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Table of contents

I Securities markets and their agents: situation and outlook	**9**
II Reports and Analyses	**65**
Economic and financial performance of listed companies in the second half of 2009	67
Óscar Casado, José María Fernández and Alejandro Romera	
The effects of restrictions on short selling in equity markets: some recent results	85
Anna Ispierto Maté and Ramiro Losada López	
Annual Corporate Governance Report of Ibex 35 Companies. Financial Year 2009	101
David Prieto Ruiz and Ángel Domínguez Fernández-Burgos	
III Regulatory Novelties	**117**
Amendments introduced by Royal Decree 749/2010 in the Regulations of UCITS	119
Almudena Martínez Arévalo and Josefina Munuera Cebrián	
IV Legislative Annex	**131**
V Statistics Annex	**141**

Acronyms

ABS	Asset Backed Securities
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)
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)
EC	European Commission
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECR	Entidad de capital-riesgo (venture capital firm)
EMU	Economic and Monetary Union (euro area)
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)
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 Fondo 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 Tradable Securities

I Securities markets and their agents: situation and outlook

Contents

1 Executive summary 13

2 Macro-financial setting 16

2.1 International economic and financial developments 16

2.2 National economic and financial developments 24

2.3 Outlook 34

3 Spanish markets 36

3.1 Equity markets 36

3.2 Fixed-income markets 47

4 Market agents 51

4.1 Investment vehicles 51

4.2 Investment firms 55

4.3 UCITS management companies 61

4.4 Other intermediaries: venture capital 62

List of exhibits

Exhibit 1: "Financial reform in the United States: main novelties in securities market regulation" 20

Exhibit 2: "Recent developments in Spanish household savings" 32

Exhibit 3: "The flash crash of 6 May: hypotheses and prevention mechanisms" 38

Exhibit 4: "Spanish stock market volatility: an international comparison" 42

Exhibit 5: "The new CESR disclosure regime on short selling and its implementation by the CNMV" 46

Exhibit 6: "Guide on appropriateness and suitability testing" 57

1 Executive summary

- Since the last instalment of this article, in the CNMV Bulletin for 1Q 2010, the international macro and financial environment has improved to some extent. World GDP growth reached almost 5% in the first half of the year fuelled by recovery among the developed economies and the strength of emerging markets. Inflationary pressures have remained subdued against a backdrop of high though stable unemployment.

- Some recent indicators have heaped new uncertainties on the baseline short-term scenario, which assumes a firming world recovery though with differences persisting between regions and countries. The biggest risks center on the sustainability of growth once extraordinary stimulus measures have been withdrawn, and the possible resurgence of tensions in European sovereign debt markets. On a positive note, the main emerging economies are proving both dynamic and resistant, while the upturn in world trade flows has resumed with force after the lull of the second quarter.

- The European sovereign debt crisis has taken its toll on international financial markets. This was especially true in the second quarter, with equity prices falling sharply and government yield spreads stretching wider in the most fiscally challenged countries. However, fiscal retrenchment plans in these economies, accompanied by structural reform measures, have averted a spiral of distrust with potentially grave consequences. The sovereign debt crisis has also hit hard at private debt issues, with European financial institutions among the worst affected. In currency markets, the resulting turbulence sent the euro falling sharply.

- Spanish GDP rose by 0.2% in the second quarter (-0.1% year on year) with household consumption as the main driver. In the short term, however, doubts persist about how solid this upswing really is, given that much of it may owe to consumers anticipating July's VAT hike and the expiry of government support schemes for car purchases. Inflation has inched higher since the start of the year as far as an August rate of 1.8% while unemployment continues to hover round 20% of the labour force. The public spending cuts approved last May, summing 15 billion euros over 2010 and 2011, will foreseeably steer the budget deficit back to 6% of GDP in 2011. Meantime, current forecasts for the Spanish economy point to a minor contraction in 2010 followed by moderate growth in 2011. Fiscal consolidation and other structural measures like the recent labour market reform package, allied with the results of the bank-sector stress tests conducted in Europe last July, have had a restorative effect on agent confidence. However, serious risks remain in the shape of labour market weakness and the volatile financing conditions suffered by public and private issuers alike during the last episode of the European debt crisis.

- The Spanish financial system continues to face a number of challenges, though the restructuring of the deposit-taking sector and the upkeep of sound capital adequacy means institutions are solidly equipped to negotiate the years ahead. In effect, Spanish banks' satisfactory results in the recent round of stress tests facilitated some improvement in their funding conditions during the third quarter of the year.

- Spanish non financial companies grew their aggregate profits 4% in the first half of 2010, as far as 14.7 billion euros. Profits growth extended to all sectors except construction and real estate. Listed company debt moved up 3.7% in the same period accompanied by a small upturn in financial leverage. Both debt coverage ratios and EBIT/interest expenses improved in the first-half period.

- National equity markets clawed back some of the ground lost to the start of the third quarter in a considerably less volatile trading climate. The P/E of the Ibex 35 has tended to pull into line with that of other European reference indices. Stock market turnover has been building up steadily year to date, although issuance has remained generally subdued despite the restart of some transactions.

- The Spanish government bond market has stabilised in the past two months after the turbulence of the first-half period, with yields falling moderately across all maturities. Meantime, the risk premiums of public and private borrowers have stabilised at relatively high levels. Gross fixed-income issues registered with the CNMV have receded 47% year to date, though the signs are of reactivation in certain segments such as covered mortgage bonds.

- Assets under management in Spanish investment funds dropped by 9% in the first-half period to 155 billion euros, with redemptions building up once more. In contrast, foreign UCITS marketed in Spain grew their investment volumes 28% to 32.36 billion euros. The weight of less-liquid assets in investment fund portfolios reduced from 8.7% to 7.4%. Despite a 7.5% decline in assets under management in UCITS management companies, their profits picked up slightly to mid-year 2010. The outlook for collective investment will continue to be complicated by intense competition from deposit-taking entities. The lessons for the industry are that managers must rationalise their fund offering and pursue greater efficiency in costs.

- Investment service providers continued to labour under the weight of the crisis, but with notable differences between types of firm and business lines. Broker-dealers saw their aggregate profits tumble 25% in the first-half period with non core activities as the main culprits. Conversely, the aggregate profits reported by brokers were almost three times higher than in 2009, with costs dropping faster than main revenue items. The result was that sector ROE declined once more, though less intensely than in 2009, while the number of firms in losses continued to augment. The sector remained comfortably compliant with solvency conditions to June 2010, with not one firm reporting a deficit to the statutory minimum (against more than five at the 2009 close). The prospects for the investment services industry seem a little brighter in view of the recovery under way in key business lines.

- The number of venture capital entities on the CNMV roll has continued to increase. Assets of venture capital funds moved up 16.5% in 2009, while the capital of venture capital companies was more or less unchanged. Data from industry association ASCRI point to a gathering recovery over first-half 2010. And, finally, the growth of leveraged transactions suggests that banks are starting to release more credit.

- This report includes six exhibits focusing on the following issues:

  - The first reviews the main novelties in U.S. securities market legislation enshrined in the Dodd-Frank Act, including new rules on OTC derivatives, hedge funds, securitisation, rating agencies and executive pay.

  - The second looks at the savings patterns of Spanish households focusing on recent changes in the mix, particularly the growing preference for bank products over investment funds and the boom in foreign savings instruments.

  - The third offers an analysis of Spanish stock market volatility, which concludes that despite the upswing experienced in early 2010 there is no evidence that the national market is structurally more volatile than other world bourses.

  - The fourth centres on the *flash crash* of 6 May last on the New York Stock Exchange, exploring the hypotheses about its causes and the mechanisms available to prevent a recurrence.

  - The fifth summarises the main features of the new disclosure regime for short selling approved by the CESR, which the CNMV has been the first to implement.

  - The last offers a brief description of the CNMV's recent published guidelines for investment firms on appropriateness and suitability testing in relation to retail clients.

2 Macro-financial setting

2.1 International economic and financial developments

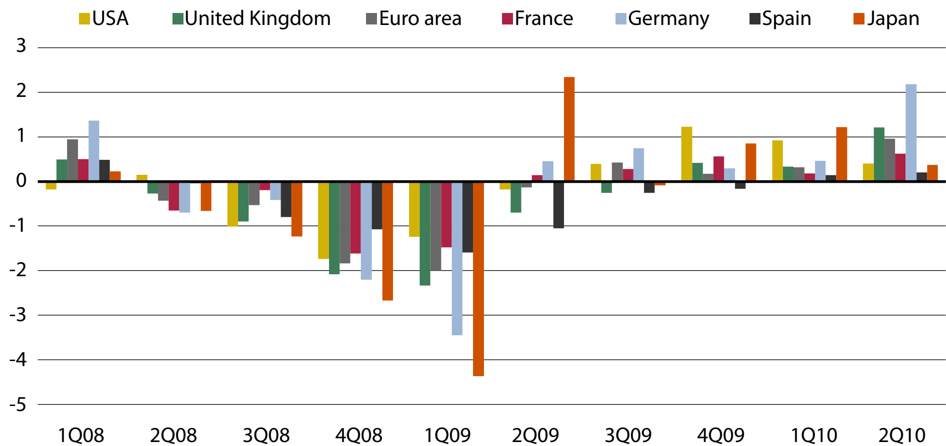
The world macro-financial setting has experienced some improvement though with differences persisting between national economies.

Since the last instalment of "Securities markets and their agents" in the CNMV Bulletin for the first quarter of 2010, the macroeconomic environment has been issuing clear improvement signals. And although differences persist between national economies, the overriding sensation has been one of a gathering recovery. Yet the surge in financial market volatility unleashed by the European sovereign debt crisis, which reached its maximum intensity in April-May, has cast a shadow of doubt over growth expectations for 2010 and 2011, especially in those economies whose fundamentals are weakest. More recently, the apparent slowdown of the U.S. economy has shaken confidence in the strength and sustainability of world recovery.

World GDP growth nears 5% in the first half of 2010.

World GDP grew near-on 5% in the first half of 2010 compared to the same period last year, according to IMF estimates. Driving this growth were output recovery among developed economies (see figure 1) and the continuing strength of the emerging economies, particularly Asia and some Latin American countries. Among the developed contingent, GDP expanded most strongly in the United States and in Germany, whose 2.2% year-on-year growth rate of the second quarter was primarily export-led, fuelled by quickening demand for German products and services in some of the world's most dynamic economies. This last group was again headed by China, whose GDP grew 10.3% in the first-half period. In Latin America, meantime, Brazil, Mexico and, lately, Chile have also been advancing strongly (with quarter-on-quarter rates in the second quarter of 1.2%, 3.2% and 4.3% respectively).

GDP: quarterly % change FIGURE 1



Source: Thomson Datastream.

Some recent output indicators have muddied the outlook for near-term growth.

The mixed nature of recent output indicators, which have at times sent out conflicting signals, adds a further dose of uncertainty to mid-term growth forecasts, for the U.S. and Japan especially. That said, the baseline scenario for leading international organisations remains one of ongoing world recovery over the next few quarters, though the pace will be moderate only and varying in intensity from one region to the next. Nor can the possibility be ruled out of temporary setbacks in the recovery of some economies. In this context, the latest IMF forecasts point to world GDP growth upwards of 4.5% in 2010 (4.3% in 2011). Leading the field will be the emerg-

ing economies, with output growth nearing 7% (see table 1). Among the developed nations, despite the uncertainties referred to earlier, the U.S. and Japan are tipped to expand in the interval of 2%-3%. Forecasts for the euro area, finally, point to more modest rates of just over 1% in 2010 and between 1.3% and 1.8% in 2011, as economies absorb the negative short-term impact of the fiscal adjustment plans in place.[1]

Gross domestic product (annual % change) TABLE 1

					IMF(*)		OECD(*)	
	2006	2007	2008	2009	2010F	2011F	2010F	2011F
World	5.1	5.2	3.0	-0.6	4.6 (+0.4)	4.3 (=)	-	-
United States	2.7	2.1	0.4	-2.4	3.3 (+0.2)	2.9 (+0.3)	3.2 (+0.7)	3.2 (+0.4)
Euro area	3.0	2.8	0.6	-4.1	1.0 (=)	1.3 (-0.2)	1.2 (+0.3)	1.8 (+0.1)
Germany	3.2	2.5	1.2	-5.0	1.2 (-0.3)	1.7 (-0.2)	1.9 (+0.5)	2.1 (+0.2)
France	2.4	2.3	0.1	-2.5	1.4 (-0.1)	1.6 (-0.2)	1.7 (+0.3)	2.1 (+0.4)
Italy	2.0	1.5	-1.3	-5.0	0.9 (+0.1)	1.1 (-0.1)	1.1 (+0.0)	1.5 (+0.0)
Spain	4.0	3.6	0.9	-3.6	-0.4 (=)	0.6 (-0.3)	-0.2 (+0.1)	0.9 (+0.0)
United Kingdom	2.9	2.6	0.5	-4.9	1.2 (-0.1)	2.1 (-0.4)	1.3 (+0.1)	2.5 (+0.3)
Japan	2.0	2.4	-1.2	-5.2	2.4 (+0.5)	1.8 (-0.2)	3.0 (+1.2)	2.0 (+0.0)
Emerging	7.9	8.3	6.1	2.5	6.8 (+0.5)	6.4 (-0.1)	-	-

Source: IMF and OECD.

(*) Figures in brackets show the change over the previous published forecasts. IMF, forecasts published in July 2010 (versus April 2010). OECD, forecasts published in June 2010 (versus November 2009).

Inflationary pressures remain muted.

The behaviour of prices suggests that inflationary pressures are generally under control. In the U.S. and euro area, concretely, year-on-year inflation stands between 1% and 2%. Where prices are rising faster is in the United Kingdom, due to one-off factors, but here too the rate stabilised at around 3% in the middle months. In Japan, deflation remains the order of the day, though the decline in prices is far less marked than in 2009. Underlying inflation rates have also stayed muted in most advanced economies, in tune with low capacity utilisation, still high unemployment rates[2] and the absence of significant pressures from the demand side. The result has been to keep official inflation rates in these economies running at historic lows.[3] Note, however, that a growing group of countries have hiked their interest rates since end-2009. First to do so were developed economies like Australia and Norway, strongly exposed to demand for specific commodities. Later other developed countries (Canada, Sweden, Switzerland and New Zealand) joined in the trend, and emerging nations like Brazil, Peru and Malaysia have begun to tighten up their monetary policy.

The sovereign debt crisis has hit hard at financial markets, especially in the second quarter …

The sovereign debt crisis in Europe had a sizeable impact on world financial markets in the first half of the year, especially the second quarter. Share prices fell heavily on main world indices accompanied by renewed jumps in volatility. The disruption was greatest on Japanese and European markets, with the German Dax the sole gainer among Europe's leading stock indices[4] (5.1%). For the rest, losses ranged from the 1.1% of Euronext to the 10% of the Ibex 35 (see table 2). U.S. markets, lastly, managed small advances in the reference period (from the 0.9% of the S&P 500 to the 1.4% of the Dow Jones and Nasdaq).

1 In light of the fiscal adjustment plans adopted in 2010, the IMF estimates that the extent of retrenchment among euro economies (estimated as the change in the structural budget balance) will stretch to almost 1 p.p. of GDP in 2011 (July 2010 estimate) against the 0.2 p.p. previously projected (in April 2010). For the G-20 countries, the 2011 adjustment will run to an estimated 1.3 p.p. of GDP against 1.1 p.p. respectively.

2 Unemployment rates in both the U.S. and euro area have stuck around the 10% mark.

3 At 0 to 0.25% in the U.S., 0.1% in Japan, 0.5% in the United Kingdom and 1% in the euro area.

4 The closing date for this report is 15 September.

Performance of main stock indices[1] (%)

TABLE 2

	2006	2007	2008	2009	3Q09	4Q09	1Q10	2Q10	3Q10 (to 15 September) % prior qt	% Dec	% y/y[2]
World											
MSCI World	18.0	7.1	-42.1	27.0	16.9	3.7	2.7	-13.3	11.3	-0.8	3.5
Euro area											
Euro Stoxx 50	15.1	6.8	-44.4	21.1	19.6	3.2	-1.1	-12.2	8.6	-5.8	-1.7
Euronext 100	18.8	3.4	-45.2	25.5	21.6	3.7	2.2	-10.5	8.2	-1.1	4.0
Dax 30	22.0	22.3	-40.4	23.8	18.0	5.0	3.3	-3.1	5.0	5.1	11.2
Cac 40	17.5	1.3	-42.7	22.3	20.9	3.7	1.0	-13.4	9.1	-4.6	0.1
Mib 30	19.0	-8.0	-48.7	20.7	19.6	-0.7	-0.4	-14.7	7.4	-8.7	-7.6
Ibex 35	*31.8*	*7.3*	*-39.4*	*29.8*	*20.1*	*1.6*	*-9.0*	*-14.8*	*16.1*	*-10.0*	*-7.3*
United Kingdom											
FT 100	10.7	3.8	-31.3	22.1	20.8	5.4	4.9	-13.4	13.0	2.6	10.2
United States											
Dow Jones	16.3	6.4	-33.8	18.8	15.0	7.4	4.1	-10.0	8.2	1.4	9.2
S&P 500	13.6	3.5	-38.5	23.5	15.0	5.5	4.9	-11.9	9.2	0.9	6.9
Nasdaq-Cpte	9.5	9.8	-40.5	43.9	15.7	6.9	5.7	-12.0	9.1	1.4	9.4
Japan											
Nikkei 225	6.9	-11.1	-42.1	19.0	1.8	4.1	5.2	-15.4	1.4	-9.8	-6.9
Topix	1.9	-12.2	-41.8	5.6	-2.1	-0.2	7.8	-14.0	0.9	-6.5	-9.0

Source: Datastream.

1 In local currency.

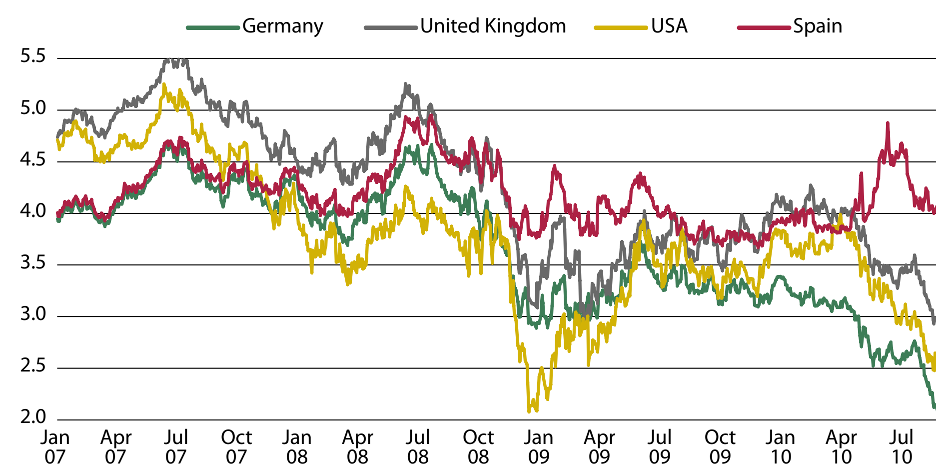
2 Year -on-year change to the reference date.

...pushing up the risk premiums of the most fiscally challenged economies.

Debt markets saw a degree of decoupling between the bonds of the economies perceived as soundest (the United States and Germany and, to a lesser extent, the United Kingdom) and those whose economic or fiscal variables have deteriorated most in recent years (especially Greece, Portugal, Spain, Ireland and Italy), although the trend has apparently softened since the end of last June. As we can se from figure 2, this latest episode of the "flight to quality" has steered the sovereign yields of the more credit-worthy borrowers down to 2.4% in the case of Germany, 2.7% in the United States and 3.2% in the United Kingdom, with rates in all instances significantly below the average of the last decade (4% in Germany, 4.2% in the United States and 4.5% in the United Kingdom).

Ten-year government bond yields (%)

FIGURE 2

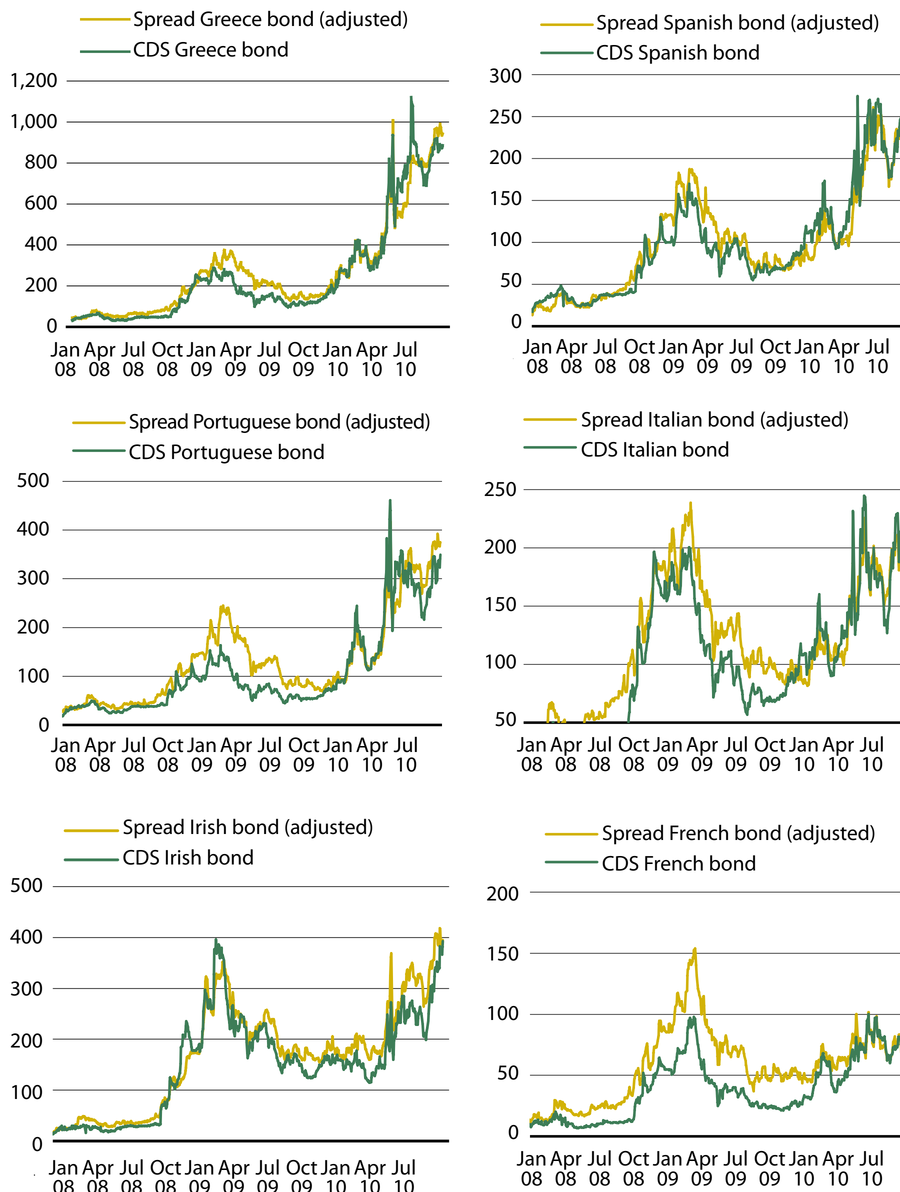


Source: Thomson Datastream. Data to 15 September.

Agent confidence in the debt of the most pressured sovereign issuers improved slightly in the middle months thanks to factors like the multilateral aid package granted to Greece, the European Union's launch of a financial assistance mechanism (co-funded by the IMF), the approval of fiscal austerity plans in various European economies, the ECB's measures to support liquidity in private and public debt markets and, more recently, the July publication of the results of the stress tests conducted on European banks. All this has helped stabilise, and in some cases reduce, the sovereign risk perception hanging over more vulnerable countries with respect to the highs reached last May (see figure 3). That said, the sovereign debt market remains prone to upset and though the above measures may have averted a spiral of distrust, it would be wrong to say that tensions have dissipated.

A series of measures have helped temper perceptions of sovereign risk.

Credit spreads[1] (basis points) FIGURE 3



Source: Thomson Datastream. Data to 15 September.

1 Bond spreads expressed over the German bund equivalent. Since these spreads are an attempt to approximate yield differentials versus a risk-free asset, and this asset (the German bund) has recently experienced an increase in credit risk, as gleaned from the prices of its CDS, the spreads shown here have been adjusted to factor the risk premium of the German CDS.

Exhibit 1: "Financial reform in the United States: main novelties in securities market regulation"

The current crisis has brought to light elements of the financial market supervisory and regulatory framework where reforms are urgently needed. In mid-2009, the United States government put forward a preliminary financial reform package[1] whose main measures were written into national legislation in July 2010 as the "Dodd-Frank Wall Street Reform and Consumer Protection Act".[2] The ultimate goal of this legislation is to promote financial stability and give consumers more protection against abusive practices.

In furtherance of these objectives, the new law reorganizes the financial supervision system with the creation of two new bodies. The Financial Stability Oversight Council is responsible for monitoring the marketplace to identify firms, products and activities that might harm the stability of the U.S. financial system, as well as for promoting market discipline and responding to emerging threats to stability. The other body, a new federal agency known as the Bureau of Consumer Financial Protection, is tasked with regulating consumer financial products and services in compliance with federal law. It will also collate and monitor the enquiries and complaints submitted by investors taking over competencies in this respect from other agencies, including the Federal Reserve.

In the area of banking regulation, one of the new law's firmest aims is to challenge the notion of "too big to fail" whereby major financial institutions whose collapse might jeopardise the stability of the financial system could expect to be bailed out by the authorities. Under Dodd-Frank, these banks will proceed to orderly liquidation in the event of bankruptcy under the standard rules and procedures established for this purpose, whose operation will be streamlined. A further measure to protect depositors and taxpayers is that commercial banks will be prohibited from engaging in proprietary trading[3] and from holding or investing in hedge funds or private equity funds. The size of banks will also be capped at 10% of total financial system assets (Volcker Rule).

Regarding securities markets, the Dodd-Frank Act calls on the competent agencies to conduct studies and draw up new regulations with the following priorities:

- **OTC derivatives.** In this so far thinly regulated area, the SEC and the Commodity Futures Trading Commission (CFTC) have one year to establish new rules for swap markets. The Dodd-Frank Act also assigns more powers to the CFTC, which will take on the regulation and supervision of all swaps except security-based swaps,[4] which will be handled by the SEC. A new register will be kept of entities of systemic importance in swap markets,[5] which will henceforth come under capital and collateral requirements. Standard derivatives, finally, will be transacted on a trading platform and settled via a central counterparty, while all swap contracts, regardless of their degree of standardisation, must be disclosed to the regulator with details of the price and volumes set.

- **Hedge funds.** The financial crisis has revealed the regulatory neglect suffered by this sector, and the Dodd-Frank Act sets out to remedy this by obliging the managers of hedge funds and other private funds to register with the SEC and

report regularly on the funds they advise. The SEC is now working alongside Britain's FSA to decide the exact nature of hedge fund reporting requirements.

– **Fiduciary duty of financial advisors.** The Dodd-Frank Act calls on the SEC to assess the effectiveness of the standards applying to financial advisors. The Commission is empowered, if necessary, to establish new, stricter standards of conduct (fiduciary duty) for their dealings with retail customers, which will also apply to brokers and dealers in their investment advising role.

– **Securitisation.** With the goal of reactivating securitisation and remedying the varied failures that have undermined confidence in the market, the new regulation will impose stricter disclosure requirements on issuers with regards to the nature and quality of underlying assets. Originators, meantime, will be encouraged to be more diligent by having them retain a minimum economic interest in securitised exposures. The threshold in question will be 5% in the case of residential mortgage securitisations and presumably set lower (no announcement yet) in the case of remaining asset-backed securities.

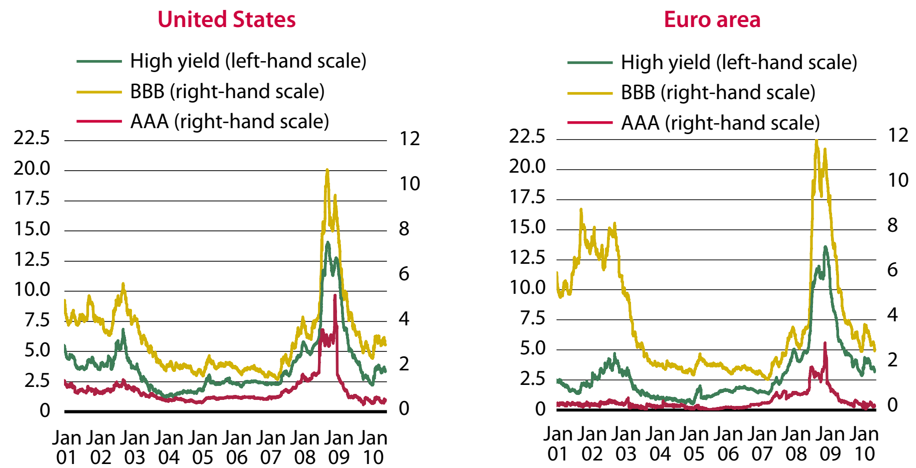
– **Credit rating agencies.** The new legislation will require these agencies to disclose procedures and methodologies used to determine each individual credit rating. They will also be urged to put internal controls in place to avoid conflicts of interest and ensure the accuracy of the ratings issued. To address the problem of incentives, the SEC will study the feasibility of starting up an entity to design an allocation system for structured finance product ratings such that issuers are assigned an agency rather than selecting it themselves. The SEC is also instructed to create a new internal department, the Office of Credit Ratings, with oversight powers and the authority to fine agencies for non compliance. Finally, regulators are urged to review and amend regulations in order to discourage references to credit ratings and have them replaced with alternative standards of creditworthiness, the idea being to tackle the problems of moral hazard that arise from too strict a reliance on credit ratings.

– **Remuneration.** Shareholder safeguards are reinforced through a series of requisites on executive compensation; chief among them, the requirement that executive pay be submitted to the non-binding vote of the company's shareholders ("say on pay") and the obligation to set up an independent remuneration committee within each organisation. Within one year of enactment, the SEC must issue rules that direct the national securities exchanges and associations to prohibit the listing of any security of an issuer that is not in compliance with these compensation requirements.

The passage of the Dodd-Frank Act marks the start of a transition period in which the relevant agencies will undertake studies and develop specific regulations conducive to its enforcement. By this means, the reform of the U.S. financial system should be rolled out in full by the end of 2011.

1 Available at: http://www.financialstability.gov/docs/regs/FinalReport_web.pdf.
2 Available at: http://www.govtrack.us/congress/bill.xpd?bill=h111-4173.
3 The Act stipulates some exceptions, notably the purchase of instruments issued by government agencies.
4 The SEC and CFTC will shortly specify the swaps to be included in this category.
5 The so-called swap dealers and major swap participants (MSPs), pending closer definition by the CFTC and SEC.

Corporate bond risk premiums[1] (basis points) FIGURE 4



Source: Thomson Datastream (Merrill Lynch, IBOXX indices). Data to 15 September.

1 Expressed as the yield spread between bonds of the same maturity and credit quality belonging to a given index and 10-year government bonds (a synthetic bond in the case of the euro area).

Corporate risk premiums strain higher in the period.

In private debt markets, the credit risk premiums of medium- and lower-rated borrowers were pushed sizeably higher by the sovereign debt crisis, though without overtaking the levels reached before the Lehman Brothers collapse (see figure 4). Analysis by sector shows financial entities to be the worst affected. Indeed we have lately been seeing a close correlation in Europe between sovereign risk premiums and financial sector credit spreads. This is not to say that there is a clear, one-way causal relationship. Certainly the broad financial sector support measures taken by governments have meant some transfer of risk from the financial to the public sector. But it is also the case that the European government bond holdings of the region's banks mark a recent reversal of this transfer, given the impact of a sharp loss of value on financial sector income sheets.

Bond issues reduce slightly despite the scale-up in sovereign borrowing.

Total net debt issuance in international markets over the first nine months of 2010 came to 4.7 trillion dollars, 3.5% less than in the same period last year. A breakdown by instrument (see figure 5) shows the decline had its origin in the drought of investment-grade issues by financial institutions based in Europe.[5] In contrast, heavy public sector funding requirements dictated a further increase (7.2%) in sovereign debt issues, which summed 2.9 trillion dollars in the reference period or more than 62% of the worldwide total. Issues of other fixed-income instruments like asset-backed securities or high-yield bonds also rose with respect to the same period in 2009, though rather less so in volume terms[6] (from 149 billion to 217 billion dollars for ABS and from 32 to 133 billion dollars for bonds). By region, note the gap emerging between the U.S. and Japan (debt issuance up by 21% and 20% respectively) and Europe (down by 35%).

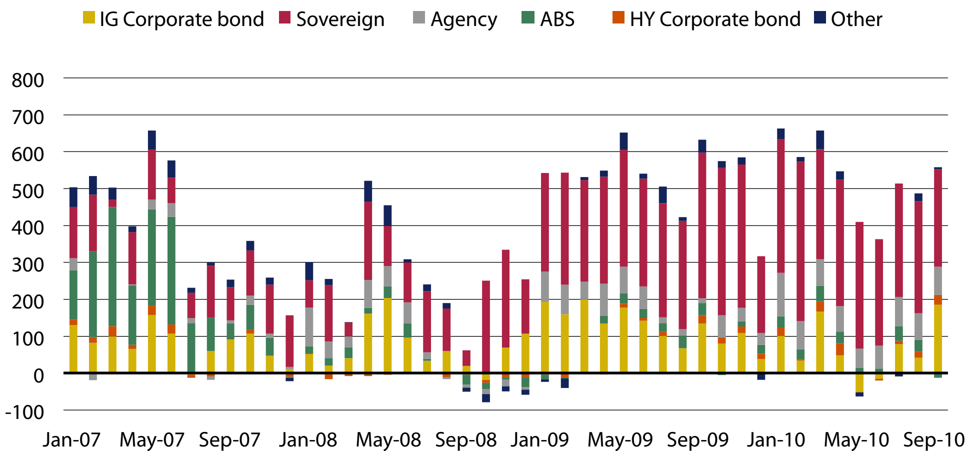
5 The latest data (September) indicate a small upturn in financial sector issuance.

6 Comparison of percentage changes yields less than satisfactory results given the low baseline values for these series.

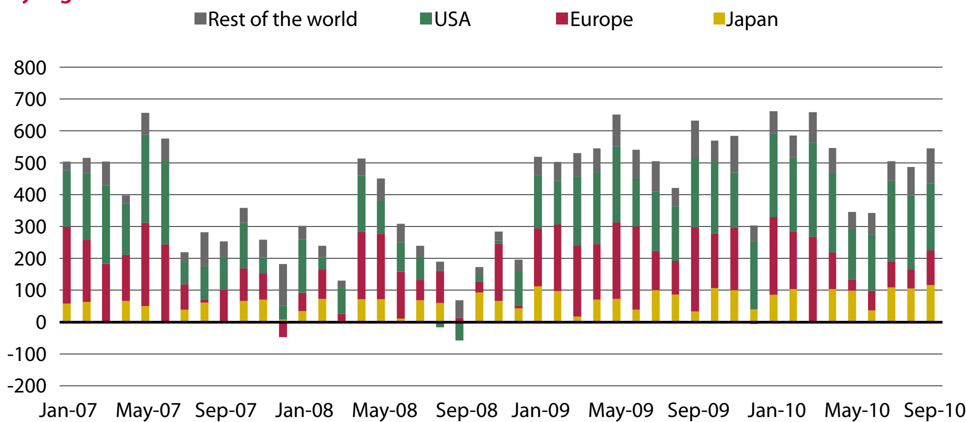
Net international debt issuance (billion dollars)

FIGURE 5

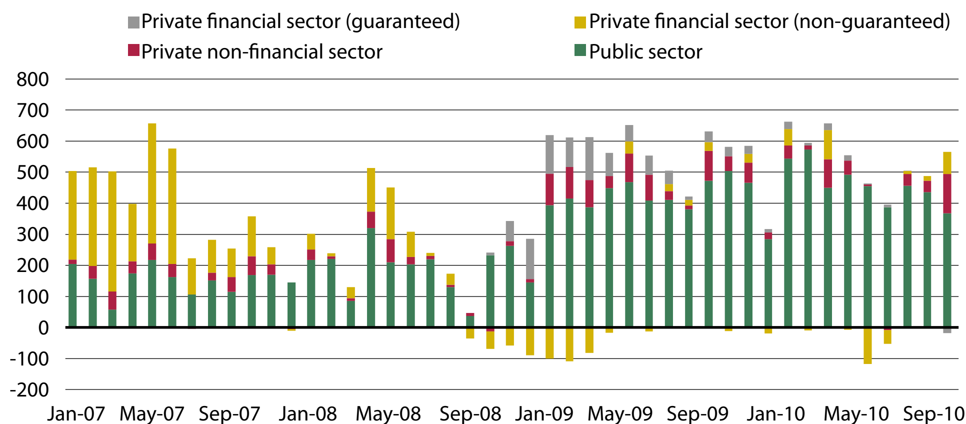
By type of financial instrument



By region



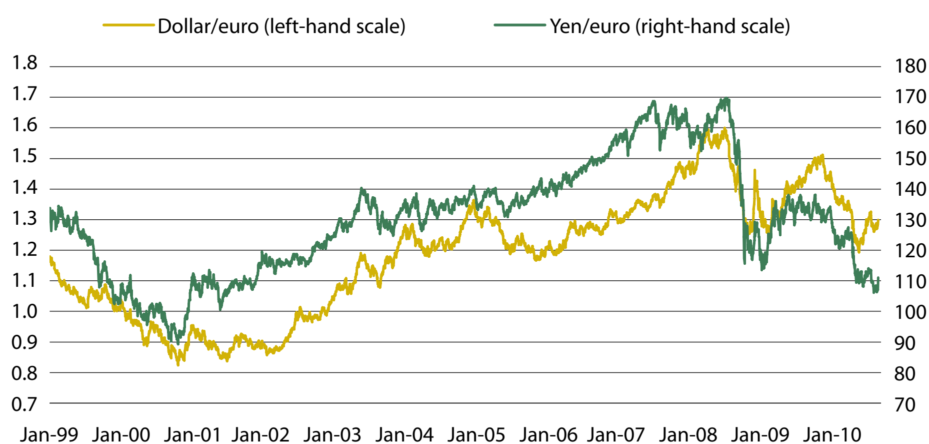
By type of borrower



Source: Dealogic. Monthly data to 15 September. September data stated on a monthly basis.

In currency markets, Europe's sovereign debt crisis sent the euro tumbling against both the dollar and the yen. In the first case, the European currency experienced a steady run-down from the 1.50 dollars of end-2009 to 1.2 dollars in June 2010. The decline, however, levelled off in the months of July and August, and by the closing date for this report the euro was again testing the 1.3 dollar mark. Against the yen, meantime, the euro sank from just below 135 yens at end-2009 to around 110 yens in mid-September (see figure 6).

Euro exchange rates vs. the dollar and yen FIGURE 6



Source: Thomson Datastream. Data to 15 September.

2.2 National economic and financial developments

Domestic output expands 0.2% in the second quarter...

The second quarter was practically a re-run of the first with modest growth of 0.2% building on the mild recovery initiated in the opening months (0.1%). In year-on-year terms, the GDP contraction of 0.1% represents the least negative outcome since end-2008. A look at the mix shows different components pulling closer into balance, with domestic demand detracting just 0.5 points against 2.5 points previously, and the positive input from net exports down to 0.4 from 1.5 points.

...thanks to recovering household consumption...

On the demand side, household consumption rose by 1.3% (0.9% in the preceding quarter) and government consumption by 0.7% (0.3% previously). Especially encouraging was the 4.6% advance of equipment investment in the second-quarter period. The recovery of quarterly rates has restored main demand variables to positive terrain in annual terms. In detail, final consumption spending, private and public, rose by 1.5% in the second quarter (the first advance since third quarter 2008), equipment investment rose by 8.7% (the first increase since second quarter 2008), and exports and imports rose by 10.5% and 8.1% respectively. Only non equipment investment, basically construction, has gone on receding at rates of over 10%.

...in response to stimulus measures that have since been deactivated, and a possible "substitution effect" ahead of the hike in VAT.

The domestic demand upturn was largely due to the aforementioned 1.3% rise in household consumption with respect to the previous quarter. However there is some concern that the recovery may be overly reliant on the support of now withdrawn stimulus measures (automobiles) and the fact that consumers may have brought forward spending, on durables especially, ahead of the July increase in VAT. There is also the threat that austerity measures announced last May with direct implications for households' disposable income (like salary cuts for government employees) could damp down private consumption going forward.

On the supply side, industry and services gain momentum.

From a supply side standpoint, the highlights were the quarterly advances of the industrial and service branches (up 0.6% and 0.3% respectively), which have lifted year-on-year rates out of the red (as far as 2.2% for industry and 0.4% for services). In contrast, construction shed a further 1.5% (-6.4% in annual terms), while overall primary sector output dropped by 2.3% in quarterly and 3.5% in annual terms.

Spain: main macroeconomic variables (annual % change) TABLE 3

	2006	2007	2008	2009	European Commission* 2010F	2011F
GDP	**4.0**	**3.6**	**0.9**	**-3.7**	**-0.4 (+0.4)**	**0.8 (-0.2)**
Private consumption	3.8	3.7	-0.6	-4.2	0.2 (+0.7)	1.2 (+0.3)
Government consumption	4.6	5.5	5.8	3.2	1.0 (-0.7)	-1.2 (-3.4)
Gross fixed capital formation, of which:	7.2	4.5	-4.8	-16.0	-8.3 (+0.1)	-1.8 (-0.5)
Equipment	9.9	9.0	-1.7	-24.8	-4.3 (+1.7)	0.2 (-2.0)
Exports	6.7	6.7	-1.1	-11.6	4.4 (+3.1)	4.7 (+1.4)
Imports	10.2	8.0	-5.3	-17.8	-1.1 (+1.6)	1.8 (-0.4)
Net exports (growth contribution, pp)	-1.4	-0.8	1.5	2.7	1.3 (+0.3)	0.7 (+0.4)
Employment	3.3	2.8	-0.5	-6.6	-2.5 (-0.2)	-0.1 (+0.3)
Unemployment rate[1]	8.5	8.3	11.3	18.0	19.7 (-0.3)	19.8 (-0.7)
HICP	3.5	2.8	4.1	-0.3	1.6 (+0.8)	1.6 (-0.4)
Current account (% GDP)	-9.0	-10.0	-9.7	-5.5	-4.6 (=)	-4.5 (-0.3)
General government (% GDP)	2.0	1.9	-4.1	-11.2	-9.8 (+0.3)	-8.8 (+0.5)

Source: Ministry of Economy and Finance, National Statistics Office (INE) and European Commission.

1 Eurostat definition.

* Forecasts published in spring 2010 (vs. those of autumn 2009).

Inflation climbs higher in line with the rest of the euro area.

The annual inflation rate has crept up gradually from around 1% at the start of the year to almost 2% in August. The run-up drew equally on more volatile index components and the more stable elements making up core or underlying inflation. Spain's inflation gap vs. the euro area has held stable throughout in the interval of zero to 0.2 points. Looking ahead, scant pressure from domestic demand and squeezed business margins seem likely to cancel out the impact of the VAT increase, leaving inflation rates at more or less their current levels. Indeed the forecasts issued by main international organizations augur annual rates below 2% in 2010 and 2011.

The unemployment rate stays unchanged at around 20% of the labour force.

Labour market data for the second quarter of 2010 indicate a small drop in employment and the stabilisation of jobless rates. The number of people in work rose by almost 83,000 vs. the previous quarter to a total of 18,477,000, equating to a year-on-year decline of -2.5% against -3.6% previously. However this increase failed to offset the intervening growth in labour force numbers, leaving the unemployment rate more or less unchanged at 20.1%.

The sovereign crisis has speeded up fiscal consolidation efforts in a series of economies, Spain among them.

The European sovereign crisis has forced a series of economies to take immediate action on public spending in order to rein back public deficits.[7] In Spain's case, the fiscal austerity measures passed by the government on 20 May last brought forward a large swathe of the fiscal consolidation effort envisaged in its 2010-2013 Stability Programme, including new cuts in structural expenditure via a reduction in public investment and government worker salaries as of 1 June this year, and the freezing of public salaries and pensions starting in 2011. In all, the scale of the adjustment is reckoned at 15 billion euros (1.5% of GDP) between 2010 and 2011 with the aim of steering the public deficit down to 6% in 2011.[8] Details of national

7 A recent study published by the IMF on the public debt of 23 countries locates the Spanish economy in an intermediate bracket along with the United States, United Kingdom, Iceland and Ireland by reference to the fiscal leeway at their disposal to deal with unexpected shocks (Jonathan D. Ostry, Atish R. Ghosh, Jun I. Kim, Mahvash S. Qureshi [September 2010], "Fiscal Space", IMF Staff Position Note).

8 The European Commission forecasts featuring in table 3 were issued prior to the adoption of the fiscal adjustment plan, so make no allowance for its impact.

budget implementation to June throw up a deficit balance of -2.4% of GDP, a notable improvement in year-on-year terms delivered by higher tax receipts and a moderate decline in spending.

Forecasts point to continuing growth weakness accompanied by deficit reduction in 2011.

The latest forecasts for the Spanish economy by main international organisations point to an 0.4% decrease in this year's GDP (-0.3% on government estimates) followed by a modest advance only in 2011, with extraordinary public spending cuts confining growth to the range of 0.5% to 1.3% (depending on the forecaster). Unemployment is projected to drop a little below 20%, while inflation should not stray far from 1.5%. Estimates included with the fiscal adjustment plan posit a public deficit of close to 9% of GDP in 2010 falling to 6%-7% in 2011.

Enduring tensions in wholesale debt markets have made this a complex time for Spanish financial institutions.

The Spanish financial system had a difficult first half, with economic weakness eating into credit institution turnover and asset quality, the European sovereign debt crisis in full spate, and funding conditions turning for the worse.

However, sector restructuring and the results of stress tests should help rebuild investor confidence.

However, the restructuring of the deposit-taking sector and the upkeep of sound capital adequacy conditions means institutions are solidly equipped to face the challenges ahead. In effect, Spanish banks' satisfactory results in the recent round of stress tests facilitated some improvement in their financing conditions during the third quarter.

Aggregate profits of credit institutions continue in decline...

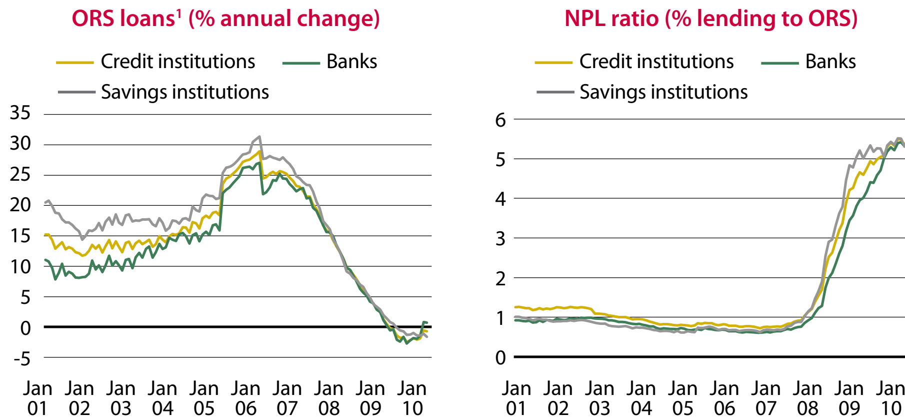
Credit institutions reported aggregate net profits of 2.84 billion euros in the first quarter compared to almost 5 billion over the same period in 2009. Factors at work included a decline in net interest income, higher financial asset impairment losses and, above all, significantly lower inflows at remaining income statement lines (from a combined 1.72 billion euros in first quarter 2009 to just 277 million one year later).

...though lending and bad debt figures seem to be stabilising.

The latest figures on credit institution loans and non-performing assets suggest both variables are now stabilising. Specifically, the annual change in the balance of outstanding loans to businesses and households was down to just -0.8% in July compared to the -2.5% low of the year's outset. This apparent stabilisation owed to a small upswing in loans to households for home purchase purposes and, to a lesser extent, for consumer credit. Among the banks, annual lending growth rates have been positive for two months running (0.8% in June, 0.7% in July), after almost one year in which decrease succeeded decrease. The non performing loans (NPL) ratio of Spanish credit institutions settled at around 5.5% in the year's middle months. The greater part of the last year's bad debt escalation can again be laid at the door of construction company borrowers and real estate development activities (see figure 7).

Deposit-taking entities: loans and NPL ratio

FIGURE 7



Source: Banco de España. Data to July.

1 Other resident sectors.

The sovereign debt crisis has persuaded credit institutions to increase their take-up of Eurosystem credits...

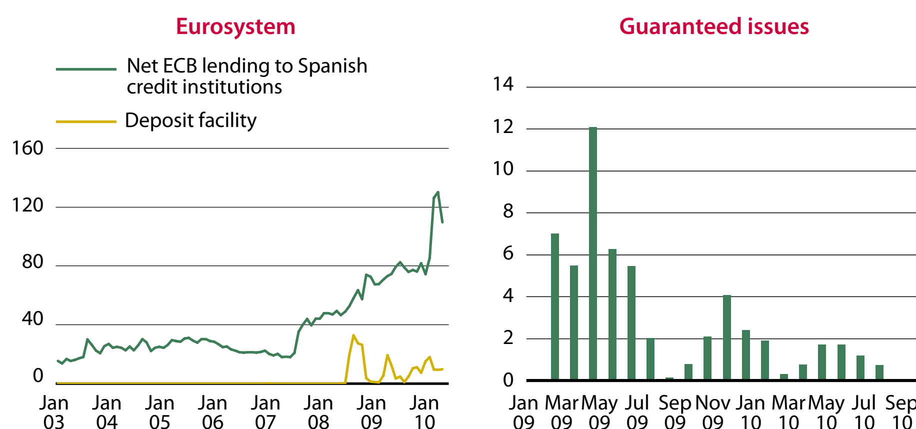
As remarked, sovereign debt market turmoil has had a knock-on effect on private sector funding conditions. In Spain, gross debt issuance year to date[9] by domestic credit institutions has sunk to 155 billion euros from 288 billion in 2009, with commercial paper, bonds (with and without guarantee) and, at a distance, asset-backed securities accounting for most of the downturn. Preference share issues have also dried up. Only covered mortgage bond issues were on a par with the figures for 2009. This funding source has gained most ground in both relative and straight number terms because of its use by institutions applying for Eurosystem credits. Recourse to this form of finance increased sharply in the middle months of 2010. In August, for instance, Spanish credit institutions borrowed a daily average of almost 110 billion euros from the ECB (20 billion less than in July), equivalent to 25.6% of total Eurosystem lending – a percentage disproportionate with their share of Eurosystem capital, which stands somewhere near to 12%. In parallel, Spanish institutions have also stepped up recourse to the deposit facility (see figure 8).

...though such recourse has lessened in recent weeks.

We should mention here the recent use by some Spanish entities of the LCH.Clearnet and Eurox Repo platforms, which channel interbank loans collateralised by government bonds and also cover default risk. This trading modality allows client entities to diversify funding streams and thereby reduce their reliance on any single source. And indeed the institutions in question have noticeably stepped up their issuance in the last weeks of August and September, with covered mortgage bonds as the main instrument of choice.

9 To 15 September.

Financing of Spanish credit institutions (billion euros) FIGURE 8



Source: Banco de España and CNMV. Eurosystem data to August. The figures for guaranteed issues run to 15 September.

Aggregate profits of non financial listed companies grew 4% in the first half of 2010.

The aggregate first-half net profits of non financial listed companies came to 14.70 billion euros, 4% more than in the same period last year (see table 5). Growth was common to all sectors except construction and real estate. Profits of listed energy firms rose by 6.3% to over 7 billion euros and those of retail and services firms by 11.7% to 6.20 billion, while industrial sector earnings totalled 1.40 billion (compared to 450 million in 2009). Companies in construction and real estate left behind the heavy losses of previous years and staged something of a comeback at higher income statement lines, particularly gross operating profit (EBITDA) and earnings before interest and taxes (EBIT). However, year-on-year comparison remained notably adverse at the net profit line due to the large capital gains booked by some operators in the first half of 2009.[10]

Earnings by sector[1]: non financial listed companies TABLE 5

	EBITDA[2]		EBIT[3]		Net profit	
Million euros	1H 09	1H 10	1H 09	1H 10	1H 09	1H 10
Energy	14,745	16,827	9,954	11,224	6,663	7,083
Industry	2,162	3,320	1,082	2,169	454	1,376
Retail and services	14,590	15,005	8,782	9,077	5,585	6,236
Construction and real estate	1,987	3,579	553	1,959	1,452	7
Adjustments	-159	-107	-72	-31	-22	-1
AGGREGATE TOTAL	**33,325**	**38,624**	**20,299**	**24,398**	**14,132**	**14,701**

Source: CNMV.

1 Year-to-date earnings.

2 Earnings before interest, taxes, depreciation and amortisation.

3 Earnings before interest and taxes.

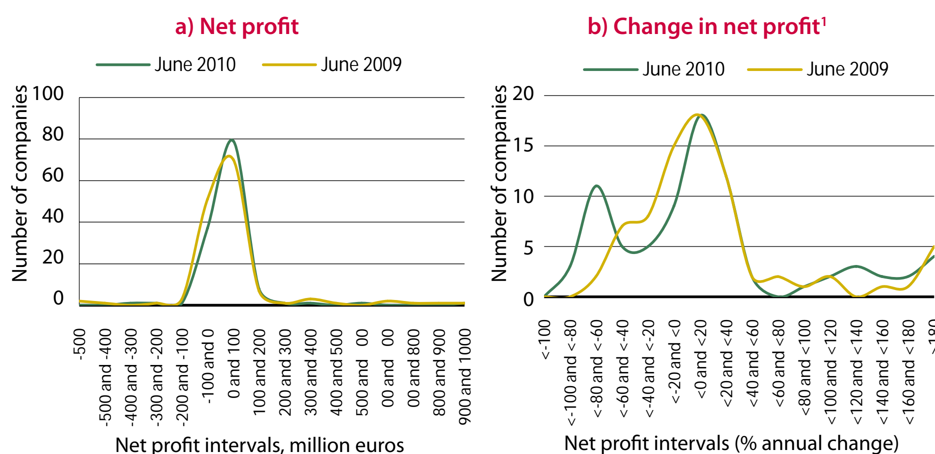
The number of companies with minor losses fell in the period, while the number slightly in profit rose.

Breaking down listed companies in terms of their net profit for the year (see figure 9, panel a), we find that the number reporting minor losses (between -100 million and zero euros) dropped significantly versus first-half 2009, while the number slightly in profit (between zero and 100 million euros) rose. Companies crossing the divide between the red and the black were primarily in industry, retail and services. Note

10 Gains from discontinued operations summed 3.03 billion euros in first half 2009, reflecting mainly the capital gains raised by certain companies from the disposal of equity interests. This same caption registered a 23 million loss in first half 2010.

also that not one firm reported losses deeper than 400 million in first-half accounts, thanks to an improved performance by real estate operators. Finally, among the companies in profit over the first-half periods of 2009 and 2010 (see figure 9, panel b), we can see an increase in both the numbers reporting a sharp earnings slide (exceeding 60%) and in those reporting growth of more than 100%.

Non financial listed companies by: FIGURE 9



Source: CNMV.

1 Number of entities distributed according to the change in their net profit, including only those with a positive net outcome in both years.

The total debt of non financial listed companies moved up 3.7% in the first-half period.

The debt of non financial listed companies moved up 3.7% between December 2009 and June 2010 as far as 340.23 billion euros (see table 6). The increase cut across all sectors with the exception of energy, where debt levels held more or less flat. The largest jump corresponded to retail and services companies, whose combined debt moved up 6.4% versus end-2009 to 115.6 billion euros. The debt of industrial sector companies and those in construction and real estate rose by 2.8% and 4.9%, respectively in the same period. Aggregate financial leverage – the ratio of debt to net equity – edged up in consequence from 1.63 to 1.65, with all sectors except for energy sharing in the increase.

Both the debt coverage ratio and interest cover (vs. EBIT) showed some improvement.

The debt coverage ratio, measuring the years needed to repay existing debt assuming constant EBITDA, dropped from 4.8 at end-2009 to 4.4 in June 2010, with EBITDA growth driving the improvement. The largest reduction in the aggregate ratio corresponded to construction and real estate (down from 22.5 to 15.4), thanks to a strong advance in sector EBITDA (80% year on year). Meantime, interest coverage ratios moved slightly higher (EBIT/interest expenses up from 2.4 to 2.8) on the strength of the growth reported at the EBIT line (20% year on year).

Gross debt by sector: listed companies

TABLE 6

Million euros		2006	2007	2008	2009	1H 10
Energy	Debt	59,191	69,172	82,608	100,572	100,315
	Debt/ Equity	0.89	0.78	0.89	1.08	1.01
	Debt/ EBITDA[1]	2.17	2.48	2.82	3.46	2.98
	EBIT[2]/ Interest expenses	4.65	4.10	3.67	3.38	3.60
Industry	Debt	15,684	13,312	15,645	15,953	16,402
	Debt/ Equity	0.78	0.61	0.69	0.69	0.70
	Debt/ EBITDA	2.07	1.82	2.71	3.05	2.47
	EBIT/ Interest expenses	5.71	5.93	3.41	3.15	4.84
Construction and real estate	Debt	111,000	138,933	119,788	104,762	109,853
	Debt/ Equity	3.10	3.08	3.77	4.08	4.21
	Debt/ EBITDA	11.52	10.83	31.87	22.48	15.35
	EBIT/ Interest expenses	2.04	1.17	0.01	0.31	0.76
Retail and Services	Debt	91,522	96,941	112,322	108,579	115,571
	Debt/ Equity	2.52	1.70	2.14	1.78	1.96
	Debt/ EBITDA	3.58	3.01	3.58	3.70	3.85
	EBIT/ Interest expenses	2.44	3.23	2.86	3.28	3.49
Adjustments[3]	Debt	-11,199	-17,391	-20,802	-1,908	-1,909
AGGREGATE TOTAL[4]	**Debt**	**266,198**	**300,967**	**309,561**	**327,958**	**340,232**
	Debt/ Equity	1.71	1.48	1.63	1.63	1.65
	Debt/ EBITDA	3.86	3.96	4.63	4.82	4.40
	EBIT/ Interest expenses	3.29	3.03	2.01	2.42	2.81

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.

4 This table did not previously include any financial entities, comprising credit institutions, insurance companies and portfolio companies. However as IPP (Periodic Public Information) forms are the same for portfolio companies as for non-financial companies starting in 2008, it has been decided to include them in the aggregate figure. Data for the 2007 close have been restated to factor the impact of Criteria Caixacorp.

Household savings rates have settled at just over 18% of gross disposable income.

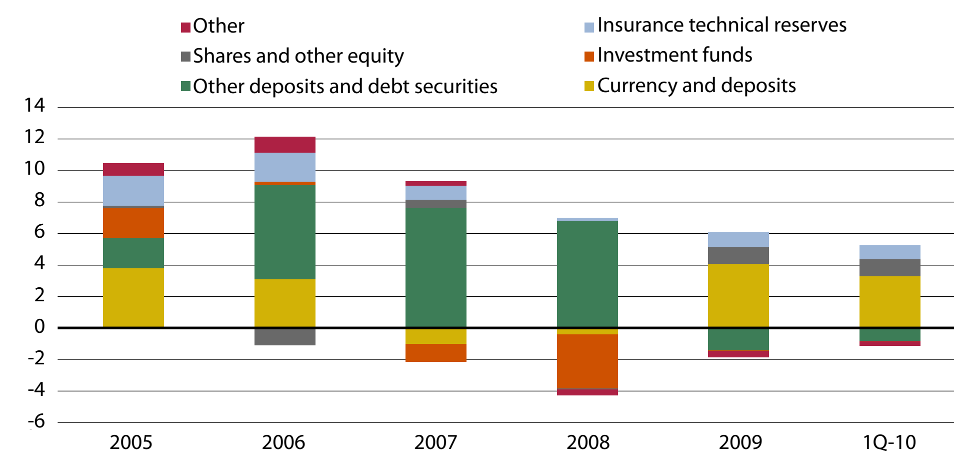
Household asset indicators for the first quarter of 2010 offered a more or less unchanged picture. The exception was the savings rate, which settled at around 18% of gross disposable income (see exhibit 2 for a more detailed analysis of recent trends in personal saving). The household indebtedness ratio held at around 125% of gross disposable income while net household wealth[11] reduced slightly in line with falling real estate values. Nor were there major changes to report in the aggregate figures for households' financial assets and liabilities, except perhaps some change in the mix. Specifically, while net financial asset purchases stood at around 4.1% of GDP in the first-quarter period[12] (4.2% in 2009), the weight of financial liabilities dropped by 1.1% (1.4% en 2009). At the same time currency and deposits reduced their share of total assets (though conserving their primacy), in contrast to the advancing weight of shares and insurance technical reserves.

11 Net household wealth is the sum of households' financial and non financial (real estate) assets minus their debts.

12 Cumulative four-quarter data.

Households: financial asset acquisitions (% GDP)

FIGURE 10



Source: Banco de España, Cuentas Financieras. Cumulative four-quarter data.

Investment fund subscriptions and redemptions (million euros)

TABLE 7

Category	Subscriptions				Redemptions			
	3Q09	4Q09	1Q10	2Q09[8]	3Q09	4Q09	1Q10	2Q09[8]
Fixed income[1]	19,696.6	20,150.3	15,240.8	13,620.5	20,089.9	21,710.4	19,940.5	22,951.2
Balanced fxd income[2]	1,081.7	3,309.0	1,243.5	1,255.4	576.6	792.3	1,106.0	1,653.8
Balanced equity[3]	541.5	366.6	292.1	556.5	554.2	264.9	225.7	601.2
Spanish equity[4]	589.2	743.2	582.5	464.0	455.6	734.9	709.6	673.9
Intern. equity[5]	775.0	1,165.3	1,259.1	1,190.3	457.5	609.5	704.9	991.1
Fixed-income guaranteed	2,544.8	2,246.8	2,359.6	3,244.1	4,046.6	4,070.5	2,135.7	1,529.0
Equity guaranteed[6]	1,683.7	1,899.6	1,607.4	1,576.3	3,100.5	2,574.1	1,818.0	1,852.4
Global funds	389.4	792.9	545.0	440.6	141.6	280.5	269.3	461.1
Passively managed[7]	204.4	269.0	242.6	271.1	164.3	235.9	396.2	682.1
Absolute return[7]	1,256.4	2,221.5	1,853.3	1,778.8	924.6	1,672.1	1,018.9	1,645.3
Hedge funds	66.4	73.8	107.9	n.a.	24.2	32.5	52.6	n.a.
Funds of hedge funds	4.6	3.7	21.4	n.a.	56.6	9.7	48.0	n.a.
TOTAL	**28,833.7**	**33,241.3**	**25,355.2**	**24,397.6**	**30,592.2**	**32,987.2**	**28,425.4**	**33,041.1**

Source: CNMV.

1 To 1Q09: Short and long fixed income, international fixed income and money market funds. From 2Q09: Euro and international fixed income and money market funds.

2 To 1Q09: Balanced fixed income and balanced international fixed income. From 2Q09: Balanced euro fixed income and balanced international fixed income.

3 To 1Q09: Balanced equity and balanced international equity. From 2Q09: Balanced euro equity and balanced international equity.

4 To 1Q09: Spanish equity and euro equity. From 2Q09: Euro equity (including Spanish equity).

5 To 1Q09: International equity Europe, Japan, United States, emerging markets and others. From 2Q09: International equity.

6 To 1Q09: Guaranteed equity. From 2Q09: Guaranteed and partially guaranteed equity.

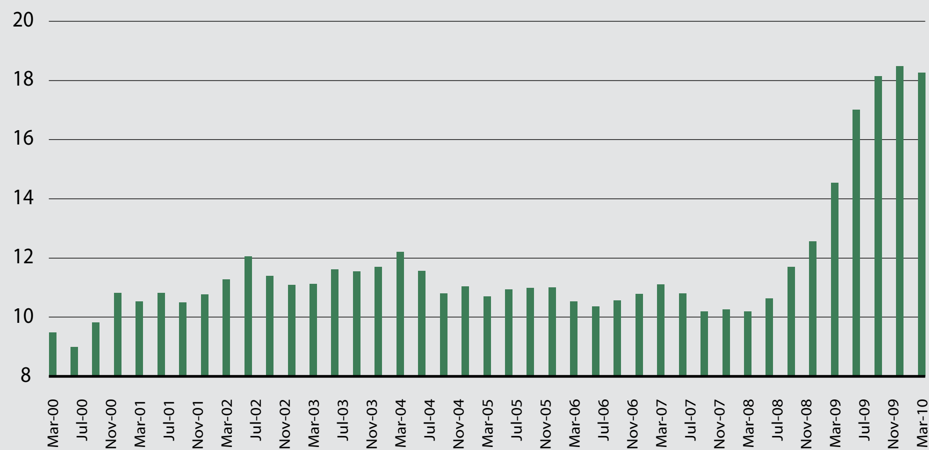
7 New categories as of 2Q09. All absolute return funds were previously classed as global funds.

8 Estimated data.

Exhibit 2: “Recent developments in Spanish household savings”

In the last decade, up to the onset of the crisis, the savings rates of Spanish households held more or less flat at around 10%-12% of gross disposable income. During this time, investments in both real and financial assets (mainly real estate in the former case) underwent an expansion that was largely funded by recourse to borrowing, in view of the newly affordable financing conditions. The result was a rise in household indebtedness ratios from 45% of disposable income midway through the 1990s to highs of nearly 130% in 2008.

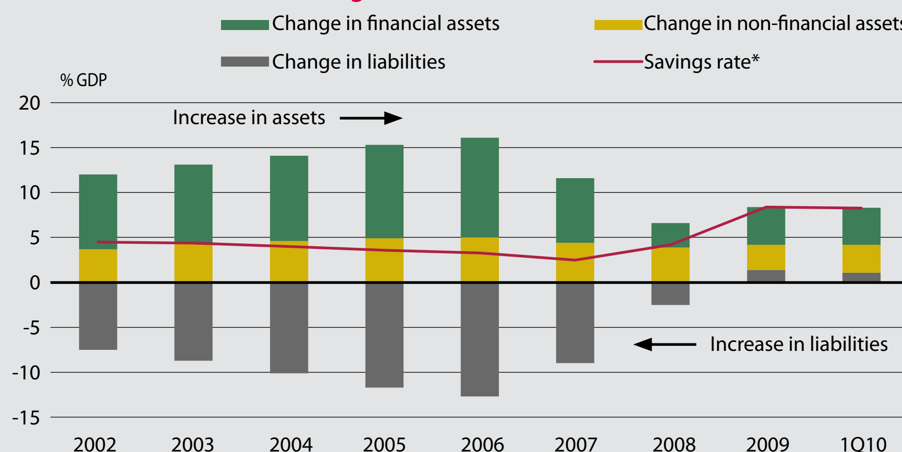
Household savings rates (% gross disposable income) FIGURE E2.1



Source: Thomson Datastream.

The outbreak of the financial crisis caused mounting uncertainty over the prospects for growth and, above all, employment. The response was a historic rise in household saving to a 2009 rate upwards of 18% of gross disposable income. The form it took was a sharp run-down in the acquisition of liabilities, balancing out the simultaneous decline in asset accumulation. Specifically, the growth rate of household liabilities slowed from its pre-crisis range of 9% to 14% of GDP to just 2.5% of GDP in 2008 before turning negative in 2009 (see figure E2.2). In parallel, household investment was reined back sharply, particularly in financial assets. Real asset acquisitions, concretely, dropped from around 5% of GDP between 2003 and 2007 to values closer to 3%, while financial asset purchases slumped from around 10% to 3%-4%.

Breakdown of household savings rate (% GDP) FIGURE E2.2



Source: Banco de España, *Cuentas Financieras*.

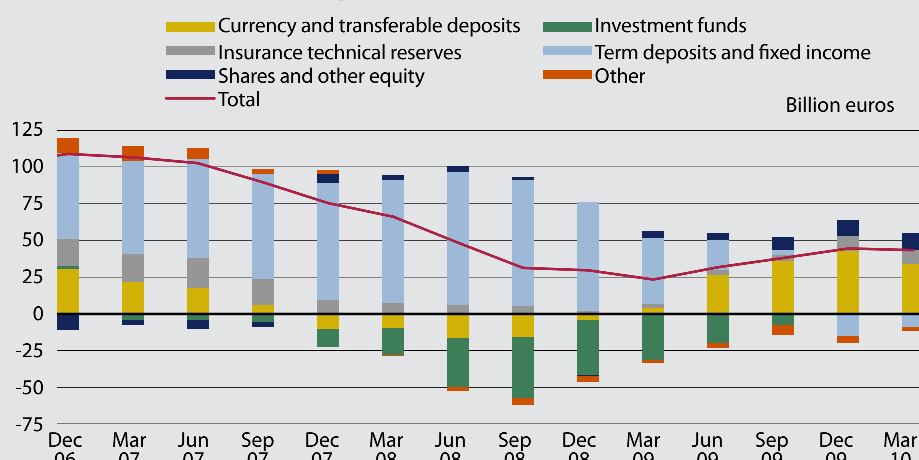
* Savings rate plus capital transfers.

This decline in financial investment coincided with a substantial shift in the acquisition mix by instrument and issuer sector. We can distinguish two separate phases in this change in households' investment behaviour:

1) From the start of the crisis (mid-2007) to March 2009. In this period of escalating risk aversion, household preferences inclined increasingly towards deposits (mainly term deposits) to the detriment, mainly, of investment funds (see figure E2.3).

2) From March 2009 to the present. This was a time of decreasing aggregate uncertainty on financial markets, in which deposits were again the main destination of household savings but with an appreciable shift away from term to easier-to-transfer sight deposits. Investment fund outflows also eased significantly, while investment in listed shares and insurance products recovered to some extent. Demand for shares, insurance and term deposits continued robust throughout the first quarter of 2010. However investment fund redemptions picked up once more, most intensely in fixed-income schemes.

Household financial asset acquisitions[1] FIGURE E2.3

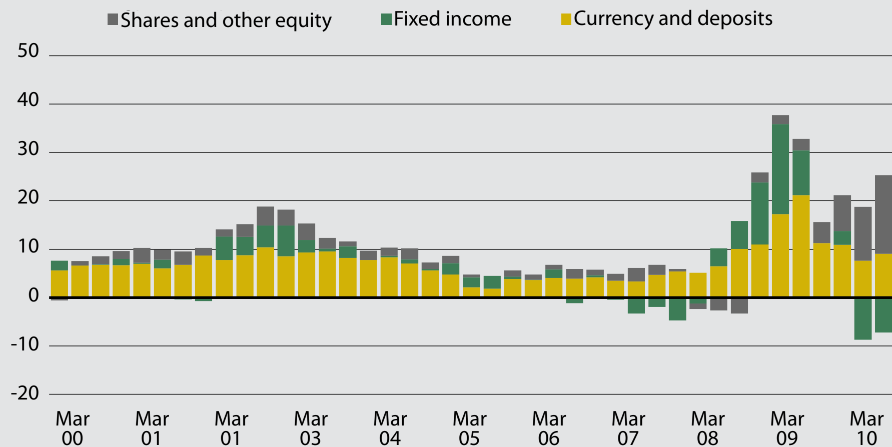


Source: Banco de España, *Cuentas Financieras*.

1 Cumulative four-quarter data.

Finally, as figure E2.4 shows, Spanish households have been investing increasingly in financial instruments issued abroad, which have raised their share in the total from below 10% to ahead of 20% on a regular basis, with peak values nearing 40% at times of maximum uncertainty. Until March 2009, investment in financial instruments issued abroad was more or less evenly split between cash and deposits, on the one hand, and fixed-income instruments on the other. Conversely, in the last few quarters the lead has been taken by shares and other equity.

Household acquisitions of financial assets issued abroad[1] (%) FIGURE E2.4



Source: Banco de España, *Cuentas Financieras.*

1 % of total financial asset purchases. Cumulative four-quarter data.

2.3 Outlook

Forecasts suggest world recovery will stay on course albeit with differences between regions,...

The forecasts of both the IMF and OECD point to further recovery in the quarters ahead, with world growth rates expected to be not far off 4.5%. The recovery pace will likely be inconstant as well as varying significantly from one area to the next. Emerging economies will retain their growth lead with rates at or exceeding 6.5%, while developed economies advance at a more moderate 1%-2%.

...and accompanied by high levels of uncertainty.

These projections, however, must be handled with care in the presence of a series of downside risks. The first of these, referred to in earlier instalments of this report, has to do with the sustainability of output growth now that many of the stimulus measures adopted by the authorities have been deactivated. A second uncertainty factor concerns the possible consequences of a European sovereign debt crisis that has not yet blown over, with the risk indicators of certain economies still in the alert zone.

A particular worry is how sovereign debt market turbulence may impact the banking system.

Aside from the harmful influence of any increase in uncertainty, arising in this case from the fiscal deterioration of certain economies, we have the added worry of how the crisis might impact the European banking system. In particular, there is a real threat that further episodes of stress, like that of a few months back, in the financing conditions of credit institutions could trigger a new clampdown on bank lending to the economy to the extent of cutting short the incipient recovery. A third risk factor has to do with the latest employment and output indicators in the U.S. and Japan, which hint at weaker growth in these economies over the second half of 2010.

On a more positive note, the robust growth pace of key emerging economies is providing an added spur to the export sectors of European countries, which may at least partly counter the damping effect on output of newly enacted fiscal austerity plans.

Positive notes are provided by the dynamism of emerging economies and the expansion of world trade flows.

With recovery challenged on all these fronts, work needs doing to keep agent expectations on track. This means, on the one hand, implementing fiscal adjustment plans that are credible, solid and properly balanced, and tackling the structural reforms needed to enlarge the economy's potential growth rate, especially in those countries exhibiting fragilities. Another priority is to ensure that international financial system reform measures are swiftly rolled out. Part of this effort must be to enhance the transparency of financial markets and institutions (an example to follow would be the recent disclosure of stress test results in Europe), to advance deeper in developing new prudential regulation and to complete the restructuring of troubled institutions (see exhibit 1 on financial reform in the United States).

Measures must focus on bringing down aggregate uncertainty and a return to more settled expectations for investors and issuers.

Projections for the Spanish economy continue to suggest recovery will lag that of other advanced economies. The consensus is that average GDP will contract slightly in 2010 then resume positive growth in 2011, though not enough to permit solid inroads into Spain's high unemployment rate. Slower progress in correcting past disequilibria and the impact of the austerity package approved last May (estimated at half a point of GDP) are among the factors explaining this low-key expansion.

Prospects continue generally weak for the Spanish economy...

Despite the considerable uncertainty surrounding forecasts for the Spanish economy, we can say that fiscal consolidation and structural measures, including the recent labour market reform, the reassuring results of the stress tests run on Spanish banks, and the recovery experienced in these past months by some of the country's main trading partners are apparently doing their bit to restore agent confidence. The result has been a degree of stabilisation in credit risk indicators, albeit at still high levels vs. their recent historical average, and a resumption of public and private debt issuance under more favourable conditions. The hope now is that this trend will consolidate in the absence of new episodes of investor distrust.

...although fiscal consolidation measures and other structural reforms, plus the results of stress tests on Spanish banks, are helping to win back confidence.

Domestic demand recovery also faces certain risks, some of them referred to in earlier reports and others new to the scene. Among the known risks we have a labour-market upturn insufficiently strong to reduce unemployment rates and hasten the recovery of private consumption. Among the new risks, meantime, are the possible fallout from the withdrawal of government stimulus measures. Finally, the sovereign debt crisis may yet cause disturbances in wholesale financing markets, disrupting the normal flow of funds to the public and the private sector.

The biggest risks have to do with labour-market weakness and possible funding constraints on both the public and private sector.

3 Spanish markets

3.1 Equity markets

Spanish equity markets have recouped some of the ground lost to mid year amid an appreciable decrease in volatility...

In the third quarter,[13] Spanish equity markets made up much of the ground lost in the year's first months – with some exceptions. The share price rally was stronger than in neighbour bourses, just as the previous run-down had been steeper, and was framed by the gradual easing of investor fears about the impact of the sovereign debt crisis on Spain's economy. The result has been a normalisation of market volatility to something like historical levels, after May highs of almost 70%, and an upturn in trading that has carried liquidity indicators some way above their recent-year average. The Ibex 35, specifically, gained 16.1% between the start of July and the closing date for this report against the 9% and 14.8% declines respectively of the first and second quarters, though its year-to-date performance remains negative to the tune of 10%.

...though with performance varying markedly by company size and sector of activity.

Share prices have also performed divergently according to capitalisation and trading venue. On the size front, the Ibex Medium Cap and Ibex Small Cap indices pulled apart in the third quarter (with increases of 14% and 2.4%) after moving in line for the first six months, taking their year-to-date losses to 4.8% and 15.6% respectively. Meantime, Latin American share platforms scraped small gains in the third-quarter period, with the FTSE Latibex All-Share up by 1.1% and the index of more liquid stocks, the FTSE Latibex Top, marking an increase of 0.6%. The Top index is so far the year's best performer thanks to its less severe losses in the second quarter, although both indices are over 20% up on their year-ago levels.

The only third-quarter losers were chemicals and real estate.

By sector, chemicals and real estate were the big third-quarter losers, with falls of 47.3% and 20.8% respectively. Real estate, in particular, is now trading over 60% below the levels of twelve months back. Remaining sectors managed a third-quarter rally that fell short of recouping the losses of the year's first months, the notable exceptions being consumer goods and non banking financial services (see table 8). The sectors posting the largest third-quarter gains were discretionary consumer goods (21.1%), health (20.3%), telecommunications (18.6%), other financial services (15.2%), industrial goods and services (15%), banks (14.5%) and construction (14.3%).

The debt crisis was hardest felt in financial sector share prices.

We can see from figure 11 that the European sovereign debt crisis has weighed more heavily on financial than non financial shares. Conversely, the internationalisation of Ibex 35 companies appears not to have been a factor in share price performance. In 2009 the most internationalised firms gained 96% as of March lows, roughly doubling the rise of their more home-market oriented peers (see figure 12). In 2010, however, the shares of firms with more geographically diversified earnings have performed more or less on a par with the rest, with falls of 10% and 13% respectively.

13 To 15 September.

Performance of the Spanish stock market by index and sector (%)

TABLE 8

Index	2006	2007	2008	2009	1Q10[1]	2Q10[1]	3Q10 (to 15 September) % prior qt.	% Dec	% y/y
Ibex 35	31.8	7.3	-39.4	29.8	-9.0	-14.8	16.1	-10.0	-7.3
Madrid	34.5	5.6	-40.6	27.2	-9.6	-14.5	15.6	-10.5	-8.4
Ibex Medium Cap	42.1	-10.4	-46.5	13.8	-0.8	-15.9	14.0	-4.8	-9.4
Ibex Small Cap	54.4	-5.4	-57.3	17.6	-0.9	-16.9	2.4	-15.6	-23.6
FTSE Latibex All-Share	23.8	57.8	-51.8	97.2	6.9	-7.3	1.1	0.2	19.5
FTSE Latibex Top	18.2	33.7	-44.7	79.3	7.2	-2.5	0.6	5.1	27.0
Sector[2]									
Oil and gas	18.3	1.8	-30.8	-20.1	-6.7	-9.6	8.6	-8.4	-14.5
Chemicals	-20.4	-58.4	-67.8	3.4	-0.7	-14.4	-47.3	-55.2	-57.6
Basic materials	69.3	-17.2	-45.4	23.1	2.7	-11.2	3.9	-5.2	-11.4
Construction mat. and construction	61.6	-12.0	-51.0	25.5	-5.5	-21.2	14.3	-14.8	-16.2
Industrial goods and services	28.4	6.9	-41.9	29.3	-4.1	-11.3	15.0	-2.2	1.5
Health	40.7	19.2	-45.0	17.7	-3.7	-23.8	20.3	-11.7	-13.7
Utilities	42.0	18.5	-31.0	-7.8	-7.1	-19.1	12.5	-15.4	-12.1
Banks	27.6	-4.5	-47.9	46.3	-14.6	-13.1	14.5	-15.1	-13.2
Insurance	44.7	-13.3	-25.0	19.8	-6.6	-17.4	7.4	-17.2	-18.2
Real estate	100.4	-42.6	-58.6	-43.8	-4.1	-19.8	-20.8	-39.1	-57.4
Financial services	91.1	-35.6	-44.3	20.8	6.8	-9.8	15.2	11.1	5.2
Telecommunications and media	29.4	26.3	-31.4	23.5	-9.0	-14.6	18.6	-7.8	-3.7
Discretionary consumption	21.2	-7.7	-39.2	37.0	10.5	-9.2	21.1	21.5	32.1
Basic consumption	12.9	6.9	-22.5	-8.4	1.6	-1.2	6.8	7.2	6.6

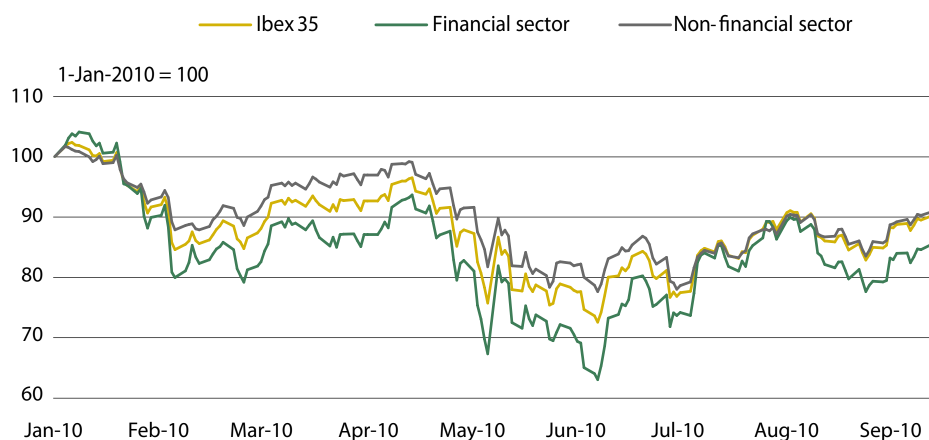
Source: Thomson Datastream.

1 Change on previous quarter.

2 Classification obtained from Thomson Datastream.

Ibex 35: financials vs. non financials[1]

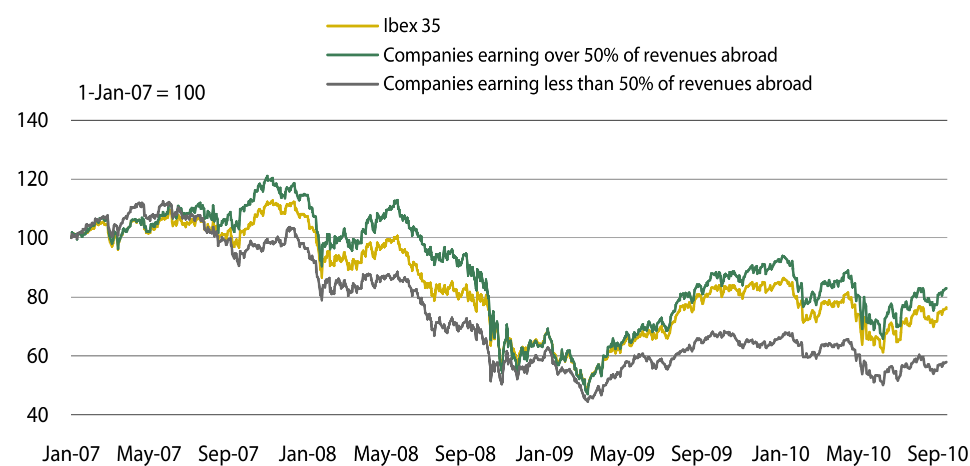
FIGURE 11



Source: Thomson Datastream. Data to 15 September.

1 Each company is weighted according to the share of its market cap. in the market capitalisation of the Ibex 35 at the close of the preceding year.

Performance of Ibex 35 companies by degree of internationalisation[1] FIGURE 12



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

1 Each company is weighted according to its share in the market capitalisation of the Ibex 35 at the close of the preceding year. The yardstick used for internationalisation is 2009 operating profits, in the case of credit institutions, and 2009 revenues for all other firms.

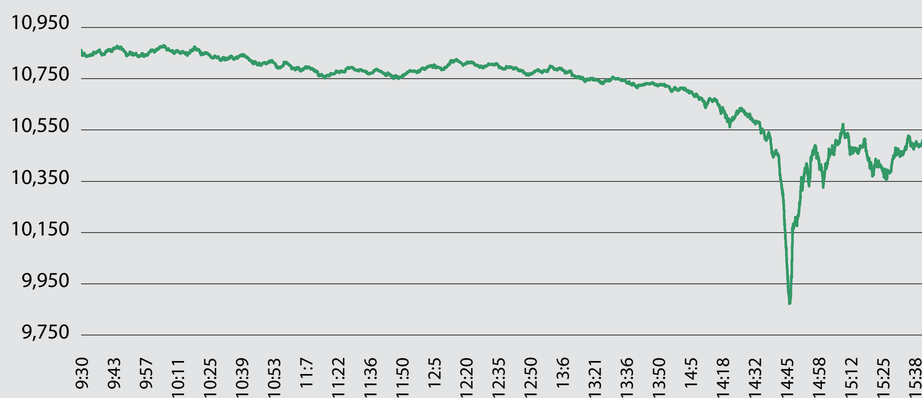
Exhibit 3: "The flash crash of 6 May: hypotheses and prevention mechanisms"

On May 6 last, the Dow Jones Industrial Average (DJIA) dropped around 1,000 points (9.16% of the previous day's closing level) in a few traumatic minutes. Just a short time later, the market had made up almost all the ground lost (see figure E4.1). During this episode, of the type known as a flash crash, two hundred companies saw their share prices briefly plummet to a handful of dollar cents.

Even after a joint probe by the Commodity Futures Trading Commission (CFTC) and the SEC, the ultimate cause of one of the greatest intraday shocks in stock market history is still far from clear. Initially suspicions centred on a human error in entering a sell order, triggering a sudden fall in the price of the share with an instantaneous knock-on effect on remaining stocks. However, the latest findings suggest that the shock owed to a combination of various factors, among them the complex organisation of United States equity markets, with liquidity at times thinly spread between regulated markets and multilateral trading facilities, the increasingly intensive use of high-frequency trading strategies and a heterogeneous regulatory environment such that any one incident can be dealt with in different ways.

Another factor at work is the complex interrelation of U.S. trading platforms, all of which operate under a National Market System (NMS), such that orders must be routed to the market with the best current price, to support price consolidation and offer participants the best execution. However this rule has exceptions and, as Magerman[1] (2010) points out, may be impractical in certain circumstances due to technical problems of interconnection or in the presence of trading peaks. The result can be unexpected shifts in liquidity from one market to another. In light of this latest incident, debate has resumed about the fragmentation of liquidity across diverse trading platforms, with 30% of volumes transacted on non public platforms (dark pools and internalisers) and high-frequency trading strategies[2] gaining in popularity.

DJIA prices on 6 May 2006 FIGURE E3.1



Source: Bloomberg

The latest line of investigation being followed by the SEC points the finger at a manipulative practice called "quote stuffing" where traders flood the market with buy or sell orders that they immediately cancel, the goal being to slow down the system and deceive other investors into following a movement that then disappears.

Other flash crash analysts have mentioned regulatory disparity in the volatility controls of different trading platforms as a possible exacerbating factor in share price fluctuations, though without pinpointing any one norm. During the twenty minutes the flash crash lasted, there was a shift in orders from the NYSE towards multilateral trading facilities with no volatility buffers in place. On the NYSE, the trading system switched to "manual" mode ("go slow"), slowing order execution by a considerable margin. But in the absence of blanket regulations, trading on other platforms proceeded unhindered. The result was to accelerate the price fall by diverting part of NYSE's normal activity to thinner, less deep venues. Also, some participants contend that a large number of high-frequency traders pulled out of the market, with damaging effects on liquidity and depth.

The NYSE operates two types of volatility controls, triggered by a pre-set variation in price:

1. Liquidity replenishment points (LPRs) are activated individually for each share. They slow down trading by removing the quote from automatic execution and transferring it to the traditional open outcry mode.

2. Circuit breakers, when activated, pause trading in some or all of the securities on a given market. The idea is to reduce volatility and improve investor confidence by taking a long enough break for incoming information to be calmly assessed, and thus mitigate the risk of trading failures. The NYSE first introduced circuit breakers in 1989 in response to the volatility episodes of October 1987 and that same year. In its initial formulation, this was an asymmetric measure in that trading was only halted in the event of a steeply falling DJIA index, but never with a rise. Every quarter, the exchange would calculate and disclose the DJIA thresholds for a 10%, 20% and 30% variation and set out the measures to be taken depending on the time slot when the

incident occurred. In the case of a 10% drop, for instance, the measure could be one of three according to the timing. If the price fell before 14:00, trading would be called off for an hour; between 14:00 and 14:30 and the exchange would close for half an hour; later than 14:30 and trading would continue. In the case of 20% falls, the market would be suspended for two hours before 13:00, and for one hour if the fall came between 13:00 and 14:00. Any later than that and the trading session would be brought to a close. Finally, a 30% fall at any time of day would cause the market to close for the rest of that session.

The SEC's first measure after the events of May 6 was to set up a system of individualised "short circuits" for each share jointly with the Financial Industry Regulatory Authority (FINRA), to apply to all equity trading platforms operative in the United States. The new system came on stream on 11 June this year and will be run on a pilot basis until 10 December next. In this initial try-out period, it will be confined to the 500 stocks making up the S&P 500, but after the results have been analyzed the idea is to roll it out to all listed shares, including exchange-traded funds (ETFs).

Under the new rules, trading of a given share will be suspended for five minutes when the price change in the previous five minutes has exceeded 10%. Among the novelties incorporated are the following: i) this is a homogeneous system applicable to all trading platforms; ii) it applies to individual shares; iii) it is more responsive because it factors immediately preceding movements in price; and, lastly, iv) it operates symmetrically, covering both upward and downward movements.

Since 2001, Spain's regulated stock markets have had mechanisms in place fulfilling this same function, known as "volatility auctions". Auctions last five minutes and come into play when a share price varies by a given percentage over the preceding trading price (*dynamic range*) or the last auction where it was sold (*static range*). The goal is to facilitate the spread and assimilation of new information on listed shares or on the exceptional circumstances prevailing at a given time.

1 *The Flash Crash*, David M. Magerman, 14 May 2010, Mill Creek Capital Advisors, LLC.

2 In a recent speech, SEC Chairman Mary L. Schapiro called for new obligations for high-frequency traders so their activity serves to support market stability and integrity (the speech "Strengthening Our Equity Market Structure", delivered in September 2010 before the Economic Club of New York, is available on http://www.sec.gov/news/speech/2010/spch090710mls.htm).

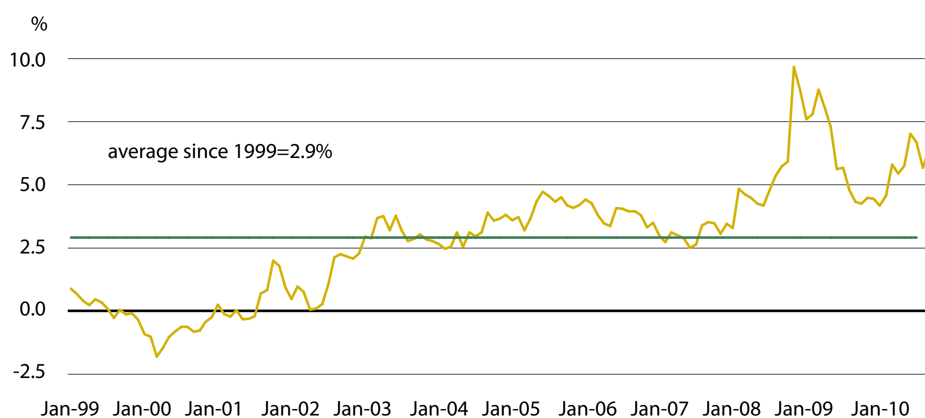
The price/earnings ratio of the Ibex 35 has pulled into line with those of main European indices, after trailing behind since the start of the year.

The P/E of the Ibex 35 has tended to align with those of main European indices...

Also in the third quarter, the earnings yield gap which expresses the risk premium of Spanish equities (in comparison to government bonds) broke free of the ascent traced since the year's outset after the easing experienced in March-December 2009. Movements in this indicator, which tend to be led by share prices rather than bonds, have lately been conditioned more by sovereign yields in a climate of heightened debt market volatility. This indicator, concretely, settled at 6.4% in the month of September compared to the 2.9% average recorded since 1999 (see figure 13).

...while the earnings yield gap approximating the risk premium of Spanish equities has reversed its upward trend.

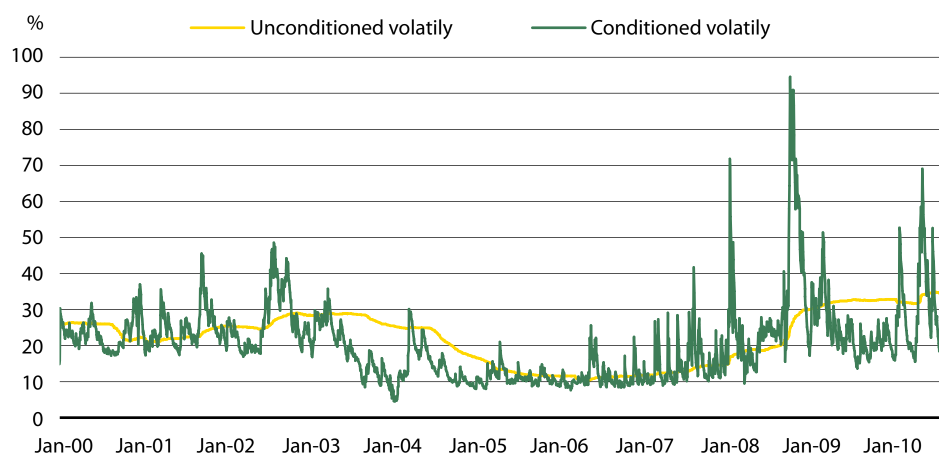
Earnings yield gap[1] of the Ibex 35 FIGURE 13



Source: Thomson Datastream y elaboración propia.

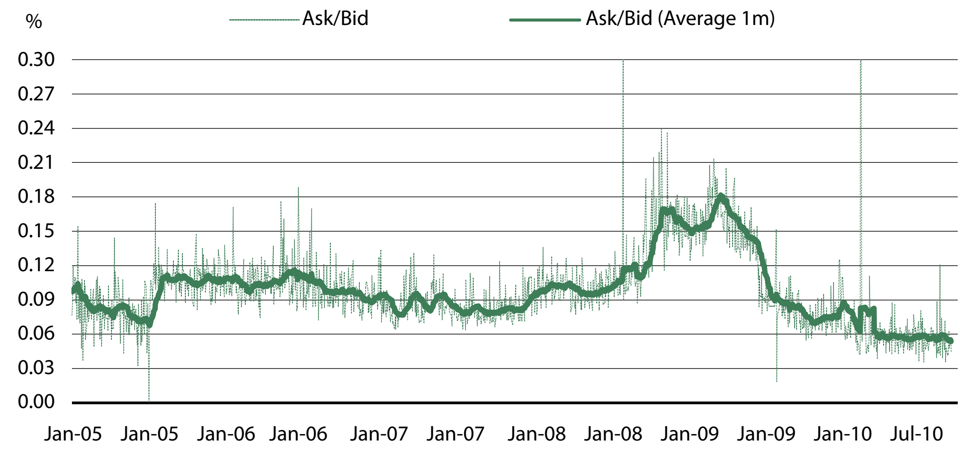
1 Difference between stock market yield, taken as earnings/price, and ten-year Spanish government yields. Monthly data to September 2010.

Historical volatility. Ibex 35 FIGURE 14



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

Ibex 35 liquidity. Bid/ask spread (%) FIGURE 15



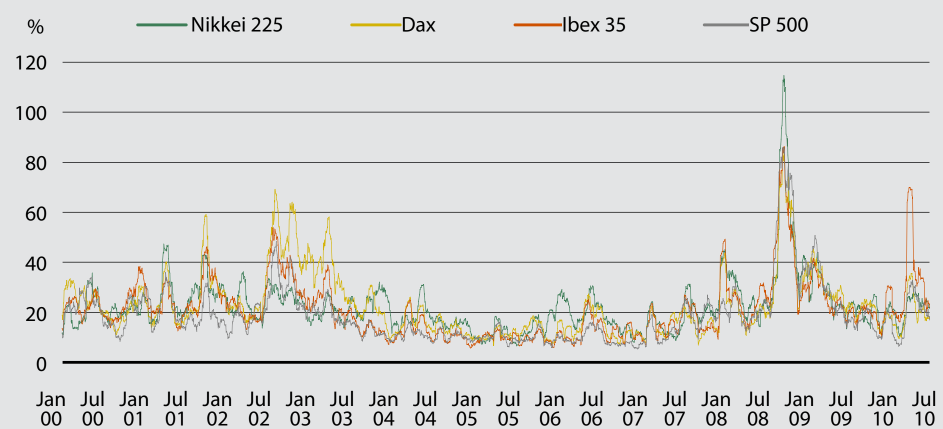
Source: Thomson Datastream and CNMV. Data to 15 September.

Exhibit 4: "Spanish stock market volatility: an international comparison"

Volatility measures the degree of fluctuation of financial asset prices and is accordingly tied in strongly with their market risk. There are various ways to estimate the volatility of a given asset, among the most frequent being the *historical* and *implied* methods. Among the first, the simplest procedure is to take the volatility of an asset or index as the standard deviation of its daily returns over a specified time period. Some models assume that volatility is not constant over time, so divide it into two components, variable and fixed.[1] The historical approach can also be used to measure intraday volatilities, taking, for instance, the time variation between the asset's price highs and lows on each day of the reference period. Implied volatility, meantime, is derived backwards from the market price of options on the underlying asset.

In the second quarter of 2010, available measurements of Spanish stock market volatility (with the Ibex 35 as proxy) showed a marked upswing tracing to the European sovereign debt crisis. The historical volatility of the Ibex 35 (taken as the standard deviation of daily returns) clearly exceeded the levels of reference markets (see figure E4.1) to the extent of testing 70% in the first fortnight in May, though it later eased back to the region of 20%.

Historical volatility of international stock indices (%) FIGURE E4.1



Thomson Datastream and CNMV. Data to 15 September.

Table E.4.1 sets out the average historical volatilities of selected indices in distinct time periods, with a grouping by region (core European economies, United States and Japan and peripheral European economies). For each index, we have compared average volatility with that of the Ibex 35 in periods of normality or absence of turbulence (between 2005 and June 2007) and in the tumult of the recent crisis (since June 2007).

In general, statistical analysis shows that Ibex 35 volatility: (i) is in line with that of main European reference indices in both calm and turbulent periods; (ii) is significantly higher than that of U.S. indices and lower than those of Japan; and (iii) lies around the middle of the volatility range of peripheral European economies (below Greece and Ireland but above Italy and Portugal)[2]. The results of these tests have proved largely robust for different time periods and other volatility measures (see figure E.4.2 for average measurements of intraday historical volatility).

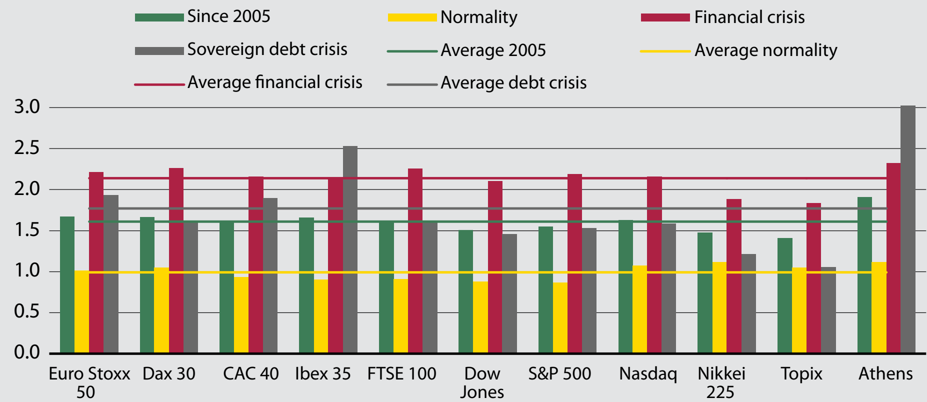
Historical volatilities[1] of selected stock indices (%) TABLE E4.1

	Index\Period	From 2005	2005-Jun 07 (normality)	From Jun 07 (crisis)	Latest reading[2]
	Ibex 35	20.6	11.5	27.2	20.6
Core European	Euro stoxx 50 (Euro)	20.4	12.3	26.4	19.6
	Euronext 100	18.9	11.1	24.6	18.1
	Dax 30 (Germany)	19.9	13.1	24.9	15.4
	Cac 40 (France)	20.7	12.3	26.8	21.0
	FT 100 (United Kingdom)	18.0	10.2	23.7	16.0
U.S. and Japan	Dow Jones (U.S.)	17.2	9.5	22.8	16.1
	S&P 500 (U.S.)	18.6	9.8	25.1	18.3
	Nasdaq-Cpte (U.S.)	20.5	12.7	26.2	20.3
	Nikkei 225 (Japan)	22.3	15.4	27.4	25.8
	Topix (Japan)	20.8	14.8	25.3	20.1
Peripheral European	Athens Exchange (Greece)	23.7	14.8	30.3	30.2
	Portugal	15.2	7.4	20.9	11.0
	Ireland	23.9	12.2	32.4	27.4
	Mib-30 (Italy)	15.9	8.9	21.0	17.5

1 Calculated as the standard deviation of daily returns over the past twenty days.
2 15 September.

Focusing on the instability peaks in financial markets over the last decade, it appears that the largest relative increases in volatility occur in the indices of the economies under closest scrutiny. Hence indices in Europe, and Germany particularly, were the most volatile of all during the accounting scandals that rocked various European companies in 2002/2003. Conversely in late 2008, it was U.S. indices whose volatility hit record highs (above 100%) in the wake of the collapse of several large American financial institutions. Finally, during the recent turmoil surrounding the European sovereign debt crisis, the economies seen as most challenged, Spain among them, tended to show equity market volatility readings in excess of the average.

Intraday historical volatility[1] FIGURE E4.2



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

1 Calculated as the % difference between maximum and minimum price. Averages are provided for each index in differing time periods.

It is interesting in this light that fiscal adjustment measures by some of these countries in tandem with pan-European initiatives (financial assistance mechanisms, ECB liquidity support, etc.) have succeeded in reducing volatility readings in their markets to near levels of "normality", as we can see from the final column in figure E4.1.

1 Figure 14 shows a breakdown of this type for Ibex 35 volatility, based on a GARCH model.
2 The fact that Spanish market volatility exceeds that of the Portuguese or Italian markets may reflect the latters' specific characteristics of liquidity or depth.

Market turnover has picked up significantly…

Turnover on Spanish stock markets summed over 776 billion euros in the first nine months of 2010 (to 15 September), 32% up versus the same period last year. Average daily trading reached 4.52 billion euros in the third quarter, in line with the figure for the preceding six months (4.19 billion). This is sizeably ahead of the 3.49 million of full-year 2009 but remains well short of the 4.89 billion of 2008 and the record 6.59 billion of 2007.

...but issuance remains low-key, despite the renewal of certain transactions.

Equity issuance revived somewhat in the second quarter of 2010 after the lethargy of preceding years, although transaction volumes (a total of 534 million) pale in comparison to the pre-crisis years (see table 10). Capital increases filed to 15 September amounted to just over 7 billion euros, some way down on the 9.08 billion of one year back and far removed from pre-crisis levels.

Turnover on the Spanish stock market

TABLE 9

Million euros	2006	2007	2008	2009	1Q 10	2Q 10	3Q 10[1]
All exchanges	**1,154,294**	**1,667,219**	**1,243,387**	**886,135**	**229,120**	**298,811**	**248,611**
Electronic market	1,146,390	1,658,019	1,235,330	880,544	227,866	297,495	247,251
Open outcry	5,318	1,154	207	73	17	13	25
of which SICAVs[2]	4,581	362	25	20	3	4	7
MAB[3]	1,814	6,985	7,060	5,080	1,089	1,141	1,231
Second Market	49	193	32	3	0	1	0
Latibex	723	868	758	435	147	162	103
Pro-memoria: non resident trading (% of all exchanges)							
	58.4	61.6	65.5	64.2	64.8	n.a.	n.a.

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

1 Cumulate 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.

Equity issues and public offerings[1]

TABLE 10

					2010		
	2006	**2007**	**2008**	**2009**	**1Q10**	**2Q10**	**3Q10[2]**
CASH AMOUNTS[3] (million euros)	29,436	69,955	16,349	11,391	241	5,115	2,323
Capital increases	26,977	67,887	16,340	11,389	241	4,581	2,323
Of which, rights offerings	645	8,503	292	17	15	924	6
National tranche	303	4,821	292	17	15	924	6
International tranche	342	3,681	0	0	0	0	0
Public offerings	2,459	2,068	10	2	0	534	0
National tranche	1,568	1,517	10	2	0	534	0
International tranche	891	551	0	0	0	0	0
NUMBER OF FILINGS[4]	86	100	54	53	10	18	12
Capital increases	77	91	53	53	10	17	12
Of which, rights offerings	8	8	2	2	2	4	2
Of which, bonus issues	20	19	18	11	1	4	3
Public offerings	14	12	2	1	0	2	0

Source: CNMV.

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

2 Data to 15 September 2010.

3 Excluding amounts recorded in respect of cancelled transactions.

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

Exhibit 5: “The new CESR disclosure regime on short selling and its implementation by the CNMV”

In the third quarter of 2008, faced with a deepening financial crisis, financial supervisors began imposing new rules for the disclosure of short positions in equity markets.[1] This was the case of numerous European jurisdictions, which activated reporting requirements for this type of position with the regulator (private disclosure) and, at times, remaining market participants (public disclosure).[2]

Despite an ample consensus around the need to have transparency requirements in place, Europe’s national authorities have not always coincided on how they should be enforced. Initially, most countries opted to have investors disclose all positions above 0.25%. There were exceptions, however, including Greece, which set the same threshold at 0.1%. Another point of difference was whether disclosure should be to the regulator alone or also to the market. Finally, a majority decided that both should be informed, though countries like Portugal and Austria have stuck with the first option.

Against this backdrop, the Committee of European Securities Regulators (CESR) launched a public consultation on the transparency standards to apply as part of a pan-European regime. The resulting document, published in March 2010 with the title “Model for Pan-European Short Selling Disclosure Regime”,[3] set out a common disclosure regime for net short positions, while calling on the European Commission to begin work on writing its requirements into EU securities market legislation.

The regime envisions a two-tier disclosure system:

- Disclosure to the competent supervisor when the short position exceeds 0.2% of the company’s issued share capital. Once this requirement is triggered, investors must renew disclosure after any change (up or down) of more than 0.1%.

- Disclosure to the market when the short position crosses the threshold of 0.5% of the company’s issued share capital. Once this requirement is triggered, investors must likewise renew disclosure after any change (up or down) of more than 0.1%.

Regarding how the net position is to be calculated, CESR lays down that investors should take into account transactions in all financial instruments that create an economic exposure to the issuer’s share price. Calculating the net short position should therefore not be confined to positions held in cash equity markets, but should also extend to those in linked derivative contracts (futures, equity swaps, contracts for differences, options, baskets, indices, etc.).[4]

The new regime will apply to shares admitted to trading in any regulated market within the European Economic Area or in any multilateral trading facility when the issuer’s primary market is located outside the EEA. Liquidity providers are considered to be exempt, whereas market makers must ask the CNMV for exemption

Spain was the first country to implement the terms of the agreement. Specifically on 27 May 2010, the CNMV Executive Committee took the necessary steps to enforce the CESR measures with immediate application. As of 10 June, investors are obliged to disclose their net short positions to the regulator and the market when they exceed 0.2% and 0.5% respectively of the company's issued share capital. On 11 June 2010, the CNMV made the first ever posting on its website[5] of data on investors holding net short positions above 0.5%.

A few weeks before the closing date for this report, in September 2010, the European Commission published a draft regulation making it incumbent on all EU member countries to implement the CESR short-selling disclosure regime.

1 Readers of this Bulletin will find an article titled "The effects of short selling restrictions in equity markets: some early results" by A. Ispierto Maté and R. Losada López, on how this kind of disclosure requirement affects stock market operation.
2 The article "Short selling" by Rodrigo Buenaventura, published in the CNMV Bulletin for the fourth quarter of 2008, describes the main measures in force at that point.
3 Available at http://www.cesr.eu/data/document/10_088.pdf.
4 Preferential subscription rights, convertible bonds and equity warrants issued by the company will not compute towards calculating the net short position until the underlying shares are admitted to trading. The execution of rights converting these instruments into shares entails the creation of a number of new shares equal to their delta.
5 http://www.cnmv.es/Portal/Consultas/Busqueda.aspx?id=29.

3.2 Fixed-income markets

A relative calm returns to the Spanish public debt market...

Spanish fixed-income markets have settled down after the turbulence experienced in the first months of 2010. Government bond yields reduced slightly in the year's middle months and new issues have been relatively stress free. Also, September figures show that financial institutions have stepped up their debt financing.

...with moderate falls in yield at all maturities…

Short-term government yields have tended to ease after the run-up of the second quarter. At the closing date for this report, the interest rates of Letras del Tesoro stood around 67 bp for tenors up to three months, with six-month bills at 118 bp and twelve-month bills hovering just above the 160 bp mark. Private fixed-income instruments have told a rather different story, with short rates rising less than their public debt equivalents in the second-quarter period, but then rising further in the third while short-term treasuries fell.

...particularly shorter-dated instruments.

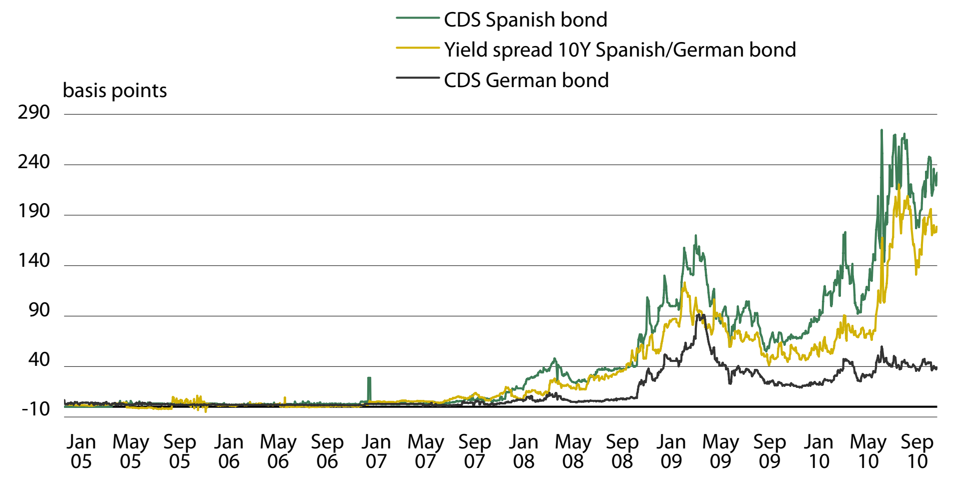
Long-term sovereign bonds performed similarly to shorter-dated instruments, that is, with a run-up in the second quarter giving way to a degree of easing in the third which, nevertheless, did not suffice to compensate the earlier increase. More specifically, three- and five-year yields moved up 140 bp and 104 bp in the second quarter and then dropped back by around 70 bp to mid-September levels of 2.6% and 3.1% respectively. Meantime yields on ten-year bonds followed a similar but smoother course.

The premium demanded of Spanish debt remains at high but manageable levels.

The risk premium of Spanish debt, taken as the spread vs. the German ten-year benchmark, has climbed by over 45 bp since end-August to upwards of 175 bp. This came on the heels of a roughly 80 bp drop from the peak reached in early July

(around 210 bp) following the escalation of the second quarter. The recent progress of this indicator suggests that public debt market tensions may have abated but they have not gone away. And the sovereign risk premiums implied by CDS tell basically the same story with more fluctuations (see figure 16).

Risk premium of Spanish government debt[1] FIGURE 16



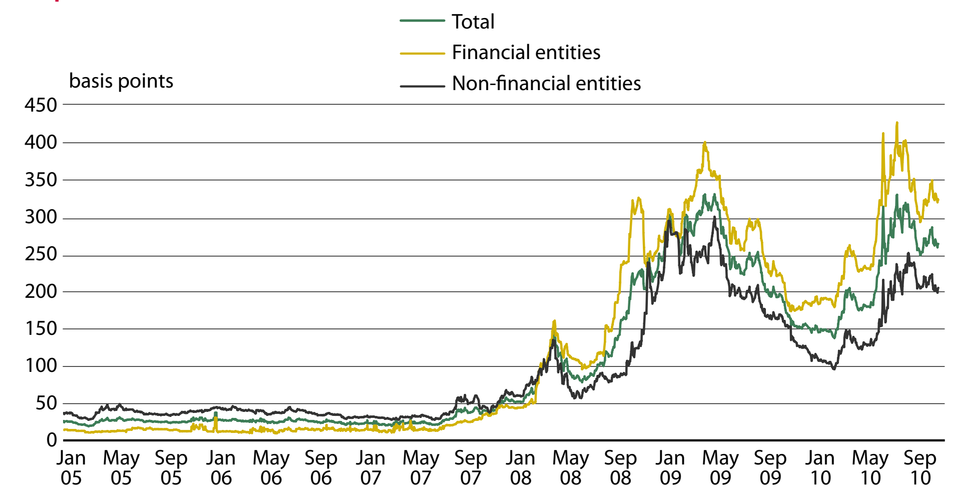
Source: Thomson Datastream.

1 Data to 15 September.

Corporate debt spreads too hold at manageable levels after the highs reached last May.

Meantime, corporate debt spreads strained higher in August after a mid-year dip, among financial issuers especially, following on from the sharp run-up of the second quarter (see figure 17). The stress tests conducted on European credit institutions, whose results were published in July, initially steered spreads back to lower levels. However fears of a weak recovery, the busy debt redemption schedules faced by credit institutions over coming years, and concern about the impact of upcoming changes in financial regulation all tended to support the view that sector funding conditions may take time to normalise.

Aggregate risk premium[1] based on the five-year CDS of Spanish issuers FIGURE 17



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

1 Simple average.

Gross fixed-income issues registered with the CNMV drop by 47% year on year, though some segments are showing renewed signs of vitality.

The volume of fixed-income issues registered with the CNMV was 158 billion euros to 15 September, 47% less than in the same period last year (see table 11). Of this gross amount, financial institutions accounted for rather more than 155 billion (98% of the total), a decrease of 46% with respect to the equivalent 2009 figure. Non financial companies issued 2.95 million euros in the same period, 64% less than in 2009. Changes in the instrument mix are described below:

- Commercial paper was again the single most popular funding instrument. Issue volumes however dropped 53% year on year to 69 billion euros, taking their relative weight down to 44% (49% in 2009).

- Issues of asset-backed securities, the next most popular, rekindled in the second and third quarters (to 15 September) with rises of 16 and 27 billion euros respectively after their first-quarter slump to less than 3 billion euros. Although this gives them 29% of year-to-date issuance, gross issue volumes are still 31% lower year on year. One factor that may influence this market going forward is the ECB's end-July announcement of new control measures in its collateral framework, namely an increase in the valuation haircuts (discounts on market value) applied to liquidity operations[14] based on lower-rated instruments.

- Mortgage bonds more or less kept up the pace of last year, with some 21 billion issued to 15 September (a year-on-year decline of 6%), while general issuance lassitude boosted their weight in the total by six points to 13%. Also noteworthy was the increased issuance of covered bonds, as far as 5.40 billion euros between January and September against just 500 million in full-year 2009.

- Issuance of non convertible bonds was confined to financial institutions, which placed some 17 billion over the first three quarters, 65% less than the year before. Around half this financing was government backed, with savings banks particularly continuing to draw on this facility.

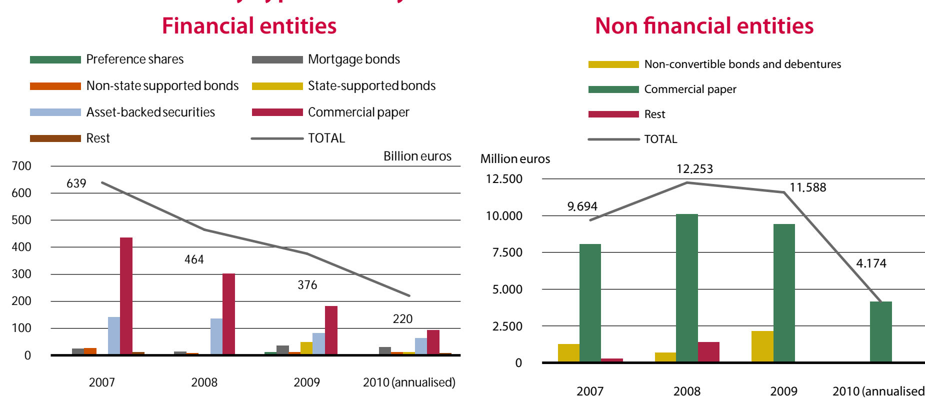
- Preference share issues have dried up altogether. This is true not just of Spain but also other European countries, where their use has dwindled ahead of the regulatory changes envisaged in Basel II, such that they will no longer compute as high-quality regulatory capital.

Foreign debt financing by Spanish issuers dropped back to 73 billion euros between January and July 2010 (see table 11), though here a gap has opened between short-term issues (basically commercial paper) which fell by 38%, and bonds and debentures, up by more than 14%.

14 The new framework will come into force in January 2011 and marks another step in the unwinding of the extraordinary lending conditions currently in place. What the ECB is pursuing with this measure is to dissuade banks from using lower-rated assets. Thus it will continue to accept assets rated down to BBB- in 2011 (vs. a pre-crisis threshold of A-), but it will do so at a price via the application of a higher valuation haircut. For more details on this program see: http://www.ecb.int/press/pr/date/2010/html/sp090728_1annex.en.pdf?2e693e1817cc1b3276a5f9d012cfee82.

Gross debt issuance by type of entity and instrument[1]

FIGURE 18



Source: CNMV.

1 Data to 15 September. 2010 data are annualised for the purpose of comparison.

Gross fixed-income issues

TABLE 11

a) filed[1] with the CNMV	2006	2007	2008	2009	2010 1Q10	2010 2Q10	2010 3Q10[2]
NUMBER OF ISSUES	**335**	**334**	**337**	**512**	**70**	**121**	**52**
Mortgage bonds	37	32	47	75	11	32	18
Territorial bonds	6	8	8	1	2	4	1
Non convertible bonds and debentures	115	79	76	244	39	58	19
Convertible/exchangeable bonds and debentures	1	0	1	6	0	0	0
Asset-backed securities	82	101	108	76	5	9	6
Commercial paper facilities	83	106	88	73	13	18	8
Asset-backed	3	3	2	2	0	1	0
Other commercial paper	80	103	86	71	13	17	8
Other fixed-income issues	0	3	0	0	0	0	0
Preference shares	11	5	9	37	0	0	0
FACE VALUE (million euros)	**523,131**	**648,757**	**476,276**	**387,476**	**51,667**	**57,410**	**48,929**
Mortgage bonds	44,250	24,696	14,300	35,574	4,650	10,892	5,667
Territorial bonds	5,150	5,060	1,820	500	400	4,700	300
Non convertible bonds and debentures	46,688	27,416	10,490	62,249	8,733	6,811	1,287
Convertible/exchangeable bonds and debentures	68	0	1,429	3,200	0	0	0
Asset-backed securities	91,608	141,627	135,253	81,651	2,875	15,699	27,190
Domestic tranche	30,886	94,049	132,730	77,289	2,875	15,205	27,190
International tranche	60,722	47,578	2,522	4,362	0	494	0
Commercial paper[3]	334,457	442,433	311,738	191,342	35,010	19,307	14,485
Asset-backed	1,993	465	2,843	4,758	995	930	1,433
Other commercial paper	332,464	441,969	308,895	186,583	34,015	18,377	13,052
Other fixed-income issues	0	7,300	0	0	0	0	0
Preference shares	911	225	1,246	12,960	0	0	0
Pro memoria:							
Subordinated issues	27,361	47,158	12,950	20,989	3,284	1,984	833
Covered issues	92,213	86,161	9,170	4,794	299	0	0

b) placed abroad by Spanish issuers	2006	2007	2008	2009	2010 1Q10	2010 2Q10	2010 3Q10[4]
FACE VALUE (million euros)	**98,975**	**103,631**	**112,366**	**149,686**	**36,792**	**23,862**	**12,450**
Long term	76,257	65,629	39,894	47,230	15,671	8,990	6,585
Preference shares	1,504	2,581	0	3,765	0	0	0
Subordinated debt	5,758	8,984	70	2,061	0	0	0
Bonds and debentures	64,292	53,327	39,360	41,404	15,671	8,990	6,585
Asset-backed securities	1,703	736	464	0	0	0	0
Short term	25,718	38,003	72,472	102,456	21,121	14,871	5,865
Commercial paper	25,718	38,003	72,472	102,456	21,121	14,871	5,865
asset-backed	16,517	12,119	425	108	95	67	3

Source: CNMV and Banco de España

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

2 Available data to 15 September 2010.

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

4 Available data to 31 July.

4 Market agents

4.1 Investment vehicles

Financial UCITS[15]

Investment fund assets drop 9% in the first half as redemptions gather pace.

Assets held in investment funds dropped by 8.9% in the first six months of 2010 to just over 155 billion euros, close to the level recorded at end-1997. Redemptions were the main motor of this substantial decline, with fixed-income funds[16] back to the volumes suffered at the start of the crisis after the considerable respite of late 2009. It is precisely the conservative, contained-risk nature of bond funds that has made them a prime victim in the scramble for savings launched by national deposit-taking institutions, with high-interest term deposits as the prize lure. Note, however, that not all categories registered cash outflows in the first half of the year. Guaranteed fixed-income funds and absolute return funds achieved combined net subscriptions of around 3 billion euros, while net withdrawals from euro equity funds stood in contrast to the inflows recorded by international equity products.

Portfolio depreciation was less of an issue.

The rest of the overall decline in funds assets owed to the depreciation of portfolio instruments, with equities leading the downside in line with the bear markets of the first-half period. In all, investment fund returns re-entered negative territory in the second quarter (-1.8%) after scraping a 0.6% gain in the first three months. All fund categories experienced some degree of decrease, most notably euro equity (-10.7%), passively managed funds (-7.3%) and international equity (-5%).

Fund mergers remain the order of the day.

Mergers were again a common feature of the investment fund landscape (57 in the first quarter and 98 in the second)[17] taking the number of funds in operation down to 2,436 by mid-year. Unitholder number fell by almost 53,000 in the same period to just under five and a half million. This was accompanied by a shift in the mix such that fixed-income guaranteed and international equity funds gained 120,000 and 30,000 investors respectively while fixed-income funds lost as many as 176,000.

15 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.

16 Cumulative net redemptions in this fund category exceeded 11.70 billion euros in the first six months.

17 One management company was the source of almost all mergers in the period.

Main investment fund variables*

TABLE 12

	2008	2009	2009			2010	
Number			Q2	Q3	Q4	Q1	Q2
Total investment funds	2,912	2,536	2,735	2,628	2,536	2,500	2,436
Fixed income[1]	629	582	612	598	582	567	547
Balanced fixed income[2]	195	169	190	171	169	171	168
Balanced equity[3]	202	165	181	174	165	161	143
Euro equity[4]	237	182	193	185	182	179	179
International equity[5]	330	242	271	252	242	239	233
Fixed income guaranteed	260	233	253	241	233	239	251
Equity guaranteed[6]	590	561	610	593	561	549	530
Global funds	469	187	208	193	187	182	181
Passively managed[7]		69	69	69	69	66	64
Absolute return[7]		146	148	152	146	147	140
Assets (million euros)							
Total investment funds	175,865.3	170,547.7	167,161.0	169,458.4	170,547.7	167,524.3	155,295.5
Fixed income[1]	92,813.1	84,657.2	86,711.3	85,913.9	84,657.2	79,655.6	69,654.5
Balanced fixed income[2]	5,803.0	8,695.5	5,421.8	6,322.4	8,695.5	8,867.1	8,264.2
Balanced equity[3]	3,958.8	3,879.6	3,480.1	3,812.4	3,879.6	3,930.7	3,441.5
Euro equity[4]	5,938.9	6,321.6	4,946.0	6,094.1	6,321.6	6,017.6	5,181.2
International equity[5]	4,254,7	5,902.4	4,108.3	5,020.9	5,902.4	6,869.4	6,682.5
Fixed income guaranteed	21,150.3	21,033.4	21,664.1	21,322.7	21,033.4	22,047.8	23,520.3
Equity guaranteed[6]	30,873.7	25,665.8	29,120.6	27,857.4	25,665.8	24,814.2	23,981.7
Global funds	11,072.8	3,872.5	3,350.7	3,400.4	3,872.5	4,130.3	3,991.1
Passively managed[7]		3,216.6	2,714.5	3,066.3	3,216.6	2,971.9	2,350.2
Absolute return[7]		7,303.0	5,643.6	6,647.7	7,303.0	8,219.9	8,228.4
Unitholders							
Total investment funds inversión	5,923,346	5,475,403	5,498,325	5,461,473	5,475,403	5,489,598	5,422,414
Fixed income[1]	2,204,652	2,041,487	2,067,091	2,042,556	2,041,487	1,994,558	1,864,776
Balanced fixed income[2]	277,629	290,151	241,097	254,599	290,151	298,542	295,325
Balanced equity[3]	209,782	182,542	187,244	184,985	182,542	180,722	185,118
Euro equity[4]	377,545	299,353	270,079	277,093	299,353	290,734	280,529
International equity[5]	467,691	458,097	419,928	434,299	458,097	478,952	487,813
Fixed income guaranteed	538,799	570,963	540,428	550,041	570,963	617,901	690,600
Equity guaranteed[6]	1,402,948	1,188,304	1,339,321	1,272,792	1,188,304	1,153,385	1,142,072
Global funds	444,300	88,337	96,581	79,288	88,337	94,630	99,163
Passively managed[7]		85,403	91,738	97,399	85,403	92,352	97,949
Absolute return[7]		270,766	244,818	268,421	270,766	287,822	279,069
Return[8](%)							
Total investment funds inversión	-4.21	5.73	2.43	2.80	0.73	0.61	-1.83
Fixed income[1]	2.06	1.91	0.55	0.88	0.24	0.46	-0.62
Balanced fixed income[2]	-7.14	6.85	3.48	4.18	0.63	0.42	-2.18
Balanced equity[3]	-22.21	16.47	9.86	10.18	1.99	-0.14	-6.00
Euro equity[4]	-39.78	32.41	23.34	19.76	3.06	-2.57	-10.67
International equity[5]	-41.71	37.28	20.08	15.15	6.30	5.63	-4.97
Fixed income guaranteed	3.29	3.81	0.94	1.31	0.37	0.98	-1.24
Equity guaranteed[6]	-2.61	3.56	0.85	1.40	0.16	0.39	-1.91
Global funds	-8.64	10.90	4.90	5.18	1.87	1.43	-2.82
Passively managed[7]		-	16.50	12.09	4.61	-1.26	-7.28
Absolute return[7]		-	1.54	1.90	0.70	0.98	-1.19

Source: CNMV.

As a result of the reclassifying of investment fund objectives, in force from 1 April 2009, some changes have taken place in the variables of this table:

* Funds filing reserved statements (i.e., not including funds in the process of winding-up or liquidation).

1 To 1Q09: Short and long fixed income, international fixed income and money market funds. From 2Q09: Euro and international fixed income and money market funds.

2 To 1Q09: Balanced fixed income and balanced international fixed income. From 2T09: Balanced euro fixed income and balanced international fixed income.

3 To 1Q09: Balanced equity and balanced international equity. From 2Q09: Balanced euro equity and balanced international equity.

4 To 1Q09: Spanish equity and euro equity. From 2Q09: Euro equity (including Spanish equity).

5 To 1Q09: International equity Europe, Japan, United States, emerging markets and others.From 2Q09: Intenational equity.

6 To 1Q09: Guaranteed equity. From 2Q09: Guaranteed and partially guaranteed equity.

7 New categories as of 2Q09. All absolute return funds were previously classed as global funds.

8 Annual return for 2008 and 2009, and non annualised quarterly return for each quarter shown.

The latest estimates of liquidity conditions among private fixed-income funds suggest that the volume of less-liquid assets reduced considerably in the first half of 2010, from a start-out level of 14.87 billion to 11.42 billion at end-June (see table 13). This equated to a decline in their share of total investment fund assets from 8.7% in December 2009 to 7.4% in June 2010, the largest drop since this indicator first came under scrutiny (third quarter of 2007). Lower exposure to less-liquid assets extended to both fixed-income and asset-backed securities, with a sharp contraction in the former case among assets rated below AA (down by 1.9 billion in the six-month period).

Less-liquid assets take a lower share of investment fund portfolios.

Estimated liquidity of investment fund assets TABLE 13

Type of asset	Less-liquid investments					
	Million euros			% total portfolio		
	Dec 09	Mar 10	Jun 10	Dec 09	Mar 10	Jun 10
Financial fixed income rated AAA/AA	4,637	3,977	3,724	20.7	17.9	18.3
Financial fixed income rated below AA	4,619	4,231	2,740	31.4	26.0	19.6
Non financial fixed income	190	304	246	3.9	3.9	3.5
Securitisations	5,423	5,318	4,711	73.4	72.4	79.9
AAA-rated securitisations	3,179	2,806	2,346	81.7	77.8	79.6
Other securitisations	2,244	2,512	2,366	64.1	67.1	80.2
TOTAL	**14,870**	**13,832**	**11,421**	**30.1**	**25.8**	**24.2**
% of investment fund assets	**8.7**	**8.3**	**7.4**			

Source: CNMV.

The outlook for the collective investment industry will continue to be complicated by heightened competition from deposit-taking entities, joined lately by foreign UCITS marketed in Spain, which grew their assets 28.5% to a mid-year total of 32.36 billion euros. And the surge in fixed-income fund redemptions in the first six months suggests this trend may persist in coming months. The lesson for the industry, if it is to resume the incipient recovery of late 2009, is that management companies must persevere in rationalising their fund offering so it is sufficiently attractive in terms of costs and returns. The merger wave should help to boost funds' efficiency, while the normalisation of financial markets, and bond markets particularly, should offer a leg-up in profitability.

Industry prospects are clouded by the intense competitive pressure from deposit-taking entities.

Real estate investment funds

Real estate UCITS continued to operate in a troubled environment. The long redemption queues forming at the height of the crisis have triggered early asset sales, property reappraisals and, in some cases, the spreading-out of redemption dates. As described in previous instalments of this report, the CNMV has authorised various funds at their own request to suspend redemptions for a two-year period, so managers have time to put an orderly disposal plan in place.

Real estate funds continue to struggle.

The latest data show real estate fund numbers to be unchanged with respect to end-2009. However of the eight funds on the register, one is in liquidation and a further three have suspended or postponed redemptions. That leaves just four funds as going concerns, of whom three are majority owned by investors belonging to the financial group of the management company.[18] But while these active funds have still had to cope with a regular stream of redemption orders, the last few months have

Of the eight funds on the register, only four are active and coping comfortably with redemption orders.

18 With interests amounting to 80%, 78% and 41% in the three funds with this characteristic.

brought some respite, and all have attended their liquidity commitments without major difficulty.

Assets under management in real estate funds dropped 3.1% from January to July, with unitholder numbers down by just under 8%.

Against this backdrop, assets under management in real estate investment funds fell by 3.1% in the first seven months of 2010 as far as 6.26 billion euros at end-July, while unitholder numbers dropped 7.9% to 76,966. The sector's mean returns remained in the red albeit with some improvement on the losses taken since the closing quarter of 2008.

By contrast, real estate investment companies enjoyed a mini expansion.

Real estate investment companies represented the reverse side of the coin, with year-to-date increases in both assets (up 5.2% in the first seven months to 324.6 million euros) and unitholder numbers (up from 928 at end-2009 to 937 in July 2010).

Main real estate fund variables TABLE 14

					2009	2010		
	2006	2007	2008	2009	Q4	Q1	Q2	Q3 [1]
FUNDS								
Number	9	9	9	8	8	8	8	8
Unitholders	150,304	145,510	97,390	83,583	83,583	81,647	76,772	76,966
Assets (million euros)	8,595.9	8,608.5	7,406.9	6,465.1	6,465.1	6,363.7	6,279.6	6,262.8
Return (%)	6.12	1.27	0.69	-8.32	-1.45	-1.63	-0.99	-0.30
COMPANIES								
Number	8	9	9	8	8	8	8	8
Unitholders	749	843	937	928	928	927	942	937
Assets (million euros)	456.1	512.9	371.9	308.6	308.6	304.6	327.0	324.6

Source: CNMV.

1 Available data to July 2010, with return stated on a monthly basis.

The weakness of the real estate market remains a clear obstacle in the way of recovery.

It is far to assume then that real estate UCITS have more hard times ahead, with fundamentals unlikely to pick up until the Spanish real estate sector is back on an even footing and the pressure of redemption orders starts to ease.

Hedge funds

Performance divergences between funds of hedge funds and hedge funds per se*...*

A performance gap has opened up of late between hedge funds per se and funds of hedge funds. Funds of hedge funds, we should recall, faced a series of liquidity and valuation problems following the outbreak of the crisis, due to restrictions imposed by foreign hedge funds in which they were invested. They also experienced difficulties coping with the upsurge in redemption orders. And these factors have continued to hold back recovery in this UCITS segment despite the more upbeat figures of fourth quarter 2009.

...with contraction in the first group contrasting with mild expansion in the second.

Specifically, the fund of fund industry shrank further in the first half of 2010, with three retirals taking the number of undertakings down to 35. Sector assets meantime dropped by 8% versus end-2009 to 763.9 million euros, while unitholder numbers fell by a more subdued 3.1%. Conversely, the hedge fund sector experienced encouraging growth across all main variables. The number of undertakings held at 30, one more than in 2009, while assets rose by 25% to 767.2 million euros, and unitholder numbers by 14% to 2,192. That said, aggregate returns have performed negatively year to date with the 2.2% gain of the first quarter wiped out by 3.5% losses in the second.

Main hedge fund variables TABLE 15

	2007	2008	2009	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2[1]
FUNDS OF HEDGE FUNDS								
Number	31	40	40	40	40	38	37	35
Unitholders	3,950	8,151	5,321	5,577	5,303	5,321	5,311	5,241
Assets (million euros)	1,000.6	1,021.3	810.2	709.5	846.8	810.2	793.9	763.9
Return[1] (%)	-0.43	-17.80	7.85	2.59	2.88	0.83	1.72	0.13
HEDGE FUNDS								
Number	21	24	29	26	27	29	31	30
Unitholders	1,127	1,589	1,917	1,768	1,778	1,917	2,137	2,192
Assets (million euros)	445.8	539.4	652	536.9	602.6	652.0	722.4	767.2
Return[2] (%)	0.84	-4.82	14.94	8.12	5.21	1.45	2.23	-3.47

Source: CNMV.

1 Available data to May 2010. Returns stated refer to April-May.

In the near term, the numerous undertakings in liquidation could make a dent in industry assets.

The hedge fund industry faces the same adverse scenario as remaining UCITS modalities. Many undertakings are in liquidation, and we cannot rule out more negative newsflow on their asset volumes, with shrinkage most pronounced in the funds of funds segment. On the upside, hedge funds *per se* have managed to expand at a time when almost the whole UCITS industry is in retreat, and we can hope that the progressive normalisation of financial markets and thinning redemption volumes will play in favour of a stronger recovery.

4.2 Investment firms

Investment firms faced another tough period, though some segments fared better than others.

Investment firm business is still struggling under the weight of the crisis, though with visible differences now emerging by type of firm and business line. So although broker-dealer profits continued in decline, the fault this time has lain mainly with proprietary trading, while their core business (provision of investment services) has apparently been picking up in recent months. Among the brokers, conversely, profit recovery has been led by operating cost containment while revenues have continued to languish. The most positive note is provided by portfolio management companies in the shape of higher ordinary revenues allied with ongoing cost constraint. The result, as we will see, has been to keep solvency indicators safely in the comfort zone.

The aggregate pre-tax profits of broker-dealers fell by 25% to mid-year 2010…

In the case of **broker-dealers**, aggregate pre-tax profits closed the first-half period at 148 million euros, 24.8% less than in the same period of 2009 (see table 16). Behind this negative outcome was a 12% fall in gross income hand in hand with a 13% jump in operating expenses. Other items such as impairment losses and extraordinaries also contributed negatively to first-half income statements.

...however, the decline traced mainly to non ordinary activities while net fee income advanced in the period.

Analysis of the main revenue streams of broker-dealers (gross income) shows grounds for some cautious optimism, in that the aggregate decline has been entirely driven by factors alien to their ordinary activity – in this case the intervening fall in net interest income and steep exchange losses occasioned by a weakening euro – whereas net fee income climbed by over 6% in a clear break with the downtrend of preceding years. Under fee income, the largest advances referred to the biggest revenue item, fees from order processing and execution (up 12%), and fees from the marketing of

mutual funds (up 17%). Fees from investment advice contracted 11% in the first-half period, though the biggest fall was reserved for issue placement and underwriting, reflecting the stall in primary market activity.

Aggregate income statement (Jun 10)

TABLE 16

Thousand euros	Broker-dealers			Brokers			Portfolio managers		
	Jun 09	Jun 10	% var.	Jun 09	Jun 10	% var.	Jun 09	Jun 10	% var.
1. Net interest income	98,211	43,915	-55.3	1,679	732	-56.4	247	165	-33.2
2. Net fee income	263,559	279,871	6.2	63,582	56,876	-10.6	5,175	5,967	15.3
2.1. Fee income	393,081	423,657	7.8	72,250	65,412	-9.5	10,653	11,440	7.4
2.1.1. Order processing and execution	274,323	306,583	11.8	30,001	21,791	-27.4	-	-	-
2.1.2. Distribution and underwriting	21,567	2,906	-86.5	1,081	610	-43.5	-	-	-
2.1.3. Securities custody and administration	7,911	11,218	41.8	166	186	12.3	-	-	-
2.1.4. Portfolio management	4,858	6,366	31.0	9,284	8,808	-5.1	8,995	9,218	2.5
2.1.5. Design and advising	27,581	24,477	-11.3	890	1,291	45.0	1,316	1,921	46.0
2.1.6. Search and placement	6	7	8.7	0	115	-	-	-	-
2.1.7. Margin trading	10	5	-50.5	3	10	286.2	-	-	-
2.1.8. Fund subscriptions and redemptions	27,509	32,261	17.3	10,010	12,004	19.9	7	26	245.7
2.1.9. Others	29,317	39,834	35.9	20,816	20,596	-1.1	335	275	-17.9
2.2. Fee expense	129,523	143,785	11.0	8,668	8,536	-1.5	5,479	5,473	-0.1
3. Result of financial investments	51,163	76,990	50.5	102	-104	-	25	65	156.9
4. Net exchange income	-5,749	-38,210	-564.6	113	278	145.8	13	16	17.7
5. Other operating income and expense	6,132	1,437	-76.6	-402	-654	-62.7	-261	-173	33.8
GROSS INCOME	**413,316**	**364,004**	**-11.9**	**65,074**	**57,128**	**-12.2**	**5,200**	**6,040**	**16.2**
6. Operating expenses	185,780	209,760	12.9	61,891	50,836	-17.9	4,597	4,543	-1.2
7. Depreciation and other charges	5,143	1,776	-65.5	1,249	1,430	14.5	95	86	-9.1
8. Impairment losses	36,436	3,159	-91.3	16	-32	-	0	0	-
NET OPERATING INCOME	**185,957**	**149,310**	**-19.7**	**1,919**	**4,894**	**155.1**	**508**	**1,411**	**177.9**
9. Other profit and loss	11,395	-929	-	110	551	403.0	-15	-6	56.8
PROFITS BEFORE TAXES	**197,353**	**148,381**	**-24.8**	**2,028**	**5,445**	**168.5**	**493**	**1,405**	**184.9**
10. Corporate income tax	24,057	16,200	-32.7	1,904	1,003	-47.3	202	234	16.2
PROFITS FROM ONGOING ACTIVITIES	**173,296**	**132,181**	**-23.7**	**125**	**4,443**	**3,458.4**	**291**	**1,170**	**301.5**
11. Profits from discontinued activities	0	0	-	0	0	-	0	0	-
NET PROFIT FOR THE YEAR	**173,296**	**132,181**	**-23.7**	**125**	**4,443**	**3,458,4**	**291**	**1.170**	**301.5**

Source: CNMV.

Brokers, in contrast, grew their profits in the first-half period...

Brokers, meantime, obtained a combined pre-tax profit of 5.4 million euros in the first six months of 2010 (see table 16). This is well ahead of the two million reported in the same period in 2009, though still far short of the 16 million of June 2008.

...with expenses falling faster than revenues,...

As table 16 shows, profit recovery drew on a reduction in operating costs outstripping the fall in main revenue lines. Net fee income, to go no further, sank by almost 11%, due to lower inflows under all main captions excepting UCTIS redemptions and subscriptions.

...especially under personnel heads.

The near-on 18% reduction in brokers' operating expenses was secured through personnel cost savings in the wake of workforce reductions. Earnings from provision writebacks and other extraordinary items also contributed positively at the pre-tax profits line.

Profits growth at portfolio management companies drew on both revenue and cost items.

Finally, **portfolio management companies** posted pre-tax profits of 1.4 million between January and June 2010, almost three times more than in 2009. Growth here drew on a strong performance from net fee income, up 15% in the first-half period, as well as a 1.2% reduction in operating expenses. The salient development under fees was the 2.5% increase in what is the main revenue source for this kind of firm, portfolio management fees and, particularly, fees from the provision of financial advice (up 46%).

Exhibit 6: "Guide on appropriateness and suitability testing"

As anticipated in its Activities Plan for 2010,[1] the CNMV has included among its priority objectives to foster greater transparency and better communication among the diversity of market agents. Part of this effort would be to establish good practice standards for testing the appropriateness and suitability of financial instruments with regard to a given service user.

Accordingly, on 17 June, the CNMV published its guidance on appropriateness and suitability testing in the case of services rendered to retail clients.[2] The goal is to help sector firms comply with current legislation by ensuring that they know what is expected of them and how best they can deliver it. The main points covered are as summarised below.

1. Appropriateness testing

Special attention goes to the "initiative" concept which determines when it is necessary to test for appropriateness in the case of non complex products. The Guide points out that an investment service is provided at the initiative of the firm when a customer requests it after a personalised approach from the company, which has contacted him/her directly by whatever means. The communication in question will either have invited the customer or attempted to persuade him/her to acquire a particular financial instrument or to engage in a particular transaction.

In appropriateness tests, the client may only be deemed to have sufficient prior experience when outstanding positions or earlier transactions involve the exact financial instrument being proposed or others of similar characteristics, and when such experience is based on more than one transaction and not too long a time has elapsed since his or her previous exposure.

The Guide offers a series of tips on how to weigh up clients' level of education, professional experience, and familiarity with different kinds of financial instruments. For instance, a non complex product could be a good option for a client without investment experience if he or she has a sound educational level and professional experience or understands the nature of the instrument and the risks involved.

It also deals with practical matters like the standards to follow in drawing up questionnaires and how to issue clients with the relevant warnings. The firm must in any case be able to provide evidence that an appropriateness test has been conducted. When it uses questionnaires to compile customer data, it could, for instance, keep paper copies signed by the client or use some other medium that constitutes a formal record. Firms should take special care with the design and evaluation of questionnaires to ensure there are no inconsistencies or biases that might invalidate the test results.

It is important that firms can prove that they have given the client the opportune warnings, whose content will vary when the transaction is "execution only", when the product is considered inappropriate and when the test cannot be run for lack

of details. Their wording in any case must be concise and clearly understandable, so the client will have no doubt about the message being transmitted.

Finally, the Guide reminds firms that they are obliged to act in customers' best interests with regard to appropriateness. In particular, if a company approaches a client to interest him/her in a complex financial instrument, despite having up-to-date information in its power from which one could reasonably presume that the investment is inappropriate, that company will be found to have acted without the required diligence and transparency, even if it has issued a warning.

2. Suitability testing

The Guide offers a series of pointers to help distinguish between investment advice scenarios, each with its own legal requirements and its own implications with respect to the duty to act in the client's interest. These include for instance the frequency with which advice is delivered and whether or not the firm's recommendations are subject to subsequent monitoring.

It points out that portfolio management or investment recommendations must be consistent with the analysis conducted, so recommendations or investment decisions are properly aligned with the client's investment objectives. That said, even if a client is willing to take on a high degree of risk, there will be times when he or she cannot afford to do so, or else appears to have an insufficient grasp of the nature and risk of the proposed investment. And these are factors that a firm must reckon with when making recommendations or managing a portfolio.

Providers are also advised on how to define a client's investment objectives. Considerations here include the need to establish parameters or variables that the client can understand, the advisability of controlling the portfolio's global risk as opposed to the individual risks of component instruments, and the option of graduating assessments of investor knowledge and experience as a function of the service being rendered, on the grounds that these factors are of less relevance in the case of portfolio management.

As with appropriateness testing, the Guide urges firms to properly document all tests run and offers guidance on constructing questionnaires.

Finally, firms must have procedures in place to procure the client information required for suitability testing. Such information must be kept updated with any changes in inputs duly documented and acted on.

1 Available on http://www.cnmv.es/DocPortal/Publicaciones/PlanActividad/PlanofActivities2010en.pdf
2 Available on http://www.cnmv.es/portal/verDoc.axd?t={1b7ee817-3cab-432d-bd71-e2d4a1d5a463}

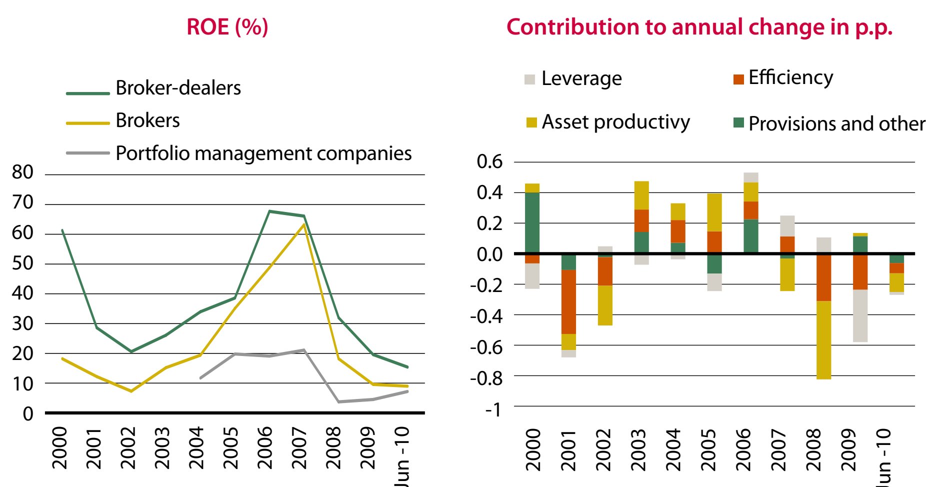
Investment firm ROE descends anew, though less so than in 2009,...

In line with main earnings trends, the **return on equity**[19] (ROE) of the investment firm industry headed lower in the second quarter, albeit less so that in 2009 (see figure 19). Behind this decline was the waning profitability of broker-dealers, down from 21.4% in June 2009 to 15.5% one year later, contrasting with the gains made by brokers and portfolio management companies (from 5.7% to 9% and 3.2% to 7.2% respectively).

...due to a degree of erosion in companies' efficiency and asset productivity.

A breakdown of the change in investment firm ROE reveals some interesting differences with respect to 2009. As we can see from figure 19 (right-hand panel), last year's slide in profitability was mainly about falling leverage and efficiency losses[20]. In contrast, the more moderate decline to mid-year 2010 was attributable to lower asset productivity, some loss of efficiency and the negative impact of provisions and other extraordinaries.

Pre-tax ROE of investment firms FIGURE 19



Source: CNMV.

The number of firms in losses continues to climb.

The number of firms in (pre-tax) losses continued to climb, from 26 at end-2009 to 34 in June 2010 (32 in June 2009, see figure 20). Of these 34 loss-making firms, 15 were broker-dealers, 16 brokers and three portfolio management companies (against a year-before distribution of eleven broker-dealers, 23 brokers and two portfolio managers). Aggregate losses stood at 12.4 million euros, equating to around 8% of the sector's pre-tax profits.

19 ROE is calculated as:

$$ROE = \frac{\text{Profit before taxes } (annualised)}{Equity}$$

in which:

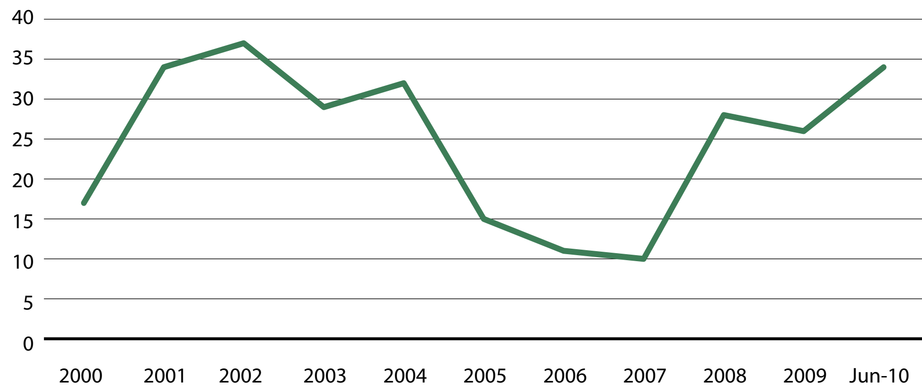
Equity = Capital + Share premium + Reserves – Treasury shares + Retained earnings and profit/loss from previous years – Dividends and other entitlements.

20 The following equation allows us to isolate the effects of changes in each factor contributing to investment firm ROE:

$$ROE = \frac{PBT}{Equity} = \frac{PBT}{Net operating inc.}(1) \times \frac{Net operating inc.}{Gross income}(2) \times \frac{Gross income}{Assets}(3) \times \frac{Assets}{Equity}(4)$$

in which the numbered elements serve as indicators of: (1) extraordinary items in the income statement, (2) efficiency, (3) asset productivity and (4) leverage. For a fuller description of how to interpret the elements in this equation, see the exhibit "ROE breakdown" in "Securities markets and their agents: situation and outlook" in the CNMV Bulletin for first quarter 2008.

Number of investment firms in losses FIGURE 20



Source: CNMV.

Firms remain comfortably compliant with capital standards...

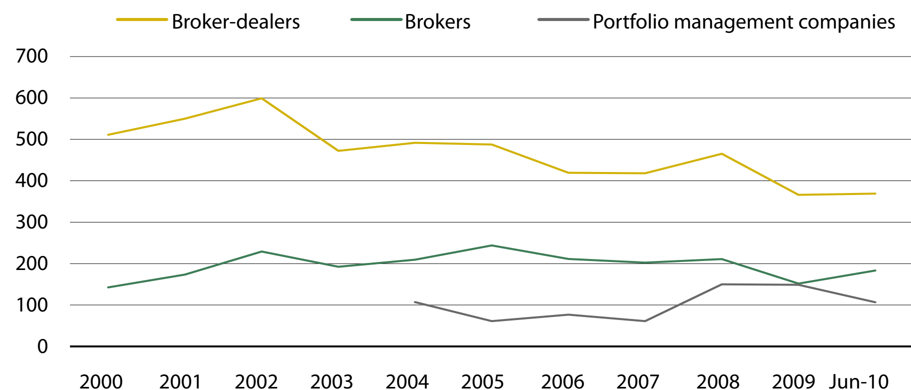
The sector's capital adequacy remains within the comfort zone, and has stayed largely unchanged in this first year since the entry of the latest standards (Circular 12/2008 on investment firm solvency). That said, margins have narrowed in comparison to prior years due to the higher allocation required for operational risk.

...especially the broker-dealers.

At the end of first half 2010, broker-dealers had equity levels 3.7 times higher than the minimum requirement (equalling the 2009 close and improving on the 3.5 times of June 2009), while brokers had a surplus of 1.8 times (against the 1.9 of one year before and 1.5 in December 2009). Meantime, portfolio management companies saw their surplus contract from the 1.9 times of June 2009 to 1.1 times one year later (see figure 21). It bears mention that on June 30, 2010, not one investment firm reported a deficit vs. the minimum standard. Of the five below the minimum in December 2009, four have since ceased trading, while the remaining firm has fought back to compliance via a properly structured viability plan.

Investment firm capital adequacy FIGURE 21

(surplus of qualifying equity to the minimum requirement, %)



Source: CNMV.

A tentative recovery in key business lines augurs better times for investment firms.

The outlook for the investment firm sector is a little brighter than in previous quarters, to judge by the tentative recovery in revenues from key business lines – including those tied in with market trading – and the success of cost contention efforts,

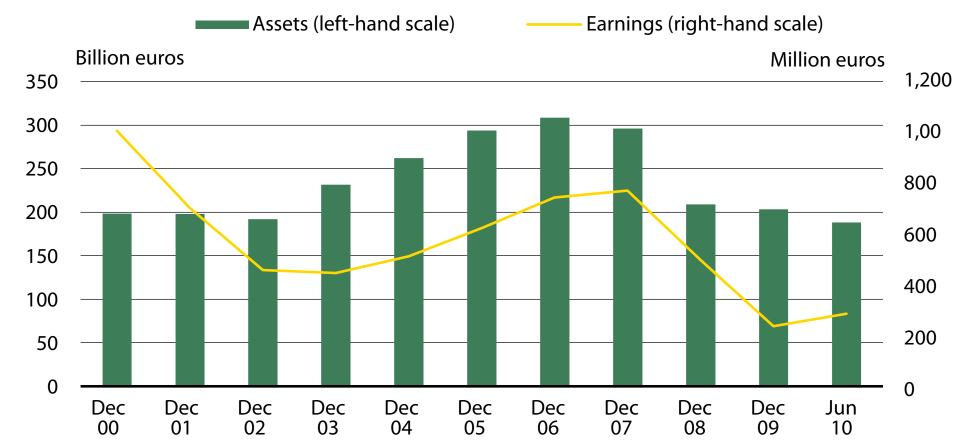
especially among brokers and portfolio managers. In the case of broker-dealers, the negative contributions of net interest income and exchange differences will likely dissipate in coming quarters, helping to attenuate the profits slide. The situation of the broker contingent is rather more complex, with no clear recovery in sight for their core service provision. Again the best news for sector earnings would be a firm upturn in financial market turnover. Finally, although recent months have seen a number of closures, the sector is still carrying excess capacity.

4.3 UCITS management companies

Assets under management contract 7.5% in the year's first half,...

Aggregate figures for UCITS management companies for the first half of 2010 show a 7.5% decline in assets under management as far as 188 billion euros. The scale of the fall, some 15 billion euros, is considerably greater than the 5 billion of full-year 2009, but a long way from the bleak times of 2008, when assets under management slumped by 87 billion euros (see figure 22 and table 18).

UCITS management companies: assets under management and pre-tax profits FIGURE 22



Source: CNMV. To June 2010. Data for June 2010 are stated on an annual basis.

…but profits edge higher.

Despite this drain in assets, the industry's first-half pre-tax profits came to 285 million euros (in annual terms) compared to the 236 million of full-year 2009. Management fee income held relatively steady at around 0.85% of assets, while the number of companies in losses rose from 31 in 2009 to 37 in June 2010 (excluding one loss-making concern that went out of business). Aggregate (annualised) return on equity rose from 16.7% in December 2009 to 19.4% in June, in line with the increase in sector earnings.

UCITS management companies: pre-tax profits and ROE		TABLE 17
Million euros	Profit before taxes	ROE before taxes (%)
2001	701.7	72.9
2002	457.1	50.1
2003	445.4	50.1
2004	512.2	57.3
2005	622.8	66.2
2006	744.0	68.9
2007	771.1	60.5
2008	497.8	36.8
2009	235.9	16.7
2010 (June[1])	285.4	19.4

Source: CNMV.

1 Data for June are stated on an annual basis.

The woes of the collective investment industry add further uncertainty to management company prospects, compounded by an excess of sector capacity.

The first-half woes of the collective investment industry obviously cast a pall over the outlook for management companies. And the modest profits advance of the first six months may soon lose steam, in view of its close tie-in with shifting investment fund objectives (in favor of equity funds which traditionally carry higher management fees). The truth is that over 30% of these institutions remain stuck in losses, and we cannot rule out a process of industry restructuring to trim the excess capacity. Finally, managers must get down to the twin tasks of rationalising their fund offerings and gaining efficiency via lower costs.

UCITS management companies: assets under management, management fees and fee ratio TABLE 18

Million euros	Assets under management	CIS management fee income[2]	Average UCITS management fee (%)	Fee ratio (%)[1]
2000	198,280	2,869	1.45	63.5
2001	198,115	2,465	1.24	65.8
2002	192,099	2,259	1.18	72.7
2003	231,458	2,304	1.00	73.8
2004	262,132	2,670	1.02	73.6
2005	293,973	2,976	1.01	72.2
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	203,379	1,702	0.84	68.6
2010 (June[2])	188,159	1,636	0.86	68.5

Source: CNMV

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

2 Data for fee income and average management fees are stated on an annual basis.

4.4 Other intermediaries: venture capital

The register of venture capital entities welcomed 19 entrants in 2009 against 13 retirals.

The CNMV's register of venture capital entities (VCEs) recorded ten new entrants between end-2009 and 31 August 2010 (four funds and six companies) against the retiral of one venture capital company. This left the total of 337 entities in operation, of which 105 were venture capital funds (VCFs), 158 venture capital companies (VCCs) and 74 venture capital management companies (VCMCs).

Movements in the VCE register in 2010 TABLE 19

	Situation at 31/12/2009	Entries	Retirals	Situation at 15/09/2010
Entities	**328**	**10**	**1**	**337**
Venture capital funds	101	4	0	105
Venture capital companies	153	6	1	158
Venture capital fund managers	74	0	0	74

Source: CNMV.

Assets of venture capital funds, held mainly by institutional investors, moved up 16.5% in 2009.

Annual statistics on the entities registered with the CNMV put the total 2009 assets of venture capital funds at 3.18 billion euros, an increase of 16.5% versus 2008 (see table 20). A breakdown by investor type puts institutional investors once more at the head after growing their share in the past year. In all, the percentage of VCF assets owned by legal persons rose from 93.2% in 2008 to 95.6% in 2009, while the percentage held by natural persons dropped from 6.8% to 4.4%. Of legal persons, credit institutions, mainly savings banks, were the biggest owners with a stable share of 22%, followed by non financial companies (14.4%), public authorities (12,2%), pension funds (11.2%) and, finally, foreign entities (10%).

The share capital of venture capital companies stabilised in 2009.

Venture capital companies, meantime, closed last year with share capital of 4.17 billion euros. This is roughly the same figure as in 2008, indicating some degree of respite from the decline of preceding years. The largest capital subscribers in this group were again non financial companies, though their relative weight receded from 46% to 36% at end-2009. Conversely, credit instituions, and savings banks in particular, raised their ownership interest from 23% to 33%.

Venture capital entities grew their total assets 1.1% in 2009, and raised their investments by 8%.

VCEs grew their assets by 1.1% to an end-2009 total of 9.90 billion euros, with 74% corresponded to VCCs and 26% to VCFs. Of the total, 6.19 billion were invested in venture capital activities, 8% more than in 2008, with 76% corresponding to VCC holdings and the rest to investments by VCFs. Sector leverage (calculated as long-term debt to total equity and liabilities) climbed from 4.7% to 5.8%, though here a clear split emerges, with funds' leverage still at minimum levels (0.2%) and companies' up from 6.1% to 7.7%.

Venture capital entities: assets by investor group

TABLE 20

Million euros	VCFs		VCCs	
	2008	**2009**	**2008**	**2009**
Natural persons				
Residents	185.47	138.00	68.76	66.54
Non residents	1.15	1.65	0.55	0.57
Legal persons				
Banks	202.49	207.70	530.25	551.92
Savings banks	413.18	488.37	438.10	819.37
Pension funds	295.84	356.91	24.20	27.19
Insurance undertakings	59.06	77.09	15.85	15.83
Brokers and broker-dealers	-	-	0.88	0.89
UCITS	32.58	22.39	10.31	8.20
National venture capital entities	31.26	49.46	39.55	85.41
Foreign venture capital entities	123.65	247.67	7.98	50.53
Public authorities	310.66	386.46	120.43	132.44
Sovereign funds	20.27	26.02	-	-
Other financial companies	281.85	263.84	680.06	717.56
Non financial companies	391.87	455.92	1,914.95	1,500.53
Foreign entities	286.04	347.26	32.69	36.34
Others	91.41	108.15	290.94	156.43
TOTAL	**2,726.78**	**3,176.89**	**4,175.49**	**4,169.74**

Source: CNMV.

ASCRI data point to some reactivation in the first half of 2010.

Data furnished by the Spanish industry association (ASCRI) for the first half of 2010 show a sector pulling free of the trough experienced in 2009. Investment in the period totalled 1.09 billion eutos, equivalent to a year-on-year increase of 43%. Transaction numbers were down 10% with respect to 2009, but with something of a surge in new operations. As regards preferred life cycle stages, 45% of investments were targeted on expansion enterprises. Leveraged buy-outs accounted for a further 25% of investment, in what was a clear break with the pattern of previous years. The sectors attracting most funds were communications (32%), transport (19%), energy and natural resources (12%) and consumer goods (10%).

Growth in leveraged buyouts and large transactions hint at a revival of credit flows to venture capital activities.

In sum, all main inputs to industry analysis suggest a degree of recovery is under way, coinciding with the upturn registered in other European countries. This follows on from a series of years in which borrowing constraints placed a tight lid on sector investment, with large transactions most affected. The outlook now can be seen as moderately favourable considering that liquidity is not a major problem and that quickening growth in leveraged and large-scale transactions suggests financial institutions are renewing the flow of credit to what are seen as worthwhile projects.

II Reports and Analyses

Economic and financial performance of listed companies in the second half of 2009

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1 Introduction

The purpose of this article is to analyse the key financial and operating data contained in the report for the second half of 2009 submitted to the CNMV by issuers.[1] Said reports provide information about the companies' results, financial position, cash flows, number of employees and dividends paid.

The companies analysed, totalling 197, operate in the following sectors: energy (12 companies), retail and services (45 companies), construction and real estate (33 companies), manufacturing (56 companies), banks (12 companies), savings banks (37 companies), insurance (2 companies).

The analysis has been 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 carried on their activity in an industry other than that of the parent company, their financial data are included in the figures for their industry.

- Data relating to periods other than the second half of 2009 are taken from a 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 2005, in sections 3 and 4 we analyse the behaviour of earnings and the return on equity and investment respectively, in section 5 we look at the debt of non-financial entities, and in sections 6, 7 and 8 we consider the development of cash flows, workforce and dividends paid respectively. Our main conclusions are presented in section 9.

1 As provided in section 35 of the 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 for the first six months of the year and a second half-yearly financial report covering the full financial year.

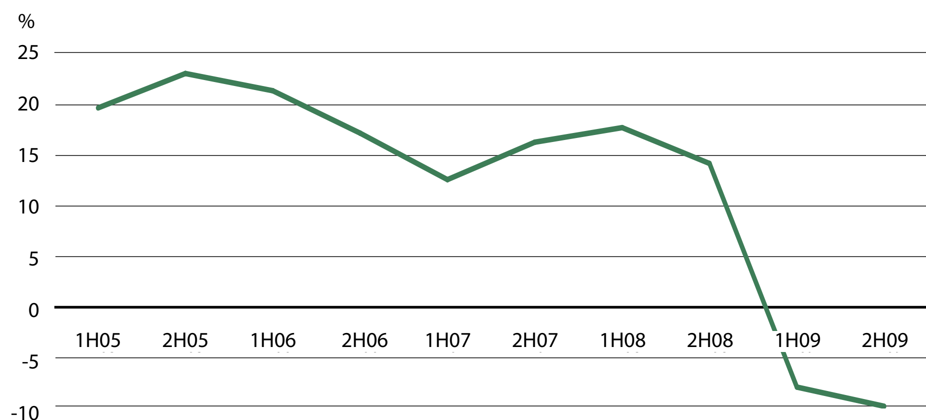
2 Submitted in the form provided for in Circular 1/2008.

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

2 Net turnover

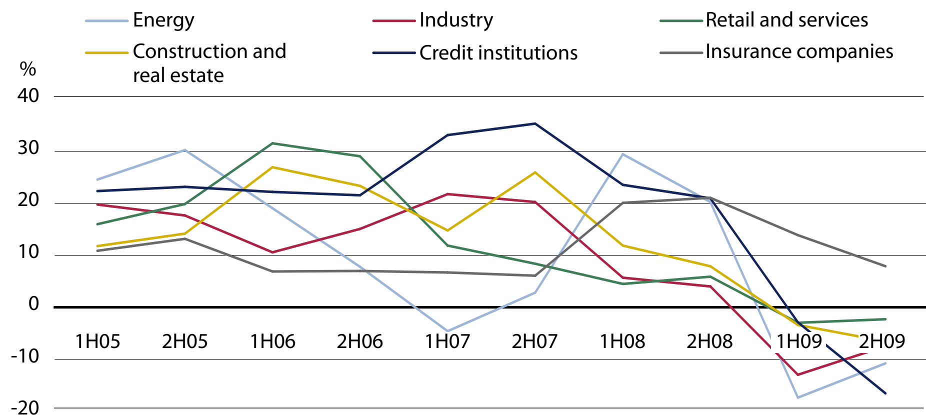
Figure 1 shows the year-on-year rates of change in net turnover[4] for the period between the first half of 2005 and the second half of 2009. The year-on-year rate of change for 2009 was negative (-9.8%), breaking the growth trend seen in previous years. There was a notable fall in the net turnover of credit institutions, which fell by 16.6% in 2009 compared with the previous year. However, the information available in the first quarter of 2010 published by the main companies in the sample[5] indicates some recovery in net turnover which, according to these figures, would have grown at a year-on-year rate of 7.6% in net aggregate terms.

Rate of change in net turnover FIGURE 1



Source: Own compilation.

Rate of change in net turnover by industry FIGURE 2



Source: Own compilation.

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

5 A sample of 60 companies was taken, including all the Ibex 35 companies, whose Member State is Spain.

Figure 2 shows the development of turnover in the different sectors. By sector, the highlights are:

- **Energy.** Turnover fell by 10.8% year-on-year due to the fall in the average crude oil price (a fall of 36.6% in the average price per barrel of Brent crude and 39.1% in the average electricity pool price). Additionally, there was an across-the-board fall in demand. The overall year-on-year fall in December 2009 was lower in percentage terms than that seen at the end of the first half of the year.

- **Industry.** Year-on-year net turnover fell by 7.5% in 2009, reflecting the decline in demand for industrial goods and auxiliary construction materials. This sector has attempted to adjust production to the new demand by adopting different measures including temporary plant closures and workforce adjustment plans. However, as in the case of energy, the year-on-year fall in net turnover in December was lower, in percentage terms, than that observed in the first half of the year.

- **Retail and services.** The 2.3% fall in net turnover in this sector was the lowest rate among non-financial listed companies in 2009. Performance by companies in this sector was uneven, although most suffered a fall in sales due to the decline in consumer spending.

- **Construction and real estate.** The 6.6% fall in net turnover of both sectors is the result of the 37.5% fall in the real estate sector, which accentuated the negative trend of recent years, and the 3.5% fall in the construction sector. In both sectors, the falls recorded at the end of the year were greater than those seen in the first half of 2009 (18.2% in the real estate sector and 2.2% in the construction sector).

  The fall in the net turnover of companies in the construction sector was mainly due to lower revenue from domestic construction and the impact of the appreciation of the euro against the pound sterling.

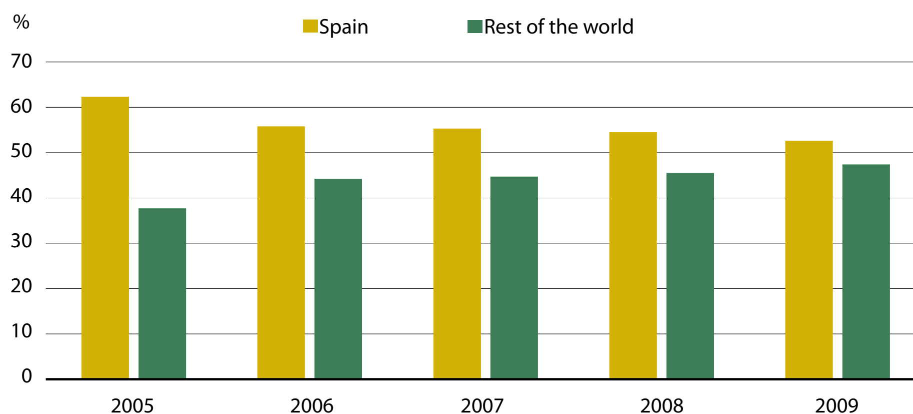
- **Credit institutions.** As indicated above, in 2009 the aggregate volume of revenue from interest and similar revenue recorded by credit institutions as a whole fell by 16.6% compared with the previous year. This change was mainly due to the economic crisis and the fall in interest rates which began towards the end of 2008, and which reached historic lows in the second half of 2009. The impact was greater on savings banks than on banks, with falls of 23.9% and 12.7% respectively.

- **Insurance companies.** Bucking the general trend, premium income for the year, net of reinsurance, grew by 7.9% in 2009 as a result of the expansion of foreign operations (especially in South America).

Figure 3 shows the geographical distribution of the turnover of non-financial companies from 2005 to 2009. In 2009, the relative weight of turnover obtained outside Spain continued to grow, which may reflect the intensity of the economic slowdown in the domestic market compared with other international markets. The percentage of turnover from business abroad rose by 1.9 percentage points in 2009 compared with the end of 2008, up to 47.4%.

Geographical distribution of net turnover

FIGURE 3



Source: Own compilation.

Table 1 shows the geographical distribution of the net turnover of non-financial institutions by sector. As can be seen, the proportion of net turnover from foreign operations continued to increase in 2009, especially in the industrial sector and the construction and real estate sector, which reflects the relative weakness of domestic demand and, in particular, domestic construction.

Net turnover of listed non-financial companies: percentage net turnover from foreign operations

TABLE 1

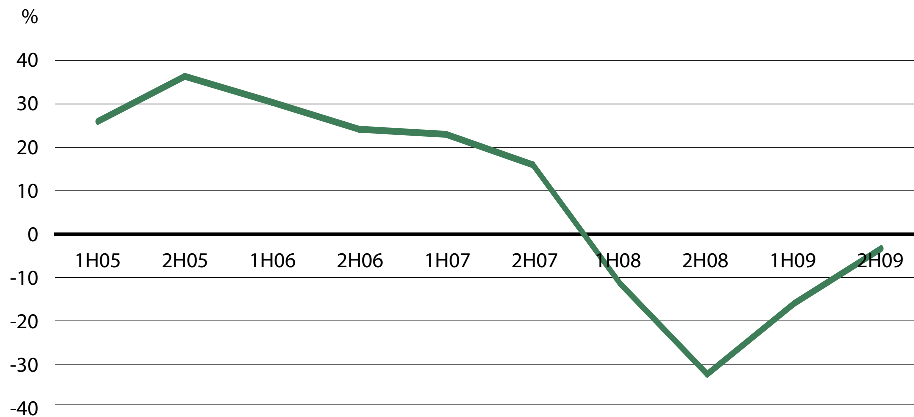
	2005	2006	2007	2008	2009
Energy	32.7	37.8	41.8	42.5	43.3
Industry	56.2	59.8	55.2	59.3	62.6
Retail and services	44.1	54.8	52.3	50.1	51.1
Construction and real estate	23.1	28.9	33.2	36.2	38.4
Subtotal, non-financial companies	37.7	44.2	44.7	45.5	47.4

Source: Own compilation.

3 Profit

Figure 4 shows the year-on-year rates of change in profits/losses before tax from continuing operations of listed companies[6] since the first half of 2005. The 3.3% fall in aggregate profit before tax recorded in 2009 was an improvement compared with previous years as a result of the development of the construction and real estate sector.

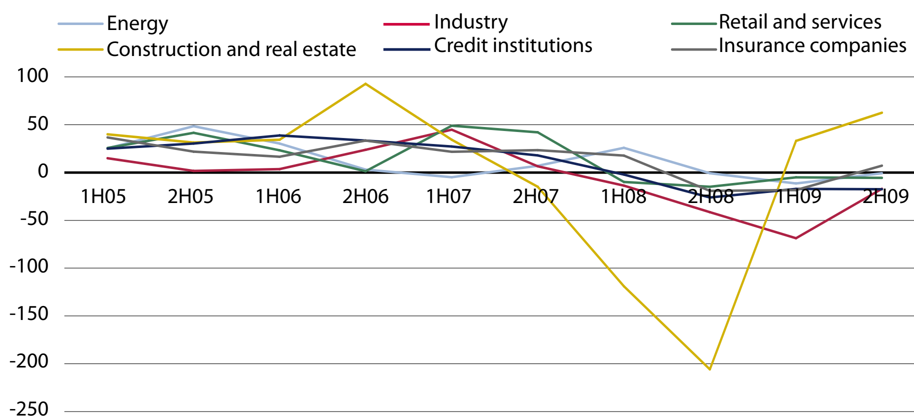
Year-on-year rate of change of profit before tax FIGURE 4



Source: Own compilation.

Figure 5 shows the trend in profit before tax for different sectors.

Year-on-year rate of change of profit before tax by sector FIGURE 5



Source: Own compilation.

There was a noteworthy rise in the construction and real estate sector, where losses before tax improved by 62.5%, declining by 4,451 million euros in 2009 compared with 2008. This improvement in the losses before tax is not the result of a recovery in the real estate market in 2009, but reflects the high level of asset impairment and losses from asset disposals recorded in 2008.

6 Profit or loss before tax, excluding the results of discontinued activities, which are generally significant business lines or geographical areas which the company has either disposed of, or plans to dispose of, within the next 12 months.

Table 2 shows the development of companies which had losses in the period 2005-2009. The percentage of companies recording net losses increased significantly in 2009 compared with the previous year, reaching 28.1% of the sample, compared with 23.7% in 2008. However, aggregate losses fell 48.7% as a result of the losses recorded by two real estate companies in 2008.

The companies recording losses are concentrated in the construction and real estate sector (19 companies totalling losses of 3,349 million euros) and industry (21 companies with losses of 1,396 million euros).

Number of companies with losses TABLE 2

Year	Amount of losses (millions of euros)	No. companies recording losses	% of sample
2005	264	14	8.0
2006	387	16	8.7
2007	720	16	8.2
2008	12,972	46	23.7
2009	6,654	54	28.1

Source: Own compilation.

Table 3 shows the key margins from the income statements for 2009 and 2008.

EBITDA[1], operating profit/loss and profit/loss for the year TABLE 3

Millions of euros	EBITDA		Operating profit/loss		Profit/loss for the year	
	2008	2009	2008	2009	2008	2009
Energy	26,899	29,043	18,174	18,385	16,118	11,797
Industry	5,692	5,239	3,507	2,957	2,143	1,436
Retail and services	30,683	29,366	18,901	17,537	11,352	10,971
Construction and real estate	1,915	4,661	-1,106	1,545	-7,135	1,069
Credit institutions	--	--	22,817	24,333	22,774	18,926
Insurance companies	--	--	--	--	999	1,074

Source: Own compilation.

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

By sector, the highlights are:

- **Energy**. Operating profits in the sector remained practically the same as in 2008, only increasing by 1.2%. However, in 2009 this figure includes 1,049 million euros of gains obtained from the sale of assets. Excluding these non-recurring gains, aggregate operating profit for the sector would have fallen by 4.8% compared with 2008.

  Profit for the year fell by 26.8% as a result of discontinued operations recorded in 2008. Considering exclusively continuing operations, net profit for the sector would have increased by 4.7%

- **Industry.** Industry, together with construction and real estate, has been severely affected by the current economic situation, recording a 33% fall in operating profit in 2009, which is significantly higher than the fall in sales (7.5%). Industrial companies have adjusted production and reduced their inventory, but in some cases the cost of stock was greater than current market prices, which led to

a reduction in margins. In addition, redundancy payments and other personnel costs arising from workforce adjustments, together with the depreciation/amortisation expense, further contributed to the decline in operating profits.

- **Retail and services.** Cost reduction policies applied by the sector to reduce staff costs, other operating expenses and depreciation/amortisation did not offset the 2.3% fall in sales, and as a result operating profit fell by 7.2%.

  Hotel and transport companies have been especially affected as a result of the fall in business and tourism travel, as well as media companies, as there is no direct correlation between their revenue – basically from the sale of advertising space – and their procurement – corresponding to the acquisition of broadcasting rights.

  The fall in interest rates, together with the sector's continued level of indebtedness, led to a 13% fall in financial expenses, which in turn has led to a 3.4% fall in the net result, four percentage points better than the figure for operating profit.

- **Construction and real estate.** The trend in the sector improved in 2009, although sales continued falling and the sector continues to report a loss. However, the negative margins fell significantly compared with the previous year.

  The lower level of indebtedness, together with the fall in interest rates led to a 28.4% fall in the financial costs of the sector, from 7,003 million euros to 5,013 million euros. However, the operating profit still does not cover the financial losses, and so the aggregate losses before tax stood at 2,667 million euros.

  The performance of construction and real estate companies was different during 2009. Accordingly, construction companies recorded operating profits, but these were significantly lower than in 2008 (51.4% less). However, significant asset disposals were carried out in 2009, which generated a profit for discontinued operations of 3,309 million euros, which led to the aggregate consolidated profit for construction companies amounting to 3,959 million euros, compared with 1,744 million euros in 2008.

  The performance of real estate companies was the opposite of that of construction companies: they continue recording operating losses and losses for the year, but the figures are more moderate than in 2008, when companies recorded severe operating losses as a result of updating the fair value of the fixed assets acquired in business combinations and as a result of impairment in inventory. Specifically, all the figures analysed – EBITDA, operating profit/loss, profit/loss before tax and net profit/loss – improved by more than 60% compared with the previous year.

- **Credit institutions.** The significant moderation in the cost of liabilities and correct management of spreads allowed savings banks, and banks in particular, to offset the slowdown in their operations and the lower return on assets resulting from the fall in interest rates, with the interest margin increasing by 9.3% and 32.9% respectively.

  The increase in non-performing loans required extensive provisions for impairment, especially in the case of banks, which negatively affected the

operating margin. Impairment losses on the financial assets of savings banks and banks increased by 10.3% and 77.9% respectively, absorbing 33.4% and 29.3% of the gross margin.

The cost containment policies, with a 1.4% reduction in general expenses for savings banks and a 13.5% increase for banks, although lower than the growth in gross margin, led to improvements in the efficiency ratios[7] of banks and savings banks, which stood at 37.2% and 43.3% respectively at year-end 2009, compared with 39.4% and 46.3% in 2008.

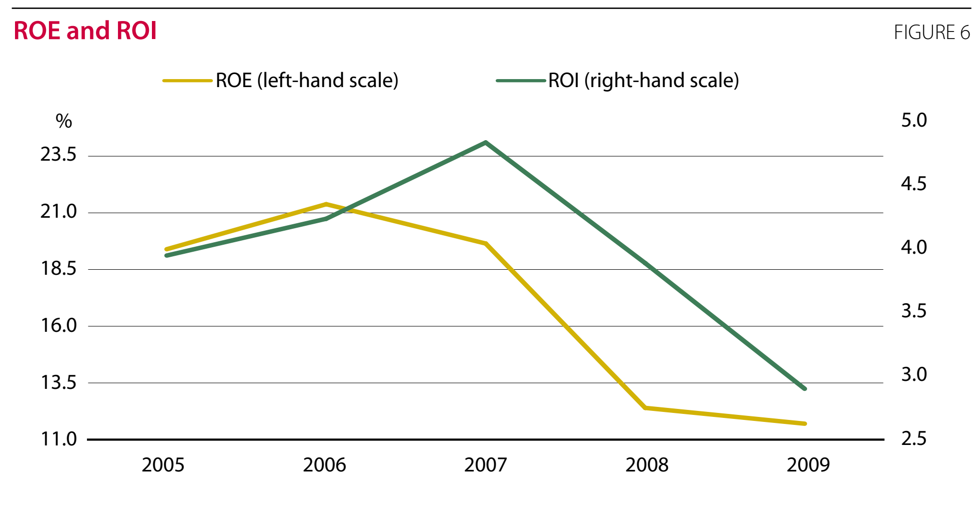
- **Insurance companies.** The increase in turnover (8.4%), despite the increase in claims (8%) and operating expenses (10.7%) in non-life insurance led to a 7.5% rise in profits for 2009 compared with 2008.

  The information available in the first quarter of 2010, published by the main companies in the sample,[8] shows a positive year-on-year change of 8.8% in net profit for the year.

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

Figure 6 shows the trend for ROE and ROI[9] since 2005. In 2009, both returns fell as a result of the reduction in profits for the year, the increase in equity due to the fall of the negative measurement adjustments recorded against equity and maintenance of investments.

ROE and ROI FIGURE 6



Source: Own compilation.

7 This is an indicator of an institution's level of efficiency and is determined as the percentage of the gross margin absorbed by general expenses (personnel expenses and other general administration expenses).

8 A sample of 60 companies was taken, including all the Ibex 35 companies.

9 For the definition of ROE and ROI used in this article, see "Economic and financial performance of listed companies in the first half of 2009," by Belén de Anta Montero and Óscar Casado Galán, published in the CNMV fourth-quarter bulletin (pp. 39-54). Available at http://10.10.1.33/DocPortal/Publicaciones/Boletin/BulletinQIV_weben.pdf

Tables 4 and 5 show the trend of ROE and ROI for the different sectors. Companies in the industrial sector and the energy sector recorded the most significant falls in ROE and ROI during this period.

Companies in the retail and services sector recorded the highest returns on equity and investment of the different sectors, although these were lower than those recorded between 2005 and 2008.

The drop in ROE in 2008 and 2009 for credit institutions and insurance companies was accentuated by the inclusion of fixed income issuing credit institutions (mostly savings banks) that were not required to file periodic reports in 2007 or previous years. ROE recorded by credit institutions and insurance companies in 2009 declined by 2.6 percentage points on 2008.

Construction and real estate, however, saw an improvement in ROE and ROI as a result of the growth in profits achieved over 2009, although returns remained significantly below the levels obtained between 2005 and 2007.

ROE TABLE 4

%	2005	2006	2007	2008	2009
Energy	20.6	18.6	15.9	19.5	13.2
Industry	16.0	20.6	17.7	10.6	6.3
Retail and services	25.4	27.6	32.4	20.1	19.3
Construction and real estate	19.4	29.8	18.3	-17.6	3.7
Credit institutions and insurance companies	17.2	19.1	19.1	13.0	10.4
TOTAL	**19.4**	**21.4**	**19.7**	**12.4**	**11.7**

Source: Own compilation.

ROI TABLE 5

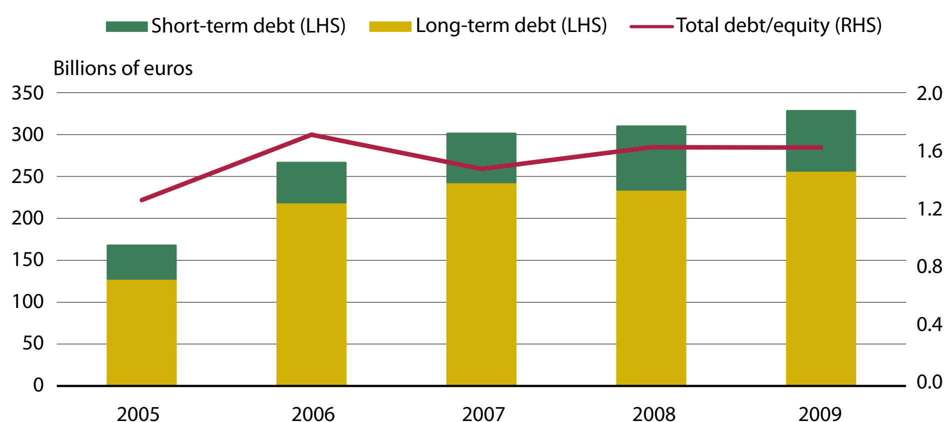
%	2005	2006	2007	2008	2009
Energy	10.2	9.6	9.1	10.5	7.2
Industry	9.0	11.6	11.5	7.7	4.9
Retail and services	10.5	10.8	12.1	8.3	7.7
Construction and real estate	8.3	10.1	7.8	0.4	3.2
Credit institutions and insurance companies	2.8	3.0	3.8	3.8	2.5
TOTAL	**4.0**	**4.2**	**4.8**	**3.9**	**2.9**

Source: Own compilation.

5 Debt

Figure 7 shows the trend in gross debt[10] for companies in the sample excluding credit institutions and insurance companies.

Debt structure and leverage ratio of non-financial listed companies FIGURE 7



Source: Own compilation.

Gross financial debt at the end of 2009 stood at 327,958 million euros, 5.9% higher than in the previous year. This increase is mainly due to corporate transactions performed over the period by companies in the energy sector. Excluding this impact, the volume of debt of listed companies would have recorded a slight increase of 0.2%, with a notable reduction in the volume of financial debt in the construction and real estate sector as a result of the disposal of assets.

At the same time, in the face of financial difficulties, many listed companies, especially in the construction and real estate sector, have been forced to renegotiate the terms and conditions of their loans with creditors. The renegotiations have led to a lengthening of loan maturities and an increase in the required spreads over reference interest rates.

As shown in the figure above, the percentage of debt maturing in the short term in 2009 fell to 21.6% of the total (24.3% in 2008) as a result of the refinancing agreements and the payment of debt with the shortest maturities with the funds obtained from divestments.

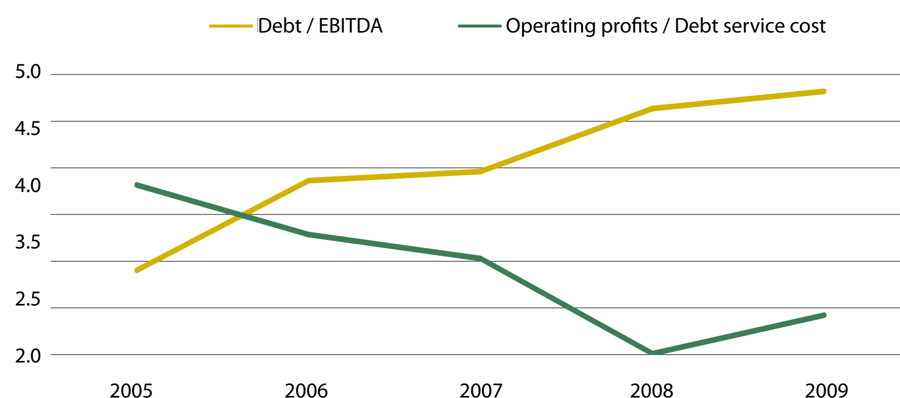
The aggregate leverage ratio, which compares the debt to equity, was 1.63 in 2009, exactly the same as in 2008.

Figure 8 shows the trend in the debt-to-EBITDA and the debt service coverage ratios. In 2009, the total debt/EBITDA ratio, which measures the number of years it will take a debtor to pay its debt if EBITDA remains constant, continued its upward trend to 4.82 compared with 4.63 at year-end 2008. The increase in the debt level of the energy sector had a negative impact on this ratio. However, the debt service coverage ratio improved slightly to 2.42 (2.01 at year-end 2008), as a result of the fall in reference interest rates used to determine the cost of debt.

10 Gross debt = Debts with credit institutions + issues of debentures and tradable securities.

Coverage ratios

FIGURE 8



Source: Own compilation.

Table 6 shows the trend in level of debt and relevant ratios by sector. As in 2008, construction and real estate companies stand out with a debt coverage ratio of 22.48, with a slight improvement in the debt service cost ratio, which stood at 0.31.

Trend of debt by sector

TABLE 6

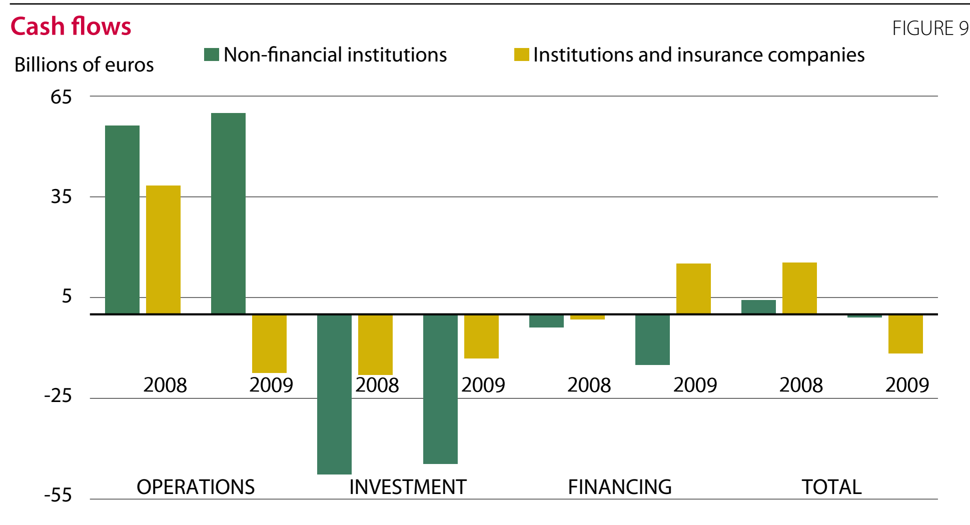
		2005	2006	2007	2008	2009
Energy	**Debt**	**58,586**	**59,191**	**69,172**	**82,608**	**100,572**
	Debt/equity	0.93	0.89	0.78	0.89	1.08
	Debt/EBITDA	2.41	2.17	2.48	2.82	3.46
	Operating profit/debt service cost	4.02	4.65	4.10	3.67	3.38
Industry	**Debt**	**12,760**	**15,684**	**13,312**	**15,645**	**15,953**
	Debt/equity	0.75	0.78	0.61	0.69	0.69
	Debt/EBITDA	2.07	2.07	1.82	2.71	3.05
	Operating profit/debt service cost	6.50	5.71	5.93	3.41	3.15
Retail and services	**Debt**	**55,710**	**91,522**	**96,941**	**112,322**	**108,579**
	Debt/equity	1.70	2.52	1.70	2.14	1.78
	Debt/EBITDA	2.68	3.58	3.01	3.58	3.70
	Operating profit/debt service cost	3.37	2.44	3.23	2.86	3.28
Construction and real estate	**Debt**	**48,324**	**111,000**	**138,933**	**119,788**	**104,762**
	Debt/equity	2.16	3.10	3.08	3.77	4.08
	Debt/EBITDA	6.52	11.52	10.83	31.87	22.48
	Operating profit/debt service cost	2.79	2.04	1.17	0.01	0.31
Adjustment *		**-7,942**	**-11,199**	**-17,391**	**-20,802**	**-1,908**
TOTAL	**Debt**	**167,438**	**266,198**	**300,967**	**309,561**	**327,958**
	Debt/equity	1.27	1.71	1.48	1.63	1.63
	Debt / EBITDA	2.90	3.86	3.96	4.63	4.82
	Operating profit/debt service cost	3.82	3.29	3.03	2.01	2.42

Source: Own compilation.

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

6 Cash flows

Figure 9 shows the aggregate changes in cash flows in 2008 and 2009 for the companies in our sample, distinguishing between flows from operations, investment and financing. The totals indicate the change in cash and cash equivalents in the period. Non-financial institutions are separated from credit institutions and insurance companies given the different nature of their activities.



Source: Own compilation.

The trend in cash flows was uneven between different sectors, as described below.

- **Non-financial institutions.** In aggregate terms, cash inflows from operations (59,897 million euros) were greater than investments made in the period (44,540 million euros), which made it possible to fund an increase in dividends in 2009. However, cash inflows in the energy sector, as a result of corporate transactions carried out over the year, had a significant impact on these figures.

  Adjusting the amount generated by these factors, net investments fell 55% in the year – from 28,714 million euros in 2008 to 12,927 million euros in 2009 – which, together with cash inflows from operations remaining stable made it possible to cancel debt (mainly loan repayments). Noteworthy was the use of 12,396 million euros to reduce debt in the construction sector, which was partly funded by flows from divestments – income from divestments of 22,079 million euros in 2009 compared with investments of 15,919 million euros.

- **Credit institutions and insurance companies.** Even though the anti-crisis plans implemented nationally and by European economic and monetary authorities as of the second half of 2008 have eased liquidity problems for credit institutions as a whole, the cash flow statement of these institutions at year-end 2009 reflects the fact that resources obtained from financing activities did not prevent the consumption of 12% of surplus liquidity generated in previous years.

  Net cash flows from financing for banks and savings banks as a whole, together with the fall in net outflows for investment, were not able to offset the outflows from operations.

An important event in the year for credit institutions as a whole was the change in sign of operating flows over 2009 (funds applied of 16,760 million euros at year-end 2009, compared with funds obtained of 38,324 million euros in 2008), due to the increase in non-payments (inflows which institutions stopped receiving) and greater difficulty in acquiring funds from customers.

Similarly, there was a change of sign for banks both in flows from investment activities and from financing activities, changing from negative flows of – 3,865 million euros in 2008 to positive flows of 3,927 million euros in 2009, mainly from the proceeds of the disposal of non-current assets for sale. These funds have not offset the 15,010 million euros applied in operations. Banks obtained funds from financing activities of 34,722 million euros, mainly from subordinate debt issues and disposals of own shares.

In 2009, savings banks obtained 14,375 million euros in funds from financing, achieved in line with the policies for improving solvency ratios, which did not offset the net outflows applied to operations (1,675 million euros) and those for investment (16,613 million euros).

Consequently, 2009 saw banks and savings banks as a whole consume 10.9% and 14.4% respectively of their cash and cash equivalent surpluses.

For insurance companies, the highlight was net cash obtained from investment, totalling 1,556 million euros. Cash used in operations and financing totalled 651 million euros and 1,208 million euros respectively. The changes indicated reduced the aggregate amount of cash and cash equivalents at year-end 2009 by 13.5% compared with year-end 2008.

7 Number of employees

Table 7 shows the average workforce for the six sectors analysed in 2009 and 2008, with a year-on-year increase of 3.1%.

Average number of employees by industry TABLE 7

	2008	2009	% change
Energy	124,339	142,176	14.3
Industry	241,382	244,441	1.3
Retail and services	571,433	574,642	0.6
Construction and real estate	418,409	424,503	1.5
Credit institutions	432,243	456,758	5.7
Insurance companies	39,550	40,548	2.5
Adjustments *	-7,094	-6,769	-4.6
Total	**1,820,262**	**1,876,299**	**3.1**

Source: Own compilation.

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

The average workforce has increased in all sectors. The increase in the number of workers is mainly due to corporate transactions performed by the companies in the sample over the second half of 2008 and 2009.

When comparing this increase with the trend in the unemployment rate in Spain, the following factors, at least, must be taken into account:

- The companies in the sample generate 45.3% of their turnover abroad and, therefore, the average workforce data includes employees in other countries.

- The increase in the unemployment rate in Spain was particularly pronounced in the construction sector. However, it has not had a significant impact on the listed companies in the sector, as most of their construction work is subcontracted and hence, is calculated as other operating expenses and does not form part of staff costs.

8 Dividends

Dividends paid in 2009 totalled 28,693 million euros. Table 8 shows the dividends paid in 2009 and 2008 by sector.

Dividends by sector TABLE 8

	2008	2009	% change
Energy	5,349	12,133	126.8
Industry	1,557	1,571	0.9
Retail and services	6,621	6,632	0.2
Construction and real estate	1,708	1,455	-14.8
Credit institutions	7,363	6,966	-5.4
Insurance companies	562	639	13.7
Adjustments *	-892	-703	-21,2
TOTAL	**22,268**	**28,693**	**28.9**

Source: Own compilation.

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

In the sample as a whole, dividends increased by 28.9%, mainly due to the dividend paid by one company in the energy sector, which paid out the gains obtained in the previous year. Without this effect, the increase in dividends paid would be 3.6%. On the other hand, there was a marked decrease in dividends paid by the construction and real estate sector and by credit institutions.

9 Conclusions

In 2009, most companies whose shares are admitted to trading suffered worsening results as a result of the slowdown in activities in the current macroeconomic environment although, as highlighted in this article, the impact was not the same in all sectors.

For credit institutions, the macroeconomic environment has resulted in: (i) a significant slowdown in its activity as a result of a contraction in demand for credit caused by the decline in the Spanish economy and the tightening of the supply of funding resulting from a greater level of risk aversion, (ii) lower return on its assets due to the fall in interest rates, which has been partially offset by a significant reduction in

the cost of liabilities and correct management of rate spreads, and (iii) a significant reduction in profits for the year due to the strong increase in non-performing loans and asset impairment.

Faced with the weakness in demand for its products, the industrial sector has made significant efforts to adapt its structural costs, although these have not been enough to prevent a significant fall in its margins. However, this cost reduction has meant that results in the second half of the year were not as negative as those obtained in the first half of 2009.

Real estate companies, which had already recorded the effects of the crisis in the Spanish real estate market in 2008, continued to report falling sales together with a downward trend in prices, leading to operating losses, although these were less pronounced than in the previous year. Construction companies also recorded a fall in operating profits in this period, which were offset, at the level of net profit, by profits obtained from discontinued operations.

Companies in the retail and services sector saw profits fall in the period as a result of the weakness in consumer spending, which has forced most companies to adjust their margins so as not to experience excessive losses in market share.

Operating profits obtained by the energy sector were affected by the negative trend in electricity demand and refinery margins over the year, although the gains obtained from the sale of assets led to a slight year-on-year increase in this indicator. However, net profit fell as a result of the profits from non-recurring activities from discontinued operations in the previous year.

The effects of restrictions on short selling in equity markets: some recent results

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1 Introduction

In the context of equity markets, short selling consists of selling shares which are not held by the seller at the time of the transaction, with the aim of delivering them to the buyer on a future date. This transaction responds to the investor's downward expectations for the price of the share in question.

There are two types of short selling. In the first, the sellers have borrowed the shares or at least have a loan agreement which ensures that they will hold the shares on the date on which the transaction is settled. This type of transaction is known as "normal short selling". In the second case, known as "naked short selling", the seller, at the moment of the sale, has not borrowed the share or made any agreement which ensures that it can make delivery at the moment the transaction is settled.

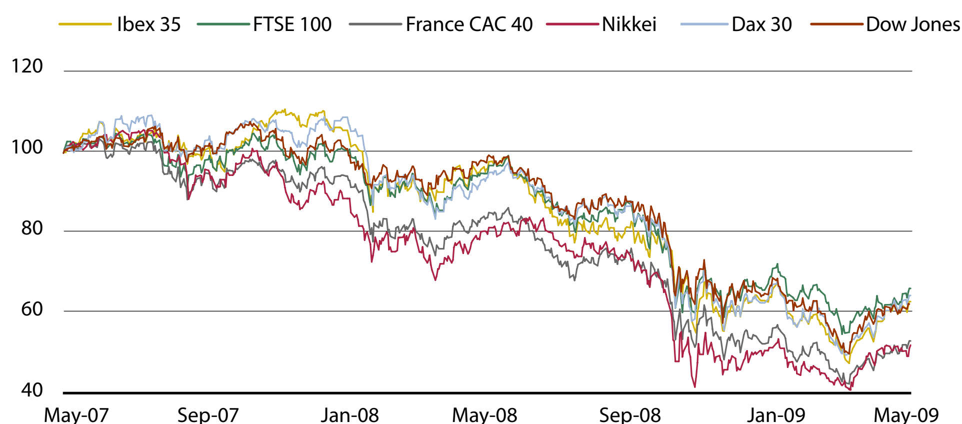
The possible benefit which an investor might obtain from a short sale comes from selling a share which it does not hold, which in the case of normal short selling it borrows, and subsequently buys it at a lower price. The latter price must be low enough so as to provide a positive surplus after deducting all the transaction costs including, as the case may be, interest on the loan.

As a result of the worsening international financial crisis, as of September 2008 certain financial supervisors believed that short selling was partly responsible for the dramatic falls and extreme volatility in equity markets (see figures 1 and 2). In this context, certain supervisors decided to impose restrictions on short selling in order to protect issuers, especially financial issuers, and other holders of these securities from short selling activities, and to maintain stability in these markets as far as possible.[1]

1 The countries which introduced restrictions to short selling include Austria, Belgium, Canada, France, Germany, Ireland, Italy, Luxembourg, Holland, Portugal, Russia, Switzerland, Taiwan, the United Kingdom and the United States.

Trend of the main stock market indexes from 01/05/2007 to 01/05/2009

FIGURE 1



Source: Thomson Datastream.

Trend of the main implicit volatility indexes from 01/05/2007 to 01/05/2009[1]

FIGURE 2

Source: Thomson Datastream.

1 The VIX index is a measure of the volatility of the US S&P 500 index at 30 days. The VDAX index measures the Volatility of the German Dax index at 30 days.

The restrictions imposed by the different supervisors were basically of two types: a requirement for transparency from investors when their short positions account for a percentage of the issued shares higher than a threshold set by the regulator and banning certain types of transactions. In the first case, investors were required to report their short positions to the supervisor or even to make them public to the market. In the second case, some countries banned short sales, although only naked sales or sales of a particular type. This last measure tended to be mainly applied to financial securities (see table 1).

Measures on short selling adopted in different countries TABLE 1

Country	Measures adopted during the second half of 2008	Current state of measures
Germany	• Ban on naked short selling for 11 financial securities.	• Ban on naked short selling in German equity, sovereign European bonds and the purchase of CDS whose reference bond is issued by a State belonging to the Eurozone.
Spain	• Reminder of the existing ban on naked short selling in all securities, including intra-day transactions. • Requirement for disclosure of short positions exceeding 0.25% of the issuer's share capital for 20 financial securities.	• Requirement to inform the supervisor of short positions greater than 0.2% of the issuer's share capital, and the market when they exceed 0.5%.
United States	• Ban on short selling in financial securities. • Various legislative amendments were carried out aimed at reducing failures in the delivery of securities and abusive naked short selling.	• At the beginning of 2010, a new version of the up-tick rule entered into force. • The ban on short selling since October 2008 has been withdrawn.
France	• Temporary ban on naked short selling for 15 financial securities. • Obligation to inform both to the regulator and the market of short positions for 15 financial securities greater than 0.25% of the issuer's share capital.	• The measures taken in 2008 remain in force.
Italy	• Ban on short selling in all securities, except for capital increases.	• The ban was withdrawn in the middle of 2009.
Portugal	• Naked short selling is generally banned in Portugal. Normal short selling is allowed providing the seller or broker demonstrates that it holds the securities. • Obligation to inform the CMVM about short positions.	• Requirement to inform the supervisor about short positions greater than 0.2% of the issuer's share capital and the market when it exceeds 0.5%. • The ban on short selling has been withdrawn.
United Kingdom	• Ban on normal and naked short selling of financial securities. • Requirement to publish short positions in financial securities greater than 0.25% of the issuer's share capital and additional increases of 0.1%.	• The requirement to publish short positions is maintained. • The ban on short selling has been withdrawn.

Source: CESR (2008-2010), Buenaventura (2008) and CNMV.

Since the end of 2008, some of the restrictions described in table 1 have been maintained, above all those relating to the transparency of investors' short positions. In fact, at a European level, in March 2010 the CESR made a proposal for institutions in the European Union to establish a common disclosure regime for investors' short positions (see CESR 2010). This proposal contains two tiers of disclosure. The first of these establishes that investors must disclose to the national securities market supervisor short positions greater than 0.2% of the company's issued share capital providing the securities are traded on a regulated market or on a multilateral trading system belonging to a Member State. The second tier establishes that investors must inform the market whenever their short position exceeds 0.5% of the company's issued share capital. On reaching or exceeding the threshold of 0.5% of the share capital, it must disclose any changes of position in increments of 0.1%. Spain was

the first country to implement the agreement. On 27 May 2010, the CNMV Executive Committee decided to adopt the CESR proposal for the Spanish market.[2]

More recently, in September 2010, the European Commission made a regulation proposal establishing that all European Union countries must implement the CESR short position disclosure regime (see European Commission 2010). This new proposal includes the obligation to disclose to the supervisor, although not to the market, short positions in sovereign debt of countries belonging to the European Union[3] In addition, the Commission proposal requires that the seller of short securities has borrowed the corresponding security or, failing that, reached an agreement with a third party so as to reserve the securities for lending so that it may deliver them on the settlement date. In addition, it confers national regulatory authorities the power to restrict or ban, in exceptional and temporary situations, short sales of any financial instruments under the coordination of the future European Securities and Markets Authority. Furthermore, if the price of a financial instrument falls significantly over a day, the corresponding authorities may also restrict short selling of that instrument over the rest of the day and the whole of the following day.

The different countries withdrew the bans on normal and naked short selling, and at the start of 2010 no country, except for France, still had this type of measure in force (see table 1). However, in the first few months of 2010, the United States and Germany established new restrictions on short selling. In February, the US SEC established what has been called the new up-tick rule. This rule applies to shares if their price falls by over 10% compared with the closing price of the previous day, and lasts for the rest of the session and the following day's session. While the rule is activated, short selling is only allowed when its price is above the best bid price. For its part, on 19 May 2010, Germany took the decision to once again ban naked short selling, this time of ten financial securities. Subsequently, on 2 June, this ban was extended to all German equity.[4]

In this context of intense regulatory activity relating to short selling, the aim of this article is to present the key aspects of the current debate about the advantages/disadvantages of imposing restrictions on short selling, from the perspective of the theoretical and empirical literature which has analysed the influence which these types of restrictions have on equity markets.

The article is structured as follows: in section 2 we review various arguments relating to the effects of restrictions on short selling. In section 3 we analyse the appropriateness of imposing restrictions on these transactions in the context of the high level of uncertainty in financial markets. Finally, we present our conclusions in section 4.

2 The obligation for investors to disclose to the regulator and the market their positions when they exceed the threshold of 0.2% and 0.5% of share capital respectively entered into force on 10 June 2010. On 11 June 2010, the CNMV published for the first time, on its website, data about the investors whose net position in an issue's share capital exceeded 0.5%. Since then, the CNMV updates the data about these positions at least fortnightly.

3 In this case, the minimum levels of short positions which must be disclosed have not yet been specified, although the EC has indicated that these would be set bearing in mind the size of the short positions compared with the total volume of the sovereign debt of the State in question, exempting investors from the obligation to disclose low-volume short positions.

4 Germany, in addition to banning naked short selling of equity, extended the ban to short selling of sovereign bonds and naked purchases of CDS whose reference is any State in the eurozone.

2 The effects of short selling restrictions

The actions of regulators and/or supervisors arising from the serious financial turmoil of September 2008 have often been presented as measures aimed at favouring the orderly functioning of securities markets and preventing downward spirals in some share prices as the strong pressure to sell was not justified by the key determining factors for share values. This pressure particularly affected the shares of financial institutions, some of which fell sharply at that time with negative effects on the perception of their financial position.

The limits to short selling were therefore originally considered as temporary measures justified by the belief that these transactions could contribute to spreading an unjustified negative feeling about some companies by investors who took short positions. This context has given rise to an intense discussion about the positive and negative consequences of short selling and the appropriateness of taking more long-term measures. Specifically, this discussion has focused, on the one hand, on the benefits of banning or restricting short selling and, if not, the possibility of setting short position disclosure measures. On the other hand, certain debate has opened up relating to the specific case of naked short selling and the added risk which in entails.

2.1 Effects of short selling

From a theoretical point of view, there is a wide consensus about the idea that the ability to carry out short selling has more positive effects for markets than negative ones. Short selling provides the market with liquidity, as does any other strategy which channels orders. On the other hand, these transactions increase market efficiency in the sense that they facilitate correct price formation i.e. they help prices to quickly include new available information. These have been the conclusions obtained by most theoretical studies which have been carried out over recent decades.

The first articles which dealt with this issue, such as those of Miller (1977) or Harrison and Kreps (1978), concluded that markets with restrictions on short selling could have an upward bias. This would be as a result of the restrictions on short selling limiting the participation in the market of investors with downward expectations.

Diamond and Verrecchia (1987) concluded that restrictions on short selling slowed price adjustments upon the appearance of new information. This reduction in adjustment speed would finally lead to a reduction in market efficiency. The authors argued that these results were due to the fact that imposing restrictions on short selling caused investors with downward price forecasts not to participate in the market. In other words, as banning short selling excluded some investors from the market, liquidity would fall as would the speed of price adjustment.

More recent research, such as that of Abreu and Brunnermeier (2003), Scheinkman and Xiong (2003) and Hong and Stein (2003) have, in general, tended to validate the previous results. Thus, Abreu and Brunnermeier (2003) show that restrictions on short selling tend to generate greater volatility in the markets, and in turn increase

the probability of market bubbles.[5] Hong and Stein (2003) also show that these restrictions tend to cause asymmetric volatility in the sense that their presence causes an increase in volatility during bearish periods compared with during bullish periods.

The above results are based on the fact that restrictions on short selling delay new information, in this case negative, from reaching the market. These articles also argue that bans on short selling would be one of the possible causes for the sharp falls observed when there is a downward trend in the market. This idea clearly contradicts one of the arguments used recently when banning or restricting short selling, that is, that the measures against short selling are effective in preventing sharp falls in share prices.

The influence which restrictions on short selling have on equity markets have also been extensively studied from an empirical point of view. Accordingly, supporting the above theoretical conclusions, Aitken *et al.* (1998), Danielsen and Sorescu (2001), Jones and Lamont (2002), Gezy *et al.* (2002) and Reed (2007) show evidence that share prices do not fully incorporate the new negative information available to the market due to restrictions on short selling. Similarly, Bris *et al.* (2007), after analysing various equity markets in different countries, conclude that prices incorporate negative information more quickly when there is no restriction on short selling. A new paper, Boehmer *et al.* (2008), using data on orders in the New York Stop Exchange, finds that investors with short positions are, on average, better informed and contribute to the market being more efficient.

In recent years, various studies have been carried out with the aim of verifying the suitability of the up-tick rule, which was imposed by the SEC on the US market in 1934.[6] In one of these papers, Diether *et al.* (2007), evidence is provided that a temporary suspension of this rule would not have negatively affected market quality,[7] concluding that it should be suspended permanently. That same year, the SEC performed an experiment to analyse the economic implications of the up-tick rule. With this aim, it performed a study in which it compared the behaviour of a set of shares for which the restrictions on short selling were withdrawn with other shares with a similar *a priori* behaviour for which the restrictions still applied. The basic conclusions of the experiment were that there were no significant differences between the behaviour of the shares in the two groups, which is in line with the results of Diether *et al.* (2007) mentioned above.

In contrast with the results of the empirical articles described so far, Shkilko *et al.* (2008) focus on analysing the consequences of short selling on intraday liquidity and observe that short positions have a destabilising effect on prices. Accordingly, these authors conclude that short selling is often used as an instrument to manipulate prices. Specifically, they find evidence that investors with short positions are especially active at the start of the sessions in which a fall in the price can be seen

5 Hong and Stein (2003) argue that the fall of the New York Stock Exchange on 21 October 1987, in which the Standard and Poor's index fell 20.4%, can be explained by a bubble created at least partly by restrictions on short selling.

6 As mentioned in the introduction, although the former up-tick rule was repealed, a new version of this rule is now in force.

7 Under the up-tick rule, short selling is not allowed unless the market price at the moment it is carried out is above the last traded price.

at the start followed by a subsequent change in the trend, closing the session with an increase. Consequently, according to the argument of these authors, the aim of these investors is to depress the price as much as possible at the start of these types of sessions. The author showed that this strategy is profitable using the argument that, in the absence of new information, the fall in a share price must be corrected by a quick increase. However, this result does not necessarily contradict the results of the above-mentioned studies. The possible price manipulation found by the authors falls within intraday trading, while the results of the above articles are based on less frequent price observations, and so the latter may be considered as a supplementary study.

Several empirical studies have been carried out over recent months partly as a result of the wealth of data which can be obtained from the measures adopted in this area since the last quarter of 2008. One of the articles which has generated most attention is that of Beber and Pagano (2009), which analyses the effects of bans and restrictions applied by different countries on short selling as a result of the crisis. This analysis is based on data relating to over 17,000 shares in 30 countries registered between January 2008 and June 2009. The evidence presented in this article suggests that the reaction to the financial crisis by most securities regulators worldwide - banning and restricting short selling - leads to less liquidity in markets, especially for shares with low capitalisation, high volatility or for which no option contract was available in an organised market. In addition, the fall in liquidity was especially significant at the moment in which the bid-ask spreads were particular high as a result of the crisis. These results are in line with those obtained by Boehmer *et al.* (2007) for US markets and support the theoretical propositions of Diamond and Verrecchia (1987).

In addition to damaging market liquidity, Beber and Pagano (2009) argue that the bans on short selling do not seem to have achieved their objective of supporting share prices, and have thus failed in one of their aims. These authors indicate that the evidence from non-US stock markets agrees with the idea that restricting short selling contributed to accentuating the fall in prices in equity markets over the recent financial crisis.[8] Similarly, these results coincide with the theoretical arguments developed by Hong and Stein (2003) described above.

Both the theoretical and empirical results described so far have referred to the consequences of imposing bans on short selling. However, following the emergency measures adopted in 2008, there has been a debate on the benefits of establishing short position disclosure regimes which force investors with short positions to disclose the existence and amount of those positions to the regulator and to the market. However, the financial literature contains few in-depth studies on the consequences of imposing a short position disclosure regime. One of the few references about this aspect also comes from the paper by Beber and Pagano (2009), which finds in its empirical analysis that the disclosure obligations implemented in some countries as of September 2008 increase liquidity in equity markets, leading to a reduction in the bid-ask spread. The authors argue that this reduction in the bid-ask spread is because greater transparency regarding short positions helps to reduce asymmetric

8 The authors indicated that in the United States they had found an increase in the returns of shares where restrictions on short selling had been imposed. However, the authors of the study also consider that this increase in returns could be a consequence of the measures which the US Government took in this period to support various financial institutions.

information in those markets. Beyond this effect on liquidity, the authors do not find evidence that the increase in transparency affects the behaviour of share prices.

Therefore, given the wealth of theoretical reflections and empirical evidence relating to the consequences of restricting and banning short positions in equity markets, we can basically draw three conclusions:

- Banning short positions reduces market liquidity, which causes them to function less efficiently.
- No strong evidence has been found that banning short positions in bear markets reduces the fall in the prices of shares affected by the ban. However, it has been shown that prices adapt more slowly as the participation of investors with downward expectations is restricted.
- An increase in transparency on short positions tends to increase liquidity in equity markets.

2.2 Effects of naked short selling

From the studies described so far, we can conclude that short selling, irrespective of whether it is normal or naked, has positive effects for the market, except perhaps in intraday operations. The objective of this section is to analyse whether naked short positions trigger effects in equity markets which are different from those caused by normal short positions, as in the former the investor does not hold the share which they have just sold on the market when they opened the position, leading to uncertainty about the delivery of the share sold at the time of settlement. Consequently, for both types of sale to have a similar effect on the market, it will be necessary for the settlement system to appropriately penalise sellers for failing to deliver shares, thus forcing them to deliver the shares.

In principle, naked short selling could lead to a reduction in the price, which would be added to that which might be caused by normal selling, as it is possible that naked sellers will not return the committed shares for settlement on time. In other words, in a market in which non-compliance in settlements is allowed, or is not penalised with sufficient severity, it would be feasible to use naked short selling in order to depress the share price. The effect of this type of transaction will be similar to that observed when an issuer issues new shares with the consequent effect of diluting the unit weight of each share in the share capital.[9]

Boni (2006) and Evans *et al.* (2009) empirically document that in the case of naked short selling, there are a significant number of buyers who allow the seller to fail to deliver. The authors also show evidence that short sellers prefer naked short selling when the cost of each share loan (implicit and explicit) is high.

9 As indicated by Buenaventura (2008), in moments of crisis it is more likely for there to be situations in which trading of a security is halted without prior notification. This is the case when a security is suspended in the middle of the session and the suspension is extended for several sessions as a result of bankruptcy proceedings. In this scenario, the volume of overselling produced by naked short selling which exceeds the balance of securities in circulation in the system may not be settled and will tend to generate settlement inefficiencies.

This result clearly shows that for short selling to be profitable, it is necessary to have a settlement system where failure to deliver the committed shares on time is not financially penalised or, if it is, the penalty is very low. With a system of these characteristics, the strategy of naked short sellers has a minimum cost when the aim is to depress the share price. In response to this situation, some national regulators opted to introduce penalties to sellers of shares who did not deliver them on time for settlement.

Accordingly, for example, in 2005 the United States established the so-called SHO regulation[10] which provides for penalties of this type. Most of the literature which analyses the role of naked short selling in equity markets comes from the United States and, in fact, is closely linked to the influence that Regulation SHO has had on the possible fall in the volume of naked short selling on the New York Stock Exchange and the NASDAQ.

With regard to the literature, it is important to highlight the article by Boni (2006), mentioned above, in which the author analyses the effects of failures to deliver shares for settlement in equity markets in the United States before Regulation SHO came into force. It can be seen that before the implementation of this regulation, most equity issues in the United States, listed and unlisted, suffered at least a small percentage of failures to deliver for settlement. In addition, a substantial part of the issues (42% of listed issues and 47% of non-listed issues) had persistent failures to deliver with delays of five or more days. The author predicts that the implementation of regulation SHO will lead to a significant fall in the volume of naked short selling as a result of the cost involved for sellers due to the penalties for failures to deliver for settlement.

The predictions in Boni (2006) are consistent with the theoretical arguments developed in Culp and Heaton (2007). In this article, the authors describe both the positive and negative effects which naked short positions may have on equity markets. In the context of an extensive analysis of the settlement and clearing system offered by the Depositary Trust and Clearing Corporation (DTCC),[11] the authors conclude that the effects of naked short selling on equity markets are not significantly different from those generated by normal short selling, that is, that under certain conditions, naked short selling does not cause additional undesired effects on equity markets.

The authors argue that until the shares are delivered for settlement there is little difference between the two methods in which short selling can be executed: normal and naked. The only distinction lies in the identity of the party which acts as lender of the shares. Accordingly, when a normal short sale is carried out, the lender is a share lender, normally a custodian. On the other hand, when a naked short sale is carried out, the buying party can be understood to be the lender of the shares. As argued above, the differences between normal and naked short selling lie in the fact that the incentives for the short seller when returning the shares to the lender are different, and these incentives, in the case of naked short selling, may be very different depending on existing regulations.

10 A detailed description of Regulation SHO appears in Boni (2006).

11 DTCC operates in the securities markets of the United States. It provides clearing and settlement services for shares, corporate and municipal bonds, asset backed securities and government securities, as well as money market instruments and OTC derivatives.

From an empirical point of view, several studies have been carried out to analyse the impact of bans of naked short selling on market efficiency, that is, on the speed of price adjustment. Many of the studies have been carried out in the context of the current crisis, which has made it possible to obtain extensive information under different regulatory frameworks.

Fotak *et al.* (2009) also empirically study the behaviour of naked short selling in equity markets in the United States before and after the introduction of Regulation SHO. In this article, the authors find that in situations in which the prices were apparently below their balanced value, they returned to the average faster following the establishment of Regulation SHO. This result could be interpreted as meaning that there is less impact on market prices from naked short positions following the introduction of Regulation SHO. Naked short sellers began to operate under Regulation SHO as liquidity providers which corrected the imbalances in order book flows. In this regard, these investors carried out arbitrage functions and helped to stabilise markets, mitigating the error in the price of overvalued shares.

The same authors analyse the behaviour of several shares of financial companies in the context of the latest crisis so as to discover the influence of naked short selling on price falls. They specifically studied the period between 21 July and 12 August 2008, during which the greatest falls in market value of the issuers studied occurred. The main result of this analysis is that there is no significant evidence that the sharp fall in share prices in this period was due to the activity of investors with naked short positions.

In addition, in the same article, the authors make a study to observe the effect on the market of the bans on naked short selling which took place between 15 July and 12 August 2008 and which affected 19 issues. After finding that during this period there were greater share price deviations compared with their theoretical valuations and less trading volume, the authors conclude that the ban on naked short selling damaged the price formation process and had a negative impact on market liquidity.

Furthermore, two articles on this subject, Boulton and Braga-Alves (2009a and 2009b) also analyse the effects of bans on naked short selling on US markets during the time in which they were in force. The first of these studies obtains two important results. Firstly, it can be seen that there is a price increase during the days prior to implementation of the ban on naked short selling. However, on the days following the announcement of the ban, these increases were practically cancelled. Secondly, in line with the results in Fotak *et al.* (2009), a reduction in trading volume and a widening of bid-ask spreads can be observed over the period of the restriction, leading to the conclusion that there was a deterioration in the quality of trading in the shares affected. Furthermore, in line with the arguments developed by Abrew and Brunnermeier (2002) and Scheinkman and Xiong (2003), this article shows that there was an increase in daily volatility over the period in which the restrictions were in force.

In the second article (2009a), Boulton and Braga-Alves reach the same conclusion as Fotak *et al.* (2009): naked short sellers do not exacerbate share price falls when they occur. Their results suggest that these transactions contribute to market efficiency, as they provide liquidity in bear markets and on selling shares which they consider are overvalued.

As a summary, we can state that under normal conditions, short selling has positive effects for markets, although naked short selling may have certain negative consequences if during the settlement process there are no suitable penalties for failing to deliver the securities in the agreed period. Judging from the experience of Regulation SHO in the United States, it seems that these failures to deliver can be partially corrected with a suitable penalty system.

3 Restrictions on short selling in scenarios with high uncertainty

From the results presented in the previous section, we can deduce that, under normal market conditions, restricting or banning short selling may lead to more disadvantages than advantages. However, in extraordinary conditions it may be advantageous to consider establishing restrictions and, as a last resort, banning short selling at times when there is extensive uncertainty about the future behaviour of the economy. In this case, there may be a dilemma between having less efficient markets as a result of the restriction on short selling and the real economy in which decision-taking is more efficient.

One characteristic of the results in the literature presented so far is that they are obtained under the assumption that the value of the share issuer is not affected by the share prices observed in markets. In other words, it is assumed that the fundamental value of the shares is irrelevant for taking certain real decision on investments, expenses, etc. by different agents, above all managers and debtors, which affect the issue's value.

However, in moments of uncertainty about the future behaviour of the economy, it is more likely that economic agents (for example managers or lenders) who take the decisions which affect companies' investments cannot find reliable references on which to base their decisions. At these times, one of the few references available to these agents is the prices seen in financial markets and especially, in equity markets, due to the high level of transparency. In this context, short sellers could use the markets to reduce an issuer's value. When there is strong pressure to sell in markets from short sellers, both an issuer's owners and debtors may take prices as a negative signal with regard to the issuer's future perspectives. This negative vision could lead to excessively conservative decision-making regarding the issue's future investments, which could lead to a loss in the issuer's value.[12]

In recent years, several articles have aimed to explore the possibility described herein that the issuer's value depends on its share price in the equity market. As leading examples of this literature, we can highlight the articles by Hirshleifer, Subrahmanyam and Titman (2006), Ozdenoren and Yuan (2007) and Goldstein and Guembel (2008).

Some of these articles, such as that by Goldstein and Guembel (2008), conclude that it may be advantageous to set limits on short selling in situations of high uncertainty.

12 This is the case, for example, of some clauses which are occasionally included in loan agreements, pursuant to which the lender requires additional guarantees to support the loan when the share price falls below a certain threshold.

In fact, these authors argue that in scenarios with great pressure to sell, short selling may exacerbate the possible feedback between the market value of the share and the intrinsic value of the company in question, which could lead to situations in which the company's managers take suboptimal decisions.

4 Conclusions

As a result of the worsening global financial crisis following the events of September 2008, some security supervisors decided to impose restrictions on short selling in share markets. Some countries followed the view that the activities of short sellers were responsible for the dramatic falls in share prices, especially those of financial shares, and for the high volatility occurring in equity markets, with potentially destabilising effects for the financial system as a whole.

However, the restrictions and bans on this financial practice may have certain counter-productive effects for equity markets. Indeed, there is growing empirical evidence which suggests that banning short selling reduces liquidity and market efficiency, and is ineffective in preventing falls in share prices in bear markets. At the same time, some recent studies have documented the fact that the measures aimed at increasing short position transparency tend to favour liquidity in these markets.

The above results, which are hardly contested under normal conditions, require clarifying when analysing the effects of short selling under special circumstances. Accordingly, in the context of the current financial crisis, some regulators and supervisors have implemented or maintained restrictions on naked short transactions in which the seller does not hold the securities sold at the time of the trade. In this regard, even though there are arguments to think that both types of short selling, normal and naked, have a similar effect on market efficiency, naked transactions may lead to problems for markets to function correctly arising from possible failures in the settlement of these types of transactions.

Although it is true in general that the evidence available suggests that banning or restricting short selling under normal market conditions may be counter-productive in net terms, various papers over recent years have highlighted the fact that there may be certain circumstances in which it is beneficial to establish some type of restriction for these transactions. Specifically, this may be the case for situations in which there are significant information asymmetries between the different investors or in moments of high aggregate uncertainty, with a risk for the stability of the financial system as a whole.

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Annual Corporate Governance Report of Ibex 35 Companies. Financial Year 2009

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1 Introduction

There is a generalised opinion that one of the areas which has shown significant weaknesses throughout the current economic and financial crisis has been companies' corporate governance practices.

In June 2009, the OECD published a report on aspects of corporate governance relating to the crisis which demonstrates that the main weaknesses have been seen in the area of risk management and remuneration system policies (OECD, 2009).

The search for solutions to the problems identified has triggered an extensive debate about possible improvements to be introduced in companies' corporate governance. Accordingly, institutions such as the European Commission (EC) or the Financial Stability Board (FSB) have published various recommendations, especially relating to remuneration systems for directors in listed companies.[1]

Although these weaknesses have had less impact in Spain than in other countries, Spain has been involved in the process of reviewing corporate governance practices and has made significant progress in incorporating international recommendations to its framework for action. Specifically, a process is underway for reviewing the Unified Code of Good Governance in order to incorporate the new EC recommendations on remunerations for directors.[2] Similarly, the Draft Bill on Sustainable Economy envisages establishing certain recommendations on remuneration transparency as mandatory.

The Spanish corporate governance system is based on a mixed scheme of recommendations and mandatory rules. The former are included in the Unified Code of Corporate Governance. Even though these are voluntary standards, companies are required to provide a public explanation if they decide not to adopt them ("comply or explain" principle).

Within the mandatory rules, the Securities Market Act establishes that listed companies must publish an Annual Corporate Governance Report (ACGR), which will be reported as a significant event. The ACGR aims to provide full and reasoned information on the corporate governance structures and practices of companies which issue listed securities so that investors and other information users may form a well-founded opinion.

1 *European Commission Recommendation of 30 April 2009, complementing Recommendations 2004/913/EC and 2005/162/EC as regards the regime for the remuneration of directors of listed companies. FSB Principles for Sound Compensation Practices*, 25 September 2009.

2 The Unified Code was approved by the CNMV Board on 22 May 2006 as a single document containing the existing recommendations on good governance so that listed companies may use it as a reference when, in compliance with the obligation established in section 116 of the Securities Market Act, they declare in their annual corporate governance report whether or not they follow the established recommendations on corporate governance.

This article analyses the main characteristics of the corporate governance structures of Ibex 35 companies based on a study of their 2009 ACGR.

The article is divided into seven sections. The second section provides a summary of the basic aspects of ownership structure, of the Board of Directors and of the remuneration for directors and senior managers in Ibex companies. The systems for risk control and related-party transactions are explained in the third and fourth sections. The fifth and sixth sections analyse the functioning of the General Meeting and the extent to which companies follow the recommendations of the Unified Code. The last section presents the final considerations.

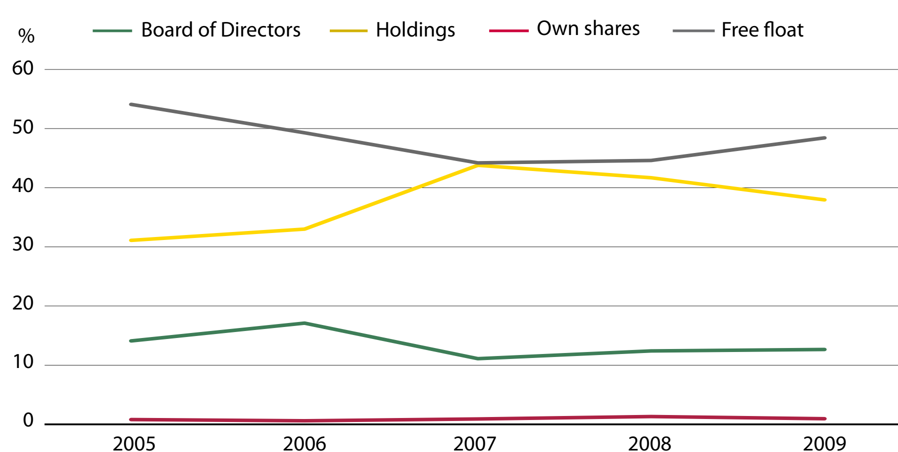
2 Ownership and management structure of the Ibex

2.1 Ownership structure

One of the key aspects for discovering a company's corporate governance structure is to identify the shareholders and their participation in the governance bodies. Accordingly, the ACGR must list the shareholders which have a holding equal to or greater than 3% of the voting rights of the share capital or which, with a lower percentage, are able to propose or have proposed the appointment or removal of a member of the Board of Directors. This obligation is stricter in the case of directors, who must indicate any holding they own in the company's capital.

According to the information provided in the 2009 ACGR, 38% of the share capital of Ibex companies is in the hands of significant shareholders, directors hold 12.7% and 0.9% corresponds to own shares. Therefore, the remaining 48.4% can be considered as approximately the amount of free float.

Capital distribution in Ibex companies FIGURE 1



Source: Companies ACGR and CNMV.

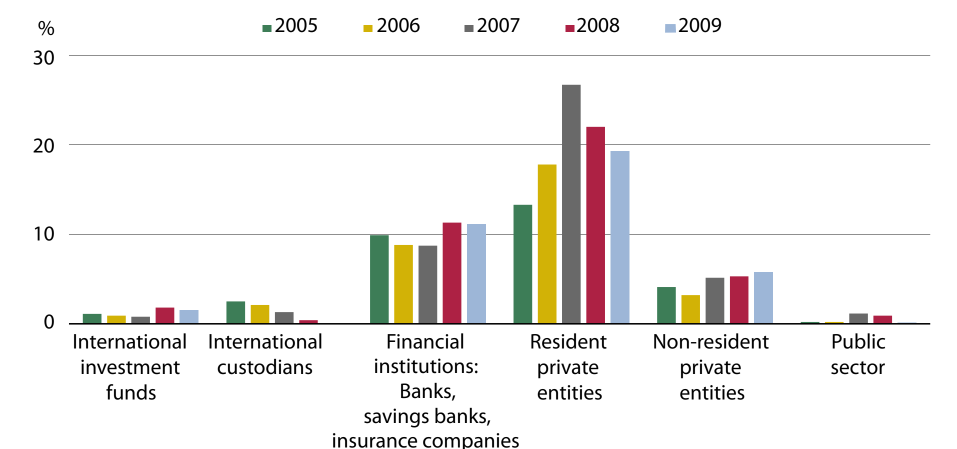
As shown in figure 1, the proportion of free float of total capital in 2009 compared with the previous year rose (3.8 percentage points), mainly at the cost of the group of significant shareholders. Analysis of the information presented by companies allows us to highlight the following aspects relating to the aforementioned increase:

- One third of the increase in free float can be explained by the changes registered in the index composition, that is, by the companies joining the index having a greater proportion of free float than those leaving.

- At the end of the year, 20 of the 35 Ibex companies had free float greater than 40% percent, compared with 16 in 2008, with two of these companies having a proportion lower than 15%.

As shown in figure 1, the proportion of the capital in Ibex companies held by non-director significant shareholders fell to an average of 38% (41.7% in 2008). Figure 2 shows the distribution according to the type of investor. The following characteristics can be highlighted:

Distribution of significant shareholders by type FIGURE 2



Source: Companies ACGR and CNMV.

- The most significant fall in absolute terms corresponded to resident private entities, which fell 2.7 percentage points compared with the previous year.

- The proportion of capital in Ibex companies held by financial institutions fell slightly (0.1 percentage points). Savings banks continued to maintain a significant presence in the shareholders of listed companies, although the percentage fell in 2009: Nine savings banks (11 in 2008) declared 16 holdings in the capital (22 in 2008) of 12 companies (13 in 2008).

- In twelve Ibex companies (13 in 2008) there is one person, legal or natural, that holds the majority of the voting rights or that exercises or can exercise control.

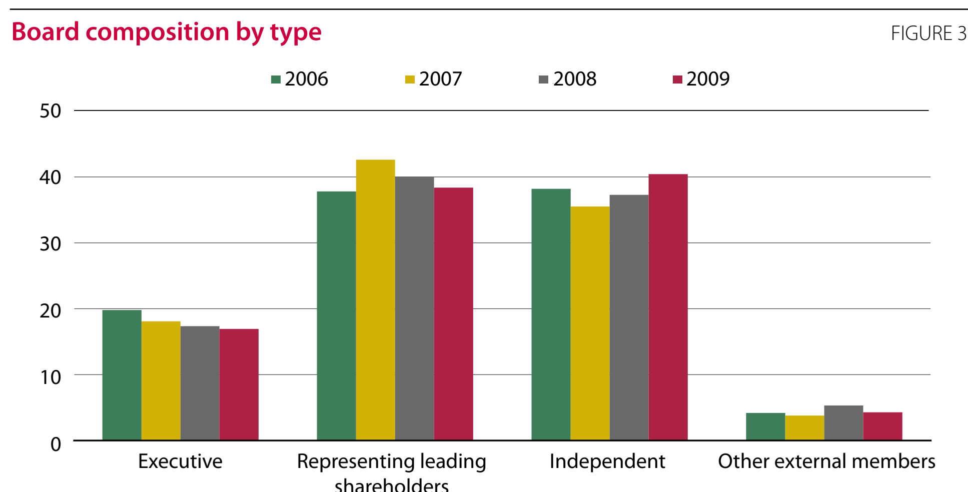
- In another seven companies, as in 2008, the sum of the significant holdings declared, including the share packages held by the Board, exceeds 50% of the share capital, without any one particular shareholder individually exercising control.

2.2 Company management structure

In 2009, a total of 490 directors (507 in 2008) made up the management bodies of Ibex companies. The average size of the boards is 14.4 members, in line with the previous year (14.5).

The Unified Code of Good Governance recommends that a clear majority of Board members should be external directors, that is to say, that directors with executive functions should make up the minimum necessary to meet information and coordination needs. In Ibex companies, external directors - those representing leading shareholders, independent directors and others - make up a clear majority compared with executive directors, as shown in figure 3. According to the information contained in this figure on Board composition and its most recent development, we can see that:

Board composition by type FIGURE 3



Source: Companies ACGR and CNMV.

- Directors representing leading shareholders and independent directors represented a majority in the Board over the period 2006-2009. Since 2007, the presence of independent directors has increased almost five percentage points, at the cost of the other types.

- Between 2008 and 2009, the number of companies with a majority of independent directors on their Board rose from six to seven. On the other hand, companies with a majority of directors representing leading shareholders fell from nine to seven over the same period.

The increase in the representation of independent directors in the management body led to an increase in their presence on Board committees. The most significant increase occurred in the executive committee, where the representation of independent directors rose from 28% in 2008 to 30.2% in 2009.

The presence of female directors in Ibex companies rose from an average of 8.7% in 2008 to 10.2% of Board members in 2009. Despite this increase, the average percentage of female executive directors fell from 4.5% to 4%.

The following table shows the development of the presence of women on the Boards of Directors of Ibex companies over the period 2005-2009, as well as the percentage which they represent and the type of director:

Presence of women on Boards TABLE 1

	Number of female directors	%	Number of companies with female directors	%	Distribution of the number of female directors according to type (%)			
					Executive	Representing leading shareholders	Independent	Other
2009	50	10.2	27	79.4	4.0	32.0	64.0	0.0
2008	44	8.7	26	74.3	4.5	29.6	63.6	2.30
2007	30	6	21	60	6.7	36.6	56.7	0.0
2006	26	5.1	19	54.3	15.4	42.3	42.3	0.0
2005	17	3.3	12	34.3	11.8	47.1	41.2	0.0

Source: Companies ACGR and CNMV.

In 19 Ibex companies where the presence of women on the Board of Directors was limited or non-existent, measures recommended by the Unified Code were taken in order to correct the situation. The percentage of women on the Boards of Directors of these companies was 14%, four percentage points higher than the Ibex average.

The Unified Code recommends that the Board meets with the frequency required for it to perform its functions. In 2009, the number of meetings held by the Boards of Directors ranged from six (four companies) to 17 (two companies). The average was 10.9 meetings.

2.3 Remuneration of the Board and senior management

Table 2 shows the development, in aggregate figures, of the remuneration accrued by directors of Ibex companies over the last four years:

Remuneration of Board members TABLE 2

	2006	2007	2008	2009
Remuneration amount (€ thousand)				
Average per Board	7,245	7,768	7,551	8,679
Average per director:	502	542	521	602
Executive directors	1,911	2,288	2,206	2,720
External directors	154	155	167	170
Average over profits (in %)	1.30	1.61	1.27	1.60[1]
Distribution by item (% of total)				
Fixed remuneration	35	36	38	34
Variable remuneration	31	30	29	30
Expenses	8	7	7	7
Other remuneration	26	27	25	30

Source: Companies ACGR and CNMV.

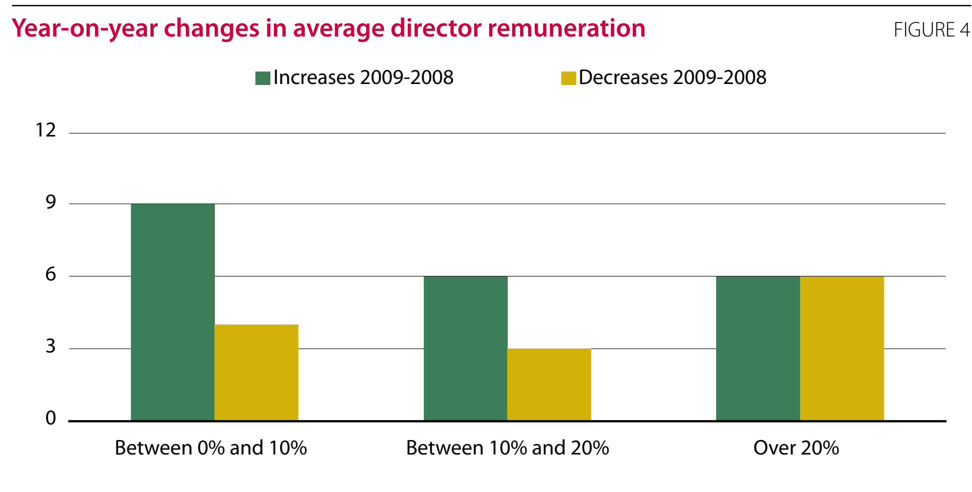
1 The three Ibex companies which recorded losses in 2009 have not been taken into account when calculating this average.

In 2009, the remuneration accrued by Boards of Directors of Ibex companies rose on average to 8.7 million euros, 14.9% up on the previous year. The average annual remuneration per director stood at 602,000 euros, an increase of 15.5% compared with 2008.

These increases are largely explained by the amounts paid due to the removal of directors as a result of corporate transactions. Specifically, one company paid 29.7 million euros by way of severance pay and early retirement of three directors. If we exclude this case, the average remuneration per Board would have increased by 3.4% and the average per director by 3.9%.

Figure 4 shows the distribution of Ibex companies grouped by year-on-year changes in average director remuneration. Remuneration increased in 21 of the 35 companies which make up the index.

Year-on-year changes in average director remuneration FIGURE 4



Source: Companies ACGR and CNMV.

The number of senior managers in Ibex companies stood at 502 in 2009 (514 in 2008) and their average remuneration was 699,000 euros, an increase of 3.5% compared with the previous year.

Finally, it should be pointed out that a total of 29 companies in the index (85.3% of the total) have established guarantee or golden parachute clauses which affect 256 senior managers. In general, the Board of Directors was responsible for approving these clauses, except in two companies in which they were subject to approval by the General Meeting. A total of 16 companies reported that they had informed the General Meeting of the existence of this type of clause.

3 Risk control

Considering the difficult economic and financial context in which listed companies have carried on their activities over recent years, it is increasingly important to implement internal control systems to identify potential events which may affect the organisation and the normal course of its activity, as well as to manage its risks and to provide a reasonable level of security in achieving objectives.

The importance of these types of risk control and management mechanisms means that listed companies' ACGR need to describe the risk management policy and control systems which they have established and identify the potential risks which they face, as well as those which have materialised over the year, and indicate the body

responsible for establishing and supervising control mechanisms. Accordingly, all Ibex companies provide information, with greater or lesser details, on the models which their risk control systems are based on. Furthermore, they all describe the principles on which their internal control policies are based, with the most common ones being the independence of the risk function, comprehensive risk management and involvement of all the company's employees.

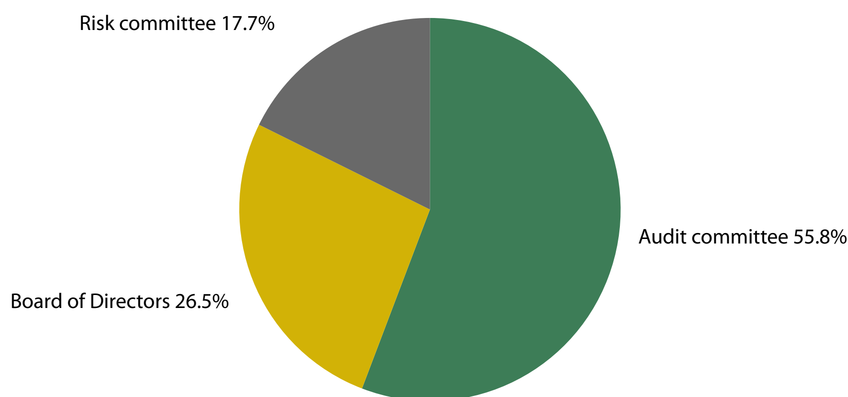
Furthermore, in 2009 the number of Ibex companies which identified the specific risks which materialised over the year increased from six - 17.1% of the total - in 2008 to twelve - 35.4% of the total - in 2009. A total of nine companies indicated that no potential risk materialised (26.4% compared with 48.6% in the previous year) and the remaining 13 indicated that only risks inherent to the activity of the different group entities materialised.

The ACGR must also inform about the governance committees and bodies responsible for establishing and supervising the control mechanisms. In this regard, the companies indicate that several bodies participate in risk control systems (risks committee, audit committee, internal audit, management committee etc), highlighting that the Board, as part of its supervisory function, is responsible for identifying the main risks which the company faces.

Act 44/2002, of 22 November, on Reform Measures of the Financial System established the obligation for the audit committee to supervise the internal audit services and be aware of the financial information process and the company's internal control systems.

Figure 5 shows the distribution of listed companies based on the body responsible for establishing and supervising control mechanisms.

Body responsible for establishing and supervising risk control mechanisms FIGURE 5



Source: Companies ACGR and CNMV.

4 Related-party transactions

Listed companies must inform in their interim financial statements, annual accounts and the ACGR about transactions which they perform with significant shareholders, directors, executives and other related parties, as well as intragroup transactions which are not eliminated in the consolidation process. In the ACGR, this transparency requirement is limited to related transactions which are material because of their amount or significant for correctly understanding the financial statements.

In 2009, Ibex companies performed transactions with their significant shareholders for 63.45 billion euros, 36% more than in the previous year. The transactions have mainly been the result of asset purchases/sales and dividend payments. The transactions reported by four companies accounted for 85.9% of the total volume.

Most of the transactions with significant shareholders (64.6% of the total) corresponded to loans, deposits and guarantees granted by banks and savings banks which were significant shareholders in the listed companies, 14.3% were from dividends paid over the year and another 7.5% corresponded to the purchase/sale of finished products. The ACGR of a total of 16 companies - 47.1% of the Ibex - did not include any transaction carried out between the company and its shareholders. In ten of these, no bank or savings bank was a significant shareholder.

The total volume of reported transactions with directors and executives stood at 1,298 million euros and was heavily concentrated in a few companies. The transactions performed by three companies accounted for 91.1% of the total aggregate amount of Ibex companies. On the other hand, 20 companies - 58.8% of the total - did not report any transaction with their directors and executives.

60.5% of the aggregate amount of the transactions with directors and executives corresponded to asset sales/purchases, mainly wind-farms and wind-farm projects. Another 32.1% corresponded to financial transactions performed with credit institutions and another 5% corresponded to dividends paid over the year.

The volume of transactions with directors and executives fell by 15.2% in 2009 compared with the previous year, as a consequence of a company which merged withdrawing from the index.

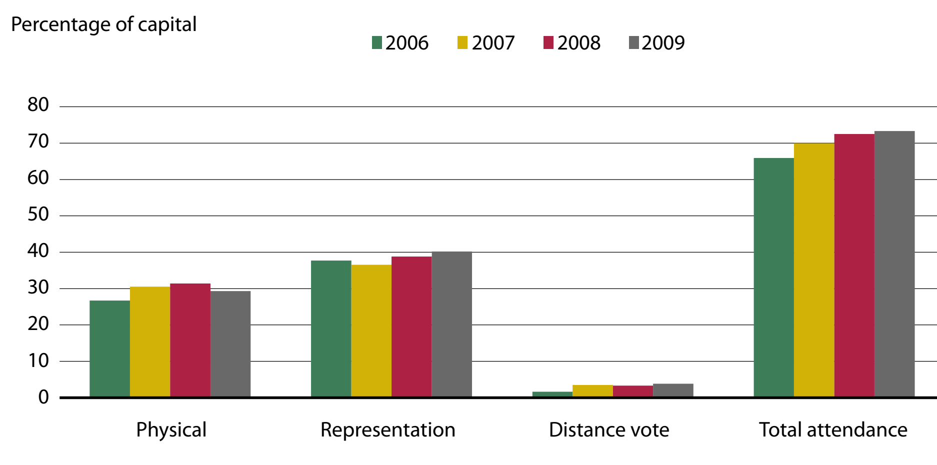
Three Ibex companies (five in 2008) performed intragroup transactions for 967 million euros (1,631 million euros in 2008).

5 General Meeting

Figure 6 shows the average development of the participation of the shareholders of Ibex companies in the general meetings held in the period 2006-2009, differentiating the capital percentages which correspond to shareholders which were present, those represented and those voting by distance.

Participation in general meetings FIGURE 6

Percentage of capital



Source: Companies ACGR and CNMV.

The average percentage of attendance at general meetings of shareholders recorded in 2009 was 73.3% (72.5% in 2008) in terms of their holdings in the companies' share capital, which confirms the progressive increase which has been recorded since 2006.

At the same time, the level of physical presence fell and the participation through representation and by distance increased. As in previous years, the capital percentage of the shareholders which attended the Meeting was lower than that represented through vote delegation.

In this context, it is appropriate to point out that a total of six companies - 17.6% of the Ibex - have limits established in their articles of association with regard to the maximum percentage of voting rights which a shareholder may exercise in general meetings. Five of them have set a maximum percentage of 10% of the capital and the remaining two have set a maximum percentage of 3% of the capital.

Furthermore, 55.9% (60% in 2008) of Ibex companies have established requirements for the minimum number of shares to be held in order to attend general meetings:

- In nine companies the limit is set at between 500 and 1,500 shares.
- In ten companies the number of shares is lower than 500.
- The remaining 15 companies have no restriction of this type in their articles.
- One company removed the limit in 2009.

6 Compliance with the recommendations of the Unified Code

In accordance with the "comply or explain principle", listed companies must inform in their ACGR the level to which they have followed the 58 recommendations contained in the Unified Code - indicating whether they comply with them fully, whether they comply with them partially or whether they do not comply with them - and explain, as the case may be, the practices or criteria which do not follow the recommendations.

On an aggregate level, the declarations included in the 2009 ACGR on the level to which they have followed the Unified Code recommendations demonstrate, among others, the following aspects:

- The level of compliance with Unified Code recommendations was high:

  - On average, Ibex companies fully complied with 87.5% of the Code's recommendations which were applicable to them, and partially with another 6.7%. Therefore, on an aggregate level they do not follow, even partially, 5.8% of the recommendations (7.2% in 2008).

  - All the Ibex companies, except one, complied with over 75% of the Unified Code. Thirteen companies - 38.2% of the total - complied with over 90% of the Unified Code. One of these reported that it had complied with 100% of the recommendations.

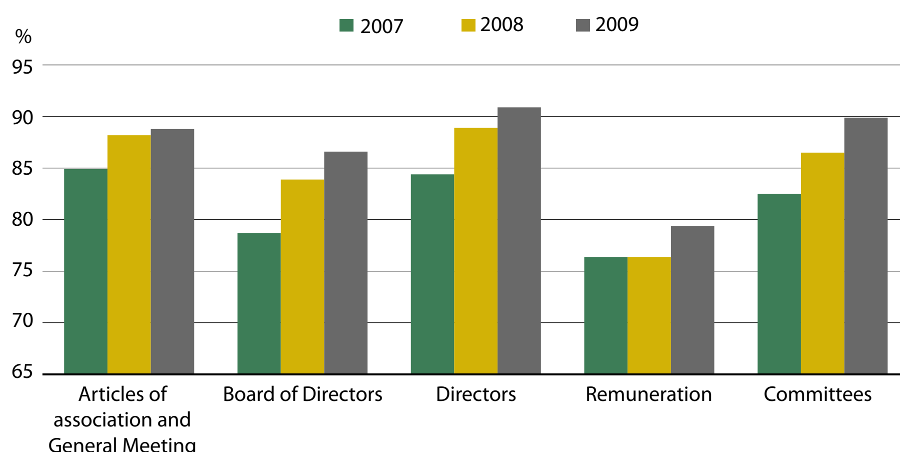
  - A total of 20 recommendations - 34.5% of the Unified Code - were complied with by all Ibex companies.

- As in previous years, the recommendations which were least complied with were those relating to the regime for approval and transparency of directors' remuneration (see figure 7). The level of compliance, 79.4% in 2009, remains below the Unified Code average, although progress of three percentage points over 2008 was recorded.

  Two Code recommendations were followed by less than half the Ibex companies. Specifically, recommendation 40, which establishes that the Board should submit a report on the remuneration policy for directors to the General Meeting, and recommendation 41, which requires that the notes to the annual report give details on individual remuneration, were followed by 35.3% and 44.1% of companies respectively.

  The number of companies which provide details on individual remuneration for directors (15 companies) is the same as in 2008. However, certain progress can be seen in the number of companies which submit a report on the remuneration policy to the General Meeting, as a consultative item on the agenda (twelve in 2009, three more than in 2008).

Compliance with Code recommendations FIGURE 7



Source: Companies ACGR and CNMV

- The level of compliance with the Unified Code recommendations rose from 84.9% in 2008 to 87.5% in 2009. This progress is explained by the increase of 34 percentage points recorded in one company and by two companies which had a lower than average level of compliance withdrawing from the index.

  Without considering the changes in the composition of the index, the percentage of compliance with Unified Code recommendations by Ibex companies at the end of 2009 would have risen by 1.4 percentage points compared with 2008.

- 44.1% of Ibex companies declared that they complied with a higher percentage of the Unified Code than in the previous year. All the recommendation categories in the Unified Code reported improvements in the level of compliance, as can be seen in figure 7. A significant increase corresponded to the recommendations relating to Board committees.

  The recommendation which saw the greatest increase in the level of compliance in 2009 is that which suggests that the composition of the Board committee should be similar to that of the Board of Directors. This recommendation was followed by 46.2% of Ibex companies in 2008 and 59.3% in 2009. The recommendation was one of those with the lowest levels of compliance recorded in previous years.

7 Conclusions

2009 confirmed the trend which began in previous years of Ibex companies improving their corporate governance practices to adapt them to good governance standards.

The increase in the presence of independent directors in governance bodies, the increase in free float and a greater presence of women on the Boards of Directors led to the level of compliance with the Unified Code rising from 84.9% in 2008 to 87.5% in 2009.

Despite this progress, information about certain aspects of corporate governance, detailed in the ACGR, shows the need for greater efforts towards transparency by listed companies and, especially, relating to the following issues:

i Explanations about the lack of compliance with the recommendations

One of the aspects to be improved on is the quality of the information included in the ACGR to explain the lack of compliance with the recommendations. The percentage of redundant explanations - which reiterate the fact of non-compliance and do not clarify the specific reasons to justify it - is greater in Spanish listed companies than in listed companies in other countries according to a report sponsored by the European Commission published in 2009 on the practical application of codes in Europe.[3]

ii Information on director remunerations

Companies must inform in their ACGR about the remuneration accrued by directors over the year. This information needs to be broken down by remuneration item and type of director. They must also provide aggregate information on other benefits granted by the company, such as advance payments, pension plans, life assurance and guarantees given. However, in some cases, the companies do not follow homogenous criteria to break down the directors' remuneration items or do not include any of these items in the corresponding heading of the ACGR, thus making comparison difficult.

iii Risk control systems

In 2009, Ibex companies extended the information on risk control systems which they provide in their ACGR. The number of companies which identified the specific risks materialised over the year rose from 17.1% in 2008 to 35.4% in 2009. However, even though companies have carried out their activities over the year in a difficult economic and financial context, 64.6% of its companies did not identify the risks which have affected them and did not include information about the probability of occurrence or the possible impact of the risks which they face.

3 RiskMertrics Group (2009).

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III Regulatory Novelties

Amendments introduced by Royal Decree 749/2010 in the Regulations of UCITS

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1 Introduction

Royal Decree 749/2010, of 7 June, introduces a series of amendments to the Regulation of Act 35/2003, of 4 November, on Undertakings for Collective Investment in Transferable Securities (hereinafter, UCITS), approved by Royal Decree 1309/2005, of 4 November (hereinafter, RUCITS).[1] Noteworthy among the amendments introduced by the Royal Decree is the introduction in Spanish legislation for UCITS of side pockets, aimed at facilitating more flexible treatment in the event of non-liquidity or valuation difficulty which may affect part of the UCITS' assets. Another significant change is that it is now possible to operate with exchange-traded funds (ETF), in the form of a SICAV (open-ended collective investment scheme).

The new legislation also affects three tax regulations: the Regulation on Income Tax for Non-Residents, approved by Royal Decree 1776/2004, of 30 July, the Regulation on Corporation Tax, approved by Royal Decree 1777/2004, of 30 July, and the Regulation on Personal Income Tax, approved by Royal Decree 439/2007, of 30 March.

This article indicates the aims of the reform (section 2) and analyses its content (section 3). Our conclusions are presented in the last section.

2 Aims of the reform

Royal Decree 749/2010 has a two-fold aim. On the one hand, it aims to solve certain problems presented by the impact of the financial crisis on the assets of UCITS. On the other hand, this new regulation introduces a series of improvements which allow greater flexibility for UCITS, without undermining investor protection.

The current financial crisis has had a negative impact on the assets held by a large number of UCITS, either because these assets are now non-liquid or because it is difficult to measure their value in current market conditions. Accordingly, and given the complex current situation, it is necessary to have an alternative to the simple definitive liquidation of a UCITS or the possibility that the exceptional situation of some of its assets, combined with the obligations arising from legislation regarding subscriptions and redemptions, lead it to collapse.

This alternative involves the creation of special-purpose UCITS or compartments, commonly known as side pockets, which will hold the assets affected by the exceptional situation that makes it difficult to measure their value or which reduces their liquidity. Accordingly, the original UCITS or compartments may continue functioning as normal, while the side pocket is subject to a special regime for valuation, liquidity, subscriptions and redemptions, among other issues, thus allowing orderly liquidation of its assets.

1 Royal Decree 749/2010, of 7 June, amending the Regulation of Act 35/2003, of 4 November, on Undertakings for Collective Investment in Transferable Securities, approved by Royal Decree 1309/2005, of 4 November, and other tax regulations.

Furthermore, the Royal Decree introduces a series of amendments in the RUCITS aimed at increasing flexibility in the operations of UCITS so as to promote greater efficiency in financial markets, without reducing the level of investor protection. These measures are essentially as follows: ETFs, in the form of SICAVs, are allowed to operate, greater flexibility is given to the regime for investing in real estate UCITS, including listed real estate investment firms regarding the assets in which they may invest. In addition, greater flexibility is given to certain limits in investment which investment firms with guaranteed return targets must comply with, and the regime for fee transparency is improved.

In addition, the Royal Decree brings the regime for delegating in UCITS management companies closer to that for investment firms and that of self-managed investment companies (SMICs). Furthermore, it introduces the obligation for UCITS management companies to comply with certain rules of conduct regarding the marketing of UCITS shares and units.

Finally, the amendments introduced in the tax regulations dispense with the obligation to withhold or make interim payments for income arising from transfers or redemptions of shares representing capital or assets of listed investment funds and index-listed SICAVs.

3 Analysis of the amendments

3.1 Fees paid by the UCITS and unit-holders

The new Royal Decree begins to regulate the possibility that UCITS management companies may return fees received to the unit holders, which was already a widespread practice. In this regard, investment fund prospectuses must include the criteria for such refunds.

It also eliminates the obligation for the sum of the direct and indirect fees paid by the investment fund as a depository fee, in the event that the fund invests in a group UCITS must respect the maximum limits previously established in article 5 of the RUCITS. However, this continues to be an obligation in the case of management fees as, in this case, the legislation aims to prevent the same entity or group charging twice for managing the same assets. In the case of the management fee, however, the ban makes no sense as the above situation cannot occur given that the depositories of the investment fund and of the underlying UCITS may be different and, even if they are the same, they perform the function of custody, supervision and monitoring over both sets of assets.

Investment funds which invest a substantial proportion (over 10%) of their assets in other UCITS are already obliged to inform about the maximum levels of management and depository fees which they may directly or indirectly pay (expressed as a percentage of the assets of the UCITS). The Royal Decree establishes the obligation to inform about these levels as a percentage of the part of the assets invested in UCITS.

Furthermore, investment funds may pay brokerage fees which include financial analysis of investments, providing:

- this appears in the prospectus,
- the service is related to the purpose of the investment fund and contributes to improving investment decision-taking,
- the annual report includes detailed qualitative information about the costs arising from said service,
- The managers have selection procedures for brokers which must include at least one annual review of the fees paid to them.

3.2 Amendment to prospectuses

Greater flexibility is given to the rules relating to reporting and the right to exit in the cases of modifications to an investment fund's investment policy, whereby it is now only applicable in the case of a substantial change in policy.

The new legislation also eliminates the obligation that the change of control of the UCITS management company enters into force with registration of the prospectus of the fund which undergoes a change. The legislation is thus adapted to the practical reality, as a change of control occurs when the purchase transaction is executed, irrespective of when the prospectus is registered.

3.3 Rules for dissolution and liquidation

The new Royal Decree introduces the possibility of making payments to unit-holders during the fund liquidation process, as an interim payment for the final liquidation, providing all creditors have been paid and the amount of its outstanding loans have been consigned, previously ensuring payment of non-due loans as required in article 391 of Royal Legislative Decree 1/2010, of 2 July, which approves the consolidated text of the Capital Companies Act for public limited companies. This prevents the final payment of the fund among unit-holders being delayed until all the assets have been realised.

Furthermore, regarding the limits established for the debts taken out by the fund, the legislation clearly establishes the moment at which the redemption applications from unit-holders are understood as accrued in favour of the unit-holder. In this regard, it indicates that the right to redemption is accrued on the date of the net asset value applicable to the redemption applications. Consequently, redemption applications which have already accrued would form part of the loans which must be paid or insured prior to interim liquidations.

3.4 Qualifying assets and diversification

The amendment of the RUCITS includes the following new elements relating to the UCITS investment regime:

- The credit institutions in which UCITS may establish deposits is extended to include those which are based in a Member State of the OECD subject to prudential supervision.
- Investment in foreign venture capital companies is permitted in a similar way as for Spanish venture capital companies.
- It eliminates the limitation that the surplus in the limits of asset concentration is no longer exclusively for one sole issuer for funds which replicate or reproduce an index. The Royal Decree also eliminates the CNMV's assessment of the circumstances in which said limit may be raised to 35%, providing it appears in the prospectus and in all advertising promoting the UCITS.
- A new limit is included for investment in one UCITS of 25% of the volume in circulation of said UCITS in order to adapt Spanish legislation to the UCITS Directive.
- Certain qualifying assets are excluded from the calculation of the 35% concentration ratio in one sole issuer, which is exclusively focused on debentures guaranteed by assets, derivatives and deposits of any type.
- Greater flexibility is given to the criteria for not applying the maximum limit of premiums paid (10% of the UCITS' assets) with regard to funds with a specific return target, irrespective of whether said target is guaranteed or not.
- Certain derivative instruments are excluded (volatility or any other underlying asset which the CNMV determines) from the calculation of the exposure to market risk of the underlying asset associated with the use of financial instruments so as to comply with diversification limits.
- The UCITS which are managed with the aim of achieving a specific return target which has been guaranteed to the institution itself by a third party are also excluded from compliance with the aforementioned limit.

3.5 Marketing Spanish UCITS in the EU

For Spanish UCITS which replicate or reproduce an index and which are to be marketed in other Member States under Directive 85/611/EEC,[2] the concentration limit

2 Directive 85/611/EEC was amended by the following acts: Directive 95/26/EC of the European Parliament and of the Council of 29 June 1995 (OJ L 168, 18.7.1995, p. 7); Directive 2000/64/EC of the European Parliament and of the Council of 7 November 2000 (OJ L 290, 17.11.2000, p. 27); Directive 2001/107/EC of the European Parliament and of the Council of 21 January 2002 (OJ L 41, 13.2.2002, p.20); Directive 2001/108/EC of the European Parliament and of the Council of 21 January 2002 (OJ L 41, 13.2.2002, p. 35); Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 (OJ L 145, 30.4.2004, p. 1); Directive 2005/1/EC of the European Parliament and of the Council of 9 March 2005, amending Council Directives 73/239/EEC, 85/611/EEC, 91/675/EEC, 92/49/EEC and 93/6/EEC and Directives 94/19/EC, 98/78/

per asset may be increased from 20% to 35%. However, the legislation for these UCITS is less flexible than for domestic-indexed UCITS (art. 38.2 of the RUCITS), allowing the aforementioned increase to occur exclusively in one issuer with the aim of complying with the provisions in the aforementioned Directive.

3.6 Hedge fund's and funds of hedge funds

There is a significant change in the definition of the type of unit-holders to which hedge funds can be marketed. Specifically, marketing activities may only be aimed at professional clients in accordance with the provisions of section 78 bis. 3 of Act 24/1988, of 28 July, on the Securities Market (hereinafter, SMA). This reference is more complete than the one in force up to now, which referred to "qualified investors" as defined in article 39 of Royal Decree 1310/2005, of 4 November, which partially implements the SMA with regard to the admission to trading of securities on official secondary markets, public share offerings and rights offerings and the prospectus required for these purposes. Similarly, it eliminates the requirement of a minimum 50,000-euro investment for professional client unit-holders with the aforementioned categorisation provided for in the SMA.

The investment scope for funds of hedge funds is extended to countries in the European Union not belonging to the OECD.

3.7 UCITS and side pockets

As mentioned above, side pockets allows the UCITS whose assets have been affected by a lack of liquidity to create another UCITS or compartment to hold these non-liquid assets so that the original UCITS may continue operating as usual. The new UCITS or side pocket is created only to carry out orderly liquidation, at all times in the interest of the unit-holders or shareholders. The main requirements applicable for these UCITS or side pockets are as follows:

- That it is not possible to value or sell at fair value assets which account for over 5% of the UCITS' net assets.
- That there are serious damages, in terms of equity, for the unit-holders or shareholders.
- The side pocket is created by dividing the portfolio affected with the beneficiary being a newly-created UCITS with the same legal status or a compartment. In the case of a SICAV traded on the alternative stock market (MAB) or on the stock market, the side pocket may only be created through a new UCITS which may not request admission to trading on these markets.
- The unit-holders or shareholders will receive units or shares from the side pocket in proportion to their original investment.

EC, 2000/12/EC, 2001/34/EC, 2002/83/EC and 2002/87/EC in order to establish a new organisational structure for financial services committees (OJ L 79, 24.3.2005, p 9); and Directive 2008/18/EC of the European Parliament and of the Council amending Directive 85/611/EC as regards implementing powers conferred upon the Commission (OJ L 76, 19.3.2008, p. 42).

- The CNMV shall be previously informed of their creation, they will be filed in the CNMV registers, the creation will be considered as a significant event and the unit-holders or shareholders will be informed, but it will not grant the right to exit.

- The side pockets will not be subject to the rules on investments contained in section 1, of chapter 1 of title III of the RUCITS (qualifying assets, diversification, investment in non-listed companies and derivative instruments, liquidity and obligations to third parties).

- They will not be required to hold minimum legal net assets.

- Their net asset value will be calculated with the same regularity as the original UCITS, except with just cause which will be included in the UCITS' periodic reports.

- They may not issue new shares or units.

- The participants or shareholders will designate an account in which they will receive the redemptions or repurchases, or a UCITS to receive the transfers.

- Subscription or redemption fees or discounts may not be applied.

- Management and depository fees (whose cap shall be that of the original UCITS) and other costs will only be accrued when the side pocket has sufficient liquidity.

- No prospectus will be required, although the periodic information will include information about the reason for its creation, the net asset value, the future development of the securities and any other aspect of interest.

- The side pockets will be subject to the regime for transfers.

- They may not be subject to transformation, merger or division.

- When the circumstances which led to the creation of the side pocket disappear, the assets will be sold diligently and the liquidity distributed among shareholders and unit-holders. When the redemptions or repurchases have been made, the CNMV will be informed for it to be withdrawn from the corresponding register.

3.8 Listed investment funds and index-listed SICAVs

A noteworthy new aspect is that listed investment funds and index-listed SICAVs are allowed to operate as ETFs, in the form of variable capital companies. Until this modification came into effect, the RUCITS only permitted the existence of ETFs in the form of an investment fund. Consequently, from now on the regulatory and tax regime for ETFs will include both companies (SICAVs) and funds.

The following amendments are also made to the requirements for admission to trading on the stock market for units in a listed investment fund:

- The de-registration of the fund from the corresponding CNMV register shall entail cancelling the admission to trading of its units on the stock market.

- The constitution of the funds before a notary and their filing in the Companies Registry is optional. The formal requirements for incorporation will be the same as those for other investment funds.

- The objective of the fund's investment policy may not only be to reproduce a stock market or fixed income index but also any other underlying reference which the CNMV expressly authorises. Accordingly, greater flexibility is given to the ETFs, allowing them to replicate, as is allowed in other Member States in the EU, other types of assets, for example, raw materials or currencies, although they must obtain prior authorisation from the CNMV.

3.9 Real estate UCITS

In the present situation, the liquidation of real estate investment funds was made more difficult as, two years following the start of liquidation, the corresponding operator was required to file the assets and real estate in the Property Register in favour of all the unit-holders. This legislation eliminates that two-year period. Consequently, this prevents the problem for the unit-holders of becoming members of a community of owners without a defined administrator and forces the involvement and responsibility of the operator until all the real estate is sold.

Similarly, the regime for dissolution and liquidation of real estate investment funds will be adapted to the general provisions in article 33 of the new RUCITS, with certain specific elements. The regime for fees during this process is regulated, banning fees for results and, in addition, the regime for providing information to the unit-holders about the process of selling the real estate investment portfolio is regulated, granting specific control functions to the depositary.

Furthermore, real estate UCITS may now also include the following in their main target investment: (i) public limited companies listed on the real estate market (SOCIMIs), providing they do not have shares of the capital or net assets of other real estate UCITS, (ii) other real estate UCITS, providing these have not invested over 10% of their assets in other UCITS. These new investment types are added together to the investment in other types of real estate and assets under the heading of finished real estate, with a maximum joint investment limit of 15% of the UCITS' net assets. Up to now, this limit was only applied, within finished real estate, to those companies whose assets were mostly made up of leased real estate.

Finally, the mandatory investment ratio in real estate for real estate investment companies is reduced from 90% to 80% of its assets to bring it in line with that for SOCIMIs.

3.10 Delegation of functions

With regard to UCITS management companies, perhaps the most noteworthy amendment is the delegation of functions. This is justified by the need to guarantee a level playing field for the entities which simultaneously provide different types of

activities subject to different regulations, which has been the main reason for the recent legal amendments adopted by the EU.[3]

Accordingly, the UCITS management companies which perform investment services, such as advisory services or discretional and individualised management of investment portfolios, must meet the requirements provided in article 37 of Royal Decree 217/2008,[4] which does not establish the need for prior control by the CNMV (it does not even establish the need to inform of the functions to be outsourced), but which does implement in more detail the conditions for verifying and guaranteeing the reliability of the delegated entities and their effectiveness in providing services.

Until the amendments introduced by Royal Decree 749/2010 entered into force, UCITS management companies, with regard to collective investment, were subject to a prior authorisation regime which involved a clear asymmetry regarding other activities which they could perform. The amendment to article 68 of the RUCITS aims to have homogenised, as far as possible, the regime for delegating functions applicable to UCITS management companies, whatever activity they perform, maintaining limited differences resulting from the specific nature of each of them, without undermining investment protection, in line with the provisions of article 13 of UCITS IV Directive.[5]

In particular, the requirement for prior authorisation by the CNMV for delegating administrative functions and internal control (auditing, compliance with legislation and risk management) of the UCITS has been eliminated, which leads to a significant simplification in administrative procedures. Instead, said authorisation has been substituted by the obligation to report such actions to the CNMV (even though this obligation is not included in the regulatory legislation of companies which provide investment services), as they are of interest for the knowledge and assessment of the risks which may arise from these delegations.

Furthermore, the need to inform the CNMV about the control procedures for outsourced activities has been eliminated, in a similar way as for the legislation applicable to investment services.

Finally, the need for prior authorisation for delegation of asset management is maintained. This is processed for each UCITS and continues to be considered a cornerstone in building the priority objective of investor protection.

All of the above must be read together with the provisions of section 6 of CNMV Circular 6/2009, of 9 December, on internal control of UCITS management companies and investment firms, which implements the requirements which the delegations of internal control functions must be subject to.

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3 The recent reform undertaken at an EU level relating to collective investment (UCITS IV Directive) and specifically relating to the rules for organisation, rules of conduct and conflicts of interest applicable to UCITS management companies in order to achieve a full and effective passport for cross-border activity, has been driven by homogenisation with the rules applicable to investment firms included in the MiFID.

4 Royal Decree 217/2008, of 15 February, on the legal regime of investment firms and other entities which provide investment services, which partially amends the Regulation of Act 35/2003, of 4 November, on UCITS, approved by Royal Decree 1309/2005, of 4 November.

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 Directive).

Similarly, extensive mutatis mutandis is being carried out in the regime for delegating functions of UCITS management companies to investment companies whose management, administration and representation are not entrusted to a UCITS management company.[6] This is carried out in a similar manner and in line with the focus of UCITS IV, which consists of subjecting these two types of entities to certain regulatory provisions for greater investor protection, a focus which is also included in Circular 6/2009.

3.11 Rules of conduct applicable to the marketing of UCITS

The new text added by Royal Decree 749/2010, in section 2 of article 97 of the RUCITS subjects UCITS management companies which carry out marketing activities for shares and units, both of UCITS which they manage and, as the case may be, of other UCITS, to the rules of conduct contained in Chapter III of Title IV of Royal Decree 217/2008.[7] That is, it imposes the obligation to carry out a client evaluation with regard to the suitability or appropriateness of the product offered.

In this regard, it should be noted that the advisory services provided by the Committee of European Securities Regulators (CESR) to the European Commission on the Level 2 measures relating to the rules of conduct to be followed by UCITS management companies[8] expressly established the obligation to evaluate the appropriateness for a specific client based on their knowledge and investment experience (appropriateness test) in a similar way as is established for companies which provide investment services other than advisory services and portfolio management.[9]

Nevertheless, the content of said advisory services in this regard has not finally been included in Directive 2010/43/EU[10] (UCITS IV Directive, level 2) as it has been considered more appropriate to deal with the issue in the work on the future regulation of Packaged Retail Investment Products, PRIP, which could include UCITS shares and units, thus obtaining a harmonised and horizontal framework relating to the information and sale of this new category of products to retail clients.[11]

Consequently, the new text added by Royal Decree 749/2010, in section 2 of article 97 of the RUCITS may be supplemented by the provisions which are eventually included in the aforementioned regulation.

6 See new section 4 of article 7 of the RUCITS.

7 Evaluation of appropriateness and evaluation of suitability.

8 See CESR´s Technical advice to the European Commission on the level 2 measures related to the UCITS Management company passport, Ref. CESR/09-178, available at http://www.cesr-eu.org/data/document/09_178.pdf

9 Articles 36 and 37 of Commission Directive 2006/73/EC of 10 August 2006, implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that directive (MiFID, level 2).

10 Commission Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company.

11 http://ec.europa.eu/internal_market/finservices-retail/investment_products_en.htm#update_PRIPs

3.12 Affiliation of UCITS management companies to the FOGAIN

With regards to the affiliation of UCITS management companies to the FOGAIN (general investment guarantee fund) provided for in article 74 of the RUCITS, an attempt has been made to specify that UCITS must affiliate to the FOGAIN when they perform investment services, thus modifying the previous text which only established this obligation with regard to discretional and individualised management of investment portfolios.

4 Conclusions

The amendments to the regulation applicable to UCITS introduced by Royal Decree 749/2010, which have been analysed in this article, responded to several main causes. Some of the modifications, such as those which referred to the process of liquidating real estate UCITS or the introduction of side pockets, meet the need to adapt the existing regulation in order to respond to the exceptional circumstances of the current economic and financial situation.

In addition, this Royal Decree aims to give greater flexibility to certain regulatory aspects so as to facilitate better adaptation of the sector to international practices and to the current competitive market environment, without undermining investor protection.

Finally, this new regulation analysed herein has adopted measures, such as those relating to the outsourcing of UCITS management companies which are based on the principle of a level playing field for the different types of competing entities, and involve a simplification of administrative procedures.

IV Legislative Annex

New legislation approved since publication of the CNMV bulletin for the second quarter of 2010, in chronological order, is as follows:

- Order EHA/1717/2010, of 11 June, on regulation and control of advertising of investment products and services.

  This Order establishes the principles and criteria for the advertising of bank products and services and authorises the Bank of Spain to implement the provisions thereof. The Order provides for an *a posteriori* advertising control system by the Bank of Spain. On the one hand, the supervisor prepares specific criteria for financial advertising, and on the other hand, the supervisor may correct unsuitable conduct and request that advertising which does not meet the requirements be stopped or rectified, without prejudice to the General Advertising Act. Advertising regulation is also supplemented by the supervisor verifying the banks' internal control mechanisms in order to minimise legal and reputational costs.

  Furthermore, the Order directly establishes certain advertising criteria. Advertising regarding deposits and loans which expressly refer to their cost or return must use the annual equivalent rate (AER). When a credit institution's advertising covers any type of offer to be made by another company, it must expressly mention that company.

- Order EHA/1718/2010, of 11 June, on regulation and control of advertising of bank products and services.

  This regulation implements sections 94 of the Securities Market Act and 18.4 of the UCITS Act. The Order defines the scope of the activities subject to control and states the basic principles and criteria which govern them. The Order provides for an *a posteriori* advertising control system by the CNMV, which is authorised to complete the regulation by means of its circulars.

  The Order grants the CNMV the authority to request that the advertising which does not comply with the legislation be stopped or rectified. The CNMV may also give its own public warnings, or include these warnings in the brochures for public share offerings and rights offerings. This regulation is also supplemented by the CNMV's powers to verify whether the investment service firms have the necessary mechanisms to manage legal and reputational risks.

- Order EHA/1665/2010, of 11 June, which implements articles 71 and 76 of Royal Decree 217/2008, of 15 February, on the legal regime of investment service companies and other institutions which provide investment services, regarding rates and standard contracts.

  The main new difference introduced by this Order is that the CNMV's control over standard contracts will now be *a posteriori* instead of *a priori*, with the CNMV able to request rectification of the standard contracts at any time. This change aims to make legal traffic faster and will lead to a certain reduction in administrative workloads. The obligation to register a rates brochure which companies must adhere to is maintained.

Furthermore, this regulation repeals the orders of 25 October 1995, on the same subject, and that of 7 October 1999, implementing the general code of conduct and rules in managing investment portfolios.

- Order EHA/1608/2010, of 14 June, on transparency of conditions and information requirements applicable to payment services.

  In accordance with the Payment Services Act, this Ministerial Order regulates the information requirements of payment services. It establishes different information obligations and information requirements for payment institutions both in favour of the payer and of the payee.

- Commission Regulation (EU) No. 550/2010 of 23 June 2010 amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS)1.

  This regulation incorporates into European Law amendments in accounting standards regarding leases and also regarding measuring the assets of companies in the oil and gas sector.

- Circular 3/2010, of 29 June, of the Bank of Spain, to credit institutions, amending Circular 4/2004, of 22 December, on rules for public and reserved financial information and models for financial statements.

  This Bank of Spain Circular amends Circular 4/2004, of 22 December, on accounting standards, and incorporates significant amendments regarding provisions or recognition of losses from doubtful loans and credit. The following aspects are of particular importance:

  - The value of real estate guarantees will be deducted from the calculation of the provisions for doubtful transactions, although a cut will be applied to the value of these guarantees ranging from 20% for finished houses which are the borrower's first residence and 50% for buildable developed lots and plots.

  - The maximum time to provision for doubtful loans and credit is cut to twelve months.

  - Principles are established for managing risks relating to business restructuring.

  - Certain assumptions are established relating to provisions for assets acquired as payment for debts so that credit institutions quickly release these assets and focus on their core activity.

- Commission Regulation (EU) No 574/2010 of 30 June 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 1 and IFRS 7.

  This regulation introduces an amendment to IFRS I allowing first-time adopters of international financial reporting standards exemptions from restating comparative disclosures concerning fair value measurements and liquidity risk.

- Act 12/2010, of 30 June, amending Act 19/1988, of 12 July, on Account Auditing, Act 24/1988, of 28 July, on the Securities Market and the consolidated text of the Public Limited Companies Act approved by Legislative Royal Decree 1564/1989, of 22 December, for their adaptation to Community legislation.

  This legislation amends the regime for account auditing, transposing Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006, and similarly introduces specific amendments to the Securities Market Act and the Public Limited Companies Act.

  The legislation revises the independence requirements for auditors with regards to the entities which they audit and incorporates the principle of full liability of the auditor of the business group for the consolidated financial statements. It also strengthens the system of public supervision of account auditing by strengthening the functions of the ICAC (Institute of Accounting and Account Auditing) and, in general, evolves towards more harmonised accounting standards at a European level.

  With regard to the securities markets, the legislation provides that the Audit Committee of the entities issuing securities listed on official secondary markets must issue a non-binding report on the provision of additional services by external auditors or related persons. It also develops electronic forums for shareholders and shareholder associations, which are specific for each listed company, and which must be included in an administrative register of the CNMV, whose legal status is yet to be decided.

  This legislation also incorporates specific, yet very important, amendments to company law. Specifically, section 105 of the Public Limited Companies Act is amended, excluding the possibility that the Articles of Association may limit the maximum number of votes which can be issued by one shareholder or companies belonging to one group, with the clauses which directly or indirectly establish this limit becoming null and void. This amendment will enter into force twelve months following its publication in the official State Gazette (BOE).

- Commission Regulation (EU) No 583/2010 of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website.

  This regulation implements Directive 2009/65/EC on undertakings for collective investment in transferable securities, regulating the content and format of the information which must be provided to investors in UCITS. The Regulation provides for a common structure for all documents for easy understanding, and for this purpose, it establishes requirements relating to their format and presentation, the main elements of information to be disclosed, the methods that should be used etc. However, some aspects will be subject to subsequent regulation.

- Commission Regulation (EU) No 584/2010 of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards the form and content of the standard notification letter and UCITS attestation, the use of electronic communication between competent authorities for the purpose of notification, and procedures for on-the-spot verifications and investigations and the exchange of information between competent authorities.

  This Community Regulation implements Directive 2009/64, of 13 July, on undertakings for collective investment in transferable securities, according to which authorisation for marketing an UCITS in another Member State corresponds to the authority in the home Member State. Specifically, this regulation implements the notification procedure for marketing units of UCITS in a host Member State, and also establishes the additional procedures for promoting co-operation between Member States in supervising the cross-border activity of UCITS.

- Commission Directive 2010/42/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards certain provisions concerning fund mergers, master-feeder structures and notification procedure.

  A feeder UCITS is that which is authorised to invest at least 85% of its assets in the units of another UCITS or one of its compartments. This Directive details protection measures for investors as regards the master-feeder structures and defines the information disclosure obligations for both the master UCITS and the feeder UCITS. It also regulates the liquidation, merger and division of UCITS.

- Commission Directive 2010/43/EU of 1 July 2010 implementing Directive 2009/65/EC of the European Parliament and of the Council as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depositary and a management company.

  This Directive implements standards for UCITS, their management companies and depositaries regarding organisational requirements, conduct of business and conflicts of interest, essentially following the regulations for these aspects which already govern investment firms in accordance with MiFID (Directive 2004/39/EC). It also regulates the risk measurement techniques required from UCITS or their management companies, which must include both quantitative and qualitative measures. Specifically, the Directive obliges these institutions to apply suitable procedures to assess the value of over-the-counter derivatives.

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

  In accordance with the Act on structural amendments of companies, this legal text consolidates the regulatory laws for capital companies: the Code of Commerce (with regard to partnerships limited by shares), the Public Limited Companies Act, the Limited Liability Companies Act and the Securities Market Act (as regards Title X on listed public limited companies). It also systemises the aforesaid regulations resolving discrepancies or extending solutions originally established for only one type of capital company. This harmonisation is especially important with regard to the dissolution and liquidation of capital companies, in which the model of the limited liability company is followed. It also harmonises legislation regarding the authority of the General Meeting.

  It also establishes that listed companies have the right to be informed about the identity of their shareholders by the entities responsible for the book registration of the securities, without this right depending on a general meeting of shareholders being called.

- Resolution of 7 July 2010 of the Council of the National Securities Market Commission (CNMV), and amending the Regulations of the Internal Regime of the National Securities Market Commission.

  This rule refers to the internal organisation of the National Securities Market Commission. This latest reform reorganises the following functions:

  - The central and sole mission of the Investors' Department is now to service and process claims and enquiries from investors and now forms part of the Directorate-General of Legal Affairs. All tasks related to financial education are assigned to the Research, Statistics and Publications Department.

  - The Departments attached to the President and the Vice-President are reassigned. In addition to the Assistant to the President's Department, the Information Systems Department and the General Secretariat now report to the President. Under the supervision of the President, the following departments will report to the Vice-President: the International Relations Department and the Research, Statistics and Publications Department.

  - The regulation of the Cabinets of the President and of the Vice-President is amended as provided for in article 27.4, with the aim of moving towards having only one Cabinet.

  - Amendments are introduced to articles 32 and 41 with the aim of defining the functions of the Assistant to the President Department and the Internal Control Department regarding actions related to the risks which may affect the CNMV.

- Royal Decree-Act 11/2010, of 9 July, on governance bodies and other aspects of the legal regime of savings banks.

  The Royal Decree-Act introduces important amendments to the legal regime of savings banks. The main measures are as follows:

  - The shares issued by savings banks may confer voting rights on their holders. The volume of shares may not exceed 50% of the equity of each savings bank.

  - Savings banks are expressly allowed to perform their financial activity through banks which they control.

  - A savings bank may transform into a special foundation, maintaining the social work and transferring all its financial business to a bank.

  - Measures are adopted so as to professionalise the governance bodies of savings banks.

  - The regulation of institutional protection systems (SIP, *sistemas institucionales de protección*) is amended. The Bank of Spain must express a ruling in the event that a savings bank aims to disassociate itself from these integration processes.

  - In those cases in which the savings banks making up the institutional protection system could lose control of the core institution of the institutional protection system, the savings banks may convert into a special foundation and assign their banking businesses.

  - Finally, a tax regime reform is introduced so as to guarantee fiscal neutrality for the different models planned for savings banks.

- Commission Regulation (EU) No 632/2010 of 19 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 24 and International Financial Reporting Standard (IFRS) 8.

  The amendments of IAS 24 and IFRS 8 are incorporated into European Law. Particularly, the definition of related party is simplified and some relief for government-related entities in relation to the amount of information such entities need to provide in respect to related party transactions.

- Commission Regulation (EU) No 633/2010 of 19 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 14.

  This regulation amends the accounting treatment of certain requirements for defined benefit pensions.

- Commission Regulation (EU) No 662/2010 of 23 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 19 and International Financial Reporting Standard (IFRS) 1.

  This regulation incorporates into EU Law IFRIC Interpretation 19 relating to the accounting of equity instruments issued in full or partial settlement of a financial liability following renegotiation of the terms of the liability.

- Circular 1/2010, of 28 July, of the National Securities Market Commission on reserved information of investment services firms.

  Through this Circular, the CNMV defines the content of the periodic information which, relating to the provision of investment services and codes of conduct, firms which provide investment services (both investment services firms and credit institutions) must report annually.

  An important new aspect of this regulation is the repeal of the absolute ban on securities acquired by UCITS being deposited in omnibus accounts, thus amending Rule 12 of CNMV Circular 1/1998, of 10 June.

- Circular 4/2010, of 30 July, of the Bank of Spain, to credit institutions, on credit institution agents and agreements executed for regular provision of financial services.

  This Circular aims to revise the Bank of Spain Circular on credit institution agents following the amendments introduced in the Securities Market Act and, in particular, following subsection 6 of the new Section 65 bis therein. Accordingly, the Circular now also covers the persons who regularly, on behalf and for the account of credit institutions, acquire customers and promote and market activities regulated by the Securities Market Act.

V Statistics Annex

1 Markets

1.1 Equity

Share issues and public offerings[1]

TABLE 1.1

				2009		2010		
	2007	2008	2009	III	IV	I	II	III[2]
CASH VALUE[3] (Million euro)	69,955.5	16,349.3	11,390.7	1,087.1	2,311.3	241.5	5,115.3	2,322.5
Capital increases	67,887.0	16,339.7	11,388.7	1,087.1	2,309.4	241.5	4,580.9	2,322.5
Of which, primary offerings	8,502.7	292.0	17.4	7.0	10.3	14.8	923.7	6.0
With Spanish tranche	4,821.3	292.0	17.4	7.0	10.3	14.8	923.7	6.0
With international tranche	3,681.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	2,068.5	9.5	1.9	0.0	1.9	0.0	534.4	0.0
With Spanish tranche	1,517.1	9.5	1.9	0.0	1.9	0.0	534.4	0.0
With international tranche	551.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NOMINAL VALUE (Million euro)	6,441.5	1,835.8	1,892.1	142.1	182.8	143.8	2,851.9	2,234.5
Capital increases	6,358.4	1,835.7	1,892.0	142.1	182.7	143.8	2,851.9	2,234.5
Of which, primary offerings	1,122.9	100.0	0.1	0.0	0.1	0.1	0.2	0.7
With Spanish tranche	676.0	100.0	0.1	0.0	0.1	0.1	0.2	0.7
With international tranche	446.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	83.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
With Spanish tranche	46.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0
With international tranche	37.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF FILES[4]	100	54	53	11	19	10	18	12
Capital increases	91	53	53	11	19	10	17	12
Of which, primary offerings	8	2	2	1	1	2	4	2
Of which, bonus issues	19	18	11	4	3	1	4	3
Secondary offerings	12	2	1	0	1	0	2	0
NO. OF ISSUERS[4]	57	39	34	9	16	10	13	10
Capital increases	52	38	34	9	16	10	13	10
Of which, primary offerings	6	2	2	1	1	2	4	2
Secondary offerings	8	2	1	0	1	0	1	0

1 Includes registered offerings with issuance prospectuses and listings admitted to trading without register issuance prospectuses.
2 Available data: August 2010.
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

				2009		2010		
Million euro	2007	2008	2009	III	IV	I	II	III[1]
PRIMARY OFFERINGS	8,502.7	292.0	17.4	7.0	10.3	14.8	923.7	6.0
Spanish tranche	4,646.2	282.0	17.4	7.0	10.3	14.8	923.7	6.0
Private subscribers	2,841.0	191.5	0.0	0.0	0.0	0.0	0.0	2.5
Institutional subscribers	1,805.2	90.5	17.4	7.0	10.3	14.8	923.7	3.5
International tranche	3,681.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employees	175.2	10.0	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
SECONDARY OFFERINGS	2,068.5	9.5	1.9	0.0	1.9	0.0	534.4	0.0
Spanish tranche	1,505.7	9.5	1.9	0.0	1.9	0.0	534.4	0.0
Private subscribers	393.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	1,111.8	9.5	1.9	0.0	1.9	0.0	534.4	0.0
International tranche	551.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Employees	11.4	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

1 Available data: August 2010.

Companies listed[1]

TABLE 1.3

	2007	2008	2009	2009 III	IV	2010 I	II	III[2]
Total electronic market[3]	143	136	133	133	133	132	131	129
Of which, without Nuevo Mercado	142	136	133	133	133	132	131	129
Of which, Nuevo Mercado	1	0	0	0	0	0	0	0
Of which, foreign companies	5	5	5	5	5	5	5	5
Second Market	11	8	7	7	7	6	6	6
Madrid	2	2	2	2	2	2	2	2
Barcelona	9	6	5	5	5	4	4	4
Bilbao	0	0	0	0	0	0	0	0
Valencia	0	0	0	0	0	0	0	0
Open outcry ex SICAV	31	29	29	29	29	29	28	28
Madrid	13	13	13	13	13	13	13	13
Barcelona	20	19	19	19	19	19	18	18
Bilbao	9	8	8	8	8	8	8	8
Valencia	9	7	6	6	6	6	6	6
Open outcry SICAV	8	3	1	2	1	1	1	1
MAB[4]	3,287	3,347	3,251	3,277	3,251	3,213	3,193	3,191
Latibex	34	35	32	33	32	32	32	32

1 Data at the end of period.
2 Available data: August 2010.
3 Without ETF (Exchange Traded Funds).
4 Alternative Stock Market.

Capitalisation[1]

TABLE 1.4

Million euro	2007	2008	2009	2009 III	IV	2010 I	II	III[2]
Total electronic market[3]	892,053.8	531,194.2	639,087.1	623,810.3	639,087.1	590,182.8	506,500.6	547,129.8
Of which, without Nuevo Mercado	891,875.7	531,194.2	639,087.1	623,810.3	639,087.1	590,182.8	506,500.6	547,129.8
Of which, Nuevo Mercado	178.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies[4]	134,768.6	61,317.5	94,954.0	80,146.3	94,954.0	92,275.8	76,530.8	77,999.6
Ibex 35	524,651.0	322,806.6	404,997.3	401,655.7	404,997.3	376,747.6	321,072.6	353,549.3
Second Market	286.8	109.9	80.9	82.9	80.9	69.1	66.4	77.4
Madrid	27.8	22.8	24.9	24.9	24.9	23.4	24.8	27.5
Barcelona	259.0	87.1	56.0	58.0	56.0	45.7	41.5	49.9
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 SICAV	7,444.9	5,340.7	4,226.5	4,278.8	4,226.5	4,159.1	4,065.6	3,981.4
Madrid	1,840.6	1,454.7	997.3	1,091.0	997.3	958.0	920.7	913.5
Barcelona	4,627.8	3,580.2	3,400.6	3,501.8	3,400.6	3,336.4	3,276.0	3,274.8
Bilbao	108.2	45.9	435.4	338.9	435.4	433.4	386.9	386.9
Valencia	1,206.5	760.4	559.2	526.9	559.2	554.8	543.4	487.6
Open outcry SICAV[5]	204.9	126.8	28.5	94.3	28.5	28.9	31.1	30.1
MAB[5,6]	31,202.5	24,718.6	26,490.7	26,318.9	26,490.7	26,948.4	25,763.3	26,021.3
Latibex	427,773.6	210,773.5	412,628.9	360,557.7	412,628.9	437,016.7	405,461.9	397,886.4

1 Data at the end of period.
2 Available data: August 2010.
3 Without ETF (Exchange Traded Funds).
4 Foreign companies capitalisation includes their entire shares, whether they are deposited in Spain or not.
5 It is only calculated with outstanding shares, but not with treasury shares, because they only report the capital stock at the end of the year.
6 Alternative Stock Market.

Trading

TABLE 1.5

Million euro	2007	2008	2009	2009 III	IV	2010 I	II	III[1]
Total electronic market[2]	1,653,354.8	1,228,392.4	877,073.5	214,547.9	256,295.3	226,191.0	294,779.6	150,744.8
Of which, without Nuevo Mercado	1,627,369.5	1,228,380.9	877,073.5	214,547.9	256,295.3	226,191.0	294,779.6	150,744.8
Of which, Nuevo Mercado	25,985.3	11.4	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies	7,499.3	1,407.1	4,750.4	1,616.9	1,573.3	1,704.5	2,294.1	866.7
Second Market	192.9	31.7	3.2	0.2	0.4	0.3	0.9	0.5
Madrid	8.9	3.4	2.0	0.2	0.4	0.3	0.6	0.5
Barcelona	182.3	28.3	1.2	0.0	0.0	0.0	0.2	0.0
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAV	792.7	182.1	52.8	6.1	10.4	14.1	8.9	51.7
Madrid	236.1	73.9	16.5	1.8	1.3	1.2	4.5	8.4
Barcelona	402.8	103.6	29.4	3.2	9.0	9.1	4.3	43.2
Bilbao	0.1	0.1	1.1	1.1	0.0	3.9	0.0	0.0
Valencia	153.8	4.5	5.9	0.0	0.1	0.0	0.2	0.0
Open outcry SICAV	361.6	25.3	19.7	7.9	1.7	3.3	3.8	0.1
MAB[3]	6,985.2	7,060.3	5,080.1	1,248.8	1,544.4	1,089.0	1,143.6	478.8
Latibex	868.2	757.7	434.7	110.1	120.0	146.5	162.1	67.8

1 Available data: August 2010.

2 Without ETF (Exchange Traded Funds).

3 Alternative Stock Market.

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

TABLE 1.6

Million euro	2007	2008	2009	2009 III	IV	2010 I	II	III[2]
Regular trading	1,577,249.5	1,180,835.9	833,854.9	204,427.1	243,475.3	218,800.9	282,043.0	142,176.6
Orders	985,087.6	774,718.1	499,182.8	122,153.3	129,372.8	135,802.4	161,849.1	74,004.4
Put-throughs	155,085.1	105,673.9	51,335.8	12,043.7	15,150.6	14,134.7	16,114.0	8,757.5
Block trades	437,076.8	300,443.9	283,336.3	70,230.1	98,952.0	68,863.7	104,079.8	59,414.7
Off-hours	18,301.5	10,175.2	5,996.6	1,379.4	4,253.2	3,481.0	5,731.2	4,599.4
Authorised trades	4,189.6	3,183.2	4,695.6	443.6	789.1	246.2	1,188.4	170.2
Art. 36.1 SML trades	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tender offers	26,284.3	17,461.2	7,188.9	100.0	3.6	0.0	273.1	38.8
Public offerings for sale	11,177.4	292.0	1,325.0	0.0	0.0	0.0	1,448.2	0.0
Declared trades	2,954.4	1,066.8	5,202.6	4,394.0	9.0	0.0	0.7	2,272.7
Options	10,240.4	9,661.9	11,443.2	1,953.7	5,063.3	1,741.6	2,487.4	360.5
Hedge transactions	2,957.8	5,716.3	7,366.7	1,850.1	2,701.8	1,921.4	1,607.6	1,126.7

1 Without ETF (Exchange Traded Funds).

2 Available data: August 2010.

Margin trading for sales and securities lending

TABLE 1.7

Million euro	2007	2008	2009	2009 III	IV	2010 I	II	III[1]
TRADING								
Securities lending[2]	835,326.9	583,950.8	471,007.1	111,062.6	159,073.2	116,966.4	161,045.4	100,807.7
Margin trading for sales of securities[3]	555.4	624.9	704.3	180.6	153.0	153.6	158.8	102.7
Margin trading for securities purchases[3]	411.3	154.7	106.4	32.0	21.5	19.0	17.0	9.1
OUTSTANDING BALANCE								
Securities lending[2]	79,532.9	43,647.8	47,322.2	42,993.7	47,322.2	42,162.6	39,413.7	38,675.5
Margin trading for sales of securities[3]	112.4	20.7	21.1	63.1	21.1	18.7	13.7	17.3
Margin trading for securities purchases[3]	59.4	7.0	5.6	7.4	5.6	4.8	5.0	3.5

1 Available data: August 2010.

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

	2007	2008	2009	2009 III	2009 IV	2010 I	2010 II	2010 III[2]
NO. OF ISSUERS	173	179	168	58	69	36	58	26
Mortgage covered bonds	10	19	27	11	16	9	18	10
Territorial covered bonds	4	7	1	0	0	2	3	1
Non-convertible bonds and debentures	41	30	50	22	30	16	24	10
Convertible bonds and debentures	0	1	3	2	1	0	0	0
Backed securities	77	88	68	15	13	5	9	5
Commercial paper	80	77	69	11	26	13	18	8
Of which, asset-backed	3	2	2	0	1	0	1	0
Of which, non-asset-backed	77	75	67	11	25	13	17	8
Other fixed-income issues	2	0	0	0	0	0	0	0
Preference shares	5	8	23	8	1	0	0	0
NO. OF ISSUES	335	337	512	103	118	70	121	45
Mortgage covered bonds	32	47	75	13	20	11	32	15
Territorial covered bonds	8	8	1	0	0	2	4	1
Non-convertible bonds and debentures	79	76	244	51	56	39	58	16
Convertible bonds and debentures	0	1	6	3	2	0	0	0
Backed securities	101	108	76	16	13	5	9	5
Commercial paper	107	88	73	11	26	13	18	8
Of which, asset-backed	3	2	2	0	1	0	1	0
Of which, non-asset-backed	104	86	71	11	25	13	17	8
Other fixed-income issues	3	0	0	0	0	0	0	0
Preference shares	5	9	37	9	1	0	0	0
NOMINAL AMOUNT (Million euro)	648,757.0	476,275.7	387,475.8	66,721.8	74,198.8	51,667.5	57,409.7	43,961.6
Mortgage covered bonds	24,695.5	14,300.0	35,573.9	3,870.0	11,055.0	4,650.0	10,892.4	4,950.0
Territorial covered bonds	5,060.0	1,820.0	500.0	0.0	0.0	400.0	4,700.0	300.0
Non-convertible bonds and debentures	27,416.0	10,489.6	62,249.0	6,138.1	12,370.1	8,732.8	6,811.4	1,231.5
Convertible bonds and debentures	0.0	1,429.1	3,200.0	2,200.0	700.0	0.0	0.0	0.0
Backed securities	141,627.0	135,252.5	81,651.2	12,956.3	10,301.2	2,875.0	15,698.5	25,589.7
Spanish tranche	94,049.0	132,730.1	77,289.4	11,750.6	9,696.5	2,875.0	15,205.0	25,589.7
International tranche	47,578.0	2,522.4	4,361.9	1,205.7	604.7	0.0	493.5	0.0
Commercial paper[3]	442,433.5	311,738.5	191,341.7	40,340.4	39,752.6	35,009.7	19,307.5	11,890.4
Of which, asset-backed	464.8	2,843.1	4,758.4	952.8	1,245.0	995.0	930.0	1,133.0
Of which, non-asset-backed	441,968.7	308,895.4	186,583.3	39,387.6	38,507.6	34,014.7	18,377.5	10,757.4
Other fixed-income issues	7,300.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	225.0	1,246.0	12,960.0	1,217.0	20.0	0.0	0.0	0.0
Pro memoria:								
Subordinated issues	47,158.3	12,949.5	20,988.5	4,679.0	2,254.1	3,284.0	1,983.5	832.5
Underwritten issues	86,161.1	9,169.5	4,793.8	1,450.0	784.8	299.0	0.0	0.0

1 Includes issuance and trading prospectuses.
2 Available data: August 2010.
3 The figures for commercial paper refer to the amount placed in the year.

Issues admitted to trading on AIAF

TABLE 1.9

Nominal amount in million euro	2007	2008	2009	2009 III	2009 IV	2010 I	2010 II	2010 III[1]
Total	640,096.2	476,710.4	388,455.0	80,868.2	68,506.9	56,552.9	53,030.8	51,915.4
Commercial paper	439,787.3	314,417.4	191,427.7	41,194.3	37,110.1	37,414.8	18,699.8	13,295.1
Bonds and debentures	30,006.9	10,040.3	61,862.5	9,304.6	11,959.7	8,283.1	7,392.1	1,486.1
Mortgage covered bonds	27,195.5	14,150.0	35,568.9	5,820.0	11,200.0	4,775.0	9,820.0	6,000.0
Territorial covered bonds	7,450.0	1,930.0	500.0	0.0	0.0	125.0	4,975.0	300.0
Backed securities	135,149.5	135,926.6	85,542.9	16,041.6	7,495.2	5,855.0	12,144.0	30,834.2
Preference shares	507.0	246.0	13,552.9	8,507.7	742.0	100.0	0.0	0.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2010.

AIAF. Issuers, issues and outstanding balance

TABLE 1.10

				2009		2010		
	2007	2008	2009	III	IV	I	II	III[1]
NO. OF ISSUERS	492	556	614	610	614	618	618	627
Commercial paper	73	72	67	70	67	66	63	64
Bonds and debentures	92	93	91	91	91	92	91	91
Mortgage covered bonds	14	22	29	26	29	30	31	31
Territorial covered bonds	7	11	11	11	11	11	11	11
Backed securities	316	383	442	439	442	445	447	454
Preference shares	50	52	60	60	60	61	60	60
Matador bonds	15	12	12	12	12	12	12	12
NO. OF ISSUES	4,314	4,639	4,084	4,218	4,084	4,062	3,773	3,662
Commercial paper	2,493	2,489	1,507	1,696	1,507	1,464	1,144	1,012
Bonds and debentures	445	450	611	577	611	625	646	646
Mortgage covered bonds	111	146	202	192	202	210	220	234
Territorial covered bonds	19	26	25	25	25	23	24	25
Backed securities	1,157	1,436	1,629	1,624	1,629	1,630	1,630	1,637
Preference shares	71	78	96	90	96	96	95	94
Matador bonds	18	14	14	14	14	14	14	14
OUTSTANDING BALANCE[2] (Million euro)	758,559.8	819,637.7	870,981.1	887,608.4	870,981.1	866,273.2	839,512.9	862,297.7
Commercial paper	98,467.6	71,762.2	41,647.0	54,560.4	41,647.0	45,347.2	32,547.3	28,112.6
Bonds and debentures	139,586.3	122,001.9	150,886.3	143,761.9	150,886.3	152,333.9	148,723.1	146,943.8
Mortgage covered bonds	150,905.5	162,465.5	185,343.8	183,686.9	185,343.8	186,018.8	183,028.7	188,878.7
Territorial covered bonds	16,375.0	17,030.0	16,030.0	16,030.0	16,030.0	15,725.0	18,350.0	18,650.0
Backed securities	328,924.6	422,010.7	442,831.5	454,922.0	442,831.5	432,505.7	422,610.5	446,459.3
Preference shares	23,062.6	23,308.6	33,183.8	33,588.4	33,183.8	33,283.8	33,194.5	32,194.5
Matador bonds	1,238.2	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8

1 Available data: August 2010.

2 Nominal amount.

AIAF. Trading

TABLE 1.11

				2009		2010		
Nominal amount in million euro	2007	2008	2009	III	IV	I	II	III[1]
BY TYPE OF ASSET	1,127,477.7	2,521,040.1	4,658,633.2	946,141.6	1,008,622.5	655,522.1	827,201.7	666,338.0
Commercial paper	568,009.6	591,943.8	533,331.0	125,139.0	111,412.5	116,534.6	103,792.8	59,626.0
Bonds and debentures	87,035.7	80,573.8	321,743.0	83,499.1	108,864.2	158,121.4	222,442.8	117,961.4
Mortgage covered bonds	80,811.2	129,995.3	263,150.0	59,334.2	50,553.9	20,802.8	67,917.3	68,321.0
Territorial covered bonds	7,749.8	10,142.3	7,209.0	1,584.0	781.1	889.3	8,436.1	2,641.7
Backed securities	378,005.2	1,704,341.8	3,527,486.4	675,114.4	735,745.7	357,996.5	423,251.4	417,103.7
Preference shares	4,492.4	4,030.0	5,668.5	1,470.9	1,262.6	1,176.7	1,218.4	683.9
Matador bonds	1,373.8	13.2	45.2	0.0	2.5	0.9	143.0	0.2
BY TYPE OF TRANSACTION	1,127,477.7	2,521,040.1	4,658,633.2	946,141.6	1,008,622.5	655,522.1	827,201.7	666,338.0
Outright	416,477.9	387,897.1	378,348.4	64,565.1	86,264.0	82,774.2	81,767.7	32,516.6
Repos	441,362.7	381,505.0	362,068.7	94,429.8	83,265.5	88,416.1	82,787.8	46,193.2
Sell-buybacks/Buy-sellbacks	269,637.1	1,751,638.0	3,918,216.1	787,146.7	839,093.0	484,331.9	662,646.2	587,628.1

1 Available data: August 2010.

AIAF. Third-party trading. By purchaser sector

TABLE 1.12

				2009		2010		
Nominal amount in million euro	2007	2008	2009	III	IV	I	II	III[1]
Total	837,308.5	744,652.5	681,946.6	148,153.9	158,437.3	162,210.3	149,135.7	75,932.8
Non-financial companies	364,490.6	285,044.4	256,224.6	60,996.6	49,251.8	49,505.8	42,315.5	24,921.7
Financial institutions	282,816.9	334,851.6	298,909.1	63,803.2	72,792.9	75,137.6	78,273.1	42,125.3
Credit institutions	99,492.0	130,056.0	125,547.5	17,547.5	27,731.9	24,254.8	26,236.4	12,943.5
IIC [2], insurance and pension funds	152,429.2	154,709.8	115,865.3	31,404.8	29,611.2	35,927.1	36,015.3	19,126.6
Other financial institutions	30,895.6	50,085.8	57,496.3	14,850.9	15,449.8	14,955.7	16,021.4	10,055.2
General government	7,762.4	6,331.2	5,808.5	1,267.5	900.1	1,222.0	1,425.4	122.6
Households and NPISHs[3]	28,534.8	13,344.0	14,647.8	2,026.9	6,031.8	6,377.6	3,090.8	1,597.4
Rest of the world	153,703.8	105,081.2	106,356.6	20,059.7	29,460.8	29,967.2	24,030.8	7,165.9

1 Available data: August 2010.

2 IIC: 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

				2009		2010		
	2007	2008	2009	III	IV	I	II	III[2]
NOMINAL AMOUNTS (Million euro)	9,020.3	3,390.6	5,866.8	500.0	4,056.0	200.0	200.0	0.0
Non-convertible bonds and debentures	0.0	0.0	0.0	0.0	0.0	200.0	200.0	0.0
Convertible bonds and debentures	0.0	0.0	4,510.8	500.0	2,700.0	0.0	0.0	0.0
Backed securities	2,020.3	3,390.6	1,356.0	0.0	1,356.0	0.0	0.0	0.0
Others	7,000.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF ISSUES	16	33	10	1	8	3	4	0
Non-convertible bonds and debentures	0	0	0	0	0	3	4	0
Convertible bonds and debentures	0	0	4	1	2	0	0	0
Backed securities	15	33	6	0	6	0	0	0
Others	1	0	0	0	0	0	0	0

1 Private issuers. Includes issuance and trading prospectuses.

2 Available data: August 2010.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.14

				2009		2010		
	2007	2008	2009	III	IV	I	II	III[1]
NO. OF ISSUERS	53	58	62	58	62	61	62	62
Private issuers	40	45	48	45	48	47	48	48
Non-financial companies	6	5	6	6	6	5	5	5
Financial institutions	34	40	42	39	42	42	43	43
General government[3]	13	13	14	13	14	14	14	14
Regional governments	3	3	3	3	3	3	3	3
NO. OF ISSUES	249	271	269	263	269	260	258	259
Private issuers	133	157	155	149	155	152	151	150
Non-financial companies	12	9	10	10	10	8	8	8
Financial institutions	121	148	145	139	145	144	143	142
General government[3]	116	114	114	114	114	108	107	109
Regional governments	83	82	76	80	76	69	68	70
OUTSTANDING BALANCES[2] (Million euro)	25,654.7	29,142.6	36,299.5	31,571.0	36,299.5	36,329.8	36,674.9	36,885.5
Private issuers	14,958.1	17,237.9	21,600.9	17,914.3	21,600.9	21,083.8	19,462.5	19,222.5
Non-financial companies	452.5	381.0	1,783.7	1,691.7	1,783.7	1,778.2	377.3	377.1
Financial institutions	14,505.6	16,856.9	19,817.2	16,222.6	19,817.2	19,305.6	19,085.2	18,845.4
General government[3]	10,696.6	11,904.7	14,698.6	13,656.7	14,698.6	15,246.0	17,212.3	17,663.0
Regional governments	8,862.6	9,972.5	12,338.3	11,577.3	12,338.3	12,836.3	14,803.4	15,254.1

1 Available data: August 2010.

2 Nominal amount.

3 Without public book-entry debt.

Trading on equity markets

TABLE 1.15

				2009		2010		
Nominal amounts in million euro	2007	2008	2009	III	IV	I	II	III[1]
Electronic market	448.9	1,580.1	633.0	138.1	279.6	83.8	207.1	56.2
Open outcry	7,154.3	7,842.1	4,008.4	299.6	2,892.5	328.9	1,404.5	984.2
Madrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	7,040.1	7,674.9	3,821.1	273.5	2,798.4	101.5	1,373.0	924.7
Bilbao	7.5	6.1	4.6	0.6	0.8	0.8	0.7	0.2
Valencia	106.7	161.1	182.7	25.5	92.4	226.6	30.9	59.3
Public book-entry debt	33.6	46.2	49.1	11.2	9.6	11.8	304.0	4.7
Regional governments debt	83,967.7	71,045.0	70,065.8	16,815.4	15,216.3	18,577.3	12,510.5	8,758.8

1 Available data: August 2010.

Organised trading systems: SENAF y MTS. Public debt trading by type								TABLE 1.16
				2009		2010		
Nominal amounts in million euro	2007	2008	2009	III	IV	I	II	III[1]
Total	174,046.3	132,327.4	202,120.5	55,827.0	65,944.6	83,724.5	64,903.8	55,324.5
Outright	134,147.0	89,010.5	114,314.0	36,141.0	50,843.5	53,396.0	19,326.0	9,669.0
Sell-buybacks/Buy-sellbacks	39,899.3	43,316.9	86,806.5	19,211.0	14,576.1	29,997.5	45,536.8	45,655.5
Others	0.0	0.0	1,000.0	475.0	525.0	331.0	41.0	0.0

1 Available data: August 2010.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF								TABLE 1.17
				2009		2010		
Number of contracts	2007	2008	2009	III	IV	I	II	III[1]
Debt products	13	12	18	4	4	4	4	0
Debt futures[2]	13	12	18	4	4	4	4	0
Ibex 35 products[3,4]	9,288,909	8,433,963	6,187,544	1,503,939	1,499,223	1,635,380	2,279,397	977,944
Ibex 35 plus futures	8,435,258	7,275,299	5,436,989	1,321,524	1,323,307	1,467,635	2,053,136	898,752
Ibex 35 mini futures	286,574	330,042	314,829	85,642	69,660	87,166	128,596	48,082
Call mini options	227,535	323,874	230,349	59,988	53,552	35,979	33,861	14,252
Put mini options	339,542	504,749	205,377	36,785	52,704	44,600	63,804	16,858
Stock products[5]	34,887,808	64,554,817	80,114,693	20,467,870	16,243,034	13,957,914	12,831,247	6,276,879
Futures	21,294,315	46,237,568	44,586,779	11,674,200	5,501,720	4,136,308	3,927,137	1,417,885
Call options	6,775,525	7,809,423	18,864,840	5,103,159	6,046,542	4,357,759	4,164,723	2,641,331
Put options	6,817,968	10,507,826	16,663,074	3,690,511	4,694,772	5,463,847	4,739,387	2,217,663
Pro-memoria: MEFF trading on Eurex								
Debt products[6]	1,059,113	869,105	558,848	90,935	138,338	137,861	103,847	35,671
Index products[7]	1,371,250	1,169,059	835,159	128,087	208,726	212,055	165,818	54,784

1 Available data: August 2010.
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

				2009		2010		
	2007	2008	2009	III	IV	I	II	III[1]
WARRANTS[2]								
Premium amount (Million euro)	8,920.3	12,234.4	5,165.1	1,439.7	1,252.0	1,324.5	1,602.0	366.1
On stocks	6,215.1	6,914.1	2,607.1	755.6	525.7	699.4	829.8	160.0
On indexes	2,311.2	4,542.8	2,000.1	559.3	614.4	491.5	613.0	187.2
Other underlyings[3]	394.0	777.5	558.0	124.9	111.9	133.6	159.3	18.9
Number of issues	7,005	9,790	7,342	2,099	1,616	2,164	2,417	561
Number of issuers	7	8	9	9	6	7	8	4
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (Million euro)	151.0	77.0	35.0	0.0	35.0	5.0	32.0	20.0
On stocks	145.0	77.0	25.0	0.0	25.0	5.0	32.0	10.0
On indexes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other underlyings[3]	6.0	0.0	10.0	0.0	10.0	0.0	0.0	10.0
Number of issues	9	4	3	0	3	1	3	2
Number of issuers	3	1	1	0	1	1	1	1

1 Available data: August 2010.

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

				2009		2010		
	2007	2008	2009	III	IV	I	II	III[1]
WARRANTS								
Trading (Million euro)	5,129.6	2,943.7	1,768.4	407.0	382.0	335.5	503.6	263.8
On Spanish stocks	3,200.7	1,581.9	809.9	203.3	170.7	144.8	235.9	137.4
On foreign stocks	474.2	145.7	97.6	28.3	25.6	14.4	20.8	5.6
On indexes	1,376.6	1,063.3	761.2	158.9	160.4	159.9	229.6	108.7
Other underlyings[2]	78.1	152.8	99.7	16.5	25.2	16.4	17.3	12.1
Number of issues[3]	7,837	9,770	8,038	3,086	3,038	3,066	3,489	2,406
Number of issuers[3]	9	10	10	10	10	9	8	9
CERTIFICATES								
Trading (Million euro)	49.8	16.8	39.2	13.4	9.7	6.5	4.1	7.1
Number of issues[3]	14	26	22	16	16	15	14	13
Number of issuers[3]	5	4	4	2	2	2	2	2
ETF								
Trading (Million euro)	4,664.5	6,938.1	3,470.6	856.9	1,092.8	1,675.4	2,715.1	560.7
Number of funds	21	30	32	32	32	32	32	43
Assets[4] (Million euro)	885.8	1,630.3	1,648.4	1,510.5	1,648.4	1,452.8	986.6	n.a.

1 Available data: August 2010.

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

				2009		2010		
Number of contracts	2007	2008	2009	III	IV	I	II	III[2]
On olive oil								
Extra-virgin olive oil futures[3]	46,405	48,091	135,705	36,455	42,310	27,325	52,695	31,965

1 Olive oil futures market.

2 Available data: August 2010.

3 Nominal amount of the contract: 1,000 kg.

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

	2007	2008	2009	2009 III	IV	2010 I	II	III[1]
BROKER-DEALERS								
Spanish firms	46	51	50	50	50	50	51	51
Branches	102	79	78	77	78	79	79	78
Agents	6,657	6,041	6,102	5,991	6,102	6,183	6,284	6,345
BROKERS								
Spanish firms	53	50	50	49	50	52	48	47
Branches	12	9	9	9	9	9	8	7
Agents	625	639	638	629	638	691	662	664
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	11	10	9	9	9	9	8	8
Branches	4	4	5	5	5	5	5	5
Agents	6	6	5	5	5	5	4	4
FINANCIAL ADVISORY FIRMS[2]								
Spanish firms	-	-	16	6	16	26	36	40
CREDIT INSTITUTIONS[3]								
Spanish firms	201	195	193	194	193	194	193	189

1 Available data: August 2010.

2 New type of investment services company, created by Law 47/2008, of 19 December, which modifies Law 24/1988, of 28 July, on the Securities Market, and regulated by Circular CR CNMV 10/2008, of 30 December.

3 Source: Banco de España.

Investment services. Foreign firms

TABLE 2.2

	2007	2008	2009	2009 III	IV	2010 I	II	III[1]
Total	1,766	2,232	2,346	2,363	2,346	2,443	2,496	2,521
European Economic Area investment services firms	1,394	1,818	1,922	1,945	1,922	2,011	2,065	2,090
Branches	29	37	36	36	36	35	39	40
Free provision of services	1,365	1,781	1,886	1,909	1,886	1,976	2,026	2,050
Credit institutions[2]	372	414	424	418	424	432	431	431
From EU member states	363	405	414	408	414	422	421	421
Branches	52	56	53	54	53	54	56	56
Free provision of services	310	348	360	353	360	367	364	364
Subsidiaries of free provision of services institutions	1	1	1	1	1	1	1	1
From non-EU states	9	9	10	10	10	10	10	10
Branches	8	8	8	8	8	8	8	8
Free provision of services	1	1	2	2	2	2	2	2

1 Available data: August 2010.

2 Source: Banco de España and CNMV.

Intermediation of spot transactions[1]

TABLE 2.3

Million euro	II 2009 Spanish organised markets	II 2009 Other Spanish markets	II 2009 Foreign markets	II 2009 Total	II 2010 Spanish organised markets	II 2010 Other Spanish markets	II 2010 Foreign markets	II 2010 Total
FIXED-INCOME								
Total	139,919	2,715,331	147,760	3,003,010	165,026	1,949,955	124,424	2,239,405
Broker-dealers	129,607	44,188	44,200	217,995	146,195	74,250	42,032	262,477
Brokers	10,312	2,671,143	103,560	2,785,015	18,831	1,875,705	82,392	1,976,928
EQUITY								
Total	263,726	1,442	20,228	285,396	298,855	1,310	27,329	327,494
Broker-dealers	245,041	1,174	18,341	264,556	293,039	1,119	26,120	320,278
Brokers	18,685	268	1,887	20,840	5,816	191	1,209	7,216

1 Period accumulated data.

Intermediation of derivative transactions[1,2]

TABLE 2.4

	II 2009				II 2010			
Million euro	Spanish organised markets	Foreign organised markets	Non-organised markets	Total	Spanish organised markets	Foreign organised markets	Non-organised markets	Total
Total	535,202	1,279,602	895,035	2,709,839	1,263,917	2,501,023	786,422	4,551,362
Broker-dealers	486,357	1,067,051	13,130	1,566,538	1,255,305	2,056,111	636,811	3,948,227
Brokers	48,845	212,551	881,905	1,143,301	8,612	444,912	149,611	603,135

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.

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

TABLE 2.5

	II 2009			II 2010		
	Total	IIC[2]	Other[3]	Total	IIC[2]	Other[3]
NUMBER OF PORTFOLIOS						
Total	12,599	88	12,511	13,259	131	13,128
Broker-dealers	6,806	17	6,789	7,640	62	7,578
Brokers	3,228	41	3,187	3,282	48	3,234
Portfolio management companies	2,565	30	2,535	2,337	21	2,316
ASSETS UNDER MANAGEMENT (Thousand euro)						
Total	8,033,203	569,968	7,463,236	10,060,796	964,697	9,096,098
Broker-dealers	3,272,765	122,517	3,150,248	4,127,392	509,496	3,617,896
Brokers	1,887,970	266,807	1,621,163	2,381,946	354,421	2,027,524
Portfolio management companies	2,872,468	180,644	2,691,825	3,551,458	100,780	3,450,678

1 Data at the end of period.

2 IIC: Instituciones de Inversión Colectiva / CIS: Collective Investment Schemes.

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.

Aggregated income statement. Broker-dealers[1]

TABLE 2.6

				2009		2010		
Thousand euro[2]	2007	2008	2009	III	IV	I	II	III[3]
I. Interest income	-29,968	109,682	163,202	132,653	163,202	7,810	43,915	62,033
II. Net commission	893,803	674,204	529,792	389,667	529,792	131,174	279,871	319,864
Commission revenues	1,181,772	943,619	781,555	578,824	781,555	195,160	423,657	486,383
Brokering	775,418	648,036	548,951	404,912	548,951	137,816	306,583	349,507
Placement and underwriting	62,145	42,502	25,726	23,616	25,726	772	2,906	3,449
Securities deposit and recording	25,351	21,198	16,183	11,993	16,183	4,054	11,218	13,109
Portfolio management	29,649	17,306	11,543	7,403	11,543	3,043	6,366	7,625
Design and advising	65,083	56,671	60,392	43,552	60,392	14,069	27,094	31,641
Stocks search and placement	9	12	10	6	10	7	7	36
Market credit transactions	23	19	14	11	14	2	5	5
IIC marketing[4]	138,481	91,167	63,296	44,368	63,296	16,388	32,261	37,609
Other	85,613	66,708	55,440	42,963	55,440	19,009	37,217	43,403
Commission expenses	287,969	269,415	251,763	189,157	251,763	63,986	143,785	166,519
III. Financial investment income[5]	-239,572	800,194	43,855	56,609	43,855	-4,943	76,990	54,588
IV. Net exchange differences and other operating products and expenses	486,643	-626,527	21,582	1,697	21,582	41,152	-36,773	-27,317
V. Gross income	1,110,906	957,553	758,431	580,626	758,431	175,192	364,004	409,167
VI. Operating income	587,354	434,209	275,747	210,563	275,747	72,507	149,310	158,312
VII. Earnings from continuous activities	540,390	365,374	260,458	264,988	260,458	64,583	132,181	138,446
VIII. Net earnings of the period	540,390	367,665	260,458	264,988	260,458	64,583	132,181	138,446

1 From IV quarter 2008 on data come from information sent to the CNMV by investment services companies (ESIs) according to the new accounting regulation CR CNMV 7/2008. With the aim of keeping the continuity of time series, some changes have been introduced in previous quarters.

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

3 Available data: July 2010.

4 Before IV quarter 2008 it refers to "IIC subscription and redemption".

5 Previously named "Net income from securities trading". Does not include provisions for losses in value of securities portfolio, nor their recovering and application. These items are included in "Operating income".

Results of proprietary trading. Broker-dealers[1]

TABLE 2.7

Thousand euro[4]	Total		Interest income		Financial investment income[2]		Exchange differences and other items[3]	
	II 2009	II 2010	II 2009	II 2010	II 2009	II 2010	II 2009	II 2010
Total	149,743	87,568	98,211	43,915	51,163	76,990	369	-33,338
Money market assets and public debt	4,401	6,456	522	2,376	3,879	4,080	-	-
Other fixed-income securities	-176,906	44,174	59,975	9,514	-236,881	34,660	-	-
Domestic portfolio	-173,105	40,445	58,654	8,737	-231,759	31,708	-	-
Foreign portfolio	-3,801	3,729	1,320	777	-5,121	2,952	-	-
Equities	482,979	-19,537	39,017	34,049	443,962	-53,586	-	-
Domestic portfolio	79,019	-57,245	19,161	24,238	59,857	-81,483	-	-
Foreign portfolio	403,961	37,709	19,855	9,811	384,105	27,898	-	-
Derivatives	-154,252	64,524	-	-	-154,252	64,524	-	-
Repurchase agreements	-13,246	-1,115	-13,246	-1,115	-	-	-	-
Market credit transactions	0	0	0	0	-	-	-	-
Deposits and other transactions with financial Intermediaries	955	-1,222	955	-1,222	-	-	-	-
Net exchange differences	-5,750	-38,210	-	-	-	-	-5,750	-38,210
Other operating products and expenses	6,132	1,437	-	-	-	-	6,132	1,437
Other transactions	5,429	31,061	10,988	313	-5,546	27,312	-14	3,435

1 Data come from information sent to the CNMV by investment services companies (ESI) according to the new accounting regulation CR CNMV 7/2008.

2 Financial investment income does not include provisions for losses in value of securities portfolio, nor their recovering and application.

3 Former column "Other charges" has been replaced by a new column which includes, besides provisions for risks, net exchange results and other operating products and expenses.

4 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[1]

TABLE 2.8

Thousand euro[2]	2007	2008	2009	2009 III	2009 IV	2010 I	2010 II	2010 III[3]
I. Interest income	14,395	7,980	2,652	2,301	2,652	191	732	830
II. Net commission	237,403	149,874	127,410	93,005	127,410	33,173	56,876	65,201
Commission revenues	310,892	172,344	144,373	105,442	144,373	37,586	65,412	74,953
Brokering	131,976	62,345	53,988	41,786	53,988	13,953	21,791	24,365
Placement and underwriting	2,501	4,847	2,989	1,148	2,989	272	610	1,297
Securities deposit and recording	1,680	676	509	343	509	94	186	217
Portfolio management	27,457	21,137	19,633	14,067	19,633	4,704	8,808	10,295
Design and advising	2,224	4,962	2,806	1,535	2,806	719	2,032	2,137
Stocks search and placement	0	0	0	0	0	115	115	115
Market credit transactions	0	10	28	10	28	354	10	18
IIC marketing[4]	74,918	31,287	23,966	15,993	23,966	6,613	12,004	13,900
Other	70,136	47,081	40,453	30,560	40,453	10,763	19,855	22,608
Commission expenses	73,489	22,470	16,963	12,437	16,963	4,412	8,536	9,752
III. Financial investment income[5]	2,212	-1,176	1,709	265	1,709	-37	-104	-64
IV. Net exchange differences and other operating products and expenses	-407	3,526	-1,111	-986	-1,111	-101	-376	-577
V. Gross income	253,603	160,204	130,661	94,585	130,661	33,226	57,128	65,390
VI. Operating income	85,423	20,377	9,090	4,376	9,090	4,461	4,894	5,267
VII. Earnings from continuous activities	86,017	14,372	4,862	3,725	4,862	4,088	4,443	4,698
VIII. Net earnings of the period	86,017	14,372	4,862	3,725	4,862	4,088	4,443	4,698

1 From IV quarter 2008 on data come from information sent to the CNMV by investment services companies (ESI) according to the new accounting regulation CR CNMV 7/2008. With the aim of keeping the continuity of time series, some changes have been introduced in previous quarters.

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

3 Available data: July 2010.

4 Before IV quarter 2008 it refers to "IIC subscription and redemption".

5 Previously named "Net income from securities trading". Does not include provisions for losses in value of securities portfolio, nor their recovering and application. These items are included in "Operating income".

Aggregated income statement. Portfolio management companies[1]

TABLE 2.9

Thousand euro[2]	2007	2008	2009	2009 III	2009 IV	2010 I	2010 II	2010 III[3]
I. Interest income	1,442	1,482	341	305	341	63	165	201
II. Net commission	15,501	12,044	10,820	7,964	10,820	3,333	5,967	6,765
Commission revenues	27,340	23,877	21,835	16,237	21,835	6,085	11,440	13,145
Portfolio management	24,239	20,683	18,549	13,634	18,549	4,642	9,218	10,704
Design and advising	2,614	2,484	2,698	2,141	2,698	1,289	1,921	842
IIC marketing[4]	34	66	18	9	18	17	26	29
Other	453	644	571	453	571	138	275	1,571
Commission expenses	11,839	11,833	11,016	8,273	11,016	2,752	5,473	6,380
III. Financial investment income[5]	96	-108	92	91	92	-11	65	93
IV. Net exchange differences and other operating products and expenses	-37	-418	-383	-308	-383	-111	-157	-208
V. Gross income	17,002	13,000	10,869	8,051	10,869	3,275	6,040	6,852
VI. Operating income	6,896	1,157	1,395	1,150	1,395	806	1,411	1,444
VII. Earnings from continuous activities	4,837	765	961	836	961	724	1,170	1,181
VIII. Net earnings of the period	4,837	765	961	836	961	724	1,170	1,181

1 From IV quarter 2008 on data come from information sent to the CNMV by investment services companies (ESIs) according to the new accounting regulation CR CNMV 7/2008. With the aim of keeping the continuity of time series, some changes have been introduced in previous quarters.
2 Accumulated data from the beginning of the year to the last day of every quarter. It includes companies removed throughout the year.
3 Available data: July 2010.
4 Before IV quarter 2008 it refers to "IIC subscription and redemption".
5 Previously named "Net income from securities trading". Does not include provisions for losses in value of securities portfolio, nor their recovering and application. These items are included in "Operating income".

Surplus equity over capital adequacy requirements[1,2]

TABLE 2.10

	Surplus		Number of companies according to its surplus percentage									
Thousand euro	Total amount	%[3]	< 50	<100	<150	<200	<300	<400	<500	<750	<1000	>1000
Total	1,495,448	343.25	16	14	16	10	15	6	10	7	7	6
Broker-dealers	1,411,058	369.18	4	3	5	4	11	6	5	4	5	4
Brokers	65,361	183.33	11	9	10	5	3	0	5	3	2	0
Portfolio management companies	19,030	106.85	1	2	1	1	1	0	0	0	0	2

1 Available data: June 2010.
2 Data collected from information reported according to new Circular CR CNMV 12/2008 on investment services companies solvency.
3 Average 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[1,2]

TABLE 2.11

		Number of companies according to its annualized return								
	Average[3]	Losses	0-5%	6-15%	16-30%	31-45%	46-60%	61-75%	76-100%	>100%
Total	14.97	34	16	20	13	9	5	4	0	6
Broker-dealers	15.45	15	7	11	6	5	3	1	0	3
Brokers	8.96	16	7	8	6	4	2	3	0	2
Portfolio management companies	7.17	3	2	1	1	0	0	0	0	1

1 ROE has been calculated as:

$$ROE = \frac{Earnings \quad before \quad taxes\,(\,annualized)}{Own \quad Funds}$$

Own_Funds= Share capital + Paid-in surplus + Reserves – Own shares + Prior year profits and retained earnings – Interim dividend.
2 Available data: June 2010.
3 Average weighted by equity, %.

3 Collective investment schemes (IIC)[a,b,c,d,e]

Number, management companies and depositories of collective investment schemes registered at the CNMV

TABLE 3.1

				2009		2010		
	2007	2008	2009	III	IV	I	II	III[1]
Total financial IIC	6,296	6,354	5,892	6,050	5,892	5,808	5,724	5,700
Mutual funds	2,954	2,943	2,593	2,705	2,593	2,534	2,464	2,452
Investment companies	3,290	3,347	3,232	3,278	3,232	3,206	3,195	3,182
Funds of hedge funds	31	40	38	40	38	37	34	33
Hedge funds	21	24	29	27	29	31	31	33
Total real estate IIC	18	18	16	16	16	16	16	16
Real estate investment funds	9	9	8	8	8	8	8	8
Real estate investment companies	9	9	8	8	8	8	8	8
Total foreign IIC marketed in Spain	440	563	582	577	582	615	636	648
Foreign funds marketed in Spain	225	312	324	327	324	353	365	374
Foreign companies marketed in Spain	215	251	258	250	258	262	271	274
Management companies	120	120	120	121	120	122	124	123
IIC depositories	126	125	124	124	124	123	122	124

1 Available data: August 2010.

Number of IIC investors and shareholders

TABLE 3.2

				2009			2010	
	2007	2008	2009	II	III	IV	I	II[1]
Total financial IIC	8,487,205	6,358,753	5,895,009	5,921,511	5,878,215	5,895,009	5,907,673	5,841,721
Mutual funds	8,053,049	5,923,352	5,475,403	5,498,325	5,461,473	5,475,403	5,489,598	5,422,414
Investment companies	434,156	435,401	419,606	423,186	416,742	419,606	418,075	419,307
Total real estate IIC	146,353	98,327	84,511	90,398	88,832	84,511	82,574	77,714
Real estate investment funds	145,510	97,390	83,583	89,461	87,903	83,583	81,647	76,772
Real estate investment companies	843	937	928	937	929	928	927	942
Total foreign IIC marketed in Spain	850,931	593,488	685,094	602,487	613,561	685,094	748,749	791,378
Foreign funds marketed in Spain	142,782	102,922	139,102	117,389	123,575	139,102	157,027	181,038
Foreign companies marketed in Spain	708,149	490,566	545,992	485,098	489,986	545,992	591,722	610,340

1 Provisional data for foreign IIC. Foreign IIC send this information quarterly.

IIC total net assets

TABLE 3.3

				2009			2010	
Million euro	2007	2008	2009	II	III	IV	I	II[1]
Total financial IIC	286,522.40	200,522.4	196,472.5	191,952.4	195,352.4	196,472.5	193,941.8	180,899.1
Mutual funds[2]	255,040.9	175,865.5	170,547.7	167,160.9	169,458.4	170,547.7	167,524.3	155,295.5
Investment companies	31,481.5	24,656.9	25,924.8	24,791.5	25,894.0	25,924.8	26,417.5	25,602.6
Total real estate IIC	9,121.4	7,778.8	6,773.7	6,907.9	6,807.3	6,773.7	6,668.4	6,606.6
Real estate investment funds	8,608.5	7,406.9	6,465.1	6,547.2	6,494.3	6,465.1	6,363.7	6,279.6
Real estate investment companies	512.9	371.9	308.6	360.7	313.0	308.6	304.6	327.0
Total foreign IIC marketed in Spain	37,092.7	18,254.8	25,207.2	18,056.1	20,684.8	25,207.2	30,864.9	32,364.8
Foreign funds marketed in Spain	7,010.3	3,352.0	5,215.1	4,157.9	4,410.2	5,215.1	6,519.3	7,477.2
Foreign companies marketed in Spain	30,082.4	14,902.8	19,992.0	13,898.2	16,274.6	19,992.0	24,345.6	24,887.7

1 Provisional data for foreign IIC. Foreign IIC send this information quarterly.

2 For June 2010, mutual funds investments in financial IIC reached 8.2 billion euro.

a IIC: 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.

c Due to the entry into force, on 31 December 2008, of CR CNMV 3/2008 and CR CNMV 7/2008, which modify accounting information to be reported to CNMV, data has been adapted to new regulation.

d From 2009-II Bulletin on, hedge funds and funds of hedge funds data is shown on table 3.12.

e From March 2009 on, foreign collective investments schemes shareholders and total net assets data do not include exchange traded funds (ETF).

Mutual funds asset allocation[1]

TABLE 3.4

Million euro	2007	2008	2009	2009 II	2009 III	2009 IV	2010 I	2010 II
Asset	255,040.9	175,865.5	170,547.7	167,161.0	169,458.4	170,547.7	167,524.3	155,295.5
Portfolio investment	239,266.6	166,384.7	163,165.5	159,013.4	161,747.5	163,165.5	160,119.6	148,166.2
Domestic securities	134,564.1	107,347.7	100,642.6	100,255.1	101,271.4	100,642.6	96,322.9	92,605.7
Debt securities	103,798.8	81,904.6	74,628.9	76,129.2	76,391.7	74,628.9	71,916.5	69,173.9
Shares	11,550.1	4,023.2	4,741.0	3,744.5	4,453.4	4,741.0	4,384.1	3,611.2
Investment collective schemes	18,662.1	10,134.3	9,041.5	8,300.3	8,122.9	9,041.5	8,930.1	8,876.9
Deposits in Credit institutions	-	10,657.6	11,552.2	11,436.7	11,681.3	11,552.2	10,531.5	10,508.4
Derivatives	553.2	627.9	679.0	644.4	622.2	679.0	560.7	435.3
Other	-	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign securities	104,702.5	59,035.2	62,487.1	58,731.6	60,440.8	62,487.1	63,745.9	55,515.6
Debt securities	66,604.8	49,659.8	48,435.3	49,431.4	48,807.6	48,435.3	47,491.3	39,619.4
Shares	16,731.6	5,216.1	7,783.2	5,395.4	6,655.1	7,783.2	8,291.3	7,615.6
Investment collective schemes	16,924.4	3,524.5	5,666.4	3,582.0	4,444.6	5,666.4	7,398.7	7,845.0
Deposits in Credit institutions	-	17.5	82.4	4.3	27.4	82.4	79.9	81.5
Derivatives	4,441.7	599.5	518.7	317.8	505.1	518.7	483.6	349.2
Other	-	17.8	1.1	0.7	1.0	1.1	1.2	5.0
Doubtful assets and matured investment	-	1.8	35.8	26.7	35.3	35.8	49.9	44.9
Intangible assets	-	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
Cash	15,413.5	8,703.2	7,267.7	7,897.4	7,456.9	7,267.7	7,350.8	6,817.4
Net balance (Debtors - Creditors)	360.8	777.7	114.5	250.3	254.0	114.5	53.9	311.9

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.

Investment companies asset allocation

TABLE 3.5

Million euro	2007	2008	2009	2009 II	2009 III	2009 IV	2010 I	2010 II
Asset	31,481.5	24,656.9	25,924.8	24,791.5	25,894.0	25,924.8	26,417.5	25,602.6
Portfolio investment	30,037.4	23,446.9	24,813.5	23,501.7	24,849.6	24,813.5	25,334.6	24,471.5
Domestic securities	17,075.3	16,176.3	13,514.3	14,767.2	14,458.1	13,514.3	12,908.6	12,390.0
Debt securities	9,516.5	10,435.1	7,400.5	9,248.8	8,237.3	7,400.5	6,744.2	5,840.4
Shares	6,174.4	3,214.9	3,376.3	2,871.8	3,363.8	3,376.3	3,153.2	2,754.0
Investment collective schemes	1,362.3	1,108.8	1,091.1	1,151.8	1,171.2	1,091.1	987.1	831.9
Deposits in Credit institutions	-	1,383.5	1,631.5	1,482.1	1,666.0	1,631.5	2,014.0	2,963.0
Derivatives	22.1	9.8	-6.6	-4.5	-4.3	-6.6	-11.8	-22.4
Other	-	24.4	21.7	17.1	24.1	21.7	22.0	23.1
Foreign securities	12,962.2	7,267.8	11,294.2	8,729.4	10,385.7	11,294.2	12,419.9	12,075.1
Debt securities	2,189.9	2,609.6	4,606.6	3,903.2	4,502.2	4,606.6	4,681.7	4,340.4
Shares	5,120.0	2,014.6	3,559.3	2,314.7	3,099.6	3,559.3	4,002.4	3,793.3
Investment collective schemes	5,426.7	2,486.4	2,987.4	2,399.4	2,638.4	2,987.4	3,611.3	3,807.1
Deposits in Credit institutions	-	28.9	26.3	5.4	30.3	26.3	16.8	18.0
Derivatives	225.6	120.5	113.0	104.2	113.7	113.0	105.3	108.3
Other	-	7.8	1.6	2.5	1.6	1.6	2.4	8.0
Doubtful assets and matured investment	-	2.8	4.9	5.1	5.8	4.9	6.2	6.4
Intangible assets	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	-	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Cash	1,182.2	1,021.0	976.4	1,079.5	970.2	976.4	919.9	896.0
Net balance (Debtors - Creditors)	261.8	188.8	134.8	210.1	74.0	134.8	162.8	235.0

Financial mutual funds: number, investors and total net assets by category[1]

TABLE 3.6

	2007	2008	2009	2009 II	2009 III	2009 IV	2010 I	2010 II
NO. OF FUNDS								
Total financial mutual funds	2,926	2,912	2,536	2,735	2,628	2,536	2,500	2,436
Fixed-income[2]	600	629	582	612	598	582	567	547
Mixed fixed-income[3]	204	195	169	190	171	169	171	168
Mixed equity[4]	207	202	165	181	174	165	161	143
Euro equity[5]	247	237	182	193	185	182	179	179
Foreign equity[6]	357	330	242	271	252	242	239	233
Guaranteed fixed-income	251	260	233	253	241	233	239	251
Guaranteed equity[7]	590	590	561	610	593	561	549	530
Global funds	470	469	187	208	193	187	182	181
Passive management[8]	-	-	69	69	69	69	66	64
Absolute return[8]	-	-	146	148	152	146	147	140
INVESTORS								
Total financial mutual funds	8,053,049	5,923,346	5,475,403	5,498,325	5,461,473	5,475,403	5,489,598	5,422,414
Fixed-income[2]	2,763,442	2,204,652	2,041,487	2,067,091	2,042,556	2,041,487	1,994,558	1,864,776
Mixed fixed-income[3]	493,786	277,629	290,151	241,097	254,599	290,151	298,542	295,325
Mixed equity[4]	331,214	209,782	182,542	187,244	184,985	182,542	180,722	185,118
Euro equity[5]	577,522	377,545	299,353	270,079	277,093	299,353	290,734	280,529
Foreign equity[6]	800,556	467,691	458,097	419,928	434,299	458,097	478,952	487,813
Guaranteed fixed-income	549,108	538,799	570,963	540,428	550,041	570,963	617,901	690,600
Guaranteed equity[7]	1,715,144	1,402,948	1,188,304	1,339,321	1,272,792	1,188,304	1,153,385	1,142,072
Global funds	822,277	444,300	88,337	96,581	79,288	88,337	94,630	99,163
Passive management[8]	-	-	85,403	91,738	97,399	85,403	92,352	97,949
Absolute return[8]	-	-	270,766	244,818	268,421	270,766	287,822	279,069
TOTAL NET ASSETS (Million euro)								
Total financial mutual funds	255,040.9	175,865.2	170,547.7	167,160.9	169,458.4	170,547.7	167,524.3	155,295.5
Fixed-income[2]	113,234.1	92,813.1	84,657.2	86,711.3	85,913.9	84,657.2	79,655.6	69,654.5
Mixed fixed-income[3]	13,011.9	5,803.0	8,695.5	5,421.8	6,322.4	8,695.5	8,867.1	8,264.2
Mixed equity[4]	8,848.0	3,958.8	3,879.6	3,480.1	3,812.4	3,879.6	3,930.7	3,441.5
Euro equity[5]	16,589.7	5,936.9	6,321.6	4,945.9	6,094.1	6,321.6	6,017.6	5,181.2
Foreign equity[6]	13,948.0	4,256.6	5,902.4	4,108.3	5,020.9	5,902.4	6,869.4	6,682.5
Guaranteed fixed-income	17,674.4	21,281.6	21,033.4	21,664.1	21,322.7	21,033.4	22,047.8	23,520.3
Guaranteed equity[7]	42,042.1	30,742.4	25,665.8	29,120.6	27,857.4	25,665.8	24,814.2	23,981.7
Global funds	29,692.6	11,072.8	3,872.5	3,350.7	3,400.4	3,872.5	4,130.3	3,991.1
Passive management[8]	-	-	3,216.6	2,714.5	3,066.3	3,216.6	2,971.9	2,350.2
Absolute return[8]	-	-	7,303.0	5,643.6	6,647.7	7,303.0	8,219.9	8,228.4

1 Mutual funds that have sent reports to the CNMV (therefore mutual funds in a process of dissolution or liquidation are not included).

2 Until I 2009 this category includes: Short-term fixed income, Long-term fixed income, Foreign fixed-income and Monetary market funds. From II 2009 on includes: Fixed income euro, Foreign fixed-income and Monetary market funds.

3 Until I 2009 this category includes: Mixed fixed-income and Foreign mixed fixed-income. From II 2009 on includes: Mixed euro fixed-income and Foreign mixed fixed-income.

4 Until I 2009 this category includes: Mixed equity and Foreign mixed equity. From II 2009 on includes: Mixed euro equity and Foreign mixed equity.

5 Until I 2009 this category includes: Spanish equity and Euro Equity. From II 2009 on includes: Euro equity (which includes domestic equity).

6 Until I 2009 this category includes: Foreign equity Europe, Foreign equity Japan, Foreign equity USA, Foreign equity emerging countries and Other foreign equity. From II 2009 on includes: Foreign equity.

7 Until I 2009 this category includes: Guaranteed equity. From II 2009 on includes: Guaranteed equity and partial guarantee.

8 New categories from II 2009 on. Before it, absolute return funds were classified as global Funds.

Financial mutual funds: Detail of investors and total net assets by type of investors[1]

TABLE 3.7

				2009			2010	
	2007	2008	2009	II	III	IV	I	II
INVESTORS	8,053,049	5,923,352	5,475,403	5,498,325	5,461,473	5,475,403	5,489,598	5,422,414
Individuals	7,814,633	5,754,049	5,322,214	5,343,778	5,309,003	5,322,214	5,334,304	5,271,334
Residents	7,721,427	5,677,123	5,252,126	5,271,331	5,238,302	5,252,126	5,264,655	5,203,100
Non-residents	93,206	76,926	70,088	72,447	70,701	70,088	69,649	68,234
Legal entities	238,416	169,303	153,189	154,547	152,470	153,189	155,294	151,080
Credit Institutions	2,235	1,713	674	689	673	674	631	582
Other resident Institutions	234,376	166,041	151,479	152,453	150,398	151,479	153,637	149,501
Non-resident Institutions	1,805	1,549	1,036	1,405	1,399	1,036	1,026	997
TOTAL NET ASSETS (Million euro)	255,041.0	175,865.5	170,547.7	167,160.9	169,458.4	170,547.7	167,524.3	155,295.5
Individuals	190,512.2	135,756.2	132,860.5	131,675.4	133,194.9	132,860.5	130,952.9	121,776.1
Residents	187,746.8	133,878.1	130,954.4	129,704.0	131,331.5	130,954.4	129,010.4	119,916.2
Non-residents	2,765.4	1,878.1	1,906.0	1,971.4	1,863.4	1,906.0	1,942.5	1,859.9
Legal entities	64,528.7	40,109.3	37,687.2	35,485.6	36,263.5	37,687.2	36,571.4	33,519.4
Credit Institutions	5,721.0	4,193.0	2,572.0	2,319.6	2,455.5	2,572.0	2,437.5	2,145.0
Other resident Institutions	56,974.4	34,738.0	34,065.1	32,275.4	32,833.8	34,065.1	33,287.2	30,600.3
Non-resident Institutions	1,833.3	1,178.4	1,050.1	890.6	974.1	1,050.1	846.7	774.0

1 Hedge funds and funds of hedge funds are not included.

Subscriptions and redemptions of financial mutual funds by category[1]

TABLE 3.8

				2009			2010	
Million euro	2007	2008	2009[2]	II	III	IV	I	II
SUBSCRIPTIONS								
Total financial mutual funds	180,943.1	135,461.7	109,915.2	24,085.6	28,762.9	33,164.3	25,226.0	24,397.6
Fixed-income	116,323.9	101,909.7	73,718.8	15,572.6	19,696.6	20,150.3	15,240.8	13,620.5
Mixed fixed-income	5,859.4	1,914.5	5,267.6	515.0	1,081.7	3,309.0	1,243.5	1,255.4
Mixed equity	2,749.8	1,350.2	1,135.4	156.3	541.5	366.6	292.1	556.5
Euro equity	9,625.7	2,858.0	2,183.8	489.3	589.2	743.2	582.5	464.0
Foreign equity	11,408.2	3,309.6	2,929.5	598.4	775.0	1,165.3	1,259.1	1,190.3
Guaranteed fixed-income	9,161.3	11,937.0	11,755.4	3,783.2	2,544.8	2,246.8	2,359.6	3,244.1
Guaranteed equity	8,070.6	6,544.7	5,589.1	1,369.3	1,683.7	1,899.6	1,607.4	1,576.3
Global funds	17,744.2	5,638.0	2,754.4	971.5	389.4	792.9	545.0	440.6
Passive management	-	-	535.5	62.1	204.4	269.0	242.6	271.1
Absolute return	-	-	4,045.7	567.8	1,256.4	2,221.5	1,853.3	1,778.8
REDEMPTIONS								
Total financial mutual funds	202,827.1	202,864.1	122,617.5	29,142.1	30,511.1	32,945.1	28,324.7	33,041.1
Fixed-income	122,178.3	124,242.9	81,197.6	19,433.2	20,090.1	21,710.4	19,940.5	22,951.2
Mixed fixed-income	7,809.6	8,136.6	2,724.4	549.3	576.6	792.3	1,106.0	1,653.8
Mixed equity	4,023.0	4,675.6	1,596.5	284.4	554.2	264.9	225.7	601.2
Euro equity	12,438.0	8,617.2	2,457.8	515.9	455.6	734.9	709.6	673.9
Foreign equity	14,358.4	8,657.3	2,165.3	592.0	457.5	609.5	704.9	991.1
Guaranteed fixed-income	6,430.6	9,499.1	15,004.5	3,300.3	4,046.6	4,070.5	2,135.7	1,529.0
Guaranteed equity	11,602.6	18,216.4	10,990.8	2,944.0	3,100.2	2,574.1	1,818.0	1,852.4
Global funds	23,986.6	20,819.0	2,548.6	588.0	141.6	280.5	269.3	461.1
Passive management	-	-	708.0	307.8	164.3	235.9	396.2	682.1
Absolute return	-	-	3,224.0	627.3	924.6	1,672.1	1,018.9	1,645.3

1 Estimated data.

2 For Passive Management and absolute return, data refers to the last three quarters of the year.

Financial mutual funds asset change by category: Net subscriptions/redemptions and return on assets[1]

TABLE 3.9

				2009			2010	
Million euro	2007	2008	2009[2]	II	III	IV	I	II
NET SUBSCRIPTIONS/REDEMPTIONS[3]								
Total financial mutual funds	-21,884.0	-67,402.4	-12,702.3	-5,056.5	-1,748.2	219.1	-3,098.8	-8,643.6
Fixed-income	-5,854.4	-22,333.2	-7,478.8	-3,860.6	-393.5	-1,560.1	-4,699.7	-9,330.7
Mixed fixed-income	-1,950.2	-6,222.1	2,543.2	-34.3	505.2	2,516.7	137.5	-398.4
Mixed equity	-1,273.2	-3,325.4	-461.1	-128.0	-12.6	101.7	66.5	-44.7
Euro equity	-2,812.3	-5,759.2	-274.0	-26.6	133.7	8.3	-127.1	-210.0
Foreign equity	-2,950.2	-5,347.7	764.2	6.4	317.6	555.9	554.2	199.2
Guaranteed fixed-income	2,730.7	2,437.9	-3,249.1	482.9	-1,501.8	-1,823.7	223.8	1,715.1
Guaranteed equity	-3,532.0	-11,671.7	-5,401.7	-1,574.7	-1,416.5	-674.5	-210.6	-276.1
Global funds	-6,242.4	-15,181.0	205.8	383.5	247.8	512.3	275.7	-20.5
Passive management	-	-	-172.5	-245.7	40.1	33.1	-153.6	-411.1
Absolute return	-	-	821.7	-59.5	331.9	549.4	834.4	133.5
RETURN ON ASSETS								
Total financial mutual funds	6,675.6	-11,988.0	8,389.8	3,657.3	4,022.8	1,364.5	930.1	-3,097.2
Fixed-income	3,082.8	1,927.7	1,535.3	491.6	657.9	192.4	359.6	-486.4
Mixed fixed-income	287.0	-716.8	507.9	184.3	229.7	160.6	34.1	-194.3
Mixed equity	266.1	-1,589.0	529.9	313.9	346.4	76.6	-10.0	-227.6
Euro equity	1,072.5	-5,172.6	1,477.1	1,065.0	981.7	195.0	-184.3	-638.6
Foreign equity	21.0	-4,092.4	1,309.0	652.6	606.0	354.6	346.4	-390.0
Guaranteed fixed-income	441.5	597.6	830.5	225.4	206.0	87.5	213.6	-286.3
Guaranteed equity	1,037.0	-1,310.4	1,024.0	263.9	381.2	43.0	94.7	-438.4
Global funds	467.7	-1,632.1	272.2	205.4	152.7	67.3	55.6	-121.9
Passive management	-	-	657.8	193.0	330.3	134.5	-52.8	-205.1
Absolute return	-	-	246.4	62.2	131.0	53.2	73.3	-108.4

1 Mutual funds that have sent reports to the CNMV (therefore mutual funds in a process of dissolution or liquidation are not included).

2 The data refers to the last three quarters of the year for Passive Management and absolute return categories.

3 Estimated data.

Financial mutual funds return on assets. Detail by category

TABLE 3.10

% of daily average total net assets	2007	2008	2009[1]	2009 II	2009 III	2009 IV	2010 I	2010 II
MANAGEMENT YIELDS								
Total financial mutual funds	3.45	-4.09	6.13	2.39	2.71	1.09	0.80	-1.67
Fixed-income	3.32	2.53	2.69	0.74	0.99	0.44	0.62	-0.47
Mixed fixed-income	2.98	-5.75	9.34	3.72	4.43	2.46	0.71	-1.94
Mixed equity	4.25	-23.30	16.44	9.51	9.99	2.45	0.24	-5.96
Euro equity	7.04	-47.02	31.02	20.00	18.78	3.73	-2.57	-10.85
Foreign equity	2.00	-49.55	33.16	16.86	14.22	7.23	6.06	-5.08
Guaranteed fixed-income	3.25	3.39	4.10	1.23	0.99	0.57	1.15	-1.10
Guaranteed equity	3.65	-1.88	5.08	1.23	1.74	0.49	0.70	-1.50
Global funds	2.57	-7.36	10.82	4.67	5.17	2.16	1.71	-2.67
Passive management	-	-	-	14.13	11.63	4.60	-1.54	-7.34
Absolute return	-	-	-	1.67	2.44	1.11	1.25	-1.04
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	1.00	0.87	0.87	0.21	0.23	0.23	0.22	0.22
Fixed-income	0.61	0.58	0.63	0.15	0.16	0.17	0.16	0.16
Mixed fixed-income	1.13	1.14	1.14	0.29	0.31	0.31	0.29	0.29
Mixed equity	1.54	1.54	1.58	0.39	0.40	0.40	0.38	0.39
Euro equity	1.65	1.60	1.75	0.43	0.45	0.45	0.43	0.43
Foreign equity	1.79	1.69	1.79	0.44	0.45	0.47	0.46	0.42
Guaranteed fixed-income	0.62	0.49	0.65	0.14	0.15	0.16	0.14	0.15
Guaranteed equity	1.30	1.29	1.26	0.33	0.34	0.31	0.29	0.30
Global funds	1.16	1.04	1.08	0.28	0.31	0.27	0.27	0.22
Passive management	-	-	-	0.15	0.17	0.17	0.16	0.16
Absolute return	-	-	-	0.28	0.30	0.29	0.28	0.25
EXPENSES. DEPOSITORY FEE								
Total financial mutual funds	0.09	0.08	0.09	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	0.02
Mixed fixed-income	0.09	0.09	0.09	0.02	0.02	0.02	0.02	0.02
Mixed equity	0.10	0.11	0.10	0.03	0.03	0.03	0.03	0.03
Euro equity	0.10	0.10	0.10	0.02	0.02	0.03	0.02	0.03
Foreign equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Guaranteed fixed-income	0.08	0.07	0.08	0.02	0.02	0.02	0.02	0.02
Guaranteed equity	0.10	0.11	0.11	0.03	0.03	0.03	0.02	0.02
Global funds	0.10	0.09	0.08	0.02	0.02	0.02	0.02	0.02
Passive management	-	-	-	0.02	0.02	0.02	0.02	0.02
Absolute return	-	-	-	0.02	0.02	0.02	0.02	0.02

1 Passive management and absolute annual returns are not included because they are new categories from II 2009 on.

Mutual fund quarterly returns. Detail by category

TABLE 3.11

In %	2007	2008	2009[1]	2009 II	2009 III	2009 IV	2010 I	2010 II
Total financial mutual funds	2.73	-4.21	5.73	2.43	2.80	0.73	0.61	-1.83
Fixed-income	2.68	2.06	1.91	0.55	0.88	0.24	0.46	-0.62
Mixed fixed-income	2.01	-7.14	6.85	3.48	4.18	0.63	0.42	-2.18
Mixed equity	2.79	-22.21	16.47	9.86	10.18	1.99	-0.14	-6.00
Euro equity	6.05	-39.78	32.41	23.34	19.76	3.06	-2.57	-10.66
Foreign equity	1.31	-41.71	37.28	20.08	15.15	6.30	5.63	-4.97
Guaranteed fixed-income	2.80	3.29	3.81	0.94	1.31	0.37	0.98	-1.24
Guaranteed equity	2.46	-2.61	3.56	0.85	1.40	0.16	0.39	-1.91
Global funds	1.58	-8.64	10.90	4.90	5.18	1.87	1.43	-2.82
Passive management	-	-	-	16.50	12.09	4.61	-1.26	-7.28
Absolute return	-	-	-	1.54	1.90	0.70	0.98	-1.19

1 Passive management and absolute annual returns are not included because they are new categories from II 2009 on.

Hedge funds and funds of hedge funds

TABLE 3.12

				2009			2010	
	2007	2008	2009	II	III	IV	I	II[1]
HEDGE FUNDS								
Investors/shareholders	1,127	1,589	1,917	1,768	1,778	1,917	2,137	2,103
Total net assets (million euro)	445.8	539.4	652.0	536.9	602.7	652.0	722.4	680.6
Subscriptions (million euro)	378.2	390.4	248.7	71.7	66.5	73.8	108.0	35.3
Redemptions (million euro)	2.6	256.7	196.1	17.6	24.5	32.5	54.8	67.4
Net subscriptions/redemptions (million euro)	164.7	134.3	52.6	54.1	41.9	41.4	53.2	-32.1
Return on assets (million euro)	0.2	-39.1	62.2	25.7	25.9	7.9	15.6	-25.8
Returns (%)	0.84	-4.82	14.94	8.12	5.21	1.45	2.23	-3.47
Management yields (%)[2]	0.57	-2.51	13.76	5.84	5.25	1.80	2.90	-3.42
Management fee (%)[2]	1.39	2.50	2.55	0.75	0.65	0.48	0.59	0.20
Financial expenses (%)[2]	0.33	0.16	0.11	0.03	0.02	0.03	0.01	0.01
FUNDS OF HEDGE FUNDS								
Investors/shareholders	3,950	8,516	5,321	5,577	5,303	5,321	5,311	5,241
Total net assets (million euro)	1,000.6	1,021.3	810.2	709.5	846.9	810.2	793.9	763.9
Subscriptions (million euro)	1,071.2	967.3	302.4	9.2	170.1	87.6	21.4	-
Redemptions (million euro)	65.9	616.6	565.4	93.3	56.6	120.9	48.0	-
Net subscriptions/redemptions (million euro)	1,005.5	350.7	-263.0	-84.1	113.5	-33.3	-26.6	-
Return on assets (million euro)	-9.6	-245.7	71.9	18.9	28.3	11.6	13.4	-
Returns (%)	-0.43	-17.80	7.85	2.59	2.88	0.83	1.72	0.13
Management yields (%)[3]	-1.36	-17.84	11.54	3.08	4.34	1.77	2.08	-
Management fee (%)[3]	1.15	1.63	1.34	0.36	0.35	0.29	0.31	-
Depository fee (%)[3]	0.06	0.11	0.11	0.03	0.03	0.02	0.02	-

1 Available data: May 2010. Return refers to the period March-May 2010.

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

				2009			2010	
	2007	2008	2009	II	III	IV	I	II
NUMBER OF PORTFOLIOS								
Mutual funds	2,954	2,943	2,593	2,808	2,705	2,593	2,534	2,464
Investment companies	3,181	3,240	3,135	3,194	3,175	3,135	3,111	3,110
Funds of hedge funds	31	40	38	40	40	38	37	34
Hedge funds	21	24	28	25	26	28	30	31
Real estate investment fund	9	9	8	8	8	8	8	8
Real estate investment companies	9	9	8	9	8	8	8	8
ASSETS UNDER MANAGEMENT (Million euro)								
Mutual funds	255,040.9	175,865.5	170,547.7	167,161.0	169,458.4	170,547.7	167,524.3	155,295.5
Investment companies	30,300.0	23,656.1	24,953.0	23,941.7	24,966.5	24,953.0	25,416.6	24,758.4
Funds of hedge funds [2]	1,000.6	1,021.3	810.2	709.5	846.9	810.2	793.9	763.9
Hedge funds [2]	445.8	539.4	645.7	530.8	596.8	645.7	716.5	675.9
Real estate investment fund	8,608.5	7,406.9	6,465.1	6,547.2	6,494.3	6,465.1	6,363.7	6,279.6
Real estate investment companies	512.9	371.9	308.5	360.7	313.0	308.5	304.6	327.0

1 From II quarter 2009 on 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 for II quarter 2010: May 2010.

Foreign Collective Investment schemes marketed in Spain[1]

TABLE 3.14

	2007	2008	2009	2009 II	2009 III	2009 IV	2010 I	2010 II[2]
INVESTMENT VOLUME[3] (Million euro)	37,092.7	18,254.8	25,207.2	18,056.1	20,684.8	25,207.2	30,864.9	32,364.8
Mutual funds	7,010.3	3,352.0	5,215.1	3,344.6	4,410.2	5,215.1	6,519.3	7,477.2
Investment companies	30,082.4	14,902.8	19,992.0	14,711.5	16,274.6	19,992.0	24,345.6	24,887.7
INVESTORS/SHAREHOLDERS	850,931	593,488	685,094	602,487	613,561	685,094	748,749	791,378
Mutual funds	142,782	102,922	139,102	119,815	123,575	139,102	157,027	181,038
Investment companies	708,149	490,566	545,992	482,672	489,986	545,992	591,722	610,340
NUMBER OF SCHEMES	440	563	582	555	577	582	615	636
Mutual funds	225	312	324	309	327	324	353	365
Investment companies	215	251	258	246	250	258	262	271
COUNTRY								
Luxembourg	229	274	275	270	273	275	278	288
France	122	161	178	163	180	178	201	210
Ireland	52	63	64	58	59	64	67	69
Germany	15	16	17	16	17	17	19	20
UK	12	14	14	14	14	14	15	15
The Netherlands	1	1	1	1	1	1	1	1
Austria	5	28	27	27	27	27	28	27
Belgium	3	5	5	5	5	5	5	5
Malta	1	1	1	1	1	1	1	1

1 From December 2008 on, foreign collective investments schemes shareholders and total net assets data do not include exchange traded funds (ETF).

2 Provisional data.

3 Investment volume: participations or shares owned by the investors/shareholders at the end of the period valued at that moment of time.

Real estate investment schemes

TABLE 3.15

	2007	2008	2009	2009 III	2009 IV	2010 I	2010 II	2010 III[1]
REAL ESTATE MUTUAL FUNDS								
Number	9	9	8	8	8	8	8	8
Investors	145,510	97,390	83,583	87,903	83,583	81,647	76,772	76,966
Asset (Million euro)	8,608.5	7,406.9	6,465.1	6,494.3	6,465.1	6,363.7	6,279.6	6,262.8
Return on assets (%)	1.27	0.69	-8.31	-1.37	-1.45	-1.63	-0.99	-0.30
REAL ESTATE INVESTMENT COMPANIES								
Number	9	9	8	8	8	8	8	8
Shareholders	843	937	928	929	928	927	942	937
Asset (Million euro)	512.9	371.9	308.6	313.0	308.6	304.6	327.0	324.6

1 Available data: July 2010. In this case, return on assets is monthly.