

THE CNMV PUBLISHES ITS 2018 ANNUAL REPORT

17 June 2019

- The Report contains a description of market trends, which were particularly negative during the final months of 2018, placing it in the context of the evolution of the economy during the year.
- In 2018, the share of national markets in the trading of Spanish shares continued to fall, and is now at a level similar to that of the main European countries.
- The trend to issue fixed-income securities outside Spain continued, although issues in our country still represent the majority (53%).
- With regard to entities registered with the CNMV, the increase in CISMCS (10 more), IFs (two more) and closed-ended collective investment scheme management companies (five more) stood out. The creation of venture capital firms and funds (an additional 43) is also worthy of note.
- In 2018, a Technical Guide on CIS-related transactions was published and, for the first time, data on the presence of women on boards and in senior management in each company were disseminated jointly and separately.
- Also for the first time, the Report includes CNMV Key Performance Indicators.
- The anonymous communication channel for reporting possible infringements became operational, receiving 316 alerts with sufficient substance to warrant analysing them.
- The CNMV imposed 39 fines (12 more than in 2017). 21 disciplinary proceedings were initiated (16 in 2017) and 23 proceedings were concluded (seven more).

The Spanish National Securities Market Commission (CNMV) has today published the CNMV Annual Report for 2018, a year in which it celebrated its thirtieth anniversary, which was marked by the

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implementation of the European MiFID II-MiFIR regulatory package and by the great activity arising from the planned withdrawal of the United Kingdom from the European Union.

As in previous years, it consists of three parts:

- **the first**, which contains the main features of the economic and financial environment and financial market trends,
- **the second**, which outlines the CNMV's activity in its different areas of action: supervision of markets and financial intermediaries, investor relations and relations with other market participants, as well as international activity; and finally,
- **the third**, which describes some aspects of the CNMV's internal organisation and strategy. This section has been extended to include the FinTech, advice on draft legislation and a set of indicators to evaluate the performance and activity of the CNMV.

According to the Report, in 2018 the **macroeconomic environment** as a whole was favourable, albeit with lower growth than in previous years. Despite this, GDP and employment continued rising. Household balance sheets continued to improve but their savings fell to all-time lows.

As regards the evolution of the markets and the relative weight of Spain in them, 2018 was not a good year. The final part of the year, in particular, was negative in terms of equities. Last year there was a sharp drop in **stock** prices (Ibex 35: -15%), as in other European countries. Trading activity in Spanish securities remained stable (931 billion euros), although with a lower share of national markets, which has been at a level similar to that of the markets of other important European countries with respect to the trading of their securities.

Last year, 63 capital increases were carried out by listed companies to raise funds totalling 7.3898 billion euros, down 70% on the previous year. The amount of public offerings of securities in IPO procedures stood at 733.7 million euros compared with 2.9445 billion euros in 2017. Many companies cancelled or postponed their stock market flotation plans because of the situation of the markets. In terms of takeover bids, six were authorised, with a potential amount of 23.842

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billion euros, the highest in recent years, the most noteworthy of which was the offer for Abertis.

The activity of the **fixed-income primary market, in a context of low interest rates**, fell due to a 5% decrease in net securities issues. The increase in the volume of fixed-income securities issued by Spanish companies outside Spain also continued, although those registered with the CNMV accounted for 53% of the total. Furthermore, the secondary market's activity was conditioned by the entry into force of MiFID II-MiFIR, which introduced greater competition by permitting the trading of these instruments on regulated markets, multilateral trading facilities (MTFs), organised trading facilities (OTFs) and systematic internalisers (SIs).

The **assets of Spanish investment funds** decreased in value for the first time since 2012. They fell by 2.3%, to 259.095 billion euros, which was mainly due to a reduction in the value of the portfolios. Although there were inflows of resources, they were lower than in previous years. In addition, the number of open-ended collective investment schemes decreased and the value of the assets of foreign CISs continued to increase in Spain, exceeding 180 billion euros.

As regards the **entities registered with the CNMV**, the evolution of the venture capital sector stood out in positive terms, as did the securities companies and agencies, which were less active and less profitable. Also noteworthy is the general increase in the number of entities, of CISMCS (10 more), IFs (two more) and closed-ended collective investment scheme management companies (five more). During the year, the number of venture capital companies and funds increased by 43.

On the other hand, when referring to the structure of the sector in Spain, the report offers a new perspective that differentiates between investment service providers that are part of groups led by commercial banks and independent entities, which, in terms of fees received, currently represent approximately 30% of the activity.

With regard to **disciplinary proceedings**, 21 such cases were initiated (16 in 2017) and the processing of 23 was completed (seven more than the previous year), with 39 fines, representing an increase of 12 sanctions compared with 2017. They amounted to 9.08 million euros (13.9 in 2017). In 17 of these cases, the alleged infringers were subject to early termination, and this has been decisive in reducing the

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average time for the processing of disciplinary proceedings to 180 days.

Furthermore, last year, 23 court rulings were handed down in relation to disciplinary proceedings. The National High Court handed down 12 judgments dismissing appeals, a decree of dismissal and an order of inadmissibility, which implied full confirmation of the rulings appealed, and three judgments were partially upheld, which reduced some of the fines imposed. The Supreme Court ruled on six appeals, all in favour of the CNMV.

In the **supervision of the markets**, the CNMV completed the implementation of the new MiFID II reporting system, which has broadened the universe of entities for which transaction reporting is mandatory and increased the level of detail in transaction reporting. In this context, more than 110 million records of transactions executed on financial instruments and more than 285 million records relating to transactions performed on Spanish financial instruments were received from other competent authorities in the EU.

Suspicious Transaction and Order Reports (STORs) stood at 232, a similar number to that registered in 2017.

As a result of the investigation work conducted by the Market Surveillance Unit, seven disciplinary proceedings related to market abuse were initiated against eleven legal or natural persons.

With regard to activities related to the **supervision of entities**, 865 requests were submitted (437 of these were requests for information). In the case of the supervision of funds and open-ended collective investment schemes, work has been focused on preventive measures to ensure that CISMCS comply with their obligations, that conflicts of interests are duly resolved and unitholders and shareholders receive sufficient information.

The annual report refers in particular to four supervisory initiatives aimed at investor protection carried out in 2018:

- the horizontal review of IFs level of adaptation to the new reporting obligations relating to incentives and costs under MiFIDII;
- horizontal review of the compliance with the obligations of informing retail investors stipulated in the PRIIPS Regulation;

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- review of the obligation incumbent on entities to take measures aimed at ensuring the reliability of information obtained from clients in order to assess the appropriateness and suitability of their investments;
- review of the advertising material of investment funds.

The report also includes a description of a supervisory activity carried out by the CNMV on a recurring basis and which relies on the use of information technology (SupTech) to identify atypical returns, asset valuation errors, transaction accounting errors and the incorrect recording of expenses and fees in the collective investment area. This measure is also useful for identifying the acquisition of unsuitable instruments, diversification limit excesses and the breach of regulations governing conflicts of interest. In the technological field, the FTL-Warrants project is also mentioned. In the Activity Plan for 2019, additional measures with a special technological component are planned.

The report also describes the intense activity carried out over the course of 2018 in relation to Brexit: actions related to the relocation in Spain of part of the activity carried on by entities headquartered in London; preparation work coordinated by ESMA mainly in the face of the possibility of a no-deal Brexit; and advisory work and support for the Ministry of Economy and Business Affairs in relation to the matter.

In the area of **corporate governance** of securities issuers, the publication for the first time, both jointly and separately, of individual data by company on the presence of women on the boards of directors and in senior management of listed companies is noteworthy.

The number of registered **complaints** stood at 1,018, 2% more than in 2017, which were mainly related to subsequent information in the area of marketing, advice and portfolio management. The document also addresses the activity carried on during the first year of operation of the anonymous communication channel for potential infringements related to securities market regulations (**Whistleblowing**). From its date of implementation until 31 December 2018, a total of 704 communications were received. Of the total number, 41 were complaints, 104 were enquiries and 34 were in relation to matters outside the CNMV's competence. Of the remaining 525, 316 contained sufficient factual elements to be analysed.

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In 2018, special attention was paid to the phenomenon of crypto-assets and a search was carried out for ICO projects which could be considered as Spanish, which resulted in the initiation of 73 investigations.

The CNMV approved a new Technical Guide on related-party transactions of CISs and five Circulars (on warnings relating to particularly complex financial instruments, annual corporate governance and remuneration report models, periodic reporting models for issuers, classified information on entities providing investment services and periodic public reporting on CISs).

The annual report also refers to the creation of the new macroprudential authority in Spain (AMCESFI) and the participation of the CNMV in it, and describes the CNMV's intense international activity during 2018, including that related to the European Securities and Markets Authority (ESMA, of whose Executive Committee the Chairman of the CNMV forms part).

In addition, the Annual Report provides economic and financial information and other data on the CNMV, including, for the first time, certain performance and activity indicators (see the appendix to this note).