PRESS RELEASE

THE OFFICIAL STATE GAZETTE PUBLISHES THE CIRCULAR ON WARNINGS RELATING TO FINANCIAL INSTRUMENTS

27 March 2018

The Official State Gazette has today published CNMV Circular 1/2018 on warnings about financial instruments, which will enter into force in three months' time.

The new Circular establishes three types of warnings that credit institutions and investment firms must issue to their clients:

- **Particular complexity** warning**.** In the opinion of CNMV, certain highly complex instruments with a high risk level are not appropriate, in general, for widespread circulation among the retail public. These products include, among others, contracts for differences (CFDs) and binary options, convertible debt, perpetual debt and, in certain cases, subordinated debt and OTC derivatives. Furthermore, in these cases, the informed consent is reinforced by obliging companies to obtain the following handwritten statement from the client: *"This product may be difficult to understand. CNMV considers that, in general, it is not appropriate for retail investors".*

- **Warning on liability instruments eligible for internal recapitalisation.** The rules for the recovery and resolution of credit institutions establish, as a possibility, what is known as internal recapitalisation (bail-in), the implementation of which may result in retail investors losing part or even all of their investment quickly. In the case of hybrid, subordinated or simple debt instruments which can be recapitalised, the Circular requires the entity to issue a warning based on a predetermined text to obtain the investor's signature. In accordance with the final text of the Circular, this specific obligation will not apply in the case of shares (without prejudice to the possibility of CNMV requiring similar warnings in relation to specific offers and transactions and the specific reporting obligation which, in relation to shares of entities subject to the aforementioned regulations, arises from the Securities Market Act).

- **Warning about significant differences with respect to the instrument's value.** Retail clients must be expressly warned when the costs inherent in certain financial instruments on which they carry out purchase or sale transactions are significant and not easily recognisable. These instruments include fixed income instruments when the counterparty is the entity itself, structured financial contracts and certain OTC derivatives.

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