CNMV
Comisión Nacional del Mercado de Valores

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Quarter III
2013

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Abbreviations

ABS	Asset-Backed Security
AIAF	Asociación de Intermediarios de Activos Financieros (Spanish market in fixed-income securities)
ANCV	Agencia Nacional de Codificación de Valores (Spain's national numbering agency)
ASCRI	Asociación española de entidades de capital-riesgo (Association of Spanish venture capital firms)
AV	Agencia de valores (broker)
AVB	Agencia de valores y bolsa (broker and market member)
BME	Bolsas y Mercados Españoles (operator of all stock markets and financial systems in Spain)
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)
CCP	Central Counterparty
CDS	Credit Default Swap
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESFI	Comité de Estabilidad Financiera (Spanish government committee for financial stability)
CESR	Committee of European Securities Regulators
CMVM	Comissão do Mercado de Valores Mobiliários (Portugal's National Securities Market Commission)
CNMV	Comisión Nacional del Mercado de Valores (Spain's National Securities Market Commission)
CSD	Central Securities Depository
EAFI	Empresa de Asesoramiento Financiero (financial advisory firm)
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECR	Entidad de capital-riesgo (venture capital firm)
EIOPA	European Insurance and Occupational Pensions Authority
EMU	Economic and Monetary Union (euro area)
ESA	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-Traded Fund
EU	European Union
FI	Fondo de inversión de carácter financiero (mutual fund)
FIAMM	Fondo de inversión en activos del mercado monetario (money-market fund)
FII	Fondo de inversión inmobiliaria (real estate investment fund)
FIICIL	Fondo de instituciones de inversión colectiva de inversión libre (fund of hedge funds)
FIL	Fondo de inversión libre (hedge fund)
FIM	Fondo de inversión mobiliaria (securities investment fund)
FSB	Financial Stability Board
FTA	Fondo de titulización de activos (asset securitisation trust)

FTH	Fondo de titulización hipotecaria (mortgage securitisation trust)
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIC	Institución de inversión colectiva (UCITS)
IICIL	Institución de inversión colectiva de inversión libre (hedge fund)
IIMV	Instituto Iberoamericano del Mercado de Valores
IOSCO	International Organization of Securities Commissions
ISIN	International Securities Identification Number
LATIBEX	Market in Latin American securities, based in Madrid
MAB	Mercado Alternativo Bursátil (alternative stock market)
MEFF	Spanish financial futures and options market
MFAO	Mercado de Futuros del Aceite de Oliva (olive oil futures market)
MIBEL	Mercado Ibérico de Electricidad (Iberian electricity market)
MiFID	Markets in Financial Instruments Directive
MMU	CNMV Market Monitoring Unit
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
OICVM	Organismo de inversión colectiva en valores mobiliarios (UCITS)
OMIP	Operador do Mercado Ibérico de Energía (operator of the Iberian energy derivatives market)
P/E	Price/earnings ratio
RENADE	Registro Nacional de los Derechos de Emisión de Gases de Efectos Invernadero (Spain's national register of greenhouse gas emission permits)
ROE	Return on Equity
SCLV	Servicio de Compensación y Liquidación de Valores (Spain's securities clearing and settlement system)
SCR	Sociedad de capital-riesgo (Venture capital company)
SENAF	Sistema Electrónico de Negociación de Activos Financieros (electronic trading platform in Spanish government bonds)
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)
SGFT	Sociedad gestora de fondos de titulización (asset securitisation trust management company)
SGIIC	Sociedad gestora de instituciones de inversión colectiva (UCITS management company)
SIBE	Sistema de Interconexión Bursátil Español (Spain's electronic market in securities)
SICAV	Sociedad de inversión de carácter financiero (open-end investment company)
SII	Sociedad de inversión inmobiliaria (real estate investment company)
SIL	Sociedad de inversión libre (hedge fund in the form of a company)
SIM	Sociedad de inversión mobiliaria (securities investment company)
SME	Small and medium-sized enterprise
SON	Sistema Organizado de Negociación (multilateral trading facility)
SV	Sociedad de valores (broker-dealer)
SVB	Sociedad de valores y Bolsa (broker-dealer and market member)
TER	Total Expense Ratio
UCITS	Undertaking for Collective Investment in Transferable Securities

I Securities markets and their agents: situation and outlook

Contents

List of exhibits

1 Executive summary

- The global economy has shown signs of improvement over recent months, particularly among the advanced economies. Economic activity has gained momentum in both the United States and Japan under the spur of monetary stimulus packages, while the euro area economy edged clear of recession in the year's second quarter. The emerging economies, meantime, experienced some slowing of the growth pace in the first-half period due to capacity restrictions, decelerating external demand and softening commodity prices.

- International long-term debt markets have tended to reflect both the greater relative strength of the advanced economies and lower sovereign credit risk in Europe, although some tension resurfaced around mid-year when the Federal Reserve announced that it was ready to taper its monetary stimulus ahead of time if economic activity and employment picked up sufficiently.[1] The effect of this message was to lift ten-year yields on US treasuries to almost 3%, their highest point since mid-2011, and trigger a small upswing in volatility. The sovereign risk premiums of most European economies narrowed to levels similar to those of spring 2011. In equity markets, year-to-date gains were substantial in Japan (around 40%) and the United States (around 20%), against the more modest advance of European indices (centring on 10%).

- Spanish GDP contracted 0.1% in the second quarter of 2013 (+0.3% in the euro area). This marks a trend improvement versus prior quarters and opens the door to an imminent exit from recession, possibly in the third quarter of this year. Meantime, key labour market indicators point to a slower rate of employment decline (-3.6%) and a small drop in the unemployment rate, which nonetheless remains stuck at over 26% of the active population. Against this backdrop, inflation has eased considerably year to date (from 3% to an August rate of 1.5%), while budgetary execution data place the general government deficit at 5.27% in the month of July en route for the full-year target of 6.5%.

- The Spanish financial system remains immersed in a root-and-branch restructuring that has taken it safely past the milestones set in the Memorandum of Understanding signed by the Spanish and European authorities in July 2012, the main event being the transfer to SAREB (Asset Management Company for Assets Arising from Bank Restructuring) of over 50 billion dollars in bank sector problematic loans. Although the banks continue to operate in a challenging environment, the better news is that listed financial institutions reported first-

1 The closing date for this report is 15 September.

half profits of 3.51 billion euros[2] compared to the -9.51 billion losses of the same period in 2012.

- The aggregate profits of non-financial listed companies rose by 11.2% in the first six months to 8.37 billion euros, as construction and real estate firms reined in a large portion of their losses. Companies' gross debt fell by 5.8% to 283 billion euros, while leverage held flat at 1.4.

- Prices on domestic equity markets fell sharply in the first half of 2013, but subsequently rallied on the strength of the improved economic indicators coming through and lessening perceptions of sovereign credit risk. After testing 9,000 points in mid-September 2012 (its highest point since October 2011), the Ibex 35 managed a year-to-date gain of 9.5%, which was even some way surpassed by small and medium cap indices. Market volatility spiked at 30% around mid-year after hovering near 20% for most of 2013. The liquidity conditions of the Ibex 35, as measured by the bid-ask spread, can be viewed as satisfactory given the prolonged slide in trading volumes, which thinned this year by a further 8%.

- Domestic fixed-income markets had a smoother run in 2013 as they moved further away from the disruptive climate of summer 2012. Public and corporate debt yields traced a steady downwards course with only short-lived outbreaks of tension in May and June. Spanish ten-year bond yields dropped to 4.5% in mid-September (5.3% in December 2012), while the spread over the German benchmark narrowed to 237 basis points (bp) as *bund* yields headed higher. Despite a large reduction in the perceived risk of Spanish borrowers and the cheaper funding available in consequence, the volume of issues filed with the CNMV to September 2013 was 65% down on the year-ago period at 94 billion euros. A degree of market fragility, the existence of alternative funding sources and banks' lower financing needs may go some way to explaining this hiatus in debt market issuance.

- Assets under management in investment funds rose by 4.3% to 135.93 billion euros in the first-half period, after five years of almost uninterrupted decline. Around 80% of the advance traced to purchases of fixed-income and passively managed funds to the detriment primarily of guaranteed products. This change in industry fortunes, supported by falling interest rates on bank deposits and commercial paper, allowed UCITS managers to grow their profits 11.1%, accompanied by a fall in the number of loss-making companies and the volume of their losses. In parallel, the weight of less-liquid assets in investment fund portfolios receded from 4.1% in December 2012 to 3.1% in June 2013.

- Investment firm business continued to suffer the effects of the prolonged slide in stock market trading, their main source of revenues. However, other business lines like investment fund sales and portfolio management have gained visible momentum year to date. Also, the number of firms reporting losses was

2 According to information available to the CNMV at 15 September.

lower in the period, along with the volume of the same, while sector capital adequacy remained safely in the comfort zone.

- The report contains five monographic exhibits:

  – The first exhibit describes the main characteristics of the extended Financial Education Plan signed last June by the CNMV and Banco de España, which sets new objectives for the 2013-2017 period.

  – Exhibit two summarises the discussions held on 27 June last at the First Conference on the Reform of the Securities Clearing, Settlement and Registry System, whose goal was to make public the work under way on defining the future organization of post-trade systems in Spain.

  – Exhibit three explains the preventive measures recently established by the CNMV to improve information disclosures to fund investors, in view of the growing breed of target return funds now being marketed in place of guaranteed funds.

  – The fourth exhibit discusses the latest novelties in customer reporting requirements in the frame of the appropriateness and suitability assessments to be run on prospective buyers of financial instruments (CNMV Circular 3/2013, of 12 June).

  – Finally, exhibit five summarises the report published by the European Securities and Markets Authority (ESMA) in July 2013, analysing two complex products now being extensively sold to retail investors in the euro area.

2 Macro-financial background

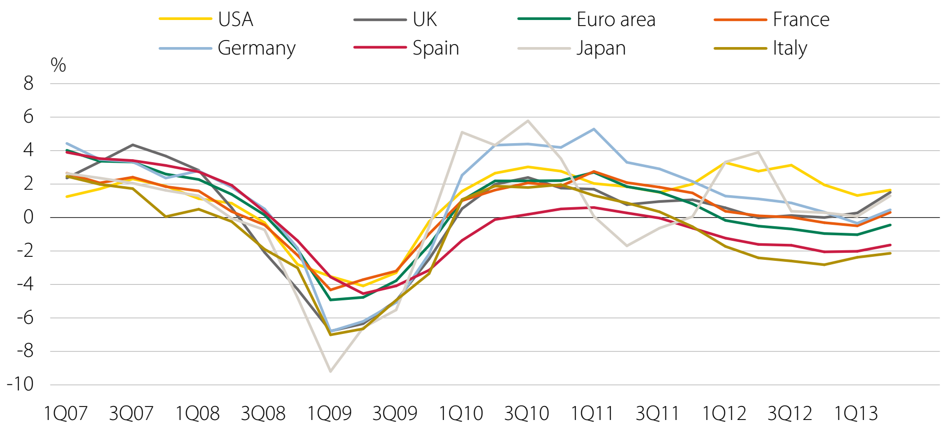
2.1 International economic and financial developments

The macroeconomic outlook has brightened among the advanced economies, while emerging market economies have seen some softening of growth.

The international macroeconomic climate has shown signs of improvement in recent months. The advanced economies have been the big beneficiaries, while emerging market economies have seen their vigorous growth eroded somewhat by capacity restrictions, decelerating external demand and softening commodity prices. In the euro area, GDP data for the second quarter signalled an end to the recession, with an overall advance in economic activity of 0.3% (0.7% in Germany, 0.5% in France, -0.3% in Italy, -0.2% in the Netherlands and -0.1% in Spain). In the United States and Japan, quarterly growth stood at 0.6% and 0.9% respectively (1.6% and 1.3% in year-on-year terms). In the case of the Japanese economy, the spurt owed partly to the monetary expansion programme announced by the central bank in April 2013.

Gross domestic product (annual % change)

FIGURE 1



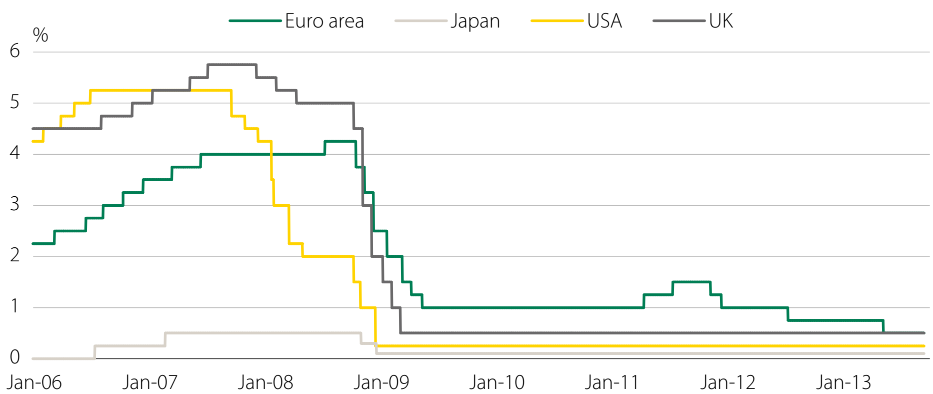
Source: Thomson Datastream.

The Federal Reserve has declared itself ready to taper its monetary stimulus.

Headline inflation has held relatively flat among the major advanced economies, at less than 2% in the United States and euro area and under 3% in the United Kingdom, while core inflation even moderated slightly. One exception was Japan, where both headline and core rates turned up strongly between March and July (from -0.9% to 0.7% and from -0.8% to -0.1% respectively) in response to the monetary expansion programme. However, the absence of any build-up in inflation pressure meant that interest rates in these economies could be kept at historical lows or even cut in the case of the euro area, where the ECB reduced its key rate last May by 25 bp to 0.5% (see figure 2). In the United States, the main event was the end-June announcement by the Federal Reserve that it was prepared to phase out the monetary stimulus measures packaged in its Quantitative Easing program in the event of a turn for the better in activity and employment data.[3]

Official interest rates

FIGURE 2



Source: Thomson Datastream. Data to 15 September.

3 Though the market consensus was that the Federal Reserve would announce the scale-back of asset purchases at its 18 September meeting, it decided, finally, to leave the program as it stands while indicating that an increase in volume was not an option (as it had been previously), and that interest rates would remain at reduced levels for the next three years. Stock markets responded with a price rise which nonetheless deflated in the next few days.

The main drivers of international long-term debt markets in the first-half period were the release of successive economic indicators, which by May were pointing the way of greater relative strength in the United States and some European economies, and the Federal Reserve's announcement that it would withdraw its quantitative easing program ahead of time if activity and employment came sufficiently back on track. The effect of this message was to lift ten-year yields on US treasuries to a fresh two-year high of around 3% not seen since mid-2011, and trigger a small upswing in volatility. Since July, debt markets have also shown some unease in response to the chain of events in Syria.

International debt markets turn somewhat more volatile in the year's middle months of the year, with yields heading higher in the United States, United Kingdom and Germany…

The ten-year bond yields of stronger economies (United States, United Kingdom and Germany) declined to the start of May, touching lows of 1.6% in the first two countries and 1.2% in Germany. They then entered a rising trend that was most marked in the case of the US treasury (see upper panel of figure 3). By mid-September ten-year bonds were yielding 2.9% in the United States and United Kingdom and 1.9% in Germany in a setting of slightly higher volatility. In the remaining economies followed, long-term sovereign yields moved steadily lower to the middle months, when a series of uncertainty factors came into play, though only the Portuguese bond experienced significant market pressures on account of political instability at home. In general, liquidity conditions on sovereign debt markets have remained comfortable year to date, even at times of heightened stress (see bottom left panel of figure 3).

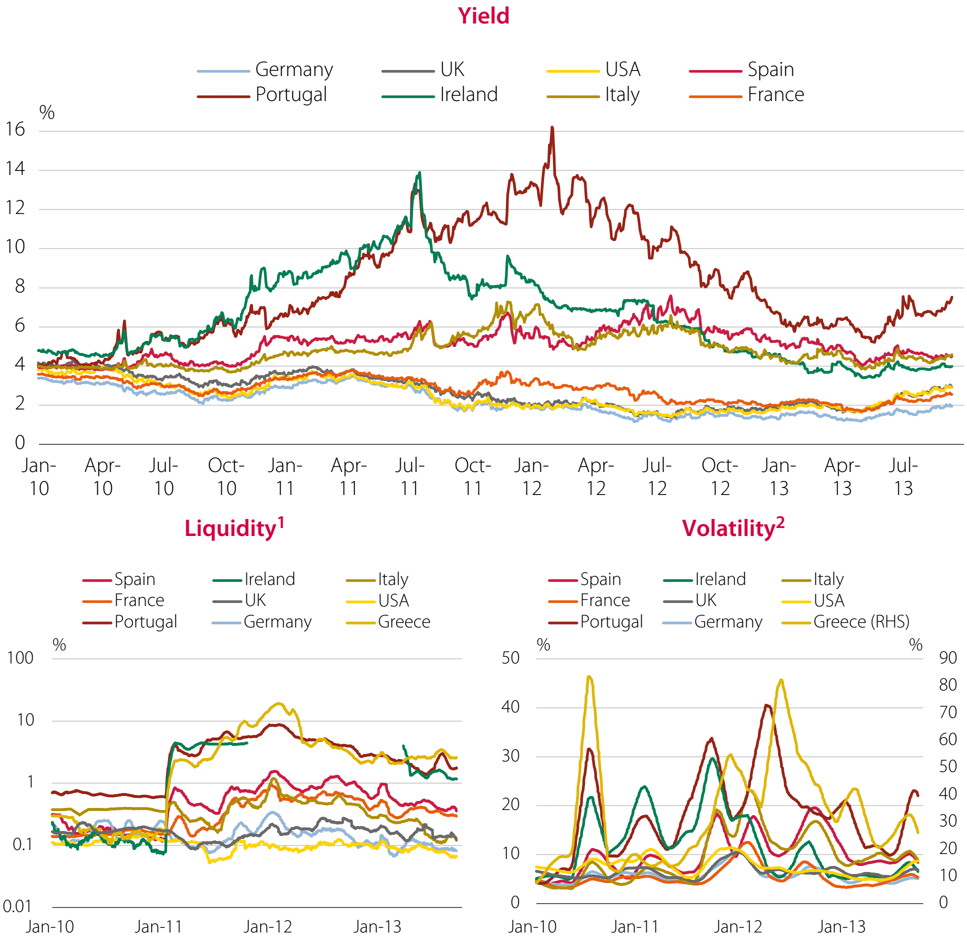
…and falling in other leading economies, albeit with some fluctuation.

On top of the run-down in sovereign spreads of last year's closing months, the improved performance of yields in the first eight months of 2013 has helped stabilise the risk premiums of most of the European economies worst hit by the sovereign debt crisis at close to the levels in place before the turmoil episode of summer 2011. In parallel, indicators of sovereign risk transmission have moved within the moderation zone, with only a temporary upswing in the middle months, most markedly in the indicator representing sovereign credit risk contagion emanating from Portugal (see figure 17). As we can see from figure 4, sovereign spreads based on five-year CDS were running at mid-September levels of 552 bp in Portugal, 251 bp in Italy, 237 bp in Spain and 145 bp in Ireland. In other, sounder European economies, equivalent spreads were comfortably below the 100 bp mark.

After a sturdy decline in second-half 2012, sovereign spreads settle near to the levels prevailing before the upsets of summer 2011.

Ten-year sovereign bond market indicators

FIGURE 3



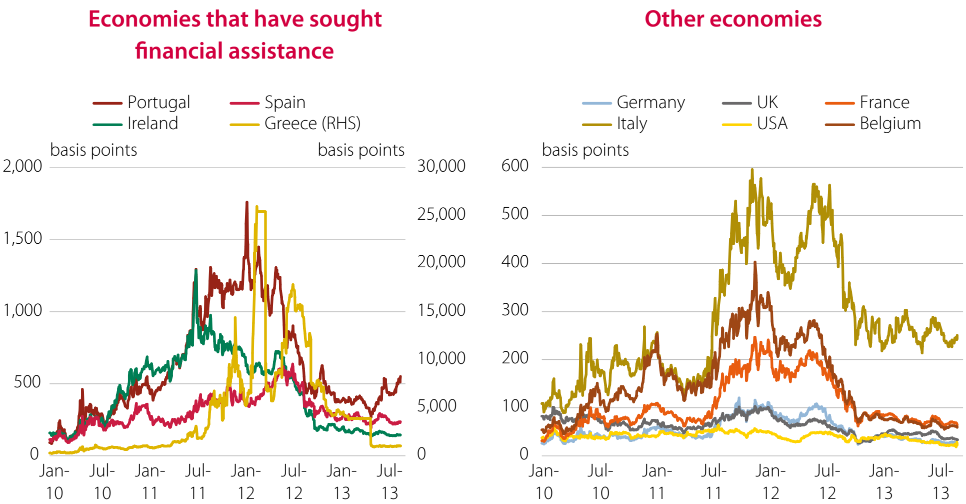
Source: Bloomberg, Thomson Datastream and CNMV. Data to 15 September.

1 Monthly average of the daily bid-ask spread of ten-year sovereign yields. Axis on a logarithmic scale.

2 Annualised standard deviation of daily changes in 40-day sovereign bond prices. Moving average of 50 periods.

Sovereign credit spreads (five-year CDS)

FIGURE 4



Source: Thomson Datastream. Data to 15 September.

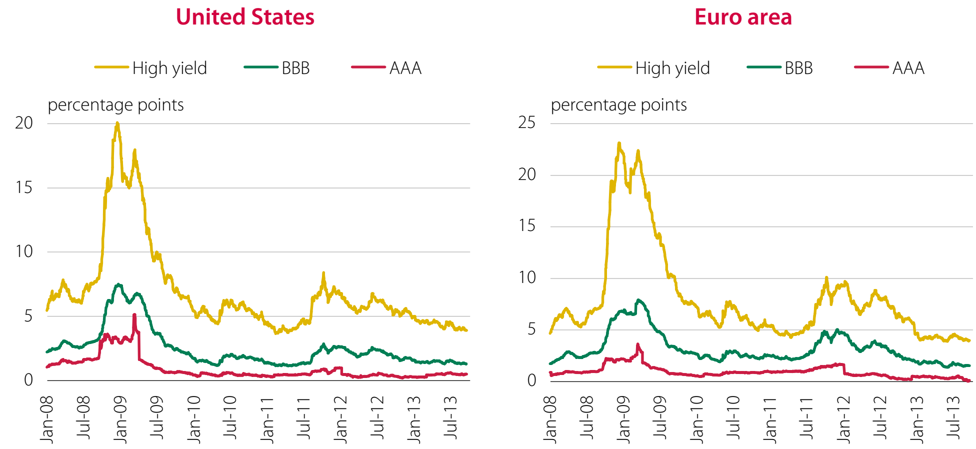
Corporate bonds spreads for all grades of issuers also stayed virtually unaltered over the first six months in both the United States and euro area. Abundant liquidity in financial markets coinciding with historically reduced levels of interest rates continued to fuel demand for higher-risk instruments in an evident quest for return that has kept corporate credit spreads running at lows. Hence the mid-September risk premiums of high-yield issuers stood at 392 bp in the United States and 399 bp in the euro area, improving on the 453 bp and 445 bp respectively of the first-quarter close. Meantime, the spreads paid by BBB issuers were 131 bp in the United States and 153 bp in the euro area (149 bp and 197 bp in the first quarter), against the 51 bp and 13 bp respectively of those rated AAA.

Corporate bond spreads continue at lows as abundant liquidity spurs investor demand for riskier instruments.

Corporate bond spreads

FIGURE 5

Spread vs. the ten-year government bond[1]



Source: Thomson Datastream and CNMV.

1 In the euro area, versus the German benchmark.

Gross long-term issuance on global debt markets came to 10.2 trillion dollars year to date (in annualised terms), 13.2% less than in full-year 2012. In net terms, the decline was a steeper 43% to 2.7 trillion dollars, reflecting both the downturn in issuance and an increased volume of debt redemptions. By sector, gross sovereign issuance – again the most voluminous – came to 7 trillion dollars, a drop of 16.4% versus 2012. The stall in public debt sales was sharpest in the United States, though the effects of ongoing fiscal consolidation were also apparent in all remaining areas tracked. Financial institution issue volumes were down 9.4% versus 2012 at 1.49 trillion dollars, though note that the sector fared better in gross and net terms in both the United States and Europe compared to the difficulties encountered in the thick of the financial crisis. Finally, non-financial corporate bond issuance held on a fairly even keel at 1.71 trillion dollars compared to 1.73 trillion in 2012, maintaining a clear lead over the financial sector. Note that inter-year comparison underplays the dynamism of corporate markets, since baseline volumes for 2012 were particularly high (see bottom right panel of figure 6).

Lower gross debt issuance on international markets reflects a scale-back in public debt sales offset in part from the private sector of the economy.

Gross international debt issuance

FIGURE 6

Source: Dealogic. Half-year data. Data for the second half of 2013 run to 15 September, but are restated on a semiannual basis to facilitate comparison.

Stock indices stay strongly bullish in the United States and Japan, while gains in Europe quicken from the third quarter.

Stock indices in the world's main economic areas have performed fairly divergently year to date. US and Japanese stocks took an early lead, chalking up large gains on the strength of their more buoyant activity and, in the case of Japan, the monetary stimulus program set in train by the central bank. European indices, meantime, suffered ups and downs in the first six months due to low-gear activity and, in some countries, elements of economic and political uncertainty. In the third quarter, however, European shares rallied strongly on more upbeat growth figures, which signalled the end of recession in the euro area and rekindled investors' appetite for risk (see figure 7).

Most advanced economy indices record major gains, with a volatile Japanese market in the lead.

Japanese indices have performed strongest to date with gains approaching 39%, though price volatility has also moved up a gear. US indices, meantime, have risen between 17% (Dow Jones) and 23% (Nasdaq), against the more subdued advances of their European peers, ranging from the 8.8% of the Euro Stoxx 50 to the 13.4% of the Euronext 100 (see table 1). Stock price volatility in the United States and Europe tended to hover round the 20% mark, in contrast to the second-quarter spike recorded in Japan (see right-hand panel of figure 7).

Performance of main stock indices[1] (%)

TABLE 1

	2009	2010	2011	2012	3Q12	4Q12	1Q13	2Q13	3Q13 (to 13 September)		
									% prior qt.	% Dec	% y/y[2]
World											
MSCI World	27.0	9.6	-7.6	13.2	6.1	2.1	7.2	-0.1	7.0	14.6	15.4
Euro area											
Euro Stoxx 50	21.1	-5.8	-17.1	13.8	8.4	7.4	-0.5	-0.8	10.2	8.8	12.7
Euronext 100	25.5	1.0	-14.2	14.8	5.0	6.0	4.7	-1.3	9.7	13.4	16.4
Dax 30	23.8	16.1	-14.7	29.1	12.5	5.5	2.4	2.1	6.9	11.8	16.4
Cac 40	22.3	-3.3	-17.0	15.2	4.9	8.5	2.5	0.2	10.0	13.0	17.5
Mib 30	20.7	-8.7	-24.0	10.2	8.6	6.0	-2.6	-0.4	12.8	9.4	10.5
Ibex 35	29.8	-17.4	-13.1	-4.7	8.5	6.0	-3.0	-2.0	15.2	9.5	12.7
United Kingdom											
FTSE 100	22.1	9.0	-5.6	5.8	3.1	2.7	8.7	-3.1	5.9	11.6	13.1
United States											
Dow Jones	18.8	11.0	5.5	7.3	4.3	-2.5	11.3	2.3	3.1	17.3	13.6
S&P 500	23.5	12.8	0.0	13.4	5.8	-1.0	10.0	2.4	5.1	18.4	15.6
Nasdaq-Composite	43.9	16.9	-1.8	15.9	6.2	-3.1	8.2	4.2	9.4	23.3	17.9
Japan											
Nikkei 225	19.0	-3.0	-17.3	22.9	-1.5	17.2	19.3	10.3	5.3	38.6	60.1
Topix	5.6	-1.0	-18.9	18.0	-4.2	16.6	20.3	9.6	4.5	37.9	59.3

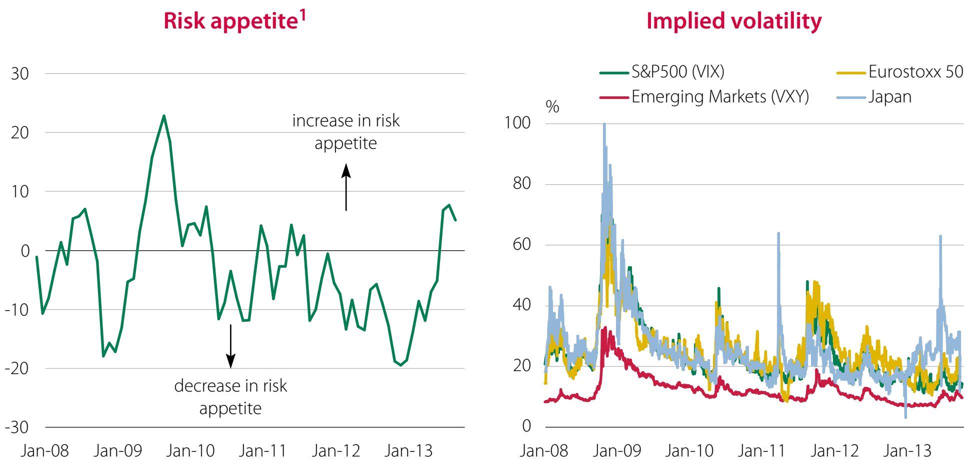
Source: Datastream.

1 In local currency.

2 Year-on-year change to the reference date.

Financial market indicators

FIGURE 7



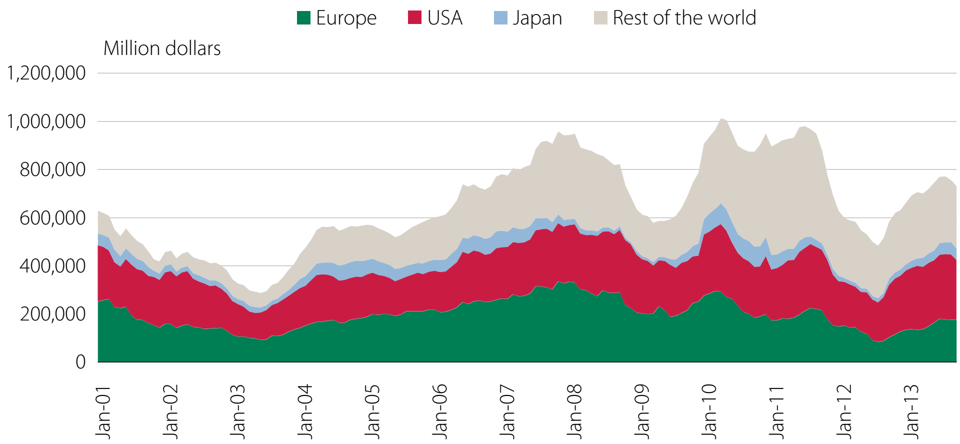
Source: Thomson Datastream and CNMV.

1 State Street indicator.

Equity issuance recovers strongly year to date in main world regions.

Equity issuance on international markets totalled 730 billion dollars to September 2013 (in accumulated twelve-month terms), easily surpassing the 583 billion dollars of the year-ago period when financial markets continued in the grip of turmoil. Issuance has picked up sharply in most regions since last summer's trough to the extent of almost doubling in Europe from the 88 billion dollars of August 2012 to 176 billion in September de 2013,[4] while volumes in the United States jumped from 181 to 249 billion (see figure 8). In Japan too companies turned increasingly to the equity market, though, as we can see from the figure, baseline levels are relatively low. Globally, equity issuance had its ten-year peak at the start of 2010, when it summed slightly over one trillion dollars.

Global equity issuance FIGURE 8



Source: Dealogic. Accumulated twelve-month data to 15 September. For comparative purposes, the figure for September is restated on a monthly basis.

2.2 National economic and financial developments

GDP contracted 0.1% in the second quarter (-1.6% year on year), 0.3 points less than in the first three months…

The latest data from Quarterly National Accounts, corresponding to the second half of 2013, show a 0.1% decline in GDP, 0.3 points less than in the preceding quarter.[5] This gives an annual contraction in GDP of 1.6% (-2.0% in the first quarter), marking a visible improvement in trend terms. In the euro area, as stated, improvement was more palpable, with GDP registering a second-quarter advance of 0.3%.

…on the slackening decline of domestic demand components.

The two main components of domestic demand lost less ground than in previous quarters. Final household consumption decreased by 3.2% in year-on-year terms against the -4.3% of the first quarter, while gross fixed capital formation receded 6.4% (-7.5% in the first quarter). It bears mention that the equipment component of gross fixed capital formation rose by 0.4% after the -4.1% of the preceding quarter, whereas the rate of decline in construction investment was again over 10%. Overall,

4 Accumulated twelve-month figures.
5 These data reflect the updated annual estimates of Spanish National Accounts for the 2009-2012 period, baseline 2008, released on 27 August, which revised down GDP growth for 2012, 2011 and 2009 by 0.2, 0.3 and 0.1 points respectively as far as -1.6%, 0.1% and -3.8%. In the same exercise, the 2010 growth rate was revised up 0.1 points to -0.2%.

domestic demand detracted from growth to the tune of 3.6 percentage points, a full point less than in the first quarter. Conversely, the growth input of net exports dropped from 2.6 percentage points in the first quarter to 2.0 in the second due to an upswing in imports (from -4.8% to 3.1%) offsetting a strong surge on the export side (from 3.6% to 9.2%).

Spain: main macroeconomic variables (annual % change) TABLE 2

					EC[1]	
	2009	2010	2011	2012	2013F	2014F
GDP[2]	**-3.8**	**-0.2**	**0.1**	**-1.6**	**-1.5**	**0.9**
Private consumption	-3.7	0.1	-1.2	-2.8	-3.1	-0.1
Government consumption	3.8	1.5	-0.5	-4.8	-3.7	-0.4
Gross fixed capital formation, of which:	-17.9	-5.5	-5.4	-7.0	-7.6	-1.1
Construction	-16.6	-9.9	-10.8	-9.7	n.a.	n.a.
Equipment and others	-24.2	5.1	5.6	-3.9	-5.8	0.1
Exports	-9.8	11.7	7.8	2.1	4.1	5.7
Imports	-16.8	9.5	0.0	-5.7	-4.0	2.0
Net exports (growth contribution, p.p.)	2.9	0.4	2.2	2.5	2.6	1.3
Employment[3]	-6.5	-2.3	-1.7	-4.4	-3.4	0.0
Unemployment rate	18.0	20.1	21.7	25.0	27.0	26.4
Consumer price index	-0.2	2.0	3.1	2.4	1.5	0.8
Current account balance (% GDP)	-4.8	-4.4	-3.7	-0.9	1.6	2.9
General government balance (% GDP)[4]	-11.2	-9.7	-9.4	-10.6	-6.5	-7.0
Public debt (% GDP)	53.9	61.5	69.3	84.2	91.3	96.8
Net international investment position (% GDP)[5]	-97.9	-91.7	-83.0	-67.5	n.a.	n.a.

Source: European Commission, Banco de España and National Statistics Office (INE).

1 European Commission forecasts published May 2013.

2 Data on GDP and components in the period 2009-2012 reflect the updated annual estimates of Spanish National Accounts, baseline 2008, released last August.

3 In full-time equivalent jobs.

4 Figures for 2011 and 2012 include government aid to credit institutions amounting to 0.5% and 3.3% of GDP respectively.

5 Ex. Banco de España.

n.a.: not available.

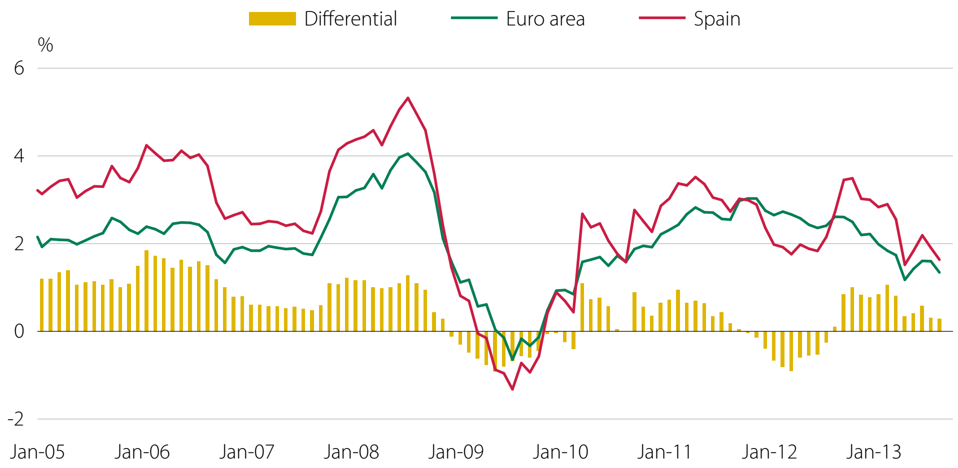
A slower contraction pace in all sectors except for industry.

A supply side analysis shows that agriculture, hunting and forestry and most service branches clawed back some ground in the second quarter. In industry, by contrast, the rate of deceleration quickened slightly (from -3.0% to -3.1%), despite a better performance on the manufacturing side buttressed by rising demand for durable goods.

Spain's headline inflation slows from around 3% at end-2012 to 1.5% in August, lowering its differential with the euro area to 0.3 percentage points.

Spanish inflation held to a downward course, with intermittent fluctuations, that took it from near 3% at end 2012 to 1.5% in August last. The year-on-year decline in the headline rate reflects the more moderate progress of core inflation (down from 2.1% to 1.6%) and the energy component (from 7.6% to -2.2%). Spain's inflation differential vs. the euro area has also narrowed sizeably, from close to one percentage point at the 2012 close to 0.3 in August. The absence of demand pressure and the favourable comparative effect in September figures of the VAT hike of one year before suggest this trend will persist in the short term at least.

Spain: main macroeconomic variables (annual % change) FIGURE 9



Source: Thomson Datastream. Data to August.

The latest labour-market figures indicate some very small improvement.

The latest labour-market figures also hint at a mild improvement under way. The decline in employment, specifically, was -3.6% in the second quarter compared to -4.6% in the first, while the jobless rate, still above 26% of the active population, decreased by a thin margin. The second-quarter outcome for unit labour costs (-2.3%) represents a slight containment in their adjustment path, which reflects the stabilisation of compensation per worker (-0.1%) coupled with a more modest advance in productivity (down from 2.6% to 2.2%).

The public deficit to July stands at 5.27% of GDP versus the full-year target of 6.5%.

According to advance data on budgetary execution, the general government deficit (excluding local corporations) from January to July stood at 5.27% of GDP combining the negative balances reported by central government and the autonomous communities (-4.55% and -0.77% of GDP respectively) and a slight surplus in the social security account (0.05% of GDP). Public deficit targets at the time of writing are 6.5% of GDP in 2013, 5.8% in 2014, 4.2% in 2015 and 2.8% in 2016.[6] Meantime, general government indebtedness climbed to 92.2% of GDP in the second quarter of 2013 from 90.1% in the first, placing it over six points above the level of the 2012 close[7] (85.9% of GDP).

Restructuring continues in the domestic banking sector. Individually, however, banks are still hobbled by low-gear economic activity.

These past few months, the Spanish bank sector has pressed on with a repair and restructuring process that has taken it safely past the milestones set in the Memorandum of Understanding signed by the Spanish and European authorities in July 2012. Aside from the higher provision charges taken by banks in 2012, the main

6 At the end of August, the government approved individual deficit and debt targets to 2016 for the autonomous communities, with the peculiarity that these targets are differentiated by region in 2013 (in the interval of -1% to -1.6% of GDP), and homogeneous for the 2014-2016 period (-1% of GDP in 2014, -0.7% in 2015 and -0.2% in 2016).

7 Public debt amounted to 70.4% of GDP at end-2011 and 61.7% at end-2010.

developments were the transfer to SAREB (Asset Management Company for Assets Arising from Bank Restructuring) of Group 1 entities' distressed real estate loans in December 2012, followed by the Group 2 package in February 2013, for a combined amount of over 50 billion euros. But while doubts about the quality of sector assets have been partly allayed, domestic banks are still having to cope with the stagnation of Spain's economy and the fragmentation of European financial markets, which by restricting some banks' access to funding have constrained the renewed flow of credit to the economy.

Bank sector net profits sum 621 million euros in first-quarter 2013, compared to 1.06 billion in 2012…

In this setting, sector income statements suffered added deterioration over the first quarter of 2013, albeit less intensely than in earlier periods. Gross income was down from 14.4 billion euros in the first quarter of 2012 to 13.3 billion one year later, though operating cost contention and slightly lower impairment losses on financial assets delivered a year-on-year advance at the net operating income line, from 964 million in 2012 to 1.34 billion in 2013. Finally, lower extraordinary income left the sector's net profits at 621 million euros compared to the 1.06 billion of first-quarter 2012. That said, preliminary figures for the first-half performance of listed financial institutions promise a considerable return to form, with aggregate profits of 3.51 billion euros against the 9.51 billion losses of the same period in 2012.

…in a context of still tightening credit…

Lending to the non-financial private sector has been shrinking more or less consistently at year-on-year rates from 5.5% to 6.0%. According to the latest data in the series, for the month of July, borrowings were down by 5.5% vs. the same period last year (-5.6% in the prior month). A breakdown by sector shows a decline in lending to businesses (-6.3%) and, less so, households (-4.2%). On the business side, the salient development was the divergent performance of bank credit (down by 9.8% year on year) and other kinds of debt financing (up by 8.1%). In the household sector, both home purchase and consumer lending contracted in the period, by 4.5% and 3.4% respectively. The constriction of bank lending has been less severe in the euro area than in Spain. Specifically, bank lending to non-financial corporations to the month of July was 3.7% lower year on year, while credit to households rose 0.1% due to an increase in home purchase loans (0.7%).

…and a rise in bad debt that pushed NPL ratios to a June high of 11.6%.

Bank NPL ratios resumed their ascent after the hiatus of the transfer to SAREB of Group 1 and Group 2 problematic loans in December 2012 and February 2013[8] (see figure 10). By June 2013, the ratio was running at a series peak of 11.6%. Real estate and construction were again the most delinquent sectors (28.9% and 25.4% respectively at the end of the first quarter of 2013), though the earlier asset transfers to SAREB marked a turning point for both. Meantime, the NPL ratios of remaining productive activities climbed from 8.7% at the 2012 close to 9.3% in March 2013, while the ratio for households inched up from 4.9% to 5.1%.[9]

Banks' funding conditions stay tight despite lower interest rates and the recovery of deposits.

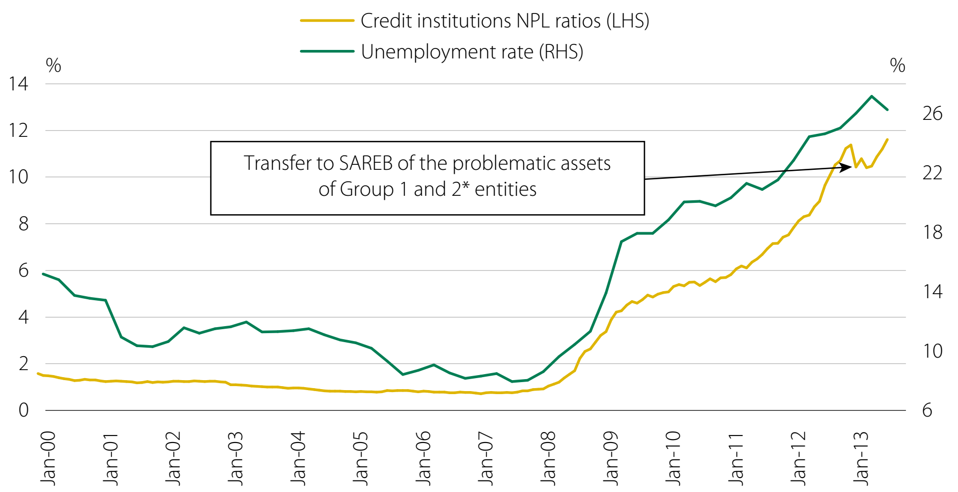
As to financial sector funding conditions, the easing of debt market tensions over the past twelve months has brought down the cost at issuance of fixed-income

8 The total amount of problematic assets transfered was 50.78 billion euros.

9 The NPL ratio of loans for home purchases and improvements rose from 4.0% to 4.2% and that of loans for the purchase of consumer durables from 6.1% to 6.2%.

securities, though note that volumes have stayed muted to date. Despite sector deleveraging and the lower funding needs brought by more restricted lending, many entities are still heavily reliant on Eurosystem finance. The latest available data, for the month of August, indicate that net Eurosystem lending to the Spanish financial system has stabilised at just under 250 billion euros. Finally, one welcome development has been the recovery of business and household deposits, which have worked their way back by more than 55 billion euros from the lows of August 2012.

Credit institution NPL ratios and the unemployment rate[1] FIGURE 10



Source: Banco de España and National Statistics Office (INE). NPL ratios and unemployment rate to June 2013, unemployment rate to December 2012.

1 Percentage of the active population.

* Group 1 transfers took place in December 2012 (36.69 billion euros) and those of Group 2 in February 2013 (14.09 billion euros).

Non-financial corporations grow their profits 11.2% to 8.37 billion euros in first-half 2013 on the receding losses of the construction and real estate sector.

The aggregate first-half profits of non-financial listed companies amounted to 8.37 billion euros, 11.2% more than in the same period in 2012. Underpinning the improvement was the notable reduction in construction and real estate sector losses, from 1.94 billion euros in the first half-year of 2012 to 516 million euros in 2013 (see table 3). Industrial firms also contributed on the upside, although their aggregate earnings are small by comparison (up from 548 million euros in 2012 to 574 million in 2013). Energy firm profits, the largest in straight-money terms, were down 0.9% vs. the year-ago period at 5.73 billion euros. The biggest fall, finally, corresponded to retail and services firms, whose profits sank 16.2% to 2.56 billion.

The sector reduces its debt by 5.8% to 283 billion euros from December 2012 to June 2013, though debt-to-equity remains unvaried.

The aggregate debt of non-financial listed companies dropped by 5.8% vs. end-2012 in the first half of 2013, to close the period at 283 billion euros. As much as 88% of this decrease traced to the retail and services and construction and real estate sectors. Aggregate leverage, defined as the ratio of debt to equity, held flat in the period at 1.40, though with some differences between sectors. Companies' debt coverage ratio, measuring the years needed to repay existing debt assuming constant EBITDA, edged up from 4.3 to 4.5, while their interest cover (EBIT/interest expenses) stayed practically unvaried in the first half-year after deteriorating through 2011 and 2012 (see table 4).

Earnings by sector:[1] non-financial listed companies

TABLE 3

	EBITDA[2]		EBIT[3]		Net profit	
Million euros	1H12	1H13	1H12	1H13	1H12	1H13
Energy	14,222	12,666	9,235	7,580	5,790	5,735
Industry	2,191	2,129	1,374	1,301	548	574
Retail and services	14,497	13,603	7,359	6,245	3,061	2,565
Construction and real estate	3,626	3,382	2,009	1,772	-1,937	-516
Adjustments	-13	-69	39	-18	65	10
AGGREGATE TOTAL	**34,523**	**31,711**	**20,016**	**16,880**	**7,527**	**8,368**

Source: CNMV.

1 Year to date.

2 Earnings before interest, taxes, depreciation and amortisation.

3 Earnings before interest and taxes.

Gross debt by sector: listed companies

TABLE 4

Million euros		2009	2010	2011	2012	Jun 2013
Energy	Debt	100,572	98,283	95,853	91,233	89,323
	Debt/Equity	1.08	0.95	0.92	0.85	0.79
	Debt/EBITDA[1]	3.46	2.81	3.27	3.26	3.53
	EBIT[2]/Interest expenses	3.38	4.15	3.30	3.14	3.01
Industry	Debt	15,953	14,948	17,586	17,232	17,158
	Debt/Equity	0.69	0.58	0.63	0.63	0.95
	Debt/EBITDA	3.05	2.11	2.54	2.38	4.03
	EBIT/Interest expenses	3.15	5.00	3.90	3.82	2.27
Construction and real estate	Debt	104,762	99,917	83,716	76,236	69,629
	Debt/Equity	4.08	3.42	2.98	3.51	3.64
	Debt/EBITDA	22.48	11.18	15.00	15.17	10.29
	EBIT/Interest expenses	0.31	0.98	0.52	0.32	0.85
Retail and services	Debt	108,579	115,413	113,142	117,359	108,383
	Debt/Equity	1.78	1.60	2.01	2.00	2.08
	Debt/EBITDA	3.70	3.38	3.78	4.01	3.98
	EBIT/Interest expenses	3.28	3.94	2.45	2.02	1.97
Adjustments[3]		-1,908	-1,792	-1,404	-1,429	-1,400
AGGREGATE TOTAL	**Debt**	**327,958**	**326,769**	**308,893**	**300,633**	**283,093**
	Debt/Equity	1.63	1.43	1.44	1.41	1.41
	Debt/EBITDA	4.82	3.84	4.29	4.32	4.46
	EBIT/Interest expenses	2.42	3.12	2.30	2.06	2.03

Source: CNMV.

1 Earnings before interest, taxes, depreciation and amortisation.

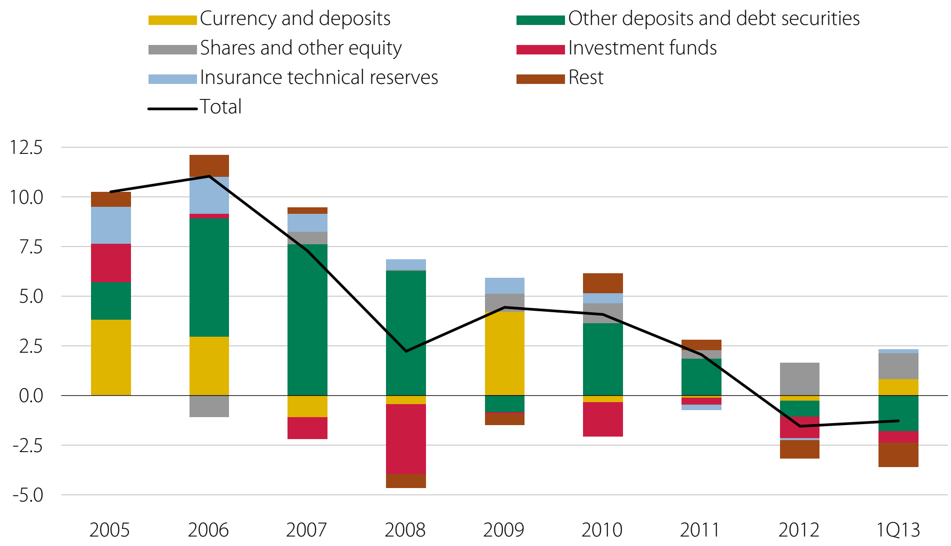
2 Earnings before interest and taxes.

3 In drawing up this table, we eliminated the debt of issuers consolidating accounts with some other Spanish listed group. The figures in the adjustments row correspond to eliminations from subsidiary companies with their parent in another sector.

Household debt ratios head lower in the first months of 2013 hand in hand with increased investment in certain asset categories (mutual funds and insurance products).

First-quarter indicators on the net asset position of Spanish households show a drop in both indebtedness and financial burden as a percentage of gross disposable income on a combination of decreasing liabilities and lower average debt interest. Households' net wealth was largely unaltered since the increase in value of their financial assets was offset by the depreciation of real estate. Household investment decisions, meantime, were characterised by a continuing divestment of financial assets equating in aggregate terms to 1.3% of first-quarter GDP[10] (1.5% of GDP over full-year 2012). However, some changes have emerged in household investment patterns since the closing months of 2012. In particular, disposals of financial assets in the four quarters from March 2012 to March 2013 centered on fixed-income instruments (primarily commercial paper), while time deposits came to dominance.[11] Although mutual fund investment stayed negative over the twelve months to March 2013 (-0.6% of GDP), note that the numbers turned positive in first-quarter 2013, with net inflows topping 3.40 billion euros (0.33% of GDP). Insurance and pension fund purchases also gathered speed in the same quarter as far as 0.46% of GDP.

Households: financial asset acquisitions FIGURE 11



Source: Banco de España, *Cuentas financieras*. Accumulated four-quarter data.

New Financial Education Plan EXHIBIT 1

At the G-20 summit in Los Cabos (Mexico) in June 2012, heads of state and government approved and endorsed the High-level Principles for National Strategies for Financial Education developed by the OECD and its International Network on Financial Education (INFE). These principles have been adopted by the CNMV and Banco de España in plotting their own strategy for financial education in Spain, and rolled out in the recent renovation, for the 2013-2017 period, of the Financial Education Plan that these two organizations have been promoting since 2008.

In February 2013, G-20 finance ministers and the governors of central banks reaffirmed their stance on the importance of financial education and asked the OECD to provide an update on the progress of national strategies. The resulting report devoted a full chapter to Spain's Financial Education Plan, including its objectives,

10 Accumulated four-quarter data. The figure for the first quarter of 2013 equates to an investment inflow of 0.7% of GDP.

11 Particularly in the fourth quarter of 2012.

development lines, the main results of the past edition (2008-2012) and the goals set for the incoming stage. This initiative demonstrates that the promotion of financial education has become a long-term policy priority for leading countries.

The new Financial Education Plan

In June 2013, the CNMV and Banco de España signed the renewal of the Financial Education Plan launched by the two institutions in 2008 for an initial phase ending in 2012. This second phase will extend over a further five years and signifies a renewed commitment to the plan's goal of improving citizens' financial culture.

Concretely, the Financial Education Plan targets an across-the-board improvement in Spaniards' financial knowledge, so they are better able to confront the many financial decisions they will encounter along life's path.

After a five-year period in which new groundwork has been laid for financial education and multiple objectives met (design of a financial education portal for citizens – www.finanzasparatodos.es –, production of teaching materials and resources, the start-up of learning activities for diverse collectives, partnership agreements with public and private organisations for the promotion of financial literacy, etc.), the time has come to pursue the actions that have proved most effective and set new goals for the next five years.

On the basis of the results achieved and experience gained in 2008-2012, the next phase of the plan will have the following development lines:

– *The inclusion of financial education in compulsory schooling:* this is a cornerstone of the plan. To this end, the CNMV and Banco de España concluded a framework agreement with the Ministry of Education, Culture and Sport in 2009, resulting in a series of learning initiatives in concert with regional educational authorities and sectoral associations. This development line will continue to be pursued vigorously in the second phase.

  Thanks to the work of these agents, almost 400 schools throughout Spain are running financial education programmes in the classroom in the 2012-2013 academic year. The short-term goal is to extend this programme to more centres in 2013-2014.

  Last year's teaching programme is currently being evaluated by reference to its theoretical, methodological and learning achievements as part of a broader study with the Ministry of Education, Culture and Sport to decide how these contents can best be brought within the official curriculum.

  It should be stressed that financial education in schools is now a standard practice in many countries. Recently, for instance, England and Wales declared it a compulsory subject in all plans of study.

  Testimony to the importance attached to financial education in schools at international level is the OECD's inclusion of a financial skills module in a standard test given to 15 year olds as part of its Programme for International Student Assessment (PISA). This test will be repeated in 2015, and it is important that Spanish students are equipped for the challenge.

– *Financial education for retirement and in the insurance sphere:* in view of the need to promote the habit of long-term financial planning, and a better understanding of insurance and pension products and what they are used for, attention will go to developing materials, contents and activities that raise citizens' awareness on all these counts.

– *Consolidation of the* finanzasparatodos *brand:* work will go into establishing and publicising the *finanzasparatodos* (finance for all) brand and logo as the public image of the Financial Education Plan. This will be achieved through a presence strategy informing the public of its existence and goals through the use of social media and other instruments.

  A related objective is to get more users visiting or browsing the www.finanzasparatodos.es portal, where they can acquire new financial knowledge and pick up tips and skills.

– *Promotion and enlargement of the plan partners network:* the involvement of numerous public and private partners in the Financial Education Plan has been crucial in getting many of its activities off the ground and ensuring that it reaches a growing number of collectives.

  The goal in this second phase will be to conclude new partnership agreements and leverage existing ones. Also, contact will be made with other financial education projects under way in Spain in order to share experiences, materials and resources and by this means maximise efficiency and avoid overlap.

– *Evaluation and research:* before embarking on any financial education project, it is vital to set specific and, where possible, quantifiable objectives, so the effectiveness of actions can be properly assessed. Research is another important tool to determine where and how financial literacy needs to be improved.

  As such, an immediate objective will be to identify people's real needs through a national financial education survey. This will help pinpoint the areas where knowledge is lacking and provide a benchmark from which to assess programmes for their effectiveness in delivering progress.

2.3 Outlook

According to the latest IMF forecasts, 2013 output growth will reach 1.2% in the advanced economies and 5% in emerging market economies.

In its July forecasts, the IMF projects global growth of 3.1% in 2013 rising to 3.8% in 2014. These rates imply an 0.2 percentage points revise-down on its previous forecasts published last April. The advanced economies, it now believes, will expand 1.2% and 2.1% in 2013 and 2014 respectively, still at a distance from the emerging market economies (5% in 2013 and 5.4% in 2014).

The main risks for these projections remain tilted to the downside. Chief among them: (i) a possible thinning-out of investment flows to emerging economies when the United States gets round to withdrawing its monetary stimulus programme; (ii) delays in adopting regulatory initiatives in Europe, particularly in its progress towards the banking union crucial for uncoupling sovereign from financial risk; and (iii) the prolongation of the geopolitical instability affecting certain countries. The risks deriving from the relatively fragile state of Europe's sovereign debt markets have stabilised in recent quarters, but remain a factor of some weight, especially in a context of muted growth.

The main downside risks have to do with capital outflows from emerging economies, delays in adopting regulatory initiatives and prolonged geopolitical instability.

Gross domestic product (annual % change) TABLE 5

					IMF[1]	
	2009	2010	2011	2012	2013F	2014F
World	-0.7	5.3	3.9	3.1	3.1 (-0.2)	3.8 (-0.2)
United States	-3.0	2.4	1.8	2.2	1.7 (-0.2)	2.7 (-0.2)
Euro area	-3.8	2.0	1.5	-0.6	-0.6 (-0.2)	0.9 (-0.1)
Germany	-5.1	4.0	3.1	0.9	0.3 (-0.3)	1.3 (-0.1)
France	-3.0	1.6	2.0	0.0	-0.2 (-0.1)	0.8 (=)
Italy	-5.5	1.8	0.4	-2.4	-1.8 (-0.3)	0.7 (+0.2)
Spain[2]	-3.8	-0.2	0.1	-1.6	-1.6 (=)	0.0 (-0.7)
United Kingdom	-3.9	1.8	1.0	0.3	0.9 (+0.3)	1.5 (=)
Japan	-5.5	4.7	-0.6	1.9	2.0 (+0.5)	1.2 (-0.3)
Emerging economies	2.8	7.5	6.2	4.9	5.0 (-0.3)	5.4 (-0.3)

Source: IMF, Thomson Datastream and Eurostat.

1 In brackets, change vs. the previous forecast. IMF, forecasts published July 2013 with respect to April 2013.

2 GDP growth rates for Spain in the period 2009-2012 reflect the updated annual estimates of Spanish National Accounts, baseline 2008, released on 27 August.

The IMF's projections for the Spanish economy point to a 1.6% contraction in 2013 followed by zero growth in 2014. The 0.7 percentage points cut in its 2014 forecast with respect to April last was among the largest downward revisions dealt out to any country. Among the plus points in its macro scenario we can cite the improved performance of domestic financial markets since the closing months of 2012, which has helped reduce financing costs across the economy, the tentative improvement in labour-market data, and advances made in financial sector restructuring. However, the growth rates being forecast are still too low to deliver solid progress in employment, in the short term at least, and doubts persist over the real health of the banking sector in a context of credit constriction that is barring the way to a more dynamic recovery.

Spanish GDP is forecast to decline 1.6% in 2013 followed by zero growth in 2014. Although improvement symptoms are appearing on the macro front, downside risks are material.

3 Spanish markets

3.1 Equity markets

Share prices slide to mid-year and later rally on more evidence of economic improvement and lessening perceptions of sovereign credit risk.

Prices on domestic equity markets fell significantly in the first six months of 2013 on sluggish activity and the persistence of uncertainty factors in some economies. The moment of maximum tension on international markets came at the end of June, when the Federal Reserve announced that it was ready to withdraw its monetary stimulus ahead of time if activity and employment data accompanied. In the third quarter, however, the bear trend gave way to a sizeable rally in most sectors in response to more upbeat news on the economy and employment and a lessening perception of sovereign risk. After staying contained for most of the year, stock market volatility spiked at 30% during the tension episode of late June, though this was mild compared to the experience of past turbulence outbreaks. Liquidity conditions remained in the comfort zone while trading was generally thin except for a short-lived upturn in the middle months.

The Ibex 35's year-to-date gain of 9.5% was surpassed by small and medium cap indices.

The Ibex 35 followed up its 3% and 2% losses in the first and second quarter with a third-quarter gain of 15.2% which placed it 9.5% ahead of its start-out value (see table 6). By mid-September, in effect, the Spanish benchmark was testing 9,000 points, its highest level since October 2011. Meantime, Spanish small and medium cap indices progressed strongly for most of the year, with the latter rising 28.1% from January to September ahead of the former's 20.5%. The performance of domestic stock indices contrasted with that of the Latin American shares traded on Latibex, as evidenced by year-to-date slides of 15.1% in the FTSE Latibex All-Share and 10.5% in the FTSE Latibex Top.

Consumer services, basic materials, industry and construction, and, in third place, technology and telecoms, are the best performing sectors year to date.

A look at the different sectors making up the Madrid General Index (IGBM) reveals some starkly contrasting performances. Financial and real estate services initially came out worst with losses of 9.4% and 6.1% in the first and second quarter respectively, compared to the 12.6% and 5.2% gains of consumer services. The third-quarter rally, however, extended to all sectors, with rises ranging from the 5.3% of oil and energy to the 23.5% of financial and real estate services (see table 6). Year to date, the top performers are consumer services (34.2%), basic materials, industry and construction (17.9%) and technology and telecommunications (13.3%), while oil and energy (9.5%), consumer goods (7.0%) and financial and real estate services (5%) all lag the IGBM average. The slide in bank sector quotes in the first and second quarters (-10.1% and -6.5% respectively) was decisive in this last case.

The P/E of the Ibex 35 rebounds to 12.4 after a first-half fall, placing it at the upper end of the European table…

The price/earnings ratio[12] (P/E) of the Ibex 35, which had dropped from 11.7 in December 2012 to 11.3 in March and 11.0 in June, resumed an upwards path in the third quarter as share prices rallied. By mid-September the multiple of Spain's benchmark index was up to 12.4, placing it at the upper end of the European table (on a par with the Euronext 100 and ahead of the British and Italian indices), but below the top US and Japanese indices, with ratios from 13.6 to 13.9.

12 On one-year forward earnings.

Performance of Spanish stock market indices and sectors (%) TABLE 6

Index	2009	2010	2011	2012	1Q13[1]	2Q13[1]	3Q13 (to 13 September) % prior qt.	% Dec	% y/y
Ibex 35	29.8	-17.4	-13.1	-4.7	-3.0	-2.0	15.2	9.5	12.7
Madrid	27.2	-19.2	-14.6	-3.8	-3.2	-2.1	15.9	9.9	12.8
Ibex Medium Cap	13.8	-5.6	-20.7	13.8	2.2	7.9	16.1	28.1	43.9
Ibex Small Cap	17.6	-18.3	-25.1	-24.4	7.3	-3.1	15.9	20.5	12.9
FTSE Latibex All-Share	97.2	9.0	-23.3	-10.7	-1.2	-18.8	5.8	-15.1	-21.0
FTSE Latibex Top	79.3	9.7	-17.1	-2.6	5.2	-19.0	5.1	-10.5	-13.7
Sector[2]									
Financial and real estate services	**47.3**	**-31.7**	**-18.9**	**-4.7**	**-9.4**	**-6.1**	**23.5**	**5.0**	**4.6**
Banks	50.0	-33.1	-20.3	-4.8	-10.1	-6.5	24.0	4.2	3.3
Insurance	18.9	-26.4	12.5	-2.0	8.5	3.0	13.7	27.0	32.6
Real estate and others	-31.8	-53.3	-47.5	-14.4	-7.8	-2.1	15.2	4.0	30.6
Oil and energy	**-2.7**	**-8.6**	**-2.7**	**-16.0**	**-3.0**	**7.2**	**5.3**	**9.5**	**18.4**
Oil	12.4	10.2	14.9	-35.4	3.4	2.3	14.2	20.7	17.9
Electricity and gas	-8.4	-14.2	-10.8	-5.4	-5.7	9.5	1.1	4.4	18.6
Basic materials, industry and construction	**22.5**	**-15.2**	**-14.3**	**-8.0**	**-0.9**	**3.7**	**14.7**	**17.9**	**27.8**
Construction	17.7	-14.9	-6.9	-9.3	-0.7	4.0	15.5	19.3	37.5
Manufacture and assembly of capital goods	9.9	-29.2	-12.2	-8.8	-2.1	17.8	15.8	33.6	42.9
Minerals, metals and metal processing	36.4	-9.1	-33.7	-8.7	-9.6	-7.3	17.0	-1.9	-3.4
Engineering and others	92.7	-0.1	-29.0	3.8	-0.1	-6.8	6.7	-0.6	-6.7
Technology and telecommunications	**22.8**	**-12.8**	**-20.9**	**-18.3**	**3.9**	**-2.9**	**12.3**	**13.3**	**5.1**
Telecommunications and others	23.3	-12.8	-20.8	-23.0	3.2	-6.0	14.4	10.9	0.4
Electronics and software	3.0	-12.0	-21.3	39.4	8.0	15.1	3.5	28.7	40.9
Consumer goods	**26.3**	**17.0**	**5.7**	**55.6**	**0.2**	**-5.9**	**13.6**	**7.0**	**26.3**
Textiles, clothing and footwear	38.3	28.6	12.7	66.2	-2.0	-8.3	16.0	4.2	26.0
Food and drink	7.0	25.3	-6.3	25.0	-3.7	-1.4	6.2	0.8	14.8
Pharmaceutical products and biotechnology	14.5	-22.2	-7.3	68.3	12.5	0.9	9.2	23.9	37.9
Consumer services	**32.3**	**-0.1**	**-24.2**	**12.7**	**12.6**	**5.2**	**13.3**	**34.2**	**44.9**
Motorways and car parks	36.2	-10.1	-3.7	5.7	5.6	2.2	6.5	14.9	19.4
Transport and distribution	3.8	55.3	-34.9	29.7	34.3	2.8	21.8	68.1	96.1

Source: BME and Thomson Datastream.

1 Change vs. previous quarter.

2 IGBM sectors. Under each sector, data are provided for the most representative sub-sectors.

The earnings yield gap, which reflects the return premium required to be invested in equity versus long-term government bonds, widened from 3.3% to 4.5% over the first six months, reflecting both the decrease in the P/E and the falling yields of Spanish sovereigns. In the third quarter, however, sharply rising stock markets boosted P/E enough to offset the run-down in bond yields, restoring the gap to 3.6% in line with its historical average.[13]

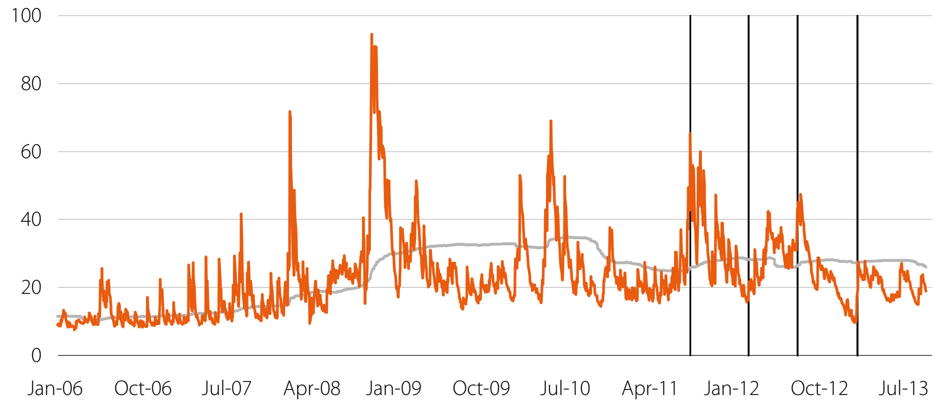
…while the equity risk premium narrows to 3.6%, near its historical average, after pulling higher in the first six months.

13 This indicator's historical average since 1999 stands at 3.3%.

Ibex 35 volatility has hovered near 20% all year except for a second-quarter spike (at 30%) as markets briefly tensed.

Ibex 35 volatility has been moving around the 20% mark for most of this year after easing from 50% to just 10% in the second half of 2012. Its mid-year spike, coinciding with a degree of market agitation, was short-lived only and contained at under 30% (see figure 12), compared to the heights reached in earlier outbreaks.

Historical volatility of the Ibex 35 FIGURE 12

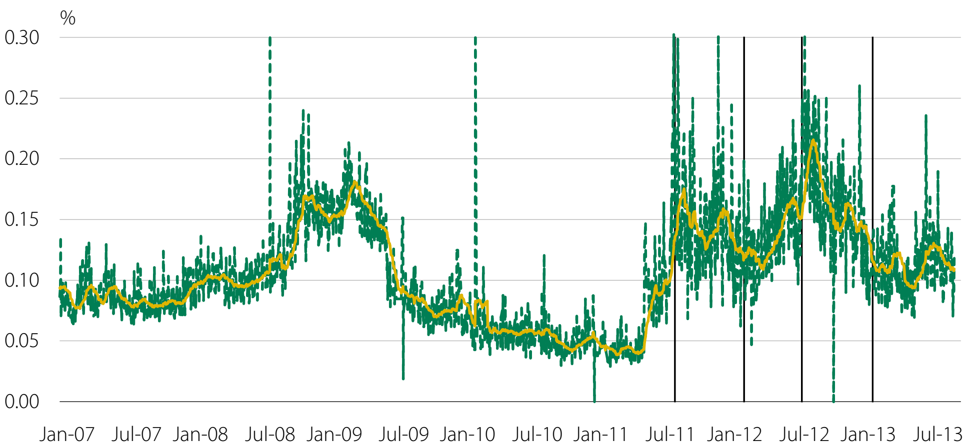


Source: Thomson Datastream and CNMV. Data to 15 September. The red line shows conditional volatility and the grey line unconditional volatility. The vertical lines refer to the introduction and lifting of the previous short-selling ban on 11 August 2011 and 16 February 2012 respectively, and the new ban starting on 23 July 2012 and ending on 1 February 2013.

Liquidity conditions remain comfortable over the first three quarters of 2013…

The second-half 2012 improvement in Ibex 35 liquidity conditions (measured through the bid/ask spread) carried over into this year's opening months albeit with some fluctuations (see figure 13). After deteriorating briefly in June and July, spreads narrowed once more to 0.11% in mid-September, in line with their average since 2003.

Ibex 35 liquidity. Bid-ask spread FIGURE 13

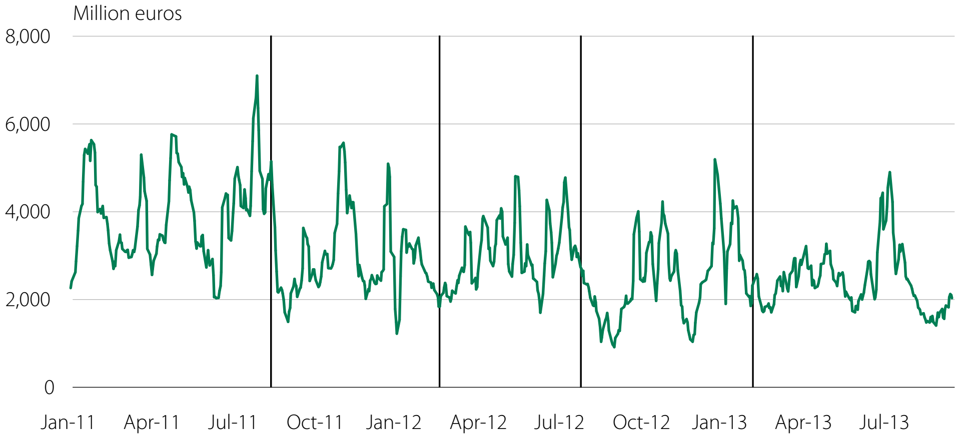


Source: Thomson Datastream and CNMV. Data to 15 September. The curve represents the bid-ask spread of the Ibex 35 along with the average of the last month. The vertical lines refer to the introduction and lifting of the previous short-selling ban on 11 August 2011 and 16 February 2012 respectively, and the new ban starting on 23 July 2012 and ending on 1 February 2013.

Trading volumes on Spanish stock markets shrank by 455.9 billion euros in the first three quarters of 2013 (to 15 September), equivalent to an 8.2% decrease vs. the same period last year. Daily averages held more or less stable at around 2.60 billion euros then surged to just under 5 billion in the year's central weeks, coinciding with a period of mild turbulence on international financial markets. Since then, volumes have tailed off anew to a multi-year low of 2.35 billion.[14]

…but stock market trading conserves its muted tone.

Daily trading on the Spanish stock market[1] FIGURE 14



Source: CNMV. Data to 15 September 2013. The vertical lines refer to the introduction and lifting of the previous short-selling ban on 11 August 2011 and 16 February 2012 respectively, and the new ban starting on 23 July 2012 and ending on 1 February 2013.

1 Moving average of five trading sessions.

Turnover on the Spanish stock market TABLE 7

Million euros

	2009	2010	2011	2012	1Q13	2Q13	3Q13[1]
All exchanges	**886,135**	**1,037,284**	**925,667**	**698,987**	**162,136**	**164,346**	**129,393**
Electronic market	880,544	1,032,447	920,879	694,294	160,793	163,071	128,304
Open outcry	73	165	48	50	6	4	28
of which SICAVs[2]	20	8	6	0	0	0	0
MAB[3]	5,080	4,148	4,380	4,330	1,238	1,171	993
Second Market	3	3	2	0	0	0	0
Latibex	435	521	358	313	99	100	67
Pro memoria: non-resident trading (% all exchanges)							
	64.5	75.2	81.2	78.7	n.a.	n.a.	n.a.

Source: CNMV and Directorate-General of Trade and Investment.

1 Accumulated data from 1 July to 15 September.

2 Open-end investment companies.

3 Alternative equity market. Data since the start of trading on 29 May 2006.

n.a.: Data not available at the closing date for this report.

14 Taking average daily volumes in the year, the low point comes in 2012 (2.61 billion euros), compared to the higher levels of 2008 to 2011 (4.89 billion in 2008, 3.49 billion in 2009, 4.05 billion in 2010 and 3.62 billion in 2011).

Equity issue volumes, at 24 billion euros, surpass the 2012 total, but are strongly concentrated in a small number of banks.

Equity issuance on domestic markets summed almost 24 billion euros in the first three quarters of 2013, surpassing the full-year figure for 2012 (21.14 billion). The peak moment came in the second quarter when capital increases at one nationalised bank raised a total of 15.5 billion euros. So far no POS have been launched compared to the three in 2012, for a combined amount of 1.23 billion euros (see table 8).

Capital increases and public offerings[1] TABLE 8

	2009	2010	2011	2012	1Q13	2Q13	3Q13[2]
CASH AMOUNTS[3] (million euros)	**11,391**	**16,017**	**17,146**	**21,142**	**4,996.0**	**16,372.3**	**2,580.4**
Capital increases	11,389	15,407	17,019	19,911	4,996.0	16,372.3	2,580.4
Of which, through IPO	17	959	6,239	2,457	0.0	1,054.8	0.0
National tranche	15	62	5,827	2,457	0.0	1,054.8	0.0
International tranche	2	897	412	0	0.0	0.0	0.0
Public offering of shares	2	610	127	1,231	0.0	0.0	0.0
National tranche	2	79	125	1,231	0.0	0.0	0.0
International tranche	0	530	2	0	0.0	0.0	0.0
NUMBER OF FILINGS[4]	**53**	**69**	**92**	**105**	**28**	**37**	**32**
Capital increases	53	67	91	103	28	37	32
Of which, through POS	2	12	8	7	0	3	0
Of which, bonus issues	11	15	22	22	9	9	10
Public offering of shares	1	3	2	3	0	0	0

Source: CNMV.

1 Incorporating issues admitted to trading without a prospectus being filed.

2 Data to 15 September.

3 Excluding amounts recorded in respect of cancelled transactions.

4 Including all transactions registered, whether or not they eventually went ahead.

First Conference on the Reform of the Securities Clearing, Settlement, and Registry System EXHIBIT 2

On 27 June, the National Securities Markets Commission (CNMV) held its First Conference on the Reform of the Securities Clearing, Settlement and Registry System. The event was an opportunity for market participants to catch up with work under way and discuss the future shape of post-trade systems in the Spanish market. In calling the conference, the CNMV fulfilled its pledge to keep the sector informed of progress in the reform process initiated in 2010, when it set up a Steering Committee chaired by the CNMV Vice President with members from the Banco de España, the Spanish Banking Association (AEB), the Spanish Confederation of Savings Banks (CECA), the Investors Compensation Scheme (FOGAIN), Bolsas y Mercados Españoles (BME), and the main actors in the settlement cycle.

The opening address was delivered by the Vice President of the CNMV, who pointed to the strides made in the reform process, as detailed in the report published 13 May, 2013 with the title “Reforma del Sistema de Registro, Compensación y

Liquidación".[1] She also underlined that the heavy workload ahead would require a sustained and coordinated effort in order to keep the reform on schedule.

The next speaker was the CNMV's Director-General of Markets, who stressed that time was very tight for the reform to be concluded by deadline. Among the main tasks pending, he signalled, were the design of participating entities' communications with the Post Trading Interface (PTI), the detailed protocol for the optional settlement model, and the settlement of OTC trades involving a central counterparty. He also stressed the need to complete detailed planning for migration to the new system and an assessment of its risks before end-2013, and to get the required regulatory amendments in place in as short a time as possible.

The meeting then broke up into four themed workshops. The first focused on the practical aspects of the new opportunities yielded by the reform, a crucial point given its potential impact on bank sector strategic business. At the heart of the debate were certain still undefined features of the reform project which could limit banks' decision-making power over their own business model. Doubts were raised on issues like the requirements to be met by clearing members of the central counterparty (CCP), which, it was agreed, should be cleared up as a matter of urgency. Participants also analysed the steps banks should take in designing their positioning strategies and setting in train their changeover plans. The consensus was that the entry conditions for each infrastructure would influence the decision to become an individual clearing member or, alternatively, to sign a contract with a general clearing member, and that this, in turn, would affect the number of entities and the organisation of the market.

On the topic of the reform's advantages and drawbacks for end investors, participants in this workshop were adamant that it should proceed smoothly enough for retail investors not to notice the changes, and that it was important to keep an eye on costs and to ensure that final customers were properly informed with maximum disclosure. Finally, they felt that the flexible design of the reform would give entities more operational scope and allow them to choose which services to offer, with some opting to extend their existing suite while others specialise.

The second workshop turned on the functionalities of CCPs in the context of Regulation (EU) No. 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories, known as EMIR. The introduction of a CCP would, it was felt, contribute to optimising settlement procedures and the detailed information sent to participants.

The following novelties of CCP design were mentioned in discussions: the possibility of netting trades before settlement instructions are generated; the implementation of transaction management procedures in order to delimit the scope of netting; the option for trading members to be either ordinary or segregated; and the option of assigning a trade to a particular account from the time of execution, or else sending a give-up (transfer of trade), likewise upon execution, to another clearing or non-clearing member. This facilitates the transfer of risk and subsequent calculation of the margin required by the CCP from the definitive clearing member.

Participants were agreed that the cost of the reform should be considered as a whole, and did not rule out the need to make investments, while admitting that netting in the CCP should provide some offset. Interoperability was seen as vital, and it was felt that the EMIR should encourage the trend of providing cash collateral to the CCP. International investors, they said, had welcomed the reform and were hopeful that it would improve what they see as the sub-optimal procedures now in place for the settlement of trades originating in other, non-resident CCPs. Finally, care should be taken to keep failed trades to a moderate level, as they have been to date.

Discussions in the third workshop ranged over aspects of the new settlement by balances system envisaged in the reform. Participants were keenly aware of the challenges involved in the eventual shortening of the settlement cycle from three to two business days counting from the trade date, and Iberclear's integration within T2S. They stressed that T+2 settlement, while aiding harmonisation with Europe, could cause a short-term spike in failed trades, particularly for non-resident institutional investors, though it would also cut collateral requirements by a third in tandem with the reduction in the settlement period and, therefore, in default risk.

Another subject of debate was how the reform would affect the timing of when a transaction becomes final. Iberclear currently dates finality from the moment the transaction is accepted, in accordance with the principle of assured delivery. But the nascent CCPs will need to be recognized as systems pursuant to Directive 98/26/EC of the European Parliament and of the Council, of 19 May 1998, on settlement finality in payment and securities settlement systems. With the CCP, trades will become final on being accepted from the market, while with Iberclear, finality will shift to the settlement environment once the principle of assured delivery has disappeared.

Participants also welcomed the flexibility of the account structure mooted for the CCP and central securities depository (CSD) at the preparatory stage of the reform, with particular regard to the following points: (i) the possibility of opening individual accounts in the name of member's clients, so their collateral is kept separate from that of the clearing member's other accounts; (ii) the possibility that transactions can be recorded in accounts on a gross or net basis, determining, in turn, both the gross or net calculation of margin requirements and the application or otherwise of cleared balances when processing settlement instructions; and (iii) the possibility for financial intermediary orderers to open individual accounts supporting the entry of operations in the CSD in the name of the final owner for whom they are operating, within the space of the settlement cycle and in the terms permitted by CSD and CCP internal regulations.

Finally, the point was made that the settlement by balances which is a feature of the reform will remove the need to use registry information in the market phase, which will simplify processes and foreseeably encourage more trading going forward, especially from the non-resident investors who account for 60% of stock exchange trading volumes.

The fourth and last workshop dealt with aspects of the new securities registry arrangements. Regarding the new registry and settlement system managed by Iberclear, it was explained that there will be a single system for all securities (equities and fixed-income, public and corporate debt), to be implemented in two phases according to the project timeline. The registry system will be in two tiers and will be based on balances or aggregated positions. On the matter of how accounts are organized, participants were told that they could have one or more proprietary or general client accounts or individual accounts per client, and even financial intermediary special individual accounts for use in the optional order settlement procedure.

Discussion then moved on to the changes in legal relations (including finality) that would ensue from the reform, and its fit with other changes in the European regulatory framework touching on the rights attached to securities. Finally, after analysing how these developments would affect participants in different platforms, attention turned to the new standardised system of reporting participants' entries in the detailed register. It was stressed that for supervisory purposes its features are equivalent to those of the current system based on register references (RR).

The Conference was closed by the Director-General of General Operations, Markets and Payment Systems at Banco de España and the General Secretary for the Treasury and Financial Policy of the Ministry of Economy and Competitiveness. The former talked of the usefulness of having this kind of event and the interest it had generated. He stressed that the reform was a flagship project for the Spanish financial industry in the light of the harmonising legal measures being developed in the European post-trade environment, and that entities should make every effort to adapt their operations. Two points, he said, merited special attention: the shortage of time available for the huge amount of work that still needs doing, and the coming onstream of T2S, whose start-up and migration will require an enormous and concerted effort from the market as a whole. And the next challenge, he concluded, would be the shortening of the settlement cycle from three to two days envisaged in the new regulation for Central Securities Depositories currently under consideration by the European Parliament and the Council.

The General Secretary of the Treasury and Financial Policy began his address saying that efficient markets rely on the proper functioning of all the processes involved concluding with payment and transfer of ownership. He added that the post-trade stage encompassing securities clearing, settlement and registry is the cornerstone of any financial system, supporting the exchange of securities and cash. Europe is on the brink of major changes in the post-trade sector comparable to the shake-up in the trading landscape brought by the first MiFID a decade ago. And Law 32/2011 amending the Securities Market Law acknowledged this fact by launching the reform of the clearing, settlement and registry system in which we are now immersed. In closing, the General Secretary expressed his confidence that the determination of regulators, supervisors and the financial industry would bring the reform to a successful conclusion and ensure that migration to the new system went through as smoothly as possible.

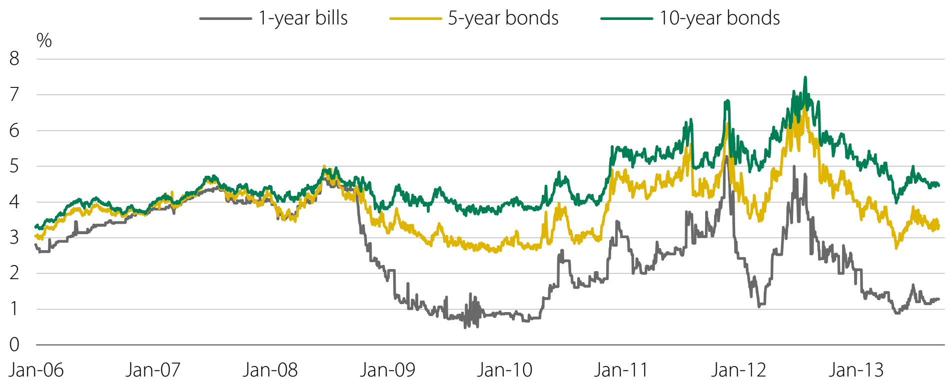
1 Available at http://www.cnmv.es/docportal/aldia/SituacionReforma090513.pdf

3.2 Fixed-income markets

Spanish fixed-income markets reflect the calmer mood prevailing in European sovereign debt markets since summer 2012, though certain elements of fragility remain.

The easing of European debt market tensions meant domestic fixed-income markets had an altogether smoother run in 2013, only briefly interrupted by minor stress episodes in the months of May and June. Public and, less so, corporate debt yields traced a firm downwards course which restored risk premiums to levels unseen since spring 2011. However, fixed-income markets are still looking less than robust, and the hefty decrease in agents' financing costs has so far failed to translate as an upswing in issuance. One cause of the fading popularity of this kind of instrument could be the availability of other, cheaper funding sources at a time when ongoing deleveraging coupled with low-gear economic activity have sizeably eroded the borrowing needs of the resident private sector.

Spanish government debt yields FIGURE 15



Source: Thomson Datastream. Data to 15 September.

Short-term treasury yields have fallen from 75 to 96 bp year to date depending on the maturity, with occasional rises in May and June.

Against this backdrop, short-term treasury yields continued their downward path from the 1.1%, 1.7% and 2.2% of last year's close in three, six and twelve-month tenors respectively, broken only by rises in the spring months coinciding with moments of market unease. At the closing date for this report (15 September), three, six and twelve-month bills were yielding 0.2%, 0.9% and 1.3% respectively (in average monthly terms), between 75 bp and 96 bp down on their end-2012 rates (see table 9). Commercial paper yields, meantime, experienced a sharp reduction in the first quarter that tended to level off in subsequent months. The decline, finally, took them to mid-September levels of 1.2%, 1.6% and 1.6% at three, six and twelve-month maturities, between 162 bp and 224 bp down on the equivalent levels at the 2012 close (2.8%, 3.6% and 3.8% respectively).

Long-term government yields have also come down substantially; from 5.3% at end-2012 to 4.5% in mid-September in the case of the ten-year bond.

Long government bonds followed a similar path to short-term treasuries, namely a run-down in yields breaking off only in May and June. As we can see from table 10, average monthly yields of three, five and ten-year bonds stood at 2.6%, 3.4% and 4.5% respectively in September 2013, around 80 bp lower than at the 2012 close.[15] Long-term corporate bond yields also fell sharply to April and turned flatter thereafter, as far as mid-September averages of 2.9%, 3.7% and 5.3% in three, five and ten-year tenors, between 93 bp and 146 bp down vs. year-end 2012.

15 Already a long way short of the historical highs of summer 2012.

Short-term interest rates[1] (%)

TABLE 9

	Dec 10	Dec 11	Dec 12	Mar 13	Jun 13	Sep 13[3]
Letras del Tesoro						
3 month	1.60	2.20	1.14	0.29	0.58	0.22
6 month	2.71	3.47	1.68	0.85	0.79	0.93
12 month	3.09	3.27	2.23	1.37	1.34	1.27
Commercial paper[2]						
3 month	1.37	2.74	2.83	1.49	1.25	1.21
6 month	2.52	3.52	3.58	1.72	1.43	1.61
12 month	3.49	3.77	3.83	1.90	1.67	1.59

Source: Thomson Datastream and CNMV.

1 Monthly average of daily data.

2 Interest rates at issue.

3 Data to 15 September.

Medium and long bond yields[1] (%)

TABLE 10

	Dec 10	Dec 11	Dec 12	Mar 13	Jun 13	Sep 13[2]
Government bonds						
3 year	3.87	4.01	3.40	2.85	2.86	2.62
5 year	4.65	4.65	4.22	3.65	3.47	3.36
10 year	5.38	5.50	5.33	4.93	4.67	4.49
Corporate bonds						
3 year	4.39	5.43	4.19	2.81	3.00	2.90
5 year	4.96	5.91	4.66	3.45	3.81	3.73
10 year	6.28	8.06	6.79	5.40	5.38	5.33

Source: Thomson Datastream, Reuters and CNMV.

1 Monthly average of daily data.

2 Data to 15 September.

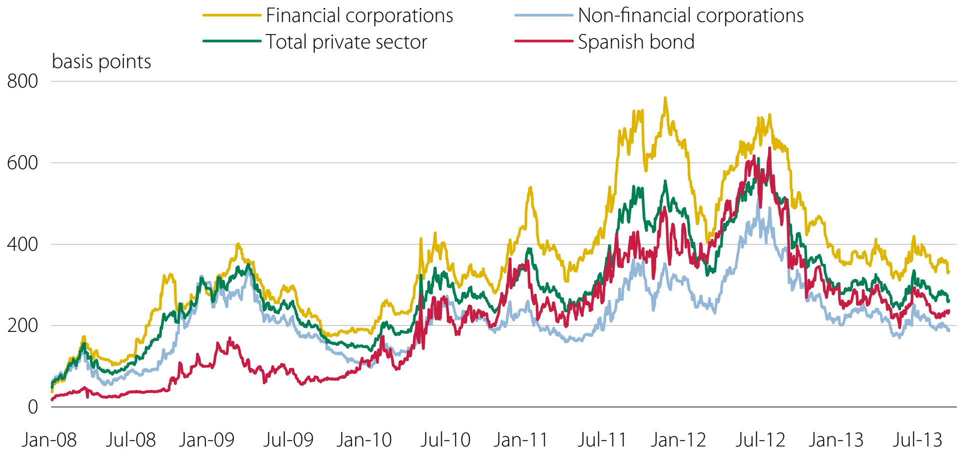
After an uncertain start, sovereign spreads head steadily lower to reach 255 bp in mid-September vs. 396 bp at the 2012 close.

Spain's sovereign risk premium, as derived from five-year CDS spreads and the yield spread between the Spanish and German benchmark, has held to a narrowing trend, with some ups and downs, in tune with the drop in tensions on European debt markets. The CDS spread, specifically, decreased to 237 bp in mid-September from the 295 bp of last year's close (see figure 16), while the Spanish/German spread narrowed to 255 bp from 396 bp. This downward movement was strongest in the third quarter as *bund* yields edged higher. The decline in perceived sovereign risk extended to practically all of Europe[16] (with Portugal as sole exception). And indicators of sovereign risk contagion have moved in the moderation zone despite straining temporarily higher in the summer months. The only blip we can point to is the higher rise in the contagion indicator for Portuguese sovereign credit risk (see figure 17).

16 It bears mention that Spanish sovereign spreads declined faster than their Italian equivalents over the reference period, to the extent that Spanish/German spreads dipped below Italian/German spreads on 10 September 2013, the first such occasion since March 2012.

Aggregate risk premium[1] based on the five-year CDS of Spanish issuers

FIGURE 16

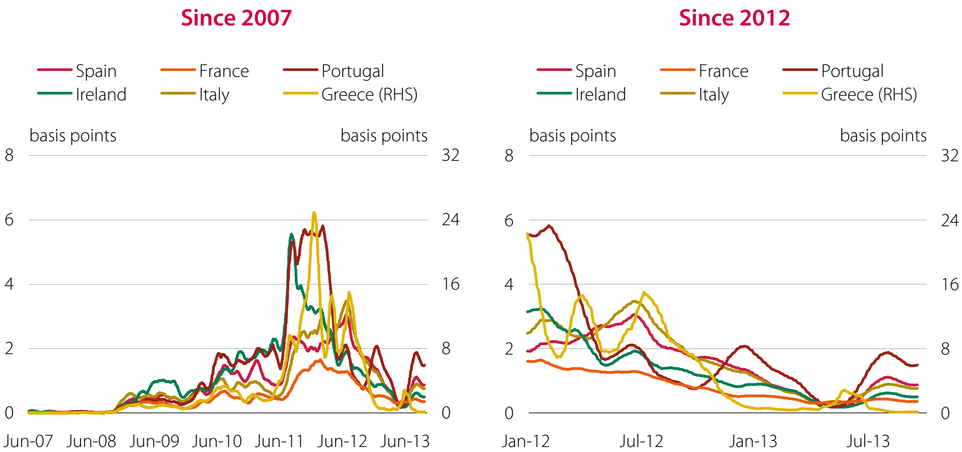


Source: Thomson Datastream and CNMV.

1 Simple average. Data to 15 September.

Indicators of sovereign credit risk contagion in the euro area[1]

FIGURE 17



Source: Thomson Datastream and CNMV. Data to 15 September 2013.

1 Defined as the impact on German sovereign CDS of contemporaneous shocks in the CDS of Spain, Italy, Ireland, Portugal, Greece and France equivalent to 1% of the CDS spread at that point in time. Results are the product of two components. The first measures the degree of contagion from one country to another, taken as the percentage change in the CDS of the German sovereign bond that is exclusively explained by a contemporaneous variation in the CDS spread of one of the above six countries. This percentage is based on the decomposition of the variance of the estimated prediction error using an autoregressive vector model (ARV) with two variables – the impacted variable (change in the German sovereign CDS) and the shock-generating variable (change in the sovereign CDS of Spain, Italy, Ireland, Portugal, Greece or France) – and two retardations. Estimates are implemented through a moving window of the one hundred periods prior to the first prediction period. The second component measures the credit risk of the shock emitter, as approximated from its CDS. Finally, the resulting series is smoothed using a moving average of thirty trading sessions.

The risk premium of the private sector of the economy has tended to mirror the progress of sovereign spreads, though note that financial institutions are still paying more.

Corporate bond spreads performed similarly to their sovereign equivalents, namely a descending trend as of end-2012 broken off occasionally in the second quarter. As figure 16 shows, the average credit spreads of resident private-sector issuers tended to align with sovereign risk premiums, reaching mid-September levels of 262 bp and 237 bp respectively. But despite this notable reduction in the perception of risk attached to domestic borrowers, we still find a large gap between the (average) spreads of financial institutions (332 bp in the month of September) and the 191 bp of the non-financial sector.

The amount of fixed-income issues filed with the CNMV from January to September drops 65% to 94 billion euros…

The gross volume of fixed-income issues registered with the CNMV between January and September 2013[17] came to 94.12 billion euros, 65% less than in the same period last year (see table 11). The largest reductions in straight-number terms corresponded to commercial paper (-77.66 billion euros), mortgage covered bonds (-64.55 billion) and, in smaller measure, non-convertible bonds (-26.73 billion). Various factors underlie the slump in primary activity in these instruments, precisely the most popular in 2012, though the common denominator is issuers' more modest financing needs.

…due to falling sales of commercial paper amid stiff competition from deposits and investment funds,…

In the case of commercial paper – up by 28% in 2012 – sales plunged by 71% vs. the year-ago period to a lowly 32.5 billion euros. Direct causes here can be presumed to include the recovery of bank deposit levels in the household and business sectors and the increased inflows registered by certain lower-risk categories of investment funds.

…and lower issuance of mortgage and non-convertible bonds.

Meantime, sales of mortgage covered bonds shrank by 75% in year-on-year terms to 21.8 billion euros, and those of non-convertible bonds by 57% to a September total of just under 19.9 billion. These large percentage reductions reflect both lighter funding needs and the abnormally high comparative baseline of 2012, when financial institutions engaged in heavy selling of these instruments to ensure themselves a stock of high-quality assets for use in Eurosystem financing operations.

Asset-backed securities buck the trend with a 10% increase, although the baseline is low.

The exception to this widespread slowdown was asset-backed securities. Issuance of these instruments climbed by 10% to around 14 billion euros, without of course coming anywhere near to recouping their pre-crisis levels. Sales of territorial covered bonds summed 5.61 billion between January and September, 37% less than in 2012. Again, no preference share issues were reported in the period.

International issuance sinks back in 2013.

Foreign debt financing also tailed off considerably between January and July 2013. As table 11 shows, the amount placed abroad by Spanish fixed-income issuers was 43% lower than in the year-ago period at 32.89 billion euros. Most of this decline corresponded to short-term sales, down by 73% to 8.39 billion, against an 8% decline to 25 billion for longer-dated instruments.

17 Data to 15 September.

Gross fixed-income issues

TABLE 11

filed[1] with the CNMV	2009	2010	2011	2012	2013 1Q	2013 2Q	2013 3Q[2]
Number of ISSUES	**512**	**349**	**353**	**334**	**61**	**74**	**47**
Mortgage bonds	75	88	115	94	15	14	5
Territorial bonds	1	9	42	18	1	2	2
Non-convertible bonds and debentures	244	154	87	134	27	47	31
Convertible/exchangeable bonds and debentures	6	3	9	7	3	1	0
Asset-backed securities	76	36	45	35	11	5	3
Commercial paper facilities	73	59	53	46	4	5	6
Securitised	2	2	2	1	0	0	0
Other commercial paper	71	57	51	45	4	5	6
Other fixed-income issues	0	0	0	0	0	0	0
Preference shares	37	0	2	0	0	0	0
NOMINAL AMOUNT (million euros)	**387,476**	**226,449**	**288,992**	**357,830**	**44,462**	**30,406**	**19,255**
Mortgage bonds	35,574	34,378	67,227	102,170	9,195	7,340	5,265
Territorial bonds	500	5,900	22,334	8,974	95	1,520	4,000
Non-convertible bonds and debentures	62,249	24,356	20,192	86,442	15,595	4,136	166
Convertible/exchangeable bonds and debentures	3,200	968	7,126	3,563	425	15	0
Asset-backed securities	81,651	63,261	68,413	23,800	8,052	4,942	904
Domestic tranche	77,289	62,743	63,456	20,627	6,965	4,309	904
International tranche	4,362	518	4,957	3,173	1,087	633	0
Commercial paper[3]	191,342	97,586	103,501	132,882	11,100	12,453	8,920
Securitised	4,758	5,057	2,366	1,821	180	390	440
Other commercial paper	186,583	92,529	101,135	131,061	10,920	12,063	8,480
Other fixed-income issues	0	0	0	0	0	0	0
Preference shares	12,960	0	200	0	0	0	0
Pro memoria:							
Subordinated issues	20,989	9,154	29,199	7,633	1,557	978	92
Covered issues	4,794	299	10	0	0	193	0

abroad by Spanish issuers	2009	2010	2011	2012	2013 1Q	2013 2Q	2013 3Q[4]
NOMINAL AMOUNT (million euros)	**149,686**	**127,731**	**120,043**	**91,882**	**19,246**	**11,506**	**2,133**
Long-term	47,230	51,107	51,365	50,312	16,076	7,793	628
Preference shares	3,765	0	0	0	0	1,500	0
Subordinated debt	2,061	0	242	307	0	0	0
Bonds and debentures	41,404	50,807	51,123	50,005	16,076	6,293	628
Asset-backed securities	0	300	0	0	0	0	0
Short-term	102,456	76,624	68,677	41,570	3,170	3,713	1,505
Commercial paper	102,456	76,624	68,677	41,570	3,170	3,713	1,505
Securitised	108	248	322	11,590	0	0	0

Source: CNMV and Banco de España.

1 Incorporating issues admitted to trading without a prospectus being filed.

2 Data to 15 September.

3 Figures for commercial paper issuance correspond to the amount placed.

4 Data for the month of July. No data are available for foreign sales of securitised commercial paper in this month.

4 Market agents

4.1 Investment vehicles

Financial UCITS[18]

Five years of decline are brought to a halt in the first half of 2013 by a 4.3% increase in investment fund assets to nearly 136 billion euros.

After five years of non-stop decline, assets under management in investment funds climbed by 4.3% in the first half of 2013 as far as 135.93 billion euros (see table 13). Around 80% of the increase, moreover, owed to net subscriptions in these two quarters summing over 9 billion euros (see table 12). The most copious inflows found their way into fixed-income and passively managed products. Conversely, guaranteed fixed-income and equity, absolute return and global funds registered net redemptions in the period. These investment and divestment flows represent a switch in the pattern that has dominated for several years, in which guaranteed fixed-income and equity categories were the main subscription beneficiaries to the detriment of fixed-income funds.

The long-awaited increase owes 80% to net subscriptions and the remainder to fund returns (2%).

Investment fund returns were a positive 2% over the first six months of 2013, but lagged some way behind the returns obtained in 2012 (see table 13). The best performing categories in the first half-year were euro and international equity (4.4% and 7% respectively), while all categories, generally speaking, fared better in the first than in the second quarter. Despite this improved tone, fund numbers continued to dwindle as far as 2,117 at the end of June. This was 68 fewer than at end-2012, with the biggest losses (46) in the fixed-income category.

Net investment fund subscriptions TABLE 12

				2012		2013	
Million euros	2010	2011	2012	3Q	4Q	1Q	2Q
Total investment funds	**-25,580.9**	**-10,839.0**	**-11,495.4**	**-3,176.6**	**-3,570.7**	**4,224.4**	**5,205.5**
Fixed income[1]	-27,150.0	-10,427.7	-5,662.5	-1,880.9	-1,273.4	1,729.5	3,934.9
Mixed fixed income[2]	-1,416.9	-1,925.7	-651.6	-173.6	-116.5	419.0	668.7
Mixed equity[3]	-90.1	-320.5	-281.6	-68.3	-53.3	349.0	315.7
Euro equity	-696.9	152.0	-109.7	-2.1	-23.9	275.0	104.6
International equity	1,151.9	-817.6	-370.2	-55.9	-186.5	122.3	133.3
Guaranteed fixed-income	4,716.0	7,228.3	-334.5	58.5	-974.5	537.8	-602.6
Guaranteed equity[4]	-2,500.1	-3,061.6	-3,353.1	-805.1	-1,115.8	-651.9	-952.7
Global funds	323.7	945.3	-7.8	-101.1	7.5	-61.0	-197.9
Passively managed	-790.3	-274.5	572.1	67.8	360.4	1,477.0	1,851.1
Absolute return	871.8	-2,337.0	-1,296.5	-215.9	-194.7	27.7	-49.5

Source: CNMV. Estimates only.

1 Includes: Euro and international fixed income and money market funds (as of 3Q 2011, money market funds encompass those engaging in money market and short-term money market investments, Circular 3/2011).

2 Includes: Euro and international mixed fixed income.

3 Includes: Euro and international mixed equity.

4 Includes: Guaranteed and partial protection equity funds.

18 Although this classification includes hedge funds and funds of hedge funds, we make no separate reference to them here, since they are the subject of their own sub-section further ahead.

Main investment fund variables*

TABLE 13

				2012		2013	
Number	**2010**	**2011**	**2012**	**3Q**	**4Q**	**1Q**	**2Q**
Total investment funds	**2,408**	**2,310**	**2,185**	**2,197**	**2,185**	**2,185**	**2,117**
Fixed income[1]	537	508	454	459	454	448	408
Mixed fixed income[2]	160	140	125	128	125	126	129
Mixed equity[3]	138	128	117	119	117	120	124
Euro equity	172	148	127	129	127	126	116
International equity	232	220	211	214	211	209	198
Guaranteed fixed-income	276	351	398	393	398	409	402
Guaranteed equity[4]	499	420	361	369	361	348	336
Global funds	192	203	192	194	192	182	174
Passively managed	61	59	85	75	85	103	126
Absolute return	141	133	115	117	115	114	104
Assets (million euros)							
Total investment funds	**143,918.2**	**132,368.6**	**124,039.9**	**125,108.2**	**124,039.9**	**130,295.4**	**135,933.5**
Fixed income[1]	56,614.6	46,945.5	40,664.6	41,512.2	40,664.6	42,690.3	46,736.8
Mixed fixed income[2]	7,319.0	5,253.6	5,500.9	5,512.9	5,500.9	5,965.6	6,618.4
Mixed equity[3]	3,470.5	2,906.1	3,179.9	3,116.2	3,179.9	3,593.6	3,911.9
Euro equity	5,356.8	4,829.2	5,270.2	4,891.7	5,270.2	5,691.8	5,867.8
International equity	8,037.3	6,281.2	6,615.0	6,663.2	6,615.0	7,224.0	7,297.3
Guaranteed fixed-income	26,180.2	35,058.0	36,445.0	36,489.9	36,445.0	37,653.1	37,316.1
Guaranteed equity[4]	22,046.5	18,014.5	14,412.7	15,383.0	14,412.7	13,925.5	13,032.2
Global funds	4,440.3	5,104.7	4,358.6	4,288.4	4,358.6	4,366.9	4,157.3
Passively managed	2,104.8	1,986.2	2,991.2	2,456.2	2,991.2	4,511.4	6,402.4
Absolute return	8,348.1	5,989.7	4,601.9	4,794.4	4,601.9	4,673.3	4,593.4
Unit-holders							
Total investment funds	**5,160,889**	**4,835,193**	**4,410,741**	**4,531,940**	**4,410,741**	**4,523,140**	**4,646,619**
Fixed income[1]	1,622,664	1,384,946	1,261,634	1,297,686	1,261,634	1,283,052	1,347,295
Mixed fixed income[2]	270,341	206,938	188,574	193,992	188,574	194,084	203,705
Mixed equity[3]	171,336	145,150	138,096	140,387	138,096	140,132	141,715
Euro equity	266,395	237,815	220,433	220,342	220,433	231,881	239,309
International equity	501,138	448,539	398,664	417,276	398,664	409,552	427,789
Guaranteed fixed-income	790,081	1,042,658	1,075,852	1,082,897	1,075,852	1,114,875	1,124,209
Guaranteed equity[4]	1,065,426	912,298	727,867	783,203	727,867	703,587	655,760
Global funds	105,720	127,336	101,321	105,824	101,321	104,718	111,567
Passively managed	90,343	100,416	125,003	110,678	125,003	170,399	224,481
Absolute return	277,445	229,097	173,297	179,655	173,297	170,860	170,789
Return[5] (%)							
Total investment funds	**0,35**	**-0,08**	**5,50**	**2,72**	**2,08**	**1,64**	**0,37**
Fixed income[1]	0,11	1,56	3,54	1,35	1,12	0,76	0,31
Mixed fixed income[2]	-0,54	-1,34	4,95	2,41	1,75	0,83	-0,19
Mixed equity[3]	-0,98	-5,64	7,83	4,12	3,30	2,02	0,17
Euro equity	-2,94	-11,71	12,31	8,16	7,28	3,05	1,32
International equity	14,22	-10,83	13,05	5,27	2,32	7,49	-0,45
Guaranteed fixed-income	-0,67	3,28	4,85	2,42	2,27	1,72	0,68
Guaranteed equity[4]	-1,79	0,14	5,07	3,89	1,99	1,16	0,42
Global funds	3,22	-4,64	7,44	2,95	2,03	1,75	-0,26
Passively managed	-2,36	-7,33	7,10	5,50	4,04	0,96	0,77
Absolute return	1,53	-1,87	3,84	1,81	1,36	1,01	-0,57

Source: CNMV.

* Data for funds that have filed financial statements (i.e., not including those in the process of winding-up or liquidation).

1 Includes: Euro and international fixed income and money market funds (as of 3Q 2011, money-market funds encompass those engaging in money market and short-term money market investments, Circular 3/2011).

2 Includes: Euro and international mixed fixed income.

3 Includes: Euro and international mixed equity.

4 Includes: Guaranteed equity and partial protection equity funds.

5 Annual return for 2010, 2011 and 2012. Quarterly data comprise non-annualised quarterly returns.

The number of fund unit-holders expanded by more than 200,000 vs. December last year to 4,646,619 at the June close. As with assets under management, the increase of fund unit-holders was greatest in fixed-income and passively managed funds, with 86,000 and 99,000 respectively. Only guaranteed equity and absolute return funds lost members in the reference period (72,000 and 2,500 respectively).

200,000 more unit-holders in the first six months of 2013.

Preliminary data for July 2013 suggest that the expansion trend in assets and unit-holders numbers has not let up. They also suggest, to judge by the number of mergers, that sector rationalisation still has some way to go.

The expansion trend continues through July, according to preliminary data.

The liquidity conditions of fund fixed-income portfolios continued to improve to mid-year 2013, with the amount of less-liquid assets down by 25% from 5.39 billion in December 2012 to 4.05 billion in June 2013 (see table 14). On this showing, the ratio of less-liquid assets dropped from 4.3% of total fund assets at end-2012 to 3.1% at the first-half close. The composition of these less-liquid holdings was largely unchanged except for a small rise in the weight of non-financial fixed income, though note that a continuing characteristic is the large balance of financial fixed-income instruments rated below AA.

A renewed decline in the balance of less-liquid assets as far as 3.1% of the industry total in June.

Estimated liquidity of investment fund assets TABLE 14

	Less-liquid investments					
	Million euros			% total portfolio		
Type of asset	**Dec 12**	**Mar 13**	**Jun 13**	**Dec 12**	**Mar 13**	**Jun 13**
Financial fixed income rated AAA/AA	348	330	210	23	29	21
Financial fixed income rated below AAA/AA	4,120	4,018	3,114	19	20	17
Non-financial fixed income	148	175	186	5	7	8
Securitisations	774	605	541	42	35	30
AAA-rated securitisations	44	37	35	97	98	99
Other securitisations	730	568	506	40	34	28
Total	**5,390**	**5,127**	**4,051**	**20**	**21**	**17**
% of investment fund assets	**4.3**	**3.9**	**3.1**			

Source: CNMV.

Real estate schemes

The downturn in Spanish construction and real estate continued to make life hard for this category of funds, and the bottom of the market has still to be reached. That said, a small performance gap has recently opened up between funds and companies, with the former's main variables still in retreat and the latter's experiencing a small advance.

Real estate schemes again have to cope with a difficult environment…

In the case of real estate investment funds, the first thing to note is that of the six funds registered at end-June (an identical number to December 2012), only five were active, while the sixth was being wound up. Meantime, unit-holder numbers contracted 10.3% more to 21,563, and managed assets shrank by 2.9%. Fund returns, finally, closed the first-half period in negative territory with losses on a similar scale to those of past years (-1.86% in the first quarter and -0.76% in the second).

…which has made further inroads into main fund variables.

Figures for real estate companies were bolstered by the entry of two new competitors.

The number of real estate investment companies rose from eight to ten between January and June 2013. The three-fold increase in sub-sector assets in the first quarter of the year (from 284 to over 800 million) was down exclusively to one new entrant, which changed its form in January from that of a public limited company. Shareholder numbers, finally, increased by 80 to an end-June total of 1,017.

Main real estate scheme variables TABLE 15

					2012		2013	
	2009	2010	2011	2012	3Q	4Q	1Q	2Q
FUNDS								
Number[1]	8	7	6	6	6	6	6	6
Unit-holders	83,583	75,280	29,735	25,218	27,587	25,218	24,048	21,541
Assets (million euros)	6,465.0	6,116.0	4,495.0	4,202.0	4,314.0	4,202.0	4,071.4	3,985.5
Return (%)	-8.31	-4.74	-3.23	-5.96	-1.83	-2.17	-2.59	-1.88
COMPANIES								
Number	8	8	8	8	8	8	9	10
Shareholders	928	943	943	937	935	937	1,021	1,017
Assets (million euros)	309.0	322.0	313.0	284.1	294.7	284.1	843.8	854.0

Source: CNMV.

1 Schemes filing financial statements.

Hedge funds

Another divergent performance within the hedge fund industry…

The hedge fund landscape continued to be dominated by two main trends originating in the crisis, with the fund of hedge funds segment deep in depression, and the hedge fund segment continuing to perform well, albeit less so than last year. Note also that a significant number (eight hedge funds and one fund of hedge funds) were being liquidated at the end of the second quarter of 2013.

…with funds of hedge funds losing assets…

Funds of hedge funds shed 2% of their assets as far as 529 million euros between December 2012 and May 2013, while unit-holder numbers reduced by 153 to 3,185 (see table 16). Redemptions outstripped subscriptions in the opening quarter, repeating the pattern of all of last year (no second-quarter data were available at the closing date for this report).

…and further progress for pure hedge funds.

By way of contrast, hedge funds grew their assets 8.3% in the first five months of 2013 to a May total of 995 million euros (against over 26% growth in the twelve preceding months). This advance drew on both unit-holder subscriptions and portfolio gains, which extended to 6.1% between the same months of January and May. Unit-holder numbers, however, fell by 81 to 2,346, marking an end to two years of solid growth.

Main hedge fund and fund of hedge fund variables

TABLE 16

	2009	2010	2011	2012		2013	
				3Q	4Q	1Q	2Q[2]
FUNDS OF HEDGE FUNDS							
Number[1]	38	28	27	26	24	24	22
Unit-holders	5,321	4,404	3,805	3,513	3,338	3,211	3,185
Assets (million euros)	810.2	694.9	573.0	561.3	540.0	536.2	529.2
Return (%)	7.85	3.15	-1.70	1.38	0.60	2.73	0.72
HEDGE FUNDS							
Number[1]	29	33	36	36	36	33	33
Unit-holders	1,917	1,852	2,047	2,305	2,427	2,384	2,346
Assets (million euros)	652.0	646.2	728.1	828.7	918.6	964.8	995.3
Return (%)	14.94	5.37	-2.60	2.85	3.03	3.72	2.34

Source: CNMV.

1 Funds filing financial statements.

2 Data to May 2013.

Foreign UCITS marketed in Spain

This segment kept up the strong expansion begun in 2012 in terms of both investment and unit-holders. Investment volumes, concretely, rose 26.9% in the first six months to 48 billion euros. Both funds and companies shared in the advance with growth of 25.6% and 27.2% to 8 billion and over 40 billion respectively, while investor numbers rose by 16.4% to 950,000. The first-half period also brought changes in the mix, with the addition of 14 companies, making 347, and 15 fewer funds, making 406.

Foreign UCITS marketed in Spain enjoy another strong run in first-half 2013 in terms of both investment and unit-holder numbers.

Outlook

Assets under management in the collective investment industry have slumped to almost half since the crisis broke, due to a continuous outpouring of investor funds. However, these first-half data suggest the tide may be turning. The growth trend, moreover, could firm in the coming months due to the fading attractiveness of alternatives like bank deposits or commercial paper, and investors' renewed confidence in this type of product after the financial market turbulence of previous years. The stabilisation of household disposable income may also free up some investment capacity, and indeed savings rates pulled a little higher in the first months of 2013.

The improved industry outlook will foreseeably consolidate thanks to less competition from alternative investment products.

The industry outlook is also partly conditioned by banks' product policies and marketing strategies. One development of note here is the recent selling spurt in non-guaranteed funds with a target return. It is important that investors are properly apprised of how these products operate, so they can make informed decisions in keeping with their risk profile and expectations and in full awareness of their rights. On this score, exhibit 3 describes recent measures taken by the CNMV to strengthen transparency in the marketing of certain types of investment fund.

Full disclosure of investor-relevant information is vital not only to individual decision-making but also to the sustainability of the financial industry.

Strengthening transparency in the selling of target funds

EXHIBIT 3

The cost of securing guarantees for investment funds alongside management companies' need to keep up a stream of new fund launches to compete with the returns offered by other financial products – particularly deposits – have fuelled the recent trend towards the phasing out of guaranteed funds in favour of others incorporating a non-guaranteed target return. The risk is that investors will not pick up on this change of policy, since their formal acceptance will not be sought (quite simply, their tacit acceptance will be presumed if they do not exercise the associated exit right). And the experience of the past suggests that such concerns are fully justified. In effect, what usually happens when a fund guarantee expires is that some investors either sell or switch to another fund, while others leave their money in and find themselves holding a fund which resembles its forerunner but without any third-party guarantee.

For preventive purposes, therefore, the CNMV has taken steps to strengthen investor disclosure requirements in respect of the transformation of guaranteed into non-guaranteed funds. Some of these measures, moreover, have been extended to target funds (guaranteed or otherwise) in certain situations.

On 12 July, the CNMV posted a communication on its website stating that entities should, where possible, refrain from replacing guaranteed funds with non-guaranteed target funds, and, failing this, make every reasonable effort to ensure that unit-holders of the pre-existent fund are aware that the new product carries no guarantee.

The measures taken are set out below:

- Prospectuses and key investor information (KII) documents in respect of non-guaranteed target funds should bear the following warning in capital letters:

  "THIS FUND CARRIES NO THIRD-PARTY GUARANTEE SO NEITHER THE CAPITAL INVESTED NOR THE LEVEL OF INCOME ARE GUARANTEED".

- A statement that the target return is not guaranteed should figure in the prospectus, KII document and, where relevant, the communication sent to unit-holders. Whenever the APR is cited, it should come with the warning (in capital letters) NOT GUARANTEED.

- The correspondence sent to investors in funds whose guarantee is due to expire and which will be switching to a new, non-guaranteed policy should draw their attention to the fact that THIS FUND IS NO LONGER GUARANTEED (in capital letters), with copies of the corresponding draft furnished to the CNMV.

  Also, the following warning should appear (in capitals) at the end of the letter:

  "IF YOU CHOOSE NOT TO REDEEM BUT TO MAINTAIN YOUR INVESTMENT, YOU ARE AGREEING TO STAY ON AS A UNIT-HOLDER WITH THE CHANGES DESCRIBED ABOVE".

  This same warning should be displayed in standard letters to investors detailing their information and exit rights, whether or not the fund in question is guaranteed.

– Existing funds which are planning to change their investment policy to pursue a specific target return (guaranteed or otherwise) should accompany the letter notifying investors with a copy of the new KII document filed with the CNMV. This represents a change of practice in prospectus and KII registration, in that both documents must henceforth be filed before the notification letter is sent out. By this means, investors in the existing fund will have more complete information at their disposal.

– Finally, in the case of funds with a set target return (guaranteed or otherwise) which accept subscriptions and/or redemptions after the marketing period has concluded, management companies must:

(i) Adopt measures to avoid potential conflicts of interest between investors acquiring or redeeming holdings and those remaining in the fund.

(ii) Adopt measures to ensure that those subscribing to the fund after the marketing period is over receive appropriate post-sale information about the investment's expected return.

4.2 Investment firms

Investment firms again had to negotiate a challenging market landscape. Sector earnings decreased 15%, but the number of loss-making firms was sizeably lower and capital adequacy remained satisfactory.

Investment firms reported aggregate first-half profits 15.3% down on the year-ago period, due primarily to a stall in revenues from order processing and execution, their main business line. Note however that the profits slide was confined to the broker-dealer segment accounting for 95% of sector earnings, while both brokers and portfolio management companies managed to grow their profits in the opening half. The number of loss-making firms reduced substantially, along with the volume of their losses, while capital adequacy remained within the comfort zone.

Broker-dealer profits contracted 22% in the first-half period on a combination of falling fee income and spiralling exchange losses.

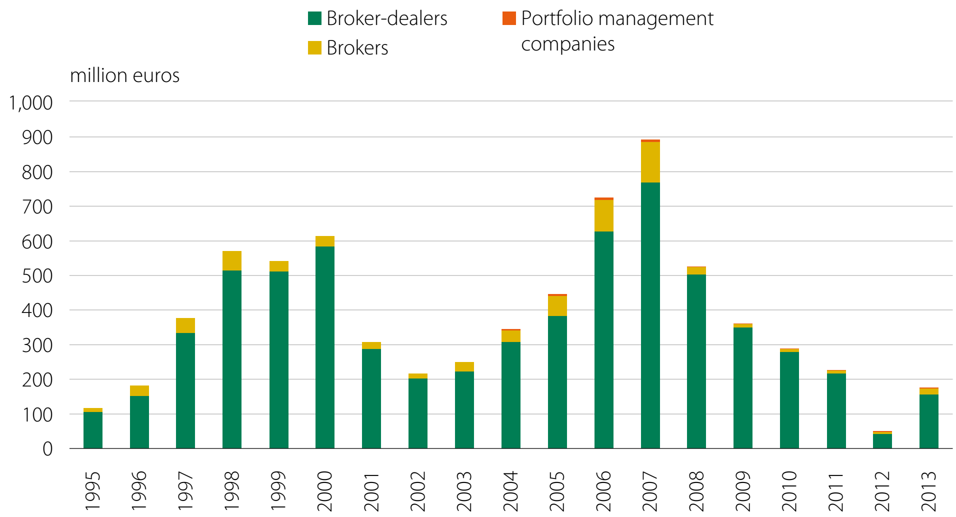
Broker-dealers, as stated, lost further business in the first half of 2013, as evidenced by a 15.8% fall in fee income from investment services vs. the same period last year. The result was a 22.5% decline in pre-tax profits to 78 million euros (see table 17). Income from order processing and execution, which brings in around two-thirds of fees, dropped by 15.8% to 175.7 million euros. Other captions suffering reverses were investment advisory income, down from 23.7 to 4.5 million euros, and other fee income. UCITS marketing fees, meantime, edged up slightly to 24.4 million euros, reflecting the improved performance of the investment fund industry in first-half 2013. Continuing down the income statement, the results of financial investments almost doubled in the period, while exchange losses swelled by 116.2% to 132.7 million, translating as gross income of 271.1 million, 10.7% less than in the same period in 2012.

These same figures, on an annualised basis, compare favourably with 2012 due to heavy losses at one firm.

Despite this notable year-on-year contraction in first-half earnings, these same figures, extrapolated to the full-year period (i.e., annualising their amount) would stand significantly above the 2012 total (see figure 18). This is because one firm posted heavy losses in December last year which made a large dent in broker-dealer aggregate earnings. Stripping out this effect, aggregate 2013 profits (with June figures annualised) would stand around 6% lower than those of last year.

Investment firm pre-tax profits[1, 2]

FIGURE 18



Source: CNMV.

1 Except IAFs.

2 2013 earnings on an annual basis.

Brokers post a sturdy advance in pre-tax profits driven by rising fee income and operating cost contention.

Brokers, meantime, grew their pre-tax profits to 9.1 million euros from the 2.7 million of first-half 2012. Underpinning the advance was the fact that many firms reporting heavy losses in 2012 either entered profit or reduced their scale. Fee income, as table 17 shows, rose by 10.4% year on year to 59.2 million euros on the strength of gathering inflows from order processing and execution and UCITS marketing (up by 12% to 20.2 million and 56% to 15.4 million respectively). Gross income in this sub-sector climbed 8.7% to 51.6 million euros, while operating expenses kept to a descending path (down by 4.3% to 41.9 million).

Portfolio managers grow their pre-tax profits to over one million euros in the first half of 2013.

Finally, the aggregate pre-tax profits of **portfolio management companies** rose by 60.9% to just over one million euros. This improvement drew on both income and expense headings, with gross income up by 5.2% to 4.4 million euros on strongly performing fee income, and operating costs down by 4.3% to 3.4 million euros.

The ROE of all industry segments expands to the month of June, though note that among broker-dealers the advance owes to one firm's heavy losses in 2012.

Sector-wide return on equity (ROE) jumped from 3.0% to 12.2% between December 2012 and June 2013, remembering though that the ROE reading for December last year was depressed by heavy losses at one broker-dealer. By sub-sector, the ROE of broker-dealers rose from 2.9% to 11.8%, although without the impact of this one firm it would have dropped from 12.8%. Other intermediaries performed better by this measure in line with their earnings performance to June 2013, with an increase of 14 percentage points (to 20.3%) in the case of brokers and a more modest 4.2% (to 5.9%) among portfolio management companies (see left-hand panel of figure 19).

The number of loss-making firms and the scale of their losses dwindle in 2013…

Against this sector-wide backdrop, the number of firms in losses fell to 25 in June 2013, compared to 38 one year before and 31 at the 2012 close. The scale of losses, at 11.5 million euros, was also 10.6% less in year-on-year terms. Of the total of loss-making firms as at June 2013, 13 were broker-dealers (15 in December 2012), ten were brokers (14 in December), and two were portfolio management companies (the same number as in December).

Aggregate income statement (June 13)

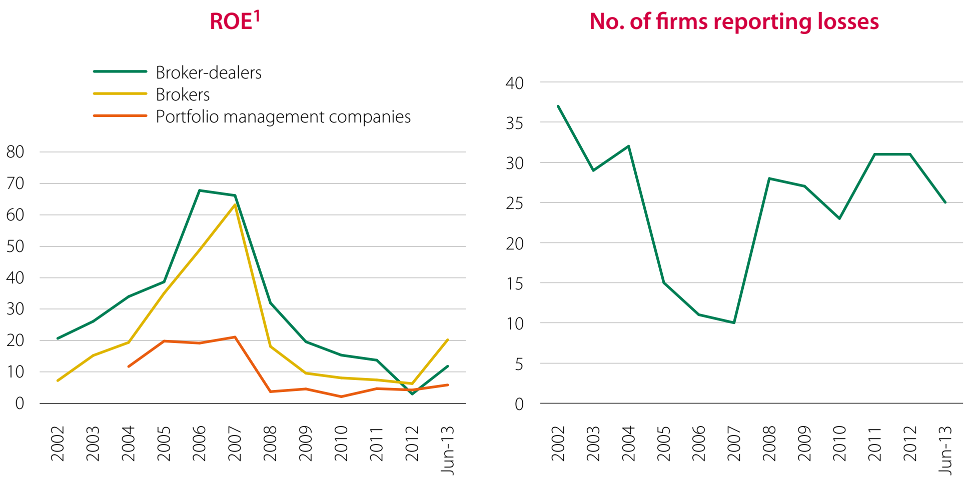
TABLE 17

	Broker-dealers			Brokers			Portfolio managers		
Thousand euros	Jun 12	Jun 13	% var.	Jun 12	Jun 13	% var.	Jun 12	Jun 13	% var.
1. Net interest income	32,651	26,865	-17.7	946	924	-2.3	390	341	-12.6
2. Net fee income	234,842	187,136	-20.3	46,665	51,267	9.9	3,832	4,102	7.0
2.1. Fee income	331,330	278,910	-15.8	53,625	59,204	10.4	8,864	9,384	5.9
2.1.1. Order processing and execution	200,721	175,651	-12.5	17,993	20,178	12.1	–	–	–
2.1.2. Issue placement and underwriting	4,089	8,366	104.6	1,620	1,957	20.8	–	–	–
2.1.3. Securities custody and administration	10,091	8,944	-11.4	311	306	-1.6	–	–	–
2.1.4. Portfolio management	6,881	6,960	1.1	5,487	6,341	15.6	8,115	8,564	5.5
2.1.5. Investment advising	23,684	4,508	-81.0	2,445	1,800	-26.4	749	819	9.3
2.1.6. Search and placement	25	30	20.0	0	55	–	–	–	–
2.1.7. Margin trading	6	84	1,300.0	14	11	-21.4	–	–	–
2.1.8. UCITS marketing	23,113	24,433	5.7	9,881	15,401	55.9	0	0	–
2.1.9. Others	62,720	49,934	-20.4	15,874	13,155	-17.1	0	1	–
2.2. Fee expense	96,488	91,774	-4.9	6,960	7,937	14.0	5,032	5,282	5.0
3. Result of financial investments	92,439	184,105	99.2	786	35	-95.5	-52	-11	78.8
4. Net exchange income	-61,398	-132,712	-116.2	25	-33	–	23	7	-69.6
5. Other operating income and expense	5,043	5,737	13.8	-978	-643	34.3	25	-2	–
GROSS INCOME	**303,577**	**271,131**	**-10.7**	**47,444**	**51,550**	**8.7**	**4,218**	**4,437**	**5.2**
6. Operating expenses	205,085	194,152	-5.3	43,785	41,906	-4.3	3,528	3,378	-4.3
7. Depreciation and other charges	5,705	6,405	12.3	1,022	902	-11.7	53	34	-35.8
8. Impairment losses	501	447	-10.8	45	9	-80.0	0	0	–
NET OPERATING INCOME	**92,286**	**70,127**	**-24.0**	**2,592**	**8,733**	**236.9**	**637**	**1,025**	**60.9**
9. Other profit and loss	8,348	7,843	-6.0	129	390	202.3	0	0	–
PROFITS BEFORE TAXES	**100,634**	**77,970**	**-22.5**	**2,721**	**9,123**	**235.3**	**637**	**1,025**	**60.9**
10. Corporate income tax	22,174	15,870	-28.4	361	580	60.7	200	337	68.5
PROFITS FROM ONGOING ACTIVITIES	**78,460**	**62,100**	**-20.9**	**2,360**	**8,543**	**262.0**	**437**	**688**	**57.4**
11. Profits from discontinued activities	0	0	–	0	0	–	0	0	–
NET PROFIT FOR THE YEAR	**78,460**	**62,100**	**-20.9**	**2,360**	**8,543**	**262.0**	**437**	**688**	**57.4**

Source: CNMV.

Pre-tax ROE of investment firms and loss-making entities

FIGURE 19



Source: CNMV.

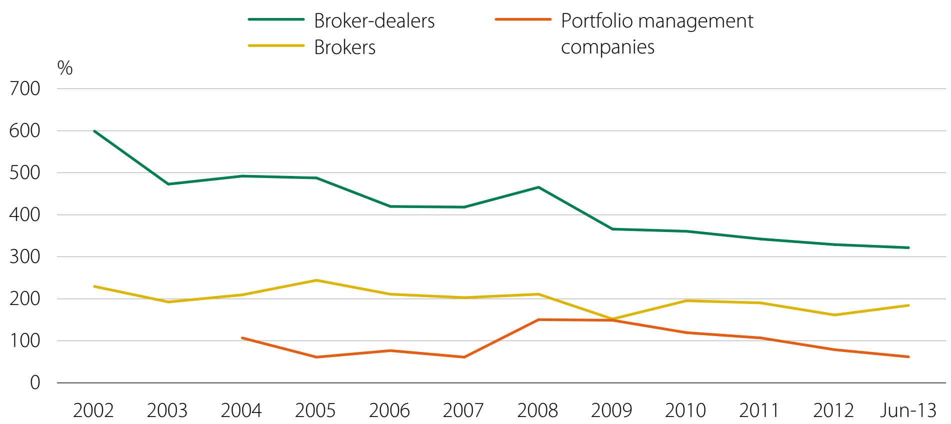
1 ROE based on annualised pre-tax profits.

...while capital ratios remain comfortably clear of minimum requirements.

Investment firms remained comfortably compliant with capital standards. The slight narrowing movement observable in the first six months of 2013 (see figure 20) refers only to broker-dealers and portfolio management companies, whose surplus to the minimum requirement dropped from 3.3 to 3.2 and 7.9 to 6.2 respectively, against the 1.6 to 1.8 increase in the securities broker segment.

Investment firm capital adequacy FIGURE 20

(surplus of qualifying equity to the minimum requirement)



Source: CNMV.

IAF business resumes growth in first-half 2013 after a slow 2012.

Investment advisory firms (IAF), which have been operating in Spain since 2009 and the transposition of the MiFID, have shaken off the slowdown symptoms of 2012 year and turned in a healthy performance year to date (see table 18). A total of 112 IAFs were registered in June 2013, 11 more than at end-2012 and 15 more than in June last year. Meantime, assets under advice expanded by 5.1% (to 15.44 billion euros) and the number of contracts by 12.3% (to 3,680 million). Approximately half the amount of assets under advice (52% to be exact) corresponded to eligible counterparties[19] (the "others" heading), with a further 22% and 26% drawn from professional and retail clients respectively. It is also in this last group where assets under advice have grown most (62.6%) vs. the first half of 2012. Against this more upbeat backdrop, sector fee income rose by 6% year on year to 14.7 million euros, while profits advanced by 5% to 3 million euros.

The prospects for the investment firm sector remain complicated while stock market trading continues to languish, but help could be forthcoming from other business lines.

The outlook for investment firms remains muddied in view of the prolonged slide in stock market trading, their main source of income. But signs of recovery are showing though in other business lines, particularly the collective investment industry and, to a lesser extent, issue placements, and this should hopefully boost income statements going forward. The rollout of bank sector restructuring measures has so far had little impact on the number of firms in operation. Only one retiral in 2012 was due to merger of the parent entity, while the three retirals to August this year resulted from changes in corporate form. Note finally that four firms joined the register in this same period, comprising three brokers and one broker-dealer.

19 Eligible counterparty is the classification the MiFID typically assigns to banks, other financial institutions and governments. It is also the category requiring the lowest level of protection.

Main investment advisory firm variables

TABLE 18

Thousand euros	2010	2011	2012	2012 1H	2012 2H	2013 1H	% annual change
NO. OF FIRMS	**52**	**82**	**101**	**97**	**101**	**112**	**15.5**
ASSETS UNDER ADVICE[1]	**16,114,880**	**16,033,108**	**14,776,498**	**14,694,319**	**14,776,498**	**15,437,210**	**5.1**
Retail customers	1,710,385	2,181,943	3,267,079	2,443,271	3,267,079	3,973,782	62.6
Professional customers	3,854,641	3,151,565	3,594,287	3,396,260	3,594,287	3,472,835	2.3
Others	10,549,854	10,699,600	7,915,132	8,854,788	7,915,132	7,990,593	-9.8
NO. OF CONTRACTS[1]	**2,431**	**3,673**	**3,484**	**3,276**	**3,484**	**3,680**	**12.3**
Retail customers	2,345	3,540	3,285	3,097	3,285	3,455	11.6
Professional customers	70	117	175	157	175	194	23.6
Others	16	16	24	22	24	31	40.9
FEE INCOME[2]	**20,745**	**31,053**	**26,177**	**13,915**	**26,177**	**14,685**	**5.5**
Fees received	20,629	30,844	26,065	13,833	26,065	14,660	6.0
From customers	17,132	26,037	20,977	11,642	20,977	12,058	3.6
From other entities	3,497	4,807	5,088	2,191	5,088	2,601	18.7
Other income	116	209	112	82	112	25	-69.5
EQUITY	**10,062**	**12,184**	**13,402**	**13,123**	**13,402**	**12,153**	**-7.4**
Share capital	3,014	3,895	4,365	4,328	4,365	4,820	11.4
Reserves and retained earnings	247	950	4,798	5,912	4,798	4,306	-27.2
Profit/loss for the year[2]	6,801	7,338	4,239	2,883	4,239	3,027	5.0

1 Period-end data at market value.
2 Cumulative data for the period.

New customer information requirements with regard to appropriateness and suitability assessment in the realm of financial services

EXHIBIT 4

On 19 June 2013, the CNMV published its Circular 3/2013, of 12 June, implementing certain obligations to provide information to investment services customers in relation to the assessment of the appropriateness or suitability of determined financial instruments.

The Circular sets out the terms in which entities must advise their clients of the non-appropriateness of a transaction or that no assessment has been performed in its regard, the specific wording of the handwritten statements to be provided and signed by the customer, and the requirement to keep a register of the products found to be unsuitable, pursuant to the amendments made to article 79 *bis* numbers 6 and 7 of the Securities Market Law (LMV for its initials in Spanish) by the third final provision of Law 9/2012 on restructuring and resolution of credit institutions.

The purpose of the handwritten statement, as envisaged in the new text, is to ensure that when a product is not suitable for a customer or cannot be properly assessed due to insufficient information, he or she is fully aware of that fact. And the idea of keeping a register of assessed clients and inappropriate products is so customers are not later approached with personalised offers of products whose appropriateness has already been tested with negative results.

The main changes introduced by Circular 3/2013 are set out below:

– Information disclosures during suitability testing. The description envisaged in article 79 *bis* (6) of the LMV justifying that the recommendation matches the characteristics and objectives of the investor must at least include the terms in which the investment product or service has been classified from the point of view of market, credit and liquidity risk, and its complexity, and the corresponding customer suitability assessment. The description, it adds, can be abridged in the event of repeated recommendations on the same type or family of instruments. The entity must also establish mechanisms to corroborate its compliance with this requirement.

– Information disclosures during appropriateness testing.

    (i) Delivery to the customer of a document with the results of the test. The Circular specifies that entities must demonstrate compliance with the obligation to supply customers with the results of the test referred to in article 79 *bis* (7) of the LMV, and that this assessment must be consistent with all the information available to the entity or provided by the customer and used in the test.

    (ii) Content of cautionary notices specifying non-appropriateness or lack of assessment, and handwritten statements in the case of transactions involving complex instruments. The Circular specifies the wording of the cautionary notice to be delivered to the customer in the event that the assessment cannot be performed or that it has found the product to be inappropriate, and also of the handwritten statement to be procured from customers when the transaction involves a complex instrument, as referred to in article 79 *bis* (7) of the LMV.

    (iii) Unadvised transactions. When the entity wishes to include a statement to the effect that no advisory services have been given in connection with a transaction in the documentation the customer is to sign, it must obtain his or her signature together with a handwritten statement that they have not been given advice.

– Up-to-date register of assessed customers and unsuitable products. The Circular specifies that the up-to-date register referred to in article 79 *bis* (7) of the LMV, should reflect the date from which the entity deemed each type of instrument unsuitable for each customer individually, and, if relevant, the date as of which this limitation ceased to exist. Entities must also furnish customers with this information on request, free of charge.

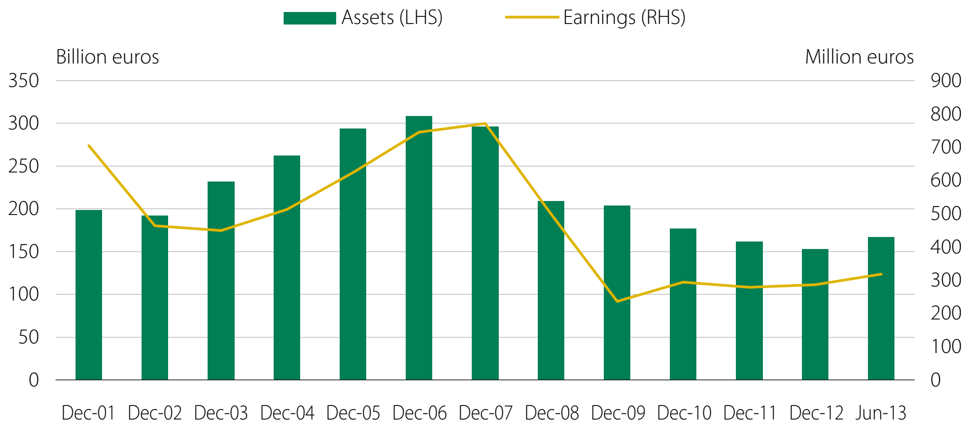
  All these requirements will come into force two months from the Circular's publication date, except those referring to the wording of cautionary notices and the up-to-date register of assessed customers and unsuitable products, which will do so five months from the same date.

4.3 UCITS management companies

Assets under management in UCITS management companies summed almost 166.7 billion euros in June this year, an increase of 9% over the 2012 close. As we can see from figure 21, this is the first rise in assets managed since the start of the crisis in mid-2007. As much as 83% of the advance was drawn from mutual funds, though the investment company segment also contributed on the upside.

Assets under management in UCITS management companies climb by 9% in the first half of 2013 (the first rise since the crisis broke in mid-2007)…

UCITS management companies: assets under management and pre-tax profits[1] FIGURE 21



Source: CNMV.

1 The profits figure for June 2013 has been restated on an annual basis.

UCITS management companies: assets under management, management fees and fee ratio TABLE 19

Million euros

	Assets under management	UCITS management fee income	Average UCITS management fee (%)	Fee ratio (%)[1]
2006	308,476	3,281	1.06	71.5
2007	295,922	3,194	1.08	70.5
2008	209,014	2,302	1.10	70.8
2009	203,730	1,702	0.84	68.6
2010	177,055	1,622	0.91	68.1
2011	161,481	1,479	0.90	66.6
2012	152,644	1,416	0.93	64.6
June 13[2]	166,669	1,446	0.87	63.9

Source: CNMV.

1 Ratio of fee expenses for fund marketing to fee income from UCITS management.

2 Figures for fee income and average management fees have been restated on an annual basis.

The recovery in managed assets was reflected in the main captions in sector income statements. Income from management fees, specifically, was 1.45 billion euros (in annualised terms), 2.1% more than in 2012, while annualised pre-tax profits grew by 11.1% to almost 318 million euros (see figure 21). Sector-wide return on equity

…delivering an advance in sector income and profits, along with a reduction in the number of loss-making companies.

(ROE) inched up from 23.1% at the 2012 close to 23.7% in June 2013, while the number of loss-making entities shrank from 28 to 19, generating combined red numbers of just 3.7 million compared to the 10 million euros of end-2012.

The ranks of management companies thin once more, due in part to the ongoing restructuring of the Spanish banking sector.

Sector reorganisation continued to progress albeit at a rather slower pace, with bank sector restructuring as the main driver. In the first eight months of 2013, one company joined the register while five more withdrew, two of them due to movements in the banking sector. This left the sector ranks at 101 entities as of 31 August this year.

ESMA report on the selling of complex products to retail investors EXHIBIT 5

The sale of complex financial products to retail investors has increased significantly in the past few years. As a result, these investors are exposed to a series of risks of which they have no previous experience. It is accordingly important to be able to identify and analyse these risks.

The European Securities and Markets Authority (ESMA) published a report on July 2013 examining two classes of complex products which, by their nature, have been marketed extensively among retail investors in the euro area; namely, structured products and UCITS pursuing alternative investment strategies.[1]

Structured products

The sale of structured products involves specific risks which must be borne in mind when analysing them from the standpoint of investor protection. In particular, many such products have risk profiles that are difficult to grasp without a degree of expertise and access to specific tools. Also, they often have implicit costs embedded in the selling price which are hard to quantify.

In order to investigate these risks, the ESMA report presents the results of a risk/reward analysis run on a sample of structured products at the date of issuance and assuming the investment is held to maturity:

– *Analysis at date of issuance:* The ESMA report analyses a sample of 76 structured products, comparing each one's notional value with the price at which it is sold to retail investors. The conclusion they reach is that structured products are sold with an average issuance premium of 4.6%. However, if we also factor issuer credit risk, this average premium increases to 5.5%. In other words, in the case of a product sold at 100% of its nominal value, its intrinsic value would stand on average at between 94.5% and 95.4% of the sale price, according to whether or not we consider issuer credit risk.

– *Analysis at date of maturity:* The ESMA report also looks at the performance of a sample of 2,760 structured products incorporating capital protection on the assumption that investors hold them in their portfolio to maturity. Its findings, in this case, are that the annual return on these products would have been 0.5% less than the "risk-free" rate (Euribor or Libor) available at the time of sale.

This analysis, in which the CNMV was an active partner, was conducted on structured products issued in the euro area between 1996 and 2011.

UCITS pursuing alternative investment strategies

The ESMA report also examines the returns obtained by a sample of 623 UCITS (Undertakings in Collective Investments in Transferable Secturities)[2] pursuing similar investment strategies to hedge funds. Specifically, it compares the returns of these alternative UCITS to those of various hedge funds and market indices in the same period.

The results indicate that alternative UCITS outperformed equity indices over the 2006-2011 period while underperforming hedge funds. However, when we calculate return in relation to risk, as measured by volatility and Conditional Value-at-Risk (CVaR), we find that the alternative UCITS had a risk-adjusted return close to zero, slightly lower than the return obtained by various equity and bond indices in the same period.

The report's conclusions

The main conclusions ESMA draws from its study are summarised below:

– Understanding complex financial products requires significant knowledge of quantitative tools and valuation methods as well as access to market inputs. To ensure their proper supervision it is vital that the competent authorities have specific means at their disposal to analyse their performance mechanisms and associated risks.

– The intrinsic value, expected return and risk drivers of structured products are challenging concepts for a majority of retail investors. This being so, it is essential that they are supplied with all the information needed to judge each product appropriately. Information disclosure to investors can be improved by including: (i) a higher degree of transparency regarding the total costs of structured products, including the implicit costs embedded in the selling price, and (ii) detailed information regarding the specific risks of each product, in particular issuer credit risk and its possible quantification.

1 The report can be consulted or downloaded from the ESMA website: http://www.esma.europa.eu/system/files/2013-326_economic_report_-_retailisation_in_the_eu_0.pdf
2 UCITS are collective investment schemes established in conformity with European legislation, such that a single authorisation from one Member State allows them to be sold freely throughout the European Union.

4.4 Other intermediaries: venture capital

The number of venture capital entities remains unvaried vs. 2012, but with some changes in the mix (more funds and fewer managers).

Of the 340 venture capital entities (VCEs) in operation at end-August 2013, the same number as at end-2012, 137 were venture capital companies (VCCs), 124 venture capital funds (VCFs) and 79 VCE management companies (see table 20). Twelve entities joined the register during the first eight months of 2013 (six VCCs, five

VCFs and one VCE manager) with the same number of retirals (eight VCCs and four VCE managers).

Movements in the VCE register in 2013 TABLE 20

	Situation at 31/12/2012	Entries	Retirals	Situation at 31/08/2013
Entities	340	12	12	340
Venture capital funds	119	5	0	124
Venture capital companies	139	6	8	137
Venture capital management companies	82	1	4	79

Source: CNMV.

VCE assets rose by 0.7% in 2012 with growth in funds contrasting with a degree of shrinkage in the company segment.

In 2012, VCE assets expanded a bare 0.7% to close the year at just over 8.50 billion euros. VCFs and VCCs enjoyed unequal fortunes, with the former growing their assets 9.7% to 4.74 billion euros, against the 8.6% contraction to 6.78 billion reported by the latter group (see table 21). The jump in VCF assets owed mainly to increased investment by foreign entities (whose assets rose in consequence by 64.5% to 927 million euros) and, to a smaller extent, domestic VCEs (whose assets rose 126% to 227 million). By contrast, the principal investors in VCCs – banks and non-financial corporations – cut back their investments by 27.7% and 14.9% respectively.

Venture capital entities: assets by investor group TABLE 21

	VCF		VCC	
Million euros	2011	2012	2011	2012
Natural persons				
Residents	212.7	209.3	80.8	73.7
Non-residents	2.8	4.0	0.8	1.2
Legal persons				
Banks	526.4	524.6	1,265.4	915.1
Savings banks	281.8	198.8	102.7	41.5
Pension funds	417.6	422.0	23.6	14.2
Insurance corporations	111.2	130.2	26.0	30.4
Broker-dealers and brokers	0.0	0.0	0.0	0.1
UCITS	27.2	34.9	10.7	6.6
Domestic VCEs	100.0	225.7	56.1	32.3
Foreign VCEs	394.0	328.1	3.7	1.1
Public authorities	588.4	574.5	165.2	237.0
Sovereign funds	38.2	27.1	0.0	0.0
Other financial corporations	309.1	358.6	676.0	997.9
Non-financial corporations	594.1	586.3	1,541.1	1,311.9
Foreign entities	563.3	926.5	46.8	40.0
Others	157.3	191.7	134.8	73.8
TOTAL	**4,324.1**	**4,742.2**	**4,133.8**	**3,776.8**

Source: CNMV.

According to preliminary data furnished by industry association Asociación Española de Entidades de Capital Riesgo (ASCRI), venture capital investment in Spain in the first six months of 2013 was a lowly 508 million euros, compared to 2.53 billion in the same period last year. It bears mention, however, that investment in early-stage companies has held up well, accounting for 63% of the total amount (10% in seed and start-up transactions and 53% in expansion projects). This also explains why 73% of funds went on transactions of under one million euros. Lack of ready credit, meantime, drove down the volume of leveraged buyouts, as far as 21% of the total versus 54% in the year-ago period. International funds were again prominent, as the source of 47% of first-half investment (60% to June last year).

The shortage of bank finance has eroded sector assets in the first half of 2013.

The short-term outlook for the venture capital sector remains hard to judge, since there are various factors which could help or hinder its development. On the one hand, the dearth of bank lending, which will foreseeably persist until sector restructuring is complete, means VCEs are missing out on investment opportunities. And nor is the domestic economy especially supportive. However, other factors could serve to energise the sector, among them the imminent transposition to Spanish law of the AIFM Directive, which pursues an improved climate for industry growth, or the creation of the FOND-ICO Global fund of funds, a public initiative that will inject large sums into promoting private equity funds to invest in Spanish companies at all development stages.

The sector's near-term prospects remain hazy while the credit shortage persists, though certain factors could help energise business in the medium term.

II Reports and analyses

Economic and financial performance of listed companies in the second half of 2012

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1 Introduction

This article gathers and analyses the key highlights of the periodic financial information[1] for the second half of 2012 submitted to the CNMV by issuers.

The aggregate information analysed relates to the results, financial position, cash flows, number of employees and dividends paid. The 161 companies analysed operate in the following sectors: energy (10 companies), manufacturing (48 companies), retail and services (45 companies), construction and real estate (29 companies), banks (24 companies), savings banks (3 companies), and insurance (2 companies).

The analysis is carried out on the following basis:

– The data for analysis are obtained from the consolidated or individual periodic financial reports[2] submitted to the CNMV by the issuers of shares or debt[3] that are listed on a regulated Spanish market, where Spain is the home Member State.

– The aggregate figures exclude issuers that are subsidiaries of another listed group. However, when such issuers carry on their activity in a sector other than that of the parent company, their financial data are included in the figures for their sector.

– Data relating to periods other than the second half of 2012 have been calculated for the representative sample of the companies that were listed in the reference period.

In section 2 of this article we analyse the development of turnover since 2008. In sections 3 and 4 we present the behaviour of earnings and the return on equity and investment. In section 5, we look at the debt of non-financial companies. In section 6, we analyse the non-performing loans (NPL) and solvency of credit institutions, and in sections 7, 8 and 9, we present the development of cash flows, workforce and dividends paid, respectively. Section 10 presents the article's main conclusions.

1 As provided in Article 35 of Securities Market Act 24/1988, of 28 July, when Spain is the home Member State, issuers whose shares or debt securities are admitted to trading on an official secondary market or on another regulated market in the European Union must publish and disseminate a half-yearly financial report and a second financial report covering the full financial year.

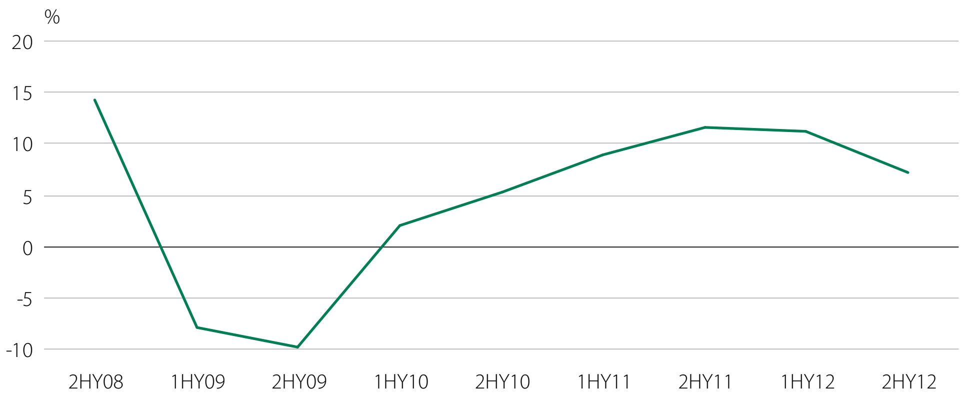
2 Submitted in the form stipulated in Circular 1/2008.

3 Except for entities that have issued preferred shares and other special purpose entities constituted for the issuance of fixed-income securities.

2 Net turnover

Figure 1 shows that net turnover[4] has been growing since the first half of 2010. The year-on-year rate of change was also positive in 2012 (7.2%), although lower than that recorded in 2011.

Rate of change in net turnover FIGURE 1

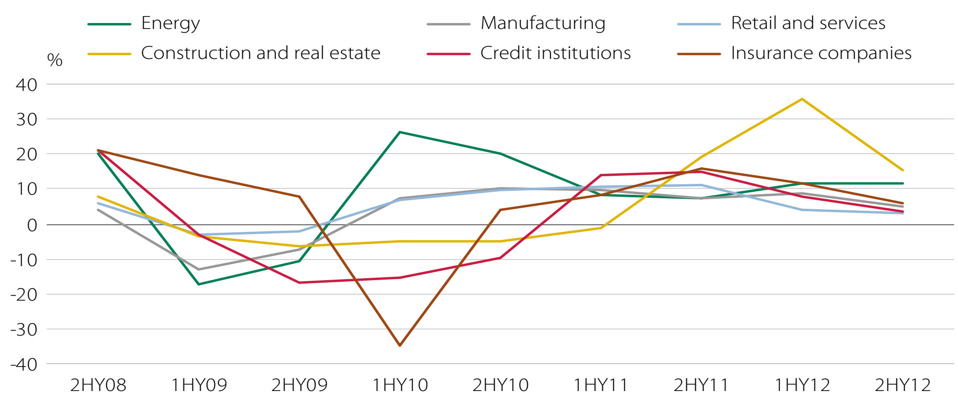


Source: CNMV.

Figure 2 shows the development of net turnover for the different sectors. All sectors recorded positive year-on-year rates of change in 2012.

The energy sector and the construction and real estate sector recorded the highest rates of change (11.6% and 15.2% respectively), although the sharp increase in the construction and real estate sector was the result of one corporate operation. Excluding this effect, sales in the sector grew by 1.9%, as discussed below.

Rates of change in net turnover by sector FIGURE 2



Source: CNMV.

4 For credit institutions, net turnover has been taken to comprise interest and similar revenue, and for insurance companies, premium income for the year from life and non-life insurance, net of reinsurance.

By sector, the highlights in 2012 were as follows:

– **Energy.** Turnover rose by 11.6% in 2012 even though electricity demand in Spain fell (-1.4%) as a result of the difficult economic situation. This increase in sales was essentially the result of the greater proportion of sales abroad, which amounted 45.2% in 2012 (42.9% in 2011),[5] and the positive impact of the appreciation of other currencies against the Euro, and particularly the Pound sterling (+6.6%) and the US dollar (+7.7%).

  It should be pointed out that the regulated electricity and gas businesses (transmission and distribution of electricity and gas) saw falling revenue in Spain following the publication of Royal Decree-Law 13/2012, which reduces the remuneration applicable to their assets as from 1 January 2012. Growth of this business outside Spain has partially offset this effect.

– **Manufacturing.** The development of net turnover in manufacturing companies has been uneven, although generally positive, with a growth of 5.2% recorded in the period. There were noteworthy increases in the sub-sectors of manufactured goods (12.0%), foodstuffs (5.2%) and the graphic industry (10.4%), which account for 45%, 13% and 6% of total revenue in the sector respectively. This increase was mainly due to the following factors: (i) the expansion of the foreign business of textile industries; (ii) the effect in 2012 of business combinations performed in the previous year; and (iii) the recovery in sales of some companies in the food sector.

  On the other hand, sales fell on 2011 in other sub-sectors, particularly as a result of the following: (i) the impact on subsidiary companies of the construction sector as a result of the crisis in the Spanish market and in the market of components for the automotive industry; (ii) the ongoing fall in nickel prices, which has a negative effect on the sales margin of stainless steel; (iii) the reduction in margins and volumes in the pharmaceutical sub-sector as a result of measures to contain health spending adopted by the government in August 2011, and also as a result of the competition from generic medicines; and (iv) the lower sales of renewable energy farms and components as a result of the weakness in developed economies and adverse regulatory changes, mainly in the Spanish and US markets and also in some emerging markets.

– **Retail and services.** Turnover of companies in this sector recorded aggregate growth of only 2.9%. This was the result of the telecommunications sub-sector, which accounts for approximately half of the sector's revenue, suffering a 0.5% fall in sales as a result of the unfavourable conditions in some markets and more intense competition. Excluding the telecommunications sub-sector, the aggregate growth in sales would have stood at 6.4%.

5 The apparent discrepancy between this data and that shown in table 1 for 2011 is the result of one entity in the sector discontinuing a very high turnover activity conducted outside Spain. Table 2 shows the historic data, while the year-on-year comparison, in application of IFRS 5, does not include sales obtained from discontinued operations in 2011 or in 2012.

– **Construction and real estate**. The net turnover of this sector recorded growth of 15.2% in 2012 compared with the same period of the previous year. However, this high rate of change essentially reflects the effect of one corporate operation completed by one construction company in June 2011. Using comparable data in both periods,[6] sales in the construction and real estate sector rose by 1.9%, which breaks down into next to zero growth in real estate companies (0.1%) and slight positive growth in construction companies (2%).

  It is also important to highlight that most real estate companies suffered falls in sales and that the rate of change in aggregate turnover of this sub-sector is affected by the significant sales of real estate assets performed by one entity to real estate asset management companies linked to financial institutions as part of the process of restructuring its debt with said institutions. Without taking into account these transactions, the turnover of real estate companies fell by 13.4% on 2011, reflecting the sharp drop in sales in the residential property development business over the year.

– **Credit institutions.** Revenue from interest and similar revenue recorded by credit institutions rose by 3.6% on 2011. This increase was mainly due to the increase in revenue obtained from lending to the public sector and the increase in spreads applied both to new lending and renewals of existing lending. Although the rate of change remains positive, there has been a slowdown in growth compared with 2011 in the context of the fall in the Euribor, the increase in the NPL ratio and the de-leveraging of individuals and companies as a result of the difficult economic environment and credit institutions applying a more restrictive lending policy.

– **Insurance companies.** The aggregate volume of premiums net of reinsurance rose at a year-on-year rate of 4.2% for non-life insurance, and 10.9% for life insurance. Revenue from international operations (with a 16.5% increase in net premiums) offset the 4.1% fall in revenue from premiums from operations in Spain.

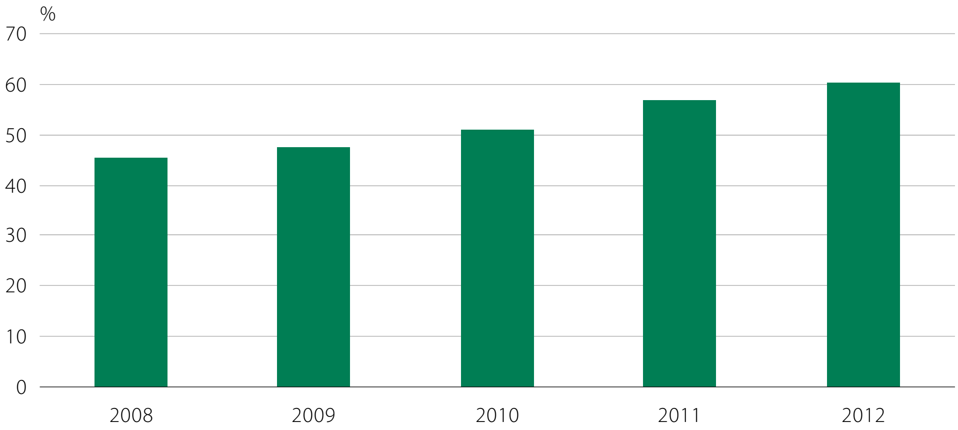
Figure 3 shows the percentage of the net turnover generated abroad for non-financial companies since 2008. The upward trend in the percentage recorded over recent periods continued in 2012, with foreign operations generating 60.3% of total net turnover. The proportion of revenue generated exclusively in Spain has fallen significantly since 2003, the first year for which this information is available, from 67.7% to 39.7%.

Table 1 shows the sector breakdown of the proportion of net turnover generated abroad by non-financial companies.

All sectors recorded an increase in the relative proportion of sales in international markets except for the energy sector, where the discontinuation of the operations of one issuer in Argentina led to a fall in the percentage of the sector's sales obtained abroad. Foreign sales for the other companies in the sector either increased or remained stable.

6 In order to facilitate the comparison, the rate of growth in turnover has been calculated by taking as reference the amount of sales of the acquired entity between January and May 2011.

Net turnover generated abroad by non-financial companies FIGURE 3



Source: CNMV.

The contribution of domestic sales to the volume of revenue in the construction and real estate sector fell by 10 percentage points on year-end 2011 as a result of the aforementioned corporate operation. If we exclude this effect, the proportion of domestic operations would still fall by almost six percentage points as a result of the sluggish market in Spain.

Net turnover of non-financial companies generated from foreign operations: breakdown by sector (%) TABLE 1

	2008	2009	2010	2011	2012
Energy	42.5	43.3	44.8	47.0	45.2
Manufacturing	59.3	62.6	65.8	69.0	73.1
Retail and services	50.1	51.1	57.1	62.5	67.8
Construction and real estate	36.2	38.4	44.5	59.1	69.0
Subtotal, non-financial companies	**45.5**	**47.4**	**51.0**	**57.0**	**60.3**

Source: CNMV.

3 Results

In 2012, the companies in the sample obtained losses before tax of 41.27 billion euros, compared with profits of 33.81 billion euros in 2011. The percentage of companies in the sample recording losses in 2012 stood at 47.8% (34.7% in 2011), which is the highest percentage since this information began to be calculated in 2008. The aggregate total of the losses obtained by the companies in the sample totalled 68.77 billion euros in 2012, while losses in 2011 stood at 5.43 billion euros.

The sector of financial institutions accounted for 83.5% of the losses generated in 2012, with 15 companies suffering losses of 57.45 billion euros. For their part, 62 companies in the non-financial sector suffered losses before tax in 2012 for an aggregate amount of 11.32 billion euros.

In the construction and real estate sector, a total of 22 companies (73% of the sector) recorded losses in 2012 of 7.06 billion euros, double the losses recorded in 2011.

The percentage of issuers which improved their results in 2012 compared with the previous year was 29.2%, five percentage points below the figure obtained at year-end 2011. This reflects the fact that results fell across the board in the period for the companies in the sample.

EBITDA,[1] operating profit and profit for the year TABLE 2

	EBITDA			Operating profit			Profit (loss) for the year		
Million euros	2011	2012	Change (%)	2011	2012	Change (%)	2011	2012	Change (%)
Energy	26,643	27,949	4.9	17,144	17,588	2.6	10,741	10,421	-3.0
Manufacturing	6,802	7,231	6.3	4,468	4,767	6.7	2,734	2,291	-16.2
Retail and services	29,932	29,243	-2.3	15,651	14,263	-8.9	9,479	4,543	-52.1
Construction and real estate	5,085	5,027	-1.1	2,197	1,526	-30.5	-176	-5,187	–
Credit institutions	–	–	–	14,572	-41,990	–	4,909	-51,595	–
Insurance companies	–	–	–	–	–	–	1,461	1,186	-18.8
Total[2]	**68,693**	**69,512[3]**	**1.2[3]**	**54,386[4]**	**-3,649[4]**	**–**	**29,501**	**-38,107**	**–**

Source: CNMV.

1 EBITDA = Operating profit/loss + depreciation/amortisation of fixed assets.

2 For groups, the total only includes the consolidated data provided by the parent company, excluding any other listed company in the group. The total may differ from the sum of the values shown for each sector as a result of the adjustments made.

3 Excluding credit institutions and insurance companies.

4 Excluding insurance companies.

As shown in figure 1, the 8.5% increase in the turnover of non-financial companies was not passed on to EBITDA, which grew at a rate of 1.2% due to the impact of the following factors:

– The adaptation of the business plans of various industrial companies, airlines and hotel companies to the economic environment led to the recording of impairment of tangible and intangible assets and goodwill;

– The heading of "other operating expenses", which includes, *inter alia*, repair and maintenance expenses, independent professional services, leases, marketing expenses, etc., grew to a greater extent than the gross margin.

The companies in the sample recorded both operating losses and losses for the year: 3.65 billion euros and 38.11 billion euros, respectively. Some of the factors behind this are as follows:

– The increase in financial expenses as a result of the rise in the margins applied by credit institutions when granting financing.

– The losses recorded for the impairment of the portfolio of available-for-sale assets.

– The losses of companies accounted for using the equity method.

– Credit institutions recognising provisions and recording net impairment losses of financial assets.

By sector, the highlights were as follows:

– **Energy**. Although turnover in the sector rose by 11.6%, EBIT only rose by 2.6% compared with the reference period as a result of the increase in operating costs, mainly procurement costs (12.0%) driven by the higher cost of the generation mix (conventional thermal production rose compared with hydraulic production) and the higher price of energy acquired in the wholesale market for sale.

  The price of raw materials, specifically Brent oil, was extremely volatile in 2012 as it suffered a significant rise in the first quarter of the year, which was corrected over the rest of the period (in March the price reached 125 dollars per barrel, although the annual average stood at 111.7 dollars per barrel). This volatility lead to an increase in procurement costs, which had a significant effect on the sector in the first half of the year, leading to a 4.3% fall in EBIT over the period, although this was partially corrected in the second half of 2012.

  The profit (loss) before tax followed a similar path to that of EBIT, with growth of 2.7%, as the positive performance of exchange rate differences was partially offset by higher impairment losses so that the financial profit (loss) of the sector remained practically stable compared with 2011 (-0.2%).

– **Manufacturing.** The increase in EBITDA (6.3%) and EBIT (6.7%) was greater than the rise in sales (5.2%) as a result of the containment of operating expenses. However, it should be pointed out that the positive aggregate performance in this sector mainly reflects the performance of the largest textile company by market capitalisation, which increased its EBIT by 23.6%. If we exclude this company, the operating profit of the manufacturing sector would have fallen by 15.2%.

  The profit (loss) for the year fell by 16.2% in 2012 as a result of the following factors: (i) worsening of net financial income (expense) as a result of higher financial expenses and the valuation of financial instruments; (ii) a fall in the contribution of associates to the consolidated profit; (iii) higher corporate income tax expense with the noteworthy impact of the deactivation of tax credits in some loss-making entities; and (iv) the increase in net losses for discontinued operations.

– **Retail and services.** Despite the increase in sales, EBITDA fell by 2.3%, mainly as a result of two causes. Firstly, the proportionally higher increase in procurement costs (particularly in airlines as a result of higher fuel prices) and costs for external services compared with sales. Secondly, the change in the sign of "Impairment and gain (loss) on disposal of fixed assets", which changed from an income to an expense. Noteworthy was the recording of impairment in 2012 corresponding to goodwill and intangible assets of airlines, airport management companies and telecommunication companies and tangible assets of hotel groups.

The fall in EBITDA was limited by changes in staff costs, which fell by 2.7% over the period as a result of the restructuring performed in previous years.

The profit before tax fell by 38.0%, which was higher than the percentage fall in EBIT as a result of the increase in financial expenses resulting from the generalised increase in margins applied to loans. In addition, it is important to take into account the negative impact of the devaluation of the Venezuelan currency[7] and the losses obtained by companies accounted for using the equity method.

The fall seen in the net profit in 2012 (-52.1%) was higher than that seen in the profit before tax as a result of the increase in the effective rate of corporate income tax, which rose from 13.4% to 29%, as well as the worsening in the profit (loss) from discontinued operations.

– **Construction and real estate.** EBITDA for the sector remained practically stable, with a small reduction of 1.1%. In this case, the performance was unevenly divided between construction, where EBITDA rose by 15.5% (without taking into account the data from the company which performed the corporate operation indicated above, EBITDA would only have risen by 4.3%) and the real estate sub-sector, in which losses practically tripled from 570 million in 2011 to 1.51 billion euros in 2012.

  Operating profit fell by 30.5%. As with EBITDA, the operating profit rose in the case of construction by 9%, although it would only have risen by 2.7% if we exclude the company which carried out the corporate operation. Real estate companies suffered operating losses in 2012 of 1.59 billion euros (losses of 659 million euros in 2011).

  In 2012, losses in the sector amounted to 6.46 billion euros, compared with losses of 1.47 billion euros in 2011, with both the construction and real estate sub-sectors performing worse than in 2011. The increase in losses was caused by the heavy losses incurred on disposing of shares in listed companies, as well as losses recorded as a result of the impairment of the available-for-sale portfolio.

  Finally, the loss for the year, 5.19 billion euros, was slightly better than the loss before tax thanks to the lower losses recorded for discontinued operations and the impact of the activation of tax credits.

– **Credit institutions.** The aggregate interest margin rose by 9.1% on the previous year, and higher than the 1.3% year-on-year increase recorded in 2011.

7 Although the devaluation of the Venezuelan Bolivar took place on 8 February 2013, anticipation of the devaluation affected the estimates made on the liquidation value of the net position of investments denominated in that currency.

This increase was concentrated in the first half of the year but slowed down in the second half.

The evolution of the sector in the first half of 2012 includes the positive effect resulting from the provision of liquidity by the European Central Bank (ECB) through the two special three-year refinancing operations which took place in December 2011 and February 2012. These operations served to mitigate the liquidity tensions suffered by some companies in a context in which wholesale funding markets were almost closed. In addition, they helped to improve the interest margin as the funds raised (at an interest rate of 1%) were mostly used to acquire assets issued by the public sector, which were remunerated at higher interest rates. Similarly, the easing of liquidity tensions made it possible to pass on the progressive fall in interest rates to the cost of the deposits raised, which was also affected by the limits in place on deposit remunerations, which penalised additional interest.

The aforementioned limits to deposit remunerations were removed in the second half of the year. This led to a sharp increase in competition for raising liabilities as banks needed to reduce their dependence on wholesale funding and replace it by retail funding. In addition, the easing of tensions in financial markets as a result of the measures adopted by the ECB led to: (i) a reduction in the spreads of Spanish debt, (ii) the opening in the final months of the year of a liquidity window in wholesale financing markets and (iii) a reduction of institutions' dependence on ECB financing. All these factors contributed towards the slowdown in the growth of the margin in the second half of the year.

For their part, net commissions rose by 2.9%.

Credit institutions moved from an operating profit of 14.57 billion euros in 2011 to an operating loss of 41.99 billion euros in 2012. This performance can be explained by the increase in all the components of the operating costs: staff costs, general expenses, depreciation/amortisation and provisions and, especially, impairment losses on financial assets. Impairment losses rose to 82.2 billion euros, an increase of 197.7% on the previous year as a consequence of the application of Royal Decree-Law 2/2012 and Law 8/2012,[8] and the adjustment in the value of the assets transferred to the SAREB (Asset Management Company for Assets Arising from Bank Restructuring) to their transfer price by entities classified in Groups 1 and 2.[9] The efficiency ratio[10] remained practically stable at 44.7% in 2012 compared with 44.8% in 2011.

8 As part of the restructuring and reorganisation process of the financial sector, the following legislation was passed in 2012: Royal Decree-Law 2/2012, which provides for additional requirements for capital and provisions in response to the impairment of assets linked to real estate development, and Law 8/2012 (which results from the parliamentary processing of Royal Decree-Law 18/2012), which establishes additional provisions for real estate lending classified as in a "normal situation".

9 Oliver Wyman conducted an audit on the loan portfolio of the Spanish banking system as part of the process included in the Memorandum of Understanding signed as a consequence of the request for external assistance made by the Spanish government. Based on their capital needs, the institutions were classified into four groups.

10 Calculated as the ratio of the sum of the administration expenses and staff costs over the amount of the gross margin.

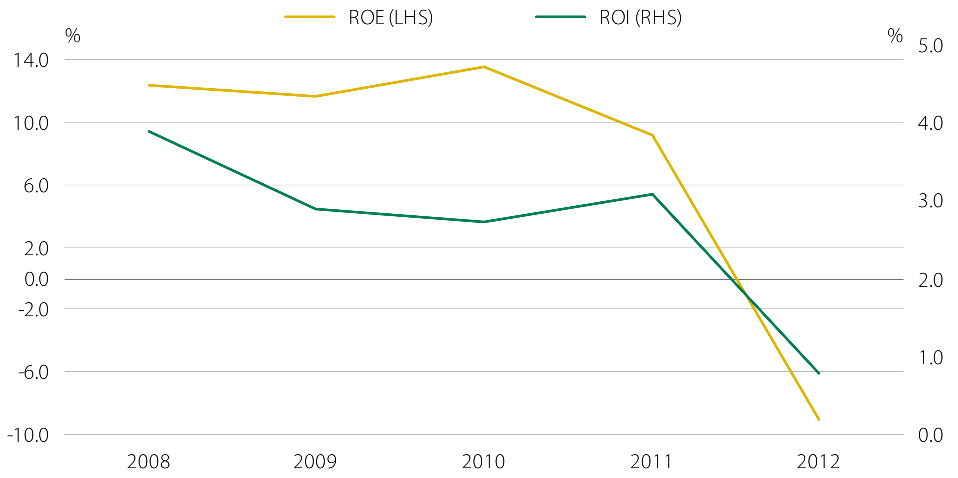
Finally, credit institutions recorded a loss before tax of 60.9 billion euros, compared with a profit before tax of 5.24 billion euros recorded in 2011. The increased losses, in relation to the operating margin, are the result of the impairment of non-current assets held for sale (which include foreclosed assets) and other assets.

– **Insurance companies.** The increase in the profit of the technical account of the non-life insurance business (5.2%) was not enough to offset the shortfall in the results obtained in the life insurance business (-21.1%). Therefore, the aggregate profit for the period, which stood at 1.19 billion euros, was 18.8% down on 2011. The aggregate profit of the technical account of the non-life insurance business rose as the increase in the revenue from premiums made it possible to absorb the increase in claims and net operating expenses. However, in the life insurance business, the increase in revenue from premiums was not enough to offset the increase in the aforementioned costs and expenses.

4 Return on equity (ROE) and return on investment (ROI)

Figure 4 shows the ROE and ROI[11] since 2008. ROE and ROI in 2012 stood at -9.1% and 0.8%, respectively, the lowest levels since these ratios were first calculated (2004). Specifically, ROE in 2012 was negative for the first time due to the losses obtained over the year, mainly in the financial sector and in the construction and real estate sector.

ROE and ROI FIGURE 4



Source: CNMV.

11 For the definitions of ROE and ROI used in this article see Anta Montero, B. and Casado Galán, Ó. (2009). "Economic and financial performance of listed companies in the first half of 2009", in *CNMV Bulletin*, fourth quarter, pp. 39-54. Available at http://www.cnmv.es/DocPortal/Publicaciones/Boletin/Bulletin-QIV_weben.pdf

Tables 3 and 4 show the trend of ROE and ROI respectively for the different sectors.

The downward trend for non-financial companies which began in 2010 continued in 2012 in all sectors, with ROE and ROI falling to 5.8% and 3.9% respectively. This fall in the return was a result of the drop in profits in all sectors.

If we consider the financial cost of borrowing net of tax (table 5), we can see that in all sectors, except in the construction and real estate sector, the financial cost remained stable or fell. In the construction and real estate sector, the increase in the financial cost is related to the renegotiations of debts in the sector, with the return on the investment falling below the financial cost, which led to a greater fall in ROE.

In the case of financial institutions, the fall in the return on equity and the return on investment in 2012 was also caused by the drop in profits.

ROE (%) TABLE 3

	2008	2009	2010	2011	2012
Energy	19.5	13.2	16.2	10.7	9.9
Manufacturing	10.6	6.3	13.8	10.4	8.4
Retail and services	20.1	19.3	21.9	16.4	7.9
Construction and real estate	-17.6	3.7	6.6	-0.7	-20.9
Total non-financial companies	11.8	13.1	16.9	10.9	5.8
Credit institutions and insurance companies	13.0	10.4	10.3	7.1	-24.4
Total	**12.4**	**11.7**	**13.6**	**9.2**	**-9.1**

Source: CNMV.

ROI (%) TABLE 4

	2008	2009	2010	2011	2012
Energy	10.5	7.2	8.2	6.0	5.8
Manufacturing	7.7	4.9	9.0	7.4	6.2
Retail and services	8.3	7.7	8.5	7.8	4.8
Construction and real estate	0.4	3.2	4.8	2.9	-0.7
Total non-financial companies	6.3	6.3	7.7	5.9	3.9
Credit institutions and insurance companies	3.8	2.5	2.0	2.4	0.2
Total	**4.2**	**3.1**	**2.9**	**3.1**	**0.8**

Source: CNMV.

Financial cost of borrowing net of taxes[12] of non-financial companies (%)					TABLE 5

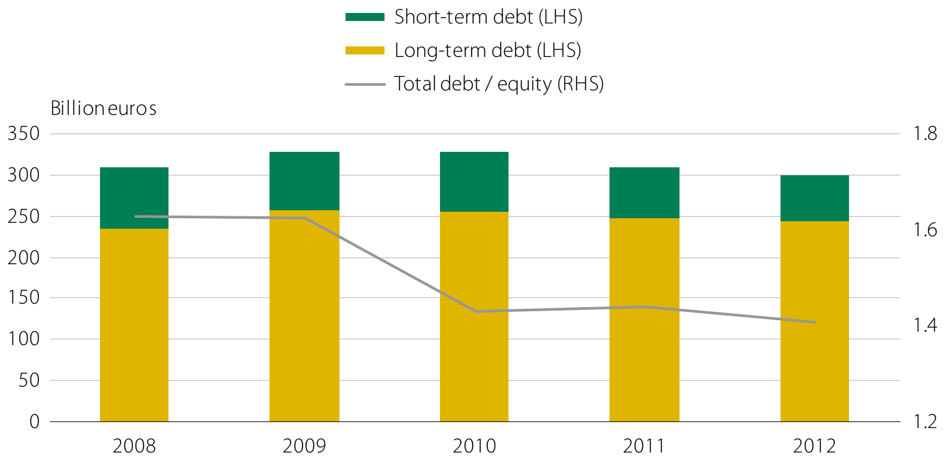
	2008	2009	2010	2011	2012
Energy	3.4	3.1	2.9	2.8	2.8
Manufacturing	4.3	3.4	3.4	3.8	3.6
Retail and services	3.6	3.0	2.8	4.1	3.5
Construction and real estate	5.0	3.1	4.4	3.8	4.3
Total non-financial companies	**3.4**	**3.0**	**3.1**	**3.4**	**3.0**

Source: CNMV.

5 Debt

Figure 5 shows the trend of gross financial debt[13] for the non-financial companies in the sample.

Debt structure and leverage ratio of non-financial listed companies FIGURE 5



Source: CNMV.

At year-end 2012, aggregate gross financial debt totalled 300.63 billion euros, a fall of 3% on the previous year. This fall was made possible by the divestments undertaken during 2012, particularly in the energy sector and the construction and real estate sector. The percentage of short-term debt also fell slightly to 18.9% (19.8% in 2011).

For its part, the leverage ratio improved slightly, with aggregate debt standing at 1.41 times the level of equity compared with 1.44 times at year-end 2011. This ratio

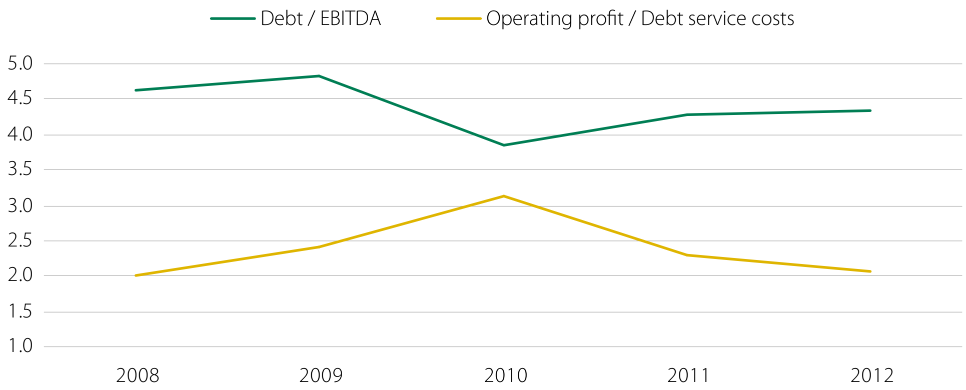
12 This is estimated by relating the financial expense for interest and similar charges with the average debt for the period.

13 Gross financial debt is defined as the sum of debts with credit institutions and issues of debentures and other tradable debt securities.

improved in all sectors except the construction and real estate sector as a result of the reduction in equity caused by the losses incurred by companies in the sector.

Figure 6 shows the trend in debt-to-EBITDA and the debt service coverage ratios. Both ratios show a negative trend due to the generalised fall in operating profits and the rise in debt service costs paid by companies. Accordingly, the ratio of total debt/EBITDA rose to 4.32 (4.29 at year-end 2011) while the debt service coverage ratio (EBIT/financial expenses) stood at 2.06 (2.30 in 2011).

Debt-to-EBITDA and debt service coverage ratios FIGURE 6



Source: CNMV.

Table 6 shows the trend in the level of debt and the key related ratios by sector.

In 2012, the energy sector continued the trend of recent years and reduced its debt by 4.8%. However, the figures for this sector were influenced by extremely significant discontinued operations over the period, which incorporated net debt at year-end 2011 of around 2 billion euros. If we exclude this effect, the sector's debt fell by 2.5%.

The level of debt in the manufacturing sector fell by 2%. With regard to this fall, it is important to take into account that one food company has not submitted its 2012 annual financial report, which leads to exclusion of the debts reported by this company for 2011. The sector's debt rose by 2.7% as a result of the financing obtained by companies which increased their operations abroad. There was an improvement in the debt ratios associated with the positive performance of EBITDA and operating margins.

Aggregate debt in the retail and services sector in 2012 rose by 4% on year-end 2011 as a result of the acquisitions made by some companies in the sector. The increase in debt together with the fall in operating profits and the rise in financial expenses led to worse debt ratios.

In the construction and real estate sector, the inflow of funds from divestments was allocated to reducing debt, which allowed the sector to reduce its debt by 9% compared with year-end 2011. Debt ratios in this sector continue recording the highest levels of financial risk, with ratios which are very far from the values seen in other sectors and those seen in 2005.

Debt by sector TABLE 6

Million euros		2008	2009	2010	2011	2012
Energy	Debt	82,608	100,572	98,283	95,853	91,233
	Debt/Equity	0.89	1.08	0.95	0.92	0.85
	Debt/EBITDA	2.82	3.46	2.81	3.27	3.26
	Operating profit/Debt service cost	3.67	3.38	4.15	3.30	3.14
Manufacturing	Debt	15,645	15,953	14,948	17,586	17,232
	Debt/Equity	0.69	0.69	0.58	0.63	0.63
	Debt/EBITDA	2.71	3.05	2.11	2.54	2.38
	Operating profit/Debt service cost	3.41	3.15	5.00	3.90	3.82
Retail and services	Debt	112,322	108,579	115,413	113,142	117,359
	Debt/Equity	2.14	1.78	1.60	2.01	2.00
	Debt/EBITDA	3.58	3.70	3.38	3.78	4.01
	Operating profit/Debt service cost	2.86	3.28	3.94	2.45	2.02
Construction and real estate	Debt	119,788	104,762	99,917	83,716	76,236
	Debt/Equity	3.77	4.08	3.42	2.98	3.51
	Debt/EBITDA	31.87	22.48	11.18	15.00	15.17
	Operating profit/Debt service cost	0.01	0.31	0.98	0.52	0.32
Adjustments*		-20,802	-1,908	-1,792	-1,404	-1,429
Total	**Debt**	**309,561**	**327,958**	**326,769**	**308,893**	**300,633**
	Debt/Equity	**1.63**	**1.63**	**1.43**	**1.44**	**1.41**
	Debt/EBITDA	**4.63**	**4.82**	**3.84**	**4.29**	**4.32**
	Operating profit/Debt service cost	**2.01**	**2.42**	**3.12**	**2.30**	**2.06**

Source: CNMV.

* In the adjustment row, the data on issuers that are subsidiaries of another listed company belonging to a different sector are eliminated.

6 Non-performing loans and solvency of credit institutions

Given the particular situation which the financial sector is currently undergoing, it is important to include a specific section on the performance of credit institutions and, in particular, on their ratios regarding growth in lending, non-performing loans and solvency.

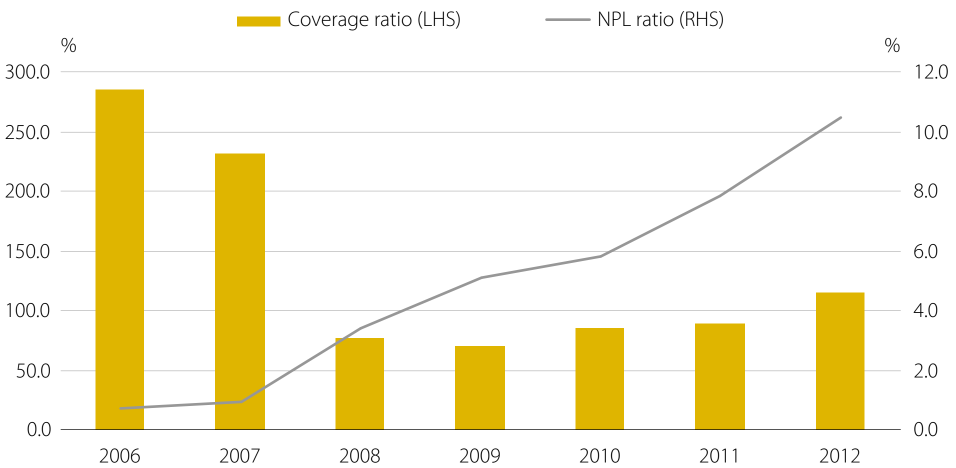
Aggregate lending remained relatively stable compared with 2011, falling by only 0.6%. The performance of this indicator, however, does not reflect the real correction which has taken place in the level of lending by credit institutions over the period because the balance sheets of those institutions which were involved in integration processes in 2012 and which form part of the sample included lending from the integrated institutions. The other institutions, with the exception of four, saw a fall in lending due to the ongoing de-leveraging being conducted by the Spanish private sector as a result of the unfavourable performance of the economy, the higher financing costs charged by institutions and the greater regulatory requirements as regards provisions and capital.

In this context, credit institutions continued their efforts to optimise the risk-weighted assets that they hold in their lending portfolios so as to comply with the capital requirements of the European Banking Authority (EBA) and Royal Decree-Laws 2/2011 and 2/2012.

Furthermore, it is important to highlight that in 2012 listed companies increased their exposure to Spanish sovereign debt, largely financed by funds provided by the ECB. According to the information provided by credit institutions, lending to the public sector rose by 17.5% in 2012 and accounted for 10.0% of all their assets.[14] This upward trend began in 2008, when these assets accounted for 4.8% of the total. In addition, according to the statistics on outstanding public debt of the Public Treasury, the percentage of public fixed income held by Spanish credit institutions rose by 11.3% over the year, although it fell by 3.7% on the first half of the year, coinciding with the easing of tensions in the market in the last quarter of the year.

The figure below shows the development of the NPL ratio of credit institutions in lending to other resident sectors (families and companies) since 2006, as well as the coverage ratio of doubtful assets.[15]

NPL and coverage ratios of credit institutions FIGURE 7



Source: Bank of Spain.

The non-performing loan ratio continued the trend which began in 2006 and rose to 10.4%[16] in 2012. During 2012, this trend was only interrupted in December as a result of the first transfers of problematic assets to the SAREB. The main causes of this ongoing growth, as in previous periods, were once again the poor performance of the main macroeconomic figures and, in particular, the contraction in demand in the sluggish job market and real estate market, to which credit institutions are highly exposed.[17]

14 Source: *Statistical report* of the Bank of Spain.

15 Defined as the ratio of the value adjustments for asset impairments over the doubtful balance.

16 Source: *Statistical report* of the Bank of Spain.

17 According to the latest available data, corresponding to April 2013, the NPL ratio stood at 10.9%.

The fall in the coverage ratio in 2008 and 2009 took place in parallel with a sharp increase in the NPL ratio. There was a notable increase in the coverage ratio in 2010, as a consequence of the processes of integration and restructuring against reserves of the assets of savings banks carried out in that year. However, after this effect had been absorbed, the ratio once again fell in 2011. Finally, due to the effect of the application of the new requirements of Royal Decree-Law 2/2012 and Law 8/2012, this ratio rose in 2012 to 114.4%, which is the highest coverage percentage recorded since 2008.

The increase in the NPL ratio since 2007 has also increased the volume of refinancings and asset acquisitions or foreclosed assets, especially real estate assets. Assets received as payment of debts are generally classified in the balance sheets of credit institutions under the heading of "non-current assets for sale", although developments in progress and leased assets are generally classified under other asset headings ("inventory" and "property, plant and equipment" respectively). The amount of non-current assets for sale rose by 101.8% in 2012 compared with the previous year to a figure of 62.58 billion euros, even though in the final part of the year some institutions started to transfer their problematic assets to the SAREB.

With regard to the evolution of the different components of equity, we can highlight the following figures: (i) the carrying amount of capital and reserves rose by 6.2% in 2012 in order to meet the new regulatory requirements, although the equity/assets ratio fell from 5.9% to 5.6%; (ii) the losses recorded under valuation adjustments increased by 13.5% over the period due to the fall in the prices of available-to-sell assets resulting from the volatility in capital markets and the European sovereign debt crisis; and (iii) minority interests, which represent the holdings in the equity of subsidiaries not directly or indirectly attributable to the parent company, fell by 16.8%.

As part of the process included in the Memorandum of Understanding signed as a result of the request for external assistance made by the Spanish government, on 28 September 2012 the Bank of Spain published the results of the audit performed by Oliver Wyman on the loan portfolio of the Spanish banking system, which indicated additional capital needs of 53.75[18] billion euros. Institutions in which the Bank of Spain has intervened accounted for 83% of the needs, with a total of 46.21 billion euros required to cover the shortfall. Banks were classified into four groups. The European Commission approved the recapitalisation and restructuring plans of those classified in Group 1 on 28 November 2012, and these plans were implemented by the Fund for Orderly Restructuring of the Banking Sector (FROB) on 26 December 2012. The initial needs were reduced as a result of the transfer of assets to the SAREB and the haircut taken by holders of hybrid or subordinated instruments.

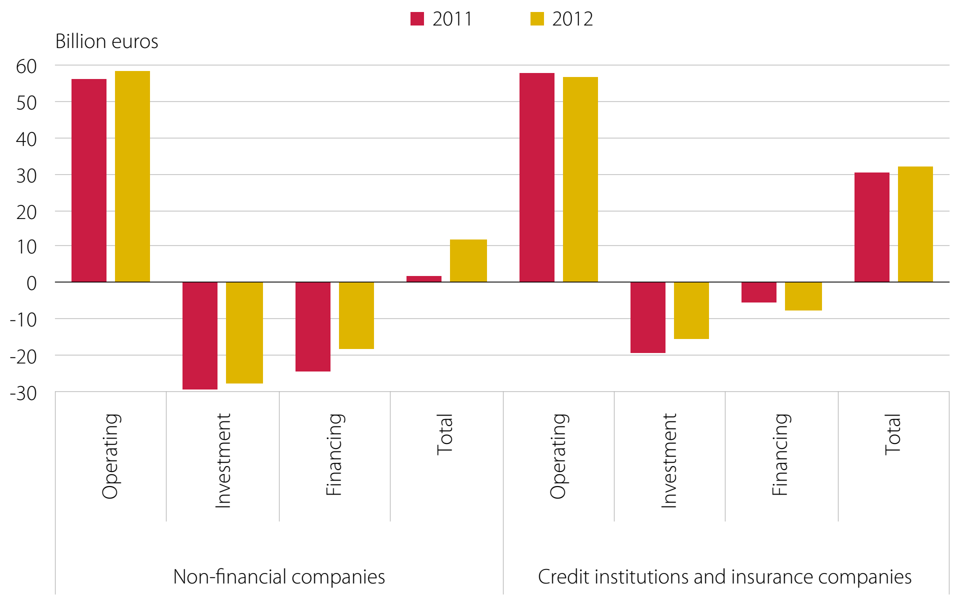
7 Cash flows

Figure 8 shows the aggregate changes in cash flows generated in 2011 and 2012 by the companies in the sample, distinguishing between flows arising from operations, investment and financing, with the totals corresponding to the changes in cash and

18 Taking into account the merger processes currently under way.

cash equivalents over the period. In addition, non-financial companies are separated from credit institutions and insurance companies given the different nature of their activities.

Generated cash flows FIGURE 8



Source: CNMV.

The development of cash flows is analysed below:

– **Non-financial companies.** In aggregate terms, cash flows generated in operating activities by non-financial companies in 2012 (58.19 billion euros) rose by 4.2% on the previous year. This increase was seen in all sectors, apart from the retail and services sector, which saw a fall of 14.6%.

  Net outflows for investment totalled 27.6 billion euros, a fall of 6.1% (-1.8 billion euros) on the previous year. This fall was a result of the 18.2% increase in flows obtained from divestments. This increase allowed companies to reduce their leverage at the expense of short-term limits to the operating cash flows provided by the divested businesses.

  Net outflows for financing totalled 18.54 billion euros, a fall of 24.3% on 2011. Payments of dividends in cash fell by 6.31 billion euros in 2012 on the previous year, while net inflows for disposals of treasury stock and cash obtained from capital increases totalled 1.84 billion euros.

  The aggregate effect of the aforementioned cash flows led to an increase of 11.72 billion euros in cash and cash equivalents held by non-financial companies in 2012.

– **Credit institutions and insurance companies.** The cash flow statements of listed financial institutions reflected a net increase in aggregate cash and cash equivalents of 32.47 billion euros, 6.5% up on 2011.

Operating activities generated net cash inflows of 55.04 billion euros, 3.4% down on 2011. These resources were used for net investments of 14.5 billion euros (22.1% down on the previous year) and for the cancellation of financing obtained, amounting to a cash outflow of 6.93 billion euros (41.8% up on the figure recorded for 2011). Exchange differences led to a net decrease in cash of 1.14 billion euros.

The aggregate cash flow statement shows the policy followed by most Spanish credit institutions, which consisted of raising liquidity from the ECB, which is reflected in obtaining operating resources in order to: (i) meet the maturities of wholesale financing in the context of the difficulties in accessing financing markets and the drop in deposits, and (ii) investing in public debt.

For their part, insurance companies recorded a net fall in cash of 602 million euros in 2012. The positive performance of the cash flows from operating activities, which increased by 562 million euros (58.4%) on 2011 did not sufficiently offset the payments for investment and financing activities, which accounted for net cash outflows which were 83.0% and 83.1% higher respectively than those recorded in the previous year.

8 Number of employees

Table 7 shows the average aggregate workforce for the six sectors in 2012 and 2011. The table shows that 2012 saw a 1.1% year-on-year increase in the average staff of the companies included in the sample.

Average workforce by sector TABLE 7

Number of people	2011	2012	Change (%)
Energy	121,356	104,806	-13.6
Manufacturing	248,207	259,670	4.6
Retail and services	720,534	744,223	3.3
Construction and real estate	401,910	387,006	-3.7
Credit institutions	440,406	455,942	3.5
Insurance companies	38,609	40,745	5.5
Adjustments*	-3,782	-3,384	–
Total	**1,967,240**	**1,989,008**	**1.1**

Source: CNMV.

* In the adjustment row, the data on issuers that are subsidiaries of another listed company belonging to a different sector are eliminated.

Non-financial companies increased their average workforce by 0.3%. However, the number of companies which reduced their workforce (82 companies) was significantly higher than the number which increased their workforce (38 companies).

The corporate acquisitions conducted by companies in the manufacturing sector and the retail and services sector led to increases in the workforce of 4.6% and 3.3%, respectively. The workforce fell by 13.6% in the energy sector and by 3.7% in the construction and real estate sector as a result of the discontinuation of very significant operations and the sale of shareholdings in 2012.

The average aggregate workforce of credit institutions rose by 3.5% in 2012. Although workforces fell in most of the companies included in the sample (particularly noteworthy in those companies in which the FROB intervenes or has intervened), the fall has been offset by the rise seen in the companies in the sample which carried out corporate acquisitions. The average cost per employee rose by 1.9% (from 57,100 euros in 2011 to 58,165 euros at the end of 2012). The number of branches fell by 4.9% over the period.[19]

9 Dividends

As shown in table 8, dividends paid in 2012 amounted to 14.11 billion euros, 34.5% down on the same period of the previous year.

Dividends paid by sector TABLE 8

Million euros	2012	2011	Change (%)
Energy	2,381	3,336	-28.6
Manufacturing	1,806	1,697	6.4
Retail and services	5,251	9,705	-45.9
Construction and real estate	1,603	1,488	7.7
Credit institutions	2,632	4,811	-45.3
Insurance companies	438	521	-15.9
Adjustments*	1	1	0.0
Total	**14,112**	**21,559**	**-34.5**

Source: CNMV.

* In the adjustment row the data on issuers that are subsidiaries of another listed company belonging to a different sector are eliminated.

In 2012, 51.0% of the companies paid dividends in 2012, compared with 54.7% in the previous year. Of the 80 companies which paid dividends in 2012, 40% increased the remuneration paid to shareholders compared with the previous year, 41.2% reduced it, and the remaining 18.8% kept it at the same level.

It should be pointed out that 70.0% of the dividends in 2012 were paid from profits, while this figure stood at 78.5% in the same period of the previous year.

A significant number of the companies in the retail and services sector and the credit institution sector reduced the dividends they paid, with one company in the sample reducing dividends by 3.24 billion euros. The amounts paid by the energy sector

19 Source: *Statistical bulletin* of the Bank of Spain.

were mainly affected by the fall in two companies with a significant weighting in the sample, while the other companies paid higher dividends than in 2011.

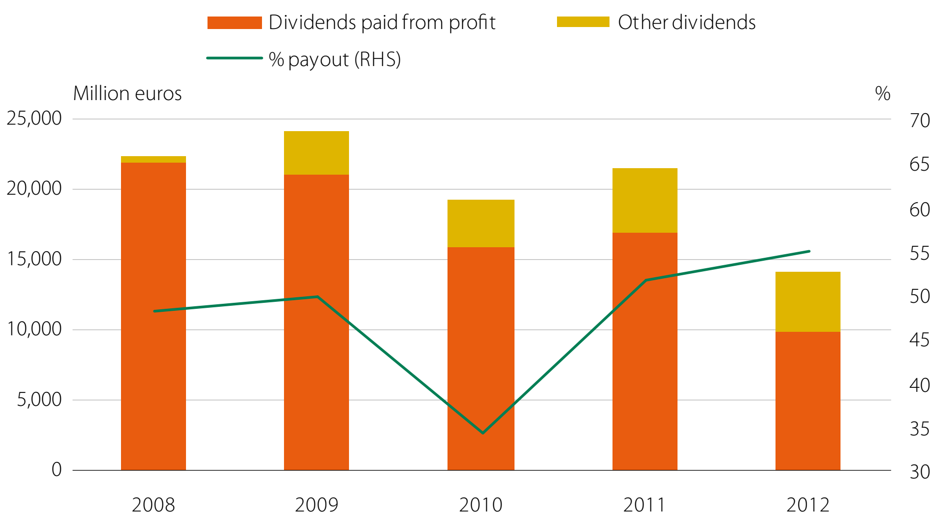
With the aim of mitigating the fall in shareholder remuneration through dividends, especially those paid from profits, companies have been making use of scrip dividends, which consist of giving paid-up shares, with the specific feature that the company offers to buy the free allotment rights at a fixed price. Shareholders may therefore choose between receiving the shares, selling the rights on the market or selling the shares back to the company. The main advantage for issuers is that they reduce cash outflows while, at the same time, giving remuneration to their shareholders.

In 2012, 11 companies chose to use scrip dividends. Of all the free allotment rights issued by the 11 companies, only 30.3% of the shareholders chose to sell the rights to the issuer in order to receive the remuneration in cash. The remaining 69.7% subscribed the scrip shares. This mechanism has allowed companies to save paying 8.63 billion euros in cash of the 12.54 billion euros which they would have had to pay if all the shareholders had chosen to sell their free allotment rights.

The aggregate payout[20] of the companies – correcting for the dividends not paid from profits – stood at 68.2% compared with 51.6% in 2011.

Figure 9 shows the dividends paid in the last five years,[21] distinguishing between those paid from profits, as well as the evolution of the payout.

Dividends paid and payout FIGURE 9



Source: CNMV.

20 This percentage is the dividend effectively paid in the period over the consolidated profit attributed to the parent company. We have only considered those companies which paid dividends in the period.

21 In 2009, we excluded one unusually large dividend which paid out the gain generated on a corporate operation recorded in 2008.

In order to analyse the evolution of the payout, it is important to bear in mind that this ratio relates the profits obtained in a year with the dividends paid in that year, including the supplementary dividends relating to the profit of the previous year.

The payout stood at 54.9%[22] in 2012 (51.6% in 2011), an increase which is explained by the fall in the payment of dividends paid from profits (41.7%) being slightly lower than the fall seen in profits for the year (45.5%).

In order to explain the increase in the payout in 2011, it is important to bear in mind both the inclusion of significant dividends paid from profits obtained in the previous year and the fall in profits in 2011 of the companies which paid dividends of around 30%.

10 Conclusions

Listed companies suffered net losses of 38.11 billion euros in 2012, compared with a net profit of 29.5 billion euros in the previous year. All sectors suffered falls in their net profit, although these were most noteworthy in the credit institution sector, which generated losses of 51.6 billion euros.

EBITDA of non-financial sector companies recorded positive growth of 1.3%, which was significantly lower than the 8.5% increase in revenue. Net profits fell by 46.8% as a result of: (i) the increase in companies' financial expenses, (ii) the losses of companies accounted for using the equity method, and (iii) the losses recorded for the impairment of the portfolio of available-for-sale assets.

The capacity of companies to increase their presence in international markets partially offset the negative performance of their operations in the Spanish market, although this did not prevent their profits from falling.

In the current environment, it is important to highlight that non-financial companies have increased the operating cash flows generated in 2012 compared with 2011. The 18.2% increase in inflows from divestments allowed companies to reduce their leverage, although this involved placing short-term limits on the operating cash flows provided by the divested businesses.

It is important to highlight that credit institutions in 2012 were involved in the restructuring and recapitalisation process of the Spanish banking sector, in which the Spanish government officially requested and obtained external financial assistance through the "financial assistance for the recapitalisation of financial institutions" of the European Financial Stability Facility (EFSF). In this context, the sector recorded net losses of 51.6 billion euros in 2012, compared with net profits of 4.91 billion euros the previous year. The losses were due to the impairment of the lending portfolio, the new requirements for provisions as a result of legislation approved in 2012

22 In order to calculate the payout we have not taken into account two credit institutions which, although they suffered significant losses, paid a low dividend from profits of the previous year. If we include these two institutions, the payout for 2012 would have been 68.2%.

and the impairment losses of non-current assets for sale (which include foreclosed assets) and other assets. However, the interest margin and net commissions, which represent the results for their recurring business, improved over the period despite the stagnation in lending and the increase in NPL. It is also important to highlight the positive effect of the special financing operations of the ECB on the interest margin in the sector.

The fall in profits, together with the difficulties in obtaining liquidity through borrowing or equity, affected the amount of the dividends paid by listed companies in 2012, which fell by 34.5% on 2011. In order to offset the fall in dividends paid from profits, companies continued to use different formulas involving a lower cash outflow to remunerate their shareholders, for example through the use of scrip dividends.

Finally, although the results of the issuers corresponding to the first half of 2013 will be analysed in detail in the next quarterly bulletin, the data available as at the publication date of this article indicate a change in the trend compared with the same period of the previous year. In particular, the change is especially significant in credit institutions, which have moved from recording losses in the first half of 2012 for a total of 3.61 billion euros to recording profits of 9.51 billion euros in the same period of 2013. It is also important to highlight that the losses generated by companies in the construction and real estate sector fell by 1.42 billion euros compared with the first of the 2012, with recorded losses of 516 million euros. As a whole, the aggregate profit of issuers in the first half of 2013 stood at 18.63 billion euros, compared with the 4.62 billion euros obtained in the same period of the previous year.

Empirical evidence on the Spanish equity fund market: an analysis of subscriptions and redemptions

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1 Introduction

The mutual fund industry in Spain is important both in terms of assets under management and the number of investors. According to data from the Financial Accounts of the Spanish Economy, at year-end 2012 mutual funds accounted for 5.9% of household wealth. According to CNMV data, their assets under management in July 2013 amounted to 140.6 billion euros and the number of investors was greater than 4,700,000.

This article focuses on an important area of research in the industry: the decision-making process of investors when buying or selling units in mutual funds. Specifically, this article aims to present some results of a study conducted by the authors on the determinants for financial investment decisions by unit-holders in equity funds in Spain. This article will shortly be published by the CNMV in its Working Papers series. Throughout this article, two assumptions are put forward on the behaviour of these investors that will form the foundation for the analysis. The first of these indicates the capacity of investors to learn about the ability of the fund managers through the performance of the mutual funds which they manage. The second assumption is that investors incur participation costs when they invest in mutual funds.

A large number of articles have studied this issue empirically for the United States market.[1] With regard to the first of the assumptions in this article, the results of these studies suggest that investors' subscription and redemption decisions are dependent on past performance. The first articles of this literature showed a non-linear relationship between net subscriptions and fund performance. Investors carried out positive net subscriptions when the funds recorded high returns, but hardly reacted at all in the face of low returns. These authors argued that this behaviour was due to the fact that investors, especially less sophisticated investors, were subject to frictions which affected their investment decisions. Specifically, they prevented them from suitably disposing of their positions in funds with low returns. These frictions included recommendations by financial advisers, who advised against redemptions, and the aversion of investors to materialising their losses.

The literature has also studied this relationship from a theoretical point of view.[2] The most important papers predict a non-linear relationship between performance

1 See, for example, Ippolito, R.A. (1992). "Consumer reaction to measures of poor quality: Evidence from the mutual fund industry", in *Journal of Law and Economics* 35, pp. 45-70; Gruber, M.J. (1996). "Another puzzle: The growth in actively managed mutual funds", in *Journal of Finance* 51, pp. 783-810; and Sirri, E. and Tufano, P. (1992). *Buying and Selling Mutual Funds: Flows, Performance, Fees and Services.* Harvard Business School Working Paper.

2 The seminal article of this type of literature is that by Berk, J.B. and Green, R. (2004). "Mutual fund flows and performance in rational markets", in *Journal of Political Economy* 112, pp. 1269-1295. Subsequent

and flows in mutual funds once frictions affecting the investors in this market are introduced, such as transaction and investment supervision costs. These articles suppose that there are different types of investors in the market who are mainly differentiated by the quantity and quality of the information which they possess. This is because they have different levels of abilities for processing the information and the fund managers also differ in the effort made to make their funds visible. In these situations, it is shown to be optimal for investors to concentrate their investments in a low number of funds. This would be the reason why investors usually only buy units in funds with the best past performance (this result is known in the literature as the "winner-picking effect"). According to this theoretical literature, the asymmetry seen in the investment flows in funds would be due to an overreaction of investors to the results of the best funds and a lack of response or insufficient response to the funds with worse results.

Although these articles have contributed towards improving understanding of the behaviour of mutual fund investors, they have exclusively focused on analysing net flows (subscriptions net of redemptions). On the other hand, other authors have explicitly exploited gross investment flows in order to analyse which determinants lead investors to make subscriptions and redemptions in these investment vehicles.[3] Some of these articles found a negative relationship between performance and redemptions, which demonstrates the punishment suffered by funds with worse performance in the form of higher redemptions.[4]

With regard to the importance of the second assumption in this article – the existence of participation costs in the mutual fund market – some authors have indicated that it might not be appropriate to solely consider the past performance of funds as the variable which affects investment decisions in the fund market.[5] Some articles included in their analyses the role played by participation costs in these types of investments.[6] These articles found evidence that the managers with a higher market share were often those which made a greater effort to make their funds more visible, which ultimately reduced the participation costs of their investors. At the same time, it was these operators that charged higher fees and offered a higher number of funds.

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articles such as that by Huang, J., Wei, K. and Yan, H. (2007). "Participation costs and the sensitivity of fund flows to past performance", in *The Journal of Finance*, Vol. LXII, pp. 1273-1311; and Dumitrescu, A. and Gil-Bazo, J. (2012). *Market Frictions, Investor Sophistication and Persistence in Mutual Fund Performance.* Midwest Finance Association 2013 Annual Meeting Paper, presented extensions to the Berk and Green model (*op. cit.*) by introducing frictions for mutual fund investors, which allowed the results of these models to resemble those found in the empirical studies.

3 See, for example, Cashman, G., Deli, D., Nardari, F. and Villupuram, S. (2007). *Investor Behavior in the Mutual Fund Industry: Evidence from Gross Flows.* Arizona State University Working Paper; and Jank, S. and Wedow, M. (2010). *Purchase and Redemption Decisions of Mutual Funds Investors and the Role of Fund Families.* CFR Working Paper 10-13.

4 The evidence of this literature on the relationship between redemptions and a fund's past performance is not conclusive. Some articles find no relationship between these two variables. However, other authors do find a negative relationship between redemptions and results. The biggest criticism made by the latter group of articles on the results of the former is that the data which they use are not of a suitable quality, mainly because they analyse large funds or because there is a survival bias in the samples used.

5 See Capon, N., Fitzsimons, G. and Prince, R. (1996). "An individual level analysis of the mutual fund investment decision", in *Journal of Financial Services Research*, Vol. 82, pp. 59-82.

6 See, for example, Huang *et al.* (*op. cit.*), Sirri and Tufano (*op. cit.*) or Cashman *et al.* (*op. cit.*).

These authors found that participation costs had a major impact on the level of net subscriptions recorded. Given a certain level of performance, the funds of the large managers showed a much more intense relationship between their results and net subscriptions. With regard to subscriptions and redemptions, it should be pointed out that no relationship was found between the former and participation costs. However, evidence was found that the funds of the larger managers recorded higher subscriptions and redemptions due to their greater visibility.

The first part of this article contains an analysis on the determinants of subscriptions and redemptions in Spanish equity funds between 1995 and 2011. This analysis is completed with a study of the possible influence of participation costs on the funds' investment flows. Given that these costs are not directly observable, an approximation is used by means of the mangers' market share. Given the characteristics of the investors in these financial vehicles, the second part of the article contains an independent analysis of the determinants of fund subscriptions and redemptions for the retail and wholesale markets. It also evaluates the role of participation costs in both markets. It should be pointed out that the possibility of analysing the retail and wholesale fund market separately is novel in this type of literature on mutual funds.

The rest of the article is structured as follows: section 2 describes the database which has been used in the article. Section 3 contains a descriptive analysis of the subscription and redemption flows in the Spanish equity fund market. Section 4 analyses the determining factors of subscriptions and redemptions using an empirical model, including the role played by investor participation costs in decision-making. Section 5 offers a separate analysis of the determining factors of investment flows in retail and wholesale fund markets and, finally, the conclusions are presented in section 6.

2 Data and variables analysed

The empirical analysis of the data has been conducted by using the information which the CNMV periodically receives from mutual funds and their management companies. The database contains annual information on the existing equity funds and their managers between 1995 and 2011, including the merged funds and those which have disappeared. For this analysis, the definition of equity funds covers pure, mixed and global equity funds. The assets managed by these funds account for 25% of total mutual fund assets on average.

For each one of the years under consideration, this database contains information which either characterises the mutual funds or characterises the managers to which they belong. Based on this information, we can define the following variables used in the analysis:

- Net subscriptions: volume of subscriptions less redemptions made in a fund over one year divided by the volume of the fund's assets at the start of the year.

- Redemptions: volume of redemptions made in a fund over one year divided by the volume of the fund's assets at the start of the year.

- Subscriptions: volume of subscriptions made in a fund over one year divided by the volume of the fund's assets at the start of the year.
- Measures of performance:
  - Gross return: defined as the percentage change in the net asset value of the fund over one year.
  - Sharpe ratio: annual gross return of the fund less the return of a risk-free asset, all divided by the annualised volatility of the gross monthly returns.
  - Factor model: defined as the sum over the year of the difference between the monthly returns of the fund and the estimates through the Fama-French-Carhart four-factor model.[7]
- Fund size: assets managed by the fund at the end of the year (in logarithm).
- Volatility: typical annualised deviation of the fund's monthly returns over the last twelve months.
- Fees: taking into account both the periodic fees inherent to the fund (management and custody) and explicit fees (for subscription and redemption).
- Market share of the management company: ratio at the end of each one of the periods under consideration between the total assets of the funds managed by a management company and total mutual fund assets.
- Retail/wholesale fund: a fund is classified as wholesale if the overall amount of investor holdings, whose contributions exceed a certain threshold, represent more than 50% of the fund. Between 1995 and 1998, the aforementioned minimum investment threshold stood at 180,000 euros. Between 1998 and 2011 it stood at 150,000 euros. This distinction takes into account regulatory changes over the sample period.[8]

In order to perform the analysis, we eliminated the observations in which net subscriptions accounted for over 70% of the assets of the fund with the aim of eliminating atypical values which might distort the sample. Table 1 shows a summary of the main descriptive statistics of the most important variables in the database. It shows the descriptive statistics both for the total database and for the sub-samples of funds in the retail and wholesale segments.

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7 The Fama-French-Carhart model is an extension of the CAPM model, which only uses one variable to explain the return on shares (the excess return of a portfolio which is representative of the equity market over the return of a risk-free asset). The Fama-French-Carhart model adds three additional factors to the CAPM model: the differences of return between a portfolio of shares of companies with large capitalisation and another of small capitalisation, the differences of return between a portfolio of shares with a high book-to-market ratio and another with a low ratio, and a proxy for the momentum of the equity market.

8 See Cambón, M.I. and Losada, R. (2012). *Competition and structure of the mutual fund industry in Spain: the role of credit institutions.* CNMV Working Paper 54, for further information.

It should be pointed out that net subscriptions in equity funds over the period 1995-2011 were negative (-6.3%), a result which may be due to the high volume of redemptions recorded from the start of the crisis in 2007. It should also be highlighted that the average volume of subscriptions and redemptions in the retail market was greater than that seen in the wholesale market.

With regard to the variables which characterise the performance of the funds, the average gross return of equity funds between 1995 and 2011 stood at 0.94% (1.29% for retail funds and 0.55% for wholesale funds). However, when comparing the excess returns obtained through the Fama-French-Carhart model, there are no significant differences between retail and wholesale funds. It is also noteworthy that, with the exception of subscription fees, the fees charged to retail funds are higher than those charged to wholesale funds. In particular, the average management fees were 1.66% in the retail market in 1.29% in the wholesale market.

Descriptive statistics of the database TABLE 1

	Total sample		Retail funds		Wholesale funds	
	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation
Net subscriptions[1]	-0.063	0.261	-0.089	0.269	-0.024	0.243
Redemptions[1]	0.444	2.400	0.497	2.799	0.364	1.610
Subscriptions[1]	0.381	2.414	0.408	2.813	0.341	1.627
Gross return (%)	0.943	17.399	1.199	17.893	0.554	16.612
Sharpe Ratio (%)	-0.222	4.421	-0.112	1.658	-0.389	6.711
Excess factor model (%)	-0.002	0.107	-0.002	0.104	-0.002	0.113
Assets (million euros)	47.5	113	54.3	123	37.2	94.3
Volatility (%)	10.409	8.056	10.924	8.329	9.625	0.002
Management fee (%)	1.514	0.585	1.659	0.509	1.293	0.624
Custody fee (%)	0.128	0.151	0.136	0.082	0.116	0.217
Subscription fee (%)	0.075	0.555	0.068	0.528	0.086	0.595
Redemption fee (%)	0.647	1.144	0.821	1.237	0.381	0.926
Number of observations	**13,898**		**8,384**		**5,514**	

1 Divided by the fund's assets.

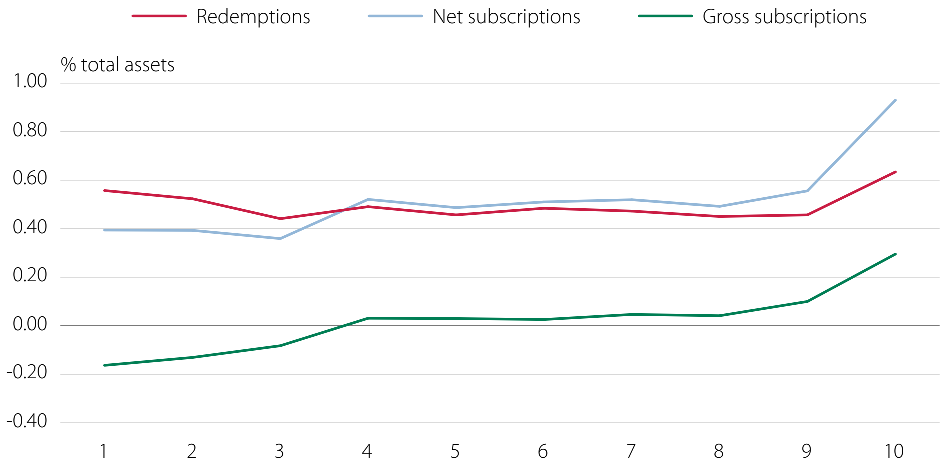
3 Descriptive analysis

This section shows the relationship between performance and investment flows in Spanish equity funds from a descriptive perspective. This analysis does not take into account the potential effect of other variables of interest, such as the persistence of investment flows or the role of fees. In order to evaluate the potential relationship between flows and performance, the funds have been ordered each year according to their different measures of return. The sample has been divided into ten groups, each one made up of 10% of the funds, and each one of the observations has been assigned to its corresponding decile depending on its performance. Finally, we have calculated the weighted averages of the subscriptions, redemptions and net subscriptions of each group over the period under consideration (1995-2011).

Some of the results of the analysis are shown in figure 1. This figure suggests that investors react to the performance, especially when it is extreme (good or bad performance). In the case of funds which record a medium performance, it seems that there is no relationship between flows and performance. Therefore, in general terms, there seems to be a non-linear relationship between variables. However, the type of non-linear relationship observed is different from that found in the first articles of this literature and is more similar to more recent articles. In the first articles of this literature, the authors found that there was no empirical evidence of investor response to funds with worse performance.[9]

The results of the analysis of subscriptions suggest that current and potential investors respond to the good performance of funds by increasing their subscriptions substantially as performance improves. This effect, which in literature is known as the "winner-picking effect", had already been observed in previous articles.[10] In addition, no clear response can be seen from investors to funds with medium and low performance.

Relationship between performance and investment flows[1] FIGURE 1



1 Each year the mutual funds are ordered according to the return which they have obtained (Sharpe ratio) and are divided into ten groups. Group 1 includes the funds with the worst returns and group 10, the funds with the best returns. Finally, the averages of the gross subscriptions, net subscriptions and redemptions (in relation to the assets of each fund) are calculated for each group over the period under consideration.

Figure 1 suggests a weak negative relationship between performance and redemptions for the group of funds with the worst performance. This result may

9 Articles such as, Ippolito (*op. cit.*), Gruber (*op. cit.*) and Sirri and Tufano (*op. cit.*) show a lack of response of net subscriptions of the funds with worse performance. However, more recent articles, such as Cashman *et al.* (*op. cit.*) do show a positive relationship between performance and net subscriptions. These more recent articles indicate that the main reason why the first articles of this literature did not find a relationship between performance and net subscriptions is because the samples used covered a short time period and did not suitably cover the recessive periods in the mutual fund industry.

10 See, for example, Sirri and Tufano (*op. cit.*).

be interpreted as a punishment by investors for poor performance. As in previous cases, there does not seem to be a relationship between redemptions and performance for the funds which record a medium performance. However, there is a positive relationship in the case of funds with a good performance. This apparent paradox, in which funds with better performance would experience more redemptions, is not new in the literature and could be explained by the need of some investors to liquidate part of their gains.[11]

4 Analysis of the determinants of investment flows

This section contains an econometric analysis using an equation which relates the investment flows and performance of mutual funds. The analysis uses the three measures of return presented above: gross return, the Sharpe ratio and the measure of return calculated using the Fama-French-Carhart four-factor model. Each year, the funds have been ordered by assigning a value of zero to the fund with the worst performance and one to the fund with the best performance. This fund order has in turn been divided into three terciles, which allows us to assess the possible non-linear relationship between performance and investment flows suggested in figure 1 by estimating an interval regression.[12] This regression includes control variables, such as assets under management, volatility and the fees charged by the fund. The equation which is estimated is:

$$Flow_{it} = \alpha Flow_{it-1} + \beta_1 Low\ Perf_{it} + \beta_2 Medium\ Perf_{it} + \beta_3 High\ Perf_{it} + \delta x_{it} + \lambda_t + \varepsilon_{it},$$

where the dependent variable is the volume of net or gross subscriptions or redemptions of fund i in period t divided by the assets of the fund at the end of period t-1. The explanatory variables are the performance of the fund in period t (for the different measures) grouped into three terciles (low, medium and high performance) and a set of variables which characterise the fund (size, volatility and fees) in the same sample period. The possibility that there may be persistence in the investment flows is incorporated by including a lag of the dependent variable. Finally, the model includes time dummies. We have used two estimation methods: the Fama-MacBeth method and the OLS method with standard errors grouped by year.[13] According to

11 See Jank and Wedow (*op. cit.*).

12 In the regression, the low performance tercile is defined as min(classification, 0.33), the medium performance tercile is defined as min(ranking-low performance, 0.33) and the high performance tercile is defined as ranking-low performance-medium performance. This means that if a fund is ranked by its performance at 0.90, it will have a score of 0.33 for the low performance bracket, 0.33 for the medium performance bracket and 0.24 for the high performance bracket. A fund classified by its performance at 0.50 will have a score of 0.33 for the low performance bracket, 0.17 for the medium performance bracket and 0 for the high performance bracket. Finally, a fund with a classification of 0.23 will have a score of 0.23 for the low performance bracket and 0 for the medium and high performance brackets.

13 When the Fama-MacBeth method is used, the estimate of the coefficients is obtained by the average of the estimates of the coefficients resulting from calculating the model proposed in each one of the cross sections which make up the panel. The use of this methodology results in estimates which are corrected by the serial correlation which may be suffered by the panel under consideration. This property is very desirable in panels such as that used, where the variables are time-dependent. In addition, when this

econometrics literature, the coefficients obtained using the Fama-MacBeth method are more accurate than those obtained by the OLS method with standard errors grouped by year when there is a serial correlation in the panel under consideration. However, it should be pointed out that the results obtained in the sample under consideration are similar.

4.1 Net subscriptions

The determinants of annual net subscriptions are shown in table 2. The results suggest a non-linear relationship between net subscriptions and past performance, in line with figure 1. Both for the OLS estimates and the estimates generated by the Fama-MacBeth model, the regression coefficient is clearly positive for the funds which obtain the best and the worst results. For the funds with medium results, the coefficient is only significant when the Sharpe ratio is considered as the measure of return. This result is relevant as investors are found to react both to bad and to good results. This evidence contrasts with many of the articles of this literature, which did not find a reaction by investors to funds with bad results. In view of the results in table 2, investors will reward funds with good results by increasing their net subscriptions in these funds, while they will punish funds with worse results by reducing their investment. Another point of interest lies in the potential asymmetry of this non-linear relationship. The level of the coefficient for the funds with worse performance is, in general, higher than the coefficient seen for the funds with better performance, although the difference is not significant in statistical terms.

In addition to the relationship between the fund's past performance and its investment flows, it is interesting to verify the influence of other variables. The presence of persistence in the net subscriptions of mutual funds is shown robustly. The coefficient associated with this persistence indicates that 21-22% of net subscriptions registered in a year would be repeated over the following year. This result is in line with the evidence found in other articles of this literature.[14]

For its part, the relationship between net subscriptions and fees only appears as significant and negative in the case of management and custody fees. The most expensive equity funds (i.e. with highest management and custody fees) would have fewer net subscriptions. However, the costs associated with entry and exit from a fund do not seem to be relevant when taking the decision to invest or disinvest in these products. With regard to the other variables analysed, there is a positive and significant relationship between net subscriptions and the fund's volatility. The coefficient associated with the fund's size is not significant.

method has been used, robust errors have been calculated to correct any type of correlation between the variables which characterise the individuals which make up the panel.

14 See Cashman *et al*. (*op. cit.*).

Net subscriptions[1]

TABLE 2

	Gross return		Sharpe ratio[2]		Factor model[3]	
	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]
Lagged net subscriptions	0.215***	0.215***	0.212***	0.211***	0.217***	0.215***
Low performance tercile[6]	0.248***	0.331***	0.202***	0.289***	0.144**	0.141*
Medium performance tercile[6]	-0.010	0.140*	0.066**	0.082***	-0.030	-0.015
High performance tercile[6]	0.170**	0.155	0.215***	0.217***	0.112***	0.122***
Size	0.001	0.006	0.001	0.006	0.004	0.011
Volatility	0.004***	0.002	0.002**	0.002	0.004***	0.003**
Management and custody fees	-0.013***	-0.006*	-0.008*	-0.007***	-0.015***	-0.0014***
Subscription fee	0.003	0.004	0.004	0.004*	0.005	0.005**
Redemption fee	-0.001	0.001	-0.001	0.001	-0.002	-0.000

1 Subscriptions in the fund less redemptions over the year divided by the size of the fund at the start of the year.

2 The annual Sharpe ratio is calculated by subtracting the return of the risk-free asset from the gross return of the fund and dividing the result by the fund's volatility.

3 The measure of return has been calculated as the difference between the fund's return and the return predicted by the Fama-French-Carhart four-factor model.

4 OLS with standard errors grouped by year.

5 Estimate by means of the Fama-MacBeth procedure with standard errors robust to serial correlation.

6 The low performance tercile is defined as min(ranking, 0.33), the medium performance tercile is defined as min(0.33, ranking-low) and the high performance tercile is defined as ranking-low-medium.

*** Significant at 1%.

** Significant at 5%.

* Significant at 10%.

4.2 Redemptions

The analysis of redemptions is shown in two tables. In the first table, the model takes into account the possible persistence which may be found in redemptions. The second table shows an extension of the previous model which also takes into account the presence of a significant volume of short-term trading in equity funds.[15] In order to introduce the short-term trading, we have incorporated, as an explanatory variable, subscriptions which have taken place in the fund in the same sample period as the analysed redemptions, i.e. the flows taking place at the same time in the opposite direction.

Table 3 shows the results of the model when it only considers the possible presence of persistence in redemptions. In general, the estimates are consistent with a U-shaped relationship between redemptions and performance. According to this model, investors penalise the worst funds by increasing redemptions, which is a

15 This has been documented by several articles, such as Greene, J. and Hodges, C. (2002). "The dilution impact of daily fund flows on open-end mutual funds", in *Journal of Financial Economics*, Vol. 65, pp. 131-158; and Zitzewitz, E. (2006). "How widespread is late trading in mutual funds?", in *The American Economic Review*, Vol. 96, pp. 284-289.

new result compared with the results of previous articles. However, investors do not reward the funds with good results with fewer redemptions. The opposite is the case; investors increase their redemptions as funds obtain a better result.[16]

The coefficients relating to the persistence of redemptions are also positive and significant, with values which range between 27% and 47% depending on the estimation method. The relationship between redemptions and fees is negative in the case of subscription fees. If we take into account the fact that funds which have a subscription fee usually have a redemption fee as well, this coefficient might be showing a negative relationship between redemptions fees and redemption flows. Accordingly, the funds in which it is more costly to liquidate the position would have fewer redemptions.

Redemptions[1] (with persistence) TABLE 3

	Gross return		Sharpe ratio[2]		Factor model[3]	
	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]
Lagged redemptions	0.466***	0.271***	0.470***	0.270***	0.472***	0.274***
Low performance tercile[6]	-0.069	-0.166**	-0.142**	-0.224***	-0.041	-0.028
Medium performance tercile[6]	0.034	-0.066**	-0.000	0.055	-0.035	-0.032
High performance tercile[6]	0.231***	0.227***	0.068	0.023	0.169***	0.182***
Size	-0.003	-0.002	-0.001	-0.002	-0.001	-0.003
Volatility	0.001	0.004*	0.002	0.006**	0.001	0.004**
Management and custody fees	0.005	0.010	0.004	0.012	0.004	0.013
Subscription fee	-0.019***	-0.015**	-0.020***	-0.018**	-0.019***	-0.016**
Redemption fee	0.002	0.003	0.002	0.003	0.002	0.004

1 Redemptions over the year divided by the size of the fund at the start of the year.
2 The annual Sharpe ratio is calculated by subtracting the return of the risk-free asset from the gross return of the fund and dividing the result by the fund's volatility.
3 The measure of return has been calculated as the difference between the fund's return and the return predicted by the Fama-French-Carhart four-factor model.
4 OLS with standard errors grouped by year.
5 Estimate by means of the Fama-MacBeth procedure with standard errors robust to serial correlation.
6 The low performance tercile is defined as min(ranking, 0.33), the medium performance tercile is defined as min(0.33, ranking-low) and the high performance tercile is defined as ranking-low-medium.
*** Significant at 1%.
** Significant at 5%.
* Significant at 10%.

When short-term trading is introduced into the model, the relationship between performance and redemptions is no longer U-shaped (see table 4). Investors maintain the punishment for funds with worse performance as they suffer more redemptions, but the relationship between redemptions and funds with high performance becomes weaker.

16 This result is not novel and is in line with some of the articles of the literature studying the relationship between gross investment flows and past performance. See Jank and Wedow (*op. cit.*).

Redemptions[1] (with persistence and short-term trading) TABLE 4

	Gross return		Sharpe ratio[2]		Factor model[3]	
	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]
Lagged redemptions	0.284***	0.147***	0.283***	0.144***	0.290***	0.154***
Contemporary subscriptions	0.479***	0.521***	0.486***	0.523***	0.476***	0.512***
Low performance tercile[6]	-0.146***	-0.254***	-0.174***	-0.270***	-0.086**	-0.082*
Medium performance tercile[6]	0.016	-0.116***	-0.032*	-0.019	-0.004	0.001
High performance tercile[6]	0.038	0.038	-0.073	-0.114**	0.021	0.003
Size	-0.003	-0.006	-0.002	-0.005	-0.003	-0.009
Volatility	-0.002*	0.001	-0.001	0.001	-0.002*	-0.000
Management and custody fees	0.011**	0.010**	0.008*	0.011*	0.012**	0.017*
Subscription fee	-0.011***	-0.010***	-0.012***	-0.012***	-0.012***	-0.011***
Redemption fee	0.001	0.001	0.002	0.001	0.002	0.003

1 Redemptions over the year divided by the size of the fund at the start of the year.
2 The annual Sharpe ratio is calculated by subtracting the return of the risk-free asset from the gross return of the fund and dividing the result by the fund's volatility.
3 The measure of return has been calculated as the difference between the fund's return and the return predicted by the Fama-French-Carhart four-factor model.
4 OLS with standard errors grouped by year.
5 Estimate by means of the Fama-MacBeth procedure with standard errors robust to serial correlation.
6 The low performance tercile is defined as min(ranking, 0.33), the medium performance tercile is defined as min(0.33, ranking-low) and the high performance tercile is defined as ranking-low-medium.
*** Significant at 1%.
** Significant at 5%.
* Significant at 10%.

Under this model specification, the persistence of redemptions remains significant, although less intense. The coefficient associated with the subscriptions performed over the same year (the proxy for short-term trading) is significant and stands between 48% and 52%. The relationship between redemption and subscription fees, as in the above case, is negative, while the coefficient relating to management and custody fees is, for this model, positive and significant. This means that the funds with higher management and custody fees suffer more redemptions. It is possible that investors interpret that the funds which have higher than average fees of this type will have an expected performance no higher than the average of all the funds in the future, which would provide an incentive for increasing redemptions in these funds.

4.3 Subscriptions

In order to analyse the determinants of investors when purchasing units in a certain mutual fund, we have used a similar methodology to that used for redemptions. Table 5 shows the model's results, which only takes into account the possible persistence which investors might have when making their purchases in funds. Table 6 shows an extension of the above model which also takes into account the possible presence of investors who perform short-term trading with mutual funds.

Subscriptions[1] (with persistence)

TABLE 5

	Gross return		Sharpe ratio[2]		Factor model[3]	
	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]
Lagged subscriptions	0.349***	0.248***	0.352***	0.250***	0.351***	0.249***
Low performance tercile[6]	0.157**	0.151***	0.029	0.053	0.092	0.107**
Medium performance tercile[6]	0.007	0.069	0.067	0.137*	-0.053	-0.044
High performance tercile[6]	0.449***	0.379***	0.292***	0.231**	0.285***	0.297***
Size	-0.002	0.003	-0.000	0.003	0.002	0.007
Volatility	0.005***	0.006***	0.004**	0.009***	0.004**	0.008***
Management and custody fees	-0.003	0.007	0.001	0.007	-0.005	0.001
Subscription fee	-0.019***	-0.011*	-0.019***	-0.013*	-0.018***	-0.011
Redemption fee	0.003	0.005	0.002	0.005	0.002	0.004

1 Subscriptions over the year divided by the size of the fund at the start of the year.
2 The annual Sharpe ratio is calculated by subtracting the return of the risk-free asset from the gross return of the fund and dividing the result by the fund's volatility.
3 The measure of return has been calculated as the difference between the fund's return and the return predicted by the Fama-French-Carhart four-factor model.
4 OLS with standard errors grouped by year.
5 Estimate by means of the Fama-MacBeth procedure with standard errors robust to serial correlation.
6 The low performance tercile is defined as min(ranking, 0.33), the medium performance tercile is defined as min(0.33, ranking-low) and the high performance tercile is defined as ranking-low-medium.
*** Significant at 1%.
** Significant at 5%.
* Significant at 10%.

When the short-term trading is not taken into account, the results suggest a strong positive relationship between subscriptions and past performance in the funds with higher performance. Under this pattern of behaviour, known in the literature as the "winner-picking effect", investors intensively buy the funds which show the best past performance. On the other hand, from the results we can deduce that there is no relationship between performance and subscriptions in the case of funds with the worst or medium performance.

The coefficient associated with the persistence is significant and shows values which range between 25% and 35%. The results also show a negative relationship between subscription fees and subscription flows and a positive relationship between volatility and subscriptions. According to this result, investors would prefer to invest in funds with high volatility, as they associate them with higher expected future returns.

When short-term trading of funds is introduced into the model, we can see that the positive relationship between subscription fees and performance remains in the funds with a high performance. We can also see a positive relationship between the subscription volumes of the funds and the funds which record a low performance. This last result suggests that investors respond to a high performance by increasing subscriptions and to a low performance by reducing subscriptions. In addition, the sensitivity in the high and low performance brackets is similar, which could be interpreted as an asymmetrical relationship between subscriptions and performance. It should be pointed out that, in the analysis of redemptions, a significant response was only found for the funds which recorded a bad performance.

The persistence in subscription flows is also relevant when taking into account short-term trading. The relationship between subscriptions and volatility remains positive. However, the sensitivity in relation to fees is different. In this case, the relevant fees for investors are the management and custody fees. Investors will invest less in funds with higher management and custody fees, which instead of being a signal of superior management, may be associated with future performance which is not above average.

Subscriptions[1] (with persistence and short-term trading) TABLE 6

	Gross return		Sharpe ratio[2]		Factor model[3]	
	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]
Lagged subscriptions	0.130***	0.089***	0.126***	0.091***	0.128***	0.090***
Contemporary redemptions	0.749***	0.788***	0.764***	0.791***	0.758***	0.779***
Low performance tercile[6]	0.233***	0.305***	0.179***	0.259**	0.135**	0.142**
Medium performance tercile[6]	0.006	0.134*	0.065**	0.089***	-0.042	-0.026
High performance tercile[6]	0.215**	0.168	0.231***	0.225***	0.159***	0.166***
Size	0.001	0.007	0.002	0.006	0.004	0.012
Volatility	0.005***	0.003**	0.003***	0.004***	0.004***	0.005***
Management and custody fees	-0.015***	-0.008*	-0.010**	-0.008**	-0.017***	-0.015***
Subscription fee	-0.001	0.002	0.000	0.002	0.001	0.003
Redemption fee	-0.001	0.001	-0.001	0.001	-0.001	0.000

1 Subscriptions over the year divided by the size of the fund at the start of the year.
2 The annual Sharpe ratio is calculated by subtracting the return of the risk-free asset from the gross return of the fund and dividing the result by the fund's volatility.
3 The measure of return has been calculated as the difference between the fund's return and the return predicted by the Fama-French-Carhart four-factor model.
4 OLS with standard errors grouped by year.
5 Estimate by means of the Fama-MacBeth procedure with standard errors robust to serial correlation.
6 The low performance tercile is defined as min(ranking, 0.33), the medium performance tercile is defined as min(0.33, ranking-low) and the high performance tercile is defined as ranking-low-medium.
*** Significant at 1%.
** Significant at 5%.
* Significant at 10%.

4.4 The effect of market power of management companies

Some authors have highlighted the effect of the investors' participation costs on the relationship between investment flows and the performance of the funds.[17] These authors argue that investors exhibited two types of participation costs when investing in the mutual fund market. The first of these would be related to the cost of obtaining and assessing the information relating to the characteristics of the funds in which they might be interested. The other type of cost would be associated with the transaction costs investors would face when deciding to purchase or redeem the

17 See, for example, Huang *et al.* (*op. cit.*).

fund's units. In this analysis, these latter costs were already incorporated into the model used.

With regard to search costs, various authors have attempted to show whether a reduction in investors' search costs really leads to an increase in the sensitivity of investment flows to past performance of the funds. As the information costs incurred by investors are not directly observable, these studies used some characteristics of the funds and their managers which are related to the visibility of the funds (advertising expenses, the size of the fund's manager or the number of funds offered by the manager, etc.) as proxies. Under these hypotheses, the funds with lower participation costs should show greater sensitivity in their flows as regards performance, especially in the medium performance segment. The results of these articles are not conclusive. Some of the articles do not find any difference between the funds with lower and higher participation costs, while other articles find that the investment flows of the funds with lower participation costs are more sensitive to medium and high results.

In this article, the visibility effect has been introduced by means of several proxies, such as the fees charged by the funds, the market share of the manager and the variety of categories or funds offered by the fund's manager. Due to the similarity of the results, the only ones shown are those obtained when the market share of the managers has been taken as a proxy for the funds' visibility.

Table 7 shows the results for the analysis of the redemptions (the conclusions for the analysis of subscriptions are similar). As can be seen in the table, the visibility effect seems to be significant for the group of funds with worse results. This result contrasts with theoretical results which indicate that the funds where the sensitivity to performance should grow most as their visibility grows, are the funds with medium performance. In addition, the change in investors' sensitivity to the result of the most visible funds does not correspond with the expected results. Investors should invest more intensely in the most visible funds due to their lower transaction costs.

According to the evidence shown, in the group of funds with worse performance, redemptions in funds with greater visibility (generally those which belong to managers with larger market shares) are less intense than redemptions in the other funds. Similarly, the subscriptions of the more visible funds are less intense than those of the other funds. This could be interpreted as an indication that the punishment applied by investors to funds with poor performance (more redemptions and fewer subscriptions) is lower for the more visible funds. This result, which at first seems counterintuitive, might be explained in terms of market power. Cambón and Losada (2012)[18] show empirical evidence of how managers exercise certain market power over fund investors, especially managers with a higher market share. By means of their market power, large operators could place a substantial part of their worst funds with retail investors who, in general, have fewer resources to discover whether the fund in which they have invested or in which they wish to invest is suitable for them and, therefore, they are less sensitive to the funds' past performance.

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18 See Cambón and Losada (*op. cit.*).

Effect of visibility on redemptions[1] (with persistence and short-term trading)

TABLE 7

	Gross return		Sharpe ratio[2]		Factor model[3]	
	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]
Low performance tercile[6]	-0.170***	-0.276***	-0.192***	-0.283***	-0.118**	-0.107*
Medium performance tercile[6]	0.018	-0.118***	-0.032	-0.031	0.011	-0.031
High performance tercile[6]	0.011	0.016	-0.083*	-0.123**	0.007	0.004
Low performance tercile[6] * market share[7]	0.089***	0.078	0.095***	0.067	0.134***	0.110*
Medium performance tercile[6] * market share[7]	0.008	0.022	-0.011	0.021	-0.063*	0.005
High performance tercile[6] * market share[7]	0.084*	0.059**	0.035	0.030	0.065	0.057

1 Redemptions over the year divided by the size of the fund at the start of the year.
2 The annual Sharpe ratio is calculated by subtracting the return of the risk-free asset from the gross return of the fund and dividing the result by the fund's volatility.
3 The measure of return has been calculated as the difference between the fund's return and the return predicted by the Fama-French-Carhart four-factor model.
4 OLS with standard errors grouped by year.
5 Estimate by means of the Fama-MacBeth procedure with standard errors robust to serial correlation.
6 The low performance tercile is defined as min(ranking, 0.33), the medium performance tercile is defined as min(0.33, ranking-low) and the high performance tercile is defined as ranking-low-medium.
7 The market share is a dummy variable which takes the value of one when the manager's market share is higher than average and otherwise takes the value of zero.
*** Significant at 1%.
** Significant at 5%.
* Significant at 10%.

5 Analysis of the retail and wholesale markets

5.1 Net subscriptions. Retail and wholesale markets

The fact that the characteristics of the retail and the wholesale investor are *a priori* different justifies an analysis of the sensitivity of investment flows to the performance of the funds for each type of investor. The aim of this analysis is to verify whether the determinants of each type of investor when investing and their contribution to the equity fund market are indeed different.

As shown in tables 8 and 9, the analysis reveals a notable persistence in the behaviour of net subscriptions in both markets, although it is higher in the retail market, where 21-22% of the net subscriptions registered in a year are repeated during the following year. This percentage stands at between 16% and 18% in the wholesale market. The high level of persistency identified in the retail market could be reflecting the greater impact in this market of the bias known in literature as *status quo* bias.[19] This bias reflects how it is easier for investors to invest in funds which they

19 This is a recurring result in this literature. See, for example, Cashman *et al.* (*op. cit.*).

are already familiar with, which leads to them to adopt financial decisions which may be sub-optimal.

Net subscriptions.[1] Retail market TABLE 8

	Gross return		Sharpe ratio[2]		Factor model[3]	
	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]
Independent term	-0.256***	-0.419***	-0.236***	-0.387***	-0.090	-0.447***
Lagged net subscriptions	0.215***	0.212***	0.212***	0.211***	0.218***	0.214***
Low performance tercile[6]	0.344***	0.375***	0.294***	0.351***	0.145*	0.122
Medium performance tercile[6]	-0.038	0.191*	0.074*	0.113	-0.041	0.050
High performance tercile[6]	0.184***	0.183	0.248***	0.248**	0.095	0.099
Size	0.003	0.010*	0.003	0.009*	0.007**	0.017**
Volatility	0.004***	0.001	0.002*	0.001	0.004***	0.003
Management and custody fees	-0.004	0.003	-0.0009	0.0006	-0.003	-0.002
Subscription fee	0.006	0.020***	0.008**	0.017**	0.006	0.016***
Redemption fee	0.002	0.004	0.001	0.004	0.001	0.002

1 Subscriptions in the fund less redemptions over the year divided by the size of the fund at the start of the year.
2 The annual Sharpe ratio is calculated by subtracting the return of the risk-free asset from the gross return of the fund and dividing the result by the fund's volatility.
3 The measure of return has been calculated as the difference between the fund's return and the return predicted by the Fama-French-Carhart four-factor model.
4 OLS with standard errors grouped by year.
5 Estimate by means of the Fama-MacBeth procedure with standard errors robust to serial correlation.
6 The low performance tercile is defined as min(ranking, 0.33), the medium performance tercile is defined as min(0.33, ranking-low) and the high performance tercile is defined as ranking-low-medium.
*** Significant at 1%.
** Significant at 5%.
* Significant at 10%.

In relation with sensitivity to fund performance in the retail market, we can highlight that this type of investor shows a positive sensitivity with regard to the funds with worst and best performance.[20] In the medium bracket, as is to be expected, investors showed no reaction, probably as a consequence of the participation costs which they face.

The only significant result among those associated with the other variables is that the coefficient associated with the subscription fee is positive. It is possible that investors interpret the existence of this type of fee as a sign of the management team's greater ability and, therefore, a higher expected performance for the fund.

Table 9 shows that investors in the wholesale market also show sensitivity to performance with regard to funds with both good and bad results. However, the sensitivities found are clearly lower than those found for investors in the retail market.

20 These results are in line with those appearing in previous articles of this literature. See, for example, Jank and Wedow (*op. cit.*).

Furthermore, neither do wholesale investors show sensitivity with regard to the funds with medium results, which could indicate that these investors also incur participation costs when they invest in equity funds. With regard to the other control variables, only the variable relating to the volatility of the funds appears as significant and positive, which indicates a greater appetite for risk from wholesale investors.

Net subscriptions.[1] Wholesale market TABLE 9

	Gross return		Sharpe ratio[2]		Factor model[3]	
	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]	OLS[4]	Fama-MacBeth[5]
Independent term	0.042	-0.094	0.040	-0.077	-0.067	-0.106
Lagged net subscriptions	0.188***	0.179***	0.190***	0.169***	0.189***	0.165***
Low performance tercile[6]	0.068	0.144***	0.0577	0.174**	0.117***	0.129***
Medium performance tercile[6]	0.025	0.101	0.004	0.029	-0.054	-0.016
High performance tercile[6]	0.112	0.129*	0.164***	0.169**	0.137***	0.142***
Size	-0.0005	0.00005	-0.0006	-0.001	0.001	0.002
Volatility	0.002***	0.0008	0.002**	0.002	0.002**	0.002*
Management and custody fees	0.003	-0.003	0.005	-0.004	0.001	-0.010
Subscription fee	0.003	-0.009	0.002	-0.013	0.004	-0.011
Redemption fee	0.003	0.002	0.003	0.002	0.002	0.002

1 Subscriptions in the fund less redemptions over the year divided by the size of the fund at the start of the year.
2 The annual Sharpe ratio is calculated by subtracting the return of the risk-free asset from the gross return of the fund and dividing the result by the fund's volatility.
3 The measure of return has been calculated as the difference between the fund's return and the return predicted by the Fama-French-Carhart four-factor model.
4 OLS with standard errors grouped by year.
5 Estimate by means of the Fama-MacBeth procedure with standard errors robust to serial correlation.
6 The low performance tercile is defined as min(ranking, 0.33), the medium performance tercile is defined as min(0.33, ranking-low) and the high performance tercile is defined as ranking-low-medium.
*** Significant at 1%.
** Significant at 5%.
* Significant at 10%.

5.2 Redemptions. Retail and wholesale markets

The analysis of redemptions assumes that, for the case of retail investors, the presence of short-term trading with mutual funds is not significant. On the other hand, short-term trading is considered as a relevant variable in the case of wholesale investors. Although it is difficult to establish *a priori* the behaviour of each one of the two investor segments, we can consider short-term trading of funds as a complex investment strategy which is beyond the knowledge and experience available to most retail investors.

As seen in figure 2, which represents the results of the regressions of the model estimated for the case of funds of the retail and wholesale markets, the relationship between redemptions and past performance is U-shaped for retail investors. Investors in the worst funds punished those funds by increasing their redemptions and, at the same time, investors in the best funds also disposed of their positions in these funds with greater intensity.

We can also derive two other important results from the analysis of this market. The first is that there is a high proportion of redemptions which take place annually which cannot be explained either by the fund's characteristics or by the persistence of redemption flows. The second result is that the redemption decisions by retail investors are influenced by the fees charged by the funds. In this segment, the funds with higher management and custody fees will record fewer redemptions. These two results could once again indicate the existence of certain market power which managers exercise over this type of client, especially those which charge higher fees. When the operators belong to financial conglomerates, the first result could be interpreted as a sign of the ability of these companies to get retail investors to change their investments from equity funds to another asset linked with the financial conglomerate. The second result could reflect the ability of managers to reduce the redemptions of retail investors who might intend to transfer their investment to another asset not linked to the manager's conglomerate.

Relationship between redemptions and performance[1] FIGURE 2

1 Representations of the relationship between redemptions and performance based on the results of the model presented in section 4 for the retail and wholesale fund markets.

As shown in figure 2, in the wholesale market there is a negative and significant relationship between redemptions and performance for the funds which obtain good and bad results. In addition to the fund's results, the key variables that determine the flow of redemptions are the persistence of said flows – estimated at between 14% and 22% – and short-term trading, as close to 60% of redemptions in the year can be explained in the model estimated for the subscriptions taking place during the same year.

If we compare the results of both markets, we can see that persistence in redemptions is a key variable for understanding the determinants in redemptions of the two types of investor. Another similarity between both markets lies in the identification of a negative and significant relationship between redemptions and performance for the worst funds, although this is more intense in the retail market.

There are also differences between both markets, especially with regard to the funds which obtain good results. Retail investors prefer to withdraw part of their investment, while wholesale investors prefer to extend their investment (see figure 2). This difference could reflect the fact that retail investors have greater financial restrictions and opt to withdraw part of their gains from the funds. Another result which reflects the difference between the two types of investor lies in the fact that retail investors are more risk-averse than wholesale investors. Finally, the results would indicate that retail investors are more exposed to the market power exercised by large fund managers, as is also reflected by the results on the following variables: size, fees and independent terms.

5.3 Subscriptions. Retail and wholesale markets

In the analysis of the subscription flows, as with the redemption flows, it is assumed that while short-term trading with mutual funds is not significant for retail investors, it is significant for wholesale investors.

Figure 3 shows a close relationship between subscriptions and results for the funds which obtain the best and the worst results in the retail market, which is more intense for the former. In the case of medium results, no relationship is observed between subscriptions and past performance of the funds. We can also identify a notable level of persistence in the retail market: funds receive a volume of between 22.6% and 35.3% of the subscriptions made the previous year.

Other additional results are related to the fund's volatility and its fees. From the former we can deduce that retail investors who invest in equity funds prefer those with greater volatility. This result, which is remarkable in view of the average profile of retail investors, who are mostly risk-averse, could either be explained because their decision to invest in high-risk funds is dependent upon advice from third parties (normally bank advisors), or because the retail investors who invest in these types of funds are those with higher-risk profiles. The second result indicates that funds with high subscription fees record fewer subscriptions. In this case, retail investors might consider this type of fee as a barrier to investment in these funds.

When the wholesale market is analysed, we can also see a strong relationship between subscription flows and the results of the funds when they are good or bad. As in the retail market, persistence is a key variable for understanding the determinants of subscription flows. In this market, between 9.8% and 11.7% of the subscriptions performed in a year are repeated the following year. In addition, evidence robustly suggests that wholesale investors who decide to participate in this market are not risk-averse.

When a comparison is made between the two markets, we find two important differences. The sensitivity with regard to the performance of the best and worst funds is much more intense in the retail market. In addition, the responses to the best and worst results are asymmetrical in the retail market, while in the wholesale market they can be considered symmetrical. This result is in line with the results obtained in this literature for the equity fund market in the United

States.[21] These authors argue that the most visible funds which obtain good results may be easily seen by retail investors, who buy these funds more intensely.

Relationship between subscriptions and performance[1] FIGURE 3

1 Representations of the relationship between subscriptions and performance based on the results of the model presented in section 4 for the retail and wholesale fund markets.

5.4 The effect of the market power of management companies. Retail and wholesale markets

With the aim of assessing the effect of the market power of management companies on the subscription and redemption flows of retail and wholesale investors, we have analysed the interaction between these flows and the market share of the management companies to which the funds belong. In these analyses, we have used the same assumptions as in the analysis of the determinants of investment flows for the whole fund market. Accordingly, we have assumed that short-term trading was a determinant in the wholesale market, but not in the retail market.

From the results of the analysis of redemptions in the retail market, we can deduce that management companies with high market shares exercise certain market power over these clients. This is due to the fact that the relationship between redemptions and performance becomes less intense for funds with worse results which belong to management companies with higher-than-average market shares. This result would demonstrate the fact that retail investors suffer higher participation costs.

With regard to the results of the analysis of redemptions in the wholesale market, we can observe that the funds with a worse performance suffer more redemptions than their rivals. Furthermore, investors in funds with a better performance withdraw larger quantities of their investment when funds belong to management companies with a high market share, so that these management companies would be penalised to a certain extent by wholesale investors.

21 See Sirri and Tufano (*op. cit.*).

When the analysis refers to subscriptions, in the retail market there are more subscriptions in funds with a good performance when the funds belong to management companies with high market shares. One explanation for this result could be related to the fact that these management companies are engaged in the management of the majority of the funds with most visibility. Another important result of this market is that, as with redemptions, sensitivity to the performance of the worst funds is lower for the funds of management companies with a high market share, despite the greater visibility of these funds. This result is another indication that the investors of these management companies suffer higher participation costs.

Finally, in the wholesale market we can find evidence that the funds with a high performance which belong to management companies with a higher market share register fewer purchases. This result is in line with the results obtained in previous articles, where it was revealed that wholesale investors prefer making their investments in funds with low visibility.[22]

Therefore, the evidence suggests that fund managers with a high market share show a certain level of market power in the retail market which is not seen in the wholesale market. In the wholesale market, the largest fund managers register higher redemptions in the funds with worse performance and fewer subscriptions in the funds with good performance.

6 Conclusions

The possible relationship between investment flows and past performance of mutual funds has been widely analysed in financial literature. Most articles suggest some type of asymmetry in this relationship. In this article we have assessed the sensitivity of investment flows (net and gross) to performance in the segment of Spanish equity funds in the period 1995-2011. We have identified a non-linear relationship between the two variables, which contrasts with the results in previous articles, where no reaction was detected from investors to funds which showed poor results. These articles justified this lack of response through diverse characteristics of the investors or the financial markets, such as the existence of participation costs for investors or their heterogeneity, as well as their aversion to definitive materialisation of their losses. In the Spanish market, however, investors reward funds with good results by increasing their net subscriptions, while they penalise funds with poor results by means of lower net subscriptions. In the other articles of this literature, no type of sensitivity has been found between net subscriptions and performance for funds with medium results.

In the analysis performed on gross investment flows, we have taken into account possible persistence in the flows, as well as the presence of short-term trading in these markets. Both characteristics of these markets have been documented in recent literature. From the results on redemptions, we can deduce that investors penalise the funds which obtain bad results by increasing their disinvestment in these

22 See Dumitrescu and Gil-Bazo (*op. cit.*).

products, but there is no indication that investors react to funds with medium and good performance. With regard to subscriptions, the empirical evidence identifies a symmetrical relationship for the funds which record bad and good results.

We also performed an analysis on the potential influence which participation costs faced by investors may have on their sensitivity to performance. In theory, the funds with lower participation costs for their investors should show a high level of sensitivity to their results. However, in our empirical analyses the results indicate that the opposite is true: sensitivity to performance is lower in the funds with higher visibility. This result, which at first seems counterintuitive, might be explained in terms of market power. In this market, the large management companies could place a substantial part of their funds with worse performance with unsophisticated investors who, in general, are less sensitive to the relevant characteristics of the funds, including their past performance.

The analysis of the relationship between flows and performance for retail and wholesale fund markets revealed various similarities and differences of interest. In both markets, we detected a significant persistence in investment flows, which was somewhat higher in the retail market, and we found a symmetrical response of the flows to the results of the funds, again with higher sensitivity in the retail market.

On incorporating into the analysis the possibility that management companies may exercise certain market power through their market shares, we can observe that a reduction in the punishment for funds with a worse performance comes from the retail segment. In this segment, a large proportion of investors show a relatively low level of financial education but, in many cases, show a high level of loyalty to the management company which sold them the fund (and, in general, to its financial group). Furthermore, the evidence relating to investor behaviour in the wholesale segment leads us to think that this type of investor prefers to invest in the funds of small management companies which, in general, have low visibility.

III Regulatory novelties

IOSCO: Final report on the Principles for the Regulation of Exchange Traded Funds

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1 Introduction

This article summarises and discusses the final IOSCO report on the principles for the regulation of exchange traded funds (ETFs) published in June 2013.[1] ETFs are collective investment schemes whose shares or units may be traded on a secondary market. Although these investment vehicles still only account for a small part of the assets under management by the collective investment industry worldwide (1.9 trillion US dollars, around 7% of the global fund market at the start of 2013 according to the aforementioned IOSCO report), their growth over recent years has been significant and has attracted growing attention from regulators due to issues relating to investor protection and their possible impact in terms of systemic risk.

As indicated in the IOSCO report referred to herein, the supply of ETFs has evolved considerably since they were first created. The first ETFs offered simple strategies to replicate well-known indices, made up of a high number of components, based on creating a portfolio similar to the composition of the index. Although the bulk of the supply nowadays remains concentrated in tracking an index, there are numerous alternatives available, including the use of OTC derivatives in the replication of the index (synthetic ETFs), increasingly specific indices (even designed exclusively for the fund), inverse ETFs, leveraged ETFs and a wide range of objectives other than replication, which in turn have several strategic variations.[2]

The attention of regulators has been drawn to ETFs as a result of the potential complexity of their structures and the fact that they facilitate significant participation by retail investors through being listed on a secondary market. Although ETFs are collective investment schemes, some of their specific features were not, until very recently, included in the regulation relating to CIS. By means of the aforementioned report, IOSCO establishes a series of standards with the aim of acting as a benchmark for the industry and for regulators. As is usually the case, the principles outlined by IOSCO are mostly very general, leaving their specific implementation in the hands of regulators. However, IOSCO suggests alternatives for addressing their implementation, largely based on the experience of regulators which have already tackled this issue. In this regard, we can highlight that in December 2012 ESMA issued some guidelines which affect ETFs recognised as UCITS and, in several shared issues, which also affect other UCITS.[3]

1 IOSCO, *Principles for the Regulation of Exchange Traded Funds. Final Report*, June 2013. Available at http://www.iosco.org/library/pubdocs/pdf/IOSCOPD414.pdf

2 With regard to the characteristics and risks associated with ETFs, consult González Pueyo, J. and Aparicio Roqueiro, C. (2012). *Fondos cotizados: características y desarrollos recientes*. [Exchange-traded funds: features and recent developments] CNMV Working Paper No. 55. Available at http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/DT55_web.pdf

3 ESMA, *Guidelines on ETFs and other UCITS issues*, December 2012. Available at http://www.esma.europa.eu/system/files/2012-832en_guidelines_on_etfs_and_other_ucits_issues.pdf

The IOSCO report represents the culmination of a process which began in 2008 when the IOSCO Committee on Investment Management initiated the preliminary work. This work was followed in 2010 by endorsement from the former IOSCO Technical Committee to the IOSCO Committee on Investment Management to establish a set of principles aimed at regulators, the industry and investors alike.

This article is organised into different sections which review the principles outlined and IOSCO's suggestions for their implementation, grouping them according to their content. Accordingly, section 2 reviews Principles 1 and 2, which are aimed at facilitating the distinction between ETFs and other products and between the ETFs which have different features. section 3 focuses on Principles 3 and 4, which aim to promote disclosure with regard to the portfolio of index-based ETFs. Section 4 addresses Principles 5 and 6, which are focused on disclosure with regard to the costs associated with ETFs and the treatment of revenue from securities lending. Section 5 refers to Principle 7, which aims to promote greater disclosure for investors on the fund's strategy. Section 6 discusses Principle 8, which is focused on potential conflicts of interest relating to affiliation, through a financial group, between the managers and certain intermediaries which provide services relevant for the fund. Finally, section 7 addresses Principle 9, which relates to the mitigation of counterparty risk.

2 Classification with regard to other investment products and between ETFs

With the aim of helping investors to distinguish the features of an ETF from those of other similar investment products and to classify them according to their strategy, the IOSCO report outlines the following two principles:

– Principle 1: Regulators should encourage disclosure that helps investors to clearly differentiate ETFs from other ETPs.

– Principle 2: Regulators should seek to ensure a clear differentiation between ETFs and other CIS, as well as appropriate disclosure for index-based and non index-based ETFs.

ETFs form part of an extensive family of investment vehicles whose shares or units may be traded through a secondary market. These products, known as exchange-traded products (ETPs), include vehicles which invest in indices for a wide range of assets. Therefore, IOSCO Principle 1 advocates providing investors with information which allows them to distinguish ETFs from other ETPs, both in terms of the product features and their regulatory treatment. The IOSCO report especially highlights the need for regulators to ensure that ETF providers appropriately inform investors of the requirements relating to diversification, liquidity and risk management provided in regulation.

Similarly, the report suggests that regulators should adopt a classification scheme with regard to this type of vehicle and that the provider should distinguish the ETFs from other vehicles by using an identifier together with its name. This is done, for example, in the European Union by means of the aforementioned ESMA Guidelines. Specifically, these guidelines indicate that the identifier "UCITS ETF" should be used to distinguish ETFs which are UCITS from those which are not.

The aim of Principle 2 is to highlight the similarities and differences with regard to other CIS which may be relevant for the investor. In particular, the IOSCO report explicitly highlights that disclosure should make clear to retail investors whether they may directly purchase or redeem shares from the ETF, as is the case with other CIS, or whether they may only do so through the secondary market. ETFs do not normally allow direct redemptions for retail investors, but regulators may require the vehicles to deal directly with these investors in exceptional circumstances, for example stressed market conditions, when there is an interruption of a certain duration in trading or when a market maker ceases to operate. These situations are explicitly referred to in the ESMA Guidelines. Finally, implementation of IOSCO Principle 2 should also help investors recognise the basic strategy of an ETF, in particular whether it is index-based or, in general, its link to the performance of the index.

3 Disclosures regarding portfolios

The principles contained in this section are as follows:

– Principle 3: Regulators should require appropriate disclosure with respect to the manner in which an index-based ETF will track the index it references.

– Principle 4: Regulators should consider imposing requirements regarding the transparency of an ETF's portfolio and/or other appropriate measures in order to provide adequate information concerning: (i) any index referenced and its composition; and (ii) the operation of performance tracking.

Both principles are focused on ETFs which link their performance to an index and are already established in the ESMA Guidelines in force, where they are specified for UCITS which follow both leveraged and non-leveraged index tracking strategies.

Principle 3 recommends requiring appropriate disclosures in the prospectus, in offering documents and in any other disclosure document with respect to how the performance of an index is tracked and to the risks associated with the method chosen. This recommendation on disclosure, which is fully contained in the ESMA Guidelines, is perfectly transferable to CIS which track an index irrespective of whether they are listed on a secondary market.

Principle 4 recommends imposing, according to the regulator's criteria, specific requirements with regard to disclosure of the composition of the ETF's portfolio and, as the case may be, the features of the tracked index and the operation of performance tracking. These are therefore recommendations on aspects which may be relevant for investors to monitor the fund and assess its performance.

IOSCO highlights that implementation of disclosure requirements with regard to the fund's portfolio may favour efficient arbitrage mechanisms between the market value of its shares or units and the value of the portfolio which they represent. According to the report, one way to favour arbitrage is to require that ETFs publish the identities of the securities representing the fund's portfolio on a daily basis. This enables market participants to approximate the fund's net asset value during the trading session in the secondary market and compare this estimate with the market price of the fund's shares or units.

A relatively simple way to estimate the intraday net asset value, for example, is to add the variations of the reference index to the last official net asset value published by the fund. In fact, the main markets, including BME, already usually disseminate over the session an indicative net asset value estimated in this manner, together with the market price (or the prices offered by market makers) of the securities issued by the funds. The availability of intraday information on the market value of the index portfolio and the price of the fund's securities will allow both values to become aligned through arbitrage. However, in the event of significant divergences between both prices, markets can use the typical stabilisation mechanisms in secondary equity markets. For example, as is the case in Euronext and BME, it is possible to temporarily suspend trading so as to start it again later by means of a volatility auction.

Through Principle 4, IOSCO also recommends that regulators should consider requiring some type of standardisation in the disclosures relating to the result of the performance of the tracking strategies with the aim of ensuring their consistency and quality. The aim is ultimately for the investor to be able to assess key aspects of the tracking strategies, which particularly include the difference in performance compared with the index (tracking difference) and the tracking error, defined as the volatility of the differences in returns as measured by standard deviation over a period of time. Specifically, the report suggests that the disclosure should include the following sections: (i) information on the index composition, its calculation methodology and relative weightings applied to the components of the target index provided in an appropriate time frame; (ii) information on the past performance of the ETF measured through its realised tracking difference and tracking error; (iii) description of the methodology used to measure tracking error, as well as a policy to minimise tracking error, including what level of tracking error may be reasonably expected; and (iv) a description of issues which will affect the ETF's ability to fully replicate its target index.

4 Disclosure regarding costs, expenses and offsets

In this section, IOSCO establishes the following two principles:

- Principle 5: Regulators should encourage the disclosure of fees and expenses for investing in ETFs in a way that allows investors to make informed decisions about whether they wish to invest in an ETF and thereby accept a particular level of costs.

- Principle 6: Regulators should encourage disclosure requirements that would enhance the transparency of information available with respect to the material lending and borrowing of securities (e.g. on related costs).

As in any CIS, the shareholders or unitholders of ETFs may incur different types of direct and indirect costs, such as management and depositary fees or the transaction costs associated with the fund's trading (costs associated with the purchase and sale of assets and other operations). The cost structure of the ETF may vary significantly with its strategy. For example, certain active management strategies can be expected to generate higher transaction costs than others or the ETFs which track indexes synthetically, i.e. through derivatives, generally incur lower transaction costs than physical ETFs (those based on trading with components of the target index). However, ETF unitholders and shareholders are also subject to other costs which are not present in unlisted CIS as they generally have to use the market to buy and sell their units or shares. In particular, retail investors in ETFs must pay the bid-ask spreads required by market makers and possible premiums and discounts with regard to the net asset value of the fund which will be reflected in the market price.

With regard to the implementation of Principle 5, the IOSCO report indicates that the information provided should describe the cost structure (management and depositary fees and operational costs, including those related to trading in swaps and other derivatives), and allow investors to evaluate the impact of fees and expenses on the performance of the product. IOSCO suggests that regulators should consider whether to establish, in addition, requirements for disclosure on brokerage commissions, the fund's tax structure and the treatment of dividends and interest derived from the fund's assets.

Principle 6 focuses on the disclosure of securities lending, which in the case of physical ETFs, as with other CIS of this type, may provide relatively significant revenue for the fund. On this point, the basic problem to be mitigated is that investors do not have sufficient information on the revenue generated by this activity and the manner in which it is distributed between the ETF and the other parties participating in the lending, such as the fund's operator and the financial institutions which safeguard and invest collateral provided by the borrower until it must be returned.[4] The aim is therefore to allow the investor to have the necessary information to assess the contribution of securities lending to the fund's performance together with the associated risks. The aim is also to mitigate any potential problem of conflicts of interest given that the manner in which the revenue generated by the activity is distributed may influence the operator's decisions in this regard.

Among the options suggested for implementing Principle 6, IOSCO suggests requiring explicit disclosure of the risk of conflicts of interest. For example, it indicates that in the United States, if lending income is paid to the CIS operator as part of the advisory contract, such compensation would be considered by the CIS board of directors as part of its process of approving the advisory contract. Moreover, the CIS's board must approve the commissions paid to lending agents. Another possible approach is to require the ETF to disclose the gross returns from securities lending, distinguishing them from other sources of revenue. This approach is in line with ESMA guidelines in Europe. In this case, securities lending is treated within the wider context of the efficient portfolio management techniques referred to in

4 For example, the financial institution which acts as lending agent might remunerate the fund's operator by sharing part of the revenue from the operation.

Article 51 *bis* of the UCITS Directive and Article 11 of the Eligible Assets Directive.[5] ESMA indicates that the prospectus should provide a breakdown of the fund's policy with regard to direct and indirect costs and fees associated with the use of said techniques which may be deducted from the revenue obtained by the fund. These costs and fees should not include hidden revenue. Moreover, ESMA indicates that UCITS should disclose the identity of the entities to which the direct and indirect costs and fees are paid and indicate if these are parties related to the management company or the depositary.

5 Disclosure regarding strategies

Principle 7 refers to the quality of the information provided to investors on the ETF's strategy and its risks, especially when the funds adopt more complex strategies. The principle is worded as follows:

– Principle 7: Regulators should encourage all ETFs, in particular those that use or intend to use more complex investment strategies, to assess the accuracy and completeness of their disclosure, including whether the disclosure is presented in an understandable manner and whether it addresses the nature of risks associated with the ETF's strategies.

IOSCO highlights the importance of this principle in a context marked by the growing complexity of the strategies undertaken by ETFs. Although physical ETFs, orientated towards replicating broad stock market indices, have a prominent weight in the market, the supply of synthetic ETFs has grown significantly over recent years. In addition, we can see greater sophistication in the selection of reference indices, which are frequently sector indices or indices based on bonds or commodities, together with a greater use of indices designed specifically for this industry. Moreover, the replication strategies have also become more complex, with a greater presence of leveraged strategies through derivatives and those that reference the inverse of the index's performance.

With regard to how this principle should be implemented, IOSCO suggests various lines of action. For example, it indicates that regulators might require an ETF or its sponsors to offer adequate disclosure in its prospectus, offering documents and other disclosure documents which reflect the use of complex strategies, especially through trading in derivatives or securities lending agreements. It also indicates that regulators might require that an ETF, when updating its disclosure documents, review its investment strategies and provide timely disclosures to investors of planned organisational or other changes. It also recommends requiring the ETF to identify the counterparties when the use of derivatives is significant and to report

5 Directive 2009/65/EC, of the European Parliament and of the Council, of 13 July 2009, on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), and Commission Directive 2007/16/EC, of 19 March 2007, implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions.

on the nature and extent of its counterparty exposure and report on collateral agreements to mitigate such exposure. All of these suggestions are in line with ESMA guidelines with regard to the use of financial derivative instruments by UCITS.

6 Conflicts of interest

IOSCO Principle 8 refers to the specific conflicts of interest which may result from the structure of an ETF. It states as follows:

– Principle 8: Regulators should assess whether the securities laws and applicable rules of securities exchanges within their jurisdiction appropriately address potential conflicts of interest raised by ETFs.

Among the reasons for this recommendation, IOSCO highlights that a basic source of conflicts of interest is that the sponsor or operator of the CIS may be affiliated in the same group as certain entities which perform a relevant function for the fund. For example, in the case of indices which are expressly designed for use by the fund, there may be a risk in relation to the communication of material non-public information when the entity that compiles and revises the index is linked to the fund's operator or sponsor through a financial group. There may also be the risk of conflicts of interest in respect of authorised participants (APs) affiliated to the financial group of the operator or sponsor, especially when there is a small number of APs. As has been indicated, retail investors are not usually able to directly access ETFs to purchase and redeem shares and must operate in the secondary market. APs are the market participants authorised to execute these transactions directly. When the number of APs is low, the risk is higher that a substantial part of the fund's transactions are channelled through the affiliated AP, which could have a negative effect on the price formation process. There is also the risk that an affiliated AP may put pressure on the ETF to withdraw authorisation from other APs. Affiliation through belonging to the same financial group may also lead to conflicts of interest relating to counterparties in OTC derivatives used by synthetic ETFs.

With regard to the potential conflicts of interest arising from the use of a custom index as reference of an ETF, the IOSCO report suggests the following measures: (i) making publicly available all of the rules that govern the composition, inclusion and weighting of securities in each index in an appropriate time frame; (ii) limiting the ability to change the rules for index compilation and requiring public notice before any changes are made; and (iii) where appropriate, establishing firewalls between the staff responsible for the creation, development and modification of the index compilation rules and the portfolio management staff. It is important to point out that ESMA Guidelines contain an extensive section on measures focused on UCITS that replicate financial indices.

With regard to the potential conflicts of interest which may arise in the trading of swaps and other OTC derivatives by synthetic ETFs, IOSCO indicates that regulators should consider establishing requirements to reduce this risk in the arrangements with affiliated counterparties, for example by publicly disclosing the arrangement and ensuring that these arrangements may only be entered into if both parties are hierarchically separate. Similarly, IOSCO suggests the lines of action with regard to conflicts of interest relating to affiliated intermediaries, such as ensuring greater transparency on fees and other conditions of the services offered to ETFs or to harmonise the rules applicable to market makers in the secondary market.

7 Counterparty risks

In this section, IOSCO refers to managing the counterparty risks incurred by ETFs in their index tracking strategies (especially associated with the use of derivatives) or through leverage strategies and securities lending. These are risks shared by other CIS which use these types of strategies. IOSCO makes the following general recommendation with regard to these risks:

– Principle 9: Regulators should consider imposing requirements to ensure that ETFs appropriately address risks raised by counterparty exposure and collateral management.

Counterparty risk may be relevant both for synthetic and for physical ETFs. For the former, the risk essentially arises because derivatives play a central role in the fund's structure. Replication strategies through the use of OTC derivatives may significantly reduce the portfolio's adjustment or rebalancing costs compared with physical ETFs, but they generate counterparty risks which may become significant. For the latter, the risk may be generated both through the use of derivatives, for example in using leverage to increase the return, and in securities lending (see section 4).

The IOSCO report highlights the key role of the treatment of collateral when implementing Principle 9 in mitigating the counterparty risk borne by ETF shareholders or unitholders. According to IOSCO, for the collateral to effectively mitigate counterparty risk, the financial instruments accepted as such must be sufficiently liquid and be of high quality. It also indicates that they should be prudently valued, i.e. at least daily, independently and allowing for haircuts and discount rates to cover the counterparty risk.

It should be pointed out that the ESMA Guidelines contain a wide range of measures aimed at strengthening the role of collateral in mitigating counterparty risk, including the following: (i) any collateral received other than cash should be highly liquid and traded on a regulated market or multilateral trading facility; (ii) collateral received should be valued on at least a daily basis, with application of haircuts for assets that exhibit high price volatility; (iii) collateral received should not be instruments issued by the counterparty or instruments that display a high correlation with the performance of the counterparty; (iv) collateral should be diversified in terms of markets, countries and issuers with a maximum exposure to a given issuer of 20% of the fund's net asset value; (v) collateral received should be capable of being fully enforced at any time and may not be sold, re-invested or pledged; (vi) cash collateral must be invested subject to certain conditions; and (vii) appropriate stress testing should be applied when the collateral represents at least 30% of the fund's assets.

IOSCO suggests that regulators should adopt measures proportionate to the counterparty risk generated by derivative trading which take into account the nature, scope and scale of such activity. For example, the measures should take into account whether the trading is performed with contracts traded on an organised market which has a central counterparty that mitigates counterparty risk, as is common in futures trading, or whether it is carried out on OTC markets. In the latter case, one element that needs to be taken into account is the impact of the new regulation promoting settlement of these instruments through a central counterparty.

Counterparty risk arising from securities lending is not exclusive to ETFs, or even to CIS, as shown, for example, in the recent initiatives of the Financial Stability Board to promote the monitoring and regulation of shadow banking.[6] IOSCO suggests lines of action with regard to ETFs in order to mitigate this risk. For example, it suggests that regulators might establish limits. This is already the case in the United States, where securities lending is limited to a maximum of 33% of the ETF's assets, taking into account collateral, or 50% of assets, not taking into account collateral. Furthermore, regulators might require that securities lending be fully collateralised or even over-collateralised (collateral above 100%). Other possible measures to be considered by regulators include requiring appropriate disclosure of risk management policies with regard to securities lending and periodic publication of the largest lending counterparties, the amounts of securities on loan, along with the amount and composition of the ETF's collateral.

6 See the Financial Stability Board's press release. Available at http://www.financialstabilityboard.org/press/pr_130829a.pdf

IV Legislative annex

New legislation since publication of the CNMV bulletin for the second quarter of 2013 is as follows:

Spanish legislation

– CNMV Circular 3/2013, of 12 June, implementing certain obligations to provide information to investment service clients in relation to the assessment of the appropriateness and suitability of financial instruments.

  This circular aims to implement the content of the information obligations incorporated into Article 79 *bis* of the Securities Market Act by means of the amendment introduced by the third final provision of Law 9/2012 on the restructuring and resolution of credit institutions, in relation to the suitability and appropriateness tests which must be applied by credit institutions when offering products and services or when investors directly buy such products, as well as in relation to the up-to-date register of assessed clients and unsuitable products.

  With regard to assessing the suitability of clients when providing advisory services, entities must provide their clients with a description in writing or in any other durable form of how their recommendation matches their characteristics and investment objectives. The Circular requires entities to demonstrate compliance with this obligation. For this purpose, a copy signed by the client of the information received stating the date on which it was delivered, either through a record of the communication by electronic means or through any other certifiable method, will be sufficient.

  When entities provide an investment service other than investment advice or portfolio management, but for which they are required to test appropriateness, they must also provide the client with a document describing the assessment. This Circular details the content of the handwritten statements which clients must sign in the following circumstances: (i) in the event of insufficient information to assess the appropriateness; (ii) in the event of a product or service assessed as unsuitable; (iii) in the event of transactions ordered by the client without receiving prior advice. Although entities are required to collect these handwritten statements from their clients two months following entry into force of the Circular, the specific warnings implemented by this legislation will not be enforceable until after three months.

  Similarly, this Circular details the requirements of the registers which entities must keep on the assessed clients and unsuitable products, which must be operational three months following entry into force of the Circular and included in the client register referred to in the CNMV Resolution of 7 October 2009. These registers must state for each client the date from which the entity generated a negative assessment of a product.

  Finally, the Circular sets forth the compliance with these information obligations where the service is rendered electronically or by telephone.

– CNMV Circular 4/2013, of 12 June, establishing the standard forms for the annual report on the remuneration of the directors of listed companies and of the members of the boards of directors and oversight committees of savings banks that issue securities admitted to trading on official securities markets.

Section 3 of the fifth final provision of Law 2/2011, of 4 March, on the Sustainable Economy, introduced Article 61 *ter* of the Securities Market Act, which requires listed firms to file an annual remuneration report (ARR) relating to their directors and senior managers. This Article also requires savings banks to draw up an annual report on the remuneration of the members of their board of directors and oversight committee.

This obligation was implemented by Order ECC/461/2013, of 20 March, setting out the content and structure of the annual corporate governance report, the annual remuneration report and other reporting mechanisms for listed companies, savings banks and other entities that issue securities admitted to trading on official securities markets. This Order authorises the CNMV to define the content and structure of the remuneration reports by means of standard models or forms which the affected entities must make public.

Accordingly, as a result of this authorisation, the CNMV establishes the standard form for the ARR of the directors of listed companies in Annex I of the Circular, and the ARR of members of the board of directors and the oversight committee of savings banks that issue securities admitted to trading on official securities markets in Annex II. These reports will be subject to a vote in the ordinary general shareholders' meetings or ordinary general assemblies which are held as from 1 January 2014 and must be published as significant events.

– CNMV Circular 5/2013, of 12 June, establishing the standard forms for the annual corporate governance report of listed companies, savings banks and other entities that issue securities admitted to trading on official securities markets.

Order ECC/461/2013, of 20 March, setting out the content and structure of the annual corporate governance report, the annual remuneration report and other reporting mechanisms for listed companies, savings banks and other entities that issue securities admitted to trading on official securities markets, which implements the requirements established in Article 61 *bis* of the Securities Market Act 24/1988, of 28 July, and in Article 3 (section 23) of Royal Decree-Law 11/2010, of 9 July, on governing bodies and other aspects of the legal regime of savings banks, authorised the CNMV to set out the content and structure of corporate governance reports through standard models or forms which the affected entities must make public.

In accordance with this authorisation, this CNMV Circular establishes the following forms:

(i) Annex 1: Form of the annual corporate governance report of listed companies. Companies which do not meet certain recommendations of the

Unified Good Governance Code of Listed Companies will not be required to complete certain sections of the Annex, without prejudice to the fact that they may have to clarify why they do not follow, or only partially follow, the recommendations (in Chapter G).

(ii) Annex II: Form of the annual corporate governance report of other entities – other than savings banks – that issue securities traded on official markets.

(iii) Annex III: Form of the annual corporate governance report of savings banks that issue securities admitted to trading on official securities markets. Savings banks which do not issue *cuotas participativas* (participation shares) traded on official securities markets are not required to complete certain sections of the Annex.

These forms must be included in the annual corporate governance reports which entities must file as from 1 January 2014.

Furthermore, it is important to take into account that this Circular repeals the following provisions: (i) rules 1.1, 1.2 and 2 in relation to the provisions established for the annual corporate governance report, and rules 3, 4, 5 and 6 of CNMV Circular 1/2004, on listed companies and other entities issuing securities admitted to trading on official secondary securities markets, and other reporting mechanisms for listed companies; (ii) CNMV Circular 4/2007, amending the form of the annual corporate governance report of listed companies; and (iii) rules 1.1, 1.2, 2, 3, 4 and 5, and the first and second additional provisions of CNMV Circular 2/2005 on the annual corporate governance report and other information of savings banks that issue securities admitted to trading on official secondary markets.

– Law 8/2013, of 26 June, on urban renewal, regeneration and rehabilitation.

The following final provisions are of interest:

– The 13th final provision incorporates the 34th additional provision in the consolidated text of the Public Sector Procurement Act, approved by Royal Legislative Decree 3/2011, of 14 November. This provision establishes that, in contracts executed by successively providing goods and services at unit prices, any demands of the Administration which exceed the maximum budget referred to in the bidding process for awarding the contract should be treated as amendments provided for in the documentation governing the bidding process of said contract.

– The 14th, 15th and 17th final provisions amend, respectively, Royal Decree-Law 6/2012, of 9 March, on urgent measures to protect mortgage debtors with limited resources; Law 9/2012, of 14 November, on restructuring and resolution of credit institutions; and Law 1/2013, of 14 May, on measures to strengthen protection of mortgage debtors, debt restructuring and social rent. Improved techniques are included in all three cases.

– The 16th final provision amends Law 17/2012, of 27 December, on the 2013 State Budget in order to introduce additional elements of transparency which are also in line with usual existing practice.

– Royal Decree-Law 8/2013, of 28 June, on urgent measures to tackle late payment by public authorities and to assist local authorities with financial problems.

The fifth final provision of this law amends the consolidated text of the Public Sector Procurement Act, approved by Royal Legislative Decree 3/2011, of 14 November, with the aim of moving forward with the administrative restructuring process in accordance with the guidelines established by the Commission for Public Administration Reform, which set as a priority the promotion and extension of the centralised public sector procurement system.

– Order ECC/1556/2013, of 19 July, authorising "MEFF Sociedad Rectora de Productos Derivados, S.A.U." to separate the functions of trading, counterparty, clearing and settlement which it currently performs.

Firstly, this Order authorises MEFF Sociedad Rectora de Productos Derivados, S.A.U. to separate the trading functions from the counterparty, clearing and settlement functions by assigning the former to the new governing company which will provisionally be called "MEFF Exchange" (under Articles 44 *ter* and 59 of the Securities Market Act). The authorisation establishes that the equity of this company may be no lower than 7,980,000 euros.

The counterparty, clearing and settlement functions of the current MEFF will continue to be provided by "MEFF Clearing" (Article 44 *ter* of the Securities Market Act).

This has required, in turn, authorisation of:

(i) The Regulation of the aforementioned market and the Articles of Association of its governing company.

(ii) The General Conditions of the Set of Contracts of Underlying Financial Assets, subject to the operations of "MEFF Exchange".

(iii) The conversion of MEFF into a central counterparty governed by Article 44 *ter* of the Securities Market Act with regard to the financial instruments for which MEFF currently provides counterparty, clearing and settlement functions. It now provisionally becomes known as "MEFF Clearing".

(iv) The Regulation of "MEFF Clearing" and its Articles of Association.

(v) The General Conditions of the Set of Contracts of Underlying Financial Assets, subject to the operations of "MEFF Clearing", with a stamped copy attached.

(vi) The General Conditions of the Set of Contracts of Underlying Energy Assets, subject to the operations of "MEFF Clearing", with a stamped copy attached.

(vii) The General Conditions of the Set of Contracts for Trading with Fixed-Income Securities, subject to the operations of "MEFF Clearing", with a stamped copy attached.

– Law 11/2013, of 26 July, on measures to support entrepreneurship and to stimulate growth and job creation.

The measures contained in this Law to support entrepreneurship and stimulate growth and job creation include those aimed at developing the Entrepreneurship and Youth Employment Strategy, as well as those aimed at encouraging business financing through alternative markets and measures to tackle late payment in commercial transactions.

With regard to the measures adopted to encourage business financing, an amendment is made to Title II of the Regulation on the Rules and Supervision of Private Insurance, Royal Decree 2486/1998, so as to allow insurance companies to invest in securities admitted to trading on the Alternative Stock Market or another multilateral trading facility specified by means of a Royal Decree. Similarly, it allows said investments to be considered as suitable as cover for technical provisions providing the investment made in securities issued by each entity does not exceed 3% of the technical provisions to be covered.

Similarly, in Title II it amends the Regulation on Pension Schemes and Funds – Royal Decree 304/2004 – also allowing pension funds to invest in securities admitted to trading on the Alternative Stock Market or another multilateral trading facility specified by means of a Royal Decree providing the investment does not exceed a maximum 3% of the fund's assets in each entity.

It also amends the wording of Articles 30 *ter* and 30 *quater* of the Securities Market Act. This last provision was introduced by Article 19 of Royal Decree-Law 4/2013 and establishes that the limit included in Article 405 of the Capital Enterprises Act whereby the total amount of the issues of companies may not exceed the paid out share capital plus reserves is not applicable, but only in the event that the issues are aimed at institutional investors or are for amounts greater than 100,000 euros. Furthermore, it expressly indicates that issues of bonds or other securities which create debt that will be admitted to trading on a multilateral trading facility will not require the execution of a public document or registration in the Companies Registry or publication in the official gazette of the Companies Registry.

Finally, it is important to mention that the seventh final provision of this Law amends several articles of the Public Sector Procurement Act. These include Articles 216 and 222, with the aim of specifying the time when late payment interest accrues. It also amends the 16^{th} additional provision of the aforementioned Law so as to exclude electronic invoices issued in procurement procedures from the general regulation on the use of electronic, computer or telematics means. In addition, it includes a new 33rd additional provision which establishes a new itinerary for submitting invoices to the administrative body responsible for public accounting for the purposes of ensuring that the Administration is fully aware of all the debts for which it is liable through the execution of contracts.

European legislation

– 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.

  This Regulation amends European legislation on credit rating agencies (Regulation (EC) No. 1060/2009) with the aim of improving the integrity, transparency, responsibility, good governance and independence of credit rating activities. To this end, it establishes conditions for issuing credit ratings and rules relating to the organisation and operations of credit rating agencies so as to avoid conflicts of interest and to increase consumer and investor protection.

  Noteworthy among the new measures are the following:

  – With the aim of reducing financial institutions' over-reliance on external credit ratings, it requires the institutions to perform and perfect their credit risk assessments and not to automatically use credit ratings to assess the credit quality of the entity or financial instrument. It also introduces limits to the use of credit ratings by the European Supervisory Authorities and the European Systemic Risk Board.

  – With regard to conflicts of interest, it introduces new rules relating to investments in credit rating agencies. The shareholders or members of credit rating agencies with 5% of the capital or the voting rights (or in a company which has the power to exercise control or dominant influence over the credit rating agency) shall be prohibited from, *inter alia*, holding 5% or more of the capital or the voting rights of any other credit rating agency.

  – Credit rating agencies shall not issue credit ratings on new re-securitisations with underlying assets in the same originator for a period exceeding four years. It also introduces new information requirements for structured finance instruments.

  – It introduces rules which aim to improve the quality of the sovereign ratings of Member States. For example, credit rating agencies must set in their calendar, with a maximum of three dates that must fall on a Friday, publication of unsolicited sovereign ratings. Investors and Member States will receive information on the reasons for each rating.

  – It introduces a Title on the civil liability of credit rating agencies. They are held liable in the event of committing intentionally, or with gross negligence, infringements of the rules on credit rating agencies.

In addition to this regulation, legislation in this area includes Directive 2013/14/EU, of the European Parliament and of the Council, of 21 May 2013, amending Directive 2003/41/EC on the activities and supervision of institutions for occupational retirement provision; Directive 2009/65/EC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS); and Directive 2011/61/EU on Alternative Investment Funds Managers in respect of over-reliance on credit ratings.

– Commission Delegated Regulation (EU) No. 876/2013, of 28 May 2013, supplementing Regulation (EU) No. 648/2012, of the European Parliament and of the Council, with regard to regulatory technical standards on colleges for central counterparties.

This Commission Delegated Regulation ensures consistent and coherent functioning of colleges for central counterparties throughout the Union in order to facilitate the exercise of the tasks specified in Article 18 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 (procedure for granting and refusing authorisation of central counterparties, extension of activities and services, review of models, stress testing, back testing and interoperability arrangements).

The issues which it addresses include operational organisation, participation, governance, exchanging information between authorities, delegation and voluntary entrustment of tasks.

– Commission Delegated Regulation (EU) No. 759/2013, of 30 April 2013, amending Regulation (EC) No. 809/2004 as regards the disclosure requirements for convertible and exchangeable debt securities.

This Regulation establishes the following points with regard to information requirements applicable to convertible and exchangeable debt securities:

- The share registration document schedule should be applicable to shares and other transferable securities equivalent to shares but also to other securities giving access to the capital of the issuer by way of conversion or exchange where the underlying shares are not already admitted to trading on a regulated market.

- Where the issuer of the underlying shares belongs to the same group as the issuer of the convertible or exchangeable debt securities but the underlying shares are not admitted to trading on a regulated market, the share registration schedule should be applicable to those underlying shares.

- Where securities with warrants or derivative securities give the right to acquire the issuer's or group's shares and those shares are not admitted to trading on a regulated market, the relevant information set out in the securities note schedule for derivative securities should be provided to investors.

- Where debt securities are convertible or exchangeable into shares which are or will be issued by the issuer of the security or by an entity belonging to its group and these underlying shares are not already admitted to trading on a regulated market, investors should also be provided with a working capital statement and a statement of capitalisation and indebtedness of the issuer of the underlying shares.

- Where the underlying shares are issued by a third party and are not admitted to trading on a regulated market, the additional building block describing the underlying share should be added to the combinations used for drawing up the securities note of the prospectus.

- It is necessary to clarify, in the table set out in Annex XVIII to Regulation (EC) No. 809/2004, how schedules and building blocks should be combined when drawing up a prospectus, including where only certain information items of schedules and building blocks are required, where certain information items may not be applicable due to specific combinations of schedules and building blocks in particular cases, and where the issuer, offeror or person asking for admission to trading on a regulated market may choose between different schedules and building blocks according to specific thresholds, such as the minimum denomination of debt securities, or conditions set out in Regulation (EC) No. 809/2004.

- Convertible or exchangeable debt securities can provide access to issuer's new shares when the right to subscribe is exercised by their holders. Accordingly, rights issues of convertible or exchangeable debt securities into issuer's new shares should also be able to benefit from the proportionate disclosure regime set out in Article 26 *bis* of Regulation (EC) No. 809/2004 provided that the underlying shares are new shares issued by the same entity issuing debt securities. The prospectus for the offer or admission to trading on a regulated market of debt securities convertible or exchangeable into issuer's shares issued by small- and medium-sized enterprises and companies with reduced market capitalisation also includes the combination of schedules and building blocks applicable to rights issues of debt securities convertible or exchangeable into issuer's shares or to convertible or exchangeable debt securities issued by small- and medium-sized enterprises and companies with reduced market capitalisation in Annex XVIII.

- Guidelines and recommendations for establishing consistent, efficient and effective assessment of interoperability arrangements (European Securities and Markets Authority, 10 June 2013).

  These guidelines and recommendations establish five points which the National Competent Authorities have to analyse in order to assess an interoperability arrangement.

  The first point establishes how the National Competent Authority (NCA) should assess that the arrangement is clearly defined, transparent, valid and enforceable in all relevant jurisdictions and that a central counterparty has put in place a framework to assess these factors before entering into an interoperability arrangement, and on a regular basis.

The second point establishes how an NCA should assess that the interoperability arrangement ensures non-discriminatory access and that denial or restrictions on entering into an interoperability arrangement are only based on risk grounds.

The third point establishes how the NCA should assess that a central counterparty has put in place a general framework to identify, monitor and manage, before entering into an interoperability arrangement and on a regular basis, the potential risks arising from the interoperability arrangement.

The fourth point addresses the deposit of collateral so that the NCA should assess that an interoperable central counterparty deposits collateral in a way that it is protected from the default of any interoperable central counterparties.

Finally, the fifth point establishes the type of cooperation that should be in place during the assessment phase of an interoperability arrangement with sharing of information throughout the process and sharing of their respective risk assessment reports before they are finalised and submitted to the respective colleges.

It also promotes arrangements for cooperation between the NCA and the relevant third-country authority when the interoperability arrangement is between an authorised central counterparty and a recognised central counterparty.

– Guidelines on sound remuneration policies under the AIFMD (European Securities and Markets Authority, 3 July 2013)

These guidelines aim to ensure common, uniform and consistent application of the provisions on remuneration in Articles 13 and 22(2)(e) and (f) of Directive 2011/61/EC, of the European Parliament and of the Council, of 8 June 2011, on Alternative Investment Fund Managers, as well as of Annex II to said directive.

Noteworthy among the issues addressed are the following:

– It specifies what remuneration falls within its scope of application.

– It indicates how to identify the categories of staff to which it is applicable.

– It establishes the proportionality principle which must be applied.

– It indicates which alternative investment fund managers (AIFMs) form part of a group and what their financial situation is.

- It establishes guidelines on corporate governance of remuneration and the general remuneration policy, including the pension policy.

- It sets forth specific requirements for risk alignment.

- It establishes guidelines relating to transparency.

These guidelines must be applied as from 22 July 2013.

V Statistics annex

1 Markets

1.1 Equity

Share issues and public offerings[1]

TABLE 1.1

	2010	2011	2012	2012 III	IV	2013 I	II	III[2]
CASH VALUE[3] (million euro)								
Total	16,016.5	17,145.9	21,142.1	5,695.3	6,961.9	4,996.0	16,372.3	1,780.2
Capital increases	15,407.0	17,018.9	19,910.7	5,290.5	6,185.9	4,996.0	16,372.3	1,780.2
Of which, primary offerings	958.7	6,238.8	2,457.3	75.0	0.0	0.0	1,054.8	0.0
With Spanish tranche	61.6	5,827.1	2,457.3	75.0	0.0	0.0	1,054.8	0.0
With international tranche	897.2	411.7	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	609.5	127.0	1,231.4	404.8	776.0	0.0	0.0	0.0
With Spanish tranche	79.1	124.7	1,231.4	404.8	776.0	0.0	0.0	0.0
With international tranche	530.4	2.3	0.0	0.0	0.0	0.0	0.0	0.0
NOMINAL VALUE (million euro)								
Total	6,318.3	5,704.8	4,705.9	1,008.8	1,209.2	4,987.2	12,092.6	734.7
Capital increases	6,309.3	5,698.8	4,595.2	977.3	1,132.8	4,987.2	12,092.6	734.7
Of which, primary offerings	6.8	2,070.6	613.1	8.2	0.0	0.0	568.2	0.0
With Spanish tranche	6.4	1,888.4	613.1	8.2	0.0	0.0	568.2	0.0
With international tranche	0.4	182.2	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	9.0	6.0	110.6	31.5	76.4	0.0	0.0	0.0
With Spanish tranche	8.9	5.9	110.6	31.5	76.4	0.0	0.0	0.0
With international tranche	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF FILES[4]								
Total	69	92	105	27	30	28	37	27
Capital increases	67	91	103	26	29	28	37	27
Of which, primary offerings	12	8	7	1	0	0	3	0
Of which, bonus issues	15	22	22	10	4	9	9	10
Secondary offerings	3	2	3	1	1	0	0	0
NO. OF ISSUERS[4]								
Total	46	46	38	20	17	17	20	19
Capital increases	45	45	38	19	16	17	20	19
Of which, primary offerings	12	8	7	1	0	0	3	0
Secondary offerings	2	2	3	1	1	0	0	0

1 Includes registered offerings with issuance prospectuses and listings admitted to trading without register issuance prospectuses.
2 Available data: August 2013.
3 Does not include registered amounts that were not carried out.
4 Includes all registered offerings, including the issues that were not carried out.

Primary and secondary offerings. By type of subscriber

TABLE 1.2

Million euro	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
PRIMARY OFFERINGS								
Total	958.7	6,238.8	2,457.3	75.0	0.0	0.0	1,054.8	0.0
Spanish tranche	61.6	5,815.7	6.8	0.0	0.0	0.0	0.0	0.0
Private subscribers	2.5	2,206.3	4.1	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	59.1	3,609.4	2.8	0.0	0.0	0.0	0.0	0.0
International tranche	897.2	411.7	0.0	0.0	0.0	0.0	0.0	0.0
Employees	0.0	11.4	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	2,450.5	75.0	0.0	0.0	1,054.8	0.0
SECONDARY OFFERINGS								
Total	609.5	127.0	1,231.4	404.8	776.0	0.0	0.0	0.0
Spanish tranche	79.1	124.7	0.0	0.0	0.0	0.0	0.0	0.0
Private subscribers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	79.1	124.7	0.0	0.0	0.0	0.0	0.0	0.0
International tranche	530.4	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Employees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	1,231.4	404.8	776.0	0.0	0.0	0.0

1 Available data: August 2013.

Companies listed[1]

TABLE 1.3

				2012		2013		
	2010	2011	2012	III	IV	I	II	III[2]
Total electronic market[3]	129	130	127	127	127	127	125	123
Of which, without Nuevo Mercado	129	130	127	127	127	127	125	123
Of which, Nuevo Mercado	0	0	0	0	0	0	0	0
Of which, foreign companies	6	7	7	7	7	7	7	7
Second Market	6	7	8	7	8	8	8	8
Madrid	2	2	2	2	2	2	2	2
Barcelona	4	5	6	5	6	6	6	6
Bilbao	0	0	0	0	0	0	0	0
Valencia	0	0	0	0	0	0	0	0
Open outcry ex SICAVs	28	27	23	24	23	23	23	23
Madrid	13	13	11	11	11	11	11	11
Barcelona	18	17	13	14	13	13	13	13
Bilbao	8	8	7	7	7	7	7	7
Valencia	6	6	4	4	4	4	4	4
Open outcry SICAVs	1	0	0	0	0	0	0	0
MAB[4]	3,144	3,083	3,015	3,034	3,015	3,011	3,029	3,051
Latibex	29	29	27	27	27	27	27	27

1 Data at the end of period.
2 Available data: August 2013.
3 Without ETFs (Exchange Traded Funds).
4 Alternative Stock Market.

Capitalisation[1]

TABLE 1.4

				2012		2013		
Million euro	2010	2011	2012	III	IV	I	II	III[2]
Total electronic market[3]	531,194.2	498,148.1	532,039.7	490,027.9	532,039.7	539,926.0	539,860.2	574,919.0
Of which, without Nuevo Mercado	531,194.2	498,148.1	532,039.7	490,027.9	532,039.7	539,926.0	539,860.2	574,919.0
Of which, Nuevo Mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies[4]	61,317.5	82,471.4	99,072.0	89,988.0	99,072.0	108,982.0	109,934.0	116,428.7
Ibex 35	322,806.6	320,672.5	324,442.0	302,019.9	324,442.0	321,700.5	318,272.0	344,707.0
Second Market	109.9	59.7	20.6	46.3	20.6	72.8	74.6	71.5
Madrid	22.8	25.5	20.3	23.6	20.3	23.6	25.3	22.3
Barcelona	87.1	34.2	0.3	22.7	0.3	49.3	49.3	49.3
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAVs	5,340.7	3,704.9	3,233.0	3,257.6	3,233.0	3,165.6	3,027.3	2,882.8
Madrid	1,454.7	833.3	667.1	673.4	667.1	629.0	584.5	556.5
Barcelona	3,580.2	3,242.3	2,945.9	2,953.6	2,945.9	2,874.6	2,781.9	2,693.0
Bilbao	45.9	328.8	77.8	78.9	77.8	248.7	320.2	286.1
Valencia	760.4	240.2	350.9	369.4	350.9	344.6	347.1	282.0
Open outcry SICAVs[5]	126.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MAB[5,6]	24,718.6	23,646.0	23,776.0	24,188.7	23,776.0	24,669.2	24,812.8	25,576.7
Latibex	210,773.5	402,008.5	350,635.5	369,568.3	350,635.5	342,939.4	283,689.4	277,366.9

1 Data at the end of period.
2 Available data: August 2013.
3 Without ETFs (Exchange Traded Funds).
4 Foreign companies capitalisation includes their entire shares, whether they are deposited in Spain or not.
5 Calculated only with outstanding shares, not including treasury shares, because capital stock is not reported until the end of the year.
6 Alternative Stock Market.

Trading

TABLE 1.5

Million euro	2010	2011	2012	2012 III	IV	2013 I	I	III[1]
Total electronic market[2]	1,026,478.5	917,383.3	691,558.3	151,267.7	168,208.0	160,019.8	162,326.4	108,077.3
Of which, without Nuevo Mercado	1,026,478.5	917,383.3	691,558.3	151,267.7	168,208.0	160,019.8	162,326.4	108,077.3
Of which, Nuevo Mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies	6,415.3	5,206.3	4,102.1	851.6	780.8	1,168.9	1,197.1	884.4
Second Market	3.0	2.3	0.4	0.2	0.0	0.0	0.4	0.5
Madrid	2.8	1.7	0.4	0.2	0.0	0.0	0.2	0.3
Barcelona	0.3	0.5	0.0	0.0	0.0	0.0	0.2	0.1
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAVs	157.2	42.8	49.9	8.3	17.7	5.6	3.9	26.5
Madrid	15.7	16.1	3.0	0.8	0.3	2.5	0.4	0.4
Barcelona	135.7	26.4	37.7	7.4	9.0	3.1	3.5	26.1
Bilbao	3.9	0.1	8.5	0.0	8.5	0.0	0.0	0.0
Valencia	1.9	0.3	0.7	0.0	0.0	0.0	0.0	0.0
Open outcry SICAVs	8.1	5.6	0.0	0.0	0.0	0.0	0.0	0.0
MAB[3]	4,147.9	4,379.9	4,329.6	947.0	1,060.0	1,238.1	1,170.9	888.3
Latibex	521.2	357.7	313.2	89.5	88.7	98.9	100.2	53.5

1 Available data: August 2013.
2 Without ETFs (Exchange Traded Funds).
3 Alternative Stock Market.

Trading on the electronic market by type of transaction[1]

TABLE 1.6

Million euro	2010	2011	2012	2012 III	IV	2013 I	II	III[2]
Regular trading	983,584.5	873,485.4	658,891.4	143,171.9	159,082.8	153,802.1	157,392.4	105,452.9
Orders	541,879.8	505,870.1	299,022.0	61,468.6	52,601.8	85,760.3	82,041.4	51,609.5
Put-throughs	58,678.1	69,410.4	80,617.0	21,441.3	16,986.8	13,449.6	15,845.9	7,684.8
Block trades	383,026.6	298,204.9	279,252.4	60,262.0	89,494.2	54,592.1	59,505.1	46,158.6
Off-hours	17,209.5	9,801.8	9,630.0	3,506.5	3,300.4	2,959.0	1,927.0	820.8
Authorised trades	2,660.5	3,492.6	7936.9	2,202.6	2,406.5	1,099.4	705.5	1,300.7
Art. 36.1 SML trades	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tender offers	312	4,216.8	9.6	0.0	0.0	0.0	222.3	19.4
Public offerings for sale	1,448.2	3,922.1	0.0	0.0	0.0	0.0	2.6	0.0
Declared trades	2,273.4	2,212.7	545.0	2.4	3.0	3.0	0.0	0.0
Options	11,474.7	11,730.3	9,603.4	1,472.1	2,838.9	964.4	1,064.5	159.2
Hedge transactions	7,515.8	8,521.5	4,942.0	912.3	576.3	1,192.0	1,012.0	324.3

1 Without ETFs (Exchange Traded Funds).
2 Available data: August 2013.

Margin trading for sales and securities lending

TABLE 1.7

Million euro	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
TRADING								
Securities lending[2]	556,246.7	493,602.4	395,859.3	79,731.5	102,447.3	103,130.3	113,739.3	69,503.0
Margin trading for sales of securities[3]	598.0	518.3	199.2	16.8	6.1	62.3	84.3	73.1
Margin trading for securities purchases[3]	65.9	73.0	44.4	11.1	10.3	12.4	7.8	4.9
OUTSTANDING BALANCE								
Securities lending[2]	36,195.9	35,626.7	34,915.1	39,075.3	34,915.1	33,761.3	36,758.8	39,150.3
Margin trading for sales of securities[3]	9.9	7.0	1.2	1.6	1.2	4.9	5.6	14.7
Margin trading for securities purchases[3]	5.0	3.9	2.5	2.5	2.5	1.9	2.7	1.6

1 Available data: August 2013.
2 Regulated by Article 36.7 of the Securities Market Law and Order ECO/764/2004.
3 Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.

1.2 Fixed-income

Gross issues registered[1] at the CNMV

TABLE 1.8

	2010	2011	2012	2012 III	IV	2013 I	II	III[2]
NO. OF ISSUERS								
Total	115	101	71	19	32	19	22	13
Mortgage covered bonds	25	30	26	15	11	9	8	1
Territorial covered bonds	6	7	11	2	0	1	2	1
Non-convertible bonds and debentures	39	23	24	6	8	6	10	3
Convertible bonds and debentures	2	5	3	0	1	1	1	0
Backed securities	36	34	16	1	9	5	3	3
Commercial paper	58	49	35	5	9	4	5	5
Of which, asset-backed	2	2	1	0	1	0	0	0
Of which, non-asset-backed	56	47	34	5	8	4	5	5
Other fixed-income issues	0	0	0	0	0	0	0	0
Preference shares	0	1	0	0	0	0	0	0
NO. OF ISSUES								
Total	349	353	334	48	69	61	74	43
Mortgage covered bonds	88	115	94	27	18	15	14	5
Territorial covered bonds	9	42	18	2	0	1	2	2
Non-convertible bonds and debentures	154	87	134	13	23	27	47	28
Convertible bonds and debentures	3	9	7	0	2	3	1	0
Backed securities	36	45	35	1	17	11	5	3
Commercial paper	59	53	46	5	9	4	5	5
Of which, asset-backed	2	2	1	0	1	0	0	0
Of which, non-asset-backed	57	51	45	5	8	4	5	5
Other fixed-income issues	0	0	0	0	0	0	0	0
Preference shares	0	2	0	0	0	0	0	0
NOMINAL AMOUNT (million euro)								
Total	226,448.9	288,992.0	357,830.2	60,679.5	84,903.7	44,462.4	30,405.9	17,425.2
Mortgage covered bonds	34,378.5	67,226.5	102,170.0	29,800.0	13,020.0	9,195.0	7,340.0	5,264.7
Territorial covered bonds	5,900.0	22,334.2	8,974.0	1,674.0	0.0	95.0	1,520.0	4,000.0
Non-convertible bonds and debentures	24,356.0	20,191.7	86,441.5	91.1	39,814.9	15,595.4	4,136.3	159.1
Convertible bonds and debentures	968.0	7,125.9	3,563.1	0.0	842.5	424.8	15.0	0.0
Backed securities	63,260.5	68,412.8	23,799.6	1,884.0	11,185.0	8,052.0	4,942.0	904.0
Spanish tranche	62,743.0	63,455.9	20,627.1	1,884.0	9,397.5	6,965.1	4,308.7	904.0
International tranche	517.5	4,956.9	3,172.5	0.0	1,787.5	1,086.9	633.3	0.0
Commercial paper[3]	97,586.0	103,501.0	132,882.0	27,230.5	20,041.2	11,100.2	12,452.6	7,097.4
Of which, asset-backed	5,057.0	2,366.0	1,821.0	275.0	300.0	180.0	390.0	0.0
Of which, non-asset-backed	92,529.0	101,135.0	131,061.0	26,955.5	19,741.2	10,920.2	12,062.6	7,097.4
Other fixed-income issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	0.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0
Pro memoria:								
Subordinated issues	9,154.2	29,198.9	7,633.5	580.9	2,492.0	1,556.5	978.5	91.9
Underwritten issues	299.0	10.0	0.0	0.0	0.0	0.0	193.0	0.0

1 Includes issuance and trading prospectuses.
2 Available data: August 2013.
3 The figures for commercial paper refer to the amount placed in the year.

Issues admitted to trading on AIAF[1]

TABLE 1.9

Nominal amount in million euro	2010	2011	2012	2012 III	IV	2013 I	II	III[2]
Total	223,404.5	278,656.0	363,952.5	69,879.2	81,533.4	44,982.2	29,756.3	21,095.9
Commercial paper	99,784.4	102,042.0	134,346.9	31,278.3	18,964.1	12,581.9	11,955.5	7,430.8
Bonds and debentures	24,728.6	12,311.9	92,733.5	692.9	39,732.8	15,609.8	2,945.8	1,629.3
Mortgage covered bonds	32,861.0	68,346.5	103,470.0	34,350.0	12,820.0	9,395.0	7,240.0	6,364.7
Territorial covered bonds	5,900.0	20,334.2	8,974.0	1,674.0	0.0	0.0	1,615.0	4,000.0
Backed securities	60,030.5	75,421.4	24,428.1	1,884.0	10,016.5	7,395.5	6,000.0	1,671.0
Preference shares	100.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Includes only corporate bonds.
2 Available data: August 2013.

AIAF. Issuers, issues and outstanding balance

TABLE 1.10

	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
NO. OF ISSUERS								
Total	634	613	568	572	568	545	521	516
Corporate bonds	634	613	568	572	568	545	520	515
Commercial paper	60	45	42	46	42	36	34	29
Bonds and debentures	93	91	95	94	95	93	95	92
Mortgage covered bonds	33	43	49	50	49	50	50	48
Territorial covered bonds	12	13	18	19	18	12	12	12
Backed securities	459	437	385	391	385	369	361	361
Preference shares	59	60	60	60	60	58	39	35
Matador bonds	12	12	11	12	11	11	10	10
Government bonds	–	–	–	–	–	–	1	1
Letras del Tesoro	–	–	–	–	–	–	1	1
Long Government bonds	–	–	–	–	–	–	1	1
NO. OF ISSUES								
Total	3,630	4,382	4,907	5,208	4,907	4,459	4,092	3,759
Corporate bonds	3,630	4,382	4,907	5,208	4,907	4,459	3,944	3,612
Commercial paper	958	1,778	2,529	2,762	2,529	2,150	1,761	1,459
Bonds and debentures	645	624	558	583	558	564	519	507
Mortgage covered bonds	253	296	328	334	328	326	311	307
Territorial covered bonds	26	49	52	55	52	43	43	42
Backed securities	1,641	1,527	1,334	1,366	1,334	1,272	1,240	1,237
Preference shares	93	94	94	94	94	92	59	49
Matador bonds	14	14	12	14	12	12	11	11
Government bonds	–	–	–	–	–	–	148	147
Letras del Tesoro	–	–	–	–	–	–	12	12
Long Government bonds	–	–	–	–	–	–	136	135
OUTSTANDING BALANCE[2] (million euro)								
Total	850,181.7	882,395.1	879,627.5	886,354.6	879,627.5	848,906.4	1,512,424.9	1,487,134.0
Corporate bonds	850,181.7	882,395.1	879,627.5	886,354.6	879,627.5	848,906.4	797,945.9	772,021.0
Commercial paper	23,233.6	37,549.1	64,927.5	75,777.8	64,927.5	50,854.3	41,434.2	35,619.2
Bonds and debentures	146,077.7	131,756.8	161,225.4	125,944.4	161,225.4	168,809.8	155,079.3	151,010.1
Mortgage covered bonds	195,734.8	241,149.7	293,142.8	309,736.1	293,142.8	288,052.8	273,972.8	268,312.9
Territorial covered bonds	18,350.0	31,884.2	33,314.3	33,579.6	33,314.3	31,014.3	31,527.3	31,227.3
Backed securities	434,835.1	407,908.0	315,373.5	327,492.8	315,373.5	299,019.5	289,848.8	284,273.1
Preference shares	30,891.8	31,088.6	10,813.4	12,765.1	10,813.4	10,325.1	5,633.2	1,128.2
Matador bonds	1,058.8	1,058.8	830.7	1,058.8	830.7	830.7	794.6	794.6
Government bonds	–	–	–	–	–	–	714,479.0	715,113.0
Letras del Tesoro	–	–	–	–	–	–	89,000.0	89,504.0
Long Government bonds	–	–	–	–	–	–	625,479.0	625,609.0

1 Available data: August 2013.
2 Nominal amount.

AIAF. Trading

TABLE 1.11

Nominal amount in million euro	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
BY TYPE OF ASSET								
Total	4,383,118.7	7,388,185.7	3,119,755.1	674,389.1	961,635.0	445,730.4	381,979.5	211,737.8
Corporate bonds	4,383,118.7	7,388,185.7	3,119,755.1	674,389.1	961,635.0	445,730.4	381,949.1	211,707.8
Commercial paper	385,238.9	227,534.5	199,794.9	55,717.4	43,443.5	30,211.6	38,208.6	15,515.6
Bonds and debentures	922,393.1	484,705.8	164,098.6	44,398.4	37,341.6	104,970.8	64,485.4	54,931.5
Mortgage covered bonds	271,441.8	662,177.0	994,071.3	302,081.0	275,727.2	115,745.9	91,793.5	32,258.5
Territorial covered bonds	14,458.2	544,780.9	595,599.6	108,473.6	127,290.5	22,225.5	37,393.4	6,733.1
Backed securities	2,784,775.4	5,462,806.2	1,136,966.1	156,980.5	470,358.1	172,164.5	134,113.6	92,390.5
Preference shares	4,635.7	6,065.0	28,781.3	6,616.4	7,438.9	403.9	15,871.6	9,878.7
Matador bonds	175.7	116.3	443.2	121.8	35.1	8.3	83.1	0.0
Government bonds	–	–	–	–	–	–	30.5	29.9
Letras del Tesoro	–	–	–	–	–	–	4.8	2.1
Long Government bonds	–	–	–	–	–	–	25.7	27.8
BY TYPE OF TRANSACTION	4,383,118.7	7,388,185.7	3,119,755.1	674,389.1	961,635.0	445,730.4	381,979.5	211,737.8
Total	288,927.3	343,099.6	428,838.0	78,110.9	77,828.8	66,158.8	96,923.3	47,228.1
Outright	304,493.2	198,514.7	108,771.9	18,513.0	18,811.8	18,095.0	16,629.1	10,430.5
Repos	3,789,698.3	6,846,571.5	2,582,145.2	577,765.2	864,994.5	361,476.7	268,427.1	154,079.2
Sell-buybacks/Buy-sellbacks	4,383,118.7	7,388,185.7	3,119,755.1	674,389.1	961,635.0	445,730.4	381,979.5	211,737.8

1 Available data: August 2013.

AIAF. Third-party trading. By purchaser sector

TABLE 1.12

Nominal amount in million euro	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
Total	553,896.6	487,543.3	454,385.7	84,419.9	82,251.6	71,301.0	79,714.0	42,656.4
Non-financial companies	162,949.5	131,765.2	77,452.1	19,618.1	19,089.8	16,710.7	11,854.3	4,563.1
Financial institutions	289,950.4	256,975.8	282,733.9	46,946.5	41,576.2	33,736.1	50,902.8	28,647.6
Credit institutions	102,372.1	139,538.2	207,555.6	38,309.4	31,434.2	21,555.2	35,887.5	17,458.4
IICs[2], insurance and pension funds	125,899.4	103,899.9	69,568.7	7,132.0	8,701.1	10,460.9	13,014.0	10,098.5
Other financial institutions	61,678.9	13,537.7	5,609.6	1,505.2	1,440.9	1,720.0	2,001.3	1,090.8
General government	3,117.7	2,602.7	5,448.2	1,005.9	322.3	479.4	885.4	158.7
Households and NPISHs[3]	14,244.4	10,230.3	11,517.9	3,137.1	3,213.5	1,106.1	4,384.1	449.7
Rest of the world	83,634.6	85,969.3	77,233.7	13,712.3	18,049.8	19,268.7	11,687.4	8,837.3

1 Available data: August 2013.
2 IICs: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.
3 Non-profit institutions serving households.

Issues admitted to trading on equity markets[1]

TABLE 1.13

	2010	2011	2012	2012 III	IV	2013 I	II	III[2]
NOMINAL AMOUNTS (million euro)								
Total	868.0	2,681.6	7,522.0	880.2	0.0	779.3	0.0	0.0
Non-convertible bonds and debentures	400.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible bonds and debentures	468.0	2,681.6	7,522.0	880.2	0.0	779.3	0.0	0.0
Backed securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF ISSUES								
Total	8	6	7	3	0	2	0	0
Non-convertible bonds and debentures	7	0	0	0	0	0	0	0
Convertible bonds and debentures	1	6	7	3	0	2	0	0
Backed securities	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0

1 Includes only corporate bonds.
2 Available data: August 2013.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.14

	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
NO. OF ISSUERS								
Total	60	59	52	55	52	51	47	45
Private issuers	46	46	39	42	39	38	34	32
Non-financial companies	5	4	3	4	3	3	2	2
Financial institutions	41	42	36	38	36	35	32	30
General government[2]	14	13	13	13	13	13	13	13
Regional governments	3	3	3	3	3	3	3	3
NO. OF ISSUES								
Total	247	240	220	224	220	216	209	207
Private issuers	145	133	122	125	122	122	109	101
Non-financial companies	7	6	3	5	3	3	2	2
Financial institutions	138	127	119	120	119	119	107	99
General government[2]	102	107	98	99	98	94	100	106
Regional governments	64	74	67	68	67	65	62	65
OUTSTANDING BALANCES[3] (million euro)								
Total	41,091.3	43,817.5	37,636.4	43,726.1	37,358.4	36,778.1	28,447.7	28,180.6
Private issuers	19,261.5	17,759.6	13,625.4	16,429.5	13,347.4	12,965.5	9,607.8	9,171.9
Non-financial companies	376.6	375.4	194.9	195.1	194.9	195.0	2.0	2.0
Financial institutions	18,884.8	17,384.2	13,430.6	16,234.4	13,152.6	12,770.6	9,605.9	9,170.0
General government[2]	21,829.9	26,057.8	24,010.9	27,296.6	24,010.9	23,812.6	18,839.9	19,008.6
Regional governments	19,442.4	24,014.4	22,145.0	25,429.9	22,145.0	22,047.3	17,377.2	17,543.8

1 Available data: August 2013.
2 Without public book-entry debt.
3 Nominal amount.

Trading on equity markets

TABLE 1.15

Nominal amounts in million euro	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
Electronic market	504.5	386.1	1,198.3	137.5	144.6	974.5	138.8	66.7
Open outcry	7,525.6	4,942.5	3,746.6	904.7	347.6	111.0	1,955.7	17.0
Madrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	7,146.7	4,885.4	3,407.8	863.1	341.0	7.2	1,890.9	13.2
Bilbao	2.3	0.5	0.2	0.0	0.0	0.0	0.0	0.0
Valencia	376.6	56.6	338.7	41.6	6.6	103.8	64.8	3.8
Public book-entry debt	331.1	883.4	1,189.0	464.4	6.6	6.5	1.4	0.1
Regional governments debt	62,029.0	63,443.7	54,015.1	13,761.1	12,521.7	8,393.9	13,945.9	4,791.9

1 Available data: August 2013.

Organised trading systems: SENAF y MTS. Public debt trading by type

TABLE 1.16

Nominal amounts in million euro	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
Total	265,966.0	84,090.9	40,034.0	4,979.0	6,841.0	11,401.0	14,382.0	7,863.0
Outright	110,011.0	81,905.0	40,034.0	4,979.0	6,841.0	11,401.0	14,382.0	7,863.0
Sell-buybacks/Buy-sellbacks	155,433.0	2,185.9	0.0	0.0	0.0	0.0	0.0	0.0
Others	522.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2013.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF

TABLE 1.17

Number of contracts	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
Debt products	14	18	45,240	18,659	15,783	6,019	3,208	1,094
Debt futures[2]	14	18	45,240	18,659	15,783	6,019	3,208	1,094
Ibex 35 products[3,4]	6,946,167	5,819,264	5,410,311	1,370,029	1,035,203	1,375,908	1,861,259	997,061
Ibex 35 plus futures	6,280,999	5,291,956	4,745,067	1,183,751	856,141	1,238,369	1,509,726	878,585
Ibex 35 mini futures	357,926	307,411	242,477	62,721	34,786	47,616	51,176	30,933
Ibex 35 dividend impact futures	–	3,154	2,162	210	1,015	584	94	118
Call mini options	122,158	86,096	225,704	64,746	86,915	49,390	92,675	59,401
Put mini options	185,083	133,801	194,902	58,601	56,347	39,949	207,587	28,024
Stock products[5]	57,291,482	55,082,944	55,753,236	12,394,790	12,196,833	8,253,014	7,317,714	4,123,925
Futures	19,684,108	24,758,956	21,220,876	3,397,488	4,377,763	4,199,543	3,421,046	785,384
Stock dividend futures	–	–	25,000	0	23,500	24,300	0	10,350
Call options	17,186,515	12,050,946	14,994,283	4,272,914	3,409,731	1,966,022	1,691,096	1,787,602
Put options	20,420,859	18,273,042	19,513,077	4,724,388	4,385,839	2,063,149	2,205,572	1,540,589
Pro-memoria: MEFF trading on Eurex								
Debt products[6]	373,113	267,713	161,376	28,209	42,392	49,336	38,749	12,388
Index products[7]	604,029	451,016	266,422	61,078	55,070	35,316	26,103	5,452

1 Available data: August 2013.
2 Contract size: 100 thousand euros.
3 The number of Ibex 35 mini futures (multiples of 1 euro) was standardised to the size of the Ibex 35 plus futures (multiples of 10 euro).
4 Contract size: Ibex 35, 10 euros.
5 Contract size: 100 Stocks.
6 Bund, Bobl and Schatz futures.
7 Dax 30, DJ EuroStoxx 50 and DJ Stoxx 50 futures.

1.3.2 Warrants, option buying and selling contracts, and ETF (Exchange-Traded Funds)

Issues registered at the CNMV

TABLE 1.18

				2012		2013		
	2010	2011	2012	III	IV	I	II	III[1]
WARRANTS[2]								
Premium amount (million euro)	4,915.3	5,544.6	3,834.3	751.3	957.7	1,505.4	824.0	102.9
On stocks	2,537.4	3,211.7	2,231.7	468.2	568.6	909.9	514.9	68.4
On indexes	1,852.6	1,786.8	1,273.5	229.7	297.8	516.3	236.5	23.7
Other underlyings[3]	525.4	546.0	329.1	53.3	91.4	79.1	72.7	10.7
Number of issues	8,375	9,237	7,073	1,319	2,223	3,326	1,612	561
Number of issuers	9	9	7	5	6	6	5	1
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (million euro)	64.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On stocks	47.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On indexes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other underlyings[3]	17.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of issues	7	0	0	0	0	0	0	0
Number of issuers	1	0	0	0	0	0	0	0

1 Available data: August 2013.
2 Includes issuance and trading prospectuses.
3 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

Equity markets. Warrants and ETF trading

TABLE 1.19

				2012		2013		
	2010	2011	2012	III	IV	I	II	III[1]
WARRANTS								
Trading (million euro)	1,603.2	1,550.2	762.9	195.2	145.7	207.4	199.8	126.5
On Spanish stocks	759.8	654.2	349.0	94.9	72.4	94.3	89.7	67.1
On foreign stocks	60.7	97.8	87.6	17.4	20.4	34.0	20.0	8.6
On indexes	689.5	518.2	268.6	75.1	44.5	70.1	81.2	45.7
Other underlyings[2]	93.2	280.0	57.7	7.9	8.3	9.0	8.9	5.1
Number of issues[3]	7,750	13,165	11,980	2,919	2,816	3,106	3,206	2,274
Number of issuers[3]	10	9	34	9	7	7	7	7
CERTIFICATES								
Trading (million euro)	22.0	92.1	16.8	2.7	1.1	0.1	0.7	0.1
Number of issues[3]	16	32	13	3	2	1	2	2
Number of issuers[3]	2	2	7	2	1	1	1	1
ETFs								
Trading (million euro)	6,229.7	3,495.4	2,935.7	1,027.0	454.0	639.1	1,170.1	317.8
Number of funds	65	75	74	73	74	75	75	75
Assets[4] (million euro)	827.8	327.2	274.7	277.3	274.7	264.3	282.1	n.a.

1 Available data: August 2013.
2 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.
3 Issues or issuers which were traded in each period.
4 Assets from national collective investment schemes is only included because assets from foreign ones are not available.
n.a.: No available data.

1.3.3 Non-financial derivatives

Trading on MFAO[1]

TABLE 1.20

				2012		2013		
Number of contracts	2010	2011	2012	III	IV	I	II	III[2]
On olive oil								
Extra-virgin olive oil futures[3]	165,840	63,173	78,566	33,350	34,639	30,818	23,957	15,235

1 Olive oil futures market.
2 Available data: August 2013.
3 Nominal amount of the contract: 1,000 kg.

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
BROKER-DEALERS								
Spanish firms	50	49	46	47	46	46	46	46
Branches	80	78	15	17	15	17	21	20
Agents	6,560	6,589	6,267	6,305	6,267	6,222	6,283	6,295
BROKERS								
Spanish firms	45	45	41	43	41	41	40	42
Branches	13	14	10	12	10	12	11	10
Agents	689	655	601	622	601	531	538	550
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	6	6	6	6	6	6	6	6
Branches	5	5	5	5	5	5	5	5
Agents	2	2	2	2	2	1	1	1
FINANCIAL ADVISORY FIRMS								
Spanish firms	58	82	101	101	101	107	112	119
CREDIT INSTITUTIONS[2]								
Spanish firms	186	187	172	181	172	165	162	163

1 Available data: August 2013.
2 Source: Banco de España.

Investment services. Foreign firms

TABLE 2.2

	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
Total	2,671	2,814	2,992	2,950	2,992	3,036	3,065	3,109
European Economic Area investment services firms	2,238	2,377	2,534	2,501	2,534	2,578	2,606	2,645
Branches	40	36	37	39	37	35	35	36
Free provision of services	2,198	2,341	2,497	2,462	2,497	2,543	2,571	2,609
Credit institutions[2]	433	437	458	449	458	458	459	464
From EU member states	423	429	448	439	448	448	449	454
Branches	55	55	55	55	55	55	55	56
Free provision of services	368	374	393	384	393	393	394	398
Subsidiaries of free provision of services institutions	0	0	0	0	0	0	0	0
From non-EU states	10	8	10	10	10	10	10	10
Branches	8	7	8	8	8	8	8	8
Free provision of services	2	1	2	2	2	2	2	2

1 Available data: August 2013.
2 Source: Banco de España and CNMV.

Intermediation of spot transactions[1]

TABLE 2.3

Million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II
FIXED-INCOME								
Total	14,595,537.7	13,609,652.0	10,508,139.1	2,351,018.0	2,832,874.6	2,616,273.8	2,468,066.1	2,718,987.5
Broker-dealers	3,382,387.4	3,759,229.2	2,900,770.8	662,487.2	702,234.0	815,092.5	1,186,861.5	1,410,101.5
Spanish organised markets	522,958.6	436,875.9	556,756.0	108,627.0	79,741.7	241,643.5	601,621.9	683,222.7
Other Spanish markets	2,405,641.0	2,764,344.5	1,943,730.6	450,379.2	535,897.8	477,969.5	499,387.4	644,733.3
Foreign markets	453,787.8	558,008.8	400,284.2	103,481.0	86,594.5	95,479.5	85,852.2	82,145.5
Brokers	11,213,150.3	9,850,422.8	7,607,368.3	1,688,530.8	2,130,640.6	1,801,181.3	1,281,204.6	1,308,886.0
Spanish organised markets	2,497,019.3	2,931,505.5	2,521,310.9	604,821.0	821,980.5	410,948.1	14,619.9	15,521.4
Other Spanish markets	8,213,592.3	6,741,733.6	4,883,226.6	1,047,003.2	1,248,066.3	1,355,643.5	1,231,050.3	1,246,976.9
Foreign markets	502,538.7	177,183.7	202,830.8	36,706.6	60,593.8	34,589.7	35,534.4	46,387.7
EQUITY								
Total	1,126,824.3	977,126.1	736,602.3	221,319.7	161,003.6	169,249.7	158,648.2	166,996.5
Broker-dealers	1,096,904.7	952,388.7	692,058.6	213,622.6	152,091.4	147,036.2	150,429.3	158,671.5
Spanish organised markets	1,010,063.4	882,143.3	639,498.2	200,822.8	139,669.9	134,707.5	138,226.7	144,150.0
Other Spanish markets	4,112.2	3,418.3	1,806.3	493.9	313.5	568.3	479.7	735.9
Foreign markets	82,729.1	66,827.1	50,754.1	12,305.9	12,108.0	11,760.4	11,722.9	13,785.6
Brokers	29,919.6	24,737.4	44,543.7	7,697.1	8,912.2	22,213.5	8,218.9	8,325.0
Spanish organised markets	24,169.3	19,372.7	14,532.5	3,390.0	2,446.6	4,492.8	4,967.8	2,880.2
Other Spanish markets	706.4	508.5	6,695.5	1,341.4	2,274.0	2,892.4	625.2	1,592.4
Foreign markets	5,043.9	4,856.2	23,315.7	2,965.7	4,191.6	14,828.3	2,625.9	3,852.4

1 Period accumulated data. Quarterly.

Intermediation of derivative transactions[1,2]

TABLE 2.4

Million euro	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II
Total	14,478,583.8	11,827,134.6	6,536,223.6	1,998,204.2	1,448,643.7	1,228,532.3	1,676,070.3	1,428,048.1
Broker-dealers	11,604,972.2	9,113,831.5	5,777,847.8	1,634,630.7	1,363,424.2	1,143,602.4	1,600,131.2	1,387,106.6
Spanish organised markets	3,462,417.7	3,005,801.7	1,819,388.6	549,297.2	444,898.0	361,123.2	576,888.1	572,353.3
Foreign organised markets	6,843,714.9	5,658,687.9	3,718,052.1	1,025,143.7	874,970.8	719,909.4	954,427.8	765,383.5
Non-organised markets	1,298,839.6	449,341.9	240,407.1	60,189.8	43,555.4	62,569.8	68,815.3	49,369.8
Brokers	2,873,611.6	2,713,303.1	758,375.8	363,573.5	85,219.5	84,929.9	75,939.1	40,941.5
Spanish organised markets	41,003.2	6,818.6	5,371.0	1,286.6	1,132.3	1,114.4	1,700.9	1,198.5
Foreign organised markets	1,886,757.1	2,451,627.9	566,337.3	311,745.2	33,694.7	41,781.0	7,803.0	8,837.8
Non-organised markets	945,851.3	254,856.6	186,667.5	50,541.7	50,392.5	42,034.5	66,435.2	30,905.2

1 The amount of the buy and sell transactions of financial assets, financial futures on values and interest rates, and other transactions on interest rates will be the securities nominal or notional value or the principal to which the contract reaches. The amount of the transactions on options will be the strike price of the underlying asset multiplied by the number of instruments committed.

2 Period accumulated data. Quarterly.

Portfolio management. Number of portfolios and assets under management[1]

TABLE 2.5

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II
NUMBER OF PORTFOLIOS								
Total	13,231	13,409	10,985	11,438	11,154	10,985	10,983	11,909
Broker-dealers	7,530	6,483	4,122	4,488	4,238	4,122	3,987	3,986
IIC[2]	67	89	68	86	68	68	67	71
Other[3]	7,463	6,394	4,054	4,402	4,170	4,054	3,920	3,915
Brokers	3,690	3,637	3,680	3,764	3,726	3,680	3,887	4,371
IIC[2]	43	53	51	57	51	51	51	54
Other[3]	3,647	3,584	3,629	3,707	3,675	3,629	3,836	4,317
Portfolio management companies	2,011	3,289	3,183	3,186	3,190	3,183	3,109	3,552
IIC[2]	5	5	5	5	5	5	5	5
Other[3]	2,006	3,284	3,178	3,181	3,185	3,178	3,104	3,547
ASSETS UNDER MANAGEMENT (thousand euro)								
Total	9,347,508	9,554,589	9,350,841	8,674,402	9,003,989	9,350,841	9,860,712	10,225,139
Broker-dealers	4,078,668	4,166,167	3,578,436	3,627,208	3,565,715	3,578,436	3,678,390	3,768,661
IIC[2]	838,040	961,931	965,479	951,115	936,229	965,479	1,053,238	1,100,775
Other[3]	3,240,629	3,204,236	2,612,957	2,676,093	2,629,486	2,612,957	2,625,150	2,667,886
Brokers	2,380,015	2,361,944	1,927,219	1,873,674	1,944,396	1,927,219	2,063,302	2,219,817
IIC[2]	848,597	863,856	417,981	400,604	412,365	417,981	451,901	506,408
Other[3]	1,531,418	1,498,088	1,509,238	1,473,070	1,532,030	1,509,238	1,611,401	1,713,409
Portfolio management companies	2,888,825	3,026,478	3,845,186	3,173,520	3,493,878	3,845,186	4,119,020	4,236,661
IIC[2]	111,461	98,645	107,691	101,978	109,313	107,691	113,476	108,919
Other[3]	2,777,364	2,927,833	3,737,495	3,071,542	3,384,565	3,737,495	4,005,544	4,127,742

1 Data at the end of period. Quarterly.
2 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes. Includes both resident and non resident IICs management.
3 Includes the rest of clients, both covered and not covered by the Investment Guarantee Fund, an investor compensation scheme regulated by Royal Decree 948/2001.

Financial advice. Number of contracts and assets advised[1]

TABLE 2.6

	2010	2011	2012	2012 II	2012 III	2012 IV	2013 I	2013 II
NUMBER OF CONTRACTS								
Total	5,642	7,748	9,362	7,885	7,998	9,362	9,654	9,977
Broker-dealers. Total[2]	1,366	1,509	1,198	1,240	1,214	1,198	1,341	1,426
Retail clients	1,354	1,492	1,183	1,224	1,201	1,183	1,295	1,407
Professional clients	6	12	13	12	11	13	13	14
Brokers. Total[2]	3,374	4,855	6,445	5,053	5,144	6,445	6,604	6,829
Retail clients	3,311	4,736	6,019	4,926	5,015	6,019	6,337	6,552
Professional clients	63	102	406	108	112	406	245	254
Portfolio management companies. Total[2]	902	1,384	1,719	1,592	1,640	1,719	1,709	1,722
Retail clients	893	1,374	1,712	1,583	1,632	1,712	1,703	1,717
Professional clients	9	10	7	9	8	7	6	5
ASSETS ADVISED (thousand euro)								
Total	7,480,464	8,156,953	7,589,555	8,394,570	8,416,146	7,589,555	7,843,675	7,669,724
Broker-dealers. Total[2]	1,254,313	1,213,014	820,465	1,167,044	1,060,070	820,465	978,055	917,210
Retail clients	557,140	863,386	568,359	818,683	814,465	568,359	619,965	660,825
Professional clients	261,782	61,711	27,613	64,106	20,726	27,613	24,231	24,259
Brokers. Total[2]	2,433,197	2,963,397	5,598,708	3,270,097	3,372,057	5,598,708	5,641,826	5,609,395
Retail clients	1,494,874	1,875,867	3,590,416	2,128,734	2,175,617	3,590,416	3,955,705	3,885,782
Professional clients	938,323	1,018,647	1,899,566	1,050,853	1,097,741	1,899,566	1,568,975	1,601,814
Portfolio management companies. Total[2]	3,792,954	3,980,542	1,170,382	3,957,429	3,984,019	1,170,382	1,223,794	1,143,119
Retail clients	381,725	594,195	705,185	638,060	676,580	705,185	723,678	715,290
Professional clients	3,411,229	3,386,347	465,197	3,319,369	3,307,439	465,197	500,116	427,829

1 Data at the end of period. Quarterly.
2 Includes retail, professional and other clients.

Aggregated income statement. Broker-dealers

TABLE 2.7

				2012		2013		
Thousand euro[1]	2010	2011	2012	III	IV	I	II	III[2]
I. Interest income	102,054	91,542	56,161	43,328	56,161	7,515	26,865	38,225
II. Net commission	533,858	490,517	410,740	324,639	410,740	97,329	187,136	215,990
Commission revenues	798,152	776,641	589,027	460,661	589,027	142,577	278,910	322,062
Brokering	555,207	529,711	348,403	276,779	348,403	88,899	175,651	202,849
Placement and underwriting	8,499	7,446	6,869	4,689	6,869	4,293	8,367	8,445
Securities deposit and recording	22,367	21,060	19,775	15,090	19,775	4,308	8,944	10,388
Portfolio management	13,880	16,186	14,883	10,005	14,883	3,544	6,960	8,162
Design and advising	53,722	60,712	12,067	19,856	12,067	4,551	8,410	9,753
Stocks search and placement	36	485	50	31	50	15	30	41
Market credit transactions	9	8	8	6	8	6	84	12
IICs[3] marketing	65,487	59,588	45,050	33,927	45,050	11,374	24,433	28,972
Other	78,944	81,446	141,924	100,278	141,924	25,586	46,032	53,440
Commission expenses	264,294	286,124	178,287	136,022	178,287	45,248	91,774	106,072
III. Financial investment income	48,588	271,956	9,403	39,959	9,403	36,603	184,105	187,890
IV. Net exchange differences and other operating products and expenses	26,081	-194,355	-28,522	24,051	-28,522	-5,908	-126,975	-126,669
V. Gross income	710,580	659,659	447,782	431,977	447,782	135,539	271,131	315,436
VI. Operating income	276,253	207,379	35,304	129,448	35,304	29,470	70,127	83,634
VII. Earnings from continuous activities	196,834	148,553	-12,057	107,043	-12,057	27,353	62,100	72,356
VIII. Net earnings of the period	196,834	148,553	-12,057	107,043	-12,057	27,353	62,100	72,356

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
2 Available data: July 2013.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Results of proprietary trading. Broker-dealers

TABLE 2.8

Thousand euro[1]	2010	2011	2012	2012 II	III	IV	2013 I	II
TOTAL								
Total	181,096	158,070	21,318	67,027	106,042	21,318	33,556	81,363
Money market assets and public debt	17,536	16,458	18,936	9,755	15,865	18,936	6,465	11,646
Other fixed-income securities	67,554	79,041	16	36,626	52,456	16	18,743	38,246
Domestic portfolio	55,334	67,052	-14,813	29,221	41,412	-14,813	16,168	31,665
Foreign portfolio	12,220	11,989	14,829	7,405	11,044	14,829	2,575	6,581
Equities	284,782	-406,742	356,595	100,392	229,149	356,595	-152,244	-148,956
Domestic portfolio	-9,277	10,381	8,003	593	3,572	8,003	1,937	3,474
Foreign portfolio	294,059	-417,123	348,592	99,799	225,577	348,592	-154,181	-152,430
Derivatives	-229,222	669,747	-308,833	-19,142	-209,674	-308,833	169,543	304,823
Repurchase agreements	-2,166	785	-3,871	-2,239	-3,680	-3,871	-436	-514
Market credit transactions	0	0	0	0	0	0	0	32
Deposits and other transactions with financial Intermediaries	-359	16,668	5,383	3,431	4,927	5,383	615	1,463
Net exchange differences	24,445	-198,307	-37,363	-61,397	17,439	-37,363	-8,399	-132,712
Other operating products and expenses	1,635	3,952	8,841	5,042	6,612	8,841	2,490	5,737
Other transactions	16,891	-23,532	-18,386	-5,441	-7,052	-18,386	-3,221	1,598
INTEREST INCOME								
Total	102,053	91,541	56,160	32,650	43,328	56,160	7,515	26,865
Money market assets and public debt	5,787	2,327	4,055	1,424	1,889	4,055	1,430	2,404
Other fixed-income securities	21,773	20,241	17,089	9,336	13,660	17,089	1,643	1,870
Domestic portfolio	20,174	17,903	15,180	8,376	12,244	15,180	746	1,223
Foreign portfolio	1,599	2,338	1,909	960	1,416	1,909	897	647
Equities	76,685	54,249	35,220	23,729	31,005	35,220	3,869	18,541
Domestic portfolio	57,237	36,991	19,064	15,651	17,033	19,064	48	2,741
Foreign portfolio	19,448	17,258	16,156	8,078	13,972	16,156	3,821	15,800
Repurchase agreements	-2,166	785	-3,871	-2,239	-3,680	-3,871	-436	-514
Market credit transactions	0	0	0	0	0	0	0	32
Deposits and other transactions with financial Intermediaries	-359	16,668	5,383	3,431	4,927	5,383	615	1,463
Other transactions	333	-2,729	-1,716	-3,031	-4,473	-1,716	394	3,069
FINANCIAL INVEST INCOME								
Total	48,588	271,956	9,404	92,438	39,958	9,404	36,604	184,105
Money market assets and public debt	11,749	14,131	14,881	8,331	13,976	14,881	5,035	9,242
Other fixed-income securities	45,781	58,800	-17,073	27,290	38,796	-17,073	17,100	36,376
Domestic portfolio	35,160	49,149	-29,993	20,845	29,168	-29,993	15,422	30,442
Foreign portfolio	10,621	9,651	12,920	6,445	9,628	12,920	1,678	5,934
Equities	208,097	-460,991	321,375	76,663	198,144	321,375	-156,113	-167,497
Domestic portfolio	-66,514	-26,610	-11,061	-15,058	-13,461	-11,061	1,889	733
Foreign portfolio	274,611	-434,381	332,436	91,721	211,605	332,436	-158,002	-168,230
Derivatives	-229,222	669,747	-308,833	-19,142	-209,674	-308,833	169,543	304,823
Other transactions	12,183	-9,731	-946	-704	-1,284	-946	1,039	1,161
EXCHANGE DIFFERENCES AND OTHER ITEMS								
Total	30,455	-205,427	-44,246	-58,061	22,756	-44,246	-10,563	-129,607
Net exchange differences	24,445	-198,307	-37,363	-61,397	17,439	-37,363	-8,399	-132,712
Other operating products and expenses	1,635	3,952	8,841	5,042	6,612	8,841	2,490	5,737
Other transactions	4,375	-11,072	-15,724	-1,706	-1,295	-15,724	-4,654	-2,632

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.

Aggregated income statement. Brokers

TABLE 2.9

				2012		2013		
Thousand euro[1]	2010	2011	2012	III	IV	I	II	III[2]
I. Interest income	1,629	2,481	1,912	1,401	1,912	391	923	1,040
II. Net commission	109,165	97,886	93,246	67,075	93,246	24,515	51,268	59,560
Commission revenues	126,055	112,351	108,198	77,220	108,198	28,394	59,205	69,002
Brokering	38,176	36,354	38,112	28,968	38,112	10,384	20,177	23,292
Placement and underwriting	2,748	2,870	3,128	1,871	3,128	199	1,957	2,373
Securities deposit and recording	366	441	576	458	576	138	306	345
Portfolio management	19,489	12,352	14,476	8,356	14,476	3,044	6,341	7,395
Design and advising	3,618	5,349	3,123	3,822	3,123	1,065	1,879	2,146
Stocks search and placement	304	61	88	0	88	55	55	55
Market credit transactions	27	42	30	23	30	3	11	11
IICs[3] marketing	23,946	21,381	25,949	15,124	25,949	7,111	15,402	17,857
Other	37,381	33,500	22,715	18,599	22,715	6,396	13,076	15,528
Commission expenses	16,890	14,465	14,952	10,145	14,952	3,879	7,937	9,442
III. Financial investment income	456	622	1,255	1,093	1,255	91	35	109
IV. Net exchange differences and other operating products and expenses	-1,416	-1,539	-1,459	-1,340	-1,459	-208	-675	-822
V. Gross income	109,834	99,450	94,954	68,229	94,954	24,789	51,551	59,887
VI. Operating income	9,457	7,758	4,598	3,398	4,598	3,375	8,736	9,297
VII. Earnings from continuous activities	6,452	5,489	3,583	2,960	3,583	3,373	8,546	9,028
VIII. Net earnings of the period	6,452	5,489	3,583	2,960	3,583	3,373	8,546	9,028

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
2 Available data: July 2013.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Aggregated income statement. Portfolio management companies

TABLE 2.10

				2012		2013		
Thousand euro[1]	2010	2011	2012	III	IV	I	II	III[2]
I. Interest income	407	682	733	559	733	182	341	396
II. Net commission	10,097	7,988	7,879	5,921	7,879	2,014	4,102	4,951
Commission revenues	20,994	18,477	17,887	13,408	17,887	4,625	9,384	11,155
Portfolio management	18,020	16,582	16,307	12,168	16,307	4,226	8,564	10,209
Design and advising	1,160	1,894	1,579	1,240	1,579	399	819	946
IICs[3] marketing	34	0	0	0	0	0	0	0
Other	1,779	0	0	0	0	0	0	0
Commission expenses	10,897	10,489	10,008	7,487	10,008	2,611	5,282	6,204
III. Financial investment income	51	186	4	-41	4	-7	-11	2
IV. Net exchange differences and other operating products and expenses	22	-11	-1	9	-1	19	5	10
V. Gross income	10,577	8,845	8,615	6,448	8,615	2,208	4,437	5,359
VI. Operating income	1,154	1,526	1,406	1,071	1,406	474	1,024	1,344
VII. Earnings from continuous activities	939	1,042	953	728	953	316	687	908
VIII. Net earnings of the period	939	1,042	953	728	953	316	687	908

1 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
2 Available data: July 2013.
3 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

Surplus equity over capital adequacy requirements

TABLE 2.11

				2012			2013	
	2010	2011	2012	II	III	IV	I	II
TOTAL								
Total amount (thousand euro)	1,399,885	1,219,553	1,085,783	1,222,062	1,089,801	1,085,783	1,106,049	1,043,016
% surplus[1]	313.47	321.37	300.76	286.90	278.34	300.76	319.33	293.44
Number of companies according to its surplus percentage								
≤100%	29	36	37	37	35	37	37	31
>100- ≤300%	36	23	24	23	24	24	26	30
>300- ≤500%	17	19	17	21	23	17	14	16
>500%	19	22	15	18	14	15	16	15
BROKER-DEALERS								
Total amount (thousand euro)	1,315,284	1,134,406	1,017,597	1,137,674	1,012,821	1,017,597	1,040,039	969,750
% surplus[1]	331.24	345.52	329.03	302.28	296.89	329.03	355.90	321.70
Number of companies according to its surplus percentage								
≤100%	8	12	7	12	9	7	10	10
>100- ≤300%	19	10	17	10	13	17	16	15
>300- ≤500%	12	13	12	14	16	12	10	12
>500%	11	14	10	12	9	10	10	9
BROKERS								
Total amount (thousand euro)	67,273	68,007	53,531	67,193	61,602	53,531	53,556	59,966
% surplus[1]	192.26	189.22	161.23	200.37	188.07	161.23	160.50	184.41
Number of companies according to its surplus percentage								
≤100%	19	21	27	22	23	27	24	18
>100- ≤300%	14	12	6	12	10	6	9	14
>300- ≤500%	5	5	4	6	6	4	3	3
>500%	7	7	4	5	4	4	5	5
PORTFOLIO MANAGEMENT COMPANIES								
Total amount (thousand euro)	17,328	17,140	14,655	17,195	15,378	14,655	12,454	13,300
% surplus[1]	119.49	112.61	79.01	107.13	87.13	79.01	59.97	61.94
Number of companies according to its surplus percentage								
≤100%	2	3	3	3	3	3	3	3
>100- ≤300%	3	1	1	1	1	1	1	1
>300- ≤500%	0	1	1	1	1	1	1	1
>500%	1	1	1	1	1	1	1	1

1 Average surplus percentage is weighted by the required equity of each company. It is an indicator of the number of times, in percentage terms, that the surplus contains the required equity in an average company.

Return on equity (ROE) before taxes[1]

TABLE 2.12

	2010	2011	2012	2012 II	III	IV	2013 I	II
TOTAL								
Average (%)[2]	14.68	13.22	3.19	11.56	11.78	3.19	9.99	12.18
Number of companies according to its annualized return								
Losses	24	32	31	38	36	31	29	25
0-≤15%	45	44	33	35	33	33	34	32
>15-<45%	17	14	24	18	22	24	20	24
>45-≤75%	8	5	3	4	1	3	7	5
>75%	7	5	2	4	4	2	3	6
BROKER-DEALERS								
Average (%)[2]	15.28	13.79	2.97	12.12	12.36	2.97	9.72	11.78
Number of companies according to its annualized return								
Losses	10	13	14	12	14	14	13	13
0-≤15%	24	24	18	23	21	18	19	17
>15-<45%	8	7	11	10	11	11	11	12
>45-≤75%	4	2	2	2	0	2	2	2
>75%	4	3	1	1	1	1	1	2
BROKERS								
Average (%)[2]	8.16	7.46	6.25	5.17	5.54	6.25	15.20	20.26
Number of companies according to its annualized return								
Losses	13	18	15	23	20	15	14	10
0-≤15%	17	16	11	9	8	11	12	11
>15-<45%	8	6	13	8	11	13	8	12
>45-≤75%	4	3	1	2	1	1	5	3
>75%	3	2	1	3	3	1	2	4
PORTFOLIO MANAGEMENT COMPANIES								
Average (%)[2]	2.12	4.70	6.59	3.82	4.30	6.59	5.43	5.87
Number of companies according to its annualized return								
Losses	1	1	2	3	2	2	2	2
0-≤15%	4	4	4	3	4	4	3	4
>15-<45%	1	1	0	0	0	0	1	0
>45-≤75%	0	0	0	0	0	0	0	0
>75%	0	0	0	0	0	0	0	0

1 ROE has been calculated as:

$$ROE = \frac{\textit{Earnings before taxes (annualized)}}{\textit{Own Funds}}$$

Own_Funds= Share capital + Paid-in surplus + Reserves – Own shares + Prior year profits and retained earnings – Interim dividend.

2 Average weighted by equity, %.

Financial advisory firms. Main figures

TABLE 2.13

Thousand euro	2010	2011	2012	2011 II	2012 I	II	2013 I
ASSETS ADVISED[1]							
Total	16,114,880	16,033,108	14,776,498	16,033,108	14,694,319	14,776,498	15,437,210
Retail clients	1,710,385	2,181,943	3,267,079	2,181,943	2,443,271	3,267,079	3,973,782
Professional	3,854,641	3,151,565	3,594,287	3,151,565	3,396,260	3,594,287	3,472,835
Other	10,549,854	10,699,600	7,915,132	10,699,600	8,854,788	7,915,132	7,990,593
COMMISSION INCOME[2]							
Total	20,745	31,053	26,177	31,053	13,915	26,177	14,685
Commission revenues	20,629	30,844	26,065	30,844	13,833	26,065	14,660
Other income	116	209	112	209	82	112	25
EQUITY							
Total	10,062	12,320	13,402	12,320	13,123	13,402	12,153
Share capital	3,014	3,895	4,365	3,895	4,328	4,365	4,820
Reserves and retained earnings	247	950	4,798	950	5,912	4,798	4,306
Income for the year[2]	6,801	7,474	4,239	7,474	2,883	4,239	3,027

1 Data at the end of each period. Half-yearly.
2 Accumulated data from the beginning of the year to the last day of every semester.

3 Collective investment schemes (IICs)[a,b]

Number, management companies and depositories of collective investment schemes registered at the CNMV

TABLE 3.1

				2012		2013		
	2010	2011	2012	III	IV	I	II	III[1]
Total financial IICs	5,627	5,460	5,246	5,293	5,246	5,243	5,224	5,212
Mutual funds	2,429	2,341	2,205	2,224	2,205	2,207	2,163	2,131
Investment companies	3,133	3,056	2,981	3,007	2,981	2,979	3,006	3,025
Funds of hedge funds	32	27	24	26	24	24	22	22
Hedge funds	33	36	36	36	36	33	33	34
Total real estate IICs	16	14	14	14	14	15	16	16
Real estate investment funds	8	6	6	6	6	6	6	6
Real estate investment companies	8	8	8	8	8	9	10	10
Total foreign IICs marketed in Spain	660	739	754	749	754	753	753	766
Foreign funds marketed in Spain	379	426	421	418	421	417	406	408
Foreign companies marketed in Spain	281	313	333	331	333	336	347	358
Management companies	123	114	105	110	105	105	102	101
IIC depositories	114	97	84	87	84	83	80	78

1 Available data: August 2013.

Number of IICs investors and shareholders

TABLE 3.2

				2012		2013		
	2010	2011	2012	III	IV	I	II[1]	III[2]
Total financial IICs	5,578,524	5,249,813	4,815,636	4,939,311	4,815,636	4,927,984	5,054,555	5,131,339
Mutual funds	5,160,889	4,835,193	4,410,771	4,531,940	4,410,771	4,523,140	4,646,619	4,723,768
Investment companies	417,635	414,620	404,865	407,371	404,865	404,844	407,936	407,571
Total real estate IICs	76,223	30,678	26,155	28,522	26,155	25,069	22,558	22,581
Real estate investment funds	75,280	29,735	25,218	27,587	25,218	24,048	21,541	21,563
Real estate investment companies	943	943	937	935	937	1,021	1,017	1,018
Total foreign IICs marketed in Spain[3]	865,767	761,380	817,309	819,911	817,309	887,121	951,529	–
Foreign funds marketed in Spain	193,233	177,832	163,255	186,878	163,255	186,449	185,490	–
Foreign companies marketed in Spain	666,534	583,548	654,054	633,033	654,054	700,672	766,039	–

1 Provisional data for foreign IICs.
2 Available data: July 2013.
3 Exchange traded funds (ETFs) data is not included.

IICs total net assets

TABLE 3.3

				2012		2013		
Million euro	2010	2011	2012	III	IV	I	II[1]	III[2]
Total financial IICs	170,073.1	155,982.6	147,722.2	149,122.7	147,722.2	154,845.3	160,704.6	166,066.1
Mutual funds[3]	143,918.2	132,368.6	124,040.4	125,108.2	124,040.4	130,295.4	135,933.5	140,598.6
Investment companies	26,155.0	23,614.0	23,681.8	24,014.5	23,681.8	24,549.9	24,771.1	25,467.5
Total real estate IICs	6,437.5	4,807.1	4,485.5	4,608.6	4,485.5	4,915.2	4,839.5	4,805.7
Real estate investment funds	6,115.6	4,494.6	4,201.5	4,313.9	4,201.5	4,071.4	3,985.5	3,955.0
Real estate investment companies	321.9	312.5	284.1	294.7	284.1	843.8	854.0	850.7
Total foreign IICs marketed in Spain[4]	36,692.9	29,969.5	37,990.7	38,409.5	37,990.7	44,504.2	48,227.8	–
Foreign funds marketed in Spain	8,535.9	6,382.9	6,248.7	7,591.8	6,248.7	7,559.1	7,851.0	–
Foreign companies marketed in Spain	28,156.9	23,586.6	31,742.0	30,817.7	31,742.0	36,945.1	40,376.8	–

1 Provisional data for foreign IICs.
2 Available data: July 2013.
3 For June 2013, mutual funds investments in financial IICs reached 3.75 billion euro.
4 Exchange traded funds (ETFs) data is not included.

a IICs: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.
b In this document, neither hedge funds nor funds of hedge funds are included in the figures referred to mutual funds.

Mutual funds asset allocation[1]

TABLE 3.4

				2012			2013	
Million euro	2010	2011	2012	II	III	IV	I	II[2]
Asset	143,918.2	132,368.6	124,040.4	125,120.7	125,108.2	124,040.4	130,295.4	135,933.5
Portfolio investment	137,295.4	126,370.0	118,446.5	119,257.1	119,558.0	118,446.5	123,616.6	129,370.9
Domestic securities	89,630.2	90,394.4	82,929.6	83,543.1	83,428.6	82,929.6	88,257.3	94,936.5
Debt securities	68,575.1	72,076.1	65,999.1	67,492.7	67,268.2	65,999.1	67,522.7	71,448.3
Shares	3,829.2	3,087.0	3,140.8	2,812.9	2,942.0	3,140.8	3,327.5	3,518.9
Investment collective schemes	7,338.6	6,038.5	3,170.7	3,566.2	3,326.8	3,170.7	3,563.9	3,913.4
Deposits in Credit institutions	9,460.8	8,961.2	10,333.3	9,415.4	9,650.0	10,333.3	13,647.7	15,750.8
Derivatives	426.2	231.5	285.7	256.0	241.6	285.7	195.5	305.1
Other	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign securities	47,626.5	35,968.1	35,512.7	35,708.0	36,123.3	35,512.7	35,355.8	34,430.8
Debt securities	30,337.4	22,713.5	20,493.9	21,937.0	21,553.5	20,493.9	18,969.8	18,053.8
Shares	8,385.8	7,037.3	7,668.6	7,069.7	7,452.0	7,668.6	8,241.2	8,458.3
Investment collective schemes	8,404.7	6,061.6	7,112.3	6,485.3	6,928.3	7,112.3	7,904.4	7,725.9
Deposits in Credit institutions	108.0	23.0	45.8	59.8	37.4	45.8	36.9	39.3
Derivatives	387.1	131.6	191.6	154.7	151.5	191.6	203.1	153.3
Other	3.6	1.1	0.6	1.5	0.6	0.6	0.5	0.1
Doubtful assets and matured investment	38.6	7.5	4.2	6.0	6.1	4.2	3.6	3.2
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	6,531.4	5,837.6	5,374.7	5,630.4	5,324.0	5,374.7	6,397.1	6,264.0
Net balance (Debtors - Creditors)	91.4	161.1	219.2	233.3	226.2	219.2	281.6	298.7

1 Hedge funds and funds of hedge funds are not included in these figures due to the entry into force, on 31 December 2008, of Circular CR CNMV 3/2008 which establishes a different deadline in reporting accounting information to CNMV.
2 Provisional data.

Investment companies asset allocation

TABLE 3.5

				2012			2013	
Million euro	2010	2011	2012	II	III	IV	I	II[1]
Asset	26,155.0	23,614.0	23,681.8	23,473.9	24,014.5	23,681.8	24,549.9	24,771.1
Portfolio investment	25,187.3	22,521.9	22,512.4	22,149.6	22,300.8	22,512.4	23,310.1	23,438.8
Domestic securities	12,881.4	12,385.3	11,568.0	11,613.0	11,196.4	11,568.0	11,859.7	11,939.5
Debt securities	5,435.9	7,460.8	6,021.4	7,006.9	6,562.6	6,021.4	5,937.5	6,092.5
Shares	2,988.6	2,508.5	2,271.7	2,275.2	2,149.5	2,271.7	2,336.8	2,332.0
Investment collective schemes	758.7	667.4	701.0	646.1	650.7	701.0	800.6	805.7
Deposits in Credit institutions	3,675.2	1,721.7	2,531.9	1,649.6	1,794.8	2,531.9	2,740.9	2,671.3
Derivatives	-5.9	-5.2	7.7	1.4	4.0	7.7	10.0	4.9
Other	29.0	32.2	34.3	33.9	34.6	34.3	33.9	33.1
Foreign securities	12,298.1	10,131.1	10,940.2	10,531.5	11,100.0	10,940.2	11,446.1	11,495.1
Debt securities	3,606.8	3,070.6	2,489.2	3,024.4	2,972.9	2,489.2	2,217.1	2,041.9
Shares	4,166.0	3,384.3	3,587.8	3,345.4	3,433.4	3,587.8	3,822.5	3,955.9
Investment collective schemes	4,390.5	3,516.3	4,700.2	3,997.7	4,523.9	4,700.2	5,261.0	5,359.0
Deposits in Credit institutions	12.1	10.8	14.0	12.1	11.0	14.0	13.5	10.6
Derivatives	119.9	145.1	147.1	147.6	154.6	147.1	130.2	125.9
Other	2.8	3.9	1.8	4.2	4.2	1.8	1.7	1.8
Doubtful assets and matured investment	7.9	5.5	4.3	5.1	4.4	4.3	4.3	4.7
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Cash	832.0	854.6	959.7	1,030.2	1,530.9	959.7	1,076.2	1,127.9
Net balance (Debtors - Creditors)	135.5	237.4	209.6	294.0	182.7	209.6	163.4	204.2

1 Provisional data.

Financial mutual funds: number, investors and total net assets by category[1]

TABLE 3.6

				2012		2013		
	2010	2011	2012	III	IV	I	II	III[2]
NO. OF FUNDS								
Total financial mutual funds	2,408	2,310	2,185	2,197	2,185	2,185	2,117	2,108
Fixed-income[3]	537	508	454	459	454	448	408	400
Mixed fixed-income[4]	160	140	125	128	125	126	129	128
Mixed equity[5]	138	128	117	119	117	120	124	126
Euro equity	172	148	127	129	127	126	116	113
Foreign equity	232	220	211	214	211	209	198	194
Guaranteed fixed-income	276	351	398	393	398	409	402	401
Guaranteed equity[6]	499	420	361	369	361	348	336	338
Global funds	192	203	192	194	192	182	174	172
Passive management	61	59	85	75	85	103	126	133
Absolute return	141	133	115	117	115	114	104	103
INVESTORS								
Total financial mutual funds	5,160,889	4,835,193	4,410,771	4,531,940	4,410,771	4,523,140	4,646,619	4,723,768
Fixed-income[3]	1,622,664	1,384,946	1,261,634	1,297,686	1,261,634	1,283,052	1,347,295	1,371,691
Mixed fixed-income[4]	270,341	206,938	188,574	193,992	188,574	194,084	203,705	206,669
Mixed equity[5]	171,336	145,150	138,096	140,387	138,096	140,132	141,715	145,643
Euro equity	266,395	237,815	220,450	220,342	220,450	231,881	239,309	245,689
Foreign equity	501,138	448,539	398,664	417,276	398,664	409,552	427,789	435,788
Guaranteed fixed-income	790,081	1,042,658	1,075,852	1,082,897	1,075,852	1,114,875	1,124,209	1,110,351
Guaranteed equity[6]	1,065,426	912,298	727,880	783,203	727,880	703,587	655,760	656,050
Global funds	105,720	127,336	101,321	105,824	101,321	104,718	111,567	115,124
Passive management	90,343	100,416	125,003	110,678	125,003	170,399	224,481	262,443
Absolute return	277,445	229,097	173,297	179,655	173,297	170,860	170,789	174,320
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	143,918.2	132,368.6	124,040.4	125,108.2	124,040.4	130,295.4	135,933.5	140,599
Fixed-income[3]	56,614.6	46,945.5	40,664.6	41,512.2	40,664.6	42,690.3	46,736.8	48,399.1
Mixed fixed-income[4]	7,319.0	5,253.6	5,500.9	5,512.9	5,500.9	5,965.6	6,618.4	6,867.8
Mixed equity[5]	3,470.5	2,906.1	3,179.9	3,116.2	3,179.9	3,593.6	3,911.9	4,202.2
Euro equity	5,356.8	4,829.2	5,270.2	4,891.7	5,270.2	5,691.8	5,867.8	6,386.6
Foreign equity	8,037.3	6,281.2	6,615.0	6,663.2	6,615.0	7,224.0	7,297.3	7,709.6
Guaranteed fixed-income	26,180.2	35,058.0	36,445.0	36,489.9	36,445.0	37,653.1	37,316.1	36,308.0
Guaranteed equity[6]	22,046.5	18,014.5	14,413.2	15,383.0	14,413.2	13,925.5	13,032.2	13,237.8
Global funds	4,440.3	5,104.7	4,358.6	4,288.4	4,358.6	4,366.9	4,157.3	4,332.0
Passive management	2,104.8	1,986.2	2,991.2	2,456.2	2,991.2	4,511.4	6,402.4	8,512.9
Absolute return	8,348.1	5,989.7	4,601.9	4,794.4	4,601.9	4,673.3	4,593.4	4,642.6

1 Sub-funds which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.
2 Available data: July 2013.
3 From III 2011 on includes: Fixed income euro, Foreign fixed-income, Monetary market funds and Short-term monetary market funds. Until II 2011 included: Fixed income euro, Foreign fixed-income and Monetary market funds.
4 Mixed euro fixed-income and Foreign mixed fixed-income.
5 Mixed euro equity and Foreign mixed equity.
6 Guaranteed equity and partial guarantee.

Financial mutual funds: Detail of investors and total net assets by type of investors

TABLE 3.7

	2010	2011	2012	2012 III	IV	2013 I	II	III[1]
INVESTORS								
Total financial mutual funds	5,160,889	4,835,193	4,410,771	4,531,940	4,410,771	4,523,140	4,646,619	4,723,768
Individuals	5,019,902	4,706,193	4,293,071	4,410,151	4,293,071	4,400,031	4,517,632	4,591,414
Residents	4,954,891	4,645,384	4,237,534	4,353,203	4,237,534	4,344,170	4,461,680	4,535,081
Non-residents	65,011	60,809	55,537	56,948	55,537	55,861	55,952	56,333
Legal entities	140,987	129,000	117,700	121,789	117,700	123,109	128,987	132,354
Credit Institutions	524	490	473	485	473	500	506	506
Other resident Institutions	139,550	127,765	116,589	120,632	116,589	121,922	127,784	131,128
Non-resident Institutions	913	745	638	672	638	687	697	720
TOTAL NET ASSETS (million euro)								
Total financial mutual funds	143,918.1	132,368.6	124,040.4	125,108.2	124,040.4	130,295.4	135,933.5	140,598.6
Individuals	113,660.6	106,627.6	101,963.8	102,386.1	101,963.8	106,634.4	110,298.6	113,753.6
Residents	111,900.1	105,088.0	100,515.7	100,914.7	100,515.7	105,154.3	108,795.3	112,177.0
Non-residents	1,760.5	1,539.6	1,448.0	1,471.4	1,448.0	1,480.1	1,503.4	1,576.7
Legal entities	30,257.5	25,741.1	22,076.6	22,722.0	22,076.6	23,661.0	25,634.9	26,845.0
Credit Institutions	1,926.1	1,446.7	1,075.4	1,258.3	1,075.4	610.5	496.7	501.3
Other resident Institutions	27,644.6	23,880.7	20,657.1	21,116.5	20,657.1	22,662.2	24,719.9	25,909.1
Non-resident Institutions	686.9	413.7	344.1	347.2	344.1	388.2	418.2	434.6

1 Available data: July 2013.

Subscriptions and redemptions of financial mutual funds by category[1]

TABLE 3.8

Million euro	2010	2011	2012	2012 II	III	IV	2013 I	II
SUBSCRIPTIONS								
Total financial mutual funds	78,805.2	58,145.0	51,006.7	11,127.7	18,221.5	8,724.7	17,899.8	24,368.4
Fixed-income	41,656.1	27,206.2	32,924.2	5,897.5	14,366.3	4,884.3	9,266.2	15,803.3
Mixed fixed-income	3,538.8	1,332.4	1,440.2	379.1	310.6	391.6	784.9	1,009.0
Mixed equity	1,221.7	815.7	590.0	196.1	94.7	197.7	396.6	496.0
Euro equity	1,673.0	2,085.0	1,257.5	350.6	312.1	310.3	699.9	866.6
Foreign equity	4,455.2	3,835.1	1,693.8	385.1	393.4	354.1	698.3	984.9
Guaranteed fixed-income	11,513.4	13,965.7	7,976.3	2,538.7	1,851.5	1,245.8	2,956.0	1,763.8
Guaranteed equity	5,120.1	2,570.7	1,420.7	494.9	272.4	179.0	469.3	502.7
Global funds	3,018.1	3,261.6	1,270.9	295.8	168.6	338.2	500.8	496.7
Passive management	683.8	924.7	1,402.2	366.8	263.6	522.2	1,689.9	1,969.8
Absolute return	5,924.8	2,147.7	1,031.0	223.1	188.3	301.5	437.9	475.6
REDEMPTIONS								
Total financial mutual funds	104,385.6	68,983.6	63,744.4	15,465.6	21,398.1	12,295.4	13,654.7	19,151.6
Fixed-income	68,806.1	37,633.9	38,767.8	7,859.9	16,247.2	6,157.7	7,353.2	11,758.0
Mixed fixed-income	4,955.7	3,258.1	2,215.4	626.3	484.2	508.1	471.7	599.6
Mixed equity	1,311.8	1,136.2	973.1	323.6	163.0	251.0	185.2	277.5
Euro equity	2,369.9	1,933.0	1,421.2	336.8	314.2	334.2	425.3	764.4
Foreign equity	3,303.3	4,652.7	2,114.4	549.3	449.3	540.6	583.0	827.3
Guaranteed fixed-income	6,797.4	6,737.4	8,829.3	3,059.8	1,793.0	2,220.3	2,427.3	2,099.3
Guaranteed equity	7,620.2	5,632.3	4,944.2	1,365.9	1,077.5	1,294.8	1,030.3	1,357.1
Global funds	2,694.4	2,316.3	1,278.4	367.6	269.7	330.7	301.1	316.0
Passive management	1,474.1	1,199.2	830.1	252.2	195.8	161.8	467.2	599.4
Absolute return	5,053.0	4,484.7	2,370.4	724.2	404.2	496.2	410.4	553.0

1 Estimated data.

Financial mutual funds asset change by category: Net subscriptions/redemptions and return on assets

TABLE 3.9

				2012			2013	
Million euro	2010	2011	2012	II	III	IV	I	II
NET SUBSCRIPTIONS/REDEMPTIONS								
Total financial mutual funds	-25,580.6	-10,853.1	-14,597.3	-4,419.4	-3,177.2	-3,579.6	4,224.4	5,205.5
Fixed-income	-27,149.9	-10,423.6	-7,739.7	-2,060.0	-1,885.4	-1,297.8	1,729.5	3,934.9
Mixed fixed-income	-1,417.0	-1,980.4	-18.8	-167.8	-46.1	-107.1	419.0	668.7
Mixed equity	-90.0	-375.5	35.8	-100.8	-45.2	-38.0	349.0	315.7
Euro equity	-696.9	142.0	-115.4	18.2	13.5	24.7	275.0	104.6
Foreign equity	1,152.1	-796.0	-425.3	-180.8	-38.6	-188.7	122.3	133.3
Guaranteed fixed-income	4,716.0	7,809.3	-338.8	-430.5	215.7	-873.0	537.8	-602.6
Guaranteed equity	-2,500.1	-4,053.9	-4,225.9	-1,030.4	-1,040.2	-1,258.9	-651.9	-952.7
Global funds	323.6	972.2	-1,021.0	-199.8	-105.5	-5.5	-61.0	-197.9
Passive management	-790.3	60.8	823.8	233.6	140.0	420.0	1,477.0	1,851.1
Absolute return	871.7	-2,207.9	-1,571.9	-501.0	-385.4	-255.3	27.7	-49.5
RETURN ON ASSETS								
Total financial mutual funds	135.7	-673.3	6,289.3	-2,452.8	3,175.6	2,513.4	2,035.2	433.0
Fixed-income	64.5	744.9	1,459.6	-203.9	560.1	450.4	296.4	111.7
Mixed fixed-income	-56.4	-85.1	266.1	-88.2	128.2	95.0	45.8	-15.8
Mixed equity	-53.4	-189.0	238.2	-93.0	121.1	101.8	64.7	2.6
Euro equity	-254.1	-666.9	558.8	-316.1	361.8	354.9	146.5	71.4
Foreign equity	877.4	-947.2	759.1	-258.8	328.2	140.5	486.7	-60.0
Guaranteed fixed-income	-170.4	1,070.4	1,727.4	-824.3	852.8	828.4	670.5	265.8
Guaranteed equity	-392.8	21.8	624.5	-435.2	480.2	289.0	164.2	59.4
Global funds	123.1	-307.8	274.9	-73.7	121.8	75.7	69.3	-11.7
Passive management	-109.7	-163.9	196.8	-96.5	135.6	115.0	47.4	39.9
Absolute return	107.7	-150.5	184.1	-63.0	85.8	62.9	43.7	-30.4

Financial mutual funds return on assets. Detail by category

TABLE 3.10

% of daily average total net assets	2010	2011	2012	2012 II	III	IV	2013 I	II
MANAGEMENT YIELDS								
Total financial mutual funds	1.09	0.45	6.03	-1.73	2.83	2.31	1.86	0.69
Fixed-income	0.78	2.28	4.33	-0.30	1.58	1.34	0.92	0.58
Mixed fixed-income	0.61	-0.15	6.05	-1.33	2.65	2.06	1.09	0.06
Mixed equity	0.11	-4.30	9.20	-2.67	4.34	3.68	2.25	0.57
Euro equity	-3.05	-10.77	12.84	-6.40	8.15	7.49	3.10	2.08
Foreign equity	14.80	-11.05	13.51	-3.51	5.48	2.60	7.57	-0.22
Guaranteed fixed-income	-0.11	3.77	5.30	-2.30	2.58	2.50	2.00	0.98
Guaranteed equity	-0.46	1.29	5.26	-2.34	3.36	2.26	1.45	0.77
Global funds	4.15	-4.55	7.80	-1.42	3.18	2.11	1.97	0.06
Passive management	-2.50	-6.27	7.99	-4.46	5.92	4.23	1.42	1.02
Absolute return	2.49	-0.90	4.93	-0.90	2.11	1.67	1.24	-0.47
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	0.91	0.93	0.94	0.23	0.23	0.24	0.24	0.27
Fixed-income	0.65	0.64	0.66	0.16	0.16	0.17	0.17	0.22
Mixed fixed-income	1.20	1.17	1.10	0.27	0.27	0.27	0.28	0.32
Mixed equity	1.65	1.59	1.51	0.38	0.37	0.36	0.37	0.42
Euro equity	1.78	1.80	1.77	0.44	0.44	0.44	0.43	0.47
Foreign equity	1.84	1.77	1.74	0.43	0.41	0.42	0.46	0.48
Guaranteed fixed-income	0.62	0.72	0.79	0.19	0.20	0.21	0.21	0.23
Guaranteed equity	1.24	1.24	1.23	0.30	0.31	0.31	0.30	0.31
Global funds	1.06	1.11	1.01	0.23	0.23	0.22	0.31	0.32
Passive management	0.72	0.75	0.81	0.20	0.20	0.19	0.18	0.19
Absolute return	1.06	1.08	1.03	0.26	0.23	0.24	0.29	0.30
EXPENSES. DEPOSITORY FEE								
Total financial mutual funds	0.09	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Fixed-income	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.03
Mixed fixed-income	0.10	0.12	0.08	0.02	0.02	0.02	0.02	0.03
Mixed equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Euro equity	0.11	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Foreign equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Guaranteed fixed-income	0.07	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Guaranteed equity	0.10	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Global funds	0.09	0.08	0.08	0.02	0.02	0.02	0.02	0.03
Passive management	0.07	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Absolute return	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02

Mutual funds quarterly returns. Detail by category

TABLE 3.11

In %	2010	2011	2012	2012 II	III	IV	2013 I	II
Total financial mutual funds	0.35	-0.08	5.50	-1.75	2.72	2.08	1.64	0.37
Fixed-income	0.11	1.56	3.54	-0.47	1.35	1.12	0.76	0.31
Mixed fixed-income	-0.54	-1.34	4.95	-1.55	2.41	1.75	0.83	-0.19
Mixed equity	-0.98	-5.64	7.83	-2.90	4.12	3.30	2.02	0.17
Euro equity	-2.94	-11.71	12.31	-6.34	8.16	7.28	3.05	1.32
Foreign equity	14.22	-10.83	13.05	-3.63	5.27	2.32	7.49	-0.45
Guaranteed fixed-income	-0.67	3.28	4.85	-2.32	2.42	2.27	1.72	0.68
Guaranteed equity	-1.79	0.14	5.07	-2.43	3.89	1.99	1.16	0.42
Global funds	3.22	-4.64	7.44	-1.23	2.93	2.03	1.75	-0.26
Passive management	-2.36	-7.33	7.10	-4.31	5.44	4.04	0.96	0.77
Absolute return	1.53	-1.87	3.84	-1.04	1.82	1.36	1.01	-0.57

Hedge funds and funds of hedge funds

TABLE 3.12

				2012			2013	
	2010	2011	2012	II	III	IV	I	II[1]
HEDGE FUNDS								
Investors/shareholders	1,852	2,047	2,427	2,169	2,305	2,427	2,384	2,346
Total net assets (million euro)	646.2	728.1	918.6	774.5	828.7	918.6	964.8	995.3
Subscriptions (million euro)	236.6	201.1	347.6	60.7	83.0	132.4	95.9	56.8
Redemptions (million euro)	268.6	92.5	212.7	43.8	50.9	68.2	82.2	48.4
Net subscriptions/redemptions (million euro)	-32.0	108.6	134.8	16.8	32.1	64.2	13.6	8.4
Return on assets (million euro)	26.3	-26.5	55.7	-17.7	22.2	25.7	31.9	22.0
Returns (%)	5.37	-2.60	7.17	-2.29	2.85	3.03	3.72	2.34
Management yields (%)[2]	6.33	-1.88	8.00	-1.48	2.72	3.01	3.91	5.98
Management fee (%)[2]	1.91	1.66	1.38	0.32	0.32	0.36	0.54	1.10
Financial expenses (%)[2]	0.07	0.06	0.04	0.01	0.01	0.01	0.01	0.01
FUNDS OF HEDGE FUNDS								
Investors/shareholders	4,404	3,805	3,338	3,607	3,513	3,338	3,211	3,185
Total net assets (million euro)	694.9	573.0	540.0	561.4	561.3	540.0	536.2	529.2
Subscriptions (million euro)	47.9	10.6	23.6	7.4	13.7	0.5	0.8	–
Redemptions (million euro)	184.8	120.1	74.3	13.2	21.2	26.4	19.0	–
Net subscriptions/redemptions (million euro)	-136.9	-109.6	-50.8	-5.9	-7.5	-25.9	-18.2	–
Return on assets (million euro)	21.7	-12.3	17.6	-0.7	7.4	4.5	14.4	–
Returns (%)	3.15	-1.70	0.88	-2.21	1.38	0.60	2.73	0.72
Management yields (%)[3]	4.38	-0.47	4.56	0.16	1.66	1.22	3.03	–
Management fee (%)[3]	1.25	1.25	1.28	0.30	0.32	0.33	0.32	–
Depository fee (%)[3]	0.08	0.08	0.08	0.02	0.02	0.02	0.02	–

1 Available data: May 2013. Return refers to the period March-May.
2 % of monthly average total net assets.
3 % of daily average total net assets.

Management companies. Number of portfolios and assets under management[1]

TABLE 3.13

				2012		2013		
	2010	2011	2012	III	IV	I	II	III[2]
NUMBER OF PORTFOLIOS[3]								
Mutual funds	2,429	2,341	2,205	2,224	2,205	2,207	2,163	2,130
Investment companies	3,068	3,002	2,922	2,949	2,922	2,922	2,945	2,958
Funds of hedge funds	32	27	24	26	24	24	22	22
Hedge funds	31	35	35	35	35	33	33	34
Real estate investment fund	8	6	6	6	6	6	6	6
Real estate investment companies	8	8	8	8	8	9	10	10
ASSETS UNDER MANAGEMENT (million euro)								
Mutual funds	143,918.2	132,368.6	124,040.4	125,108.2	124,040.4	130,295.4	135,933.4	140,598.6
Investment companies	25,361.3	23,037.6	23,011.0	23,363.1	23,011.0	23,936.4	24,098.1	24,779.2
Funds of hedge funds[4]	694.9	573.0	539.9	561.3	539.9	536.2	529.2	–
Hedge funds[4]	643.5	694.7	882.5	791.0	882.5	964.8	995.3	–
Real estate investment fund	6,115.6	4,494.6	4,201.5	4,313.9	4,201.5	4,071.4	3,985.5	3,955.0
Real estate investment companies	321.9	312.5	284.1	294.7	284.1	843.8	854.0	850.7

1 It is considered as "assets under management" all the assets of the investment companies which are co-managed by management companies and other different companies.
2 Available data: July 2013.
3 Data source: Collective Investment Schemes Registers.
4 Available data for II Quarter 2013: May 2013.

Foreign Collective Investment schemes marketed in Spain[1]

TABLE 3.14

				2012			2013	
	2010	2011	2012	II	III	IV	I	II[2]
INVESTMENT VOLUME[3] (million euro)								
Total	36,692.9	29,969.5	37,990.7	34,555.4	38,409.5	37,990.7	44,504.2	48,227.8
Mutual funds	8,535.9	6,382.9	6,248.7	7,199.6	7,591.8	6,248.7	7,559.1	7,851.0
Investment companies	28,156.9	23,586.6	31,742.0	27,355.8	30,817.7	31,742.0	36,945.1	40,376.8
INVESTORS/SHAREHOLDERS								
Total	865,767	761,380	817,309	789,088	819,911	817,309	887,121	951,529
Mutual funds	193,233	177,832	163,255	180,064	186,878	163,255	186,449	185,490
Investment companies	666,534	583,548	654,054	609,024	633,033	654,054	700,672	766,039
NUMBER OF SCHEMES								
Total	660	739	754	743	749	754	753	753
Mutual funds	379	426	421	421	418	421	417	406
Investment companies	281	313	333	322	331	333	336	347
COUNTRY								
Luxembourg	290	297	310	302	308	310	307	308
France	225	284	272	278	279	272	276	271
Ireland	75	87	90	89	90	90	90	93
Germany	20	20	31	22	23	31	31	30
UK	16	19	22	21	21	22	22	22
The Netherlands	1	1	1	1	1	1	1	2
Austria	27	25	23	24	20	23	21	22
Belgium	5	5	3	5	5	3	3	3
Malta	1	1	1	1	1	1	1	1
Denmark	0	0	1	0	1	1	1	1

1 Exchange traded funds (ETFs) data is not included.
2 Provisional data.
3 Investment volume: participations or shares owned by the investors/shareholders at the end of the period valued at that moment.

Real estate investment schemes[1]

TABLE 3.15

				2012		2013		
	2010	2011	2012	III	IV	I	II	III[2]
REAL ESTATE MUTUAL FUNDS								
Number	7	6	6	6	6	6	6	6
Investors	75,280	29,735	25,218	27,587	25,218	24,048	21,541	21,563
Asset (million euro)	6,115.6	4,494.6	4,201.5	4,313.9	4,201.5	4,071.4	3,985.5	3,955.0
Return on assets (%)	-4.74	-3.23	-5.53	-1.64	-1.93	-2.59	-1.88	-0.76
REAL ESTATE INVESTMENT COMPANIES								
Number	8	8	8	8	8	9	10	10
Shareholders	943	943	937	935	937	1,021	1,017	1,018
Asset (million euro)	321.9	312.5	284.1	294.7	284.1	843.8	854.0	850.7

1 Real estate investment schemes which have sent reports to the CNMV, excluding those in process of dissolution or liquidation.
2 Available data: July 2013. In this case, return on assets is monthly.