and actions, on cooperation and to disseminate information, in which officials from the supervisors of securities markets in Ibero-American countries participated. It also carried out two online courses on corporate governance and international financial reporting standards (IFRS) and a website on the memorandum of understanding on FinTech (initiative of the CNMV). This institute edits *Revista Iberoamericana*, a magazine that is published every four months and which includes articles on MiFID II, FinTech and other issues. As a result of the conclusions of its last board meeting held in November, the IIMV will promote an update of the studies on the limits to development of equity markets in the region.

9.6 Cooperation and information sharing with foreign authorities

In 2018 there was a new general increase in acts of cooperation and information sharing with foreign authorities, and particularly those requested by the CNMV.

The CNMV handled 158 requests for support from supervisors from other States and issued 93 requests for support from its counterparts abroad. Most of this cooperation involved, on the one hand, the submission of information relating to investigations on cross-border transactions that allegedly involved market abuse (34 requests sent and 23 received) and, on the other hand, the sharing of information aimed at verifying the suitability and good repute of regulated entities and individuals in authorisation processes (66 requests sent and 28 received).

The figures on these acts of cooperation over the last three years are set out below.

Acts of cooperation with foreign authorities TABLE 9.6.1

Request for support	2018	2017	2016
Sent	93	90	63
Received	158	106	110
Total	**251**	**196**	**173**

Source: CNMV.

III Report by the Internal Control Body

CNMV
Comisión Nacional del Mercado de Valores

Internal Audit Report Pursuant to Article 17.4 of the Recast Text of the Securities Market Act - 2018

INTERNAL CONTROL DEPARTMENT
30 April 2019

1.- INTRODUCTION

The CNMV's Internal Control Department has performed the audit relating to adaptation of the decisions adopted by the governing bodies to the procedural regulations applicable in each case, in implementation of the Audit Plan and Internal Control Actions approved by the Commission's Board in its session of 20 February 2019, thus complying with Article 17.4 of the Recast Text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October.

The work has been performed in accordance with the International Standards for the Professional Practice of Internal Auditing of the IIA (the Institute of Internal Auditors), pursuant to the Internal Audit Rules for the CNMV approved by a Resolution of the Board on 27 July 2016.

2.- AIMS AND SCOPE

The aim of the work is to verify adaptation to the procedural legislation applicable in adopting supervisory decisions by the CNMV's governing bodies in 2018.

The basic legislation applicable to CNMV procedures is as follows:

- Recast Text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October.
- Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Authorities.
- Law 40/2015, of 1 October, on the Legal Regime of the Public Sector.
- The CNMV's Internal Regulation.

It has also taken into account Resolutions on the delegation of powers of the CNMV in force in 2018.[1]

No scope limitations arose during the course of the work.

[1] Board Resolutions on delegation of 26 April 2017, 25 October 2017, 8 March 2018 and 27 September 2018.

3.- OPINION

In our opinion, having completed the audit work, it can be concluded that in 2018 the decisions adopted by the CNMV's governing bodies have met the requirements established in current legislation relating to the procedure and authority applicable in each case within the scope of the supervision entrusted to it by the Recast Text of the Securities Market Act and other legislation.

Director of the Internal Control Department
Signed: Margarita García Muñoz

IV CNMV: Organisational, financial and institutional aspects

10 CNMV Strategy

10.1 2019 Activity Plan and CNMV's strategic areas 2019-2020

On 25 February 2019, the CNMV presented its Activity Plan for the year. This plan, previously presented to the CNMV Advisory Committee for its consideration, sets out 44 targets for the year, and includes a review of the degree of completion of the commitments taken on in the previous year's plan. Specifically, it explains that 78% of the targets were achieved, in line with previous years (86% in 2017 and 82% in 2016).

Noteworthy among the targets achieved, due to their importance, were the proposal for a Technical Guide on Appointments and Remuneration Committees, the publication of criteria on cryptoassets and initial coin offerings (ICOs) and the start of publication of criteria on takeover bids. The aim is for the CNMV to enhance transparency on its operating guidelines and to facilitate compliance with regulations by supervised firms.

In addition, an app has been developed to help members of the public interested in accessing information offered on the CNMV's website through mobile devices and the CNMV has launched a channel on its website for reporting all types of infringements anonymously, if so preferred, by whistleblowers.

Those targets pending completion amount to 22% of all targets set for 2018, although they are expected to be carried out in 2019. It was only decided not to address two objectives for the following reasons.

With regard to the analysis of a proposal for legislative reform in relation to crowdfunding platforms, there is draft European legislation in progress, which means that any proposal for a reform of national legislation should be postponed. In addition, the CNMV also abandoned the objective of amending Circular 4/2008 on the content of collective investment scheme reports, which aimed to include certain aspects of the PRIIPs methodology that are pending review at a European level, as there is uncertainty about the time at which said review will be carried out.

However, the remaining nine targets pending completion are already underway and show a significant level of progress.

On the occasion of the preparation of the 2017 Activity Plan, a decision was taken to define the CNMV's strategic areas on a biannual basis (for 2017 and 2018). Following the same line, the CNMV has established the three strategic areas that will guide its activities over 2019 and 2020. These areas do not break with the previous areas, but rather move deeper the direction in which the CNMV has been progressing: supervision as a priority, promotion of the competitiveness of the Spanish market and attention to technological developments in the financial sector. The selection of these areas does not imply relegating objectives such as continuing to work in the area of financial education or paying special attention to financial stability.

Supervision as a priority

The CNMV's essential function is to promote market integrity and transparency and to protect investors' interests. It must therefore carry out resolute supervision focused on preventing and deterring inappropriate practices, particularly taking into account the principle of scepticism.

Although it has limited resources, the CNMV has room to improve the effectiveness of its supervisory activity. The aim is to make efficient use of these resources by focusing its supervisory actions on significant aspects and emphasising those which generate greater added value. An example of this can be seen in what are referred to as horizontal reviews (focused on specific areas of the activity of financial institutions that provide investment services), in which the CNMV has extensive experience and which have been intensified in recent years following international recommendations. Similarly, the CNMV plans to make greater use, where reasonable, of the option provided for by the Securities Market Act of using external experts.

In addition, the CNMV will continue to pay close attention to the quality of the financial information and significant information disseminated by listed companies.

The CNMV also intends to promote its public presence as supervisor to enhance the visibility of its market monitoring and oversight activity. To this end, the CNMV will promote the communication and publication of messages of interest for the market and investors, as well as the results of specific supervisory actions.

At the same time, supervision must be coordinated with Europe. At a time when the European Securities and Markets Authority (ESMA) has as its priority the promotion of supervisory convergence in Europe, the CNMV will take into account in its supervisory actions the approach and criteria applied by the other major securities supervisors in the European Union.

Promotion of competitiveness and strengthening of the Spanish market

The CNMV should continue contributing towards strengthening the Spanish market and promoting its competitiveness. This is particularly important in a context of high competition between financial centres and a changing environment as a result of new financial legislation and high-impact events such as Brexit.

The CNMV and Brexit

EXHIBIT 22

For the last two years, the CNMV has been working in coordination with the Ministry of Economy and Business and other national and European bodies on the possibility of the United Kingdom leaving the European Union (Brexit), even without a deal, with the aim of preserving financial stability and protecting investors and always bearing in mind the need to promote the competitiveness of the Spanish market.

This situation has important consequences both for United Kingdom-based financial institutions that have been providing services to customers in Spain prior to Brexit and for Spanish institutions providing services to customers in the United Kingdom. Similarly, there are some critical functions of the financial system (for example, related to the clearing of transactions through central counterparties or the use of credit ratings issued by rating agencies for regulatory purposes) which, given that London is one of the main global financial centres, are currently performed by UK entities.

Among other measures aimed at the possible relocation of business based in the United Kingdom, in 2017 the CNMV implemented a programme aimed at investment firms and collective investment scheme management companies under the name "Welcome Programme". Through this programme, companies are offered a single, English-speaking contact point that aims to help them understand Spanish regulation and to serve as a guide during the authorisation process and up to a further six months. All documentation can be submitted in English, without the need for translation. Numerous enquiries[1] have been received since it was implemented and multiple contacts have been maintained with financial institutions, mostly based in the United Kingdom and supervised by the competent UK authorities. In the first few months of 2019, there has been a significant increase in the requests for information received, which became more intense as the initial date set for Brexit (29 March) approached without there being any deal between the European Union and the United Kingdom that might allow an orderly withdrawal.

The European Union has been holding negotiations with the United Kingdom in order to reach an agreement to set the terms of the withdrawal and to establish the framework of its future relationship with the European Union. These negotiations resulted in the Withdrawal Agreement, which was endorsed by the European Council in November 2018. However, the UK Parliament has so far rejected this agreement.

As a result of the deep uncertainty surrounding this process, at the start of March, Royal Decree-Law 5/2019, of 1 March, adopting contingency measures to prepare for a withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union without the conclusion of the agreement provided for in Article 50 of the Treaty on European Union, was published. The measures contained in this Royal Decree-Law are temporary and are aimed at facilitating the transition towards the new situation resulting from the United Kingdom having the status of a third country.

This Royal Decree-Law will enter into force on the day on which the Treaties of the European Union cease to apply to the United Kingdom unless a withdrawal agreement concluded between the European Union and the United Kingdom has entered into force prior to that date.

On 10 April 2019, the European Council agreed on an extension up to a limit of 31 October 2019 in order to allow ratification of the Withdrawal Agreement. However, this extension will end on 31 May 2019 if the United Kingdom does not participate in the European elections that will be held between 23 and 26 May.

In this context, the CNMV has opened a new section on its website called "After Brexit: issues relating to the financial sector", which sets out information that may be useful for market participants and investors. Specifically, a list of documents of interest has been included on the possible impact and implications of Brexit and some interpretive criteria, in the form of questions and answers, for the provisions relating to the securities market and investment services contained in the aforementioned Royal Decree-Law. Furthermore, market participants may send any additional doubts relating to the interpretive criteria published to a CNMV mailbox set up for this purpose.

1 73 enquiries in total.

Firstly, the CNMV will continue promoting and making it easier for companies to obtain finance through the markets – either by issuing debt or raising capital – as an alternative to bank borrowing. To this end, it will continue supporting the adoption of measures that make the Spanish market more attractive, which include multilateral trading facilities for small-cap companies.

Secondly, the CNMV aims to continue making progress in a culture of service to market participants. For this purpose, it will continue working on speeding up its processes and simplifying, as far as possible, the necessary requirements and procedures for its authorisations. It will also work on analysing possible flexible approaches that will help new companies comply with some requirements at the initial stage of their activity.

In order for the Spanish market to be competitive it is also necessary for there to be legal certainty, which is aided by the supervisor's actions being consistent, foreseeable and easily understood by market participants. To this end, the CNMV will continue publishing technical guides and questions and answers and will continue to promote dialogue with the industry.

It is also necessary for the regulatory framework to be competitive and in line with that of other major European countries. The CNMV will therefore aim to avoid the existence of local restrictions or peculiarities that might generate competitive disadvantages or confusion among market participants. The CNMV will also aim to incorporate into Spanish markets and regulation formulas that already exist in other advanced markets and which might make them more attractive for investors.

Another key aspect in promoting the Spanish market is for the CNMV to have an open attitude and to promote quality in its supervisory function with regard to corporate transactions. The aim is to prevent unjustified delays in executing transactions, while at the same time prioritising investor protection in this field.

Finally, the CNMV will continue paying attention to new trends and, in particular, it will drive the development of best practices in corporate social responsibility and good corporate governance, as well as all aspects relating to sustainability, which are becoming increasingly important at an international level.

Attention to technology-driven market changes and new phenomena

In a context in which new technologies are leading to significant changes in the financial services industry, the CNMV must continue showing a favourable attitude to innovation and the use of new technologies, which at the same time must be cautious so as to maintain the level of investor protection regardless of the format in which investors interact with financial intermediaries.

The CNMV will adopt the necessary measures in this regard. It will also continue providing assistance through the Innovation Portal on its website and will continue to publish questions and answers in order to increase transparency.

The CNMV will address the implementation of the regulatory sandbox that is expected to be established shortly in Spain, which will involve applying a new philosophy of cooperation between supervisors and the promoters of innovative projects in a proactive manner.

In addition, the CNMV will promote RegTech/SupTech projects that might help supervised entities to comply with applicable legislation or those which contribute towards improving financial supervision processes. These projects may be based on diverse technology, such as big data, artificial intelligence or blockchain technology (DLT). Blockchain technology has already been used in the FTL Warrants project, in which various entities, market structures and the CNMV cooperated.

Furthermore, and continuing the work performed over recent years, the CNMV will encourage the operators of market infrastructures and supervised entities to take specific measures to raise standards in the area of cyber-security.

10.2 Actions by the CNMV with regard to FinTech activity

In line with the CNMV's strategy set for 2017-2018 to pay special attention to new, technology-driven market phenomena, which is maintained for 2019-2020, the CNMV strengthened its actions related to the area of FinTech in 2018. This function has been highlighted on an organisational basis by creating a specific Sub-directorate of Fintech and Cyber-security within the Department of Strategy and Institutional Relations.

The main lines of action worked on over 2018 are as follows:

Fintech Portal

As a pioneering measure in Spain, in December 2016 the CNMV set up the Fintech Portal to provide services and advice both to new promoters (many of them start-ups) and to consolidated entities in the financial sector on the application of current legislation to their innovative projects.

This portal is what in industry jargon is referred to as an innovation hub, which is one of the two fundamental types of innovation facilitators. The other basic type is the regulatory sandbox.

From the time it began operating up to 31 December 2018, a total of 258 enquiries were received with the breakdown as shown below depending on the type of associated project (classification based on what are usually referred to as "verticals"):

Enquiries received at Fintech Portal TABLE 10.2.1

Verticals	No. of requests
Crowdfunding platforms	75
Cryptoassets and blockchain	63
ICO	31
Exchanges	12
Other	20
Robo-advice	41
Client relationship	12
Technology provider	15
Other	52
Total	**258**

Source: CNMV.

The most common type of enquiry in 2017 related to crowdfunding platforms and focused on the application of Law 5/2015, of 27 April, on the promotion of business financing to specific projects. In 2018, less than half of the number of enquiries relating to this vertical were received, with those relating to blockchain technology and cryptoassets being the most numerous.

Most of these enquiries focused on issues relating to raising funds by issuing tokens (what are known as initial coin offerings or ICOs) and doubts about the platforms or structures on which cryptoassets are traded or intended to be traded. However, enquiries have also been received on the application of blockchain technology in cases of uses other than cryptoassets.

With regard to robo-advice, in 2018 a similar number of enquiries were received as in the previous year, thus maintaining their relative importance compared with the total. Similarly, the CNMV continued to receive enquiries about projects relating to digitalisation and innovation in customer relations, highlighting those relating to the on-boarding process.

On the basis of the enquiries received, in May 2018 the CNMV published questions and answers containing the main criteria that have been transmitted through the

Portal, with the aim of providing clarity to all interested parties and to be able to serve as a guide, resolve doubts and facilitate new activities.

The questions are classified into five categories. A first category of general questions, and another four categories focused on crowdfunding platforms, robo-advice, neo-banks, cryptocurrencies and ICOs.

This document is updated as often as necessary in order to incorporate new criteria to facilitate the activity of market participants.

In addition, as mentioned above, the regulatory sandbox is a supplementary step to the Fintech Portal which allows more mature projects to take an additional step forward by entering a test environment to assess their suitability. Specifically, a sandbox is a testing ground, governed by a special set of rules that were previously determined by the regulator, in which companies are allowed to test innovative products and services in a safe environment over a limited period of time.

In this regard, the Draft Bill for the Digital Transformation of the Financial System, which was submitted for public consultation in 2018,[1] jointly regulates the sandbox and innovation hubs (such as the Fintech Portal), in order to provide a comprehensive response to the implications of the digital transformation of the Spanish financial system. The aim of this Draft Bill is to establish an adequate regulation that allows the innovative process to continue effectively and safely for users and to benefit society as a whole.

For this purpose, it establishes general rules for the functioning of the sandbox, leaving details about the scope of the tests and the guarantees that ensure that the projects are tested in a safe framework to specific protocols (to be entered into between the promoters and competent authorities).

Cryptoassets

Blockchain technology has led to the appearance of different categories of cryptoassets[2] in financial markets that are attracting the attention of investors and supervisors.

Due to the lack of specific national or European legislation in this area, in 2018 the CNMV published several statements informing investors and professionals about its criteria with regard to this phenomenon.

Specifically, on 8 February 2018, the CNMV published two statements, one published jointly with the Bank of Spain,[3] warning about the risks of cryptoassets, and

1 Approved by the Council of Ministers on 22 February 2019 and pending further parliamentary processing.

2 Those known as utility tokens, which would give the right to a non-financial asset or service; currency tokens, which would function as payment units (cryptocurrencies); and security tokens, which would be considered a financial instrument.

3 Joint statement by the CNMV and the Bank of Spain on "cryptocurrencies" and "initial coin offerings" (ICOs). http://www.cnmv.es/Portal/verDoc.axd?t={6f310cc7-6b39-4405-a8f7-70d2b1e682d1}

another with considerations for professionals from the financial sector.[4] The second statement provided criteria to determine in which situations ICOs must be considered securities offerings.

In addition, on 20 September the CNMV published specific criteria for ICOs[5] in which, bearing in mind the international and, above all, European, debate, the previous criteria were adjusted and an effort made to apply the principle of proportionality, clarifying aspects such as the need to publish a prospectus in certain situations, the scope of the intervention of entities authorised to provide investment services and the possible subsequent trading of cryptoassets on trading platforms.

The CNMV, respecting the principle of technological neutrality, has acted cautiously with regard to cryptoassets in view of the risk posed by this practice of raising funds, and it is participating very actively in international debates to seek the maximum possible standardisation in response to a global phenomenon.

An example of supervisory action based on the use of new technologies (SupTech): recurring analyses of atypical yields, price comparisons and asset trading EXHIBIT 23

Remote supervision in collective investment schemes (investment funds and SICAVs and CIS) is essential for the ongoing evaluation and monitoring of the resources and controls that entities have for the management, administration, assessment and control of their risks and for detecting and preventing conflicts of interest.

Among other formulas, it is worth highlighting the analyses that the CNMV performs on a recurring basis on the daily yields of CIS that aim to identify "atypical" changes in the net asset values of the schemes based on a complex analytical process that requires the collection of a high volume of market information and the parameterisation of the confidential information sent by entities on a monthly basis. This is an example of supervisory action based on the particularly intense use of technological tools (SupTech, to use an increasingly used term at an international level).

For the purposes of these analyses, the CNMV assigns three "benchmarks" for each one of the almost 4,000 CIS currently included in its registers. The first refers to the composition of the spot (equities, bonds…) and derivatives

4 CNMV considerations on cryptocurrencies and ICOs addressed to market professionals. https://www.cnmv.es/portal/verDoc.axd?t={62395018-40eb-49bb-a71c-4afb5c966374}

5 Initial criteria that the CNMV is applying in relation to ICOs. http://cnmv.es/DocPortal/Fintech/CriteriosICOsEN.pdf

portfolio, the second is a market index (e.g., Ibex 35, Eurostoxx, S&P500...), and the third is based on the yields of schemes with the same investment policy (US, Japanese, European equity funds...). Following this assignment, the benchmark with the highest level of correlation with the performance of the CIS is selected and a regression analysis is then conducted, which makes it possible to identify "atypical" cases of significant differences between the actual daily yield of the CIS and that estimated by applying the regression model.

On an annual basis, this process allows the CNMV to identify thousands of "atypical" daily variations that represent a small percentage of the over 1.3 million net asset values of all the registered CIS. Given the great diversity of exposures to different assets and markets held by CIS, not all these variations reveal the existence of incidents or errors committed by the entities. It is therefore necessary to carry out additional analyses of the variations that will allow a more adjusted selection of net asset values with possible incidents to check with the management company.

In addition, through the automatic processing of the information submitted on the asset portfolios of the CIS, the CNMV performs comparative analyses in order to identify discrepancies in the valuations applied by entities to the same asset.

All these actions make it possible to detect incidents relating to various aspects:

– Asset valuation: errors in the quoted prices used to value equity and fixed income assets and OTC derivative instruments; outdated prices in the case of positions in other CIS; deficiencies in the procedures for estimating theoretical prices for illiquid assets or assets whose trading has been suspended; or the use of inappropriate cut-off times for the valuation of positions in other currencies.

– Incorrect accounting of transactions and incorrect allocations of expenses and fees.

– Failures to comply with regulatory legislation, including the acquisition of unsuitable instruments or exceeding the limits of diversification by issuer risk and of exposure in derivative instruments.

On a recurring basis and based on automated processes, the CNMV also identifies trading that might reveal situations of conflicts of interest:

– **Asset applications**: one/several CIS purchase a fixed-income or equity asset and another/other CIS sell it for the same or very similar amounts.

– **Purchases of structured products, fixed-income issues in which a significant percentage of the total issued volume has been invested** and public offerings of equity securities (with the aim of detecting possible conflicts of interest where an entity in the manager's group acts as placer or underwriter or is the issuer).

- Trading with shares whose **liquidity might be low** (among other objectives, in order to detect situations in which an entity in the manager's group has some type of link).

- Subscription and redemption transactions performed by CIS in other CIS managed by the same entity.

In all these cases, the CNMV verifies proper compliance with the rules on related-party transactions established in current legislation. This includes checking that the entity has a formal prior authorisation procedure which ensures that the corresponding trading is performed in the interest of both CIS and at arm's length.

The incidents sometimes detected have revealed serious deficiencies in the control resources and procedures applied by entities and in the identification of conflicts of interest (to the detriment of unit-holders/shareholders) and which have also led to the initiation of disciplinary proceedings.

RegTech/SupTech

The CNMV has established the major objective of taking advantage of different technologies to perform its authorisation and supervisory functions as efficiently as possible.

Over recent years, the institution has been using the latest information processing technologies in a variety of supervisory activities. An example of this is the periodic analyses performed on the atypical yields of investment firms, through which some incidents with supervisory importance are usually detected.

Following this line, certain objectives have been included in the CNMV's 2019 Activity Plan, such as the acquisition of a new technological tool that will facilitate the processing and analysis of large volumes of data and also a horizontal review of the non-quantitative information included in the periodic public reporting of CIS, which will be performed by using computer processes based on internally-defined algorithms.

In addition, in 2018 the CNMV analysed the possible benefits of the new blockchain technology by working on two specific projects.

Firstly, the CNMV, together with BME and a group of financial institutions that issue warrants, cooperated last year on a project called Fast Track Listing (FTL). The aim of this project is to simplify the processes and reduce the time needed for registering issues of a specific financial instrument such as warrants, chosen for the greater simplicity of their administrative authorisation process. In the proof of concept, which was successfully performed in mid-2018, it was verified that the use of blockchain technology can improve efficiency in time and resources, increase security and enhance process traceability. The CNMV plans to complete this project over 2019 and will analyse the possibility of also implementing it in the case of issues other than warrants.

Secondly, the CNMV is cooperating in a project coordinated by the European Commission called the European Financial Transparency Gateway (EFTG), which aims to offer a single point of access to information on securities issues and their issuers supported by blockchain technology.

In-house training

In 2018, the CNMV made significant efforts in training to ensure that its employees have a basic knowledge of the different technologies that are being used in the financial sector. In this regard, a specific training programme on blockchain technology was organised that was given to approximately half of all employees.

Training on these issues will be significantly intensified in 2019 and, in addition, the CNMV will promote awareness raising and training on issues relating to cybersecurity.

10.3 Advisory activity on draft legislation and other requests for information

As provided for in Article 17.3 of the Securities Market Act, the CNMV advises the government and the Ministry of Economy and Business and, as the case may be, the equivalent bodies of the autonomous regions, on matters relating to securities markets.

As part of this advisory work, in 2018 the CNMV actively cooperated on various pieces of draft legislation. In particular, significant work was performed relating to the incorporation into Spanish law of the new regulatory framework on markets in financial instruments based on MiFID II and MiFIR, which came into force on 3 January 2018. The magnitude of the changes necessary to incorporate the MiFID II regulatory package, as well as various aspects relating to other European legislation, such as that relating to market abuse, indices used as benchmarks in financial instruments and key information documents for packaged retail and insurance-based investment products, made it necessary to undertake a comprehensive reform of the Securities Market Act, which was materialised in the preparation of the **Draft Bill on the Securities Market and on Financial Instruments.**

However, the deadline for the transposition of MiFID II expired without it being feasible to complete the processing of the draft bill and it was therefore necessary to complete the transposition as quickly as possible. This led to postponement of the aforementioned Draft Bill and the fast-track approval of **Royal Decree-Law 14/2018, of 28 September, amending the recast text of the Securities Market Act and Royal Decree 1464/2018, of 21 December, implementing the recast text of the Securities Market Act.** As in the above case, the CNMV cooperated actively with the General Secretariat of the Treasury and International Financing during the processing of both pieces of legislation, which has led to the final stage of transposition of MiFID II into Spanish law.

Amendment to the recast text of the Securities Market Act: transposition of MiFID II

EXHIBIT 24

The new regulatory framework on markets in financial instruments based on MiFID II[1] and MiFIR[2] began to apply as from 3 January 2018.

This new regulatory package aims to ensure high levels of investor protection and to improve the organisational structure and corporate governance of investment firms, as well as to increase the security, efficiency, proper functioning and stability of securities markets.

MiFID II brings about a substantial modification of the functioning of the European Union's markets and trading venues, not so much because of the objectives pursued (which are essentially the same as those which inspired and guided MiFID I),[3] but because of the scale of the operational changes required to comply with the transparency obligations and mandatory trading in training venues.

In view of the failure to transpose EU legislation in time, and in order to provide market participants with the necessary legal guarantees to operate in accordance with the new legislation in a single market environment, in December 2017, the Council of Ministers approved **Royal Decree-Law 21/2017,[4] of 29 December, on urgent measures to adapt Spanish law to European Union legislation on the securities market,** which transposed MiFID II to Spanish law in all matters relating to trading venues (regulated markets, multilateral trading facilities and organised trading facilities). At the same time, on 2 January 2018, the CNMV published a statement highlighting that, in regard to the areas not addressed in this Royal Decree-Law, other parts of MiFID II and MiFIR were also directly applicable as from 3 January.

In 2018, the CNMV continued to actively cooperate with the General Secretariat of the Treasury and International Financing, with the aim of transposing into Spanish law the precepts of MiFID II that had yet to be implemented following publication of the Royal Decree-Law of December.

On 28 September, the Council of Ministers approved **Royal Decree-Law 14/2018,[5] of 28 September, amending the recast text of the Securities Market Act,** approved by Royal Legislative Decree 4/2015, of 23 October, thus moving forward in the transposition of MiFID II. This Royal Decree-Law continued with the work of streamlining and technical enhancement that had already begun with Royal Decree-Law 21/2017. Both instruments reduce the content of the recast text of the Securities Market Act to the minimum necessary content that must be included in legally binding rules.

Following this line, on 21 December, **Royal Decree 1464/2018,[6] implementing the recast text of the Securities Market Act,** was approved. Although approval of Royal Decree-Law 21/2017, of 29 December, and of Royal Decree-Law 14/2018, of 28 September, incorporated a large part of the MiFID II regulatory package into Spanish law, it was necessary to complete its transposition through regulatory implementation. This Royal Decree-Law aims to finalise this incorporation and complete the regulatory implementation of the legal regime, by strengthening its principles.

Finally, the Ninth Final Provision of **Royal Decree-Law 19/2018,**[7] **of 23 November, on payment services and other urgent financial measures,** also included the modification of certain articles of the recast text of the Securities Market Act. The aim was to adapt the Securities Market Act to a set of European legislation that had yet to be incorporated into Spanish law, including Regulation (EU) No. 2016/1011 of the European Parliament and of the Council, of 8 June 2016, on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds; Regulation (EU) No. 596/2014 of the European Parliament and of the Council, of 16 April 2014, on market abuse; Regulation (EU) No. 1286/2014 of the European Parliament and of the Council, of 26 November 2014, on key information documents for packaged retail and insurance-based investment products; and Regulation (EU) 2015/2365 of the European Parliament and of the Council, of 25 November 2015, on transparency of securities financing transactions and of reuse.

In general, all these legislative amendments have made it possible to substantially strengthen investor protection by increasing and further specifying the level of requirements and obligations relating to the information to be provided to the client and the level of control required in any circumstance affecting conflicts of interest of investment firms.

The legislation also grants new supervisory powers to the CNMV and specifies the obligations for cooperation between these bodies, the national supervisory authorities of the European Union and the European Securities and Markets Authority (ESMA).

Therefore, the process of adapting the Securities Market Act and its basic implementing legislation both to MiFID II and to other European provisions yet to be incorporated was completed in four stages over 2018.

1 Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments.
2 Regulation (EU) No. 600/2014 of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments.
3 Directive 2004/39/EC of the European Parliament and of the Council, of 21 April 2004, on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council, and repealing Council Directive 93/22/EEC.
4 https://www.boe.es/buscar/doc.php?id=BOE-A-2017-15837
5 https://www.boe.es/diario_boe/txt.php?id=BOE-A-2018-13180
6 https://www.boe.es/buscar/doc.php?id=BOE-A-2018-17879
7 https://www.boe.es/diario_boe/txt.php?id=BOE-A-2018-16036

Another important piece of legislation in which the CNMV participated during its processing is **Royal Decree-Law 19/2018, of 23 November, on payment services and other urgent financial measures.** This Royal Decree-Law includes, among other aspects, the amendment of certain articles of the recast text of the Securities Market Act, with the aim of adapting it to various recent European regulations whose entry into force and effective application had already taken place, such as, for example, the Market Abuse Regulation and the Benchmarks Regulation.

In addition, **Royal Decree-Law 22/2018, of 14 December, establishing macroprudential tools** granted additional powers to the Bank of Spain, the CNMV and the Directorate General for Insurance and Pension Funds to address possible risks to the Spanish financial system from a macroprudential perspective. In order to move forward in proper supervision of these risks, the government has approved, in 2019, **Royal Decree 102/2019, of 1 March, creating the Macroprudential Authority Financial Stability Board**, establishing its legal regime and implementing certain aspects relating to macroprudential tools.

In addition to the above, comments have been analysed and submitted in relation to other draft legislation that has not yet been approved but which is expected to come into force in 2019. These include the aforementioned project for **establishing a regulatory sandbox** to facilitate innovation in financial services and implementation of a **financial transaction tax**, as well as that related to other significant aspects of European Union law which begin to apply, or whose deadline for incorporation into domestic law falls in 2019, which includes the **Shareholder Rights Directive,**[6] the **Securitisation Regulation,**[7] and the new **Prospectus Regulation.**[8]

Similarly, the CNMV has cooperated with the General Secretariat of the Treasury and International Financing on a **Draft Regulation relating to promoting the use of SME growth markets**, which would amend certain aspects of the Market Abuse Regulation and the new Prospectus Regulation, with the aim of developing a proportionate regulatory framework that will facilitate the access of small and medium-sized enterprises to financing.

In addition, in 2018 over 100 requests for information were received from the Ministry of Economy and Business, of which approximately one third corresponded to parliamentary initiatives and questions on various issues relating to the functions performed by the CNMV.

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6 Directive (EU) 2017/828 of the European Parliament and of the Council, of 17 May 2017, amending Directive 2007/36/EC as regards the promotion of long-term shareholder engagement.

7 Regulation (EU) 2017/2402 of the European Parliament and of the Council, of 12 December 2017, laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU, and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012.

8 Regulation (EU) 2017/1129 of the European Parliament and of the Council, of 14 June 2017, on the prospectus to be published when securities are offered to the public or admitted to trading, and repealing Directive 2003/71/EC.

10.4 Key Performance Indicators of the CNMV

The desire to offer the highest possible quality in the service provided both to investors and to market participants is one of the principles that have guided the actions of the CNMV. In this regard, the objectives set for 2018 in the area of improving the institution's functioning included defining a series of Key Performance Indicators (KPIs) in order to assess the CNMV's activity and performance and to periodically compare the results obtained with the objectives set, which allows the institution to improve the efficiency of its processes.

In 2018, the CNMV worked on defining a first set of performance indicators, which are shown below, together with a series of data that reflect the level of the institution's activity.

In successive years, the CNMV will continue to work on developing its performance and activity indicators and other new ones that will serve to evaluate and improve the institution's performance.

Performance indicators

TABLE 10.4.1

Areas	Indicator
Authorisation and registration of IFs	**105 proceedings**
Average total time period[1]	1.2 months[2]
Authorisation of service providers (CIS management companies, collective investment undertaking management companies, investment firms and crowdfunding platforms)	**48 proceedings**
Average time from last documentation[3]	0.8 months[4]
Total average time period from the initial application[5]	8 months
Corresponding:	
To the promoter	3.1 months
To the CNMV	3.8 months
To report procedures of other authorities	1.2 months
Fixed income issues for wholesale investors	**256 proceedings**
Percentage processed in the agreed period[6]	96.9
Percentage of communications on directors, treasury stock and significant shareholders received late[7]	17.5
Complaints by investors	**1,018**
Percentage of complaints concluded in the year with regard to those filed that year and outstanding from the previous year	84.2
Average time to resolve complaints	75 days
Investor enquiries	**10,772**
Average time for responding to enquiries	21 days
Disciplinary proceedings	
Average time to process disciplinary proceedings	180 calendar days
Average time in processing requests for cooperation with the courts:	
Submission to competent D.G.	4 calendar days
Final submission to the court	15 calendar days
Request for international cooperation	**251**
Average response time	40 days

Source: CNMV. (1) The maximum legal period is two months following receipt of the application or from the time when the required documentation is completed. (2) The figure shown is the total period from the initial application, although it is common in the vast majority of cases for it to be necessary to provide additional documentation to that initially provided. (3) Depending on the type of entity, the maximum legal period is 3 or 6 months from the request or from the time when the required documentation is completed. (4) The figure shown is the period elapsed from the time when the documentation is completed to the date the proceedings are resolved. (5) The breakdown reflects the time periods taken by the promoter to complete the documentation required by the CNMV for its analysis and for obtaining the mandatory reports (from other supervisors or SEPBLAC). (6) Essentially includes three stages: 3 days from receipt of the application in order to submit the first comments, 2 days for sending comments relating to the modifications resulting from the first comments, where appropriate, and 3 days for admission of the securities from when the information is complete. In any event, given the usual nature of the operations, most of them do not require comments and hence they are fully completed in 3 days or less. (7) It is the CNMV's aim to act in order to reduce this delay period.

Activity indicators

TABLE 10.4.2

Areas	Indicator
Collective investment schemes – Venture capital undertakings	
Number of deficiency letters	
For late filing of information	511
Requests for information	121
Corrective measures or recommendations	610
Other notifications	79
Number of actions (including inspections)	218 (of which 14 are inspections)
Investment firms/credit institutions	
Number of deficiency letters	
For late filing of information	161
Requests for information	437
Corrective measures or recommendations	120
Other notifications	147
Number of actions (including inspections)	300 (of which 12 are inspections)
Financial and accounting information	
Percentage of corrective actions (additional breakdowns, correction in future years, restatements or reformulations) over the number of annual financial reports subject to a substantive review (on an overall basis)	38.5
Infringements	
Number of notifications of possible infringements (notifications that may be anonymous)	525[1]
Including factual elements that may constitute possible infringements	316
Without sufficient factual elements	209
Disciplinary proceedings	
Number of disciplinary proceedings:	
Initiated	21
Concluded	23
Fines	39
Periodic publications	**14**
Annual Report	1
Quarterly Bulletin	4
Financial Stability Note	4
Annual report on complaints and enquiries	1
Annual Corporate Governance Report (ACGR)	1
Annual accounts supervision report	1
Annual Directors' Remuneration Report (ADRR)	1
Activities Plan	1
Descriptive or research articles on matters of interest to the CNMV	**12**
Contents in the Quarterly Bulletin	11
Working Papers	1
Seminars	**13**
Internal	4
Open	9

Activity indicators (*continuation*)

TABLE 10.4.2

Areas	Indicator
Statistical publications	
Primary market statistics	4
Statistics on commercial paper placements registered with the CNMV	4
Statistics on economic and financial information relating to asset-backed securities	4
Statistics on asset-backed securities	12
Statistics on collective investment schemes	4
Statistics on investment firms	12
Statistics on corporate governance of listed companies	1
Statistics on remuneration of directors of listed companies	1
Statistical annex of the Quarterly Bulletin	4
Statistical annex of the Annual Report	1
Updated public series	30,558
Institutional relations	
Number of requests from the Ministry of Economy processed: parliamentary initiatives and questions, internal approvals, other reports	116
Number of pieces of draft legislation in which advice has been given in compliance with the function set out in Article 17.3 of the Securities Market Act	16
Number of public interventions or appearances	66
President	44
Vice-President	20
Board Members	2
Number of enquiries received through the Fintech Portal	128
Number of reports submitted to the Advisory Committee for assessment	25
Financial education	
Financial Education Programme in schools	
Number of schools that teach it	762
Number of teachers	885
Number of students	26,772
Financial Education Programme Partner Network: number of partnership agreements entered into	33
Financial Education Day: number of events and activities performed and coordinated for that day	129
Publications on the Internet and social networks	
Posts	35
Facebook	50
Twitter	167
Investor Section	8
Number of emails	72,000
General Register	
Incoming	145,825
Register of incoming paper documents	14,632
Register of incoming electronic documents	130,614
Electronic registrations received by the SIR registered exchange system	579

Activity indicators (*continuation*)

TABLE 10.4.2

Areas	Indicator
Outgoing	163,180
Register of outgoing paper documents	24,157
Register of outgoing electronic documents	139,023
Finances	
Number of fee settlements issued	23,133
Number of supplier invoices	2,392
International activity	
Number of international collaborative actions	251
Sent	93
Received	158
Number of technicians attending international meetings	91
Attendance at international meetings	401
ESMA	212
IOSCO	52
European Union	57
Schools	12
Other forums	68
Staff attending courses	27

Source: CNMV. (1) This figure does not include those communications that are an improper use of the channel, specifically 41 communications that were actually complaints, 104 that were enquiries and 34 that did not fall within the scope of the CNMV's powers.

11 Organisation

11.1 Human resources and organisation

Changes in workforce and staff selection processes

At the end of 2018, the CNMV had 446 employees (the highest figure of the last 5 years). There were 45 new hires and 21 departures during the year. Tables 11.1.1 and 11.1.2 show the distribution of CNMV staff by professional category and by department.

CNMV staff: composition by professional category TABLE 11.1.1

Number of employees at the end of each year

	2017			2018		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Services	8	8	-	8	8	-
Clerical staff / Computer operators	62	12	50	59	11	48
Technical staff	327	148	179	354	165	189
Management	25	17	8	25	17	8
Total	**422**	**185**	**237**	**446**	**201**	**245**

Source: CNMV.

As a result of the 2017 Public Employment Offer, which was authorised to cover a total of 40 positions, 2 selection processes were undertaken in the first half of the year in order to cover 33 vacancies for technical staff for several CNMV directorates and departments, and 3 vacancies in the Information Systems Department. The selected candidates joined the CNMV in the last quarter of 2018. With the aim of promoting and facilitating internal mobility, the aforementioned positions were previously offered within the organisation.

In addition, as part of this Public Employment Offer, three selection processes were initiated in the second half of the year to cover technical staff positions in different departments: one position for the Financial and Corporate Reports Department, one position for Internal Control-General Secretariat and two positions for Human Resources-General Secretariat. Both the selection processes and the entry of the new staff will take place over 2019.

In the second quarter of the year, authorisation was given to cover two technical staff positions, on an interim basis until the vacancies are definitively filled, in order to provide services in the Human Resources Sub-directorate. The selected candidates joined the CNMV in the last quarter of 2018.

In addition, in 2018 authorisation was given to cover two technical staff positions in the Human Resources Sub-directorate with staff from public departments or bodies from the state public sector to which the CNMV belongs. The selection process and the entry of the new staff was completed in the first quarter of 2019.

A selection process was also started in the last quarter of 2018 to cover two temporary staff positions to perform research projects in the Research and Statistics Department. The selection process was completed in the first quarter of 2019 and the candidates will join the CNMV in the second quarter.

Breakdown of staff by department TABLE 11.1.2

Number of employees at the end of each year

	2017			2018		
	Total	**Men**	**Women**	**Total**	**Men**	**Women**
Directorates-General	327	139	188	348	139	188
Entities	120	50	70	130	57	73
Markets	110	51	59	122	57	65
Legal Affairs	50	20	30	44	18	26
Strategic Policy and International Affairs	47	18	29	52	21	31
Departments	78	42	36	86	45	41
Chair, Vice-Chair and Board	17	4	13	12	3	9
Total	**422**	**185**	**237**	**446**	**201**	**245**

Source: CNMV.

Training

The initiatives implemented by the CNMV in 2018 in the context of its training programme include the following:

– Technical training actions, developed and given in cooperation with different specialised schools and training centres. A total of 5,083 training hours were given (57% of total training given), which were attended by 63% of the staff.

– Technical training actions taught internally, with participation from 60% of the workforce. A total of 2,727 hours were taught.

– International training actions, planned and given by ESMA, were attended by 16 CNMV employees.

In 2018, the training programme comprised a total of 61 training actions and 8,857 training hours. Each employee received, on average, 21 training hours, and 81% of the workforce participated in at least one of the planned training actions.

Furthermore, work on the ESMA technical training programme provided through e-learning continued, in which 19 CNMV employees participated.

As in previous years, a new edition of the Language Programme was implemented, with participation by 48% of the workforce. The participants received a total of 10,507 training hours, an average of 25 hours per student. As part of this programme, and with the aim of perfecting the language (English, French or German), the possibility of attending a summer course abroad was offered, both in Spain and in a native environment. In total, 8% of staff participated in the summer programme, with over 1,300 hours of training performed.

Other significant human resources initiatives

The number of employees that participated in the telework programme in 2018 stood at 86.

In addition, three editions of the internal magazine *Entre Nosotr@s* were published in 2018 to publicise information on human resources to CNMV employees.

In the last quarter of the year, the Seventh CNMV Drawing Competition took place under the theme of “Christmas”. A total of 119 children of employees, aged between 3 and 14, participated in this new edition. The results were published to employees in December and the awards were handed out.

New organisational developments

– On 30 April 2018, the appointment of Juan Manuel Santos-Suárez Márquez as a member of the CNMV Board was renewed under Order EIC/444/2018.

– On 24 August, María Dolores Beato Blanco was appointed as a member of the CNMV Board under Order ECE/898/2018.

– Following union elections and the creation of a new works council in 2018, a collective bargaining agreement is currently being negotiated.

11.2 Information systems

Introduction

The CNMV’s information systems are generally structured by taking into account the functions and the sets of information that they manage into the following five subsystems: primary market registration and supervision, secondary market supervision, entity registration, entity supervision and horizontal subsystem. The horizontal subsystem covers services such as: internal management, legal services, electronic administration, document management, statistical series, project monitoring, information dissemination and external services.

IT developments that are carried out within the aforementioned subsystems currently arise as a result of legislative amendments, technology and security renewals, improvements in monitoring and control systems and the need for new functionalities.

Information is essentially disseminated through the CNMV's website, which allows consultations of all public registers, statements and press releases, Spanish and Community legislation relating to securities markets and information on the CNMV itself and a special section for investors.

The most requested information is that relating to the price sensitive information of issuers, which is disseminated both in real time through the web and by e-mail (the information received can be personalised by type of price sensitive information or specific entity).

IT infrastructure

The infrastructure of the CNMV's information systems, with regard to the physical and logical elements that support it, is configured on local area networks, with general database servers, file and application servers, SAN storage servers and servers specialised by services: web, intranet, firewall, email, File Transfer Protocol (FTP), image storage, office IT, printing, active directory, etc.

All logical elements used in the infrastructures, both central and workplace, are standard products in the market.

This infrastructure ensures flexibility and the ability to adapt to the needs of each moment as they may be quickly purchased and installed. It also guarantees, by means of redundancy, the continuity of basic and critical services, both internal (corporate applications) and external (website, virtual office or dissemination of official registers).

There are four types of external connections available: connection between offices and alternative centre, connection between supervised markets, lines of connection to the Internet and connection with professional disseminators.

Systems development

Applications are always developed and implemented under the direction of the staff of the CNMV's Information Systems Department. External support takes the form of the availability of a group of external programmers, under a service agreement, and the contracting of closed applications.

All projects conform to the successive stages of their life cycle: i) identification of needs, ii) definition of requirements, iii) planning of alternatives, iv) functional design, v) technical design, vi) construction and vii) testing and implementation. The user of the system must actively participate in the first two and the last two stages.

In order to manage the processes, there is a specific monitoring tool for the different projects and an incident management tool.

The most significant applications of the five subsystems are: i) primary market registration and supervision (management of issuance and admission prospectuses, management of takeover bids and monitoring of commercial paper placements); ii) secondary market supervision (management of price sensitive information, advanced secondary market monitoring system, online market supervision, market suspensions and de-listings, management of settlement information, and receipt and processing of transaction reporting; iii) entity registration (entity files and register management); iv) entity supervision (receipt and processing of periodic statements, periodic public reports of CIS and management of supervisory tasks); v) horizontal subsystem (general incoming/outgoing document register, fee management, disciplinary proceedings, management of claims, complaints and enquiries).

Electronic administration

From its beginnings, the CNMV has been committed to electronic administration, one of the essential pillars of which is the receipt of information in electronic form. For this reason, in 1998 the CNMV was the first Spanish government body to implement electronic signatures in the receipt of documents.

Information enters the CNMV's systems through various **channels**: i) incoming document register: the vast majority of the information is received in the electronic register, and that which is received on paper is scanned and sent to the different departments on magnetic media; ii) information on securities markets: online information, for real-time supervision of markets and electronic systems through communication monitors that manage the online flow, and information consolidated at the end of the day received in the files designed for this purpose; iii) settlement information: received daily in the corresponding files; iv) information from other regulators; and v) other information.

It may be concluded that over 95% of the information currently received by the CNMV is in electronic format, which greatly facilitates its storage and automatic processing.

The CNMV's **virtual office**[1] is available to every natural and legal person in order to interact electronically with this body and to be able to use its incoming document register through this channel (with the possibility of signing the information to be sent). The office is structured into four sections aimed at different groups:

i) *Cifradoc* area. Supervised entities can send information on more than 60 procedures for which the CNMV requires them to provide information (financial statements, CIS prospectuses, transactions performed, etc.). All submissions of information must be signed electronically by the person or persons (if more than one signature is required) authorised by the CNMV for that specific procedure. A legal person representative certificate is normally used for the signature. The CNMV is a registration office of the FNMT (The Spanish Mint and Stamp Factory) and therefore issues this type of certificate.

ii) Open area. For natural persons. The following procedures may be carried out: administrative appeals; individual claims, complaints and queries; applications to participate in staff selection processes; complementary document to proceedings in progress; response to a request; notification of significant shareholdings, of directors and other standard forms of listed companies; auditor's report on the protection of assets of investment firms and financial institutions; notification of the transactions of persons discharging managerial

1 https://sede.cnmv.gob.es/SedeCNMV/SedeElectronica.aspx?lang=en

responsibilities and persons closely associated with them; notification of abusive practices and suspicious orders or transactions; complaints and suggestions regarding the service of the virtual office; and any document, request or communication addressed to the CNMV. All procedures require an electronic signature with natural person, national identity card or legal person representative certificate.

iii) Investor area. Allows the submission of claims, complaints and enquiries. Electronic certificate identification with @*clave* or with username and password may be used.

iv) Special communications and notifications. For communications and notifications in which, due to their special characteristics, it is not possible to use electronic certificates.

For some types of procedures with large volumes of data, the information is received via FTP on a secure server and must also arrive signed. This system allows the automation of the sending of information, although the signature has to be made by people by their own means.

Each procedure performed through any of the virtual office sections has its corresponding entry number in the electronic register and acknowledgement of receipt – sent to the e-mail address indicated by the user.

Annual activity

MiFID II significantly extended the information that regulators must receive from participants in securities markets regarding the transactions they perform.

This increase in the volume of information to be received made it necessary for the CNMV to undertake a project to extend the available space in its systems. This project began in 2017 and ended in 2018 with the installation of new storage subsystems, extension of the SAN network and the new systems of backup, auxiliary elements and connected services, in order to provide the CNMV's IT systems with greater capacity, user-friendliness and processing speed.

The installation that covers the corporate Wi-Fi network was fully modernised in order to extend its connection capacity and its features. New equipment was installed in the main building, at the Barcelona office and in the facilities that the CNMV has available at its alternative centre. The capacity of the connection line was also extended in order to obtain a higher transmission speed. The Wi-Fi system currently has two differentiated environments: one for CNMV staff and another available for people who access the buildings on a temporary basis.

The CNMV continues to renew obsolete applications and develop other new applications to support the published rules and processes necessary to comply with the functions entrusted to it.

The **modules** and **applications** developed during the year include the following:

i) Development and implementation of functionalities related to the international projects driven by ESMA for the implementation of MiFID II, mainly the

FIRDS (Financial Instruments Reference Data System) project and the TR (Transaction Reporting) project. The following functionalities were developed in the FIRDS project: receipt, control and storage of the data received from the different markets and trading venues; internal management of control of the information received and verification of its quality; sending of information to ESMA; and daily downloading of the consolidated information provided by ESMA to be used in the TR. The TR project already existed prior to the entry into force of MiFID II, but the modifications introduced by this Directive have been so far-reaching that the project had to be restarted almost from scratch. One of the new aspects introduced has been the obligation for every country to use the same file schema to receive and send transactions, as well as the large number of validations to be performed before admitting the information received. The main functionalities developed over 2018 were: the internal management of the control of the information received and the verification of its quality; the sending of transactions to the different authorities of the Member States of the European Union through ESMA; and the receipt from ESMA of the information provided by regulators from other Member States.

ii) New version of the CIS prospectus. The new European and Spanish legislation has modified the content of the CIS prospectus, which has been received electronically for over 10 years. Consequently, a series of modifications has been made affecting the following processes: the application made available to managers and CIS for generating the file to be sent; the validation and incorporation of the prospectus' data; the generation of the final prospectus document; the process of verification of the changes in the different versions of the prospectus; and the *ex officio* generation of the prospectus due to changes in the registrations of the entities.

iii) New system for managing the investment firm register. As a result of the technological renewal, the register management application has been replaced by a completely new one which, in addition to the previous functionalities, incorporates new functionalities and improves the user interface for greater ease of use.

iv) Processing of the information received from BME Clearing. In 2018, this entity began to send the CNMV information on its activity, which entails the receipt, validation and incorporation of the information received and management of the enquiries on such information.

v) Infringement reporting service. Any person who is aware of actual or potential infringements relating to the organisation and discipline of securities markets, and who wishes to report it confidentially, may contact the CNMV. In order to manage this information, the CNMV has carried out the following processes: a website to gather the information, a process for downloading recorded telephone communications and an internal management application.

vi) New procedures in the virtual office to comply with European legislation to make it possible to send derivative asset position reports, requests for waivers from position limits and notifications of transactions of persons discharging managerial responsibilities and persons closely associated with them.

The electronic channel continues to take over from paper in the CNMV's **registers of incoming and outgoing documents**. As shown in Table 11.2.1, the electronic channel was used for 90% of the documents received and 85% of the documents sent. A significant volume of the incoming and outgoing documents on paper correspond to claims, complaints and enquiries submitted by natural persons, who are not required to submit them electronically. When a person submits documentation on paper for a claim, enquiry or complaint, the CNMV also replies on paper.

Incoming and outgoing documents at the CNMV TABLE 11.2.1

	2017		2018	
	Number	**%**	**Number**	**%**
Incoming				
Total	**136,913**	**100**	**145,825**	**100**
Electronic	119,180	87	130,612	90
On paper	17,733	13	15,213	10
Outgoing				
Total	**146,550**	**100**	**163,180**	**100**
Electronic	123,438	84	138,722	85
On paper	23,112	16	24,458	15

Source: CNMV.

12 Finances

The bulk of the funding of the CNMV comes from the fees collected from supervised entities in accordance with the items and tariffs established in Law 16/2014, of 30 September, regulating CNMV fees. The income from fees increased by 2.9% in 2018, mainly as a result of the increase in fees from the authorisation and registration of entities and from the supervision of foreign UCITS. To a lesser extent, ordinary expenses also increased, with a rise in their largest component: staff costs. The CNMV generated a surplus of 21.0 million euros, an increase of 1.1% on the previous year.

12.1 Revenue and expenses

In 2018, the CNMV obtained 65.3 million euros in revenue and incurred 44.3 million euros in expenses. Therefore, the surplus for the year amounted to 21.0 million euros.

The surplus for ordinary activities amounted to 19.4 million euros. Ordinary revenue, which mostly came from fees received, amounted to 63.4 million euros, 2.6% up on 2017.

Ordinary expenses amounted to 43.9 million euros, 2.9% up on the previous year. Those corresponding to staff costs, which accounted for 70.5% of ordinary expenses, grew by 4.0% largely as a result of the increase in remuneration established in Law 6/2018, of 3 July, on the General State Budget for 2018 and the addition of new staff to the CNMV in accordance with the approved public employment offer.

Other ordinary expenses grew by 0.3% on 2017. This increase was concentrated in the headings of transfers and grants given, taxes and depreciation/amortisation and was partially offset by the decline in the item of external supplies and services.

Transfers and grants given grew by 7.2% as a result of the increase in the annual payment the CNMV is required to make as a member of ESMA, while taxes – which mainly includes the amount corresponding to property tax on the CNMV headquarters – rose by 5.4%. The depreciation/amortisation expense rose by 2.0% as a result of the increase in the depreciable value of property, plant and equipment (computer hardware, following the acquisition of new data storage devices). The item of external supplies and services, which amounted to 8.3 million euros, recorded a decrease of 1.8%.

The profit from financial operations amounted to 1.5 million euros.

On 24 August 2018, the government, upon a proposal from the CNMV, agreed to distribute the profit obtained in 2017, with revenue to the Public Treasury of 20,741,431.70 euros.

12.2 Fee structure

As shown in Table 12.2.1, which shows the different types of fees established for the different services provided by CNMV, fee revenue increased in 2018 by 2.9% on the previous year.

This increase can mainly be explained by the increase in fees from the authorisation and registration of entities (22.3%) and from the supervision of foreign UCITS (19.7%).

CNMV fee revenues

TABLE 12.2.1

Activity or service	2017	2018	% change 18/17
Registration of prospectuses and market participants	**9,274.4**	**9,531.3**	**2.8**
Prospectus registration	4,365.5	3,334.5	-23.6
Issue prospectuses	309.6	273.9	-11.5
Listing prospectuses	4,056.0	3,060.7	-24.5
Securitisation funds and bank asset funds	74.1	31.2	-57.9
Authorisation and registration of entities	4,267.2	5,217.2	22.3
Authorisation of takeover bids	567.6	948.4	67.1
Market supervision	**20,921.5**	**21,031.2**	**0.5**
Stock market and MTF members	7,896.9	6,954.7	-11.9
MEFF members	152.2	161.4	6.0
Sociedad de Sistemas members	4,992.9	4,823.9	-3.4
CCP clearing members	255.6	1,698.4	564.5
Market governing companies	1,434.2	1,441.4	0.5
Listed issuers	6,189.8	5,951.4	-3.9
Market participant supervision	**30,063.0**	**31,472.3**	**4.7**
CIS solvency supervision	12,808.5	12,804.8	0.0
Solvency supervision of CIS and securitisation fund management companies	142.2	157.5	10.7
CIS management companies	126.2	142.5	12.9
Securitisation fund management companies	16.0	15.0	-6.5
Investment firm solvency supervision	492.2	491.7	-0.1
Venture capital solvency supervision	447.0	464.6	3.9
Management companies of closed-ended collective investment entities	83.8	89.8	7.1
Close-ended collective investment entities	363.1	374.8	3.2
Supervision of CIS and venture capital vehicle depositories	2,977.7	3,041.8	2.2
Supervision of conduct of business rules of investment firms, credit institutions and CIS management companies	8,782.4	9,229.5	5.1
Marketing foreign UCITS	4,413.0	5,282.3	19.7
Issuance of certificates	**25.2**	**21.0**	**-16.5**
Total	**60,284.1**	**62,055.9**	**2.9**

Source: CNMV.

13 National Securities Numbering Agency

The CNMV discharges the functions of the Spanish National Securities Numbering Agency (Spanish acronym: ANCV), whose main goal is to assign and administer International Securities Identification Numbers (ISIN)[1] and Classification of Financial Instruments (CFI)[2] codes to facilitate their dissemination and use among users. It is also responsible for assigning the Financial Instrument Short Name (FISN).[3] In Spain, the ISIN code is used as the primary identifier in securities trading, clearing and settlement. In its role as ANCV, the CNMV is a founder and full member of the Association of National Numbering Agencies (ANNA), which at 2018 year-end had a total of 91 full member countries and 24 associates.

As part of its international activity, the ANCV actively participates in various international working groups and management bodies relating to its activity, such as WG2: ISIN Quality and Guidelines, which belongs to ANNA. This group comprises representatives from several national agencies and is responsible for drawing up uniform rules and criteria for ISIN allocation worldwide, as well as for CFI and FISN codes. As a consequence of the ISIN-LEI project, which is being performed under an agreement between ANNA and GLEIF, the ANCV also participated in the recent WG6, which has been entrusted with the task of establishing criteria and resolving any incidents that might arise in the linking of an issuer's ISIN with its LEI code. The ANCV also contributes towards developing and reviewing ISO standards, such as those mentioned above, which is carried out through Technical Subcommittee 8 (SC8).[4]

With regard to the key figures of the ANCV's activities, the number of securities and financial instruments assigned an ISIN in 2018 totalled 50,869, a significant increase on 2017 (see Table 13.1.1). This increase is the result of increased requests for ISINs by the industry as a consequence of the FIRDS[5] reporting obligations for derivatives. In July 2017, ISINs started to be assigned to options and futures from the first order received on the instrument, which has generated an increase mainly as a result of the activity of market makers.

Numbers issued for equity instruments grew by 20.68% as a result of a rise in numbers assigned to collective investment schemes and venture capital entities. Numbers assigned to fixed-income instruments fell by 3.97%, while the numbers assigned to public debt issues fell by 38.55% on the previous year. Numbers assigned to new

1 International Securities Identification Number: ISO standard 6166.
2 Classification of Financial Instruments: ISO standard 10962.
3 Financial Instrument Short Name: ISO standard 18774.
4 SC8 is responsible for the standards on baseline data for financial instruments and forms part of ISO Technical Committee 68.
5 Article 4 of the MAR and 27 of the MiFIR, on instrument reference data.

corporate bond issues rose by 21.43%, while numbers assigned to debenture issues fell by 16.67%. Numbers assigned to covered bond issues fell by 10.34%, while those assigned to securitisation bonds fell significantly, by 43.48%. There was a small increase in rights issues (14.70%) and a reduction in warrants issues (10.64%) and in the number of structured product issues.

Numbers assigned to issues by the ANCV in 2017 and 2018 TABLE 13.1.1

	2017	2018	% change 18/17
Equity	**532**	**642**	**20.68**
Shares	140	141	0.71
CIS and venture capital funds	392	501	27.81
Fixed income	**680**	**653**	**-3.97**
Public debt	83	51	-38.55
Treasury bills and commercial paper	12	12	0.00
Bonds and debentures	71	39	-45.07
Private fixed income	580	602	3.79
Commercial paper	467	505	8.14
Bonds	14	17	21.43
Debentures	18	15	-16.67
Covered bonds	29	26	-10.34
Securitisation bonds	69	39	-43.48
Additional Tier 1 financing securities	**1**	**4**	**300.00**
Structured products	**254**	**191**	**-24.80**
Rights	**34**	**39**	**14.70**
Warrants and certificates	**2,171**	**1,940**	**-10.64**
Options	**34,332**	**46,178**	**34.50**
Futures	**906**	**932**	**2.87**
Swaps	**371**	**290**	**-21.83**
Total	**39,281**	**50,869**	**29.50**

Source: CNMV.

At the end of the year, the number of active securities and other financial instruments with an ISIN code in the ANCV database totalled 31,376. Listed securities and financial instruments accounted for 78% of the total.

The total number of queries to the ANCV stood at 338, 26% down on 2017. Queries regarding Spanish codes, which accounted for 89% of the total, fell by 29% on the previous year, while queries about foreign codes rose by 5%.

Queries handled by the ANCV

TABLE 13.1.2

	2017	2018	% change 18/17
Queries about Spanish codes	424	300	-29
Queries about foreign codes	36	38	5
Total queries	**460**	**338**	**-26**

Source: CNMV.

14 CNMV Advisory Committee

The Advisory Committee is the body which provides advice to the CNMV's Board. Its functions and composition are provided for in Articles 30 and 31 of the recast text of the Securities Market Act and its implementing legislation – Royal Decree 303/2012, of 3 February, regulating the CNMV Advisory Committee. The Committee is chaired by the CNMV's Vice-Chairperson and includes representatives of market infrastructures, issuers, investors, credit institutions and insurance companies, professional groups designated by the CNMV, the Investment Guarantee Fund and each one of the autonomous regions with authority with regard to securities markets and in which there is an official secondary market. The appointment of these representatives was approved by the CNMV Resolution of 4 March 2016. The Advisory Committee must meet at least once every three months, but in practice it holds a meeting every month.

As a body providing advice to the CNMV's Board, the Advisory Committee informs on those issues referred to it by the Board. In particular, its report is mandatory in regard to: i) the CNMV provisions referred to in Article 21 of the recast text of the Securities Market Act (circulars and technical guides); ii) authorisations, revocations, mergers and takeovers of investment firms, and iii) authorisations and revocations of branches of investment firms from non-EU countries, and the other participants in securities markets when required by regulations, bearing in mind the economic and legal significance of said participants. In addition, the Advisory Committee provides advice on draft regulations relating in general to the securities market which are referred to it by both the government and the Ministry of Economy and Business.

In addition, as a consequence of the intense process of international integration affecting the CNMV's activity, the Committee's agenda also includes voluntary consultations from international bodies, such as IOSCO, ESMA or the European Commission, in addition to other initiatives of the CNMV or the Committee itself. In addition, since 2012 the Committee has been analysing many of the recommendations and standards issued by ESMA prior to their application in Spain. This allows greater participation from the sector, which is in line with international recommendations on analysing the impact of regulations.

Actions by the Advisory Committee in 2018

Table 14.1.1 offers a statistical summary of the issues addressed by the Advisory Committee in 2018, which shows that the number of mandatory reports remained practically unchanged on the previous year. Over the year, the CNMV applied its policy of publishing technical guidelines and criteria with the aim of increasing transparency on its guidelines and of facilitating compliance with regulations by supervised firms, above all taking into account the entry into force of new regulations, such as MiFID II/MiFIR and MAD/MAR. However, the number of voluntary consultations increased considerably as the importance of the international activity has remained stable for the CNMV, as well as its desire to collect, through the Advisory Committee, the sector's opinion as often as possible and beyond that required by legislation.

Types of issues referred to the Advisory Committee

TABLE 14.1.1

	No. of issues	
	2017	**2018**
Mandatory reports on regulations	11	10
Voluntary consultations (IOSCO, ESMA and others)	9	13
Total	**20**	**23**

Source: CNMV.

Table 14.1.2 provides a breakdown of the issues addressed.

List of CNMV Advisory Committee actions in 2018

TABLE 14.1.2

Mandatory reports on regulations:

- Draft Technical Guide on managing conflicts of interest in related-party transactions of CIS and in other operations of CIS management companies (Session of 15 January).
- Draft CNMV Circular amending CNMV Circular 5/2013, of 12 June, establishing the templates for the annual corporate governance report of public listed companies, savings banks and other entities that issue securities admitted to trading on official securities markets, and CNMV Circular 4/2013, of 12 June, establishing the templates for the annual report on the remuneration of directors of public listed companies, and of members of the board of directors and control committee of savings banks that issue securities admitted to trading on official securities markets (Sessions of 5 March and 21 May).
- Prior public consultation on the Draft Ministerial Order regulating securities lending by collective investment schemes (Session of 21 May).
- Draft CNMV Circular on periodic reporting by issuers of securities admitted to trading on regulated markets regarding half-yearly financial reports, interim management statements and, where applicable, quarterly financial reports (Session of 21 May).
- Draft Law on measures for the digital transformation of the financial system (Session of 12 June).
- CNMV Circular 4/2018, of 27 September, amending Circular 1/2010, of 28 July, on confidential information of entities providing investment services and Circular 7/2008, of 26 November, on accounting standards and the annual accounts and confidential information statements of Investment Firms, Collective Investment Scheme Management Companies and Venture Capital Management Companies (Session of 16 July).
- CNMV Circular 1/2019, of 28 March, amending Circular 1/2009, of 4 February, on the categories of collective investment schemes on the basis of their investment profile, partially amended by Circular 3/2011, of 9 June (Session of 16 July).
- Draft Bill on measures for the digital transformation of the financial system (Session of 10 September).
- Draft Bill on the financial transactions tax (Session of 12 November).
- Draft Technical Guide on appointments and remuneration committees (Session of 10 December).

Voluntary consultations (IOSCO, ESMA and others):

International Organization of Securities Commissions (IOSCO)

– Consultation report on good practices for Audit Committees in supporting audit quality (Session of 21 May).
– Consultation on draft guidelines on risk factors under the Prospectus Regulation (Session of 10 September).

European Securities and Markets Authority (ESMA)

– Consultation paper. Draft regulatory technical standards under the new Prospectus Regulation (Session of 5 March).
– Call for evidence on periodic auctions for equity instruments (Session of 10 December).

European Central Bank (ECB)

– First ECB public consultation on developing a euro unsecured overnight interest rate (Session of 11 January).
– Second public consultation on the publication by the ECB of an unsecured overnight rate (Session of 16 April).
– First public consultation by the working group on euro risk-free rates on the assessment of candidate euro risk-free rates (Session of 16 July).

Financial Stability Board (FSB)

– Consultative document. Principles on bail-in execution (Session of 1 February).

Comisión Nacional del Mercado de Valores (CNMV)

– CNMV Strategic Areas 2017-2018 and 2018 Activity Plan (Session of 15 January).
– Public consultation on the adoption by the CNMV of intervention measures with regard to binary options and contracts for differences (Session of 10 December).

European Commission (EC)

– Legislative proposals on sustainable finance (Session of 12 June).
– Sustainable Finance Initiative - Benchmarks L1: Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 2016/1011 on low carbon benchmarks and positive carbon impact benchmarks (Session of 16 July).

Joint Committee of European Supervisory Authorities

– Joint Consultation Paper concerning amendments to the PRIIPs KID. Draft amendments to Commission Delegated Regulation (EU) 2017/653 of 8 March 2017 on key information documents (KID) for packaged retail and insurance-based investment products (PRIIPs) (Session of 10 December).

Source: CNMV.

15 Financial statements of the CNMV

15.1 Balance sheet

Assets	Notes in the accompanying report	Year 2018	Year 2017
A) Non-current assets		**128,393,389.59**	**123,797,911.95**
I. Intangible assets	**(7)**	**4,419,510.72**	**4,737,962.58**
1. Investment in research and development		1,261,825.65	1,168,298.52
3. Computer software		3,157,685.07	3,569,664.06
II. Property, plant and equipment	**(5)**	**75,810,580.44**	**76,961,552.88**
1. Land		43,658,835.32	43,614,118.99
2. Buildings		28,918,369.42	29,598,381.89
5. Other property, plant and equipment		3,233,375.70	3,749,052.00
IV. Long-term financial investments in group companies, jointly-controlled entities and associates	**(9)**	**47,946,642.86**	**41,888,286.18**
3. Loans and debt securities		47,946,642.86	41,888,286.18
V. Long-term financial investments	**(9)**	**216,655.57**	**210,110.31**
1. Financial investments in equity		935.36	935.36
2. Loans and debt securities		214,454.58	207,909.32
4. Other financial investments		1,265.63	1,265.63
B) Current assets		**62,869,964.73**	**70,869,243.45**
III. Trade and other receivables		**40,685,823.60**	**32,370,332.85**
1. Receivables for operating activities		35,749,249.98	31,340,159.53
2. Other receivables		4,936,471.19	1,030,160.89
3. Public authorities		102.43	12.43
IV. Short-term financial investments in group companies, jointly-controlled entities and associates	**(9)**	**8,727,106.16**	**10,276,971.82**
2. Loans and debt securities		8,727,106.16	10,276,971.82
V. Short-term financial investments	**(9)**	**172,801.38**	**193,584.44**
2. Loans and debt securities		172,801.38	193,584.44
VI. Accrual accounts		**337,845.86**	**192,800.17**
VII. Cash and cash equivalents		**12,946,387.73**	**27,835,554.17**
2. Cash		12,946,387.73	27,835,554.17
TOTAL ASSETS		**191,263,354.32**	**194,667,155.40**

Source: CNMV.

15.1 Balance sheet *(continuation)*

Equity and liabilities	Notes in the accompanying report	Year 2018	Year 2017
A) Shareholders' equity		**186,606,725.69**	**187,248,677.40**
I. Contributed equity		**5,385,871.28**	**5,385,871.28**
II. Equity generated		**179,069,782.59**	**178,848,710.48**
1. Retained earnings/losses		10,428,334.09	10,428,334.09
2. Surplus for the year		20,962,503.81	20,741,431.70
3. Reserves		147,678,944.69	147,678,944.69
III. Valuation adjustments		**2,151,071.82**	**3,014,095.64**
2. Available-for-sale financial assets		2,151,071.82	3,014,095.64
B) Non-current liabilities		**1,045,222.88**	**900,410.96**
I. Long-term provisions	**(15)**	**1,045,222.88**	**900,410.96**
C) Current liabilities		**3,611,405.75**	**6,518,067.04**
I. Short-term provisions	**(15)**	**140,726.78**	**426,802.48**
II. Short-term debts	**(10)**	**6,952.81**	**1,233,462.25**
4. Other borrowings		6,952.81	1,233,462.25
IV. Trade and other payables		**3,463,726.16**	**4,857,802.31**
1. Payables for operating activities		1,273,335.05	1,327,759.86
2. Other payables		767,712.01	2,259,256.74
3. Public authorities		1,422,679.10	1,270,785.71
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**191,263,354.32**	**194,667,155.40**

Source: CNMV.

15.2 Income statement

	Notes in the accompanying report	Year 2018	Year 2017
1. Tax revenues and social contributions		**62,055,850.07**	**60,284,143.47**
b) Fees		62,055,850.07	60,284,143.47
5. Own work capitalised	**(7)**	**711,375.03**	**685,848.00**
6. Other ordinary revenue		**49,627.01**	**33,566.34**
7. Provision surplus		**552,358.48**	**771,700.94**
A) TOTAL ORDINARY REVENUE (1+2+3+4+5+6+7)		**63,369,210.59**	**61,775,258.75**
8. Personnel expenses		**-30,958,804.25**	**-29,778,631.37**
a) Salaries, wages and similar		-24,644,552.80	-23,672,692.10
b) Employee welfare expenses		-6,314,251.45	-6,105,939.27
9. Transfers and subsidies granted	**(14)**	**-1,867,477.78**	**-1,742,245.31**
11. Other ordinary expenses		**-8,717,356.82**	**-8,844,408.22**
a) Supplies and outside services		-8,255,211.78	-8,405,954.23
b) Taxes		-462,145.04	-438,453.99
12. Depreciation and amortisation	**(5), (7)**	**-2,378,411.26**	**-2,331,448.36**
B) TOTAL ORDINARY EXPENSES (8+9+10+11+12)		**-43,922,050.11**	**-42,696,733.26**
I. Profit (loss) from ordinary activities (A+B)		**19,447,160.48**	**19,078,525.49**
13. Impairment and gains (losses) from disposal of non-financial assets and assets for sale	**(5), (7)**	**59,662.94**	**29,105.81**
a) Impairment		60,357.41	60,431.41
b) Deletions and disposals		-694.47	-31,325.60
14. Other non-ordinary items		**-2,127.68**	**-58,696.36**
b) Expenses		-2,127.68	-58,696.36
II. Profit (loss) from non-financial operations (I+13+14)		**19,504,695.74**	**19,048,934.94**
15. Finance income	**(9)**	**1,661,093.30**	**1,757,866.03**
b) From marketable securities and loans forming part of fixed assets		1,661,093.30	1,757,866.03
b.1) In group companies, jointly-controlled entities and associates		1,356,829.98	1,491,577.61
b.2) Other		304,263.32	266,288.42
16. Finance costs		**-26,432.04**	**-41,446.45**
b) Other		-26,432.04	-41,446.45
19. Exchange differences		**-3,965.71**	**-1,285.07**
20. Impairment, deletions and disposal of financial assets and liabilities		**-172,887.48**	**-22,637.75**
b) Other		-172,887.48	-22,637.75
III. Profit (loss) from financial operations (15+16+17+18+19+20+21)		**1,457,808.07**	**1,692,496.76**
IV. Net profit for the year (II+III)		**20,962,503.81**	**20,741,431.70**

15.3 Statement of cash flows

	Notes in the accompanying report	Year 2018	Year 2017
I. CASH FLOWS FROM OPERATING ACTIVITIES			
A) Receipts		**55,487,235.98**	**60,395,434.58**
1. Tax revenues and social contributions		53,743,094.33	58,430,931.13
5. Interest and dividends received		1,531,962.31	1,791,953.74
6. Other receipts		212,179.34	172,549.71
B) Payments		**42,004,123.73**	**38,669,323.80**
7. Personnel expenses		29,851,960.61	28,451,502.65
8. Transfers and subsidies granted		1,834,687.44	1,711,691.06
10. Other operating expenses		8,618,476.63	8,255,894.40
13. Other payments		1,698,999.05	250,235.69
Net cash flows from operating activities (+A-B)		**13,483,112.25**	**21,726,110.78**
II. CASH FLOWS FROM INVESTING ACTIVITIES			
C) Receipts		**9,721,425.52**	**8,241,161.41**
2. Sale of financial assets		9,140,000.00	8,025,829.26
3. Other receipts from investment activities		581,425.52	215,332.15
D) Payments		**17,298,916.17**	**14,241,838.16**
5. Purchase of property investments		2,073,937.60	1,062,188.22
6. Purchase of financial assets		14,617,108.20	12,939,970.25
7. Other payments for investment activities		607,870.37	239,679.69
Net cash flows from investment activities (+C-D)		**-7,577,490.65**	**-6,000,676.75**
III. CASH FLOWS FROM FINANCING ACTIVITIES			
F) Payments to owning entity/entities:		**20,741,431.70**	**36,636,514.51**
2. Return of contributions and payment of profit (loss) to owner(s)		20,741,431.70	36,636,514.51
Net cash flows from financing activities (+E-F+G-H)		**-20,741,431.70**	**-36,636,514.51**
IV. CASH FLOWS PENDING CLASSIFICATION			
I) Receipts pending application		**36,093.64**	**1,469,353.35**
J) Payments pending application		**85,509.52**	**51,782.23**
Net cash flows pending classification (I-J)		**-49,415.88**	**1,417,571.12**
V. EFFECT OF EXCHANGE RATE CHANGES		**-3,940.46**	**-176.22**
VI. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV+V)		**-14,889,166.44**	**-19,493,685.58**
Cash and cash equivalents at the start of the year		**27,835,554.17**	**47,329,239.75**
Cash and cash equivalents at the end of the year		**12,946,387.73**	**27,835,554.17**

Source: CNMV.

15.4 Statement of changes in equity

	Notes in the accompanying report	I. Contributed equity	II. Equity generated	III. Valuation adjustments	IV. Other equity increases	Total
A. Equity at end of financial year N-1		**5,385,871.28**	**178,848,710.48**	**3,014,095.64**	**0.00**	**187,248,677.40**
B. Adjustments for changes in accounting criteria and error correction		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
C. Adjusted starting equity for financial year N (A+B)		**5,385,871.28**	**178,848,710.48**	**3,014,095.64**	**0.00**	**187,248,677.40**
D. Changes in equity in financial year N		**0.00**	**221,072.11**	**-863,023.82**	**0.00**	**-641,951.71**
1. Recognised income and expense in the year		0.00	20,962,503.81	-863,023.82	0.00	20,099,479.99
2. Transactions with owner(s)		0.00	-20,741,431.70	0.00	0.00	-20,741,431.70
3. Other changes in equity		0.00	0.00	0.00	0.00	0.00
E. Equity at end of financial year N (C+D)		**5,385,871.28**	**179,069,782.59**	**2,151,071.82**	**0.00**	**186,606,725.69**

Source: CNMV.

Annexes

Statistical annexes I: markets and issuers

Capital increases and public offerings[1]

I.1

Million euros

	Number of issuers			Number of issues		
	2017	2018	Change 18/17	2017	2018	Change 18/17
Capital increases raising funds	**35**	**30**	**-5**	**68**	**63**	**-5**
With pre-emption right	8	10	2	8	10	2
Without pre-emption right (OPS)[2]	3	2	-1	4	2	-2
Of which, increases	1	0	-1	1	0	-1
Accelerated book builds	3	2	-1	4	2	-2
Increases with non-monetary consideration[3]	8	7	-1	12	9	-3
Capital increases by conversion	5	6	1	6	10	4
Other	13	14	1	34	30	-4
Bonus issues	**12**	**12**	**0**	**16**	**17**	**1**
Of which, dividend choice	9	10	1	13	15	2
Total capital increases	**45**	**45**	**0**	**84**	**80**	**-4**
Public share offerings	**4**	**1**	**-3**	**7**	**1**	**-6**
Of which, increases	3	0	-3	3	0	-3

Source: CNMV. (1) Does not include data from the MAB, ETF or Latibex. (2) Subscription offering. (3) Capital increases with non-monetary consideration have been recorded at market prices.

Capital increases and public offerings in 2018: cash amount

I.2

Million euros

Issuer	Cash amount[1]	Type of transaction	Date registered
Montebalito, S.A.	3.0	Capital increase with pre-emptive subscription rights	02-Jan-18
Bankia, S.A.	891.0	Capital increase for non-monetary consideration	11-Jan-18
Nyesa Valores Corporación, S.A.	1.1	Other capital increases	18-Jan-18
Nyesa Valores Corporación, S.A.	124.4	Other capital increases	18-Jan-18
Nyesa Valores Corporación, S.A.	10.3	Capital increase for non-monetary consideration	18-Jan-18
Nyesa Valores Corporación, S.A.	7.5	Other capital increases	18-Jan-18
Nyesa Valores Corporación, S.A.	277.8	Capital increase for non-monetary consideration	18-Jan-18
Repsol, S.A.	439.9	Bonus issue to meet dividend payment	18-Jan-18
Metrovacesa, S.A.	733.7	Public offering	19-Jan-18
Promotora de Informaciones, S.A.	563.2	Capital increase with pre-emptive subscription rights	25-Jan-18
Coca-Cola European Partners Plc	0.0	Other capital increases	30-Jan-18

Capital increases and public offerings in 2018: cash amount *(continuation)*

Million euros

Issuer	Cash amount[1]	Type of transaction	Date registered
Faes Farma, S.A.	23.9	Bonus issue to meet dividend payment	30-Jan-18
Iberdrola, S.A.	778.3	Bonus issue to meet dividend payment	06-Feb-18
Urbas Grupo Financiero, S.A.	4.7	Other capital increases	09-Feb-18
Urbas Grupo Financiero, S.A.	1.1	Other capital increases	09-Feb-18
ACS, Actividades de Construcción y Servicios, S.A.	94.1	Bonus issue to meet dividend payment	15-Feb-18
Sacyr, S.A.	26.6	Bonus issue to meet dividend payment	22-Feb-18
Natra, S.A.	1.6	Capital increase by conversion	08-Mar-18
Vértice Trescientos Sesenta Grados, S.A.	3.5	Capital increase with pre-emptive subscription rights	15-Mar-18
Vértice Trescientos Sesenta Grados, S.A.	2.2	Other capital increases	15-Mar-18
Amper, S.A.	5.0	Capital increase with pre-emptive subscription rights	20-Mar-18
Nyesa Valores Corporación, S.A.	2.6	Other capital increases	27-Mar-18
Dogi International Fabrics, S.A.	0.7	Other capital increases	17-Apr-18
Coca-Cola European Partners Plc	0.0	Other capital increases	19-Apr-18
Quabit Inmobiliaria, S.A.	63.0	Capital increase with pre-emptive subscription rights	24-Apr-18
Grupo Ezentis, S.A.	3.0	Other capital increases	07-May-18
MásMóvil Ibercom, S.A.	10.0	Capital increase by conversion	16-May-18
Liberbank, S.A.	6.3	Capital increase by conversion	22-May-18
Airbus SE	112.3	Other capital increases	25-May-18
NH Hotel Group, S.A.	112.9	Capital increase by conversion	07-Jun-18
Urbas Grupo Financiero, S.A.	3.7	Other capital increases	07-Jun-18
Almirall, S.A.	9.1	Bonus issue to meet dividend payment	12-Jun-18
Ferrovial, S.A.	124.0	Bonus issue to meet dividend payment	19-Jun-18
Grupo Ezentis, S.A.	19.5	Other capital increases	19-Jun-18
NH Hotel Group, S.A.	93.2	Capital increase by conversion	19-Jun-18
Sniace, S.A.	30.1	Capital increase with pre-emptive subscription rights	26-Jun-18
Duro Felguera, S.A.	79.2	Capital increase with pre-emptive subscription rights	28-Jun-18
Amper, S.A.	1.4	Capital increase by conversion	28-Jun-18
Fluidra, S.A.	1,070.7	Capital increase for non-monetary consideration	05-Jul-18
Inmobiliaria Colonial, Socimi, S.A.	187.1	Capital increase for non-monetary consideration	06-Jul-18
Urbas Grupo Financiero, S.A.	0.9	Other capital increases	12-Jul-18
Nyesa Valores Corporación, S.A.	0.4	Other capital increases	12-Jul-18
Berkeley Energía Limited	139.0	Other capital increases	12-Jul-18
Solaria Energía y Medioambiente, S.A.	89.0	Monetary capital increase excluding pre-emptive subscription rights by means of accelerated book build	16-Jul-18
ACS, Actividades de Construcción y Servicios, S.A.	190.5	Bonus issue to meet dividend payment	19-Jul-18
Lar España Real Estate, Socimi, S.A.	20.9	Other capital increases	19-Jul-18
Coca-Cola European Partners Plc	0.0	Other capital increases	19-Jul-18
Repsol, S.A.	654.8	Bonus issue to meet dividend payment	19-Jul-18
Iberdrola, S.A.	1,009.6	Bonus issue to meet dividend payment	31-Jul-18
Quabit Inmobiliaria, S.A.	5.5	Capital increase for non-monetary consideration	31-Jul-18

Capital increases and public offerings in 2018: cash amount *(continuation)*

I.2

Million euros

Issuer	Cash amount[1]	Type of transaction	Date registered
Laboratorio Reig Jofre, S.A.	25.6	Bonus issue to meet dividend payment	02-Aug-18
Sacyr, S.A.	239.8	Bonus issue to meet dividend payment	02-Aug-18
Berkeley Energía Limited	0.1	Other capital increases	17-Aug-18
Liberbank, S.A.	153.3	Capital increase by conversion	22-Aug-18
Edreams Odigeo, S.A.	0.4	Other capital increases	28-Aug-18
Natra, S.A.	0.1	Capital increase by conversion	13-Sep-18
Deoleo, S.A.	25.0	Capital increase with pre-emptive subscription rights	28-Sep-18
Montebalito, S.A.	1.6	Other capital increases	02-Oct-18
Alantra Partners, S.A.	22.1	Capital increase for non-monetary consideration	04-Oct-18
Laboratorios Farmacéuticos Rovi, S.A.	80.0	Other capital increases	08-Oct-18
Arima Real Estate, Socimi, S.A.	100.1	Capital increase without pre-emption right (OPS)[2]	09-Oct-18
Promotora de Informaciones, S.A.	0.0	Capital increase by conversion	23-Oct-18
Inypsa Informes y Proyectos, S.A.	15.6	Capital increase with pre-emptive subscription rights	23-Oct-18
Oryzon Genomics, S.A.	13.0	Other capital increases	30-Oct-18
Laboratorios Farmacéuticos Rovi, S.A.	8.0	Other capital increases	31-Oct-18
Coca-Cola European Partners Plc	0.0	Other capital increases	31-Oct-18
Masmovil Ibercom, S.A.	360.0	Other capital increases	12-Nov-18
Banco Santander, S.A.	132.5	Bonus issue to meet dividend payment	13-Nov-18
Iberpapel Gestión, S.A.	0.1	Bonus issue to meet dividend payment	15-Nov-18
AmRest Holdings SE	1,910.1	Monetary capital increase excluding pre-emptive subscription rights by means of accelerated book build	20-Nov-18
Inmobiliaria Colonial, Socimi, S.A.	467.8	Capital increase for non-monetary consideration	20-Nov-18
Solarpack Corporación Tecnológica, S.A.	100.0	Capital increase without pre-emption right (OPS)[2]	20-Nov-18
Edreams Odigeo, S.A.	0.0	Other capital increases	22-Nov-18
Airtificial Intelligence Structures, S.A.	67.4	Capital increase for non-monetary consideration	23-Nov-18
Vidrala, S.A.	1.3	Bonus issue to meet dividend payment	04-Dec-18
Ferrovial, S.A.	166.4	Bonus issue to meet dividend payment	04-Dec-18
Miquel y Costas & Miquel, S.A.	23.3	Bonus issue to meet dividend payment	11-Dec-18
Nyesa Valores Corporación, S.A.	2.1	Other capital increases	19-Dec-18
Cementos Portland Valderrivas, S.A.	100.9	Capital increase with pre-emptive subscription rights	20-Dec-18
Airbus SE	4.5	Other capital increases	27-Dec-18
Amper, S.A.	9.8	Capital increase by conversion	27-Dec-18

Source: CNMV. (1) Issues of new shares not paid for in cash have been valued at market prices. (2) Subscription offering.

Delistings in 2018[1]

I.3

Company	Market	Reason. Procedure	Date
Funespaña, S.A.	SIBE	Having settled the bid made by the company itself in accordance with Article 7.4 of Royal Decree 1197/1991	07/12/2018
Abertis Infraestructuras, S.A.	SIBE	Other	06/08/2018
Reyal Urbis, S.A. (in liquidation)	SIBE	CNMV Board Resolution	22/01/2018
Sotogrande, S.A.	SIBE	Having settled the bid made by the company itself in accordance with Article 7.4 of Royal Decree 1197/1991	02/01/2018
Saeta Yield, S.A.	SIBE	Other	04/07/2018
Axiare Patrimonio, SOCIMI, S.A.	SIBE	Technical. Due to merger	09/07/2018
Ronsa, S.A.	Open outcry	Excluded by Regional Government of Basque Country	02/02/2018

Source: CNMV. (1) Excludes MAB, Latibex and ETFs.

Sector indices in the Madrid and Barcelona stock exchanges

I.4

Yield in the period (%)

					2018			
	2015	2016	2017	2018	1Q	2Q	3Q	4Q
Madrid Stock Exchange								
Oil and energy	0.6	0.8	3.9	6.1	-4.8	12.0	-1.4	0.9
Commodities, industry and construction	9.6	-4.3	2.0	8.9	-6.1	10.6	-2.5	7.6
Consumer goods	2.1	2.0	2.6	-8.6	-1.8	2.4	2.7	-11.5
Consumer services	30.9	0.2	-2.1	-16.7	-8.4	12.4	-6.5	-13.5
Financial and real estate services	10.4	-8.0	23.3	23.3	-4.0	-1.1	-4.9	-11.1
Banking	-24.2	-1.6	10.5	-27.1	-3.7	-8.7	-5.1	-12.6
Real estate and others	-26.0	-1.8	10.6	-29.0	-4.5	-9.9	-5.3	-12.9
Technology and telecommunications	18.4	-2.3	17.6	-26.1	-5.6	3.3	-10.9	-15.0
Madrid Stock Exchange General Index	**-5.2**	**-9.0**	**7.5**	**-5.5**	**-0.2**	**-0.9**	**4.8**	**-8.8**
Barcelona Stock Exchange								
Electricity	15.2	-3.2	1.7	8.5	-7.0	9.4	-3.1	9.9
Banks	-24.4	-3.0	9.3	-29.3	-4.4	-9.6	-4.8	-14.0
Chemical and pharmaceutical	-24.7	27.0	11.9	-3.3	-1.4	15.7	3.7	-18.2
Cement, construction and real estate	-7.7	-5.6	15.6	-12.7	-5.2	3.5	0.6	-11.6
Metallurgy	18.7	47.6	-9.5	-20.8	3.0	-5.9	2.1	-20.0
Food, agriculture and forestry	26.8	-2.2	6.0	-23.3	-1.6	-5.3	-0.4	-17.4
Textiles and paper	33.8	2.4	-8.2	-22.7	-12.1	15.0	-10.3	-14.8
Trade and finance	-9.4	3.9	-5.3	-50.0	-10.2	-14.7	-6.1	-30.5
Sundry services	-8.3	-5.3	10.7	-6.3	-0.1	0.2	-2.6	-3.9
BCN Global 100	**-12.0**	**0.3**	**7.3**	**-17.4**	**-3.6**	**-1.7**	**-3.1**	**-10.0**

Source: Thomson Datastream.

Concentration of capitalisation by sector[1]

I.5

No. of companies required in order to achieve a specific percentage

	2017				2018			
Sector	**25%**	**50%**	**75%**	**100%**	**25%**	**50%**	**75%**	**100%**
Oil	1	1	1	1	1	1	1	1
Energy and water	1	2	3	9	1	2	3	9
Mining & base metals	1	2	2	7	1	2	2	4
Cement and construction materials	1	1	2	3	1	1	2	3
Chemical and pharmaceutical	1	1	1	8	1	1	1	8
Textile and paper	1	2	3	10	1	1	1	10
Metal-mechanical	1	1	1	15	1	2	5	15
Food	1	1	2	13	1	2	3	14
Construction	1	2	3	8	1	2	3	7
Real estate	1	2	4	18	1	2	5	19
Transport and communications	1	2	3	8	1	2	3	7
Other non-financial	1	2	7	29	1	2	7	29
Banks	1	2	3	9	1	2	3	9
Insurance	1	1	2	2	1	1	2	2
Portfolio companies	1	1	1	4	1	1	1	5
SICAV	0	0	0	0	0	0	0	0
Finance houses	0	0	0	0	0	0	0	0

Source: CNMV. (1) Only includes capitalisation of companies that were traded at some time during the year. Excludes Latibex, MAB and ETFs.

Concentration of equity stock market trading

I.6

No. of companies required in order to achieve a specific percentage

	2017				2018			
	25%	**50%**	**75%**	**100%**	**25%**	**50%**	**75%**	**100%**
All stock exchanges[1]	**2**	**5**	**16**	**147**	**2**	**6**	**14**	**146**
Electronic market	2	5	16	132	2	6	14	135
Spain	2	5	15	125	2	6	14	127
Foreign	1	1	1	7	1	1	1	8
Open outcry	1	2	3	11	1	1	1	8
Second market	1	1	2	4	1	1	2	3
ETFs	1	2	4	19	1	2	3	7
Alternative stock market (MAB)	5	45	202	3,360	4	38	166	2,857
LATIBEX	1	2	5	20	1	2	2	20

Source: CNMV. (1) Excludes Latibex, MAB and ETFs.

Percentage of capitalisation by sector and the largest companies within each sector with respect to the overall market [1]

I.7

Sector	% sector/market[2]	Companies with the largest capitalisation in the sector	% company/market[3]
Oil	3.6	Repsol, S.A.	3.62
Energy	17.8	Iberdrola, S.A.	7.6
Energy		Gas Natural SDG, S.A.	3.7
Energy		Endesa, S.A.	3.6
Mining & base metals	1.0	Acerinox, S.A.	0.4
Mining & base metals		CIE Automotive, S.A.	0.5
Mining & base metals		Arcelor Mittal, S.A.	0.1
Cement and construction materials	0.5	Vidrala, S.A.	0.3
Cement and construction materials		Cementos Molins, S.A.	0.2
Cement and construction materials		Coemac, Corporación Empresarial de Materiales de Construcción, S.A.	0.0
Chemical and pharmaceutical	3.5	Grifols, S.A.	2.6
Chemical and pharmaceutical		Almirall, S.A.	0.4
Chemical and pharmaceutical		Laboratorios Farmacéuticos Rovi, S.A.	0.2
Textile and paper	12.4	Inditex, Industria de Diseño Textil, S.A.	11.7
Textile and paper		Papeles y Cartones de Europa, S.A.	0.3
Textile and paper		Grupo Empresarial Ence, S.A.	0.2
Metal-mechanical	1.9	Zardoya Otis, S.A.	0.5
Metal-mechanical		Gestamp Automoción, S.A.	0.5
Metal-mechanical		CAS, Construcciones y Auxiliar de Ferrocarriles, S.A.	0.2
Food	1.5	Ebro Foods, S.A.	0.5
Food		Viscofan, S.A.	0.4
Food		AmRest Holdings SE	0.4
Construction	5.7	Ferrovial, S.A.	2.2
Construction		ACS, Actividades de Construcción y Servicios, S.A.	1.8
Construction		Fomento de Construcciones y Contratas, S.A.	0.7
Real estate and SOCIMI (Spanish REIT companies)	2.9	Merlin Properties, SOCIMI, S.A.	0.9
Real estate and SOCIMI		Inmobiliaria Colonial, S.A.	0.7
Real estate and SOCIMI		Hispania Activos Inmobiliarios, SOCIMI, S.A.	0.3
Transport and communications	14.1	Telefónica, S.A.	6.4
Transport and communications		Aena, S.M.E., S.A.	3.4
Transport and communications		International Consolidated Airlines Group, S.A.	2.3
Other non-financial	9.6	Amadeus IT Group, S.A.	4.5
Other non-financial		Gamesa Corporación Tecnológica, S.A.	1.2
Other non-financial		Prosegur Cash, S.A.	0.5
Banks	23.2	Banco Santander Central Hispano, S.A.	10.8
Banks		Banco Bilbao Vizcaya Argentaria, S.A.	5.2
Banks		Caixabank, S.A.	3.2
Insurance	1.9	Mapfre, S.A.	1.2
Insurance		Grupo Catalana Occidente, S.A.	0.7
Portfolio companies	0.5	Corporación Financiera Alba, S.A.	0.4
Portfolio companies		Alantra Partners, S.A.	0.1
Portfolio companies		Cartera Hotelera, S.A.	0.0

Source: CNMV. (1) Capitalisation at year-end. (2) Capitalisation of the sector as a percentage of the overall market. (3) Capitalisation of the companies listed as a percentage of the overall market.

Capitalisation and trading volume of Ibex 35 companies[1]

I.8

Million euros

Company	Market capitalisation[2]			Trading volume		
	2017	2018	% total[3]	2017	2018	% total[3]
Inditex, Industria de Diseño Textil, S.A.	90,523.2	69,657.2	11.7	44,208.3	44,834.6	7.7
Banco Santander Central Hispano, S.A.	88,410.0	64,507.9	10.9	115,054.2	97,160.8	16.7
Iberdrola, S.A.	47,422.0	44,898.6	7.6	64,607.4	31,895.4	5.5
Telefónica, S.A.	42,186.1	38,105.1	6.4	64,449.5	50,279.6	8.6
Banco Bilbao Vizcaya Argentaria, S.A.	40,811.1	30,909.0	5.2	37,533.0	54,550.7	9.4
Amadeus It Group, S.A.	26,377.6	26,698.0	4.5	17,589.8	23,345.7	4.0
Gas Natural Servicios SDG, S.A.	25,350.0	22,275.3	3.8	12,707.9	12,127.0	2.1
Repsol, S.A.	23,261.8	21,505.7	3.6	24,897.2	29,556.2	5.1
Endesa, S.A.	22,521.5	21,312.7	3.6	27,514.6	10,382.5	1.8
Aena, S.M.E., S.A.	19,263.3	20,362.5	3.4	10,374.3	14,220.5	2.4
Caixabank, S.A.	18,904.0	18,925.3	3.2	10,866.0	23,251.8	4.0
Grifols, S.A.	18,371.6	15,745.0	2.7	16,140.9	6,497.9	1.1
International Consolidated Airlines Group, S.A.	15,434.3	13,784.9	2.3	7,003.4	5,417.5	0.9
Ferrovial, S.A.	15,379.2	13,067.0	2.2	6,343.8	7,331.7	1.3
ACS, Actividades de Construcción y Servicios, S.A.	13,858.1	10,645.1	1.8	8,765.8	8,982.9	1.5
Red Eléctrica Corporación, S.A.	11,479.9	10,548.4	1.8	9,772.0	8,756.3	1.5
Bankia, S.A.	10,264.4	7,897.5	1.3	9,572.6	6,862.0	1.2
Gamesa Corporación Tecnológica, S.A.	10,123.6	7,247.4	1.2	10,958.1	6,842.0	1.2
Mapfre, S.A.	9,318.3	7,144.6	1.2	11,572.5	3,767.4	0.6
Bankinter, S.A.	8,247.0	6,308.2	1.1	5,525.5	5,314.9	0.9
Enagás, S.A.	7,785.5	5,636.5	1.0	12,946.8	8,274.5	1.4
Banco de Sabadell, S.A.	7,104.6	5,629.8	0.9	6,559.7	10,343.4	1.8
Cellnex Telecom, S.A.	5,698.6	5,187.4	0.9	10,114.0	4,375.5	0.8
Merlin Properties, Socimi, S.A.	5,308.4	5,066.5	0.9	4,998.7	4,080.4	0.7
Acciona, S.A.	4,946.4	4,231.5	0.7	4,872.2	2,903.6	0.5
Inmobiliaria Colonial, S.A.	3,895.9	4,133.5	0.7	3,262.6	2,216.6	0.4
CIE Automotive, S.A.	3,605.7	2,765.8	0.5	3,107.0	2,344.9	0.4
Acerinox, S.A.	3,289.3	2,391.3	0.4	4,572.9	3,463.1	0.6
Viscofan, S.A.	3,151.3	2,242.6	0.4	3,609.1	1,671.7	0.3
Melia Hotels International, S.A.	2,678.4	1,885.8	0.3	6,511.5	1,983.4	0.3
Gestevisión Telecinco, S.A.	2,641.6	1,797.6	0.3	2,270.6	2,590.5	0.4
Indra Sistemas, S.A.	2,563.7	1,454.7	0.2	1,995.2	1,688.5	0.3
Grupo Empresarial Ence, S.A.	2,014.7	1,350.8	0.2	2,337.8	1,804.1	0.3
Técnicas Reunidas, S.A.	1,479.0	1,192.8	0.2	3,690.2	1,736.3	0.3
Arcelor Mittal, S.A.	1,058.3	637.0	0.1	6,531.0	2,911.6	0.5

Source: CNMV. (1) Companies in the Ibex 35 at 31 December 2018. (2) Capitalisation on the last day of the year. (3) With respect to the market total.

Takeover bids authorised in 2018

I.9

Million euros

Company	Offeror	Purpose	% capital addressed by the bid	Amount paid	Result (%)[1]
Abertis Infraestructuras, S.A.	Hochtief AG	Voluntary takeover bid to take control	100.00	14,326.63	78.79
Saeta Yield, S.A.	Terp Spanish Holdco, S.L.U.	Voluntary takeover bid to take control	100.00	948.31	95.28
Hispania Activos Inmobiliarios, SOCIMI, S.A.	Alzette Investment, S.à R.L.	Voluntary takeover bid to take control	83.44	1,474.81	74.02
NH Hotel Group, S.A.	MHG Continental Holding (Singapore) Pte. Ltd.	Mandatory takeover bid due to acquisition of control	53.75	1,179.92	47.76
Funespaña, S.A.	Mapfre España, Compañía de Seguros y Reaseguros, S.A.	Delisting bid	4.00	4.90	3.55
Papeles y Cartones de Europa, S.A. (Europac)	DS Smith Plc	Voluntary takeover bid to take control	100.00	1,647.66	98.83
Total				**19,582.23**	

Source: CNMV. (1) Percentage of share capital admitted to trading. In the event of pro-rating, the co-efficient is indicated.

Companies listed on Latibex by sector

I.10

Million euros, unless indicated otherwise

	No. of companies		Market capitalisation			Trading volume		
Sector	2017	2018	2017	2018	% change 18/17	2017	2018	% change 18/17
Oil	1	1	35.5	32.8	-7.58	20.2	25.7	27.43
Energy and water	2	2	0.8	1.4	74.38	6.7	2.1	-69.37
Mining & base metals	5	5	154.2	118.6	-23.09	69.0	69.3	0.43
Chemical and pharmaceutical	1	1	1.0	0.7	-36.18	3.6	0.5	-85.94
Textile and paper	0	0	0.0	0.0	–	0.0	0.0	–
Metal-mechanical	1	1	4.5	0.2	-95.83	0.1	0.2	50.83
Food	0	0	0.0	0.0	–	0.0	0.0	–
Real estate	2	1	0.1	0.0	-94.28	0.2	0.0	-99.54
Transport and communications	1	1	0.2	0.4	103.57	0.6	0.3	-49.45
Other non-financial	1	1	0.2	0.1	-63.65	2.4	2.5	4.14
Banks	4	4	7.5	5.6	-24.77	5.1	0.5	-89.63
Portfolio companies	1	1	0.0	0.0	-35.98	4.9	0.5	-89.04
Finance houses	1	1	29.4	63.7	116.59	18.2	50.0	174.35
Total	**20**	**19**	**233.3**	**223.5**	**-4.22**	**130.8**	**151.6**	**15.87**

Source: CNMV.

Net issues by public authorities

I.11

Nominal amount in million euros

	Amount				% year-on-year change		
	2015	2016	2017	2018	16/15	17/16	18/17
Central Government	**50,172**	**27,847**	**46,962**	**41,684**	**-44.5**	**68.6**	**-11.2**
Short term	4,509	-73	-3,528	-8,393	–	–	–
Long term	45,662	27,920	50,490	50,077	-38.9	80.8	-0.8
Autonomous regions	**-6,788**	**-2,549**	**106**	**-3,621**	**62.5**	–	–
Short term	15	70	0	-47	379.4	-99.3	–
Long term	-6,803	-2,618	106	-3,574	61.5	–	–
Local authorities	**0**	**0**	**-165**	**-134**	–	–	–
Short term	–	–	–	–	–	–	–
Long term	0	0	-165	-134	–	–	–
Total public authorities	**43,383**	**25,299**	**46,903**	**37,929**	**-41.7**	**85.4**	**-19.1**

Source: Bank of Spain and CNMV.

Number of issuers and issues filed with the CNMV: breakdown by instrument

I.12

	No. of issuers[1]		No. of issues	
	2017	2018	2017	2018
Long-term	**41**	**42**	**365**	**302**
Non-convertible bonds and debentures	16	12	276	215
of which, subordinated debt	4	1	4	1
Convertible bonds and debentures	0	0	0	0
Mortgage bonds	9	12	28	28
Territorial bonds	1	2	1	2
Securitisation bonds	21	14	58	40
asset-backed (ABS)	21	14	58	40
mortgage-backed (MBS)	0	0	0	0
Preferred shares	1	4	1	4
Other issues	1	0	1	0
Short term[2]	**13**	**13**	**13**	**13**
Commercial paper	13	12	13	12
of which, asset-backed	1	1	1	1
Total	**48**	**43**	**378**	**315**

Source: CNMV. (1) In the case of issuers, the totals do not necessarily coincide with the sum, given that the same issuer may issue various types of instruments. (2) Shelf registrations.

Main fixed-income issuers[1] registered with the CNMV in 2018

I.13

Nominal amount in million euros

	Nominal amount issued		
Name of issuing company	**Total**	**Short term[2]**	**Long term**
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria	29,751	0	29,751
Bankia, S.A.	15,500	15,000	500
Banco de Sabadell, S.A.	11,236	7,000	4,236
Caixabank, S.A.	11,103	1,000	10,103
Bankinter, S.A.	6,822	4,000	2,822
Banco Bilbao Vizcaya Argentaria, S.A.	6,000	0	6,000
Banco de Santander, S.A.	5,384	0	5,384
Santander Consumer Finance, S.A.	5,000	5,000	0
Bankinter Sociedad de Financiación, S.A.	4,000	4,000	0

Source: CNMV. (1) Issuers that registered issues exceeding 4 billion euros in 2017. (2) Nominal amount of shelf registrations.

Main fixed-income issuers[1] registered with the CNMV in 2018. Breakdown by instrument

I.14

Nominal amount in million euros

Asset type	Issuer	Amount
Simple bonds and debentures	Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria	29,751
	Banco de Santander, S.A.	1,834
Mortgage bonds	Banco de Sabadell, S.A.	6,535
	Banco de Santander, S.A.	3,390
	Bankinter, S.A.	3,550
	Liberbank, S.A.	2,200
	Liberbank, S.A.	1,500
Territorial bonds	Caixabank, S.A.	2,000
Commercial paper[2]	Bankia, S.A.	15,000
	Banco de Sabadell, S.A.	7,000
	Santander Consumer Finance, S.A.	5,000
	Bankinter Sociedad de Financiación, S.A.	4,000
	Bankinter, S.A.	4,000
	Kutxabank Empréstitos, S.A.	2,000
ABCP[2]	Fondo de Titulización de Activos Santander 2	3,000

Source: CNMV. (1) Issuers which issued more than 1.5 billion euros in 2017 in the corresponding financial instrument. (2) Nominal amount of shelf registrations.

Commercial paper issuers: largest outstanding balances[1] at 31 December 2018

I.15

Million euros

Issuer	Amount	% of total	% accum.
Banco de Sabadell, S.A.	5,045	42.12	42.12
Santander Consumer Finance, S.A.	2,177	18.18	60.29
Bankia, S.A.	1,335	11.14	71.44
Bankinter, S.A.	1,115	9.31	80.75

Source: AIAF. (1) Issuers with an outstanding balance greater than 500 million euros.

Main securitisation bond issuers in 2018[1]

I.16

Million euros

Issuer	Amount	Assets securitised
Pymes Santander 13, Fondo de Titulización	2,835	SMEs[2]
Fondo de Titulización del Déficit del Sistema Eléctrico, FTA	2,682	Other
Caixabank Pymes 10, Fondo de Titulización	2,325	SMEs[2]
Pymes Santander 14, Fondo de Titulización	2,310	SMEs[2]
Caixabank Consumo 4, Fondo de Titulización	1,700	Consumer loans

Source: CNMV. (1) Issuers with CNMV-registered issues of more than 1.5 billion euros at year-end. (2) Includes funds whose pools include almost all loans to SMEs.

Securitisation bonds, by type of asset securitised

I.17

Nominal amount in million euros

	2014	2015	2016	2017	2018
Mortgage-backed securities (FTH)	**0**	**0**	**0**	**0**	**0**
Asset-backed securities (FTA)	**29,008**	**28,370**	**35,505**	**29,415**	**18,145**
Mortgage-backed FTA	**17,310**	**9,458**	**19,621**	**14,885**	**683**
Mortgage loans	17,310	9,458	19,621	14,885	683
Mortgage bonds	0	0	0	0	0
Real estate developer loans	0	0	0	0	0
FTA Companies	**8,750**	**14,124**	**7,500**	**4,850**	**10,442**
SMEs[1]	8,750	11,124	5,000	3,750	10,442
FTPYME[1]	0	0	0	0	0
FTGENCAT[1]	0	0	0	0	0
Loans to companies[2]	0	3,000	2,500	0	0
Corporate loans[3]	0	0	0	0	0
Finance leases	0	0	0	1,100	0
FTA others	**2,948**	**4,788**	**8,384**	**9,680**	**7,020**
Subordinated debt	0	0	0	0	0
Treasury bonds	0	0	0	0	0
Government loans	0	0	0	0	0
Territorial bonds	0	0	0	0	0
Consumer loans	300	1,450	3,015	4,672	2,504
Auto loans	798	1,039	3,056	977	1,534
Accounts receivable	0	0	0	0	0
Rights to future loans	0	0	0	0	0
Securitisation bonds	0	0	0	0	0
Other loans	1,850	2,299	2,313	4,032	2,982
Total asset-backed bonds	**29,008**	**28,370**	**35,505**	**29,415**	**18,145**
Total asset-backed commercial paper[4]	**620**	**2,420**	**1,880**	**2,200**	**240**
Total bonds and commercial paper	**29,628**	**30,790**	**37,385**	**31,615**	**18,385**
***Pro memoria*:**					
Mortgage subtotal	**17,310**	**9,458**	**19,621**	**14,885**	**683**

Source: CNMV. (1) Includes funds whose pools include almost all loans to SMEs. (2) Includes funds whose pools include loans to any type of business: self-employed, micro-enterprises, SMEs and larger companies. (3) Includes funds whose pools are only comprised of loans to large companies. (4) Gross issues of asset-back commercial paper programmes registered by the FTAs.

Proprietary trading on AIAF

I.18

Nominal amount in million euros

	2014	2015	2016	2017	2018	% change 18/17
Commercial paper	26,728	10,521	9,977	3,820	0	-100.00
Bonds and debentures	466,010	176,151	21,816	8,413	27	-99.68
Securitisation bonds	249,268	122,259	10,361	6,207	0	-100.00
Mortgage bonds	285,925	103,861	17,230	6,583	0	-100.00
Territorial bonds	77,721	37,532	3,243	368	0	-100.00
Matador bonds	0	0	0	0	0	–
Total private fixed income	**856,384**	**328,066**	**52,267**	**19,183**	**28**	**-99.86**
Treasury bills	10	11	0	0	0	–
Government bonds and debentures	42	82	18	9	442	4,911.89
Total public debt	**52**	**93**	**18**	**9**	**442**	**5,024.64**
Total	**856,436**	**328,159**	**52,285**	**19,192**	**470**	**-97.55**

Number, investors, assets and breakdown of changes in assets of securities and real estate mutual funds[1]

II.1

Million euros

					Assets					Pro memoria:
	No. of funds		No. of investors		Amount		Change[2]			
Category	2018	Change on Dec-17	2018	Change on Dec-17	2018	Change on Dec-17	Net subsc.	Net yield	Gross profits distributed	Distribution net subscriptions mutual funds (%)
Fixed income[3]	279	-11	2,709,547	82,000	66,889	-3,675	-2,766	-908	0	-34.1
Mixed fixed income[4]	168	13	1,188,157	-9,366	40,471	-2,936	-1,064	-1,865	-7	-13.1
Mixed equity[5]	184	8	624,290	39,882	23,256	869	2,486	-1,617	0	30.7
Euro equity	113	2	831,115	120,187	12,178	-25	1,790	-1,871	-1	22.1
International equity	236	25	2,225,366	359,999	24,405	340	3,864	-3,523	-1	47.7
Guaranteed fixed-income	67	-12	165,913	-24,162	4,887	-570	-576	7	0	-7.1
Guaranteed equity[6]	163	-25	494,660	-32,873	14,556	-861	-667	-194	0	-8.2
Global funds	242	17	1,501,730	414,793	42,137	6,625	9,449	-2,602	-2	116.6
Passively managed	172	-30	543,192	-95,774	16,139	-3,339	-2,790	-537	-11	-34.4
Absolute return	99	-5	930,641	72,471	14,173	-2,534	-1,900	-797	0	-23.4
Total mutual funds	**1,725**	**-16**	**11,217,569**	**930,115**	**259,095**	**-6,100**	**7,842**	**-13,919**	**-22**	**97.0**
Funds of hedge funds	6	-1		-796	212	3	177	-125	0	2.2
Hedge funds	36	2		738	2,073	49	83	-86	0	1.0
Total securities funds	**1,767**	**-15**	**11,217,569**	**930,057**	**261,380**	**-6,048**	**8,102**	**-14,130**	**-22**	**100.0**
Real estate funds	**2**	**-1**	**483**	**-614**	**309**	**-50.6**				–
Foreign UCITS[7]	**1,024**	**11**	**3,035,849**	**808,858**	**180,924**	**30,503**	–	–	–	–

Source: CNMV. (1) Fund compartments which have sent confidential statements (therefore excludes funds in process of dissolution or liquidation). The data of the special purpose compartments are only included in the totals, not in the breakdowns by category as they do not fall under a specific category. (2) For each category, the variation in assets is due to net subscriptions, including those due to changes in the investor profile, gross profits paid out and net yields on assets. (3) Includes Euro fixed income, Foreign fixed income, Monetary fixed income and Short-term monetary fixed income. (4) Includes Euro mixed fixed income and Foreign mixed fixed income. (5) Includes Euro mixed equity and Foreign mixed equity. (6) Includes Guaranteed variable return and Partial guarantee. (7) The number of foreign CIS only includes UCITS (companies and funds) registered with the CNMV. The data on assets and the number of unit-holders refer to the third quarter of 2018, estimated with 93.9% of the entities required to submit information. With the entry into force of CNMV Circular 2/2017, of 25 October 2016, the number of entities required to submit statistical information has increased and therefore the data may not be comparable with the information published up to December 2017. The volume of investment is the result of multiplying the number of shares and units distributed in Spain by their value at the end of the corresponding period.

Fund portfolio as a percentage of the outstanding balance of Spanish securities II.2

%

	2014	2015	2016	2017	2018
Listed equities[1]	**2.0**	**2.3**	**2.3**	**2.6**	**3.0**
Private fixed income	**3.2**	**2.6**	**2.3**	**1.9**	**1.6**
Short term	11.7	18.0	24.5	14.8	17.4
Long term	2.9	2.1	1.5	1.6	1.3
Public sector fixed-income	**7.1**	**4.9**	**5.5**	**4.6**	**4.2**
Short term[2]	8.7	6.1	7.7	8.0	11.4
Long term	6.9	4.8	5.3	4.3	3.6

Source: CNMV and Bank of Spain (1) Realisation value of the portfolio over the capitalisation of domestic securities in the electronic market, open outcry market and MAB. (2) Does not include temporary asset acquisitions.

Expenses charged to financial mutual funds II.3

as % of average daily assets

	Management fees			Depository fees[1]		
	2016	2017	2018	2016	2017	2018
Total mutual funds[2]	**0.95**	**0.91**	**0.86**	**0.08**	**0.08**	**0.07**
Fixed income	0.58	0.54	0.45	0.07	0.07	0.06
Mixed fixed income	1.12	1.05	0.96	0.09	0.09	0.08
Mixed equity	1.40	1.34	1.26	0.11	0.10	0.10
Euro equity	1.75	1.71	1.47	0.12	0.11	0.10
International equity	1.71	1.69	1.41	0.12	0.10	0.09
Guaranteed fixed-income	0.68	0.48	0.38	0.06	0.05	0.05
Guaranteed equity	0.70	0.58	0.53	0.06	0.05	0.05
Global funds	1.26	1.07	0.98	0.10	0.09	0.08
Passively managed	0.56	0.52	0.48	0.06	0.06	0.05
Absolute return	0.96	0.91	0.79	0.08	0.07	0.06
Funds of hedge funds	**0.96**	**2.93**	**3.94**	**0.07**	**0.08**	**0.10**
Hedge funds[3]	**2.38**	**2.75**	**1.86**	**0.01**	**0.00**	**0.01**

Source: CNMV. (1) Except in hedge funds where they are financing fees. (2) The data of the special purpose compartments are only included in the totals, not in the breakdowns by category as they do not fall under a specific category. (3) Percentage of average monthly assets.

Yields and net subscriptions of mutual funds[1]

Yield (%) and net subscriptions (million euros)

	2014		2015		2016		2017		2018	
	Yield	Net subsc.	Yield	Net subsc.	Yield	Net subsc.	Yield	Net subsc.	Yield	Net subsc.
Fixed income[2]	2.41	13,821	0.10	-4,816	0.52	8,244	-0.13	-3,638.0	-1.44	-2,766
Mixed fixed income[3]	3.67	15,689	0.16	20,903	0.27	-4,751	1.10	2,890.5	-4.27	-1,064
Mixed equity[4]	4.70	6,842	0.15	8,227	1.19	-5,195	3.23	5,498.6	-6.45	2,486
Euro equity[5]	2.09	-338	3.44	467	2.61	-538	11.16	2,549.7	-13.01	1,790
Foreign equity[6]	6.61	2,716	7.84	4,110	4.15	-33	8.75	4,514.0	-12.34	3,864
Guaranteed fixed-income	2.54	-11,762	0.27	-8,094	-0.03	-3,700	0.72	-3,262.6	0.09	-576
Guaranteed equity[7]	2.64	-652	1.07	-2,396	0.19	5,466	1.61	-309.5	-1.33	-667
Global funds	4.63	2,110	2.45	5,788	1.99	7,801	4.46	13,405.9	-5.69	9,449
Passively managed[8]	7.74	5,632	0.53	-6,275	1.16	5,603	2.13	-4,585.0	-3.16	-2,790
Absolute return[8]	1.98	1,736	0.12	4,803	0.38	944	1.44	4,287.3	-4.81	-1,900
Total mutual funds[9]	**3.67**	**35,795**	**0.89**	**22,764**	**0.98**	**13,823**	**2.42**	**21,325.0**	**-4.89**	**7,842**
Funds of hedge funds	-0.51	-33	-0.86	-47	-0.39	-28	0.44	193.0	-2.99	177
Hedge funds	5.50	162	5.18	321	4.40	-110	7.41	209.0	-5.63	83
Total funds (Total mutual funds + funds of hedge funds + hedge funds)	**3.67**	**35,924**	**0.93**	**23,038**	**1.00**	**13,685**	**2.76**	**21,727.0**	**-4.90**	**8,102**
Real estate funds	**-5.87**	**-3,085**	**-6.66**	**-1**	**-5.35**	**0**	**-2.60**	**-1.0**	**0.24**	**-52**

Source: CNMV (1) Fund compartments which have sent reserved statements (therefore excludes funds in process of dissolution or liquidation). (2) Until 1Q09 includes: Short-term fixed income, Long-term fixed income, Foreign fixed income and Monetary fixed income. From 2Q09 includes: Euro fixed income, Foreign fixed income and Monetary fixed income. From 3Q11 includes: Euro fixed income, Foreign fixed income, Monetary fixed income and Short-term monetary fixed income. (3) Until 1Q09 includes: Mixed fixed income and Foreign mixed fixed income. From 2Q09 includes: Euro mixed fixed income and Foreign mixed fixed income. (4) Until 1Q09 includes: Mixed equity and Foreign mixed equity. From 2Q09 includes: Euro mixed equity and Foreign mixed equity. (5) Until 1Q09 includes: Spanish equity and Euro equity. From 2Q09 includes: Euro equity (that now includes Spanish equity). (6) Until 1Q09 includes: Foreign equity Europe, Foreign equity Japan, Foreign equity USA, Foreign equity Emerging countries and Foreign equity Others. From 2Q09 includes: Foreign equity. (7) Until 1Q09 includes: Guaranteed equity. From 2Q09 includes: Guaranteed equity and Partial guarantee. (8) New categories from 2Q09. All absolute return funds were previously classified in Global Funds. (9) The data of the special purpose compartments are only included in the totals, not in the breakdowns by category as they do not fall under a specific category.

Foreign UCITS marketed in Spain[1]

II.5

	2017	2018 [2]	Change (%)
No. of UCITS	**1,013**	**1,024**	**1.1**
No. of investors	**1,984,474**	**3,035,849**	**53.0**
Investment volume (million euros)	**150,421**	**180,924**	**20.3**
Breakdown by country of origin			
Germany	35	42	20.0
Austria	21	24	14.3
Belgium	5	5	0.0
Denmark	1	1	0.0
Finland	8	9	12.5
France	292	263	-9.9
Netherlands	2	2	0.0
Ireland	184	200	8.7
Liechtenstein	3	4	33.3
Luxembourg	429	447	4.2
United Kingdom	33	27	-18.2

Source: CNMV. (1) The number of undertakings and their distribution by home country only includes UCITS (companies and funds) registered with the CNMV. (2) The data on assets and the number of unit-holders refer to the third quarter of 2018, estimated with 93.9% of the entities required to submit information. With the entry into force of CNMV Circular 2/2017, of 25 October 2016, the number of entities required to submit statistical information has increased and therefore the data may not be comparable with the information published up to December 2017.

UCITS operators (SGIIC): registrations and de-registrations in 2018

II.6

	Controlling group
UCITS operators	
New registrations	
Alantra EQMC Asset Management, SGIIC, S.A.	Alantra Partners, S.A.
Ginvest Asset Management, SGIIC, S.A.	Independent
Altair Finance Asset Management, SGIIC, S.A.	Independent
Horos Asset Management, SGIIC, S.A.	Independent
Loreto Inversiones, SGIIC, S.A.	Loreto Mutua, Mutualidad de Previsión Social
Muza Gestión de Activos, SGIIC, S.A.	Independent
Valentum Asset Management, SGIIC, S.A.	Independent
Nao Asset Management, E.S.G., SGIIC, S.A.	Inversiones Grupo Zriser, S.L.
Gala Capital Desarrollo, SGIIC, S.A.	Independent
Universe Asset Management, SGIIC, S.A.	Independent
Augustus Capital Asset Management, SGIIC, S.A.	Independent
De-registrations	
Santa Lucía Gestión, SGIIC, S.A.	Santa Lucía, S.A. Compañía de Seguros
Securitisation fund management companies	
New registrations	
EBN Titulización, S.A., SGFT	EBN Banco de Negocios, S.A.
Foreign operators with branch	
New registrations	
Flossbach Von Storch Invest, S.A., Sucursal en España	Flossbach Von Storch Invest, S.A.
Schroder Investment Management (Europe), S.A., Sucursal en España	Schroder Investment Management (Europe), S.A.
Aquila Capital Investmentgesellschaft Mbh, Sucursal en España	Aquila Capital Investmentgesellschaft Mbh

Source: CNMV.

Foreign investment firms with community passport: home Member State[1]

II.7

	2017	2018
No. of foreign investment firms operating in Spain		
Free provision of services	2,816	2,941
Branches	53	61
Breakdown by home State		
Free provision of services		
Germany	65	74
Austria	21	20
Belgium	9	9
Bulgaria	8	10
Cyprus	185	206
Croatia	1	1
Denmark	22	24
Slovakia	2	2
Slovenia	1	1
Estonia	1	1
Finland	13	13
France	50	53
Greece	10	11
Netherlands	100	108
Hungary	1	2
Ireland	42	46
Iceland	0	1
Italy	9	10
Latvia	2	2
Liechtenstein	25	26
Lithuania	1	1
Luxembourg	34	35
Malta	25	27
Norway	30	29
Poland	0	1
Portugal	9	9
United Kingdom	2,133	2,204
Czech Republic	2	3
Romania	1	0
Sweden	14	12
Branches		
Germany	2	4
France	2	2
Greece	1	1
Netherlands	3	3
Ireland	1	1
Luxembourg	2	3
Norway	1	1
Poland	1	1
Portugal	1	1
United Kingdom	39	43
Sweden	0	1

Source: CNMV. (1) Countries stated in the notifications of investment firms from EU Member States and in authorisations of investment firms from non-EU countries.

Registrations and de-registrations of broker-dealers, brokers, portfolio management companies, financial advisory firms and foreign investment firms with branches

II.8

Entity	Controlling group
Broker-dealers and brokers	
New registrations	
Addenda Capital, AV, S.A.	Independent
Aldana Capital, AV, S.A.	Independent
Alos Intermediación, AV, S.A.	Independent
Caser Valores e Inversiones, AV, S.A.	Caser, Compañía de Seguros y Reaseguros
Neo Capital Markets, SV, S.A.	Independent
New Momentum, AV, S.A.	Independent
Norwealth Capital, AV, S.A.	Independent
De-registrations	
Altair Finance, AV, S.A.	Independent
Bankinter Securities, SV, S.A.	Bankinter, S.A.
Consulnor, SV, S.A.	Banca March, S.A.
Interbrokers, AV, S.A.	Independent
Santander Investment Bolsa, SV S.A.	Banco Santander, S.A.
Financial advisory companies	
New registrations	
Altum Faithful Investing, EAFI, S.L.	Independent
Consulae, EAFI, S.L.	Independent
Danel Capital, EAFI, S.A.	Independent
Pedro Palenzuela Sanz	Independent
Sapphire Capital, EAFI, S.L.	Independent
Securis Patrimoine, EAFI, S.L.	Independent
De-registrations	
A&G Private Wealth Solutions, EAFI, S.L.	EFG Investment (Luxembourg), S.A.
C&R Investment Financial Advisor, EAFI, S.L.	Independent
Carlos De Fuenmayor Barroso	Independent
Finetico, EAFI, S.L.	Independent
Ginvest Patrimonis, EAFI, S.L.	Independent
Lebris LCP, EAFI, S.L.	Independent
Md Wealth Advisors, EAFI, S.L.	Independent
Michael Anthony Di Santo Lewis	Independent
Miguel Ángel Cicuéndez Luna	Independent
New Momentum Consultant, EAFI, S.L.	Independent
Novaster Investments, EAFI, S.L.	Novaster GE, S.A.
Pharum Capital Asesores Financieros, EAFI, S.L.	Independent
Profim Asesores Patrimoniales, EAFI, S.L.	Caja de Arquitectos SCC
Remo Advisors, EAFI, S.L.	Independent
Salvador Cervilla García	Independent
Santiago Arribas González	Independent

Registrations and de-registrations of broker-dealers, brokers, portfolio management companies, financial advisory firms and foreign investment firms with branches *(continuation)*

II.8

Entity	Controlling group
Serfiex Investments, EAFI, S.L.	Independent
Skipper Capital Advisors, EAFI, S.L.	Independent
Villa & Ibáñez Asesoramiento Financiero, EAFI, S.L.L.	Independent
Foreign investment firms with branch	
New registrations	
Afex Markets Plc, Sucursal en España	Afex Markets Plc
Allianceberstein Limited, Sucursal en España	Allianceberstein Limited
Charme Capital Partners Limited, Sucursal en España	Charme Capital Partners Limited
DWS International Gmbh, Sucursal en España	DWS International Gmbh
FCS Capital Markets Limited, Sucursal en España	FCS Capital Markets Limited
Greenhill & Co. Spain Limited , Sucursal en España	Greenhill & Co. Spain Limited
Icap Energy Limited, Sucursal en España	Icap Energy Limited
Jefferies International Limited, Sucursal en España	Jefferies International Limited
M&G International Investments, S.A., Sucursal en España	M&G International Investments
Mfex Mutual Funds Exchange AB, Sucursal en España	Mfex Mutual Funds Exchange AB
Pimco Deutschland Gmbh, Sucursal en España	Pimco Deutschland Gmbh
De-registrations	
Jones Lang Lasalle Corporate Finance Limited, Sucursal en España	Jones Lang Lasalle Corporate Finance Limited
M&G International Investments Limited, Sucursal en España	M&G International Investments Limited
SYZ Asset Management (Europe) Limited, Sucursal en España	SYZ Asset Management (Europe) Limited

Source: CNMV.

Changes of control in broken-dealers, brokers, portfolio management companies and financial advisory companies. 2018

II.9

Entity	Buyer
Acquisitions of control by financial institutions	
Alterarea EAFI, S.L.	Independent
Batlle & Fernandez Partners,, EAFI, S.L.	Independent
Blue Ocean Inversiones Globales, EAFI, S.L.	Independent
Expert Timing Systems International, EAFI, S.L.	Independent
Kuan Capital Asesores, EAFI, S.L.	Independent

Source: CNMV.

Spanish investment firms with community passport at 31 December 2018: host Member State[1]

II.10

	2017	2018
Number of firms with cross-border activity[1]		
Free provision of services	46	48
Branches	7	7
Breakdown by country of Spanish investment firms providing cross-border services[2, 3]		
Free provision of services		
Germany	21	21
Austria	12	13
Belgium	17	18
Bulgaria	2	3
Cyprus	1	2
Croatia	0	1
Denmark	10	11
Slovakia	2	3
Slovenia	1	2
Estonia	1	2
Finland	9	10
France	21	21
Greece	10	11
Hungary	2	3
Ireland	15	14
Iceland	1	2
Italy	20	20
Latvia	1	2
Liechtenstein	2	3
Lithuania	1	2
Luxembourg	22	23
Malta	7	8
Norway	10	9
Netherlands	15	16
Poland	4	5
Portugal	34	33
United Kingdom	23	22
Czech Republic	2	3
Romania	3	4
Sweden	12	14
Branches		
France	0	1
Italy	3	4
Netherlands	0	1
Portugal	2	1
United Kingdom	3	3

Source: CNMV. (1) Does not include cross-border activity of financial advisory firms. (2) Countries stated in the notifications relating to free provision of services and in authorisations of branches. (3) Number of Spanish financial advisory firms providing services in other countries. A single firm may provide services in more than one country.

Cross-border activity of Spanish financial advisory firms

II.11

	2017	2018
Number of financial advisory firms with cross-border activity		
Free provision of services	29	29
Branches	2	2
Breakdown by country		
Free provision of services[1, 2]		
Germany	6	5
Belgium	2	1
Denmark	1	0
France	6	5
Ireland	2	2
Italy	4	3
Liechtenstein	1	0
Luxembourg	24	23
Malta	2	2
Norway	1	0
Netherlands	2	1
Poland	1	0
Portugal	3	3
United Kingdom	7	6
Branches		
Portugal	1	1
United Kingdom	1	1

Source: CNMV. (1) Countries stated in the notifications relating to free provision of services and in authorisations of branches. (2) Number of Spanish financial advisory firms providing services in other countries. A single firm may provide services in more than one country.

Foreign credit institutions authorised to provide investment services in Spain at 31 December 2018: home Member State

II.12

	2017	2018
Number of foreign credit institutions providing investment services in Spain		
EU credit institutions		
Free provision of services	409	409
Subsidiaries of EU credit institutions under the free provision of services regime	0	0
Branches	52	52
Non-EU credit institutions		
Free provision of services	3	3
Branches	4	3
Breakdown by home State		
Free provision of services	**412**	**412**
EU credit institutions	**409**	**409**
Germany	57	54
Austria	33	33
Belgium	8	7

Foreign credit institutions authorised to provide investment services in Spain at 31 December 2018: home Member State *(continuation)* II.12

	2017	2018
Cyprus	2	2
Denmark	10	10
Finland	8	9
France	42	43
Greece	1	1
Hungary	6	6
Ireland	26	26
Iceland	1	1
Italy	8	8
Latvia	1	1
Liechtenstein	7	7
Luxembourg	54	52
Malta	9	9
Norway	3	3
Netherlands	26	26
Poland	1	1
Portugal	13	14
United Kingdom	84	87
Czech Republic	0	1
Sweden	9	8
Non-EU credit institutions	**2**	**2**
Australia	1	1
Canada	1	1
Switzerland	1	1
Subsidiaries of EU credit institutions under the free provision of services regime	**0**	**0**
Branches	**56**	**55**
EU credit institutions	**52**	**52**
Germany	6	6
Austria	1	1
Belgium	1	1
France	8	9
Ireland	2	4
Italy	5	4
Luxembourg	8	9
Netherlands	5	7
Portugal	7	6
United Kingdom	9	5
Non-EU credit institutions	**4**	**3**
Argentina	1	1
United States	1	1
Japan	1	0
Switzerland	1	1

Source: Bank of Spain and CNMV.

Statistical annexes III: regulation and supervision

Number of shareholders of Ibex 35 companies[1] with significant shareholdings III.1

	Shareholding				
Entities	3-5%	5-10%	10-25%	25-50%	50-100%
Acciona	–	1	–	2	–
Acerinox	2	1	2	–	–
ACS	1	1	1	–	–
AENA	2	1	–	–	1
Amadeus	1	3	–	–	–
BBVA	–	1	–	–	–
B. Sabadell	2	1	–	–	–
B. Santander	–	1	–	–	–
Bankia	1	–	–	–	1
Bankinter	2	1	1	–	–
Caixabank	1	–	–	1	–
Cellnex	2	4	–	1	–
Cie Automotive	1	3	1	–	–
Enagás	4	–	–	–	–
Ence	1	2	–	1	–
Endesa	–	–	–	–	1
Ferrovial	1	2	1	–	–
FCC	1	1	–	–	1
Grifols	3	4	–	–	–
Iberdrola	1	2	–	–	–
IAG	2	–	2	–	–
Indra	3	2	2	–	–
Inditex	–	1	–	–	1
Inmobiliaria Colonial	2	2	2	–	–
Mapfre	–	–	–	–	1
Mediaset	–	1	–	–	1
Meliá	–	1	–	1	–
Merlin	1	–	1	–	–
Naturgy	1	–	2	1	–
REE	1	1	1	–	–
Repsol	2	1	–	–	–
Siemens-Gamesa	–	1	–	–	1
Técnicas Reunidas	2	–	–	1	–
Telefónica	–	3	–	–	–
Viscofan	1	2	2	–	–
Total	**41**	**44**	**18**	**8**	**8**

Source: CNMV. (1) Composition of the Ibex 35 index at the close of the financial year.

Outcome of disciplinary proceedings in 2018

Reference	Resolutions
(1/18)	**Resolution of the CNMV Board of 1 February 2018**
	Resolution of the disciplinary proceedings brought against an investment firm and its managing director for the alleged commission of a serious breach of Article 100 w) of the Securities Market Act (for market manipulation). They were fined 40,000 and 15,000 euros respectively.
(2/18)	**Resolution of the CNMV Board of 1 February 2018**
	Resolution of the disciplinary proceedings brought against an investment firm for the alleged commission of a serious breach of Article 100 w) of the Securities Market Act (for market manipulation). A fine of 60,000 euros was imposed.
(3/18)	**Resolution of the CNMV Board of 1 February 2018**
	Resolution of the disciplinary proceedings brought against a legal person for the alleged commission of two very serious breaches of Article 99 p) of the Securities Market Act (each of them for non-notification of significant shareholdings in another listed company). Two fines were imposed of 150,000 euros each.
(4/18)	**Resolution of the CNMV Board of 1 February 2018**
	Resolution of the disciplinary proceedings brought against a legal person for the alleged commission of a very serious breach of Article 99 p) of the Securities Market Act (for failing to report significant shareholdings in a listed company). A fine of 200,000 euros was imposed.
(5/18)	**Resolution of the CNMV Board of 1 February 2018**
	Resolution of the disciplinary proceedings brought against a natural person for the alleged commission of a serious breach of Article 286.3 of the recast text of the Securities Market Act (for the naked short selling of shares of a listed company). A fine of 10,000 euros was imposed.
(6/18)	**Resolution of the CNMV Board of 17 April 2018**
	Resolution of the disciplinary proceedings brought, on the one hand, against a listed company and its chairman for the alleged commission of a serious breach of Article 100 w) of the Securities Market Act (for market manipulation of own shares); and, on the other hand, against an investment firm for the alleged commission of a serious breach of Article 100 x) *bis* of the Securities Market Act (for not notifying of suspicious transactions regarding market abuse). The listed company and its chairman were fined 125,000 and 30,000 euros respectively, while the investment firm was fined 40,000 euros.
(7/18)	**Resolution of the CNMV Board of 17 April 2018**
	Resolution of the disciplinary proceedings brought against an investment firm for the alleged commission of a serious breach of Article 296.5 of the recast text of the Securities Market Act (certain deficiencies in its record of client orders). The resolution lowered this to a minor breach and imposed a fine of 10,000 euros.
(8/18)	**Resolution of the CNMV Board of 17 April 2018**
	Resolution of the disciplinary proceedings brought, on the one hand, against a listed company and its finance director for the alleged commission of a serious breach of Article 100 w) of the Securities Market Act (for market manipulation of own shares); and, on the other hand, against an investment firm for the alleged commission of a serious breach of Article 100 x) *bis* of the Securities Market Act (for not notifying suspicious transactions regarding market abuse). The listed company and its finance director were fined 150,000 and 30,000 euros respectively, while the investment firm was fined 40,000 euros.
(9/18)	**Resolution of the CNMV Board of 17 April 2018**
	Resolution of the disciplinary proceedings brought against a natural person for the alleged commission of a very serious breach of Article 99 i) of the Securities Market Act (for market manipulation in relation to shares in several listed companies). A fine of 280,000 euros was imposed.
(10/18)	**Resolution of the CNMV Board of 17 April 2018**
	Resolution of the disciplinary proceedings brought against an investment firm for the alleged commission of a serious breach of Article 100 w) and a very serious breach of Article 107 *quater*, section 3 c) both of the Securities Market Act, for market manipulation for the former and for the naked short selling of shares of a listed company, for the latter. The investment firm was fined 75,000 and 15,000 euros respectively.

Outcome of disciplinary proceedings in 2018 *(continuation)*

Reference	Resolutions
(11/18)	**Resolution of the CNMV Board of 17 April 2018**
	Resolution of the disciplinary proceedings brought against a credit institution for the alleged commission of a very serious breach of Article 284.1 of the recast text of the Securities Market Act (for not acting in the optimum interest of its client and for receiving illegal incentives). A fine of 440,000 euros was imposed.
(12/18)	**Resolution of the CNMV Board of 30 May 2018**
	Resolution, in relation to an investment firm and to two of the three members of its Board of Directors, of the disciplinary proceedings brought, on the one hand, against an investment firm and its three Board members for the alleged commission of a very serious breach of Article 283.3 of the recast text of the Securities Market Act (for breaching the rules on corporate governance and serious deficiencies in its control systems and administrative and accounting procedures); and, on the other hand, against the same investment firm for the alleged commission of very a serious breach of Article 284.1 of the recast text of the Securities Market Act (for failure to comply with conduct of business rules). An overall fine of 100,000 euros was imposed on the investment firm and of 40,000 and 10,000 euros on two of the Board members, respectively.
(13/18)	**Resolution of the CNMV Board of 30 May 2018**
	Resolution of the disciplinary proceedings brought against the management company of a collective investment scheme for the alleged commission of a very serious breach of Article 80 e) of the Law on Collective Investment Management Companies (for breaching the limits on the diversification of risks in investments in managed collective investment schemes). A fine of 85,000 euros was imposed.
(14/18)	**Resolution of the CNMV Board of 28 June 2018**
	Resolution of the disciplinary proceedings brought against a legal person for the alleged commission of a very serious breach of Article 286.1 of the recast text of the Securities Market Act (for breaching obligations to notify and publish significant net short positions in share in several listed companies). A fine of 200,000 euros was imposed.
(15/18)	**Resolution of the CNMV Board of 25 July 2018**
	Resolution of the disciplinary proceedings brought against a natural person for the alleged commission of a very serious breach of Article 99 o) of the Securities Market Act (for the use of insider information). A fine of 70,000 euros was imposed.
(16/18)	**Resolution of the CNMV Board of 27 September 2018**
	Resolution of the disciplinary proceedings brought against a natural person for the alleged commission of a very serious breach of Article 282.6 of the recast text of the Securities Market Act (for the use of insider information). A fine of 30,000 euros was imposed.
(17/18)	**Resolution of the CNMV Board of 27 September 2018**
	Resolution of the disciplinary proceedings brought against a credit institution for the alleged commission of a very serious breach of Article 284.1 of the recast text of the Securities Market Act (for not acting in the optimum interest of its client and for receiving illegal incentives). A fine of 4,500,000 euros was imposed.
(18/18)	**Resolution of the CNMV Board of 27 September 2018**
	Resolution, in relation to one of the Board members of an investment firm, of the disciplinary proceedings brought against the investment firm and its directors for the alleged commission of a very serious breach of Article 283.3 of the recast text of the Securities Market Act (for breaching the rules on corporate governance and serious deficiencies in its control systems and administrative and accounting procedures). A fine of 40,000 euros was imposed.
(19/18)	**Resolution of the CNMV Board of 27 September 2018**
	Resolution of the disciplinary proceedings brought against a credit institution for the alleged commission of a very serious breach of Article 284.1 of the recast text of the Securities Market Act (for failure to comply with conduct of business rules). A fine of 350,000 euros was imposed.
(20/18)	**Resolution of the CNMV Board of 27 September 2018**
	Resolution of the disciplinary proceedings brought against a legal person for the alleged commission of a very serious breach of Article 99 p) of the Securities Market Act (for failing to report significant shareholdings in a listed company). A fine of 170,000 euros was imposed.
(21/18)	**Resolution of the CNMV Board of 27 September 2018**
	Resolution of the disciplinary proceedings brought against four natural persons for the alleged commission: i) by three of them of a very serious breach of Article 99 o) of the Securities Market Act (for the illegal communication of inside information by one of them, and the use of said inside information by the other two); and ii) by the fourth of them for the alleged commission of a serious breach of Article 100 x) of the Securities Market Act (for the use of insider information). A fine was imposed for a total sum of 1,120,000 euros.

Reference	Resolutions
(22/18)	**Resolution of the CNMV Board of 27 September 2018**
	Resolution of the disciplinary proceedings brought against an investment firm for the alleged commission of a serious breach of Article 296.5 of the recast text of the Securities Market Act (in relation to the non-application of suitable policies and procedures to avoid conflicts of interest) and of a very serious breach of Article 284.1 of the recast text of the Securities Market Act (for failure to comply with conduct of business rules). A fine was imposed for a total sum of 300,000 euros.
(23/18)	**Resolution of the CNMV Board of 27 September 2018**
	Resolution of the disciplinary proceedings brought against a natural person for the alleged commission of a serious breach of Article 295.4 of the recast text of the Securities Market Act (for market manipulation) and the Spanish branch of a foreign credit institution for the alleged commission of a serious breach of Article 295.6 of the recast text of the Securities Market Act (for not notifying of suspicious transactions regarding market abuse). They were fined 15,000 and 40,000 euros respectively.
(24/18)	**Resolution of the CNMV Board of 30 October 2018**
	Resolution of the disciplinary proceedings brought against a legal person for the alleged commission of a very serious breach of Article 286.6 of the recast text of the Securities Market Act (for short selling, which had been banned by the CNMV). A fine of 150,000 euros was imposed.

List of rulings on contentious-administrative appeals against penalties in 2018 III.3

<table>
<tr><th>No.</th><th>Date</th><th>Court</th><th>Appeal No.</th><th>Resolution</th><th>Ruling appealed</th></tr>
<tr><td>1</td><td>11/01/2018</td><td>National High Court</td><td>1/2016</td><td>Ruling</td><td>Resolution MECC 23/12/2015</td></tr>
<tr><td colspan="6">Partially upholds the administrative appeal lodged by a natural person against the Ministry of Economic Affairs and Competition Resolution dated 23 December 2015 (upholding on review the Order of the same Ministry dated 7 July 2015). The amount of the fine imposed was reduced in relation to a very serious breach of Article 99 p) of the Securities Market Act.</td></tr>
<tr><td>2</td><td>06/02/2018</td><td>National High Court</td><td>335/2015</td><td>Ruling</td><td>Resolution MECC 03/07/2015</td></tr>
<tr><td colspan="6">Upholds the penalty imposed on a natural person, in relation to a serious breach of Article 100 e) of the Securities Market Act, by the CNMV Board Resolution of 25 November 2014, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 3 July 2015.</td></tr>
<tr><td>3</td><td>07/02/2018</td><td>National High Court</td><td>302/2016</td><td>Ruling</td><td>Resolution MECC 20/07/2016</td></tr>
<tr><td colspan="6">Upholds the penalties imposed on a credit institution, in relation to two very serious breaches of Article 99 z) bis of the Securities Market Act, by the Ministry of Economic Affairs and Competition Resolution dated 20 July 2016, upholding on review the Order of the same Ministry dated 2 de July 2015.</td></tr>
<tr><td>4</td><td>22/02/2018</td><td>National High Court</td><td>837/2016</td><td>Ruling</td><td>Resolution MECC 02/09/2016</td></tr>
<tr><td colspan="6">Upholds the penalty imposed on a credit institution in relation to a serious breach of Article 100 w) of the Securities Market Act, by the CNMV Board Resolution of 25 March 2015, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 2 September 2016.</td></tr>
<tr><td>5</td><td>23/03/2018</td><td>Supreme Court</td><td>340/2013</td><td>Ruling</td><td>Resolution AN 01/07/2015</td></tr>
<tr><td colspan="6">Accepts on appeal the judicial review lodged by the Central Government against the ruling of the National High Court of 1 July 2015, which annulled the penalty imposed on a credit institution in relation to a serious breach of Article 100 t) of the Securities Market Act, by the CNMV Board Resolution of 13 June 2012, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 16 May 2013, and confirmed the fine initially imposed. It also dismissed the judicial review lodged against the same ruling by the credit institution and confirmed the fine imposed on the said institution, in relation to a very serious breach of Article 99 z) bis of the Securities Market Act, by the Ministry of Economic Affairs and Competition Order dated 20 July 2012, upheld on review in a resolution from the same Ministry dated 16 May 2013.</td></tr>
<tr><td>6</td><td>23/03/2018</td><td>National High Court</td><td>38/2015</td><td>Ruling</td><td>Order MECC 19/01/2015</td></tr>
<tr><td colspan="6">Partially upholds the administrative appeal lodged by a natural person against the Ministry of Economic Affairs and Competition Order dated 19 January 2015 which imposed a fine in relation to a very serious breach of Article 99 p) of the Securities Market Act, and lowered the amount of the fine imposed.</td></tr>
<tr><td>7</td><td>17/04/2018</td><td>Supreme Court</td><td>105/2015</td><td>Ruling</td><td>Ruling AN 26/01/2017</td></tr>
<tr><td colspan="6">Dismisses the appeal for judicial review lodged against the ruling of the National High Court of 26 January 2017, upholding the fine imposed on the appealing credit institution, in relation to a serious breach of Article 100 j) bis of the Securities Market Act, by the CNMV Board Resolution of 10 April 2014, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 2 March 2015.</td></tr>
<tr><td>8</td><td>10/05/2018</td><td>National High Court</td><td>889/2016</td><td>Ruling</td><td>Resolution MECC 22/09/2016</td></tr>
<tr><td colspan="6">Upholds the penalty imposed on an investment firm, in relation to a serious breach of Article 100 w) of the Securities Market Act, by the CNMV Board Resolution of 20 April 2016, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 22 September 2016.</td></tr>
<tr><td>9</td><td>14/05/2018</td><td>Supreme Court</td><td>415/2015</td><td>Court order</td><td>Ruling AN 02/11/2017</td></tr>
<tr><td colspan="6">Accepts on appeal judicial review number 631/2018 lodged by Central Government against the ruling of the National High Court of 2 November 2011, annulling the penalties imposed on a credit institution in relation to two very serious breaches of Article 99 z) bis of the Securities Market Act, as it considers the issue raised under the judicial review as subject to case law. It also dismisses the appeal lodged by the credit institution in relation to the same ruling that confirms the fine imposed in relation to a third very serious breach of the same article and legal text.</td></tr>
<tr><td>10</td><td>24/05/2018</td><td>National High Court</td><td>911/2016</td><td>Ruling</td><td>Resolution MECC 21/09/2016</td></tr>
<tr><td colspan="6">Upholds the penalty imposed on a credit institution, in relation to a serious breach of Article 100 w) of the Securities Market Act, by the CNMV Board Resolution of 25 March 2015, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 21 September 2016.</td></tr>
<tr><td>11</td><td>24/05/2018</td><td>National High Court</td><td>929/2016</td><td>Ruling</td><td>Ruling MECC 02/09/2016</td></tr>
<tr><td colspan="6">Upholds the penalty imposed on a credit institution, in relation to a very serious breach of Article 99 z) bis of the Securities Market Act, by the Ministry of Economic Affairs and Competition Order dated 5 June 2015, upheld on review in a resolution from the same Ministry dated 2 September 2016.</td></tr>
<tr><td>12</td><td>28/05/2018</td><td>Supreme Court</td><td>242/2015</td><td>Court order</td><td>Ruling AN 04/10/2017</td></tr>
<tr><td colspan="6">Accepts on appeal judicial review number 635/2018 lodged against the ruling of the National High Court of 4 October 2017, as it considers the issue raised under the judicial review as subject to case law.</td></tr>
</table>

List of rulings on contentious-administrative appeals against penalties in 2018 *(continuation)*

No.	Date	Court	Appeal No.	Resolution	Ruling appealed
13	30/05/2018	Supreme Court	1/2017 DF	Court order	Ruling AN 28/11/2017
Dismisses, as lacking in interest under judicial review, appeal number 1487/2018 lodged against the ruling of the National High Court of 28 November 2017.					
14	31/05/2018	National High Court	119/2017	Ruling	Resolution MECC 12/12/2016
Upholds the penalty imposed on the management company of a collective investment scheme, in relation to a very serious breach of Article 99 p) of the Securities Market Act, by the CNMV Board Resolution of 17 February 2016, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 12 December 2016.					
15	14/06/2018	National High Court	30/2015	Ruling	Resolution MECC 24/11/2014
Partially upholds the administrative appeal lodged by a financial advisory company (FIAC) and its sole director against the Ministry of Economic Affairs and Competition Resolution dated 24 November 2014 (upholding on review the Order of the same Ministry dated 18 July 2014) and lowering the amount of the fines imposed on both in relation to a very serious breach of Article 99 z) *bis* of the Securities Market Act.					
16	09/07/2018	Supreme Court	302/2016	Court order	Ruling AN 07/02/2018
Dismisses, as lacking in interest under judicial review, appeal number 2909/2018 lodged against the ruling of the National High Court of 7 February 2018.					
17	17/07/2018	National High Court	471/2017	Ruling	Resolution MECC 30/05/2017
Upholds the penalty imposed on a credit institution, in relation to a serious breach of Article 296.6 of the recast text of the Securities Market Act, by the CNMV Board Resolution of 15 July 2016, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 30 May 2017.					
18	08/10/2018	National High Court	599/2018	Court order	Resolution CNMV 26/07/2018
Dismisses the administrative appeal lodged by a natural person against the resolution dated 26 July 2018, which dismissed the appeal of review against the provision of evidence handed down by the trial court of a disciplinary file dates 14 June 2018.					
19	11/10/2018	National High Court	135/2017	Ruling	Resolution MECC 15/12/2016
Upholds the penalty imposed on a MTF (in relation to a very serious breach of Article 99 c) of the Securities Market Act) by the Ministry of Economic Affairs and Competition Order dated 14 September 2015, upheld on review in a resolution from the same Ministry dated 15 December 2016.					
20	15/10/2018	Supreme Court	1/2016	Court order	Ruling AN 11/01/2018
Accepts on appeal judicial review number 1857/2018 lodged against the ruling of the National High Court of 11 January 2018, as it considers the issue raised under the judicial review as subject to case law.					
21	16/10/2018	National High Court	26/2015	Ruling	Resolution MECC 24/11/2014
Upholds the penalties imposed on a financial advisory company (FIAC) and its sole director (in relation to a serious breach of Article 100 d) of the Securities Market Act), by the CNMV Board Resolution of 23 June 2014, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 24 November 2014.					
22	02/11/2018	Supreme Court	889/2016	Court order	Ruling AN 10/05/2018
Dismisses, as lacking in interest under judicial review, appeal number 4922/2018 lodged against the ruling of the National High Court of 10 May 2018.					
23	26/11/2018	Supreme Court	911/2016	Court order	Ruling AN 24/05/2018
Accepts on appeal judicial review number 5124/2018 lodged against the ruling of the National High Court of 24 May 2018, as it considers the issue raised under the judicial review as subject to case law.					
24	03/12/2018	National High Court	886/2016	Ruling	Resolution MECC 23/12/2016
Upholds the penalty imposed on a natural person (in relation to a serious breach of Article 99 p) of the Securities Market Act) by the CNMV Board Resolution of 18 May 2016, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 23 December 2016.					
25	05/12/2018	National High Court	617/2017	Ruling	Resolution MEIC 20/06/2017
Upholds the penalties imposed against an investment firm (in relation to two very serious breaches of Article 99 l) of the Securities Market Act) by the CNMV Board Resolution of 21 September 2016, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 20 June 2017.					
26	10/12/2018	Supreme Court	409/2016	Court order	Ruling AN 16/11/2017
Dismisses, as lacking in interest under judicial review, appeal number 998/2018 lodged against the ruling of the National High Court of 16 November 2017.					

Legislative annexes

A Spanish legislation

A.1 Spanish National Securities Market Commission (CNMV)

- **Agreement of 27 September 2018,** of the Board of the Spanish National Securities Market Commission, on delegation of powers.

- **Royal Decree-Law 22/2018, of 14 December,** establishing macro-prudential tools.

  Macro-prudential measures are introduced into our legal system necessary to overcome potential vulnerabilities in the financial system, to allow the Bank of Spain, the Spanish National Securities Market Commission and the Directorate General of Insurance and Pension Funds to have the necessary instruments and tools to help mitigate possible disruptions that could have a potential systemic impact.

  In the case of investment funds, the Spanish National Securities Market Commission is empowered, in certain circumstances, to set liquidity requirements for collective investment schemes and institutions. The former are open-ended funds – that is to say, their unitholders are able to redeem their units at any time – which makes them particularly vulnerable to possible runs due to market tensions. In addition, these funds are marketed to private individuals, which makes them sensitive from a social point of view. Therefore, the title of Article 71 *septies* of Law 35/2003, of 4 November, on Collective Investment Schemes, is modified and a new section 7 is introduced.

  Likewise, the title of Article 87 of Law 22/2014, of 12 November, regulating Venture Capital Firms, other closed-ended collective investment schemes and management companies of closed-ended collective investment schemes is amended, which amends Law 35/2003, of 4 November, on Collective Investment Schemes and introduces a new section 7.

  Article 5 amends the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October, and enables the Spanish National Securities Market Commission to establish limitations on certain activities by its supervised institutions that generate an excessive increase in the risk or indebtedness of economic agents that could affect financial stability.

  A new Article 234 *bis* is added to the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October, with the following content:

> "Article 234 *bis*. Other powers to strengthen macro-prudential supervision.
>
> The CNMV may introduce limits and conditions on the activity of its supervised institutions in order to avoid excessive indebtedness of the private sector that could affect financial stability".

The Sole Additional Provision provides an obligation for sector supervisors to communicate to the designated macro-prudential authority the adoption of macro-prudential tools before they are communicated to the public and those affected. Until the creation of this authority, the sole transitional provision provides that these communications will be made to the Financial Stability Committee.

A.2 Listed companies

– **CNMV Circular 2/2018, of 12 June,** which amends Circular 5/2013, of 12 June, establishing the annual corporate governance report templates for listed companies, savings banks and other institutions that issue securities admitted to trading on official securities markets, and Circular 4/2013, of 12 June, which establishes the annual remuneration report templates for the directors of listed companies and the members of the board of directors and the control committee of savings banks that issue securities admitted to trading on official securities markets.

Until now, institutions subject to this obligation had been submitting their reports on corporate governance and the remuneration of their directors using the standard templates established for this purpose. In addition to the obvious benefits of this system, a number of drawbacks had also been identified. Among them, a certain lack of flexibility for companies, which limited their ability to organise and structure the information in the way that they believe best explained the history and evolution of the company, and led to some companies preparing, in addition to the standardised template necessary to meet their legal obligations, another template with a format more aligned to their own set of circumstances and the corporate image of the company, to be distributed among their shareholders, institutional investors, voting advisors and other stakeholders.

Therefore, for the issuing companies, it is considered advisable to eliminate the mandatory nature of the formats contained in the standardised electronic documents of the corporate governance reports and the remuneration reports of directors established in CNMV Circulars 4/2013 and 5/2013. Those institutions that do not wish to use the standardised electronic document may submit reports in any format, the content of which must respect the minimum content established by regulation, including this Circular, and must be accompanied by statistical appendices in order to continue to have a minimum of the information in standardised format to facilitate its compilation and subsequent processing by the CNMV.

Royal Decree-Law 18/2017, of 24 November, amending the Commercial Code, the recast text of the Spanish Limited Liability Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on

Account Auditing, in matters of non-financial information and diversity, expands the scope of the information to be provided in the annual corporate governance report on the diversity policies implemented by the company, with it being mandatory to refer to gender diversity and, for institutions other than small- and medium-sized institutions as defined in auditing legislation, and also to the age, disability, training and professional experience of the directors.

In addition, some technical adjustments are included in both the annual corporate governance report and the annual report on directors' remuneration, in order to introduce or develop sections that are relevant to adequately understand the corporate governance system of institutions issuing securities and the remuneration of directors of listed companies.

Finally, it has been considered appropriate to include a new annual corporate governance report template applicable to the institutions that make up the institutional public sector and are issuers of securities, other than shares, which is more simplified and adapted to the particularities of these institutions.

This Circular entered into force on the day following its publication in the *BOE* (Official State Gazette) on 16 July 2018 and will be applicable to the annual corporate governance reports and to the remuneration reports of directors that the institutions that are subject to this obligation must submit for the financial years ended at 31 December 2018, inclusive.

A.3 Investment firms and credit institutions

– **CNMV Circular 1/2018, of 12 March,** on warnings relating to financial instruments.

  Circular 1/2018 will apply to institutions providing investment services other than discretionary and individualised portfolio management services to retail customers in Spain: investment service companies, credit institutions and management companies of Spanish collective investment schemes, those same EU foreign institutions operating in Spain through a branch or agent and those non-EU foreign institutions acting through a branch or in the free provision of services.

  The objective of Circular 1/2018 is to increase the protection of retail investors when contracting certain sophisticated financial instruments and, at the same time, to improve transparency in their distribution.

  Circular 1/2018 will enter into force three months after its publication in the *BOE* (Official State Gazette) (27 March 2018).

– **CNMV Circular 4/2018, of 27 September,** amending Circular 1/2010, of 28 July, on confidential information of institutions providing investment services and Circular 7/2008, of 26 November, on accounting standards, annual financial statements and confidential statements of Investment firms, Management Companies of Collective Investment Schemes and Management Companies of Venture Capital Firms.

This Circular has as its main objectives:

i) To update the templates of confidential information established in Circular 1/2010, submitted by both credit institutions and investment firms, in order to gather information on new aspects incorporated into the MiFID II regulations, such as the new modalities for providing investment advisory services (independent and non-independent) or cross-selling. Information on the financial instruments held by customers in intermediaries is also increased and is now provided broken down on a per-instrument basis. Finally, other minor updates are also introduced in light of the experience gained since the last amendment.

ii) Update the confidential financial statement templates of investment firms to gather information on the following aspects:

- Any ancillary activities that they may carry out.

- The classes of liquid assets in which transitional customer balances and collateral received from customers are invested.

- Calculation of capital requirements for fixed overhead costs.

The first confidential information of Circular 1/2010, of 28 July, to be sent according to the new templates will be that corresponding to the period of activity from 1 January to 31 March 2019, which must be submitted by 20 April 2019. With regard to the amendments introduced in Circular 7/2008, the first information adapted to the new templates will be that corresponding to 30 April 2019, to be submitted by 20 May 2019.

A.4 Collective investment schemes, securitisation funds and venture capital firms

– **CNMV Circular 5/2018, of 26 November,** amending Circulars 4/2008, 7/2008, 11/2008 and 1/2010, on public and periodic information on Collective Investment Schemes, accounting standards, annual financial statements and confidential information statements of Venture Capital Firms, management companies of Collective Investment Schemes and Venture Capital Firms and branches of European managers established in Spain.

The purpose of this Circular is to modify:

- **CNMV Circular 7/2008**, of 26 November, on accounting standards, annual financial statements and confidential statements of Investment Firms, management companies of Collective Investment Schemes and management companies of Venture Capital Firms. A new breakdown is added, for management companies of investment firms, with regard to fees for financial advice to managed institutions or investors, the possibility of specifying the vehicles to which management is delegated and breakdowns of the profit and loss account. For management companies of investment firms, the deadlines for sending the confidential information of these institutions to the CNMV has been amended.

- **CNMV Circular 11/2008**, of 30 December, on accounting standards, annual financial statements and confidential information statements of venture capital firms. It adds information on the type of investor in venture capital firms, with the breakdown provided for in Article 75 of Law 22/2014, of 12 November.

- **Circulars 7/2008 and 11/2008**, in order to promote the electronic processing of documents before the CNMV, as well as to facilitate the availability of information to the public, incorporating the requirement to submit, as a standardised electronic document, the annual report of the management companies of investment firms and the venture capital firms provided for in the aforementioned Law 22/2014.

- The template report for investment funds set out in **Annex 1 of CNMV Circular 4/2008**, of 11 September, on the content of quarterly, half-yearly and annual reports of collective investment schemes and the statement of position, in order to include the information on remuneration policies established in Article 46 *bis* of Law 35/2003, of 4 November, on CIS and also the information on securities financing operations established by Regulation (EU) 2015/2365 of the European Parliament and of the Council, of 25 November, on transparency of securities financing transactions and of reuse.

- **CNMV Circular 1/2010,** of 28 July, on confidential information on institutions providing investment services. It is amended in order to gather information (based on the authorisations of the CIS Act which allows foreign managers to operate in Spain in accordance with the conditions established in Article 55 for management companies authorised by Directive 2009/65/EC of the European Parliament and of the Council, of 13 July 2009, and in Article 55 *bis* for management companies regulated by Directive 2011/61/EU of the European Parliament and of the Council, of 8 June 2011) on the activities carried out by foreign management companies from the European Union operating in Spain through a branch.

A.5 Transposition of European regulations

– **Royal Decree-Law 14/2018, of 28 September,** amending the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October.

  The purpose of this Royal Decree-Law is to complete the transposition of Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU; of Directive 2016/1034 of the European Parliament and of the Council, of 23 June 2016, amending Directive 2014/65/EU on markets in financial instruments; and the Commission Delegated Directive (EU) 2017/593, of 7 April 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, with regard to the safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits.

- The preliminary title of the Securities Market Act is amended, which contains the general provisions and outlines the institutions that are excluded from the scope of application of the recast text of the Securities Market Act in relation to the content corresponding to Directive 2014/65/EU.

- Chapter V of Title IV is amended to provide for the possibility that the CNMV may impose limits on the volume of a net position that may be held in certain derivatives, as well as the obligations of trading centres to disseminate and communicate positions in certain derivatives.

- Chapters III, V and VI of Title V of the recast text are amended, containing the legal regime applicable to investment services and activities firms.

- A new Title V *bis* is introduced to regulate a situation that has been addressed for the first time in a European directive, that of data supply services, detailing the fundamental elements of the authorisation procedure to which the providers of these services must submit, as well as the internal organisational requirements that they must comply with.

- Title VII, which relates to the business conduct rules to be respected by investment services and activities firms, is amended to ensure adequate investor protection.

- As regards supervisory powers, some are amended and added in accordance with the provisions of Directive 2014/65/EU, of 15 May 2014. Major changes are also made to Chapter II of Title VIII, which relates to cooperation with other authorities. Four exceptions are added to the CNMV's obligation to maintain professional secrecy.

- Two new chapters are introduced in Title X relating to the communication of infringements and the publication of infringements, incorporating the innovations deriving from transposed European regulations.

- In order to determine the scope of the concepts contained in this Royal Decree-Law, the definitions contained in Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, and its implementing regulations shall be taken into account.

A Second Additional Provision is added on **alternative resolution of consumer disputes** which provides that until the creation of the single competent authority for the resolution of consumer disputes in the financial sector, the complaints service of the CNMV (regulated in Article 30 of Law 44/2002, of 22 November, on Financial System Reform Measures) will serve as an alternative dispute resolution body in the field of the securities market.

This Royal Decree-Law came into force the day after its publication in the *BOE* (Official State Gazette) . By way of exception, amendments to Articles 146, 147, 148, 149.2 second paragraph, 149.3, 152, 153, 151, 160, 161, 164, 165, 166, 167, 168, 169, 170, 171, 172, 173, 176, 177, 193, 194, 195, 196, 205 and 207 shall enter into force at the same time as the Royal Decree implementing them. It was stipulated that the provisions of Articles 234.2(d) and 234.12 would not apply until the amendment to Constitutional Law 3/2018, of 5 December, on

Data Protection (which entered into force on 6 December 2018) had been approved and its Fifteenth Additional Provision had entered into force.

– **Resolution of 18 October 2018,** of the Lower House of Parliament, ordering the publication of the Resolution to Validate Royal Decree-Law 14/2018, of 28 September, which amends the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October.

– **Royal Decree 1464/2018, of 21 December,** implementing the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October, and Royal Decree-Law 21/2017, of 29 December, on urgent measures to adapt Spanish law to European Union regulations on the securities market, and partially amending Royal Decree 217/2008, of 15 February, on the legal regime for investment firms and other institutions providing investment services and partially amending the implementing regulation of Law 35/2003, of 4 November, on Collective Investment Schemes, approved by Royal Decree 1309/2005, of 4 November, and other Royal Decrees on the securities market.

The approval of Royal Decree-Law 21/2017, of 29 December, on urgent measures to adapt Spanish law to European Union regulations on the securities market and Royal Decree-Law 14/2018, of 28 September, has meant the incorporation into Spanish law of a large part of the MiFID II regulatory package, but it is necessary to complete its incorporation through regulatory implementation. The purpose of this Royal Decree is to finalise this incorporation and complete the regulatory implementation of the legal regime of Royal Decree-Law 21/2017, of 29 December, and of the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October, which was amended by Royal Decree-Law 14/2018, of 28 September, and by other subsequent regulations (from which it receives authorisation for regulatory implementation).

The regulatory principles that serve as inspiration for this Royal Decree and emanate from Royal Decree-Law 21/2017, of 29 December, and Royal Decree-Law 14/2018, of 28 September, are as follows:

i) Ensure high levels of protection for investors in financial products, especially retail investors.

ii) Improve the organisational structure of regulated markets.

iii) Improve the organisational structure and corporate governance of companies.

iv) Increase the security and efficiency of securities markets.

It contains:

- Title I is devoted to the legal regime of regulated markets.

- Title II regulates limits on positions, detailing limits on the volume of a net position in commodity derivatives and regulating aspects such as supervision or the application of more restrictive limits in exceptional cases.

This Title also regulates the communication of positions in derivatives on commodities, emission rights or derivatives on emission rights, implementing the system on information and classification obligations.

- Title III regulates data supply services.

- The First Additional Provision provides for the communication by the CNMV to the European Banking Authority of the sanctions imposed on investment firms, as well as the appeals filed against them and their outcome.

- The Second Additional Provision establishes that the processing of personal data that must be performed as a consequence of the application of this Royal Decree must be carried out in accordance with Regulation (EU) No. 2016/679 of the European Parliament and of the Council, of 27 April 2016, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and with the rest of the regulations on the protection of personal data.

- The Third Additional Provision specifies that in those autonomous regions in which there are regional markets, references in the Royal Decree to the CNMV must be construed as referring to the competent regional body.

- The First Transitional Provision establishes a period of two months for the application of the amendments introduced in Royal Decree 217/2008, of 15 February, on the legal regime of investment firms and other institutions providing investment services and partially amending the implementing regulation of Law 35/2003, of 4 November, on Collective Investment Schemes, approved by Royal Decree 1309/2005, of 4 November, and for the amendments to Royal Decree 1082/2012, of 13 July. Specifically, in relation to the incentive regime regulated in the regulation, a period of two months is also granted to adapt those financial instruments that had been marketed prior to the entry into force of these amendments.

- The Second Transitional Provision contains the provisions necessary to ensure legal certainty regarding the requirements applicable to admissions to trading regulated in this Royal Decree, until the full entry into force of Regulation (EU) 2017/1129 of the European Parliament and of the Council, of 14 June 2017, on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, maintaining until then the applicability of the laws transposing this Directive.

- The Third Transitional Provision regulates the adaptation of company names by EAFIs, which are now referred to as financial advisory companies (Spanish acronym: EAF), upon the entry into force of the Royal Decree.

- The Sole Repealing Provision repeals:

  – Royal Decree 710/1986, of 4 April, creating a second securities market on the Official Stock Exchanges and modifying the conditions for putting fixed-income securities into circulation.

- Royal Decree 726/1989, of 23 June, on Management Companies and members of the Stock Exchanges, Sociedad de Bolsas and Collective Guarantee Companies.

- Royal Decree 949/1989, of 28 July, on commissions applicable to transactions in securities admitted to trading on the Stock Exchanges and on the creation of the Associations of Brokers of Madrid, Barcelona and Bilbao.

- Royal Decree 1416/1991, of 27 September, on special stock exchange operations and on the OTC transfer of listed securities and weighted average exchange rates.

- Royal Decree 1333/2005, of 11 November, implementing the Securities Market Act 24/1988, of 28 July, on market abuse.

- Royal Decree 1282/2010, of 15 October, regulating the official secondary markets for futures, options and other derivative financial instruments.

• The First Final Provision amends Royal Decree 948/2001, of 3 August, on investor compensation systems, in order to adapt it to the innovations of the recast text of the Securities Market Act following the modifications introduced into the list of investment services and activities by Royal Decree-Law 14/2018, of 28 September.

• The Second Final Provision amends the implementing regulation of Law 35/2003, of 4 November, on Collective Investment Schemes, approved by Royal Decree 1082/2012, of 13 July, to comply with the MiFID II rules on the fees that may be charged in relation to market studies and research relating to incentives.

• The Third Final Provision amends Royal Decree 1310/2005, of 4 November, partially implementing the Securities Market Act 24/1988, of 28 July, regarding the admission to trading of securities in secondary official markets, public offerings or subscriptions and the applicable prospectus.

• The Fourth Final Provision constitutes one of the pillars of this Royal Decree and of the entire transposition of MiFID II by introducing a far-reaching amendment to Royal Decree 217/2008, of 15 February, on the legal regime of investment firms and other institutions providing investment services and partially amending the implementing the Regulation of Law 35/2003, of 4 November, on Collective Investment Schemes, approved by Royal Decree 1309/2005, of 4 November.

  The legal regime for investment firms provided for in the recast text of the Securities Market Act, following the amendments introduced by Royal Decree-Law 14/2018, of 28 September, is given regulatory implementation. It regulates the provisions included in that regulation with regard to authorisation, activity, organisational requirements, the legal status of financial advisory firms, the protection of client assets, cross-border activity, surveillance and control of products, incentives and obligations to provide information to clients and potential clients, and the legal status of significant shareholdings and obligations to provide information on the composition of the share capital. In addition, the requirements applicable to investment firms in matters of corporate governance established in the recast text of the Securities Market Act are implemented, which, among other issues, entails the regulatory implementation of the transposition carried out in Articles 184 to 186 of the recast text of the Securities Market Act; of Article 91, paragraphs 8, 9 and 10, of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC – known as "CRD IV" – and repealing Directives 2006/48/EC and 2006/49/EC. Articles 29.2, 38 and 124.3 are also transposed, referring to the possibility for certain investment services companies to carry out operations on their own behalf with capital requirements of institutions that do not carry out these types of operations, to the treatment of branches of EU credit institutions in Spain, and to ensuring the adequate exchange of information between the CNMV and other competent authorities of the European Union, in the case of Spanish institutions controlled by a parent company from the European Union, respectively.

In this Fourth Final Provision, the transposition of the regime regarding incentives and rebates is noteworthy. In relation to product oversight and control, the Fourth Final Provision implements the regime according to which investment firms that design financial instruments to be marketed to clients must implement a prior approval process for each instrument in order to identify a market of end clients to whom the instrument will be addressed. The aim is to ensure that the characteristics of the products are the most appropriate for each type of customer identified, with the analysis including the distribution channels of the financial instruments in question. In this way, the goal of investor protection is reinforced, since issues relating to the suitability of the financial instrument for the specific client to whom it is addressed are no longer present only at the time of marketing, but also from the very conception and design of such product.

It reinforces both investor protection and the CNMV's supervisory capacity, relating to the obligation to include in the registers of investment firms telephone conversations and electronic communications related to the execution of orders on their own behalf and to the provision of the service of reception, transmission and execution of orders.

The Fourth Final Provision also includes adjustments in the area of supervision of investment firms, in order to progress to the full transposition of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

- The Fifth Final Provision amends Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, with the aim of ensuring the appropriate exchange of information between the Bank of Spain and other competent authorities in the European Union, in the case of Spanish institutions controlled by a European Union parent company. This transposes Article 124.3 of Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, for credit institutions and completes the transposition of this Directive.

- The Sixth Final Provision amends Royal Decree 878/2015, of 2 October, on clearing, settlement and registration of marketable securities represented by book entries, on the legal regime of central securities depositories and central counterparties and on transparency requirements of issuers of securities admitted to trading in an official secondary market, to make the necessary adjustments to ensure its correct interpretation and application in relation to MiFID II developments relating to trading venues.

– **Royal Decree-Law 19/2018, of 23 November,** on payment services and other urgent financial measures.

The aim of this Royal Decree-Law is the regulation of payment services, listed in section 2, which are provided on a professional basis in Spanish territory, including the form of provision of such services, the legal regime applicable to payment institutions and the regime of transparency and information applicable to payment services, as well as the respective rights and obligations of both payment service users and their providers.

The payment services regulated by this Royal Decree-Law include two new ones: payment initiation and account information. Both services involve third party access to the accounts of payment service users.

From the point of view of the objective scope of application, it maintains the principle that the Royal Decree-Law applies to all services provided in Spanish territory, regardless of the origin or final destination of the operations.

Law 16/2009, of 13 November, on payment services is repealed.

In addition to the above regulation, the following is highlighted:

- Ninth Final Provision. **Amendment to the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October.**

  The aims of this amendment are as follows:

  i) To carry out a formal and technical adaptation of some of its provisions.

     The Ninth Final Provision makes certain technical adaptations to the recast text of the Securities Market Act. The need for these adaptations has become apparent following its amendment by Royal Decree-Law 14/2018, of 28 September, which amends the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October, and seeks to give full effect to the innovations introduced in the reference regulation on the securities market. Royal Decree-Law 14/2018 moved forward in incorporating the MiFID II regulatory package into our legal system, with its approval being of extraordinary and urgent necessity, firstly, because the deadline for transposition of this Directive had expired and the European Commission had sued the Kingdom of Spain before the Court of Justice of the European Union for its failure to transpose it completely; secondly, to avoid serious harm arising from regulatory uncertainty for Spanish investment services and activities companies; thirdly, because the failure to transpose it within the deadline was affecting the attractiveness of the Spanish market as a market in which new investment services and activities companies could be set up; and, fourthly, because of the extraordinary and urgent need to provide the CNMV with the new supervisory powers and inter-administrative cooperation tools that MiFID II granted to the public bodies supervising the European Union's investment services and activities companies and securities markets.

ii) Adapt the standard to various recent European regulations which have already entered into force and been effectively implemented, in particular:

- Regulation (EU) 2016/1011 of the European Parliament and of the Council, of 8 June 2016, on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014.

- Regulation (EU) No. 596/2014 of the European Parliament and of the Council, of 16 April 2014, on market abuse, repealing Directive 2003/6/EC of the European Parliament and of the Council, and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC.

- Regulation (EU) No. 1286/2014 of the European Parliament and of the Council, of 26 November 2014, on key data documents relating to linked retail investment products and insurance-based investment products.

- Regulation (EU) No. 2015/2365 of the European Parliament and of the Council, of 25 November 2015, on the transparency of securities financing and re-use transactions and amending Regulation (EU) No. 648/2012.

iii) **Complete transposition of two partially transposed directives**. Furthermore, Commission Implementing Directive (EU) 2015/2392, of 17 December 2015, on Regulation (EU) No. 596/2014 of the European Parliament and of the Council regarding the communication of possible breaches and actual breaches of the said Regulation to the competent authorities; and Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

Legal certainty is introduced into our legal system through the adaptation of the recast text of the Securities Market Act (especially its penalty regime) to the European regulations already in force. Although these regulations were already directly applicable, Spanish national legislation has been adapted to them to introduce certainty for operators and in the CNMV's supervisory work. In this way, the backbone of the regulation applicable to securities markets is fully adapted to current European law, ensuring that the CNMV has all the necessary supervisory instruments to guarantee the proper functioning of these markets and adequate investor protection.

- Second Final Provision. **Amendment to Law 35/2003, of 4 November, on Collective Investment Schemes.** Spanish legislation is adapted to Regulation (EU) No. 2017/1131 of the European Parliament and of the Council, of 14 June 2017, on money market funds, which establishes harmonised regulation for this type of investment fund and imposes on the Member States the obligation to establish a penalty system. This Regulation has been applicable since 21 July 2018, and therefore the penalty system for non-compliance with this European Regulation is included in Law 35/2003, of 4 November, on Collective Investment Schemes, with a view to establishing the infringement classifications reflected in non-compliance with the obligations of the Regulation.

  It should be highlighted that the European Union Regulations imposed an obligation on Member States to notify the European Commission, before a certain date, of any administrative sanctions they had transposed into their legal systems in order to ensure their effectiveness. These deadlines were as follows: Regulation (EU) No. 2016/1011, on 1 January 2018; Regulation (EU) No. 1286/2014, on 31 December 2016; Regulation (EU) No. 2015/2365, on 13 July 2017; and Regulation (EU) No. 2017/1131, on 21 July 2018.

- First Final Provision. **Amendment to Law 41/1999, of 12 November 1999, on securities payment and settlement systems**. This updates the list of securities payment and settlement systems following the integration of Spain into the pan-European TARGET2-Securities platform.

- Eighth Final Provision. **Amendment to Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment service companies**. This amendment aims to correctly transpose the provisions relating to branches of institutions established outside the European Union in Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014, establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No. 1093/2010 and (EU) No. 648/2012. In this regard, it is also necessary to amend Article 53 to clarify that the FROB may collect contributions from branches in Spain of institutions established outside the European Union. In addition, this Final Provision contains provisions to clarify the powers of the FROB as an executive resolution authority at the time it performs a resolution, with respect to the limitations and requirements demanded in the corporate regulations, in accordance with Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014.

- Sixth Final Provision. **Amendment to Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions**. It is adapted to the activity of providing payment services and thereby completes the adaptation of the regulation to Directive 2013/36/EU of the European Parliament and of the Council, of 26 June 2013, on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. Particularly noteworthy is the provision of an appropriate channel so that any person who has knowledge or well-founded suspicion of non-compliance with the prudential supervision obligations of credit institutions provided for in the Law and its implementing regulations has the possibility and the right to notify the Bank of Spain with due guarantees (otherwise known as whistleblowing).

  In addition, it provides that all centres of activity established in Spanish territory by European credit institutions whose central administration is in another Member State shall be considered a single branch, and ensures the appropriate exchange of information between the Bank of Spain and other competent authorities of the European Union, in the case of Spanish institutions controlled by a parent company of the European Union.

- Seventh Final Provision. **Amendment to Law 5/2015, of 27 April, on the promotion of business financing**. This attributes to the Bank of Spain the authorisation of hybrid credit financial institutions. To the extent that hybrid credit financial institutions provide payment services, this amendment is consistent with the fact that the Bank of Spain is given the powers to authorise payment institutions in this Royal Decree-Law.

- Fourth Final Provision. **Amendment to the recast text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July.** This amends the Capital Companies Act by adding a new scenario in which it is not possible to separate the shareholder due to a failure to distribute dividends in the case of shareholders of credit institutions and other financial institutions that are not listed companies subject to Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.

  An Eleventh Additional Provision is added to the recast text of the Capital Companies Act on the right of separation in financial institutions.

- Third Final Provision. **Amendment to Law 22/2007, of 11 July, on distance marketing of consumer financial services**. The regulation on distance marketing of financial services is adapted to the requirements of Directive (EU) 2015/2366 of the European Parliament and of the Council, of 25 November 2015.

This Royal Decree-Law came into force the day after its publication in the *BOE* (Official State Gazette). Nonetheless:

i) Titles II and III shall be applicable three months after their publication in the *BOE*.

ii) The security measures referred to in Articles 37, 38, 39 and 68 shall apply 18 months after the entry into force of Commission Delegated Regulation (EU) 2018/389, of 27 November 2017, supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council, as regards technical regulatory standards for enhanced customer authentication and open, common and secure communication standards, without prejudice to the fact that until that date no account manager payment service provider may prevent or hinder the use of payment initiation services and account information services in relation to the accounts managed by it.

iii) The wording given to Articles 119.3 and 121.1 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, by the Sixth Final Provision.

– **Law 11/2018, of 28 December,** amending the Commercial Code, the recast text of the Capital Companies Act approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Account Auditing, in matters of non-financial information and diversity.

By means of this Law, the following is incorporated into Spanish law: Directive 2014/95/EU of the European Parliament and of the Council, of 22 October 2014, which amended Directive 2013/34/EU in relation to the presentation of non-financial information and information on diversity for certain large companies and certain groups. Its aim is to identify risks in order to improve sustainability and increase the confidence of investors, consumers and society in general, and to this end it increases the disclosure of non-financial information, such as social and environmental factors.

On the other hand, Directive 2014/95/EU expands the content required in the annual corporate governance report to be published by listed companies, in order to improve transparency, facilitating an understanding of the business organisation and the business dealings of the company in question. The new obligation on these companies consists of the dissemination of the "policies of diversity of competences and points of view" that they apply to their governing body with respect to issues such as age, gender, disability, or professional training and experience. In the event that the company does not implement a diversity policy, there is no obligation to do so, although the corporate governance statement must clearly explain why it is not being implemented.

Transitory nature. Application:

i) The amendments introduced by this Law, by means of the Articles 1, 2 and 3, shall be applicable for financial years beginning on or after 1 January 2018.

By way of exception, the amendments introduced by this Law in Article 2, section 6, in Article 348 *bis* of the recast text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, shall be applicable to General Shareholders' Meetings held as from the same day of its entry into force.

ii) For the purposes of Articles 49.5(b) of the Commercial Code and 262.5(b) of the recast text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, the two consecutive eligible financial years will be the one commencing on 1 January 2018 and the immediately preceding one.

iii) Three years after the entry into force of this Law, the obligation to submit the consolidated non-financial information statement provided for in Articles 49.5(b) of the Commercial Code and 262.5(b) of the recast text of the Capital Companies Act shall apply to all companies with more than 250 employees that are either considered to be public-interest institutions in accordance with auditing legislation (except for institutions that are classified as small- and medium-sized enterprises in accordance with Directive 34/2013) or at the closing date of each of such years have been subject to at least one of the following circumstances for two consecutive financial years:

- The total of the asset items exceeds 20 million euros.

- The net amount of the annual turnover exceeds 40 million euros.

Seven final provisions have been incorporated, the first of which amends Law 35/2003, of 4 November, on Collective Investment Schemes (amendment of Articles 17, 18, 28, 40, 71 *ter*, new 48 *bis* and amendment of the penalty regime); the second, Law 16/2009, of 13 November, on payment services; and the third, Law 14/2013, of 27 September, on support for entrepreneurs and their internationalisation, for the purpose of reducing administrative burdens in the incorporation of companies, in the same way that Article 62 of the recast text of the Capital Companies Act is amended in Article 2 of this Law.

A.6 Other regulations

- **Royal Decree-Law 11/2018, of 31 August,** transposing directives on the protection of pension commitments to workers, the prevention of money laundering and the entry and residence requirements for third-country nationals and amending Law 39/2015, of 1 October, on the common administrative procedure for public administrations.

- **Royal Decree 1112/2018, of 7 September,** on accessibility of websites and applications for public sector mobile devices.

  This Royal Decree aims to ensure the accessibility requirements of websites and applications for mobile devices of public sector bodies and other obligors included within its scope. For the purposes of this Royal Decree, accessibility is understood as the set of principles and techniques that must be respected when designing, building, maintaining and updating websites and applications for mobile devices in order to guarantee equality and non-discrimination in access for users, in particular disabled people and the elderly.

This Royal Decree came into force the day after its publication in the *BOE* (Official State Gazette) with the following exceptions:

- For websites, the provisions of Articles 10.2(b), 12 and 13 shall apply one year after the entry into force of this Royal Decree, and two years after the entry into force of this Royal Decree for already published websites.

- All provisions relating to applications for mobile devices shall apply from 23 June 2021.

– **Constitutional Law 3/2018, of 5 December,** on the Protection of Personal Data and the guarantee of digital rights.

The purpose of this Constitutional Law is:

i) To adapt the Spanish legal system to Regulation (EU) 2016/679 of the European Parliament and of the Council, of 27 April 2016, on the protection of individuals with regard to the processing of their personal data and on the free movement of such data, and supplement its provisions. The fundamental right of natural persons to the protection of personal data, protected by Article 18.4 of the Constitution, shall be exercised in accordance with the provisions of Regulation (EU) 2016/679 and this Constitutional Law.

ii) To guarantee the digital rights of citizens in accordance with the mandate set out in Article 18.4 of the Constitution.

The necessary modifications were introduced to Law 1/2000, of 7 January, on Civil Procedure; Law 29/1998, of 13 July, regulating the Contentious-Administrative Jurisdiction; Constitutional Law 6/1985, of 1 July, on the Judiciary; Law 19/2013, of 9 December, on transparency, access to public information and good governance; Constitutional Law 5/1985, of 19 June, on the General Electoral System; Law 14/1986, of 25 April, on General Health; Law 41/2002, of 14 November, on the basic regulation of patient autonomy and of rights and obligations in matters of clinical information and documentation; and Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Administrations.

In addition, in relation to the guarantee of digital rights, amendments are also made to Constitutional Law 2/2006, of 3 May, on Education and Constitutional Law 6/2001, of 21 December, on Universities, as well as to the recast text of the Workers' Statute and the recast text of the Basic Statute on Public Employees.

Constitutional Law 15/1999, of 13 December, on the Protection of Personal Data and Royal Decree-Law 5/2018, of 27 July, on urgent measures for the adaptation of Spanish Law to European Union regulations on data protection, are repealed.

– **Royal Decree-Law 21/2018, of 14 December,** on urgent measures in housing and rents.

This Royal Decree-Law provides a set of urgent measures to improve access to housing and promote affordable rent.

A.7 Other

– **Joint communiqué of the CNMV and the Bank of Spain on cryptocurrencies and initial coin offerings (ICOs).**

Through this release, the CNMV and the Bank of Spain report on:

- **The current situation in the area of cryptocurrencies and initial coin offerings (ICO)**.

  The CNMV and the Bank of Spain highlight that: i) cryptocurrencies, including Bitcoin, are not backed by any public authority or central bank; ii) although they can be conceived as an alternative to legal tender, there is no obligation to accept them as a means of payment; iii) they have a very limited circulation and have a very marked volatility, with special emphasis being placed on the latter by pointing to the fall of more than 65% in the average value of Bitcoin since the December highs (16,000 euros) until the beginning of February (price of less than 5,500 euros).

  They also warn that, to date, no issue of cryptocurrency or ICO has been registered, authorised or verified by any supervisory body in Spain, which prevents its acquirers from benefiting from the guarantees or protections provided in the regulations relating to banking and investment products.

- **The duality of the ICO concept, construed as the issuance of cryptocurrencies or as the issuance of rights of a diverse nature, called tokens**.

  According to the press release, there are two types of tokens:

  – *Security tokens*: generally grant a share in future revenues or an increase in the value of the issuing entity or a business.

  – *Utility tokens:* grant the right to access a service or to receive a product, usually referring in the offer to expectations of revaluation and liquidity or the possibility of trading them in specific markets.

Finally, potential acquirers or unitholders of cryptocurrencies or ICOs are suggested to take into consideration: i) the fact that this is an unregulated area; ii) the problems arising from the cross-border nature of this operation; iii) the high risk of losing invested capital, as a consequence of the intrinsic lack of value and its strong technological dependence; iv) the illiquidity and extreme volatility; and v) the inadequate nature (especially in the case of ICOs) of the information.

It should be noted that the European banking authority (EBA) and the competent authority for insurance and occupational pensions (EIOPA), together with ESMA, agree with the considerations contained in the communiqué, as evidenced by the document published by ESMA in which consumers are warned of the risks of virtual currencies or cryptocurrencies.

– **The CNMV's considerations on cryptocurrencies and ICOs aimed at professionals in the financial sector.**

In addition to what was indicated by the CNMV in its previous communication, this document sets out: i) the different methods of marketing or acquiring detected cryptocurrencies and ii) its opinion on the treatment that should really be given to ICOs.

- **Marketing methods of the cryptocurrencies.** Apart from "direct" marketing, the CNMV highlights marketing through: i) contracts for differences; ii) futures, options and other derivatives; iii) investment funds and other types of collective investment vehicles that invest in cryptocurrencies; and iv) structured bonds whose underlying assets are cryptocurrencies. The supervisor also warns that such methods should not be considered to be exhaustive, given the constant innovation in products and channels.

- **Treatment of ICOs.** The CNMV considers that most ICOs should be treated as issues or public offerings of tradable securities, since, in its opinion, such transactions would be classifiable within the definition of tradable securities provided for in Article 2.1 of Royal Legislative Decree 4/2015, of 23 October, approving the recast text of the Securities Market Act (Spanish acronym: TRLMV), in those cases in which tokens:

  i) Grant rights or expectations of a share in the potential revaluation or return of businesses or projects or, in general, that present or grant rights equivalent or similar to those of the shares, debentures or other financial instruments included in Article 2 of the TRLMV.

  ii) Grant the right to access services or to receive goods or products that are offered with reference, explicitly or implicitly, to the expectation that the buyer or investor will obtain a profit, as a consequence of its revaluation or any remuneration associated with the instrument, or mentioning its liquidity or the possibility of its trading in markets equivalent or allegedly similar to the securities markets subject to regulation.

These ICOs, which are referred to in recitals i) and ii) above, would therefore be subject to the regulations established for this purpose and, in particular, to the provisions of MiFID II, in Directive 2003/71/EC of the European Parliament and of the Council, of 4 November 2003, on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, and in Directive 2011/61/EU of the European Parliament and of the Council, of 8 June 2011, on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No. 1060/2009 and (EU) No. 1095/2010.

– **Questions and answers addressed to FinTech companies on activities and services that may be related to the CNMV.**

In December 2016, the CNMV opened a contact point (the FinTech Portal) with the aim of promoting initiatives in the field of financial technology (FinTech) that will make it possible to offer business models that are more oriented towards the end investor and improve the efficiency and competitiveness of financial markets in Spain.

Through the FinTech Portal, the CNMV has collaborated with the developers and financial institutions that have requested it, providing assistance on the interpretation and application of regulatory aspects of the securities market that could affect their projects.

This collaboration has enabled the CNMV to gain first-hand knowledge of some of the demands and needs of the fintech sector in Spain and has led to the establishment of criteria on certain issues that are made available to the public with this document in the form of questions and answers (last update, September 2018).

B European legislation

B.1 Issuers and listed companies

- **Commission Regulation (EU) 2018/498, of 22 March 2018,** amending Regulation (EC) No. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as regards International Financial Reporting Standard 9.

- **Commission Regulation (EU) 2018/400, of 14 March 2018,** amending Regulation (EC) No. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as regards International Accounting Standard (NIC) 40.

- **Regulation (EU) 2018/946, of the European Parliament and of the Council, of 4 July 2018,** replacing Annexes A and B to Regulation (EU) 2015/848 on insolvency proceedings.

Regulatory technical standards and implementing technical standards of the Commission

- **Commission Delegated Regulation (EU) 2018/990, of 10 April 2018,** amending and supplementing Regulation (EU) 2017/1131 of the European Parliament and of the Council, with regard to simple, transparent and standardised (STS) securitisations and asset-backed commercial papers (ABCPs), requirements for assets received as part of reverse repurchase agreements and credit quality assessment methodologies.

- **Commission Implementing Regulation (EU) 2018/1212, of 3 September 2018,** providing minimum requirements for implementing the provisions of Directive 2007/36/EC of the European Parliament and of the Council, as regards shareholder identification, the transmission of information and the facilitation of the exercise of shareholders rights.

  The Implementing Regulation sets out the standard formats, form, minimum requirements and language in which the following must be presented or provided, among other things: i) the request for disclosure of information on the identity and responses of shareholders; ii) the information to be transmitted with respect to the calling of general shareholders' meetings; and iii) confirmation of receipt and registration and counting of votes.

It also refers to: i) the deadlines to be observed by issuers and intermediaries in corporate actions, construed as any action initiated by the issuer or a third party that involves the exercise of the rights deriving from the shares and which may or may not affect the underlying share, such as the distribution of profits or a general shareholders' meeting; ii) the processes for identifying shareholders; and iii) the transmission of specific information on corporate actions that are not general shareholders' meetings. With regard to the latter, the Implementing Regulation provides that:

- All essential information relating to the corporate action must be included.

- The issuer must give sufficient notice of the corporate action.

- Payments to shareholders will be dealt with as quickly as possible.

The Annex to the Implementing Regulation contains eight tables detailing the formalities and requirements to which information flows between the issuer, intermediaries and shareholders are subject.

– **Commission Delegated Regulation (EU) 2018/1221, of 1 June 2018,** amending Delegated Regulation (EU) 2015/35, as regards the calculation of regulatory capital requirements for securitisations and simple, transparent and standardised securitisations held by insurance and reinsurance undertakings.

– **Commission Delegated Regulation (EU) 2018/1637, of 13 July 2018,** supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council, with regard to regulatory technical standards for the procedures and characteristics of the oversight function.

– **Commission Delegated Regulation (EU) 2018/1638, of 13 July 2018,** supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council, with regard to regulatory technical standards specifying further how to ensure that input data is appropriate and verifiable, and the internal oversight and verification procedures of a contributor that the administrator of a critical or significant benchmark has to ensure are in place where the input data are contributed from a front office function.

– **Commission Delegated Regulation (EU) 2018/1639, of 13 July 2018,** supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council, with regard to regulatory technical standards specifying further the elements of the code of conduct to be developed by administrators of benchmarks that are based on input data from contributors.

– **Commission Delegated Regulation (EU) 2018/1640, of 13 July 2018,** supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council, with regard to regulatory technical standards specifying further the governance and control requirements for supervised contributors.

B.2 Investment firms and credit institutions

- **Regulation (EU) 2018/318 of the European Central Bank, of 22 February 2018,** amending Regulation (EU) No. 1011/2012, concerning statistics on holdings of securities (ECB/2018/7).

Regulatory technical standards and implementing technical standards of the Commission

- **Commission Delegated Regulation (EU) 2018/977, of 4 April 2018,** correcting the Bulgarian language version of Delegated Regulation (EU) 2017/653, supplementing Regulation (EU) No. 1286/2014 of the European Parliament and of the Council, on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents.

- **Commission implementing regulation (EU) 2018/1624, of 23 October 2018,** laying down implementing technical standards with regard to procedures and standard forms and templates for the provision of information for the purposes of resolution plans for credit institutions and investment firms pursuant to Directive 2014/59/EU of the European Parliament and of the Council, and repealing Commission Implementing Regulation (EU) 2016/1066.

B.3 Market infrastructures

Regulatory technical standards and implementing technical standards of the Commission

- **Commission Delegated Regulation (EU) 2018/1229, of 25 May 2018,** supplementing Regulation (EU) No. 909/2014 of the European Parliament and of the Council, with regard to regulatory technical standards on settlement discipline.

- **Commission Implementing Regulation (EU) 2018/1889, of 4 December 2018,** on the extension of the transitional periods related to own funds requirements for exposures to central counterparties set out in Regulations (EU) No. 575/2013 and (EU) No. 648/2012 of the European Parliament and of the Council.

B.4 European System of Financial Supervision

Regulatory technical standards and implementing technical standards of the Commission

- **Commission Delegated Regulation (EU) 2018/66, of 29 September 2017,** supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council, specifying how the nominal amount of financial instruments other than derivatives, the notional amount of derivatives and the net asset value of investment funds are to be assessed.

- **Commission Implementing Regulation (EU) 2018/292, of 26 February 2018,** laying down implementing technical standards with regard to procedures and forms for exchange of information and assistance between competent authorities according to Regulation (EU) No. 596/2014 of the European Parliament and of the Council on market abuse.

- **Commission Delegated Regulation (EU) 2018/959, of 14 March 2018,** supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to the regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk.

- **Commission Implementing Regulation (EU) 2018/1105, of 8 August 2018,** laying down implementing technical standards with regard to procedures and forms for the provision of information by competent authorities to ESMA under Regulation (EU) 2016/1011 of the European Parliament and of the Council.

- **Commission Delegated Regulation (EU) 2018/1641, of 13 July 2018**, supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the information to be provided by administrators of critical or significant benchmarks on the methodology used to determine the benchmark, the internal review and approval of the methodology and on the procedures for making material changes in the methodology.

- **Commission Delegated Regulation (EU) 2018/1642, of 13 July 2018,** supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the criteria to be taken into account by competent authorities when assessing whether administrators of significant benchmarks should apply certain requirements.

- **Commission Delegated Regulation (EU) 2018/1643, of 13 July 2018,** supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards specifying further the contents of, and cases where updates are required to, the benchmark statement to be published by the administrator of a benchmark.

- **Commission Delegated Regulation (EU) 2018/1644, of 13 July 2018,** supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards determining the minimum content of cooperation arrangements with competent authorities of third countries whose legal framework and supervisory practices have been recognised as equivalent.

- **Commission Delegated Regulation (EU) 2018/1645, of 13 July 2018**, supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council with regard to regulatory technical standards for the form and content of the application for recognition with the competent authority of the Member State of reference and of the presentation of information in the notification to European Securities and Markets Authority (ESMA).

– **Commission Delegated Regulation (EU) 2018/1646, of 13 July 2018,** supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council, with regard to regulatory technical standards for the information to be provided in an application for authorisation and in an application for registration.

B.5 Data providing entities

Regulatory technical standards and implementing technical standards of the Commission

– **Commission Delegated Regulation (EU) 2018/63, of 26 September 2017,** amending Commission Delegated Regulation (EU) 2017/571, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the authorisation, organisational requirements and the publication of transactions for data reporting services providers.

Delegated Regulation 2018/63 amends the content of Commission Delegated Regulation (EU) 2017/571, of 2 June 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the authorisation, organisational requirements and the publication of transactions for data reporting service providers, by including in its articles a new provision (15 *bis*) concerning the scope of consolidated information on bonds, securitisation products, allowances and derivatives. This article establishes: i) a list of asset classes, the data of which must be included in the data flow of the consolidated information providers, and ii) the coverage ratios to be taken into consideration for these purposes.

B.6 Other

– **Commission Regulation (EU) 2018/182, of 7 February 2018,** amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as regards International Financial Reporting Standard 28 and International Financial Reporting Standards 1 and 12.

– **Commission Regulation (EU) 2018/289, of 26 February 2018,** amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as regards International Financial Reporting Standard (IFRS) 2 – Share-based payment.

– **Commission Regulation (EU) 2018/400, of 14 March 2018,** amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as regards International Accounting Standard (IAS) 40.

– **Commission Regulation (EU) 2018/1595, of 23 October 2018,** amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as regards Interpretation 23 of the International Financial Reporting Interpretations Committee.

– **Commission Implementing Regulation (EU) 2018/1078, of 30 July 2018,** providing technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 June 2018 to 29 September 2018 in accordance with Directive 2009/138/EC of the European Parliament and of the Council, on the taking-up and pursuit of the business of insurance and reinsurance.

B.7 Guidelines, decisions and recommendations of ESMA/EBA

– **European Securities and Markets Authority Decision (EU) 2018/1466, of 21 September 2018,** renewing and amending the temporary prohibition in Decision (EU) 2018/795 on the marketing, distribution or sale of binary options to retail clients.

– **European Securities and Markets Authority Decision (EU) 2018/1636, of 23 October 2018,** renewing and amending the temporary restriction in Decision (EU) 2018/796 on the marketing, distribution or sale of contracts for differences to retail clients.

B. 8 CNMV Technical Guides

– **Technical Guide 1/2018 on related-party transactions of Collective Investment Schemes and other transactions of collective investment scheme management companies**.

Spanish regulations, like European regulations, accept the performance of related-party transactions by collective investment scheme management companies for the Collective Investment Schemes (CIS) that they manage: acquisition of securities issued by institutions in their own group, contracting of services provided by institutions that are related parties, purchases and sales in which the counterparty is another managed CIS, etc. However, given the conflict of interest that such operations raise, their execution is conditional on their being carried out in the exclusive interest of the CIS and at prices or under conditions equal to or better than arm's length. In addition, a collective investment scheme management company should have a formal internal procedure to ensure that such requirements are met and a responsible person or body.

The approved technical guide contains criteria derived from the CNMV's supervisory experience regarding what should be considered related parties and related-party transactions, as well as regarding the consideration that the different types of related-party transactions should be given.

Accordingly, the related-party transactions that must be subject to prior authorisation are identified, as well as those that, due to their repetitive or insignificant nature, may be subject to simple *a posteriori* control. Some of the situations specifically envisaged in the technical guide are:

- Applications (transactions in which a CIS has as counterparty another CIS or client managed by its own collective investment scheme management company). The CNMV considers that they should be very exceptional in nature, given the difficult justification for opposing decisions taken by the same entity for different clients.

- The sale by CIS of securities acquired as part of issuances by institutions in their own group, which it is deemed should also be reported, on a case-by-case basis, to the body responsible for related-party transactions in order to reinforce the appropriate management of any conflicts of interest that might exist at the time of acquisition.

In addition, the CNMV clarifies to collective investment scheme management companies that it considers it appropriate in terms of managing conflicts of interest to apply a treatment equivalent to that of related-party transactions to certain transactions not expressly classified as related-party transactions but comparable therewith, carried out with the promoters of the funds they manage or which affect customers of portfolio management or advisory services.

Annexes on CNMV Organisation

Composition of the CNMV Board as at 30 April 2019

Chairperson	Mr Sebastián Albella Amigo
Vice-Chairperson	Ms Ana María Martínez-Pina García
Board Members	Mr Juan Manuel Santos-Suárez Márquez
	Ms María Dolores Beato Blanco
	Mr Ángel Benito Benito
	Mr Carlos San Basilio Pardo (Secretary General of the Treasury and Financial Policy)
	Ms Margarita Delgado (Bank of Spain Deputy Governor)
Secretary	Mr Miguel Martínez Gimeno

Composition of the CNMV Executive Committee as at 30 April 2019[1]

Chairperson	Mr Sebastián Albella Amigo
Vice-Chairperson	Ms Ana María Martínez-Pina García
Board Members	Mr Juan Manuel Santos-Suárez Márquez
	Ms María Dolores Beato Blanco
	Mr Ángel Benito Benito
Secretary	Mr Miguel Martínez Gimeno

1 The creation, constitution and functions of the CNMV Executive Committee are regulated by Article 26 of the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2014, of 23 October, as written in Law 44/2002, of 22 November, on Measures to Reform the Financial System.

Composition of the CNMV Advisory Committee as at 30 April 2019[2]

Chairperson	Ms Ana María Martínez-Pina García
Secretary	Mr Miguel Martínez Gimeno
Technical Secretary	Mr Víctor Rodríguez Quejido
Members	
Representatives of market infrastructures	
Member	Mr Jaime Aguilar Fernández-Hontoria
Alternate	Mr Ignacio Olivares Blanco
Member	Mr Jorge Yzaguirre Scharfhausen
Alternate	Mr Gonzalo Gómez Retuerto
Member	Ms Ana Ibáñez Díaz-Bustamante
Alternate	Mr Ignacio Solloa Mendoza
Representatives of issuers	
Member	Ms María Luz Medrano Aranguren
Alternate	Mr Íñigo Elorriaga Fernández de Arroyabe
Member	Mr Francisco Javier Zapata Cirugeda
Alternate	Mr Rafael Piqueras Bautista
Representatives of investors	
Member	Mr Ángel Martínez-Aldama Hervás
Alternate	Ms Virginia Arizmendi Ortega
Member	Ms Elisa Ricón Holgueras
Alternate	Ms Pilar Lluesma Rodrigo
Member	Mr Manuel Pardos Vicente
Alternate	Ms Ana María Solanas Forcada
Member	Mr Fernando Herrero Sáez de Eguilaz
Alternate	Mr Santiago Pérez Beltrán
Representatives of credit institutions and insurance companies	
Member	Mr Javier Rodríguez Pellitero
Alternate	Mr Juan Basurto Solaguren-Beascoa
Member	Mr José María Méndez Álvarez-Cedrón
Alternate	Mr Antonio Jesús Romero Mora
Member	Ms Cristina Freijanes Presmanes
Alternate	Ms Zorione Arregui Elkorobarrutia
Member	Ms Pilar González de Frutos
Alternate	Ms María Aránzazu del Valle Schaan
Representatives of professional associations	
Member	Mr Rafael Antonio Sanmartín Argos
Alternate	Mr Valentín Pich Rosell
Member	Mr Carlos Tusquets Trías de Bes
Alternate	Mr Santiago Satrústegui Pérez de Vilaamil
Member	Mr Fernando Vives Ruiz
Alternate	Mr Javier García de Enterría y Lorenzo-Velázquez

2 Royal Decree 303/2012, of 3 February, regulating the CNMV Advisory Committee.

Professionals of recognised prestige	
Member	Mr Fernando Vives Ruiz
Alternate	Mr Javier García de Enterría y Lorenzo-Velázquez

Representatives of the Investment Guarantee Fund	
Member	Mr Ignacio Santillán Fraile
Alternate	Mr José Ignacio García-Junceda Fernández

Representatives of the Autonomous Regions with an official secondary market	
Basque Country	
Member	Mr Alberto Alberdi Arizgoitia
Alternate	Mr Francisco Javier Arnaez Arrecigor
Catalonia	
Member	Mr Josep María Sánchez i Pascual
Alternate	Ms Alba Currià Reynal
Valencia	
Member	Mr Manuel Illueca Muñoz
Alternate	Mr Nicolás Jannone Bellot

CNMV organisational chart