



CNMV BULLETIN
Quarter II
2010



CNMV Bulletin

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2010**

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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)
SGEGR	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 Market survey (*)

1 Overview

The macroeconomic environment showed signs of improvement in the first half of the year albeit with major differences from one country to the next and in the progress over time of economic and financial activity. The emerging countries, especially in Asia, continue to lead the worldwide recovery in tandem with the United States, while in the euro area the return to growth is proceeding more slowly. Nevertheless, the recent flurry of volatility in financial markets in the wake of the Greek debt crisis has cast more uncertainty over this year's growth prospects, especially in those economies whose fundamentals are weakest.

We can say then that the recent-month performance of national and international financial markets has been conditioned by the turbulence surrounding European sovereign debt and the resulting drop in aggregate confidence. Short-term fixed-income markets remain under the sway of the expansive monetary conditions prevailing in most economies, with official interest rates still hovering around all-time lows¹ (see table 1). Despite this, interbank markets have shown signs of unease reflected in the recent uptick in the U.S. spread between deposit and repo rates. In the euro area's more troubled interbank markets, trading volumes continue to languish. Conversely, financial institutions have continued making heavy calls on Eurosystem liquidity.

In longer tenors, the tensions surrounding the sovereign debt of some European countries have triggered a divergence in yields between what are presumed to be the most solvent countries (Germany and the United States) and those that have suffered graver economic and fiscal deterioration in the last two years (especially Greece, Portugal, Spain, Ireland and Italy). Specifically, the long government bond yields of this sounder contingent have been falling in recent months as part of a renewed "flight to quality", compared to the ascent traced in countries whose fiscal condition is less than robust. At the same time, private-sector net debt issuance has tailed off sharply in recent months under the effect of mounting uncertainty and tougher financing conditions in wholesale markets, combined with the progressive deleveraging of company balance sheets.

In currency markets, the dominant trend has been the euro's decline against main world currencies since end-2009, as a consequence of the aforementioned turbulence and, to a lesser extent, Europe's rather more hesitant economic recovery. Over the first half of the year, specifically, the European currency dropped almost 20% against the dollar to just over 1.20 dollars/euro, and over 15% against the yen, to 112 yens/euro.

The European sovereign debt crisis has also made itself felt with varying intensity in world equity markets, particularly during the second quarter. In the first months of 2010, U.S. and Japanese stock indices posted gains ranging from the 4.1% of the

¹ The closing date for this report is June 15.

Dow Jones to the 7.8% of the Topix, on the strength of output indicators pointing to an increasingly solid recovery, while in Europe, the indices of economies with more modest growth prospects began losing ground. By the second quarter, however, index losses were the order of the day in both developed and emerging economies (see table 1), with very few exceptions, as volatility returned with a vengeance.

Nationally, output indicators for the year's opening months showed a tentative recovery, which was later borne out by the published statistics for first-quarter GDP growth. A quarterly 0.1% rate signalled the Spanish economy's technical emergence from a recession lasting since the second quarter of 2008. This incipient recovery is being held back, however, by tensions in sovereign debt markets, which have left their mark on almost all the country's financial markets. In debt markets, the salient development was the run-up in sovereign bond risk premiums as measured both by the spread vs. the German benchmark, up from 54 basis points (bp) at end 2009 to early-June highs of over 200 bp, and the Spanish CDS, which jumped from around 110 bp at the December close to a high of nearly 270 bp in the first half of June. This trend appeared to timidly reverse in the days preceding the close of this report, although volatility is still notably high. The increase in sovereign risk has had an immediate knock-on effect on private-sector financing conditions in the shape of more expensive borrowing and a steep decline in issuance, further complicated by restrictions on bank finance.

In equity markets, the increased uncertainty sent share prices tumbling, more steeply in the second quarter, and pushed volatility to peak levels above the 60% mark. The Ibex 35 shed 18% of its value to the closing date for this report, the largest fall of any of the benchmark indices of developed countries. The outperformance earned in 2009 by more internationally diversified operations has not lasted into 2010, which has been characterised to date by an across-the-board slump in prices, with the bank sector leading the downside. Hope comes, however, from the upswing in stock market turnover since the opening months of 2010, compounded by a recent improvement in liquidity conditions.

Summary of financial indicators

TABLE 1

	Q3 09	Q4 09	Q1 10	Q2 10*
Short-term interest rates (%)¹				
Official interest rate	4.25	1.00	1.00	1.00
Euribor 3 month	5.02	0.71	0.64	0.71
Euribor 12 month	5.38	1.24	1.22	1.27
Exchange rates²				
Dollar/euro	1.43	1.44	1.35	1.23
Yen/euro	150.47	133.16	125.93	111.77
Medium and long government bond yields²				
Euro area				
3 year	3.87	1.55	1.17	0.62
5 year	3.87	2.27	2.15	1.49
10 year	4.18	3.22	3.12	2.61
United States				
3 year	2.35	1.37	1.49	1.20
5 year	2.87	2.33	2.42	2.04
10 year	3.68	3.59	3.72	3.25
Credit risk premiums: BBB-AAA spread (basis points)³				
Euro area				
3 year	139	714	588	685
5 year	183	242	184	216
10 year	191	28	31	15
United States				
3 year	227	582	502	614
5 year	265	189	140	194
10 year	283	51	51	59
Equity markets				
Performance of main world stock indices (%) ⁴				
Euro Stoxx 50	19.6	3.2	-1.1	-7.3
Dow Jones	15.0	7.4	4.1	-4.2
Nikkei	1.8	4.1	5.2	-10.8
Other indices (%)				
Merval (Argentina)	30.7	11.8	2.3	-2.0
Bovespa (Brazil)	19.5	11.5	2.6	-8.4
Shanghai Comp (China)	-6.1	17.9	-5.1	-17.3
BSE (India)	17.9	3.4	0.8	-0.4
Spanish stock market				
Ibex 35 (%)	20.1	1.6	-9.0	-10.4
P/E of Ibex 35 ⁵	12.5	12.3	10.9	9.0
Volatility of Ibex 35 (%) ⁶	24.6	24.3	23.9	38.3
SIBE trading volumes ⁷	3,264	4,086	3,637	4,922

Source: CNMV, Thomson Datastream, Bloomberg, Reuters, Banco de España, Bolsa de Madrid, MEFF and AIAF.

* Latest available data at the time of preparing this report.

- 1 Monthly average of daily data. The official interest rate corresponds to the marginal rate at weekly auctions at the period close. Data for the second quarter correspond to the average from 1 to 15 June.
- 2 Data at period end. Data for the second quarter of 2010 correspond to 15 June.
- 3 Monthly average of daily data. Data for the second quarter 2010 run from 1 to 15 June.
- 4 Cumulative quarterly change in each period; up to 15 June in the case of the second quarter.
- 5 Price-earnings ratio. Data for the second quarter 2010 correspond to 15 June.
- 6 Implied at-the-money (ATM) volatility on nearest expiry at period end. Data for the second quarter 2010 correspond to 1 April to 15 June.
- 7 Daily average in million euros. Data for the second quarter 2010 correspond to the period to 15 June.

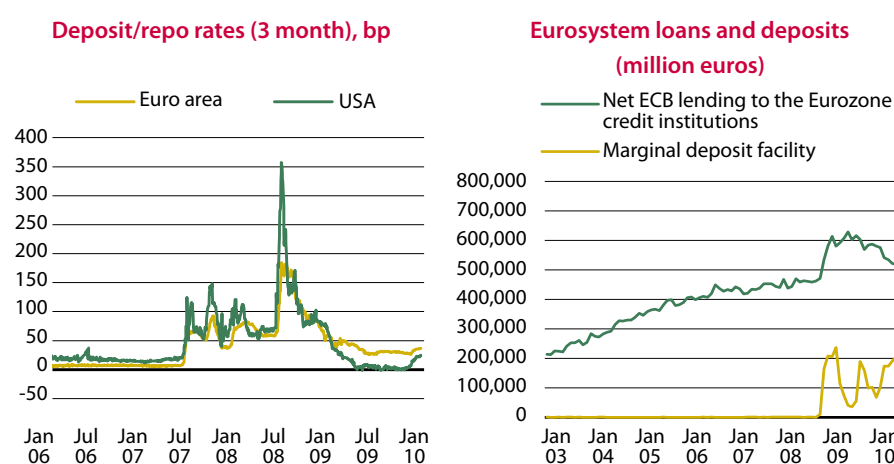
2 International financial background

2.1 Short-term interest rates

The performance of international financial markets in the last six months has been shaped by the recent turbulence episodes deriving from the European sovereign debt crisis. Short-term interest rates were less impacted than other financial prices, and stayed anchored at historic lows in line with official rates in main geographical areas (see figure 2). However, the United States and the euro area have witnessed renewed tensions in interbank markets, translating as a recent-month increase in the rate spread between deposit and repo operations (see figure 2). In the euro area, the increase in spreads has apparently begun to level off, but institutions' heavy borrowings through the Eurosystem, and the recent flurry in take-up of the marginal deposit facility give proof that the interbank market is still feeling the strain.

Interbank spreads and Eurosystem financing

FIGURE 1

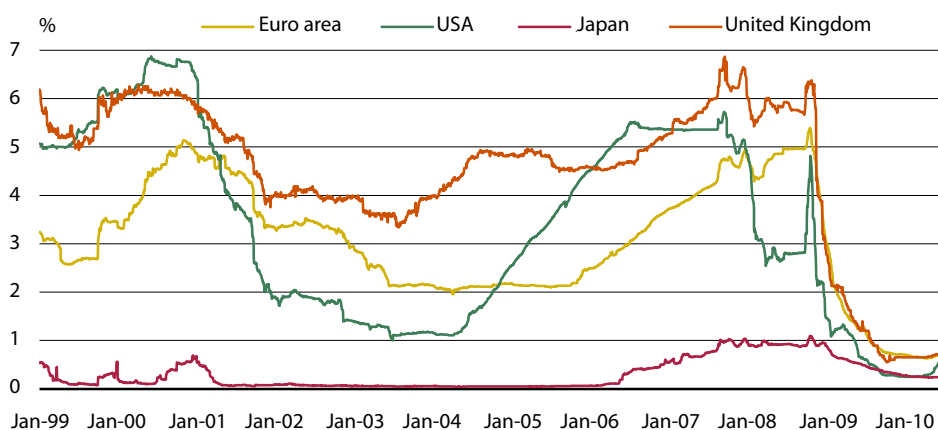


Source: Thomson Datastream. Spread data to 15 June. Eurosystem data to May.

The absence of inflationary pressures in main world areas has allowed official interest rates to be kept at lows. Only a few emerging economies, like Brazil, and developed economies specialised in commodities, like Australia and Norway, have opted to hike rates on any meaningful scale. In the last six months, official rates have held at a flat 0.25%, 0.50%, 1.0% and 0.1% in the U.S., United Kingdom, euro area and Japan respectively.

Three-month interest rates¹

FIGURE 2



Source: Thomson Datastream.

¹ Data to 15 June.

As we can see from table 2, short-term rates in the world (except Japan) came down slightly in the year's first quarter and picked up thereafter, especially in the United States. In this last case, second-quarter increases exceeded 27 basis points in all reference maturities, as far as 0.54 bp, 0.75 bp and 1.20 bp in three-, six- and twelve-month tenors. Short rates in Europe also moved higher albeit with rather less intensity.

Short-term interest rates¹

TABLE 2

%	Dec 06	Dec 07	Dec 08	Dec 09	Sep 09	Dec 09	Mar 10	Jun 10 ²
Euro area								
Official ³	3.50	4.00	2.50	1.00	1.00	1.00	1.00	1.00
3 month	3.69	4.84	3.27	0.71	0.77	0.71	0.64	0.71
6 month	3.79	4.81	3.34	1.00	1.04	1.00	0.95	1.00
12 month	3.93	4.79	3.43	1.24	1.26	1.24	1.22	1.27
United States								
Official ⁴	5.25	4.25	0.25	0.25	0.25	0.25	0.25	0.25
3 month	5.36	4.97	1.80	0.25	0.30	0.25	0.27	0.54
6 month	5.35	4.82	2.15	0.45	0.68	0.45	0.41	0.75
12 month	5.24	4.42	2.36	1.00	1.27	1.00	0.87	1.20
United Kingdom								
Official	4.50	5.00	2.00	0.50	0.50	0.50	0.50	0.50
3 month	4.58	5.26	2.99	0.65	0.64	0.65	0.65	0.74
6 month	4.58	5.34	3.12	0.95	0.90	0.95	0.85	1.05
12 month	4.60	5.47	3.25	1.45	1.39	1.45	1.35	1.45
Japan								
Official ⁵	0.25	0.50	0.10	0.10	0.10	0.10	0.10	0.10
3 month	0.56	0.98	0.91	0.28	0.36	0.28	0.25	0.24
6 month	0.63	1.03	1.01	0.48	0.56	0.48	0.45	0.45
12 month	0.74	1.10	1.12	0.70	0.80	0.70	0.68	0.67

Source: Thomson Datastream.

¹ Average daily data except official rates, which correspond to the last day of the period.

² Average data from 1 to 15 June.

³ Marginal rate at weekly auctions.

⁴ Federal funds rate.

⁵ Monetary policy rate.

The twelve month/three month curve remained practically unaltered in all world regions, with movements confined within 10 basis points. By the middle of June, the slope measured around 56 bp in the euro area, 66 bp in the U.S., 71 bp in the United Kingdom and 43 bp in Japan.

Looking ahead, the view seems to be that official interest rates will hold at their current lows, at least for a few more months. The tightening cycle is likely to get underway earlier in the United States to judge by the 3-month forward rates now coming through, which discount increases of 25 bp and 50 bp in six- and twelve-month instruments respectively. For the euro area, it is expected to be a year before rates rise on any significant scale (see table 3).

Three-month forward rates (FRAs)¹

TABLE 3

%	Dec 06	Dec 07	Dec 08	Dec 09	Sep 09	Dec 09	Mar 10	Jun 10 ²
Euro area								
Spot	3.73	4.68	2.89	0.70	0.75	0.70	0.63	0.72
FRA 3x6	3.94	4.52	2.17	0.82	0.84	0.82	0.80	0.87
FRA 6x9	4.07	4.42	1.97	1.21	1.03	1.21	1.01	0.96
FRA 9x12	4.13	4.33	2.13	1.61	1.34	1.61	1.14	1.01
FRA 12x15	4.13	4.30	2.22	1.90	1.65	1.90	1.29	1.09
U.S.								
Spot	5.36	4.70	1.43	0.25	0.29	0.25	0.29	0.54
FRA 3x6	5.31	4.15	1.07	0.42	0.41	0.42	0.40	0.71
FRA 6x9	5.21	3.69	1.16	0.77	0.68	0.77	0.64	0.82
FRA 9x12	5.06	3.45	1.29	1.23	1.02	1.23	0.91	0.94
FRA 12x15	4.94	3.36	1.45	1.59	1.47	1.59	1.28	1.12

Source: Thomson Datastream.

1 Data at period end.

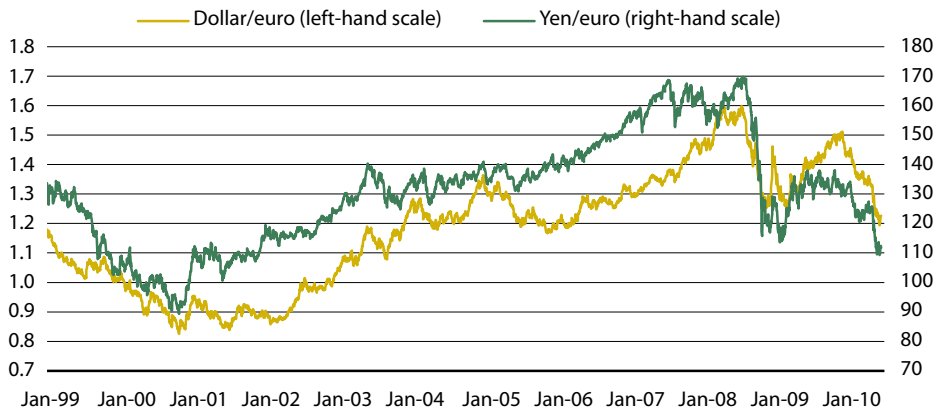
2 Corresponding to 15 June.

2.2 Exchange rates

In currency markets, the salient development has been the euro's sharp descent against main world currencies since end-2009, as a consequence of the turbulence on sovereign debt markets and, to a lesser extent, Europe's laggardly recovery versus other economic areas. Specifically, the European currency dropped almost 20% against the U.S. currency, from the 150 dollars/euro of mid December 2009 to just over 1.20 dollars/euro in mid June this year. Against the Japanese currency, the euro shed over 15% in the same period, from 133 to 112 yens.

Euro/dollar and euro/yen exchange rates¹

FIGURE 3



Source: Thomson Datastream.

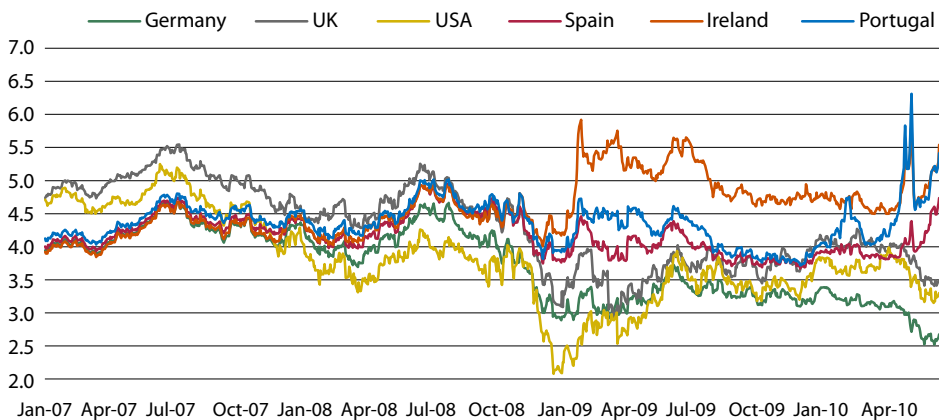
¹ Data to 15 June.

2.3 Long-term interest rates

Since end 2009, when news began to seep through on the grievous state of Greece’s fiscal accounts, we can talk of a decoupling movement in government yields between the countries considered soundest (Germany and the United States) and those economies, chiefly European, evidencing the gravest economic and fiscal deterioration as a consequence of the crisis. This is perfectly illustrated in table 4, which shows how the long-term government bond yields of historically “top grade” sovereign borrowers have come down in recent months, as the turbulences rocking European public debt markets prompted a renewed “flight to quality”. This mood of heightened uncertainty has more than offset the upward pressure exerted on yields by the surge in sovereign issuance in these zones, against a backdrop of intense public-sector funding requirements.

Long-term government bond yields

FIGURE 4



Source: Thomson Datastream. Data to 15 June.

From December 2009 to June 2010, U.S. treasury yields dropped 17 bp and 34 bp at three- and ten-year maturities, while euro-area yields fell by a considerably steeper 93 bp and 61 bp respectively. This faster run-down in shorter-dated bonds caused

a steepening of the euro government yield curve (ten/three years) from an average 167 bp in December 2009 to an average 199 bp in June. In the United States, conversely, the yield curve flattened (from 222 basic points to 205 in the same time period) on more rapidly declining long-term rates.

Medium and long government bond yields¹

TABLE 4

%	Dec 06	Dec 07	Dec 08	Dec 09	Sep 09	Dec 09	Mar 10	Jun 10 ²
Euro area								
3 year	3.75	3.96	2.07	1.55	1.54	1.55	1.17	0.62
5 year	3.77	4.04	2.50	2.27	2.35	2.27	2.15	1.49
10 year	3.80	4.27	3.04	3.22	3.29	3.22	3.12	2.61
United States								
3 year	4.58	3.12	1.07	1.37	1.46	1.37	1.49	1.20
5 year	4.53	3.49	1.51	2.33	2.36	2.33	2.42	2.04
10 year	4.57	4.10	2.40	3.59	3.39	3.59	3.72	3.25
United Kingdom								
3 year	5.00	4.48	2.60	1.67	1.90	1.67	1.87	1.35
5 year	4.94	4.61	2.80	2.69	2.64	2.69	2.79	2.22
10 year	4.64	4.63	3.33	3.94	3.76	3.94	4.02	3.47
Japan								
3 year	0.90	0.78	0.60	0.21	0.28	0.21	0.20	0.18
5 year	1.21	1.04	0.80	0.47	0.59	0.47	0.50	0.39
10 year	1.64	1.53	1.31	1.26	1.32	1.26	1.34	1.23

Source: Thomson Datastream.

1 Monthly average of daily data.

2 Average from 1 to 15 June.

A different story emerges among the countries viewed as more economically and fiscally vulnerable, particularly Greece, Portugal, Spain, Ireland and Italy, whose public debt markets experienced escalating tensions which carried sovereign risk indicators – CDS and spreads vs. the German bond – to their highest points since the entry of the single currency (see table 5 and figure 5). In effect, big-spending fiscal stimulus packages, the operation of automatic stabilizers, particularly intense during the recent recession, and sundry government schemes in support of the financial sector have pushed up the sovereign risk of many European economies to the unprecedented extent that government bonds are being priced at the same level of risk, even higher on occasion, as the best rated private debt securities.

Spread of 10-year government bonds vs. the German Bund (bp)

TABLE 5

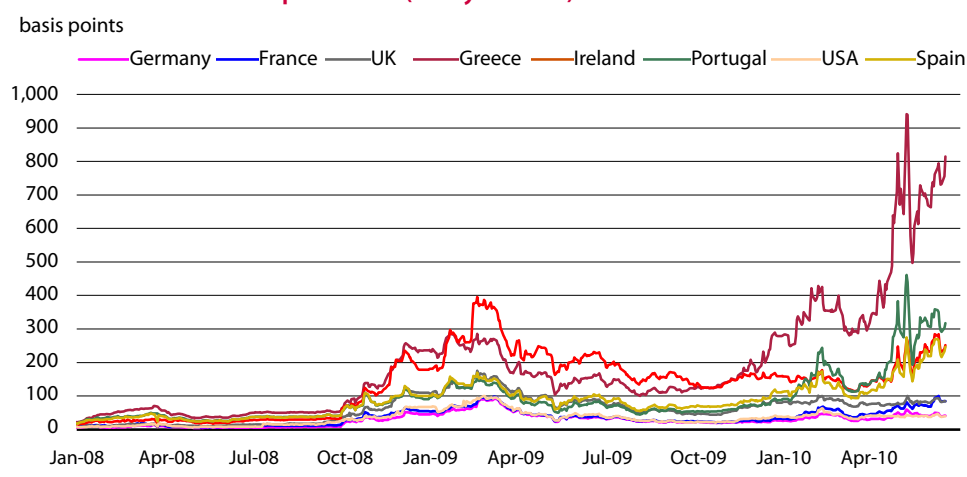
	Spain	Greece	Portugal	Ireland	Italy	France	Belgium
Dec 09	54	241	67	142	61	20	32
Jan 10	79	367	121	152	78	26	36
Feb 10	77	339	111	156	74	22	34
Mar 10	72	334	112	145	77	33	44
Apr 10	106	605	220	221	100	32	51
May 10	158	497	203	221	145	24	46
Jun 10 ¹	206	631	274	287	141	43	80

Source: Thomson Datastream. Data corresponding to the last day of the month.

1 Data to 15 June.

Government bond risk premiums (five-year CDS)

FIGURE 5



Source: Thomson Datastream. Data to 15 June.

In this context, the debt markets of the abovementioned European economies managed to temporarily halt the instability spiral by the support programme for Greece² launched in early May, and the EU's approval some days later of a 750 billion euro emergency loan package with the backing of the IMF. The ECB, meantime, launched a battery of measures to boost the liquidity of certain public and private debt markets as well as temporarily reopening dollar swap lines with leading central banks. Other economies like Spain, Portugal and Italy, located in the path of this new instability wave, have announced large-scale fiscal adjustment plans. And even European countries more comfortably positioned to finance their deficits, such as Germany, France and the United Kingdom, have embraced the cause of fiscal austerity.

Despite this effort, debt markets have continued to suffer recurrent instability episodes and, at the close of this report, there are no firm signs that tensions have abated.

Besides their direct impact on public finances, these continuing turbulences have also hit hard at private-sector financing conditions. First-half statistics on the risk premiums of different borrowers on both sides of the Atlantic, and the volume and mix of debt issues, indicate some spillover from rising sovereign risk premiums to the premiums of corporate debt, as well as suggesting that companies are struggling to find a market for their debt securities, on top of the difficulties posed by constraints on bank finance.

As we can see from table 6, the risk premiums paid by corporate bond issuers of medium to low credit quality began heading higher in the second quarter of the year, though nothing like on the scale that followed the Lehman Brothers collapse. A similar picture emerges from the credit risk indices most used in the U.S. and Europe (CDX and Itraxx respectively, see figure 6). Not unexpectedly, the run-up in spreads has been felt most intensely in the bank sector, particularly in Europe (see figure 7).

2 On 2 May 2010, the European Union and the IMF agreed a three-year financial support programme for Greece worth 110 billion euros, with the IMF contributing 30 billion and the euro-area countries the other 80 billion (30 billion in 2010). Support will take the form of bilateral loans from euro countries at an interest rate of 5%. In exchange, the Greek government will implement a fiscal austerity plan that shrinks its deficit from the 13.6% of 2009 to 3% of GDP in 2014, as well as stabilising its public debt ratio.

Corporate bond risk premiums¹

TABLE 6

Spread versus 10-year government bonds, basis points

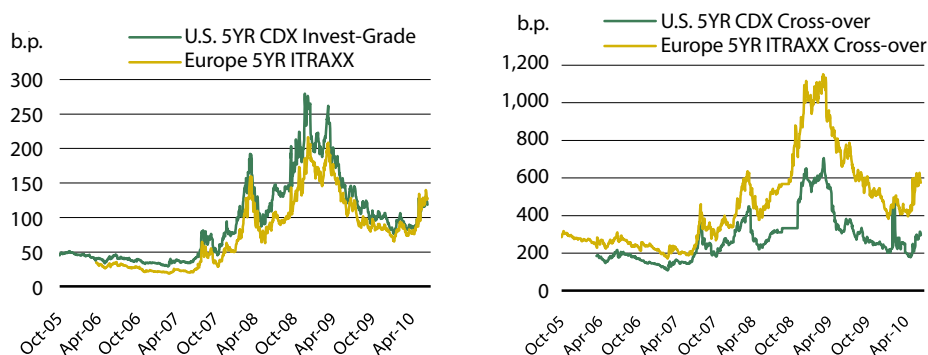
	Dec 06	Dec 07	Dec 08	Dec 09	Sep 09	Dec 09	Mar 10	Jun 10 ²
Euro area								
High yield	332	462	2,181	714	897	714	588	685
BBB	94	163	621	242	287	242	184	216
AAA	25	82	160	28	40	28	31	15
United States								
High yield	331	541	1,923	582	743	582	502	614
BBB	129	222	737	189	253	189	140	194
AAA	58	105	315	51	64	51	51	59

Source: Thomson Datastream.

- 1 Monthly average of daily data.
- 2 Average for the period from 1 to 15 June.

Credit risk indices¹

FIGURE 6

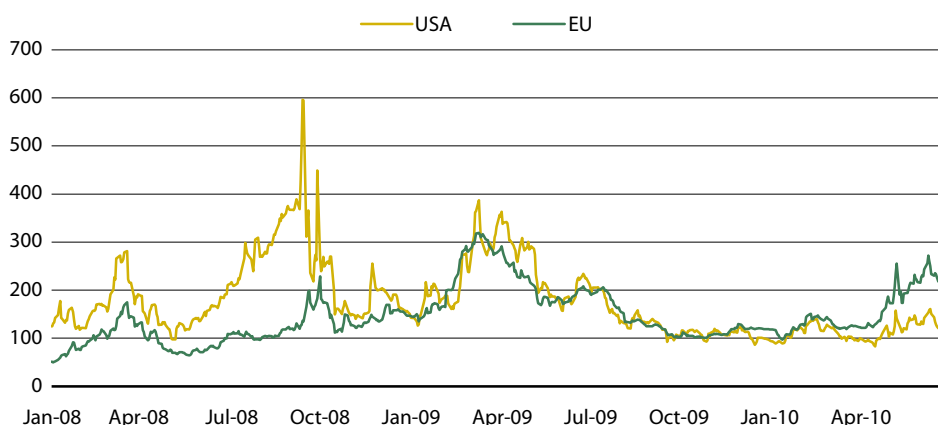


Source: Thomson Datastream.

- 1 Data to 15 June.
- Investment grade: issues rated BBB- or higher in the case of S&P and Baa3 or higher in the case of Moody's.
 - Cross-over: issues meeting two conditions: 1) the rating assigned by one agency is on the lowest rung within investment grade and 2) the rating assigned by a second agency is outside the investment grade range.

Bank sector credit spreads (5-year CDS)

FIGURE 7



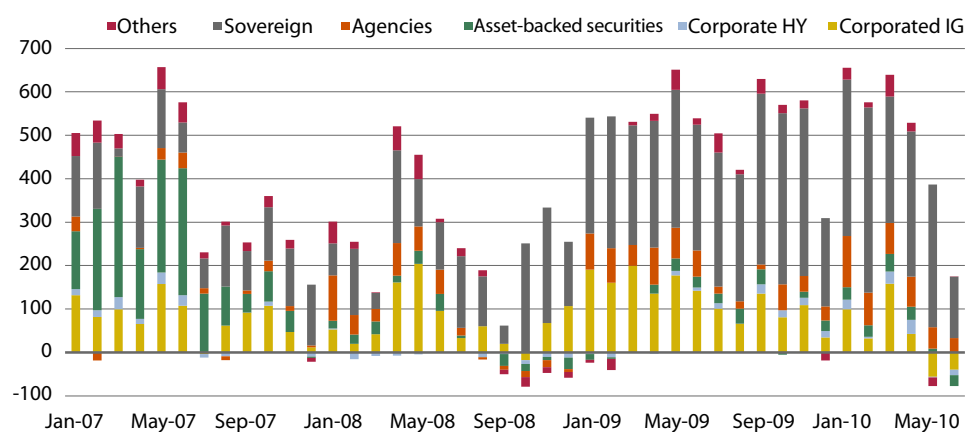
Source: Thomson Datastream. Data to 15 June.

The figures for international debt sales in the first half of 2010 look set to rival the record highs of 2009, with net issuance of over six trillion dollars. However, this apparent dynamism does not extend to all instruments or borrower sectors in that around two-thirds of this amount corresponds to sovereign debt and only one third to the private sector (see figure 8). At 67% of the first-half total vs. 59% in 2009, the weight of sovereign issuance far exceeds the average of the last decade (39%), indicating just how deep governments' funding requirements run in certain geographical areas. Another salient 2010 development was the pick-up in securitisation issues at the start of the year, due largely to a rush by U.S. government-backed agencies to get asset-backed securities onto the market before the June 30 expiry of the extraordinary facility (Term Asset-Backed Securities Loan Facility, TALF³) launched by the Federal Reserve precisely to get this market moving once more. On a breakdown by borrower, we can clearly see the fall in private-sector debt issuance, with the financial sector leading the downside.

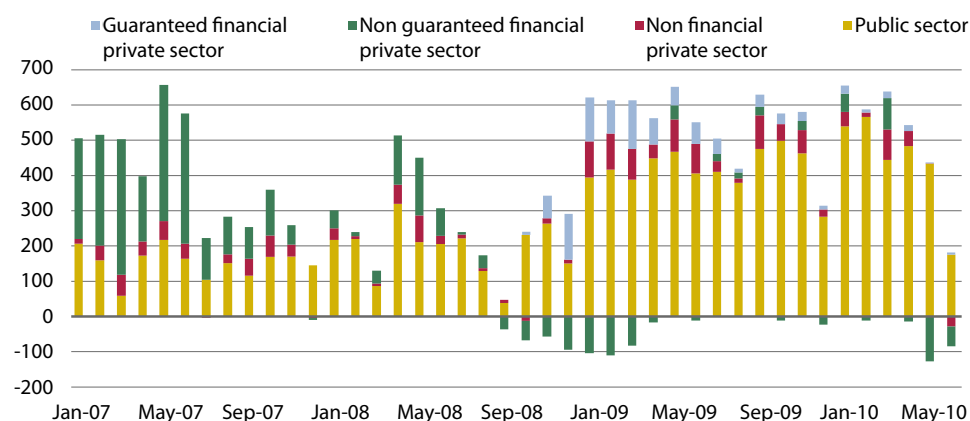
Net debt issuance in international markets

FIGURE 8

By financial instrument, in billion dollars



By borrower sector, in billion dollars



Source: Dealogic. Data to 15 June. June data on a monthly basis.

3 As of 30 June 2010, the facility will cease to provide loans secured by new issues of Commercial Mortgage Backed Securities, CMBS. Loans against other eligible asset-backed securities were discontinued on 31 March.

The slump in debt issuance over recent months to near the lows registered at end-2008 owes to a combination of supply and demand factors. On the one hand, the recent turmoil in global financial markets appears to have heightened investors' risk aversion, translating as tougher conditions for most borrowers except the "blue chips" referred to earlier. On the other, it is not impossible that part of the falling-off in new debt issues owes to the private-sector deleveraging sparked by the financial crisis.

2.4 International stock markets

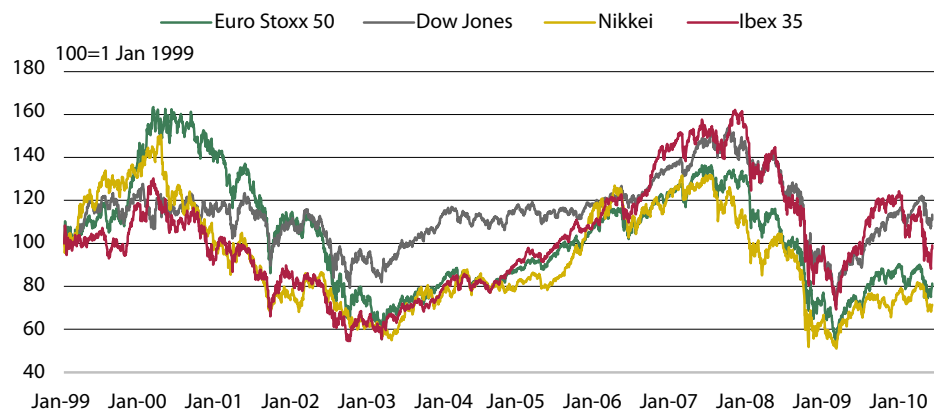
The European sovereign debt crisis has loomed over international equity markets since the year's outset, especially in Europe, triggering a selling wave in the countries affected, accompanied by a sharp run-down in prices. Contagion was certainly a factor, as it was with sovereign debt markets, though it is also true that leading markets posted a significantly divergent first-half performance.

In the opening quarter, the main U.S. and Japanese stock indices managed a notable advance on the strength of output indicators that augured a gathering recovery for their respective economies (see figure 9 and table 7). European indices performed unevenly over these same months, with results ranging from the 9% fall of the Ibex 35 to the 3.3% gain of the German Dax. U.S. markets again fared better than their European counterparts in the second quarter of the year, with falls from 3.8% to 4.6% against losses in Europe ranging from the -5.5% of Euronext to the -10.4% of the Ibex 35. The exception was Germany, whose principal index rose by 0.3%.

The year-to-date performance range of North American indices runs from -0.2% to 1.6%, compared to the dispersion experienced in Europe, where the Dax's gain of 3.7% stands in contrast to the cumulative 18.4% loss of the Spanish benchmark index.

Performance of main stock indices¹

FIGURE 9



Source: Thomson Datastream.

1 Data to 15 June.

Performance of main stock indices¹ (%)

TABLE 7

	2005	2006	2007	2008	2009	Q3 09	Q4 09	Q1 10	Q2 10 (to 15 June)			
									% Q	%/Dec	% y/y ²	
World												
MSCI World	7.6	18.0	7.1	-42.1	27.0	16.9	3.7	2.7	-7.7	-5.1	14.4	
Euro area												
Euro Stoxx 50	21.3	15.1	6.8	-44.4	21.1	19.6	3.2	-1.1	-7.3	-8.4	11.7	
Euronext 100	23.2	18.8	3.4	-45.2	25.5	21.6	3.7	2.2	-5.5	-3.5	19.8	
Dax 30	27.1	22.0	22.3	-40.4	23.8	18.0	5.0	3.3	0.3	3.7	26.3	
Cac 40	23.4	17.5	1.3	-42.7	22.3	20.9	3.7	1.0	-7.9	-7.0	13.7	
Mib 30	13.9	19.0	-8.0	-48.7	20.7	19.6	-0.7	-0.4	-10.0	-10.4	2.6	
Ibex 35	18.2	31.8	7.3	-39.4	29.8	20.1	1.6	-9.0	-10.4	-18.4	2.3	
United Kingdom												
FT 100	16.7	10.7	3.8	-31.3	22.1	20.8	5.4	4.9	-8.1	-3.6	20.6	
United States												
Dow Jones	-0.6	16.3	6.4	-33.8	18.8	15.0	7.4	4.1	-4.2	-0.2	20.8	
S&P 500	3.0	13.6	3.5	-38.5	23.5	15.0	5.5	4.9	-4.6	0.0	20.7	
Nasdaq-Cpte	1.4	9.5	9.8	-40.5	43.9	15.7	6.9	5.7	-3.8	1.6	26.9	
Japan												
Nikkei 225	40.2	6.9	-11.1	-42.1	19.0	1.8	4.1	5.2	-10.8	-6.2	-1.5	
Topix	43.5	1.9	-12.2	-41.8	5.6	-2.1	-0.2	7.8	-10.2	-3.2	-7.2	

Source: Datastream.

1 In local currency.

2 Year-on-year change to reference date.

The more or less across-the-board slide in equity prices was accompanied by a renewed upswing in volatility, especially in the second half (see table 8). Although historical volatility has reached considerable heights (see figure 10), exceeding 60% at certain points, it is still a good way below the peak that followed the Lehmann Brothers failure, and has in fact settled a little since the start of June.

Historical volatility of main stock indices¹

TABLE 8

%	1999-2003	2004-2007	2007	2008	2009	Q3 09	Q4 09	Q1 10	Q2 10 ²
Euro Stoxx 50	25.1	13.2	14.9	33.7	26.9	22.1	22.0	17.8	31.2
Dow Jones	18.8	10.8	13.1	31.6	22.4	15.9	14.6	12.3	17.9
Nikkei	23.0	16.3	16.7	38.2	26.3	21.6	20.5	18.3	20.4
Ibex 35	23.1	12.4	15.3	35.0	24.2	20.4	19.9	20.9	41.1

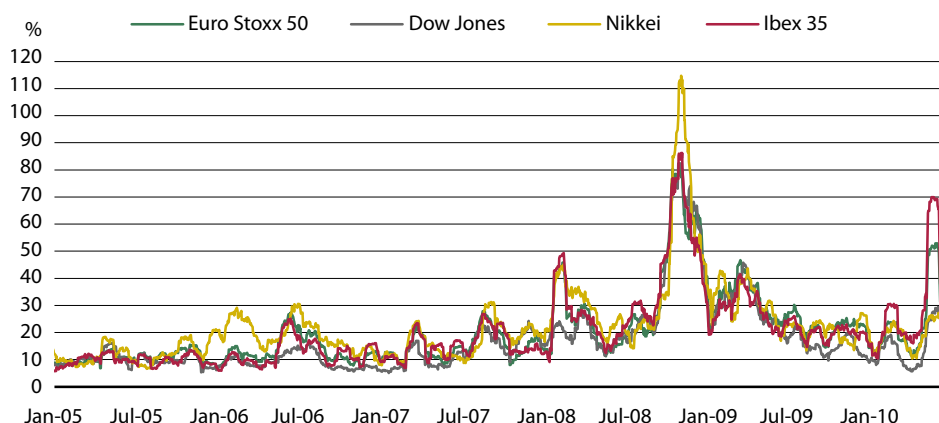
Source: Thomson Datastream.

1 Average daily data.

2 The latest available data correspond to 15 June.

Historical volatility of main stock indices¹

FIGURE 10



Source: Thomson Datastream.

¹ Data to 15 June.

Emerging country stock markets also felt the effects of the European sovereign debt crisis though, as in the U.S., the resulting uncertainty did not bear down on equities till the second quarter. Until that point, with China as a notable exception, the greater economic dynamism of emerging markets had delivered a strong advance in index prices. The biggest rises were recorded on Eastern European and Latin American exchanges (see table 9), while in Asia, the Chinese index slipped back over 5% and remaining markets, except Indonesia and Thailand, posted rather more modest gains.

However the tenuous climate of the second quarter also took its toll on emerging market shares, inverting the bull trend of the opening months and pushing some indices deeply into losses. Worst affected were Eastern European and Latin American markets with falls of over 10%, and only Chile and Venezuela managing to buck the trend. In Asia, the decline in prices was more contained (short of 4% in almost all cases), the exception being the Chinese market, whose benchmark index sank back 17%.

These sharp and contrasting movements in emerging market indices add up to a disparate first-half performance, as we can see from table 9.

Performance of other international stock indices

TABLE 9

Index		2007	2008	2009	Q3 09	Q4 09	Q1 10	Q2 10 (to 15 June)		
								% Q	%/Dec	% annual
Latin America										
Argentina	Merval	2.9	-49.8	115.0	30.7	11.8	2.3	-2.0	0.2	40.6
Brazil	Bovespa	43.7	-41.2	82.7	19.5	11.5	2.6	-8.4	-6.0	23.8
Chile	IGPA	13.8	-19.6	46.9	7.5	4.7	6.1	6.1	12.5	21.7
Mexico	IPC	11.7	-24.2	43.5	20.0	9.9	3.6	-1.7	1.8	31.3
Peru	IGRA	36.0	-59.8	99.2	16.0	-7.3	7.7	-4.7	2.7	6.9
Venezuela	IBC	-27.4	-7.4	57.0	13.0	9.4	5.9	11.3	17.9	49.7
Asia										
China	Shanghai Comp.	96.7	-65.4	80.0	-6.1	17.9	-5.1	-17.3	-21.6	-7.9
India	BSE	59.7	-55.3	85.0	17.9	3.4	0.8	-0.4	0.4	19.2
South Korea	Korea Cmp. Ex	32.3	-40.7	49.7	20.4	0.6	0.6	-0.2	0.4	19.7
Philippines	Manila Comp.	21.4	-48.3	63.0	14.9	9.0	3.6	3.8	7.5	25.6
Hong Kong	Hang Seng	39.3	-48.3	52.0	14.0	4.4	-2.9	-5.5	-8.3	8.5
Indonesia	Jakarta Comp.	52.1	-50.6	87.0	21.7	2.7	9.6	1.9	11.7	36.7
Malaysia	Kuala Lumpur Comp.	31.8	-39.3	45.2	11.8	5.9	3.8	-1.7	2.0	19.0
Singapore	SES All-S'Pore	18.7	-49.2	64.5	14.5	8.4	-0.4	-2.4	-2.7	21.7
Thailand	Bangkok SET	26.2	-47.6	63.2	20.0	2.4	7.3	-1.0	6.2	27.5
Taiwan	Taiwan Weighted Pr.	8.7	-46.0	78.3	16.7	9.0	-3.3	-5.9	-9.0	19.7
Eastern Europe										
Russia	Russian RTS Index	19.2	-72.4	128.6	27.1	15.2	8.9	-11.2	-3.3	29.7
Poland	Warsaw G. Index	10.4	-51.1	46.9	23.5	6.4	6.2	-3.2	2.7	28.7
Rumania	Romania BET	22.1	-70.5	61.7	28.0	6.7	27.2	-16.8	5.8	40.8
Bulgaria	Sofix	44.4	-79.7	19.1	34.6	-11.0	-1.4	-11.0	-12.2	2.4
Hungary	BUX	5.6	-53.3	73.4	32.0	4.9	14.2	-11.5	1.1	35.0
Croatia	CROBEX	63.2	-67.1	16.4	15.9	-8.8	6.9	-8.9	-2.6	-0.3

Source: Thomson Datastream.

The dividend yield of main world bourses tended to stabilise in the opening months after the decline of second-half 2009, then headed sizeably higher in the year's central months (see table 10). European markets fell within an interval that ran from the 3.3% of the Dax 30 to the 5.6% of the Ibex 35 and the Cac 40, bettering the yields on offer in the U.S. and Japan (2.4% for the S&P 500 and 1.9% for the Topix).

Dividend yield of main stock indices

TABLE 10

%	2006	2007	2008	2009	Sep 09	Dec 09	Mar 10	Jun 09 ¹
S&P 500	1.9	2.2	3.5	2.3	2.4	2.3	2.2	2.4
Topix	1.1	1.5	2.7	1.8	1.7	1.8	1.7	1.9
Euro Stoxx 50	3.5	3.7	7.5	4.2	4.6	4.2	4.3	4.9
Euronext 100	3.3	3.8	7.9	4.2	4.7	4.2	4.2	4.6
FTSE 100	3.8	3.9	5.8	3.7	3.9	3.7	3.5	4.3
Dax 30	2.3	2.5	5.4	3.5	3.7	3.5	3.2	3.3
Cac 40	3.8	4.3	8.1	5.0	5.2	5.0	5.0	5.6
Mib 30	3.7	3.8	8.6	3.4	3.8	3.4	3.7	4.2
Ibex 35	3.0	3.1	6.2	3.9	4.5	3.9	4.5	5.6

Source: Thomson Datastream.

¹ Data to 15 June.

Price-earnings ratios (P/E) moved lower in the first-half period, with a number of European indices dropping below the 10x mark (see table 11). This decline, which intensified in the second quarter, was the combined result of falling share prices and an across-the-board increase in expected earnings per share, which accelerated fastest in the UK, Japanese and German markets. Index-by-index comparison of the P/E multiple shows that U.S. and Japanese markets (12.4 for the S&P and 15 for the

Topix) remain ahead of their European counterparts (from the 9 of the Ibex 35 to the 10.7 of the Dax 30 and Euronext 100), though the lead of the Japanese index was narrower than in prior quarters after a year-to-date decrease of nearly 4.5 points. The U.S., meantime, has maintained its difference with Europe. Note finally that on a long-term basis, today's P/Es remain relatively low (see figure 12).

P/E¹ of main stock indices

TABLE 11

	2006	2007	2008	2009	Sep 09	Dec 09	Mar 10	Jun 10 ²
S&P 500	15.1	14.7	11.3	14.6	15.0	14.6	14.2	12.4
Topix	17.8	15.1	15.6	19.3	23.9	19.3	17.7	15.0
Euro Stoxx 50	12.2	11.6	7.8	11.5	11.8	11.5	11.0	9.3
Euronext 100	12.9	12.3	8.3	12.7	13.5	12.7	12.5	10.7
FTSE 100	12.4	12.1	8.3	12.5	13.7	12.5	11.8	9.5
Dax 30	12.8	12.3	8.8	12.7	13.4	12.7	12.2	10.7
Cac 40	12.7	11.8	8.0	12.1	12.6	12.1	11.8	9.9
Mib 30	13.1	11.5	7.6	12.4	12.9	12.4	12.1	9.9
Ibex 35	14.3	13.0	8.7	12.3	12.5	12.3	10.9	9.0

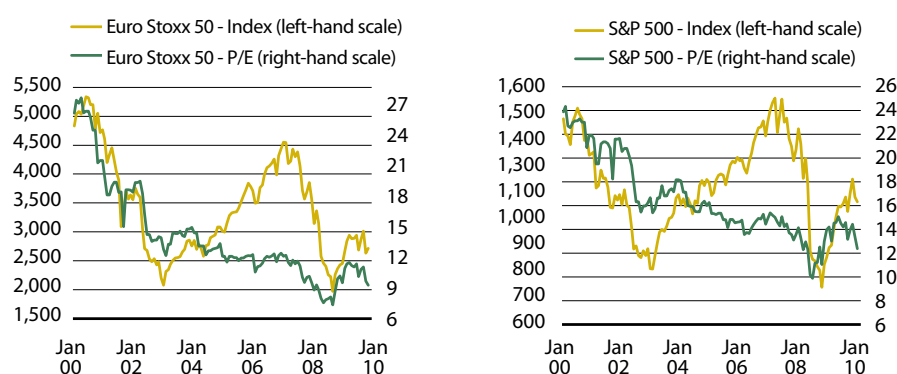
Source: Thomson Datastream.

1 The earnings per share making up the ratio denominator is based on 12-month forecasts.

2 Data to 15 June.

Stock indices and P/E: Euro Stoxx 50 vs. S&P 500

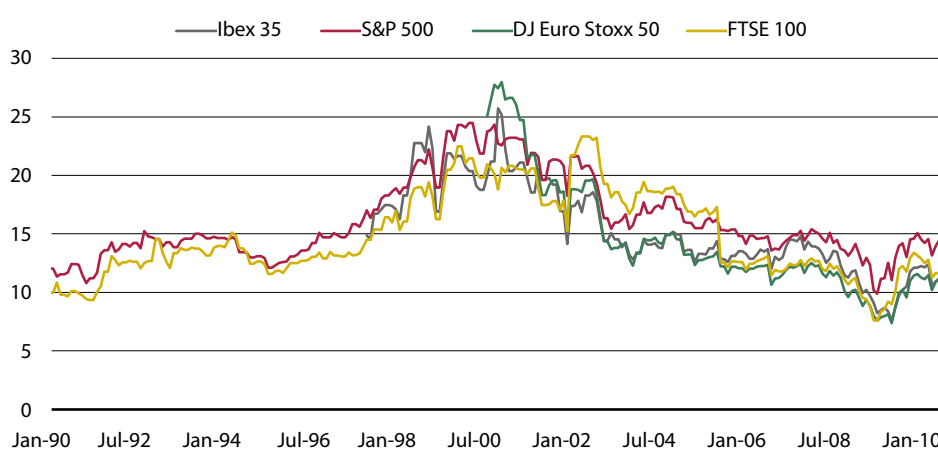
FIGURE 11



Source: Thomson Datastream. Data to 15 June.

P/E¹ of main stock indices

FIGURE 12



Source: Thomson Datastream. Data to 15 June.

1 The earnings per share making up the ratio denominator is based on 12-month forecasts.

Turnover on U.S. and other markets traced a divergent course after the contractions of 2009 in what was a mirror image of the year 2008 (see table 12). Specifically, European trading volumes recovered strongly in the first four months⁴ with growth rates exceeding 20%, in contrast to the 2.6%-5.8% shrinkage experienced by U.S. markets. Asian markets, finally, registered a general advance in year-on-year terms albeit with some divergence from one country to the next.

Turnover on main international stock markets

TABLE 12

Billion euros

Exchange	2006	2007	2008	2009	Q3 09	Q4 09	Q1 10	Q2 10 ³
United States ¹	27,044	32,758	48,488	22,451	4,906	4,913	5,365	4,985
New York	17,222	21,177	23,042	12,627	2,788	2,745	2,996	2,866
Tokyo	4,617	4,713	3,816	2,656	661	621	674	556
London	5,991	7,545	4,374	1,270	302	303	343	260
Euronext	3,006	4,102	3,028	1,383	348	365	375	325
Deutsche Börse	2,165	3,144	3,211	1,084	272	280	309	282
Borsa Italiana	1,258	1,681	1,029	673	187	175	169	173
BME ²	1,154	1,666	1,243	886	217	259	229	256

Source: World Federation of Exchanges and CNMV.

- 1 As of 2009, the sum of the New York Stock Exchange (NYSE), Euronext and Nasdaq; previously the New York Stock Exchange, Nasdaq and the American Stock Exchange.
- 2 Bolsas y Mercados Españoles. Not including Latibex.
- 3 Data for April and May except BME, which includes April, May and the first fortnight in June.

3 Fixed-income markets in Spain

The short-term interest rates of Spanish public debt held stable to the month of April, at which point they turned sharply higher despite no evidence ahead of hikes in ECB refinancing rates. By the first half of June, six- and twelve-month Treasury bill yields had climbed by 58 bp and 99 bp from their average March levels to 1.11% and 1.71% respectively, contrasting with the 15 bp fall in both tenors over the first quarter of the year. Yields at the shortest end (up to three months) held more or less flat to close the second quarter at 0.69%, in line with their March average and 27 bp ahead of the average for December 2009. Meantime, commercial paper rates barely varied in the first-half period, with the shortest-dated instruments anchored around 0.9% and the longest at just under 1.6% (see table 13).

Short-term interest rates¹

TABLE 13

%	Dec 7	Dec 08	Dec 09	Sep 09	Dec 09	Mar 10	Jun 10
Commercial paper²							
3 month	4.97	3.45	0.89	0.95	0.89	0.84	0.89
6 month	4.91	3.54	1.17	1.22	1.17	1.14	1.18
12 month	4.85	3.68	1.43	1.45	1.43	1.42	1.55

Source: AIAF.

- 1 Average daily data. June data correspond to the average from 1/06 to 15/06.
- 2 Traded on private fixed-income market AIAF.

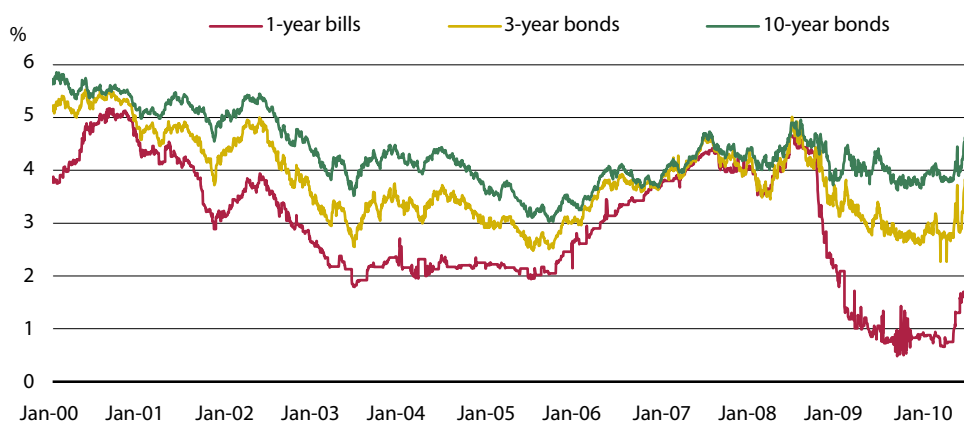
⁴ Data to 15 June in the case of the Spanish stock market.

Long government yields pulled higher in the second quarter, opening up a growing gap against the German benchmark (see figure 4). Specifically, Spain's ten-year bond yield rose around 80 bp to 4.5% on average in the first half of June, while three-year yields climbed by 189 bp to an average 3.24%. The result was that the ten year/three year curve flattened by 60 bp to 1.3 percentage points after holding steady through the previous quarter.

But the main event colouring the recent performance of Spanish public debt has been the sharp run-up in sovereign risk premiums, to the extent that the 10-year spread against the German bund practically tripled in the second quarter to more than 200 basis points. Meantime, five-year spreads dipped below 100 bp in the month of March, but surged rapidly thereafter to their highest point since the advent of the euro – a June peak of over 270 bp (see figure 14).

Spanish government debt yields¹

FIGURE 13

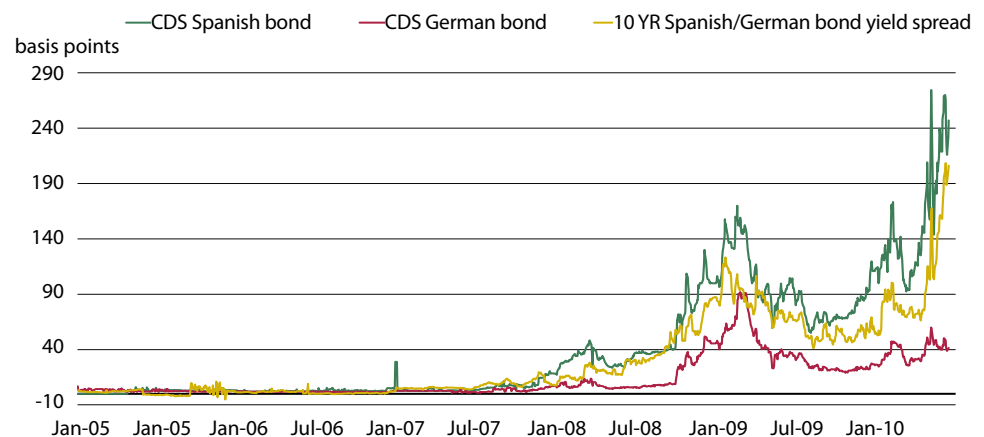


Source: Thomson Datastream.

1 Data to 15 June.

Risk premium of Spanish government debt¹

FIGURE 14



Source: Thomson Datastream.

1 Data to 15 June.

Long-term yields in corporate debt markets have dropped between 55 bp and 100 bp since the end of last year as far as 2.2%, 3.4% and 4.5% in three-, five- and ten-year tenors respectively, with most of the decline concentrated in the second quarter. However risk premiums have turned up sharply, again mainly in the second quarter, with the increase steepest in credit default premiums on financial institution debt (see figure 15). Causes in this case would be the uncertainties looming over sector writedowns and reorganisation, alongside the deterioration in the short-term growth prospects of the Spanish economy deriving from last May's fiscal retrenchment measures.

Medium and long-term corporate bond rates¹

TABLE 14

%	Dec 07	Dec 08	Dec 09	Sep 09	Dec 09	Mar 10	Jun 10
Private fixed income²							
3 year	4.59	3.79	3.19	3.22	3.19	2.93	2.23
5 year	4.65	4.17	4.19	4.31	4.19	4.10	3.43
10 year	4.94	4.73	5.02	5.14	5.02	4.97	4.45

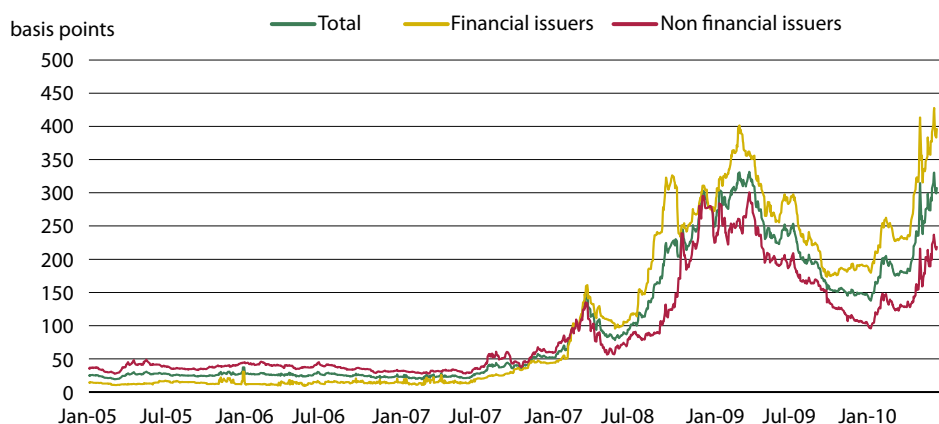
Source: AIAF.

1 Average daily data. June data correspond to the average between 1/06 and 15/06.

2 Bonds and debentures in outright trades on the AIAF market.

Aggregate risk premium¹ based on the five-year CDS of Spanish issuers

FIGURE 15



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

1 Simple average.

The volume of private fixed-income issues registered with the CNMV in the first six months of 2010 (to 15 June) totalled 95.52 billion euros, 57% down on the same period in 2009 (see table 15). Financial institutions were again the most active, originating 97% of first-half transactions though with volumes 57% lower than in first-half 2009. Likewise the issue volume of non financial companies contracted 46%.

It bears mention that the issuance mix underwent major changes in 2009, partly in response to extraordinary support measures for the financial sector. The new mix persisted through the opening quarter, though with an across-the-board decline in volumes. Since then, however, the virtual shutdown of the markets due to the instability brought on by the European sovereign debt crisis has led investors to increasingly take refuge in the assets viewed as safest.

Issuance had the following breakdown by asset type:

- Commercial paper issues by all corporate borrowers amounted to 49.67 billion euros between January and June 2010, 52% less than in the year-ago period. Their greater relative weight (52% of the total, 3 p.p. more than at end 2009) accounts for their 24 p.p. share in the overall issuance decline;
- Issues of non convertible bond and debentures summed 14.86 billion euros, a year-on-year decrease of 62% (equating to 11 p.p. of the decrease in issuance). A major factor here was the tailing-off of financial sector issues backed by government guarantee: just 6.90 billion euros year to date (46% of non convertible bond issues) against almost 31 billion euros (83%) in the first half of 2009. Take-up was primarily by the savings banks, the origin of 82% of guaranteed issuance.
- Covered bonds are currently viewed as among the safest private fixed-income investments – backed by both the issuing institution and its portfolio of mortgage loans – and have accordingly better withstood the recent debt crisis. Sales of these structured products fell by 22% to June 2010 in comparison to the first six months of 2009 (contributing 2 p.p. to the decline in issuance). Also, their popularity has been boosted recently by the ECB purchasing program due to expire this June.⁵ Covered bonds weighed in at 15% of total issuance, 6 p.p. more than at end 2009.
- At just 12.93 billion year to date, securitisation issues have slumped by 75% in annual terms, the steepest decline of any fixed-income instrument. In effect, only eleven issues have been filed this year by financial institutions compared to 47 in first-half 2009. As well as the prevailing climate of distrust, the move away from asset-backed securities may reflect tougher conditions for their acceptance as collateral in ECB lending operations⁶ and possible changes ensuing from the Basel III reform, which could see them penalised.
- Finally, it bears mention that preference share issues have dried up entirely compared to the 7 billion euros issued to June 2009 (3.2% of total issuance), when they found a place in the capital strengthening strategies of some financial institutions. As we write, it seems the banks will turn increasingly to instruments with greater loss absorbing capacity (core capital) in response to the stringent regulatory changes being discussed by the Basel Committee on Banking Supervision.

5 Between 6 July 2009 and 15 June 2010, purchases under this facility came to 57.83 billion.

6 In February 2009, the ECB introduced new rules on the haircuts (discounts) applicable to asset-backed securities accepted as collateral in refinancing operations, which raised them to 12% plus a 5% add-on for those lacking an externally assessed market price. It was recently stipulated that for asset-backed securities issued after 1 March 2010 to qualify as collateral for ECB refinancing operations they would have to obtain a second rating from a credit assessment agency approved by the Bank such that, firstly, both ratios should be AAA at the time of issue and, secondly, that the security's two highest ratings throughout its life should in no case fall below A-. Finally, for securities issued after that date, eligibility for inclusion on the acceptance list after 1 March 2011 will be contingent on fulfilling the second-best rating rule throughout the bond's life.

	2007	2008	2009	2009				2010	
				Q1	Q2	Q3	Q4	Q1	Q2 ²
NOMINAL AMOUNT (million euros)	648,757	476,276	387,476	116,427	130,129	66,722	74,199	51,667	43,852
Covered bonds	24,696	14,300	35,574	10,474	10,175	3,870	11,055	4,650	9,305
Territorial bonds	5,060	1,820	500	0	500	0	0	400	3,700
Non convertible bonds and debentures	27,416	10,490	62,249	15,492	28,249	6,138	12,370	8,733	6,130
Convertible/exchangeable bonds and debentures	0	1,429	3,200	0	300	2,200	700	0	0
Asset-backed securities	141,627	135,253	81,651	27,358	31,035	12,956	10,301	2,875	10,054
Domestic tranche	94,049	132,730	77,289	27,358	28,484	11,751	9,696	2,875	10,054
International tranche	47,578	2,522	4,362	0	2,551	1,206	605	0	0
Commercial paper ³	442,433	311,738	191,342	61,552	49,697	40,340	39,753	35,010	14,663
Securitised	465	2,843	4,758	1,334	1,227	953	1,245	995	755
Other	441,969	308,895	186,583	60,218	48,470	39,388	38,508	34,015	13,908
Other fixed-income issues	7,300	0	0	0	0	0	0	0	0
Preference shares	225	1,246	12,960	1,550	10,173	1,217	20	0	0
Pro memoria:									
Subordinate debt issues	47,158	12,950	20,989	8,484	5,571	4,679	2,254	3,284	1,789
Covered issues	86,161	9,170	4,794	0	2,559	1,450	785	299	0

Source: CNMV.

1 Including those admitted to trading without an issue prospectus.

2 Latest data: 15 June 2010.

3 Figures for commercial paper correspond to amounts placed.

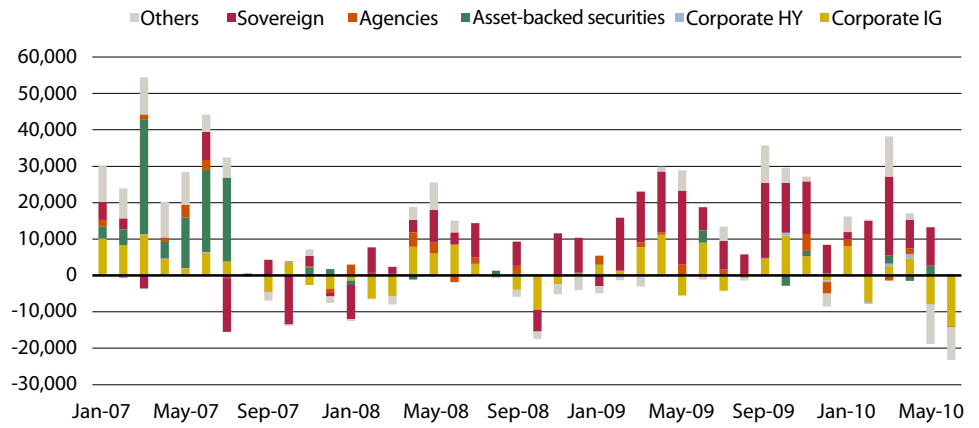
Figures 16 and 17 track the net debt issuance of Spanish companies since 2007, with a breakdown by instrument and issuer sector. As we can see from figure 16, sovereign debt issuance has maintained the primacy it acquired in the year 2009, while that of remaining instruments has thinned considerably. Indeed, net funding via top-grade instruments has actually turned negative (with a greater volume redeemed than issued), high-yield issues have ceased altogether and securitisation issues have slowed to a trickle. In sum, Spanish companies' issuance has sagged severely, to the extent that the funds raised in May and the first half of June were less than the volume of debt maturing in the same period, as well as marking a crisis low.

Figure 17, offering a breakdown by issuer, reveals that, with few exceptions, the only issuer of consequence in recent months has been the Spanish public sector. Net non financial private-sector issuance is negligible in comparative terms and that of the financial private-sector stands in negative terrain. This drying-up of direct funding flows to the domestic non financial private sector is especially worrying at a time like now of curtailed access to bank finance (see figure 18). In fact, according to the Survey of Bank Lending for the first quarter of 2010, although the conditions for new lending to Spanish companies eased for the first time since 2006, the improvement was small compared to the constraints piled on in the intervening years, with little prospect of any short-term changes.

Net long-term debt issuance in Spain¹

FIGURE 16

By financial instrument, in million dollars



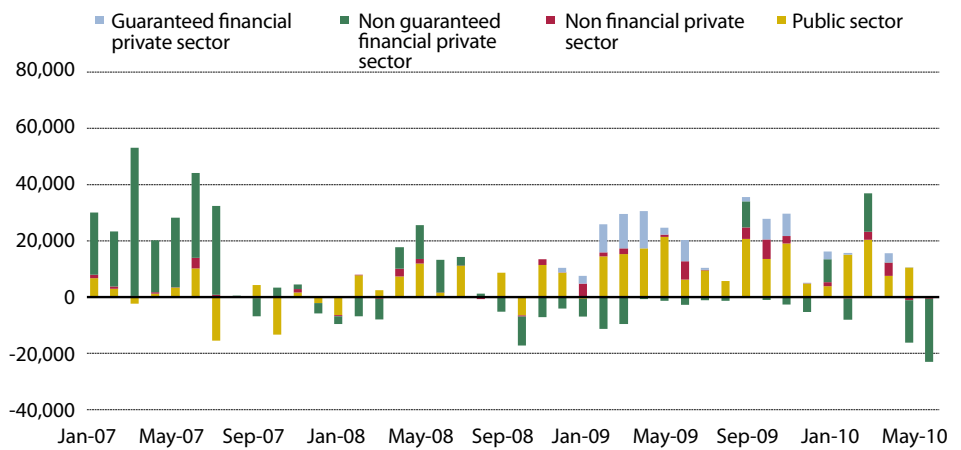
Source: Dealogic. Latest data to 15 June 2010. Data for last month on a monthly basis.

¹ The "Others" category includes covered bonds, preference shares and other long-term debt securities.

Net long-term debt issuance in Spain¹

FIGURE 17

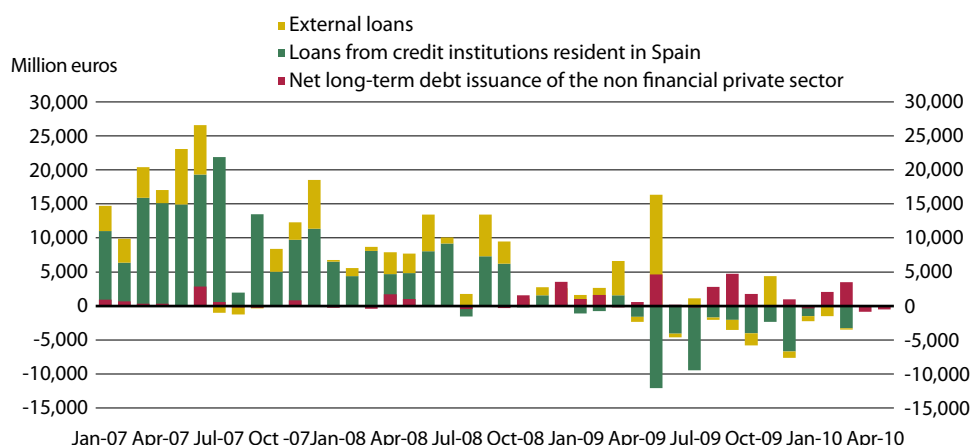
By borrower sector, in million dollars



Source: Dealogic. Latest data to 15 June 2010. Data for last month on a monthly basis.

Change in the outstanding balance of bank loans received and the net long-term debt issuance of the Spanish non-financial private sector¹

FIGURE 18

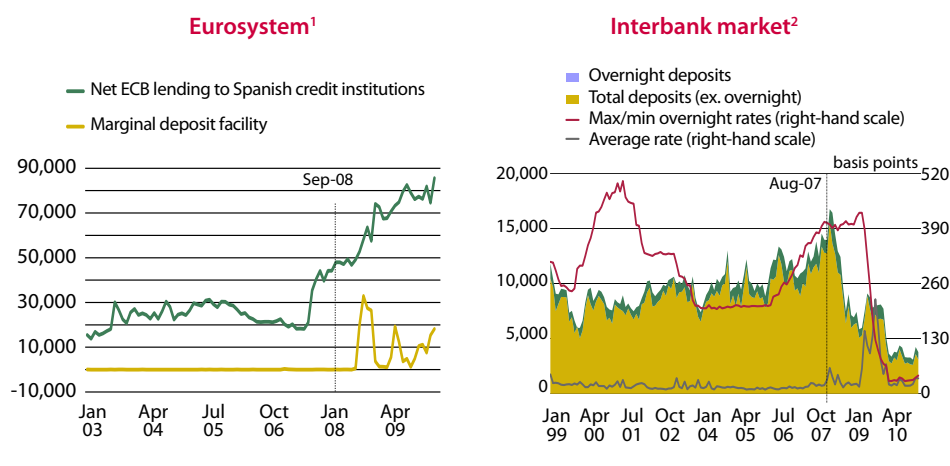


Source: Banco de España and Dealogic.

1 Figures for bank sector lending to non financial companies resident in Spain correspond to Banco de España monthly data to April 2010. Monthly figures for the net long-term debt issuance of Spanish non-financial private sector borrowers are based on Dealogic data to 15 June 2010 (June data on a monthly basis).

Difficulties raising funds on the unsecured interbank market (deposits) since the onset of the financial crisis in August 2007 have led Spanish financial institutions to participate in Eurosystem refinancing operations, with gathering intensity since autumn 2008 (see figure 19). They have also kept a large portion of these loans in the ECB's own marginal deposit facility, which has gained in popularity since November 2009 even though interest rates are lower than those on unsecured interbank deposits (0.25%). The average rate of overnight deposits – now almost equalling the sum of deposits of all maturities loaned out among Spanish banks – has begun to head higher in recent months. What we observe is a larger jump in the spread between maximum and minimum rates (as far as 105 bp on 31 May against an average of 23 bp since end 2009) than in the average overnight rate, which hit 63 bp on this same date⁷ after averaging 32 bp.

7 On Saturday 29th May Fitch downgraded the rating of Spanish long-term public debt from AAA to AA+, with effects on the ratings of long-term debt issues of Spanish financial entities.



Source: Banco de España.

- 1 Monthly average of daily data to May 2010.
- 2 Monthly average of daily data to 15 June 2010.

4 Equity markets in Spain

4.1 Prices

The price run-up of 2009, which carried the Ibex 35 almost 30% higher, gave way to an 18.4% fall between January and mid-June of 2010 (-9.0% in the first quarter and -10.4% in the second). The scale of decline was greater than in other leading markets in a context of rising volatility, especially in the second quarter.

Remaining national stock indices were also impacted by the heightened volatility sweeping financial markets. The small and medium cap indices, which had been falling since late 2009 began to shed value with increasing speed (over -11% in the second quarter vs. less than -1% in the first). The FTSE Latibex indexes that performed so strongly in 2009 (when the FTSE Latibex All-Share doubled in value), also fell under the effects of the prevailing uncertainty, though to a lesser extent than other national indices. In fact, year to date, this set of indices has managed an advance of over 2% (see table 16).

The market's increasingly unsettled mood is reflected in the end-April surge in the implied volatility of the Ibex 35 (see figure 20). Over the year's opening months, volatility held near the levels in place before the Lehman Brothers collapse (at something over 20%), then it suddenly tripled in May and, despite signs of moderation, is still hovering around the 40% mark (against a historical average of 24% since the year 1999).

Performance of Spanish stock indices (%)

TABLE 16

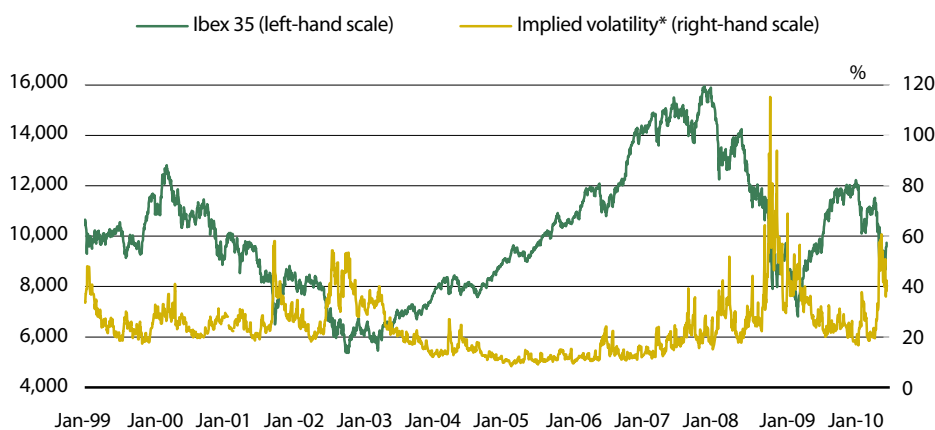
	2006	2007	2008	2009	Q3 09 ¹	Q4 09 ¹	Q1 10 ¹	Q2 10 (to 15 June)		
								% Q	%/Dec	% y/y
Ibex 35	13.8	7.3	-39.4	29.8	20.1	1.6	-9.0	-10.4	-18.4	2.3
Madrid	34.5	5.6	-40.6	27.2	20.9	1.0	-9.6	-10.3	-18.9	2.1
Ibex Medium Cap	42.1	-10.4	-46.5	13.8	11.7	-5.9	-0.8	-11.6	-12.3	-6.2
Ibex Small Cap	54.4	-5.4	-57.3	17.6	17.9	-11.2	-0.9	-16.1	-16.8	-16.4
FTSE Latibex All-Share	23.8	57.8	-51.8	97.2	15.6	14.6	6.9	-4.2	2.4	29.9
FTSE Latibex Top	18.2	33.7	-44.7	79.3	12.4	17.6	7.2	-1.8	5.2	36.6

Source: Thomson Datastream.

¹ Change vs. previous.

Performance of Ibex 35 and implied volatility

FIGURE 20



Source: Thomson Datastream and MEFF.

* Implied at-the-money (ATM) volatility on nearest expiry. Data to 15 June.

All sectors of the Madrid General Index (IGBM) except consumer goods posted first-half losses on a major scale (see table 17). The worst performer was financial and real estate services (-23.7% year to date) with both banks (-24.6%) and real estate firms (-23.5%) moving deep into negative territory. The basic materials, industry and construction sector was next from the bottom with a year-to-date slide of 19.4%, followed by technology and telecommunications (-16.7%), oil and energy (-16.1%) and consumer services (-11.2%). As stated, only consumer goods scraped a positive result (2.5%) despite faltering in the second quarter (-4.5%). Again, the biggest drag on the IGBM during first-half 2010 was exerted by the top two banking groups (see table 18), which accounted for 53% of the index fall. Other notable contributors on the downside were a telecommunications operator (20% of the IGBM fall) and an electric utility (7%).

Performance of the Madrid Stock Exchange by sector and leading shares¹ TABLE 17

annual % unless otherwise indicated						Jun-2010 ³		
	weighting ²	2009	Q3 09	Q4 09	Q1 10	% Q	%/Dec	% y/y
Financial and real estate services	45.72	47.3	27.3	1.2	-14.2	-11.1	-23.7	3.6
Real estate and others	0.17	-31.8	40.2	-27.8	-2.3	-21.7	-23.5	-26.8
Banks	43.06	50.0	27.9	2.0	-15.0	-11.2	-24.6	4.0
BBVA	12.93	49.4	35.7	4.9	-20.4	-13.8	-31.4	1.5
Santander	25.75	73.0	28.5	6.2	-14.8	-9.3	-22.7	14.9
Oil and energy	15.96	-2.7	14.6	1.0	-5.5	-11.2	-16.1	-3.7
Iberdrola	7.59	2.0	16.0	-0.5	-5.9	-13.0	-18.2	-8.6
Repsol YPF	3.72	24.0	16.6	0.7	-6.4	0.0	-6.4	8.5
Basic materials, industry and construction	7.84	22.5	11.7	-5.7	-4.4	-15.7	-19.4	-16.1
Construction	4.36	17.7	10.8	-5.9	-6.7	-15.4	-21.1	-18.2
Technology and telecommunications	22.55	22.8	16.8	3.2	-9.9	-7.6	-16.7	5.2
Telefónica	21.73	23.2	17.0	3.5	-10.1	-7.5	-16.9	5.7
Consumer goods	4.90	26.3	12.6	3.6	7.3	-4.5	2.5	20.2
Consumer services	3.03	32.3	28.7	1.2	0.6	-11.7	-11.2	16.1

Source: Thomson Datastream and Bolsa de Madrid.

1 Shares capitalising at more than 3% of the IGBM.

2 Relative weight (%) in the IGBM as of July 2009.

3 Data to 15 June. Quarterly change (% Q) corresponds to the period between 31 March and 8 June.

Shares with greatest impact on IGBM change¹ TABLE 18

Share	Sector	Jun-2010 ²	
		% Q	%/Dec 09
Negative impact			
Banco Santander	Financial and real estate services	-2.39	-5.85
BBVA	Financial and real estate services	-1.78	-4.06
Telefónica	Technology and telecommunications	-1.64	-3.67
Iberdrola	Oil and energy	-0.99	-1.38
Banco Popular	Financial and real estate services	-0.28	-0.19
Ferrovial	B. materials, industry and construction	-0.20	-0.30
Red Eléctrica Corp.	Oil and energy	-0.15	-0.13
Acciona	B. materials, industry and construction	-0.15	-0.21

Source: Thomson Datastream and Bolsa de Madrid.

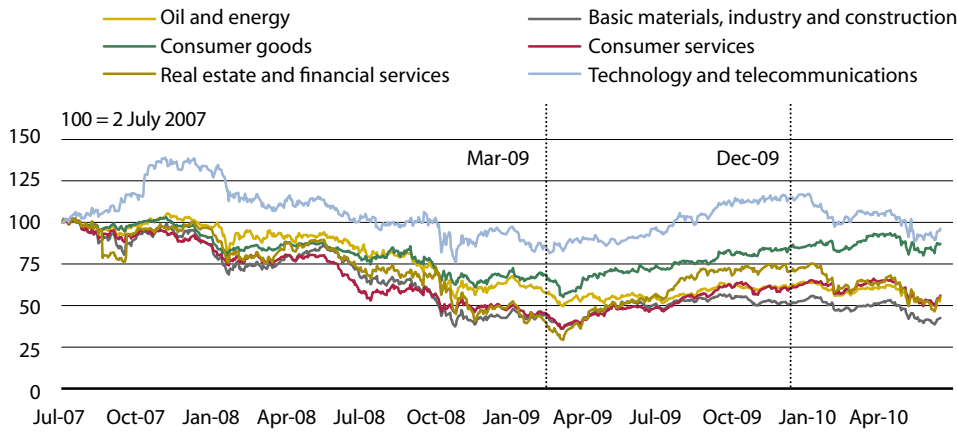
1 The shares listed are those having most impact (equal to or more than 0.15 points in absolute terms) on the quarterly change in the IGBM. In Q2 2010 not one company had a positive impact of over 0.15 p.p.

2 Data to 15 June.

All IGBM sectors are currently trading below the levels fetched prior to the subprime crisis in summer 2007 (see figure 21). We can split the intervening period into three distinct phases. The first, running to March 2009, was characterised by widespread losses. This was followed by a rally lasting to the end of the year, which powered the “safe haven” shares of technology and telecoms to well above their pre-crisis levels. The third phase, starting at end-2009, coincided with the crisis of confidence that erupted around Greece’s public finances, and was marked by a strong bear movement across all sector indices. Basic materials, industry and construction suffered the biggest price tumble since the start of the crisis (-57%), followed by oil and energy (-47%), financial and real estate services (-45%), consumer services (-44%), consumer goods (-13%) and, finally, technology and telecommunications (-4%).

Performance of IGBM sector indices¹

FIGURE 21



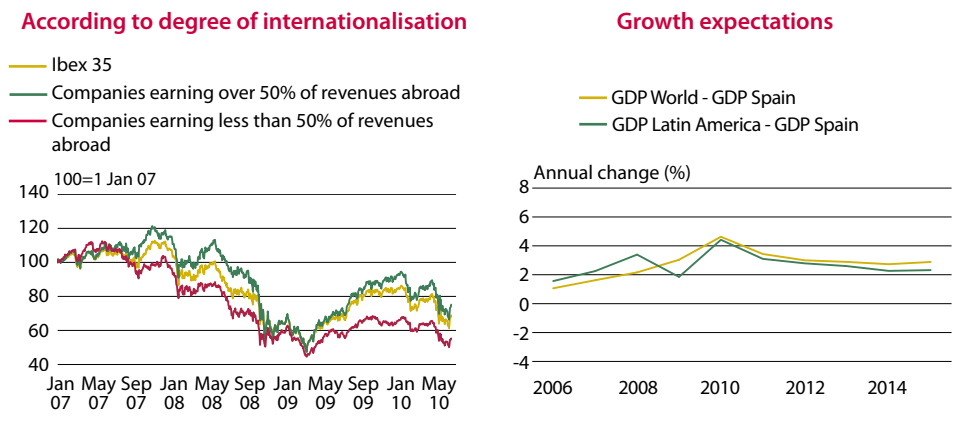
Source: Bolsa de Madrid.

¹ Data to 15 June.

The diversified earnings streams of Spain’s most internationalised companies did little to distance their first-half performance from that of other listed firms, in contrast to the gap opened up during the bull run of the last three quarters of 2009 (see figure 22). Specifically, this first group has shed 19% of its value year to date against the 16% losses of their more home-market oriented peers (after March-December 2009 gains of 96% and 48% respectively).

Performance of Ibex 35 companies¹

FIGURE 22



Source: Bloomberg, Thomson Datastream and IMF.

¹ In the left-hand graph, 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. Data to 15 June.

The worsening performance of Spanish equity markets over the second quarter of 2010 extended to most of the companies making up the IGBM. Hence the number of firms in losses jumped from 55% of the total in the first quarter to 90% in the second, while sizeably fewer companies managed gains of over 25% (see table 19).

Performance range of IGBM companies

TABLE 19

% total IGBM companies	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10 ¹
≥ 25%	41.7	35.0	0.0	2.5	0.8
10% to 25%	26.8	27.6	5.7	15.1	2.5
0% to 10%	13.4	21.1	14.8	27.7	6.7
≤ 0%	18.1	16.3	79.5	54.6	89.9
Pro memoria: total no. of companies	127	123	122	119	119

Source: Thomson Datastream.

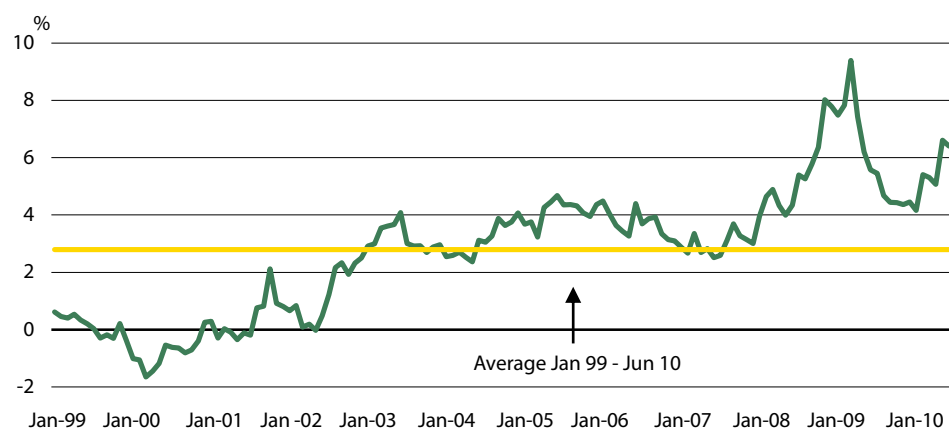
1 Data to 15 June.

The price/earnings ratio of the Ibex 35 performed worse than those of other main international indices. In effect, its 27% decline to around 9x is only comparable to the 24% dropped by the Japanese multiple in the same six-month period, and substantially more than the -19% of the P/E of the Eurostoxx 50 (see table 11). The result is that the P/E of the Spanish market still figures at the lower end of the developed economy range.

The earnings yield gap (indicating the risk premium on equity investment versus long-term government bonds) headed gradually higher from the 4.1% of the year's outset to 6.4% in June, with the first-half reduction in the P/E more than offsetting the recent upturn in government yields. This indicator is again pulling away from the average recorded since January 1999 (2.8%; see figure 23).

Earnings yield gap¹ of the Ibex 35

FIGURE 23



Source: Thomson Datastream and CNMV.

1 Difference between stock market yield, taken as earnings/price, and ten-year bond yields. Monthly data to 15 June, 2010.

4.2 Trading and liquidity

Turnover on the Spanish stock market began to pick up in year-on-year terms in the opening months of 2010 (see table 20) after a gathering contraction in 2009 which brought it down by 29% (-25% in 2008). Average daily trading in the second quarter (data to 15 June) came to 4.92 billion euros, a strong improvement on the 3.64 billion⁸ of the preceding quarter and the 3.64 billion of the same period last year.

8 Average turnover in 2007, 2008 and 2009 came to 6.59, 4.89 and 3.49 billion euros respectively.

Turnover on the Spanish stock market

TABLE 20

Million euros	2007	2008	2009	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10 ¹
All exchanges	1,667,219	1,243,387	886,135	184,654	225,638	216,778	259,065	229,120	255,947
Electronic market	1,658,019	1,235,330	880,544	183,367	224,385	215,405	257,388	227,866	254,821
Open outcry	1,154	207	73	19	27	14	12	17	12
of which SICAV ²	362	25	20	7	3	8	2	3	4
MAB ³	6,985	7,060	5,080	1,178	1,109	1,249	1,544	1,089	966
Second market	193	31,50255	3	1	1	0	0	0	1
Latibex	868	757,88857	435	89	115	110	120	147	147
Pro memoria: non resident trading (% all exchanges)									
	61.6	65.5	64.2	61.7	62.2	65.0	66.9	n.a.	n.a.

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

1 Cumulative data from 1 April to 15 June.

2 Open-ended investment companies.

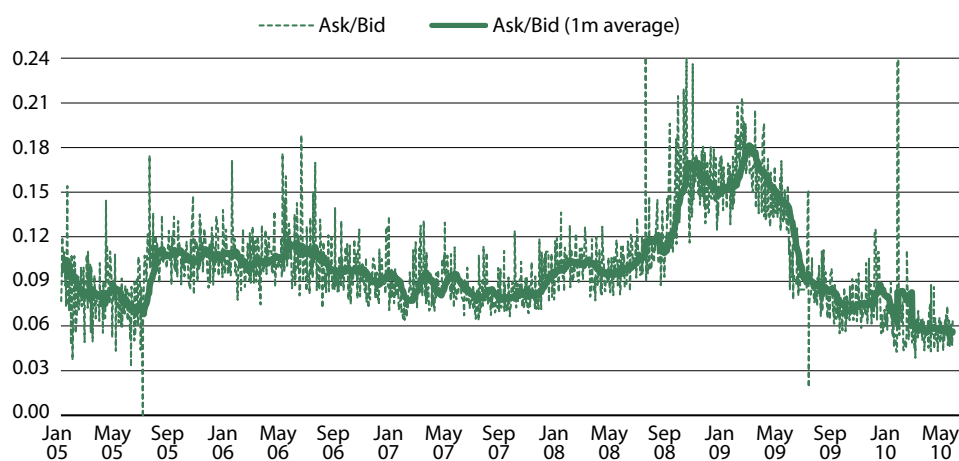
3 Alternative investment market. Data since the start of trading on 29 May 2006.

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

Finally, the liquidity of the Spanish market improved slightly after a somewhat erratic first quarter. The bid/ask spread of the Ibex 35 dropped from an average 0.09% approximately in December 2009 to a June average of under 0.06% (see figure 24). In fact, these last readings stand below the historical average of the past few years.

Liquidity indicator (bid/ask spread, %) of the Ibex-35¹

FIGURE 24



Source: Thomson Datastream and CNMV.

1 Data to 15 June.

II Reports and Analyses

The Credit Default Swap market: Areas of vulnerability and regulatory responses

Óscar Arce, Javier González Pueyo and Lucio Sanjuán del Peso (*)

(*) Oscar Arce, Javier González Pueyo and Lucio Sanjuán del Peso belong to the CNMV's Research, Statistics and Publications Department.

1 Introduction

The rapid growth in trading of Credit Default Swaps (hereinafter, CDS), is one of the most visible aspects of the intense process of financial innovation which has taken place over the last two decades. Together with asset securitisation, CDS have been the main instrument for massive transfer of credit risk. Their use has spread throughout both government and corporate debt markets worldwide.

Although these instruments offer undeniable advantages, which theoretically allow better risk allocation and management with direct benefits both for lenders and borrowers, CDS have been subject to criticism since the start of the current international financial crisis. The fact that some of the systemically important entities which have suffered greatest difficulties over the crisis, such as Lehman Brothers and AIG, were among the main agents involved in CDS markets worldwide quickly led to both analysts and regulators focusing on these instruments. Subsequently, the role of CDS as possible destabilising elements in the context of the recent European sovereign debt crisis has revived interest in these derivative products.

In this context, this article has a two-fold aim. On the one hand, it offers an analysis of the different general risk factors present in CDS markets, with special reference to counterparty risk and the disadvantages involved in the structure of non-regulated bilateral trading which is typical in these markets. At the same time, the article presents some of the main regulatory initiatives, as well as others put forward by the industry itself, which are mostly still in the development stage.

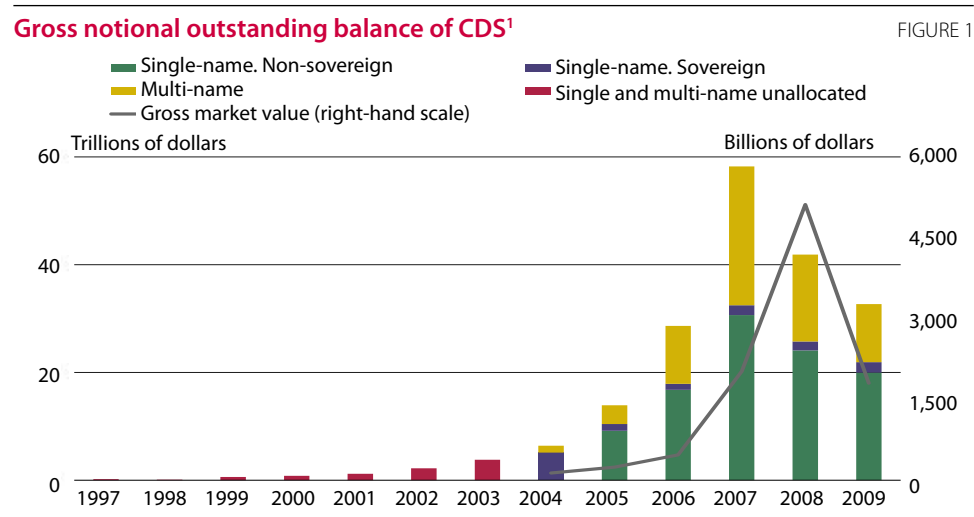
Furthermore, the article aims to shed some light on the recent controversy around the possible destabilising role of CDS in some European government debt markets. With this aim, the article provides a critical review of some of the arguments which are often used to indicate the possible harmful effects which CDS may have on sovereign debt markets and, therefore, on the funding conditions of the affected States. Within the framework of this discussion, the article questions whether excessively restrictive measures should be imposed on naked sovereign CDS, in which the buyer of the derivative does not simultaneously hold a direct interest in the underlying bond.

The rest of the article is structured as follows. Section 2 contains a description of the key aspects of CDS contracts and the structure of these markets, including the most important figures showing their development over recent years. Section 3 analyses the main risks present in CDS markets, including the recent controversy about sovereign CDS. Section 4 presents the main measures which have been applied recently or which are currently being developed in order to strengthen and improve the functioning of these markets. This section also contains a critical discussion about the restrictions on naked purchases of sovereign CDS. The last section covers the article's main conclusions.

2 Key aspects of the CDS Market

Credit Default Swaps or CDS are derivative instruments which allow credit risk to be transferred between two counterparties. Trading in these products is basically carried out bilaterally over-the-counter (OTC). In a typical CDS contract, the buyer, by paying a regular premium to the seller, obtains from the latter the commitment to pay the difference between the contractual value of the underlying credit which the CDS is based on and its market value if a credit event occurs. There are different types of credit event, with different levels of intensity, including bankruptcy of the reference asset issuer, specific non-payment of payment obligations, as well as debt restructuring.

The CDS' reference credit asset may be government or corporate debt, or also an index representing a basket of loans. This last case is called a multi-name CDS because the contract has an index of multiple references, as opposed to the case in which the hedging is linked to debt from one single issuer, which is known as a single-name CDS. Similarly, the underlying asset may cover all issues made by an entity or sovereign State, or only one specific issue. Finally, there are also CDS which have structured products as underlying assets, such as asset-backed securities.



Source: IMF and BIS.

¹ Data from the period 1997-2003 corresponds to the IMF, while data corresponding to subsequent years is provided by the BIS. The breakdown between single and multi-name is available from 2004, while from 2005 only the breakdown between sovereign and non-sovereign reference assets is available for single-name CDS.

Figure 1 contains the development of the gross notional outstanding of CDS worldwide for the different types of contracts mentioned above.¹ These historic series illustrate some of the most significant aspects of the recent development of these derivative products, such as the exponential growth over the years prior to break out of the crisis (whose outstanding balance reached 105% of world GDP in 2007), the minor role played by CDS referenced to sovereign debt in comparison with

¹ The gross notional outstanding balance of CDS is the sum of the nominal values of all the contracts established and not settled at the report date of declaring entities, adjusting those trades which involve double accounting (one trade between two declaring entities is reported twice). This figure represents the maximum protection specified in the contract in the event of non-payment.

contracts with private debt as an underlying asset (although the former was the only one to increase during the second half of 2009 in line with the greater relative weight of public debt issues compared to private issues) and the relative weight of multi-name CDS over the last five years.²

Figure 1 also shows the development of the gross market value of the CDS (measured at the end of each year). This variable, which represents the price of the insurance offered by these derivatives, depends positively on the probability of a credit event and the corresponding expected loss. Therefore, it is logical that this variable reached its highest value in the middle of the most critical phase of the world financial crisis at the end of 2008.

Figure 2 shows the development in the composition of the derivative products mainly traded on OTC markets. As shown by figure 2, despite the rapid expansion in CDS over recent years, it is important to highlight that these products still account for a very limited part of the total volume of OTC derivatives. In particular, the volume of notional balances of CDS existing at the end of 2009 only accounted for 5.3% of the total volume of derivatives traded on OTC markets, where interest rate swaps, which have existed much longer on the market, account for the greatest proportion of trading.

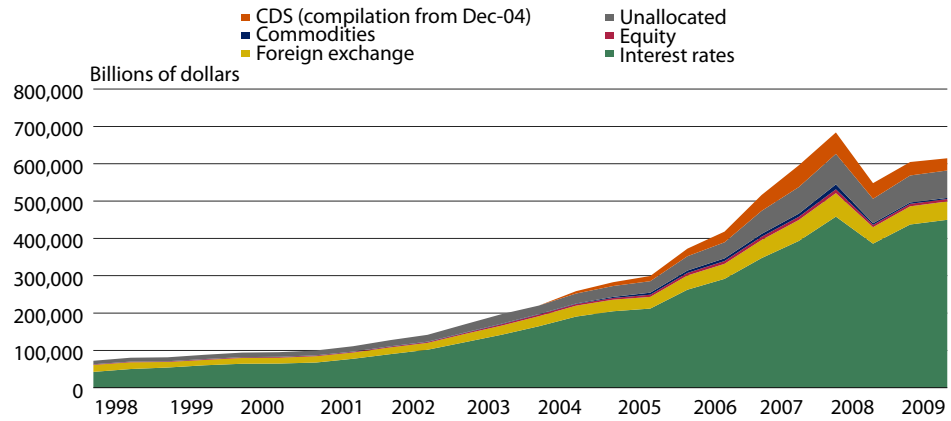
It should be pointed out that both in terms of supply and demand most participants in these markets are large financial institutions. In particular, according to data obtained by the British Bankers Association (BBA) based on a panel of participants active in the purchase and sale of CDS worldwide, the demand for CDS in the period 2000-2006 came mainly from banks, although their market share in the purchase of protection fell progressively over these years in favour of hedge funds (see left panel of figure 3). Other regional reports also reveal that it is banks that mainly demand these products. A recent survey conducted by the Eurosystem Banking Supervision Committee (European Central Bank, 2009) revealed that for 47% of banks in the European Union, CDS were an “important” tool for protecting against default risk, while for 23% these instruments were “very important”. For the group of the larger European banks, the above percentages rose up to 50% in both cases. According to data from the International Swaps and Derivatives Association (ISDA),³ in 2009, 88% of banks in the USA used CDS regularly.

2 Most multi-name CDS are referenced to private debt indexes, although they also cover some sovereign indexes. According to data from the US securities depository Depository Trust & Clearing Corporation (DTCC), at the end of May 2010 the notional outstanding balance of CDS referenced to sovereign indexes accounted for 1.8% of the total of multi-name CDS in gross terms. Furthermore, over 92% of the gross notional outstanding balance of all sovereign CDS registered at the end of May in the DTCC was single-name.

3 These figures can be found in Litan (2010).

Notional outstanding balance of OTC derivatives

FIGURE 2

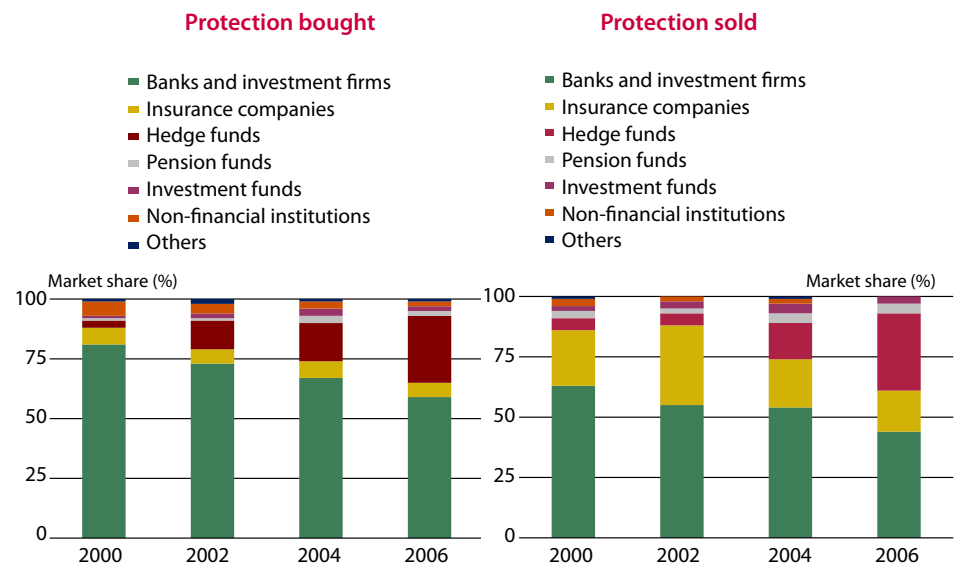


Source: BIS.

Large global entities, mainly banks, are the ones which play a key role on the offering side of CDS markets. According to the panel of participants surveyed by the BBA, the supply of CDS between 2000 and 2006 was concentrated, although to a lesser extent than on the demand side, in banks. The participation of hedge funds as net buyers grew (see right panel of figure 3).

Notional outstanding balance of CDS bought and sold by sector¹

FIGURE 3

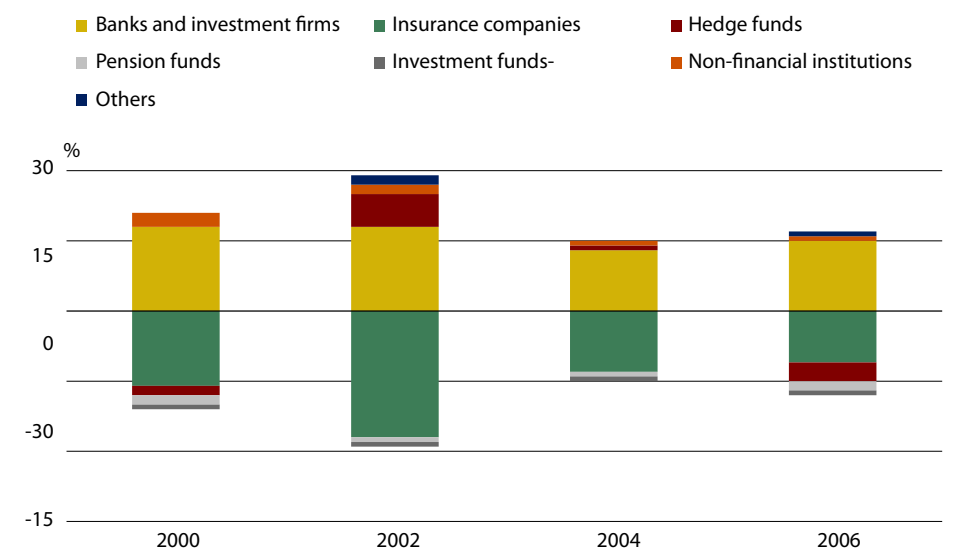


Source: BBA.

1 According to the data from a panel of 30 active participants in the purchase and sale of CDS resident in different geographical areas. The notional outstanding balance of CDS estimated by the BBA in 2006 represents 69% of the data published by the BIS for that year.

Figure 4 shows that the banking sector was a net buyer of protection, while insurance companies (including monolines) continued to be the most significant net seller. However, following the rescue of AIG in 2008 by the US government, the relative exposure of insurance companies would have fallen dramatically as this company was the most active insurance company in the CDS market.⁴

4 In fact, the survey prepared by Fitch (2009) on the global CDS market in 2008 excludes the insurance industry because of its low exposure to these derivatives compared to the banking sector.



Source: BBA.

The fact that the banking sector plays a dominant role as both buyer and seller of CDS reflects that banks constitute the most active dealers in these markets. The structure of the dealer industry in CDS markets, which is highly concentrated around a relatively reduced number of large corporations, constitutes one of the most characteristic aspects of these markets, with significant implications for their functioning, as will be analysed later. Accordingly, data from the U.S. Treasury⁵ shows that at the end of 2008 five commercial banks (JPMorgan Chase, Bank of America, Citibank, Goldman Sachs and HSBC) accounted for practically all (99%) of the buyers and sellers in the US. According to data from the DTCC, in April 2009 the five largest sellers of CDS worldwide accounted for 49% of the total supply of these instruments, and the ten largest sellers accounted for 72%.⁶

Thus, although the figures vary according to the different sources, all the available evidence suggests that trading in the CDS market is indeed dominated by a reduced number of large participants. The fact that it is normally large institutions which offer this type of hedging is, to a certain extent, a natural consequence of the positive relationship which generally exists between size and the ability to raise funds, on the one hand, and solvency in terms of their capacity as insurers against non-payment risks of large corporations and even of sovereign states, on the other.

3 CDS and systemic risk

Since the start of the crisis, CDS have often been highlighted as a generator of systemic risk. In order to shed some light on this issue, this section analyses some of the main aspects of CDS markets which might contribute to the high level of vulnerability of the financial system as a whole. Specifically, the analysis presented below

⁵ See <http://www.occ.treas.gov/ftp/release/2009-34a.pdf>.

⁶ The high level of concentration has increased following the crisis as a result of the disappearance of the most active participants in these markets, such as Lehman Brothers, Bear Stearns and the purchase of Merrill Lynch by Bank of America.

refers firstly to several widely-agreed risk factors, such as the non-regulated nature of these markets and their lack of transparency and, secondly, the controversy generated around the role of CDS in the context of the recent turmoil in several European sovereign debt markets.

The bilateral nature of CDS trading, in which trades are often carried out by phone, has fostered the development of these products, which in many cases respond to very specific needs of the buying counterparty. However, this trading structure has generally led to markets with little transparency which are not exempt from a certain level of counterparty risk and, in particular, the risk that the seller of hedging will not fulfil the agreed terms if a credit event occurs.

A mechanism to mitigate counterparty risk is the requirement of guarantees from the seller in the form of collateral or margins which are executable in the event of non-payment. In practice, the value of the guarantees provided is reviewed regularly and adjusted based on variations in the risk perceived in the underlying credit and the solvency of the CDS seller.

The evidence available in this regard for the period prior to the crisis, together with some experience accumulated since then, suggests that the efficiency of these mechanisms in the recent past to mitigate counterparty risk has been limited. On the one hand, according to data collected by the ISDA, in 2007 a little over a third of CDS contracts did not have this type of guarantee.⁷ On the other hand, in contexts of high financial instability, the strengthening of guarantee requirements subsequent to the origin of the contracts can lead to sharp changes in the asset position of the sellers, as occurred in the case of the US insurance company AIG.

At the end of summer 2008, this company had sold CDS for a net value of over 370 billions of dollars,⁸ many of which had complex structured products, such as Collateralized Debt Obligations (CDO), as reference assets. A significant part of the contracts sold by AIG were undercollateralised, with little or total lack of available information not only for AIG's different counterparties, but also for the supervisory authorities. In this context, the rating agency Standard & Poor's substantially downgraded the rating of AIG debt, which led to its counterparties immediately requesting greater collateral. The inability of the insurance company to obtain the necessary funds forced it close to the collapse.

Another of the episodes in this crisis which has demonstrated the significant counterparty risk existing in these markets was the collapse of Lehman Brothers. In the years prior to its collapse, this investment bank was one of the most active CDS global counterparties. However, unlike AIG, Lehman basically acted as a dealer rather than a net provider of protection. In addition, the available data shows that the positions held by this bank were better collateralised than in the case of AIG.⁹ Even so, the fact that many counterparties offset opposing positions with Lehman by executing new offsetting contracts and not through cancelling pre-existing positions contributed to the increase in the number of these contracts linked to this investment bank. In addition, the bank itself was a reference entity for many CDS which

7 This figure is cited in the working paper of the Squam Lake Working Group on Financial Regulation (2009).

8 See European Central Bank (2009).

9 See Stulz (2010).

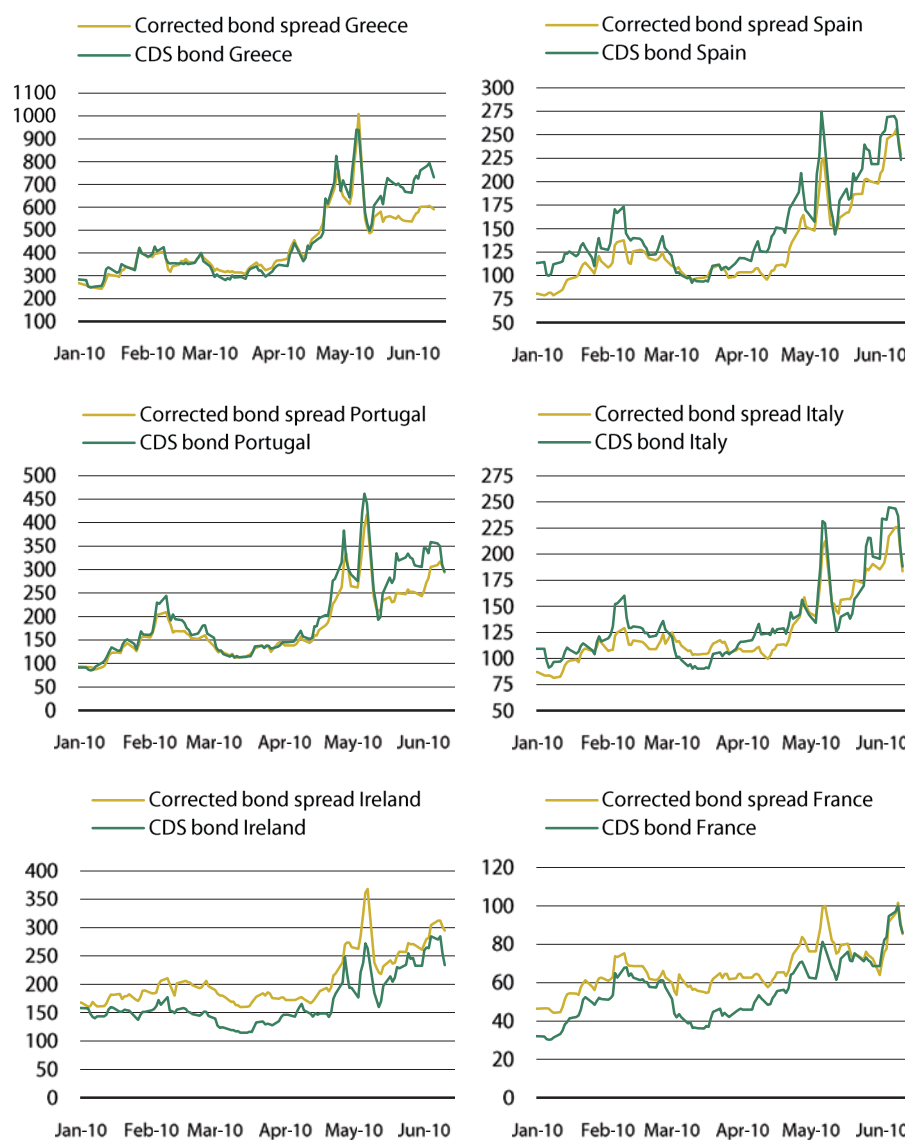
its counterparties bought to mitigate the risk of default. Finally, the sudden collapse of Lehman triggered fears about a collapse in the entire CDS market.

In short, the above episodes have led to a widely-held consensus about the systemic risk which may be generated by a CDS market model based on bilateral trading concentrated around a limited number of institutions and, sometimes, with very limited guarantees.

In addition to the above mentioned risk factors, we should include the absence of pre-trade and post-trade transparency regimes. CDS buyers do not normally have access to information about bid and ask prices. The price of each trade is agreed directly with the issuer in question. In this regard a high concentration of entities offering CDS has been indicated by several authors as a possible barrier for implementing pre-trade transparency standards in this industry.¹⁰ Furthermore, although there is a private provider of data on traded prices and volumes, these figures rarely contain daily information about real trades, but rather average values published with a certain delay. In other words, there is virtually no post-trade transparency in CDS markets.

In addition to the above deficiencies -trading based on non-regulated bilateral relations and limited transparency-, another possible systemic risk generator has recently been added to CDS markets, which is related to their hypothetical destabilising role in sovereign debt markets. As a result of the recent tightening of funding conditions in several European countries, several analysts, and even some public and economic authorities, have indicated the possible existence of speculative, and even manipulative, practices in sovereign CDS markets. The effect of these practices in public debt markets would have led to higher risk premiums and, in general, more restricted funding conditions for countries with a more vulnerable fiscal position.

¹⁰ This issue is analysed in detail by Litan (2010) in the more general context of the possible incentives for the major sellers of CDS to oppose an in-depth reform of these markets.



Source: Thomson Reuters Datastream. Data up to 10 June.

1 In order to calculate the spread, the premium for the CDS of the German state bond has been added to the spread of said bond, with the aim of approximating the price of a risk-free asset.

One of the observations which has sometimes been used to offer empirical support to the above argument on the destabilising role of CDS is the fact that, coinciding with the upturn in CDS prices and in the spread with respect to German debt -which is typically considered as the risk free reference in the Eurozone-, the difference between both risk indicators, referred to as “base”) has widened in recent months in several European countries, leading to a positive base (see figure 5). At the same time, CDS premiums have clearly tended to lead movements in spreads.

Putting all the pieces together, a hypothesis about the destabilising effects of the CDS market maintains that the aforementioned speculative or abusive practices in this market are initially reflected in higher CDS premiums, and later in higher spreads in the reference bond market.

However, the above argument contains several elements for analysis, the validity of which is not guaranteed, as shown below.

Firstly, there are objective reasons which help understand the existence of temporary deviations between CDS and spreads and the clearly excessive volatility in CDS markets, including the following:

- there is abundant empirical evidence which indicates that CDS generally react quicker than prices and bond spreads to variations in perceived risk. In other words, CDS tend to function as leading indicators of risk, without this meaning that the CDS price affects the true level of risk of the bond in question or its price;¹¹
- in situations such as the current one, with clear fiscal deterioration in some economies, the demand for default hedging through CDS rockets, while their supply, which is highly concentrated in a limited number of entities (as has been highlighted above) may show some short-term rigidity, which tends to magnify the positive effect on the premiums of these instruments and to trigger excessive volatility.

Secondly, it is important to recognise that possible fractions, rigidities or anomalies in the CDS market do not necessarily have to transfer significantly to the underlying bond market or have a significant effect on its prices for the following reasons:

- A CDS price which is not in line with the bond's true risk will only be transferred to the debt market if the participants in the latter market are willing to confirm prices for their assets which are below their intrinsic or essential value. However, it is very unlikely that this would occur systematically and persistently, as it would mean assuming that in bond markets, dominated by professional agents, there are opportunities for certain gains (arbitrage) which are not exploited over a long period of time.
- It also does not seem feasible that there may be trades in CDS markets aimed at intentionally manipulating the price of the underlying bonds, given that the bond market is normally much larger than the CDS market, as shown by the data about the relative size of these two markets in different European countries contained in table 2. What is more, these figures show that for some countries whose sovereign debt markets have suffered greater volatility over recent months, the size of the CDS market compared to the underlying bond market fell between March 2009 and May 2010 (as in Ireland) or has increased slightly (as in Greece, Spain and Italy).¹²

11 This observation has been documented for different markets by Blanco et al. (2005), Zhu (2006) and Alexopoulou et al. (2009), among others.

12 In terms of relative traded volume, instead of outstanding balances, at least in the case of Spain (the only country analysed in this article), the conclusion is similar. Accordingly, the daily average between June 2009 and March 2010 of the ratio between the traded volume of CDS and Spanish public debt was 1.4%, according to data from the DTCC (average daily trading volume of CDS) and the Spanish Treasury (simple trades of bonds).

Net outstanding balance of sovereign CDS, % over volume of outstanding debt

TABLE 1

	Nov 08	Mar 09	May 10
Eurozone	1.1	1.1	1.3
Germany	0.7	0.6	1
Spain	2.9	2.1	2.2
France	0.4	0.5	0.8
Greece	2.5	2.1	2.2
Ireland	8.6	6.2	4.4
Italy	1.0	1.1	1.3
Portugal	4	4.2	5.6

Source: DTCC, Reuters and CNMV.

In summary, while the existence of significant risk elements in the functioning of CDS markets, linked to their bilateral nature and the lack of transparency, is indisputable, the argument that they are a cause or amplifier of the recent turmoil in several European government debt markets is undoubtedly based on weaker foundations.¹³ At any event, progress in transparency and safety of CDS trades will facilitate better analysis of other possible problems, such as the presence of destabilising speculative practices or conduct aimed at manipulating the market, as argued in the following section.

4 Proposals for more transparent and safer CDS markets

In the context of the analysis presented in the previous point, this section analyses several recent proposals aimed at countering the main deficiencies in the functioning of CDS markets. Specifically, point 4.1 presents the main initiatives put forward for reducing counterparty risk, increasing transparency and raising the level of standardisation in contracts. Point 4.2 assesses the convenience (or otherwise) of restricting naked CDS in which the buyer of the derivative does not simultaneously hold a position in the reference asset.

4.1 Counterparty risk, transparency and standardisation: recent initiatives

4.1.1 Reduction of counterparty risk

The actions which in principle have the greatest potential to improve the management of counterparty risk are the establishment of incentives for settling CDS in central counterparties (CCPs), and strengthening bilateral management of margins on those contracts not settled in a CCP.

¹³ For example, in recent research (the results were published in March 2010), the German BaFin concluded that there was no reason to suppose that the high level of volatility in the prices of Greek sovereign debt was attributable to the presence of notable speculation in the CDS market referenced to that debt. The ISDA analysed the development of the outstanding balance of sovereign CDS on Greece in the first quarter of 2010 and concluded that there was no significant increase during that period.

As has recently been highlighted by Duffie and Zhu (2010), among others, settlement of CDS in a central counterparty with a suitable risk control system, appropriate capital levels and strict supervision could substantially mitigate counterparty risk in these markets. However, designing and implementing settlement in a CCP involves significant conceptual and practical difficulties. Some of the most complex aspects, about which there is little analysis, are those related to the optimum number of CCPs and the type of contracts to be settled therein, as explained below.

One of the first strategic decisions which supervisors must make in a coordinated manner is choosing the number of CCPs authorised to settle CDS. This choice presents a complex dilemma in which, on the one hand, the possibility of achieving economies of scale and network externalities related with the activity of the central counterparty requires a relatively limited number of CCPs. On the other hand, a lower number of competing CCPs involves greater monopoly power for incumbents and the concentration of high levels of risk in individual entities. In this regard, Duffie and Zhu (2010) recognise the systemic importance which a central counterparty which concentrates all the settlements of CDS could attain, with the well-known problems in terms of concentration risk in the event of a CCP collapse and, consequently, moral hazard in the conduct of the managers of this type of entity. With regard to the systemic dimension that might be reached in a scenario in which there are only a limited number of CCPs, Cecchetti et al. (2009) propose that these entities should have access to the liquidity facilities of a central bank and other public support instruments in order to prevent and deal with possible large simultaneous defaults of CCPs clearing members.

Another aspect to be considered is the exclusivity of the CCP's activities and, in particular, the effects of restricting their operations to CDS contracts, excluding the settlement of other derivatives contracts. On this issue, Duffie and Zhu (2010) advise against creating single purpose CCPs specifically for CDS. According to these authors, the current market volume of CDS is not sufficiently high so as to offset the losses arising from preventing multilateral clearing of different types of contracts, both in terms of potentially mitigating any risks for the CCP in question, and in terms of cost savings as a result of the lower needs to hold margins, in which they would occur if simultaneous settlement of assets other than CDS were excluded from the CCP.

Several authorities have already taken the first steps towards promoting the use of CCPs, such as the G-20, which in its September 2009 summit proposed mandatory trading of all OTC contracts of standardised derivatives on organised markets or Multilateral Trading Facilities (MTF) as well as their settlement through CCPs. For less standardised contracts, the G-20 proposed setting greater capital requirements for the intervening entities, for them to suitably internalise the aggregate risk generated by OTC bilateral trading.

In October 2009, the European Commission (EC) published its proposals for modifying regulations in this area with the aim of implementing them over 2010 (see EC, 2009). Specifically, the European proposals, in line with the G-20 provisions, include making it mandatory to settle the most standardised OTC contracts in CCPs and increasing the capital requirements for those positions which are settled outside a CCP, which would require a possible modification of the Capital Requirements Directive. Modification of this Directive would also include the obligation for the counterparties

in OTC contracts which are not settled in CCPs to constitute initial margins and to update them based on market conditions.

Recently, in June 2010, the EC opened a public consultation about its main proposals relating to the infrastructures of derivatives markets (see EC, 2010). Specifically, the consultation is structured around the following four areas: settlement and risk mitigation of OTC derivatives, requirements for CCPs, interoperability between CCPs and mandatory reporting to trade repositories, as well as the requirements applicable to the latter. Similarly, the future European Securities and Markets Authority (ESMA), together with the European Systemic Risk Board, is expected to decide which OTC contracts, including CDS, should be subject to mandatory settlement in CCPs. Following this line, the ESMA will also decide on the additional conditions which CCPs must meet before receiving authorisation from the national regulator to settle new OTC contracts.

In its most recent consultation, the EC also highlights the systemic importance of CCPs and incorporates a series of requirements in line with those put forward by CPSS-IOSCO (2010) on the recommendations applicable to CCPs which settle OTC derivative contracts. Specifically, it proposes requirements for the CCPs themselves and the participants with regard to solvency and access conditions. It also includes solvency requirements for the CCPs, which include an initial minimum capital threshold, which has not yet been determined, the procedures for calculating and materialising the margins and the mechanism for containing risk in the event of default by a participating entity, as well as the procedures to be followed in these cases.

4.1.2 Increase in transparency

With the benefit of hindsight, it seems clear that the lack of information about the exposures held by AIG and Lehman Brothers with regard to the CDS market made it difficult not only for its counterparties, but also for supervisory authorities, to monitor their risk. This was especially true in the case of the investment bank, where the lack of information limited the ability of economic authorities to evaluate the systemic effects of its collapse.

In this context, several recent analyses have highlighted the expected benefits which would result from establishing transparency in these markets. For example, Engle and Acharya (2009) highlight that transparency can contribute to better assessment of counterparty risk and greater efficiency in determining and using the margins required in contracts. This is because improving information about the positions and risks of each participant means the bilateral margins could be adapted to each particular risk and be calculated more accurately.¹⁴ Furthermore, Kiff et al (2009) highlight that the fear of systemic risk in CDS markets could be relaxed if supervisors and participants had access to more detailed information about the reference entities of the contracts and the counterparties.

14 The Committee on the Global Financial System (see CGFS, 2010) has recently proposed encouraging greater frequency in updating margins (it even suggests that these should be updated daily), with the aim of avoiding requests for high-volume extraordinary margins, as occurred in the aforementioned case of AIG. The CGFS also proposes calculating the margins using long price series over a full economic cycle so as to soften the variations in margin requirements in moments of greatest tension.

With regard to the application of measures aimed at increasing transparency, it seems clear that transferring CDS trading to regulated markets or MTF when the contracts meet prior liquidity and standardisation requirements would help to improve the access to information for all interested parties. At the same time, when the contracts are not suitable for trading on regulated markets and MTF, the alternative would be to report the trades to a central trade repository, similar to the DTCC in the USA. Supervisors would have access to information about the entities' positions and risks.¹⁵

In Europe, the public consultation document recently put forward by the EC (2010) about the infrastructures of derivatives markets envisages three alternatives for the authorisation of trade repositories: i) establishing local entities in European states so as to avoid the problems arising from the application of third countries' laws and regulations; ii) recognition of third country trade repositories with a cooperation arrangement which allows access to information; and iii) creating a European public utility. The EC document also includes a series of requirements for organisation, procedures, access to information and contingency plans required for trade repositories which are in line with a consultation document of the CPSS and IOSCO (2010) which covers the recommendations on organisation, legal regime and access and disclosure of information required from repositories.

4.1.3 Increasing standardisation

The above-mentioned proposals from the G-20, European Commission and the US Government for transferring a significant part of the trading of CDS and other OTC derivatives to CCPs could be feasible, even over the short-term, thanks to the recent progress made in standardising contracts that facilitates its settlement in the CCP infrastructure.

In the first years of their development, CDS were typically traded by telephone and their settlement involved operational risks and significant delays as they were confirmed manually. From 2005, a minimum level of standardisation was reached in the US thanks to the joint efforts of regulators (mainly the Federal Reserve) and the industry. In 2005, a significant part of CDS were still awaiting confirmation, registration and settlement several days after they were traded, which leads to a significant source of operational risk. Significant progress has been made since then in electronic trading and confirmation of trades, as shown by the fact that 90% of credit derivative trades are now confirmed electronically, with the resulting reduction in operational risk. As a result of these recent advances, confirmation periods have fallen from over 20 days in 2002 to a little over four days in 2008.¹⁶

It is also important to mention that subsequent thereto, in 2009, the ISDA¹⁷ introduced two protocols which contain substantial modifications in the conventions of the least complex CDS contracts (derivatives on asset-backed securities are excluded) in order to increase their fungibility and liquidity.

15 As a result of the increase in the demand for information triggered by the European sovereign debt crisis, in March 2010, the DTCC made public its willingness to provide regulators with consolidated data about the positions of participants and reference entities if requested.

16 See Kiff et al (2009).

17 See Markit (2009a and 2009b). The CNMV bulletin corresponding to the third quarter of 2009 (chapter 1) contains a description of the main aspects relating to the two ISDA protocols.

In the field of regulatory initiatives, the European Commission (2009) is assessing a possible modification to the treatment given to operative risk in the Capital Requirements Directive in order to encourage greater standardisation of the contracts in OTC markets and greater use of electronic confirmation. This measure therefore aims to reduce operative risks by encouraging trades to be confirmed and registered in real-time.

In summary, the objectives pursued by regulators and the industry with regard to standardisation are focused on increasing the level of homogeneity of the main market conventions so as to facilitate the settlement of CDS contracts in CCPs and to reduce the volume of redundant contracts.

4.2 Restrictions on naked CDS

At the same time as the sharpest stage of turmoil recorded in some European debt markets over recent months, several analysts and European political authorities have defended establishing restrictions on sovereign CDS purchases in which the buyer does not hold the reference bonds of the contracts.¹⁸ This section carries out a critical review of the reasons for strong restrictions or bans on these practices. In particular, this section argues that banning naked sovereign CDS raises two significant problems, one related to the loss of efficiency which a measure of this type would have on the functioning of the markets, both of CDS and the reference sovereign bonds, and the second relating to the difficulties in implementing it effectively.¹⁹

Firstly, relating to the damaging effects of prohibition, it should be pointed out that restricting access of those investors who do not hold the sovereign bond to CDS markets involves eliminating a source of information whose immediate effect is a reduction in the information content of the prices of these products, which makes it more difficult to estimate their true risk. In this regard, it is important to bear in mind that an increase in counterparties in any market increases the market's liquidity and, in general conditions, also increases its efficiency.

On the other hand, it is important to bear in mind that some investors carry out a cross-hedging by means of buying sovereign CDS without holding any simultaneous position in the corresponding bond as a means to protect themselves from non-payment of other credit products against which there is no CDS (or their market has a low level of liquidity), but this risk positively correlates with non-payment of the sovereign bond in question (for example, debt of public companies, local and regional bodies, etc). In this regard, it is clear that eliminating this chance of hedging risk is undesirable. In fact, one of the exceptions provided for in the recent ban applied by the German financial supervisory authority (BaFin) on naked CDS over sovereign bonds in the Eurozone refers to naked purchases aimed at insuring positions which, although different from holding the reference sovereign bond, suffer value losses when the solvency of the sovereign state in question worsens.

Secondly, it is important to point out that there are several practical difficulties for implementing this type of ban effectively. Indeed, the exception to the ban on naked

18 Portes (2010) developed several arguments in favour of banning naked CDS purchases.

19 The arguments given below are partially based on the CNMV position note *Reflections on the debate about sovereign CDS*, of March 2010. Duffie (2010a, 2010b) and IMF (2010) put forward ideas which, in general, also question the benefits of imposing this type of restriction.

sovereign CDS provided for by the BaFin illustrates the immense complexity in implementing this type of restriction, especially in the current circumstances of exceptional macroeconomic uncertainty in which the relationship between sovereign risk and that attributable to other issuers intensifies. This makes it more difficult for the supervisor to discriminate between naked purchases aimed at indirectly covering non-sovereign risk and purely speculative trades with no intention to protect against risk.

In summary, it is clear that it is practically impossible to establish and supervise compliance with objective criteria which define which are exposures to non-sovereign risk that have positive relationship with said risk. On the one hand, limiting the scope of the definition of naked purchases which meet the exception to a ban would prevent access for many investors who are looking for genuine protection for their non-sovereign debt assets, which could increase the general sensation of risk and trigger divestments in these positions. On the other hand, a scope which is too wide would logically mean that the restrictions have no practical relevance.

Furthermore, it is important to bear in mind that, aside from naked CDS purchases, investors have other alternative channels to transfer their expectations of an increase in the risk of sovereign bonds, such as trading in other derivatives (for example, options), direct sale or short selling of the sovereign bond etc. In addition, a ban of these characteristics could only produce tangible results if it is carried out worldwide. If this is not the case, the global nature of the main agents in these markets would probably lead to the movement of naked purchases from jurisdictions where there are restrictions to others where trading is unrestricted. This would probably mean that the effect on aggregate prices and volumes traded would be limited.

Finally, in view of the above arguments, it seems sensible that the best option to prevent abusive or manipulative conduct in the markets of European sovereign CDS would be rigorous application of the Market Abuse Directive (MAD). At the same time, it might be appropriate to introduce modifications in that Directive if considered necessary. Specifically, it will be beneficial for the MAD reform process to widen the scope of the instruments which it applies to (including OTC derivatives and, specifically, CDS) and to clearly define manipulation so as to include that carried out in one instrument through another derivative. At the same time, Europe should take advantage of the current review process of the MiFID Directive (on markets in financial instruments) so as to expressly require publication of data on the prices and volumes of each transaction and daily reporting to supervisors by including OTC derivatives in the transaction reporting provided for in the MiFID.

The above proposals have already been put forward by the Committee of European Securities Regulators (CESR) to the European Commission and the first priority at this time is to implement them as soon as possible.

Meanwhile, the situation in Spain does not require significant legislative changes relating to market abuse or transaction reporting as it is already mandatory to inform the CNMV about the traded CDS whose underlying asset is a security traded on European markets. Also, Spanish legislation on market abuse is applicable to these products.

5 Conclusions

The controversy surrounding CDS has increased since the crisis began, firstly, as a result of their connection with the bankruptcy collapse of Lehman Brothers and the collapse of AIG in 2008 and, subsequently as a consequence of the turmoil in several European sovereign debt markets since the start of 2010. In the context of growing disparity in the arguments in favour and against these products, this article tries to shed some light on those aspects of the functioning of CDS markets which it is widely agreed require urgent and determined improvements, compared to others for which the available analysis and evidence suggests more caution should be used.

In the first cases, the lack of both pre-trade and post-trade transparency and the counterparty risk have been indicated as the two most important problems. The solution will involve a growing volume of these contracts being negotiated in regulated markets and settled in central counterparties, subject to appropriate supervision, capitalisation and transparency requirements. In this regard, the proposals recently put forward by the G-20, which are currently being developed in the European Union, must be implemented in an urgent and determined manner under the principle of coordination and cooperation between the different economic and supervisory authorities.

With regard to the hypothesis which assigns a destabilising role for CDS in public debt markets and the corresponding proposals to restrict some sovereign CDS trades, the arguments put forward in this article emphasise the lack of solid evidence in favour of such hypothesis. In addition, the article provides a series of arguments about the damaging effects which some restrictive measures on naked CDS may have in terms of the loss of efficiency and liquidity in these markets together with the serious difficulties in their practical application .

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Investment Profile of Spanish Households: Analysis of the Survey of Household Finances

Anna Isperto Maté and María Victoria Villanueva Fresán (*)

* Anna Isperto Maté and María Victoria Villanueva Fresán belong to the Research, Statistics and Publications Department of the CNMV.

1 Introduction

In 2002, the Bank of Spain began to draft the Spanish Survey of Household Finances (Encuesta Financiera de las Familias, EFF), in collaboration with the Instituto Nacional de Estadística (INE) and the Agencia Tributaria, and three editions of the survey have been carried out since. The goal of this survey is to obtain detailed information about the financial position of Spanish families, so as to determine certain characteristics of the households, including demographic data, income, real and financial assets, debt and expenditures.

The information contained in two of these editions has been published by the EFF so far: that for 2002 and 2005. In 2005 they attempted to interview all respondents in a first instance (to obtain a sample with panel data), in addition to a refreshment sample in order to preserve the representativeness of the 2005 population.

The Bank of Spain has published several articles that quote the information gathered in both surveys. Among those, it is worth mentioning one article in particular (see Bank of Spain, 2008) that analyses the changes in income and wealth, the possession of real and financial assets, household debt and expenditures, between the years 2002 and 2005. On the other hand, Bover (2008) has used the panel data from the EFF in 2002 and 2005 to analyse the changes in assets, income and wealth holding between those years. The same author carried out a study (Bover, 2005) in which she analyses the effect of wealth on consumption, by using the data of the first survey.

At the same time, several academic studies have been carried out, which use the data gathered by the EFF. Mayordomo (2007) analyses the data on loan restrictions and its effects on the decision of Spanish households to become homeowners. Fernández (2008) provides an empirical analysis of the determining factors for Spanish households when choosing savings instruments, particularly focusing on the effect of investments on real assets.

This article is different from previous works given its focus on analysing the holding of shares listed in the stock market, unlisted shares, and other holdings in companies, fixed-income securities and mutual funds, by Spanish households (for the sake of brevity, this group of assets is called, in the context of this article, financial investment assets). Therefore, in this way, we can put aside from the main scope of this study other assets such as, on the one hand, real assets (mainly housing and businesses related to self-employment), and, on the other hand, traditional banking assets (fundamentally deposits in financial entities and house-purchase savings account), as well as pension schemes and insurance, that from now on are all encompassed under the generic tag of “other financial assets”.

The objective of this article is to determine the investment profile of households that hold different financial investment assets, or in other words, we seek to point

out the common characteristics of these households and in doing so, to establish which factors directly influence their decision-making process when it comes to investments. In order to do this, we have analysed factors such as age, education level, the employment situation of the head of household,¹ as well as the income level and net wealth of the household, all of which influence the portfolio decision-making process. Therefore, on the one hand, the aforementioned characteristics are analysed in order to determine if they affect the decision-making process regarding these financial investment assets. On the other hand, through a cluster analysis, the different investors are classified based on similarities, in other words, clusters with groups of households sharing similar values are formed, based on the three following characteristics: age and education level of the head of the household, and net wealth of the household.

The rest of the article is organized in several sections. In the second and following section, the main characteristics of the EFF are described. In the third section, the main and more general data is exhibited, in particular that concerning the investments of Spanish households, including real and financial assets (how many households invest in them, how much, its distribution), finally analysing the effects of the different household characteristics on the aforementioned variables. In the fourth section, the characteristics of the product as well as the investor's are detailed for each of the types of assets analysed. The article concludes with a section of final considerations.

2 The Survey of Household Finances

The design of the EFF was inspired by surveys carried out in previous years by other countries, in particular, by the survey of the Bank of Italy, *Indagine sui bilanci delle famiglie* (IBF) and, above all, by the United States Federal Reserve's *Survey of Consumer Finances* (SCF).

A distinctive characteristic of the EFF is that it performs an oversampling of households with a higher wealth attainment. The purpose is to have a sample that is not just representative of the combined population, but rather one that displays the aggregate wealth of the economy, allowing for a study of the financial behaviour of those households with a higher level of wealth. To obtain the population magnitude, weight for each household is used, which in turn is defined as the inverse of the probability of being included in the sample, and which measures the frequency with which sample households are placed within the final population.

Given the elevated non-response rate expected in these types of surveys, to work with only the households on which we have information, ignoring the lack of answers, would suppose a random subsampling of the original sample, with the risk of producing biased results. Therefore, the answers of "Don't know/No answer" have been imputed by the Bank of Spain. The goal of this is not to replace the lost information through estimated values, but to preserve the joint distribution of the data and the relationship between different variables. The EFF, like American SCF,

¹ As it is done in the Bank of Spain's analysis, we define as "head of household" the person chosen by the household to answer the survey if the person is a male, or its partner if the person is a female but her partner lives under the same roof.

imputes five values for each missing answer in order to take into account that there exists a certain degree of uncertainty over the imputed value for models provided based on lack of responses.²

The statistics provided in this dissertation have been obtained using a database built with the five data bases allocated in a successive manner, and adjusting the elevation factors to obtain populational results.

3 Investment decisions of Spanish households: general characteristics

3.1 Household's total investment

The acquisition of a main residence is the most important investment decision for most of Spanish households. As can be seen in Table 1, more than 80% of the families own a main residence and their median investment in such property is clearly superior to that of any other asset. In general terms, the households that do not own a main residence have a low level of income and wealth, probably not sufficient to allow them to have access to such an asset.³

On the other hand, practically all of the population holds financial assets, given that most of the households have some type of deposits usable for payments (current accounts, passbook accounts, or other deposits which can be used to make payments using cards or cheques). The holding of other types of financial assets is less frequent. Around one fourth of Spanish households has pension schemes (without including the rights to pension schemes granted by Social Security) and/or insurance, around 15% holds securities not usable for payments (term accounts or deposits, sight deposits or savings accounts that cannot be used to make payments by means of cards or cheques) and around 18% holds financial investment assets. From this last group, listed shares are the most common element, although between 2002 and 2005, mutual funds have become more popular.

In regards to the amount invested by households on financial assets, the median is relatively low concerning deposits usable for payments, although they are the most common shared element. As can be seen in Table 1, the median for deposits not usable for payments is the same as that obtained for the total amount of financial investment assets. Among the latter ones, the smallest amount invested corresponds to the most frequent asset, which are shares listed on the stock market (the median amount barely surpasses 6,000 euros).

Concerning the distribution of the aggregate portfolio for Spanish households, real assets represent practically 90% of the total assets amount, with the gross investment corresponding to the main residence (see the last two columns in Table 1). Among financial investment assets, fixed-income securities are the least important in the most relative terms, while the rest of the assets (listed shares, unlisted shares

² For greater detail on imputation methods, refer to Barceló (2006, 2008).

³ 85% of the households that do not have a main residence are households that belong to the first percentile of net wealth.

and investment funds) are weighed evenly. Nevertheless, between 2002 and 2005 it is possible to observe an increase in the relative importance attributed to mutual funds at the expense of shares, both listed and unlisted.

The portfolio distribution varies in function to household characteristics. In concrete terms, the greater the percentile of income or net wealth, the least the weight of real assets, mainly financial investment assets. An exception to this behavioural pattern occurs among the households of the first quartile of net wealth, that have a lesser weight in real assets given that half of them do not hold any real assets. Besides, these are households that hold a larger proportion of their financial wealth in deposits usable for payments. On the other hand, the higher level of educational attainment of the head of household, the lesser the percentage of real assets making up the total assets, and the more they hold financial investment assets in relation to other financial assets, at the expense of deposits usable for payments. It is worth to mention that these results are maintained when controlling for the net wealth percentile.

Main characteristics of the most common assets among households

TABLE 1

	Percentage of households		Median amount ¹		% var. ² Total amount	Distribution of the total amount	
	2002	2005	2002	2005	2002/05	2002	2005
Real assets	87.3	87.4	131,760	210,354	91.9	100.0	100.0
Main residence	84.6	81.3	131,760	180,303	90.8	66.5	66.2
Other owned property	30.1	34.5	72,468	105,075	91.2	23.9	23.8
Self-owned businesses	12.4	11.1	36,612	83,969	102.1	8.9	9.4
Financial assets	98.6	96.5	4,746	6,010	59.0	100.0	100.0
Financial investment assets	17.1	18.7	13,176	12,020	45.3	38.5	35.2
Listed shares	10.8	11.4	6,268	6,240	22.8	14.3	11.1
Unlisted shares	2.2	2.2	15,461	18,000	18.1	12.4	9.2
Fixed-income securities	1.9	1.5	13,240	24,040	24.7	2.2	1.7
Mutual funds	7.2	8.7	13,176	18,000	118.2	9.6	13.2
Guaranteed	2.6	2.5	13,176	18,000	76.6	2.8	3.1
Fixed-income	1.7	2.9	16,580	15,225	194.3	2.1	3.9
Equity	2.7	3.5	9,882	14,000	136.6	2.4	3.5
Mixed	1.4	1.8	13,176	18,000	96.4	1.7	2.1
Other financial assets	98.5	96.4	3,959	9,200	67.7	61.5	64.8
Deposits usable for payments	97.8	92.5	1,980	3,000	101.1	21.0	26.6
Deposits not usable for payments	14.9	16.5	13,176	12,020	28.4	17.3	14.0
House-purchase savings account	2.2	2.5	8,387	6,000	5.5	1.1	0.7
Pension schemes and/or insurance	24.1	29.3	6,910	6,491	89.7	16.8	20.0

Source: own compilation.

- 1 Amounts calculated for each type of asset holder, in euros of the year 2005 (between 2002 and 2005 accumulated inflation was 9.8%).
- 2 The percentage variation between the total amount invested in 2002 (in 2002 euros) and in 2005 (in 2005 euros). In this way, part of the variation acknowledges inflation, part of the revaluation of financial assets and part of the increase in investment of that type of asset.

3.2 Distribution of total investment by household characteristics

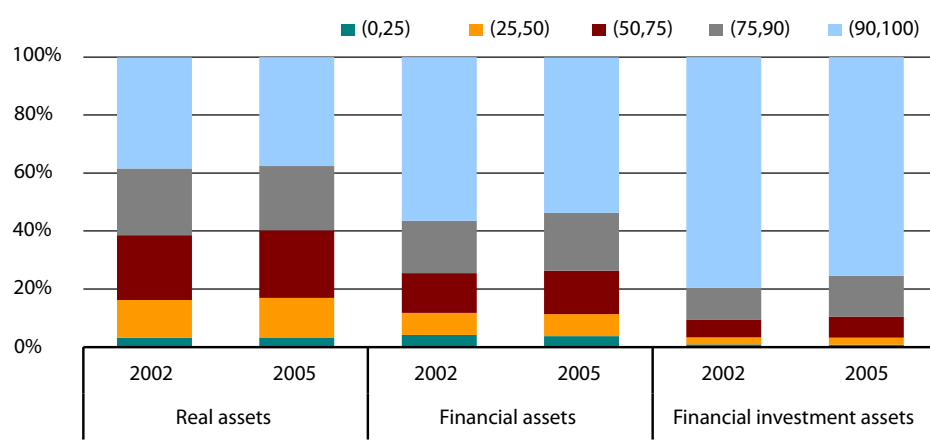
In reference to the total amount invested in real assets, which grew between 2002 and 2005 by 91.9% (the increase being associated to the reappraisal of housing was around 50%), the amount is bigger, as it may be expected, as the net wealth of a household increases. Therefore, the households of the first quartile (25% of the population with the lowest net wealth) own barely more than 3% of the total housing

value in Spain, while 25% of households with the highest net wealth own approximately 60% (see Figure 1).

Investment in financial assets, as with the case of real assets, exhibits a growing pattern together with the level of net worth although this increase is more pronounced in the first case. In short, real wealth is more equally distributed than financial wealth, as can be seen in Figure 1. Specifically, 10% of households with a higher level of net wealth own around 55% of the total financial assets held by Spanish households. If only financial investment assets are taken into consideration, their concentration among the top 10% Spanish households with the highest net wealth is even more pronounced, since these households own between 75 and 80% of the total.

Distribution of the total investment of Spanish households by real assets, financial assets and financial investment assets according to percentile of net wealth

FIGURE 1



Source : Own Compilation.

According to the age group of the head of household, we can see a higher concentration in the investment of financial assets (always taking into account the relative size of each group) among those households in which the head of the household is between 45 and 64 years old. Nevertheless, when controlling for net wealth, we can observe that only for the last decile is the investment value significantly greater in relation to other age groups.⁴ Concerning the level of education of the head of household, it is gathered that for any level of net wealth, households with university level education or higher have a greater tendency to invest in financial assets than households with a lesser level of education. On the other hand, when analysing the employment situation of the head of household, it is observed that the self-employed invest more than other groups, although this is attributed to the fact that their households are generally situated in higher net wealth percentiles.

As for financial investment assets, their distribution in function of the different characteristics follows a relatively similar pattern to that observed for the case of

4 Although exhibiting a similar behaviour of age groups within each household net wealth percentile, it is worth mentioning that there exists a larger proportion of households whose head is between 45 and 64 years old when observing the higher percentiles of net wealth. Given that within these percentiles, the investment in financial assets (and financial investment assets) is greater, it could be understood as the life cycle having the shape of an inverted U: low investment activity during youth, accumulation during adulthood and disinvestment during old age.

financial assets. Therefore, concerning age group distribution, for 90% of the population with a lower level of net wealth, all households behave in a similar way. On the other hand, for the case of top 10% richest households, it is the group of head of households between the ages of 45 and 64 that own the greatest part of all financial investment assets. Concerning the level of education of the head of household, those households with university level education or higher own greater amounts of financial investment assets than households with a lesser level of education, at any level of net wealth, with the most revealing evidence being in these last percentiles. Nevertheless, in the case of the employment situation, the pattern is somewhat different: there are differences observed between those that are self-employed and the other groups, but only in the last decile of net wealth, in which holding of financial investment assets is significantly greater than in the rest of the groups. The essential reason for this is that within this decile most households that own unlisted shares are concentrated, and the head of households for these cases, as will be seen later, is often self-employed.

In conclusion, as the level of net wealth of household increases, the investment in any type of asset is greater, but this increase is unequal among the different types of assets. Therefore, the more net wealth the greater is the tendency to invest in financial assets rather than in real assets, and within the financial assets, the holding of financial investment assets increases more significantly than other assets.

4 Analysis of financial investment assets

The objective of this section is to analyse with attention to detail, in an individual manner, the distribution of each financial investment asset found in the portfolios of Spanish households. On one hand, we will go into more detail about the relevant characteristics of the investments on each one of these assets. On the other hand, we will identify the investor's profile based on the different financial investment assets. In order to do so, firstly we must examine the distribution of the amount of households that invest in each financial investment asset according to the household's characteristics. Then, for the case of the most common assets found in the households' investment portfolios, listed shares and investment funds, the results of a cluster analysis will be presented.⁵

This methodology⁶ allows us to classify the individuals in groups or types based on their similarity or resemblance, meaning categories in which the individuals present similar values concerning the variables taken into account (in this study, the chosen variables are household net wealth, and the age and education level of the head of household). In this way we may obtain groupings with a high level of internal homogeneity, but still heterogeneous in comparison to each other. There exist various methods to perform a cluster analysis. Given the high amount of observations employed in this study, the method used in this article is the two-step cluster, available in the statistical software SPSS.⁷

5 The results of this cluster analysis for the rest of financial investment assets are available in Isperto and Villanueva (2010).

6 For greater detail on the cluster analysis, refer to Norušis (2010).

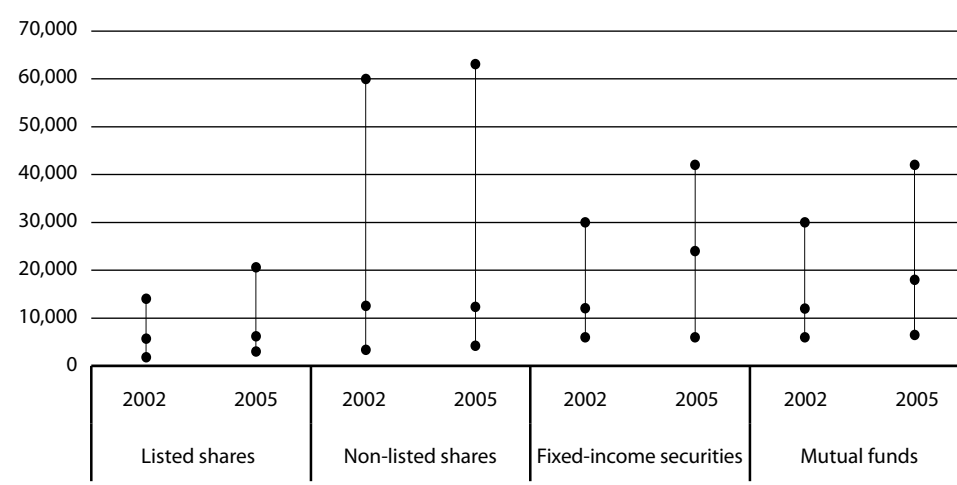
7 Isperto and Villanueva (2010) have a more detailed description of the methodology used.

4.1 Shares Listed in the Stock Market

Between 2002 and 2005, the percentage of households holding listed shares increased, from 10.8% to 11.4% of the total. The distribution of the amount invested in listed shares changed significantly during this period, especially for households that invest amounts greater than the median (see Figure 2). Overall, an increase in the amount invested in listed shares was observed, although this amount was inferior to the revaluation of the stock market, which was around 80% for the period observed. On the other hand, if it is compared to the rest of the financial investment assets, the distribution of the amount invested in listed shares is more concentrated, especially in 2002.

Distribution figures (first quartile, median and third quartile) of the amount invested in different financial investment assets (amounts in euros)

FIGURE 2



Source: Own Compilation.

Among the households that invest in listed shares, a large amount of them maintains relatively reduced amounts of holdings in these types of assets, both concerning their weight in their financial assets portfolio and the actual amount invested. Half of the households that invest in listed shares do so up to an amount that makes up less than 20% of their financial portfolio, barely concentrating 15% of the total amount invested in the asset. On the other hand, most families that have practically their entire financial portfolio invested in listed shares (about 4% of households that have this asset), invest large amounts that make up, in an aggregate manner, somewhat less than 20% of the total investment in the asset.

In regards to the companies in which households invest, an interesting highlight is that between 65-70% of them that invest in listed shares do so by investing in shares issued by banks, between 40-50% of them in non-financial corporations, and 7% in other type of financial institutions. On the other hand, half of the households that invest in listed shares only own shares of a single company, barely more than 20% have shares in two different companies, 10% have shares in three companies and the remainder 20% have shares in more than three companies. As it should be expected, the wealthier the household, the more companies they invest in, and the younger the head of household is, the least amount of companies invested in.

Last, around one fourth of households that own listed shares does not own any other asset (except deposits usable for payments) and more than 60% does not own any other financial investment assets (see Table 2). Out of the households that, besides holding listed shares, have some other type of financial investment asset, most of them opted for mutual funds, mainly equity mutual funds.

Holding of other financial assets by households that already held a financial investment asset determined in 2005

TABLE 2

% of households for each financial investment asset

Financial investment assets	Other financial assets							
	Listed shares	Unlisted shares	Fixed-income securities	Mutual funds	Guaranteed funds	FI funds	Equity funds	Mixed funds
Listed shares	-	26.6	35.1	41.6	36.5	45.2	60.0	45.7
Unlisted shares	5.1	-	8.1	3.8	6.2	0.7	5.7	6.8
Fixed-income securities	4.6	5.5	-	6.2	7.8	4.0	8.5	6.5
Mutual funds	31.9	15.4	36.4	-	-	-	-	-
Guaranteed funds	8.1	7.3	13.3	29.0	-	13.5	16.3	15.3
Fixed-income funds	11.4	0.9	7.7	32.9	15.4	-	22.5	16.3
Equity funds	18.3	9.2	19.9	39.8	22.4	27.2	-	17.5
Mixed funds	7.3	5.8	8.0	20.9	11.1	10.4	9.2	-
Deposits usable for payments	97.7	93.3	98.6	97.2	96.2	95.9	97.6	98.8
Deposits not usable for payments	30.6	30.5	33.6	30.2	30.8	28.1	29.3	38.4
Pensions schemes and/or Insurance	61.5	54.7	56.5	55.4	43.3	54.3	73.0	66.8
Pro-memoria:								
Only deposits usable for payments	22.0	26.8	16.6	23.0	31.8	24.5	8.9	11.6
No other financial investment asset	62.9	67.2	42.1	53.1	56.9	51.7	34.0	44.7

Source : Own Compilation.

The profile of investors in listed shares is similar, in general terms, to that of investors in mutual funds. Overall, they are households with an average income and a net wealth quite above the population's average.

The cluster analysis reveals three types of investors in listed shares (in addition to a fourth cluster that represents atypical values⁸ and households with a very elevated net worth):

1. Households with relatively low wealth in relation to the rest of investors, whose head of household is young and with medium-high educational attainment (cluster 1).

Most of the investors in listed shares, making up around 40% of the total of investors, correspond to this cluster, especially in 2002. This group is composed by households with relatively low net wealth, when compared to the rest of investors in listed shares (whose average net worth corresponds to 65% of the average for the total amount of investors in listed shares), whose head of household

8 The two-step system allows eliminating atypical values (or noise) from the cluster analysis. In the first phase, the total observations are divided among subgroups, and if a subgroup with a very small amount of data exists, it is eliminated from the second phase of the process that produced the final clusters. For more details, refer to Isperto and Villanueva (2010).

is young (a little over 40 years old on average), with a medium-high level of education (while in 2002 most of these investors reported university studies or the highest level of specialised vocational training, in 2005 the distribution was much more heterogeneous), and is an employee. The income of these investors is similar to the average of the total of investors in listed shares, and although still the same to households in other clusters, higher than the population's average.

In regards to the portfolio of these investors, these are households that invest relatively low amounts in listed shares (the median is around 4,000 euros, compared to 6,000 euros for the total of investors in listed shares). In comparative terms, the total amount of financial investment and financial assets is also reduced, which is of between 6,000 for the median of the first group and 30,000 euros for the median of the second group.⁹ The amount invested in listed shares supposes a reduced weight on their financial portfolio (20%).

2. Households with relatively low net wealth in relation to the rest of the group, and whose head of household is older and with low education attainment (cluster 2).

In this cluster we find households whose head of household is older (the average is around 60-65 years old but the standard deviation is elevated so it includes aged investors in listed shares) and have basic studies (most have primary education only). The net wealth of these investors is relatively low compared to the total amount of households that invest in listed shares, although slightly superior to that of younger investors (cluster 1). Nevertheless, their income is considered to be inferior to that of the rest of the investors in listed shares given that most of the households in this group are composed by retirees.

The median holding of listed shares by these households is similar to that of the total amount of investors in this asset, and said amount supposes an increased weight on their financial portfolio (approximately a third). In addition, investment in financial and financial investment assets is less than that of the total amount of investors (the median is approximately 80% of the total median for all investors). These amounts are greater than those invested by younger households from the first cluster.

3. Households with elevated net wealth whose head of household is older and with high educational attainment (cluster 3).

In 2002, this was the smallest group (excluding the cluster made up by several outliers) while in 2005 it was the largest. This cluster is made up by investors in listed shares with a very high net worth (the median net worth of this group is around the third quartile of the total amount of investors in listed shares), whose head of household is older (around 60 years old) and with university studies. The income for this cluster is significantly superior to that of the average total amount of investors in listed shares. Most investors in this group were, in 2005, employed, and in 2002, retirees.

⁹ The median of the total invested in financial investment assets by the households that own listed shares was of 10,000 euros in 2002 and of 15,000 euros in 2005. In addition, the median amount invested in financial assets by these same households was of 30,000 euros in 2002 and of 55,000 euros in 2005.

These investors own a high amount of listed shares, financial investment assets and financial assets (the median is approximately double the one obtained for the total amount of investors).

4.2 Unlisted shares and other holdings in companies

Overall, it can be said that few households invest in unlisted shares and/or participation in companies (about 2.2% of all households). An important amount of these households invests in companies under which a member of the household is employed¹⁰ (70% of households with unlisted shares in 2002, and 45% in 2005).

The households that invest in unlisted shares and/or participation in companies do it, generally, in high amounts: the average in 2002 was of 117,686 euros and in 2005 it was of 127,499 euros. The distribution among households of the amount invested in this type of asset exhibits a greater dispersion when compared to the rest of financial investment assets, as can be seen in Figure 2. That is how, for example, the ratio between the third and the first quartile is around 15, more than double in regards to the rest of financial assets.

In what concerns the type of entity issuing unlisted shares and/or participation in companies, most households invest in assets issued by non-financial corporations (over 85%), with the amount of other issuers being considerably lower.

Most households that own unlisted shares and/or participation in companies only invest in securities issued by a single company. Generally, these are investors with a low level of diversification as regards other financial investment assets (65-70% of all households with unlisted shares only own said asset).

The characteristics of investors in unlisted shares differ substantially to those of investors in other types of assets. Almost half of investors in unlisted shares are self-employed, while this feature is barely present in 10% of the population. On the other hand, almost half of those that have holdings in this asset has university level education (compared to 15% of the population and to 35% for the total amount of households that own financial investment assets), and are households with an average income and net wealth higher than the populational average (the average net wealth of this group is four times that of the populational one). These numbers are also superior to those corresponding to other investors in different financial investment assets. At the same time, the average age of these investors is relatively low if compared to that of investors in the other types of assets analysed in this study.

4.3 Fixed-income securities

Compared to other financial assets, few households own fixed-income securities: only 1.9% of the total in 2002 and 1.5% in 2005. Although the amount of investors decreased, the amount invested increased significantly in between the two reference years. Therefore, the households that invested in fixed-income securities did so at an average of 24,886 euros in 2002 and 35,471 euros in 2005. In addition, the

¹⁰ Unlisted shares and/or participation in companies do not include those shares/participation in one's own business, in the case of those that are self-employed.

distribution of the amount invested changed substantially in between those years (see Figure 2), especially for those amounts superior to the median (said amounts increased between 50 and 70%).

When observed by type of issuing company, most households invested in fixed-income securities issued by the State or other general governments (48% of the total), or by banks (46% of the total in 2002 and 36% of the total in 2005), with holdings issued by other entities being marginal. On the other hand, practically all households that invest in fixed income do so in securities issued by a single type of issuer.

Overall, households that own fixed-income securities have invested only a small portion of their financial portfolio. As can be seen in Table 2, these investors tend to own other financial assets in a greater amount than households that invest in the other types of financial investment assets analysed.

Comparing to investors in other types of financial investment assets, there is a larger proportion of households that invest in fixed-income securities whose head of household is older than 65 years old and has a low level of education. On the other hand, the net wealth of these households is greater than the populational one but substantially lower than the average for the rest of investors in financial investment assets.

4.4 Mutual funds

As it was mentioned before, mutual funds are the second most owned financial investment asset, right behind listed shares (7.2% of the total amount of households in 2002, and 8.7% in 2005 owned mutual funds). If analysed by type of mutual fund, the most widespread are equity funds, followed by fixed-income funds and guaranteed funds (see Table 1). The growth in the amount of investors between 2002 and 2005 was a generalized phenomenon for all types of mutual funds, but in particular for fixed-income and equity funds.¹¹ In the same way, investment grew significantly between these two years (the average amount invested was of 29,132 euros in 2002 and of 47,132 euros in 2005), with growth being rather pronounced in comparison to other financial investment assets. The increase in the amount invested was a generalized phenomenon for all types of mutual funds. Overall, households that invest in mutual funds do so in small amounts, with a weight of less than 50% of the total financial portfolio.

In relation to the different amount of funds that households investing in this type of asset own, more than 65% only invest in one, while around 10% invest in four or more funds. This result is the same for all types of mutual funds, except in the case of the international ones¹² (most households that invest in this type of funds holds three or more funds). On the other hand, around half of households with mutual funds do not own other financial investment assets and more than 20% of them do not own any other financial asset except deposits usable for payments (see Table 2).

11 As it is mentioned in Cambón and Martínez (2010), between 2002 and 2005 a strong aversion to risk on behalf of investors was perceived, which together with the low interest rates during this period, seem to have encouraged the search for alternative investments such as collective investments, with higher returns than bank deposits and other low-risk assets.

12 These are mutual funds in which the assets are made up mostly by international financial assets (in foreign currency, not in euro).

Among the households that besides holding mutual funds hold other assets, a little more than half of them own listed shares, the percentage of which varies based on the type of fund held. So, more households with mixed or equity funds also own listed shares than households with guaranteed or fixed-income funds.

As it was mentioned before, investors in mutual funds share similar characteristics with investors in listed shares. The main characteristics that define the mutual funds investor are their income percentile and their net wealth; in both cases, there is an elevated concentration of investors in the last decile. In relation to the characteristics noticed for the head of household, the most relevant is that which refers to education, in which we observe a certain overrepresentation of university graduates. In addition, the household risk profile is rather significant, and there is a considerable amount of households with a preference for medium or high risk.¹³

The results of the cluster analysis reveal the existence of three groups of investor types (in addition to the group with the outliers that represents households with a high level of net wealth). In 2005, although the optimal number of clusters is one more than in 2002, two of them break down the cluster obtained in 2002 (more specifically, cluster 1), while at the same time having a higher concentration of households within them than the other clusters. Specifically, the types of investors in mutual funds are:

1. Young households with a very low level of net worth compared to the total of investors (cluster 1 in the year 2002 and clusters 1.a and 1.b in 2005).

This group encompasses young households (around 40 years old) with a low level of net worth, when compared to the total amount of investors (in 2005, the average net wealth exhibits changes among the clusters found in this group; although, in both cases, it is quite below the average for the total amount of investors in investment funds). The education level for the head of household changes between 2002 and 2005. So, while in the first year most of the households in the group had attained university studies or the highest level of specialised vocational training, in 2005 the group is divided among those households with a lesser education level (inferior to higher secondary schooling in cluster 1.a) and households with a greater education level (most households in cluster 1.b have university degrees).

The financial portfolio of these households is smaller when compared to the rest of the conglomerate (the median is approximately 25% less than that of the total amount of investors),¹⁴ even for cluster 1.b, which has greater wealth. In addition, the median amount invested in mutual funds was of 10,000 euros in 2002 and of 11,000-17,000 euros in 2005, inferior to what was invested by the rest of investors (12,000 and 18,000 euros, respectively). In regards to the type of funds they own, in 2002 most households held equity and mixed mutual funds in their portfolios, while in 2005 they had mostly equity mutual funds.

13 It is worth mentioning that households declaring to have a very high risk or high risk profile, own mostly mixed, equity and/or fixed-income funds, while households for a preference for medium or no risk concentrate in acquiring guaranteed, equity and/or fixed-income funds.

14 The median for financial assets for the total number of households that own mutual funds was 38,000 euros in 2002 and 54,000 euros in 2005. As far as financial investment assets are concerned, the median for these households was 20,000 euros in 2002 and 24,000 euros in 2005.

2. **Households with decreased net wealth in comparison to the rest of the group, and whose head of household is older and with a low level of educational attainment (cluster 2).**

In this cluster we find households whose head of household is older (between 2002 and 2005 the average age changes significantly, from 60 to 73 years old), has a low level of educational attainment (inferior to higher secondary schooling) and a net wealth inferior to the average obtained for the total amount of investors in mutual funds (although it should be pointed out that the distribution is very uneven and it includes households with very different levels of net wealth).

The amount invested in mutual funds by these households is considerably lower than the median for the total amount of investors (10,000 and 18,000 euros in both surveys), and said amount supposes an increased weight upon the financial portfolio (in between 50 and 60%). In addition, the financial and financial investment assets they own are slightly inferior to the total amount registered for all investors. On the other hand, households in this group focus on “safe” mutual funds.

3. **Households with an increased net wealth whose head of household is older and with a high level of educational attainment (cluster 3).**

Households included in this group have a high level of net wealth, much superior to the average for the total amount of investors, and the head of household is older (the average is around 60 years old) and in possession of a high level of education (university studies).

The amount held in mutual funds, financial assets and financial investment assets is very elevated (the median is practically double that of the total amount for all investors) and most of these households accumulate equity mutual funds, closely followed by guaranteed funds in 2002 and fixed-income funds in 2005.

4.5 Summary of main findings

This final section offers a summary of the main findings gathered from the analysis previously carried out, relative to the investment profiles of Spanish households. In what concerns **financial investment assets**, overall it should be highlighted that:

- The total level of investments on behalf of households with holdings in financial investment assets displays the shape of an inverted U throughout its life cycle. In other words, investment increases until the investor reaches an age of somewhere in between 45 and 64 years old, point at which it begins to progressively decrease.
- There exists a greater concentration, in proportional terms, of financial investment assets in households with a high level of net wealth and university studies. This could reveal that, as it is mentioned in Fernández (2008), there are entry costs for financial markets, that is, fixed costs for participation and information.

Concerning investors in **listed shares** and/or **mutual funds** it is observed that:

- The investor profile for listed shares as well as for mutual funds is very similar. In a high proportion of the following types of households they own some of these assets,
 1. Those in which the age of the head of household is around 45-50 years of age;
 2. Those in which the head of household has carried out university studies.

The households that invest in **unlisted shares** are characterized essentially by having:

- A head of household of lesser age than the rest (most are around 40 years old).
- An increased net wealth in comparison to the rest of investors.

Finally, among households that own **fixed-income securities**, we observe that the age pattern for investors is different to that of the other financial investment assets: there is an increase of investment on behalf of younger households (around 40 years old) and older households (around 70 years old), with a decrease among households between 50 and 60 years old.

5 Conclusions

The EFF is the first survey carried out in Spain that contains detailed information about the investment situation of households. This survey provides information about the individual investment choices of Spanish families, the amount invested, and the returns of such investments. In addition, based on the socio-demographic variables included in the EFF, it is possible to create a map of investment profiles of Spanish households. The objective of this article is to, precisely, make a first incursion into this area, which is why attention was focused on investment decisions regarding financial assets.

According to the analysis carried out and based on the EFF, as a first conclusion we can state that net wealth is the most determining characteristic in the decision to invest by Spanish households. This relationship is even more significant for financial investment assets (listed shares, unlisted shares and other holdings in companies, fixed-income securities and mutual funds) than for the rest of financial assets. From the rest of the characteristics analysed, only the educational attainment of the head of the household seemed to have a directly distinctive effect in household investments. Therefore, households with university level studies are the group with the greatest proportion of investors in financial investment assets and are also those who invest in larger amounts, independently of the net wealth of their household.

Among the results of this analysis in regards to the investment profile of Spanish households, it is worth to point out that: (i) the profile of investors in listed shares is very similar to that of households that own mutual funds; (ii) the investors in unlisted shares are quite different from the rest of investors, in terms of their socio-demographic components (their average net wealth is much higher and their households are younger); and (iii) the members of households holding fixed-income securities are, typically, older than the other investors.

The conclusions obtained in this study are useful when it comes to understanding the important characteristics that influence the decision-making process of investment by households. Said information could help, for example, in the development of investor education programs that are currently being promoted by the CNMV and the Bank of Spain.

In the near future, the new EFF will continue to be analysed, with the objective of exploring the dynamic evolution of investment profiles. On the other hand, we are exploring the possibility of carrying out a comparative study of Spanish and other countries' household investment profiles, in an attempt to identify certain idiosyncratic patterns of investment behaviour for Spanish households.

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III Regulatory Novelties

The UCITS IV Directive

María de los Ángeles Martínez Blasco and Mauro Racanati (*)

* María de los Ángeles Martínez Blasco is part of the UCITS and Venture Capital Firm Supervision Department and Mauro Racanati is from the Market Participant Authorisation and Registration Department.

1 Introduction

Directive 85/611/EEC, of the Council, of 20 December 1985, on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), was the reference framework for many years for the regulation of collective investment undertakings in Europe. This Directive, known as the UCITS Directive, was subject to an initial attempt at modification in the 1990s (UCITS II Directive), which did not come to fruition. Shortly afterwards a new modification proposal was raised which eventually materialised in two directives: Directive 2001/107/EC, of 21 January 2002, which amended Council Directive 85/611/EEC, with a view to regulating management companies and simplified prospectuses, and Directive 2001/108/EC, of 21 January 2002, which amended Council Directive 85/611/EEC, in relation to the investments of undertakings for collective investment in transferable securities (UCITS).

Jointly known as the UCITS III directives, the two directives introduced important changes in the legislative regime of collective investment undertakings. However, advances in the financial industry as a whole and the increasingly competitive and globalised nature of the collective investment industry by the middle of the first decade of the 21st century highlighted the existence of certain limitations or shortcomings in this legislation with unfavourable repercussions on costs and the competitive position of the European collective investment industry. In 2005, the European Commission adopted various initiatives, including publication of a White Paper and creation of an expert group in specific areas for the purpose of commencing a consultation process on mechanisms to improve and perfect the legislative framework. These initiatives gave rise in November 2006 to publication of a White Paper on improvement of the regulatory framework of the single market in investment funds. The Paper openly proposed modification of the current directives.

The recommendations of the 2006 UCITS White Paper gave rise to Directive 2009/65/EC, of 13 July 2009, known as the UCITS IV Directive, which in a single text consolidated the two previous directives in modified form. At the present time the Level 2 regulation is pending promulgation, which specifies the applicable technical rules under this Directive. The Committee of European Securities Regulators (CESR) has already issued the advisory report requested by the European Commission on the Level 2 regulation. It is expected that it will be approved in mid-2010. It is planned that the Levels 1 and 2 measures, accompanied by various Level 3 measures from CESR, will come into force on 1 July 2011, on which date transposition to domestic legislation should have been completed.

This article highlights, in summary form, the principal new features of the UCITS IV Directive and of the different CESR advisory documents regarding the regulation associated with Level 2. These new features particularly include, as a result of their importance, grant of a Community Passport for managers, who are permitted to manage funds created in another European Union Member State, and also new

features connected with the prevention and management of conflicts of interest and risks, investor information, the role of depositaries and the treatment of merger processes between UCITS and master-feeder structures.

With respect to organisation of the article, section 2 reviews the general objectives of the UCITS IV Directive. Section 3 deals with the passport for managers, with particular attention to rules of conduct, the treatment of conflicts of interest, risk management and the necessary cooperation between supervisors. Section 4 examines the new simplified prospectus, of mandatory distribution amongst investors. Section 5 refers to the rules for mergers between collective investment undertakings, and section 6 to the treatment of structures comprising a master fund and feeder funds associated with it. Section 7 describes the new regulatory treatment of cross-border commercialisation of funds; and the article ends with a section on conclusions.

2 Objectives of the UCITS IV Directive

As indicated, the changes made by the Directive seek to incorporate the recommendations of the White Paper, which introduces the passport for UCITS managers and makes substantial modifications in the field of mergers of UCITS, master-feeder structures, prospectuses (new simplified prospectus known KID, Key Information Document), cross-border commercialisation or UCITS passport and cooperation between supervisory authorities.

All these measures are aimed at strengthening the single market for UCITS at European level, but other objectives can also be mentioned. Thus, with respect to the manager passport, this measure permits a manager authorised in one Member State to manage a fund domiciled in another Member State without having a presence in the said State, which facilitates cost savings for managers and consequently for investors as well as greater competition.

With respect to mergers of UCITS and master-feeder structures, it also seeks to favour consolidation of the UCITS market in Europe, acknowledging concepts which were already applied at the level of national legislation with the consequent harmonisation of procedures and reduction in periods. With the new UCITS passport notification procedure it is further intended to speed up and simplify procedures in order to promote transnational activity.

Finally, the objective of introduction of the KID is to create a harmonised two-page document which includes all essential information which investors require in order to take their investment decisions.

An individual analysis is provided below of each of the areas in which the Directive introduces changes.

3 The manager passport

The new UCITS IV Directive regime will implement a true passport for managers, by permitting a manager authorised in one Member State to manage a fund domiciled in another Member State without having a presence in that State. In this

respect, it is appropriate to indicate that the 2001 Directive (UCITS III) did not manage to institute a true passport for management companies and therefore up to now these undertakings have been obliged to establish a fully operational management company in each of the countries in which one of their funds is domiciled.

The new possibilities of the manager passport introduced by the UCITS IV Directive will require harmonisation of the legislation governing managers with respect to organisational requirements, conflicts of interest, codes of conduct and risk management. These requirements have been aligned with the rules and terminology given by the MiFID Directive in the field of firms which provide investment services, although acknowledging the particular features of the collective investment management business, and will also be applied to self-managed investment companies (“SICAVs”). Furthermore, these requirements will have to be proportionate to the nature, volume and complexity of the activities of the managers and of the UCITS managed. In addition, in order that the passport is effective and functions properly, it will be necessary to establish mechanisms for cooperation between supervisors and specify the measures to be taken by depositaries in order to comply with their obligations in the case of UCITS managed by a management company located in another Member State.

The Level 1 provisions introduced by the new UCITS IV Directive are described below, along with the measures included in the CESR advice to the European Commission relating to the future Level 2 of the Directive. The measures are dealt with in five blocks which are explained in the following sections.

3.1 Organisational requirements and conflicts of interest

3.1.1 Organisational requirements

The organisational requirements are set out in Article 12.(1).(a) of the Directive, which provides that each management company must have sound administrative and accounting procedures, control and safeguard arrangements for electronic data processing and adequate internal control mechanisms ensuring that each transaction can be reconstructed and verification that the assets of the UCITS are invested according to the fund rules or the instruments of incorporation and the legal provisions in force. The principal aspects included in the CESR advice to the European Commission for the purposes of implementing this provision are described below.

- **Organisation and general procedures for managers: external communications policies.** Managers must establish in writing, implement and maintain procedures for decision-making and an organisational structure which specifies lines of communication and allocates functions and responsibilities to personnel. Managers must also have adequate internal control mechanisms to ensure that the procedures are complied with.
- **Responsibility of senior management.** Senior management will be responsible for ensuring that the manager complies with its functions; in particular it must periodically evaluate the efficacy of procedures and policies and take the appropriate measures to correct any deficiency.

- **Remuneration policy.** Managers must establish in writing, implement and maintain a clear remuneration policy, transparent at internal level, reviewable annually, which does not motivate risk-taking inconsistent with the risk profile of each UCITS and which includes measures to avoid conflicts of interest. This policy must be applied to personnel whose activities can have a relevant impact on the risk profile of the UCITS managed.
- **Legislative compliance function.** Managers must establish and maintain a compliance function which operates independently, with sufficient authority and on a permanent basis, the task of which is to periodically monitor and evaluate the adequacy and efficacy of the policies and procedures of the manager and actions taken to correct any deficiency, and to advise officers of the manager in carrying out their activities. A compliance officer must be appointed who must send periodic reports to senior management at least annually.
- **Internal audit unit.** Managers must, when proportionate to their activities, establish an internal audit unit separate and independent of other areas.
- **Investor complaints.** Managers must establish effective and transparent procedures in order rapidly to process complaints by investors and to ensure that the complaint is recorded and the appropriate measures taken to resolve it.
- **Rules on personal transactions.** Managers must establish adequate control measures for those persons who take part in activities which could give rise to a conflict of interest or who have access to privileged or confidential information. The manager must be rapidly informed of any personal transaction and maintain a register of personal transactions notified, including any authorisation or prohibition of them.
- **Order register.** Managers must for each transaction which they carry out record sufficient information to reconstruct details of the order. Order records must be preserved for at least five years, although the supervisor may require that they be preserved for longer. Managers must also have a register of subscription and redemption orders which must be centralised and be immediately stored after being received.
- **Existence of procedures for accounting, valuation and calculation of liquidating value.** Managers must establish accounting procedures which ensure the protection of holders and which permit identification at all times of the assets and liabilities of the UCITS. They must also maintain accounting and valuation procedures which ensure that calculation of liquidating value takes place accurately and that subscription and redemption transactions are executed at the appropriate liquidating value.
- **Implementation of UCITS investment policies.** Senior management will be responsible for implementing the investment policy of UCITS. For this purpose it must approve the investment strategy of each UCITS and periodically supervise compliance with the investment policy and the risk levels of each UCITS.
- **Exercise of voting rights.** Managers must have a procedure and strategy which sets out whether the said rights will be exercised and in which manner. The procedures must indicate the control mechanisms of relevant corporate events in order to assess the appropriateness and modes of voting rights, in accordance with the investment policy of the UCITS, and avoiding conflicts of interest deriving from their exercise.

3.1.2 Conflicts of interest

Article 12.(1).(b) of the Directive relates to conflicts of interest, providing that the manager must be organised in a manner which minimises the risk that the interests of the UCITS or clients are prejudiced by such conflicts. This principle is implemented in the CESR advice, providing that managers must establish in writing and implement a policy for dealing with and preventing conflicts of interest, identifying the circumstances which could give rise to them, and defining the procedures to be adopted to manage the conflicts and minimise the prejudice which they could cause. Furthermore, managers must maintain the register of activities in which a conflict of interest has arisen and inform investors of such situations. When the procedures implemented in the manager to handle them are insufficient to ensure that prejudice will not occur to investors, senior management must be informed of the conflicts of interest in order to take the necessary decisions to protect investors.

3.2 Rules of conduct

Article 14 of the Directive refers to the rules of conduct which must be observed by managers, laying down the principles which must govern their activities, including the duty of acting honestly, with due diligence, and in the best interests of investors, using the necessary resources and procedures for appropriate functioning of its activities, attempting to avoid conflicts of interest and complying with all regulatory requirements. The measures included in the CESR advice for the purpose of implementing Level 2 are explained below.

Firstly, managers must act in the best interests of investors and guarantee the integrity of the market. To this end they must ensure the existence of fairness between investors, apply clear and transparent criteria when defining the expenses and commissions borne by the UCITS and prevent the burden of undue costs, such as those associated with excessive and unjustified rotation of portfolios, for example. They must further apply policies and procedures to prevent bad practices.

At the same time, the requirements are regulated which must be fulfilled by due diligence procedures carried out by managers. Such procedures must be established in writing, be carried out by operating units independent of those which take investment decisions, and be proportionate to the complexity and risk of the assets. These procedures serve to ensure that investment decisions of a particular UCITS are taken consistently with its objectives, investment strategy and risk limits. Prior to the investment, its contribution must be examined to the composition of the UCITS portfolio, its liquidity and risk profile, and an assessment made of the suitability of the assets, that the investment complies with the conflict of interest policy and that it is compatible with obligations to calculate liquidating and redemption value.

Furthermore, in the case of direct commercialisation by the manager, it is provided that managers apply rules of conduct laid down in the MiFID, in particular the so-called “appropriateness test”. In this way they must request information from investors regarding their financial knowledge and experience in order to determine whether it is sufficient to understand the risks of a particular UCITS. The procedure known as “execution only” is also regulated, which permits managers to process orders for subscription and redemption for UCITS without obtaining information

regarding the experience and knowledge of the client when (i) commercialisation of the UCITS takes place on the initiative of the investor, (ii) the latter is informed that the manager is not obliged to assess whether the UCITS is appropriate or not for him, and (iii) the manager complies with its obligations regarding conflicts of interest.

In addition, the principles are implemented which must govern the execution of orders, both those for subscription and redemption, and those which are passed to intermediaries. With respect to subscription and redemption orders, managers must send a notification to the investor confirming execution of the order by no later than the business day following its execution. In relation to orders which are passed to intermediaries, the principle of best execution is defined along with the general principles which must govern the execution of orders, their aggregation and allocation to the different UCITS. In this respect, managers must establish procedures to obtain the best possible result in the execution of orders, taking into account price, cost, speed, likelihood of execution, volume and nature of the transaction. They must also, for each class of instrument, identify the entities to which the orders will be directed and must supervise the quality of execution. Furthermore, they must implement procedures which ensure rapid and fair execution of transactions carried out on behalf of UCITS, and may not make improper use of information which they have regarding pending orders of UCITS. A fair allocation policy must exist when orders are executed jointly for more than one UCITS, if they are executed in part, and when transactions are accumulated for own account and for other clients.

Finally, permitted incentives are defined, taking into account that managers act honestly if, when managing UCITS, they do not pay or receive commissions or non-monetary benefits other than as follows: (i) commissions or non-monetary benefits paid or delivered by the UCITS, (ii) commissions necessary for functioning of the UCITS, and (iii) commissions or non-monetary benefits paid or handed over to a third party, or by a third party, provided that the existence, nature and amount of the commissions previously referred to are disclosed to the UCITS prior to providing the service, and that furthermore the payment or non-monetary benefit handed over enhances the quality of the service provided.

3.3 Risk management

The Directive provides, in Article 51, that the manager must use a risk management procedure which enables it to monitor at any time the risk of positions and their contribution to the risk of the portfolio. Article 51.(4).(b) refers to subsequent implementation which will specify the criteria for assessing the adequacy of the risk management process employed by the management company and the rules which permit adequate and independent assessment of the value of OTC derivatives, and the information to be communicated to the Member State of the manager relating to information on the types of derivative instruments used and their contribution to the risk of each UCITS. This implementation will take place by measures at both Level 2 and Level 3, in particular in relation to risk measurement in derivatives. The Level 2 measures, in accordance with the CESR advice, are described below.

Managers must establish a risk management policy for the purpose of analysing and managing market, counterparty, liquidity, operational and other risks which may be

relevant to each of the UCITS which they manage. They must further indicate the appropriate methods, techniques and tools for identifying and measuring risks and specify the method employed to measure overall exposure of the UCITS.

The risk management function carried out must have the necessary authority, resources and experience and the possibility of accessing all relevant information. Furthermore, it must be independent in both hierarchical and functional terms from the operating units when it is proportionate to the nature, volume and complexity of their activities and of the UCITS managed. These tasks include implementing the risk management policy and procedures, provision of information to the Board of Directors in order to identify the risk profile of each UCITS, monitoring compliance with risk limits, including legal limits, on overall exposure and counterparty risk, and reviewing and providing advice and support in the valuation of OTC, complex and illiquid assets. The risk management function can be delegated to third party entities, although the manager retains responsibility. Consequently, managers must assess whether the third party has the capacity to carry out the activities in a professional and efficient manner, periodically evaluating the activities thereof, to which end it must establish methods for supervising the delegee entity, retaining the necessary resources to supervise its activities.

The Board of Directors is the body responsible for approving and periodically reviewing risk management policies, procedures and techniques and receiving periodic reports detailing whether the UCITS have complied with the risk level appropriate for each UCITS and whether measures have had to be taken to correct incidents or breaches.

With respect to risk management and measurement, managers must ensure that for each UCITS the risks of each position and their contribution to the overall risk are adequately measured based on reliable data, establishing for each UCITS a documented system of limits and procedures in order that adequate measures are taken if they are exceeded. They must also provide a liquidity risk management system which ensures that the liquidity profile of investments is adequately managed, consistently with the redemption policy of the prospectus.

Procedures are also established for valuation of OTC derivatives, in respect of which it is provided that the manager must verify that the valuation of these assets does not rest solely on the price given by the counterparty, and is mandatorily fixed by having valuation procedures which reflect the fair value of this type of asset. The valuation can be verified by a third party independent of the manager or by a management unit independent of asset management. In addition, with respect to risk measurement in derivatives, the term "global exposure" is defined, determining that it must be calculated daily. Global exposure can be calculated by the commitment method, the value at risk (VAR) method, or by another advanced risk measurement system. The method selected must be appropriate to the investment strategy. Limits of concentration per issuer must be calculated using the commitment method. Furthermore, it is provided that the counterparty risk associated with an OTC financial instrument must be calculated in accordance with the mark to market value of the instrument.

Finally, there is also reference to supervision by the authorities of the risk management procedures of managers and it provides that both at the time of authorising a

new manager or a new UCITS, and in a continuous manner over time, the supervisor must review the adequacy and efficacy of the risk management procedures of managers.

3.4 Measures which must be taken by a depositary of a UCITS managed by a manager located in another Member State

Articles 22 and 23 of the Directive refer to these measures. In particular, they provide that when the Member State of the manager is different from that of the UCITS, the depositary must sign an agreement with the manager regulating the necessary flow of information in order that the former can carry out its function. The European Commission may adopt measures in order that depositaries comply with their obligations in these cases, and in particular specify the necessary content of the agreement signed in writing with the manager, which must contain the rights and obligations of both parties.

3.5 Cooperation between supervisors

In order to facilitate implementation of the passport, the CESR has provided advice on two key elements of supervisory cooperation: firstly, inspections and investigations on site and, secondly, exchange of information between competent authorities. The provisions establishing cooperation between supervisors are set out in Articles 101 and 105 of the Directive. Article 101 thus provides that an authority can request the cooperation of another authority to carry out an on-site inspection in its territory. The authority receiving the request for a visit may decide to make the visit itself, allow the requesting authority to do so or allow it to be carried out by auditors or experts. Mixed groups made up of several authorities may also exist. A competent authority of one Member State may reject cooperation when it seriously affects matters of public sovereignty, judicial proceedings have been commenced or the matter has already been closed. In accordance with the CESR advice for Level 2 measures, it provides that the request for cooperation must be in writing, a sufficient time in advance for consideration and in detail. A request by e-mail would only be allowed in cases of urgency, always conditional on subsequent formal request. By default, the visit will be carried out by the authority which receives the request, unless it is agreed between the two that it be carried out by the applicant or expert auditors. Furthermore, an authority may ask for interviews to be carried out in the territory of another. In addition, in cases in which there is a manager passport, special rules are defined for on-site visits and investigations carried out. The competent authorities of the Member State of the manager and those of the Member State of the UCITS concerned will thus mutually consult and exchange information regarding the inspections of UCITS, managers and depositaries which are carried out. The procedures which must govern the cooperation between authorities and on-site visits will be established by Level 3 measures.

Furthermore, Article 105 of the Directive authorises the Commission to establish Level 2 measures with respect to procedures for the exchange of information between authorities. Three types of information exchanges are specifically defined:

- Routine information exchanges: certain cases are provided, such as the withdrawal of authorisation, imposition of penalties, detection of serious problems in managers, or any other relevant incident in UCITS, such as situations of suspension of subscriptions or redemptions ordered, in which the information must be provided immediately to the other competent authority without the need for an express request.
- Unrequested information exchanges: any relevant fact which could be of material interest to the other authority.
- Information exchanges in the scope of the manager passport: the competent authorities must provide aid and establish information flows in the procedures for authorisation of managers who wish to carry out activities in another Member State, through a branch or under free provision of services, or who are going to manage UCITS in another Member State, and in the supervision of managers with a passport. The possibility is also provided of periodic meetings to assess the risks which affect the entities supervised or to improve cooperation.

4 The new simplified prospectus

The simplified prospectus has been criticised as an excessively long and complex document with a content which cannot easily be assimilated or understood by investors (particularly retail). Furthermore, transposition of the rules defining the contents of the prospectus into national legal systems has been characterised by strong divergences between different countries. The White Paper thus recommends reviewing its contents at the appropriate time in order that the information places greater emphasis on costs, expenses and return of UCITS and that the simplified prospectus becomes a short, concise and clear document of true utility to investors. Following these recommendations, the UCITS IV Directive eliminates the simplified prospectus and creates a new document, the KID, which must be handed to investors.

In accordance with Article 78.(3) of the Directive, the KID must provide information on the following aspects:

- a) identification of the UCITS;
- b) a brief description of its investment objectives and investment policy;
- c) past performance presentation or, where relevant, performance scenarios;
- d) costs and associated charges; and
- e) risk/reward profile of the investment, including appropriate guidance and warnings in relation to the risks associated with investments in the relevant UCITS.

It also provides that it must clearly specify where and how to obtain additional information and the full prospectus, free of charge, as well as annual and half-yearly reports. It must further indicate the language in which this information is available to investors.

In addition, and due to the eminently technical content of this document, a large number of aspects were entrusted to the Level 2 regulation. It is expected that this

regulation will set out the primary suggestions from the advice given by the CESR. In this respect it can be indicated that the CESR advice places special emphasis on the risk profile of the UCITS, information on expenses borne and return and the structure of the document itself.

One aspect which has been subject to wide discussion in the CESR is the scope of the obligation to deliver or make the KID available. In the initial proposals the obligations of the manager were distinguished from those of persons commercialising. In the first case the manager was obliged to hand over the KID to investors whilst in the second there was only a generic reference to the information obligations of commercialisers in the MiFID Directive. In this context, it was left to the discretion of each intermediary whether it wished or not to use the KID to comply with its information obligations, which could result in an unjustified difference in the information received by investors depending on the distribution channel which they use. Finally, the CESR advisory document proposes that the obligation to deliver the KID also extends to commercialisers

With respect to its structure, the KID will be organised into five sections in accordance with the following:

- a) Investment policy and management objective: this section will include a description of the markets and instruments in which the fund invests, the management techniques used, the return objective, the reference index, etc. The description of the investment policy must be provided in language comprehensible to a retail investor, insofar as possible avoiding the use of technical terms.
- b) Risk profile of the fund: the description of the risk profile must be given using a synthetic risk indicator. By this system all UCITS must assess their risk profile using a quantitative methodology which will be harmonised at European level. As a result, the KID must indicate the risk level of each fund by means of a numeric scale, from 1 to 7.

Along with the risk indicator there will also, as appropriate, be a brief explanation of the specific risks of each fund which are not adequately covered by the indicator. This explanation must be adapted individually to each UCITS, avoiding the use of generic risks lists and standard texts which are not informative to investors.

As a general rule, the risk indicator calculation will be based on the historic volatility of fund returns during the last five years. Nevertheless, various specific rules have also been developed to assess the risk level of funds which do not have sufficient history or in which this history is not representative:

- In traditional funds, if there is no sufficiently prolonged history, the series used to calculate fund volatility will be completed by the history of a benchmark which is representative of the fund portfolio.
- In funds with absolute return or risk limit (CPPI),¹ following a criterion of prudence the maximum will be taken of (i) the historic volatility of the fund,

¹ CPPI (Constant Proportion Portfolio Insurance): value derived from a guaranteed capital which is used in dynamic investment strategy.

and (ii) the volatility calculated based on the risk objective communicated by the fund. If these funds do not have sufficient history, the volatility will be taken calculated on the basis of the current composition of the fund portfolio.

- In structured/guaranteed funds, since their return distribution is frequently asymmetric, a VaR² methodology will be used. Specifically, this methodology provides that the VaR on maturity is calculated by historical simulation, or backtesting, which reproduces the result which the fund would have obtained if it had been launched weekly during a period of five years.
- c) Historic return: it is proposed that UCITS report, in the KID, on the historic return which they have obtained during the last ten years. This information will be presented in a harmonised bar chart which permits comparison between funds. UCITS which have marked a reference index must show the behaviour of this index together with their own historic return.

For structured/guaranteed funds, instead of showing historic return an illustrative table will be included showing the return which the fund would obtain in different situations. For this purpose the result will be indicated which the fund would obtain in an adverse, neutral and favourable scenario of movement in the underlying. It must be clarified that the scenarios are only included for illustrative purposes and need not necessarily have the same probability of occurrence.

- d) Commissions and expenses: the proposed system will have a format similar to the current one. It is proposed that three types of commissions are the subject of separate information:
- (i) subscription and redemption commissions;
 - (ii) *ex post* management commission, relating to the previous year;
 - (iii) description of the commission by results, including an indication of the amount charged in the previous year.

With respect to transaction costs, it was decided not to include them in the KID since the majority of regulators argue that they are difficult to calculate, particularly in fixed income and derivatives. Nevertheless, in the CESR advice to the European Commission it expressly states that CESR considers that the transparency of this type of cost should be improved and that in the future its inclusion in the KID should be reconsidered.

- e) Other relevant information: this section will include the remaining information of relevance to investors (regularity of subscriptions and redemptions, supervisory authority, depositary, where to obtain the full prospectus, etc.).

2 VaR (Value at Risk): measures the maximum loss which an asset or portfolio could suffer in a particular period with a given level of confidence.

5 Mergers of UCITS

As indicated, mergers of UCITS were not regulated in “UCITS III” but are regulated in the national legislation of the different Member States. The regime laid down in the Directive for mergers of UCITS will be applicable to cross-border mergers, i.e. mergers of UCITS in which at least two of the UCITS are established in different Member States, or mergers of UCITS established in a single Member State into a UCITS recently created and established in another Member State. It will also be applicable to national mergers when one of the UCITS involved has applied for commercialisation in any other Member State.

Specifically, the text covers the merger of all types of UCITS or compartments. It will be necessary for the absorbing or newly created UCITS to be registered in order to be commercialised in all States where the absorbed UCITS reside. Authorisation for the merger lies with the competent authority of the UCITS absorbed, on prior consultation with the authority of the absorbing UCITS, within a period of 30 business days.

The Directive also regulates the documentation to be filed for authorisation for the merger (Article 39), the contents of the terms of merger (Article 40) and the information to be provided to holders (Article 43) after the merger has been authorised and at least 30 days prior to the final date for redemption without commissions of both the absorbing UCITS and the UCITS absorbed. This information must contain adequate accurate data in order to enable investors to form a grounded judgment on the possible effect on their investment.

Furthermore, Article 42 provides that the legislation of Member States of origin of the merged UCITS must provide for validation by an independent auditor or depositary in respect of certain elements of the merger process.

With respect to the information to be provided to holders, the content of the information and how it must be provided has been left to the Level 2 regulation. In the CESR advice to the EC it proposed that the information which must be provided to investors be brief and in non-technical language, and sufficiently detailed and complete for unit-holders of the UCITS absorbed, since there is no reason why they should have prior knowledge of the characteristics of the beneficiary UCITS. In the case of a cross-border merger, it is proposed that special care is taken in providing explanations of the terms and procedures of the Member State of origin of the beneficiary UCITS.

Regarding the manner of communicating the information to holders of the UCITS involved, the CESR advice does not propose harmonisation since the national legislation of the different Member States has already established provisions regarding how information must be provided to holders in domestic mergers.

6 Master-feeder structures

Feeder UCITS are defined in Article 57 of the Directive as those which invest at least 85% of their assets in a single master UCITS. The remaining 15% may be invested in liquidity and derivatives for hedging purposes, and in real and personal property necessary to carry out the activity in the case of an investment company.

The master fund or structure may not invest in other master or feeder structures, but it may invest in other ordinary UCITS, it may apply subscription and redemption commissions to its feeders, and must have at least one feeder fund as holder, but may also have private investors.

Authorisation for the investment of the feeder fund in a master will lie with the competent authority of the Member State of origin of the former, which will have two months for the purpose in the case of a newly created UCITS, or 15 business days in the case of transformation of an already existing UCITS.

The Directive provides, in Article 59, for the documentation to be filed by the feeder UCITS at the time of the authorisation, which includes an agreement between it and the master UCITS for the purpose of ensuring that the former complies with the obligations imposed by the Directive. If the two UCITS are managed by the same manager, the agreement may be replaced by internal rules for engaging in activities.

The CESR has advised on the contents of this agreement and the legislation applicable to it, which at the election of the parties will be that of the Member State of any of the two UCITS (master or feeder).

If a UCITS is converted into a feeder UCITS or, already being a UCITS of this type, is linked to another master UCITS, authorisation for the operation will also be conditional on submission of a document specifying the contents of the information to be supplied to fund holders.

Other relevant aspects are also covered by the Directive regarding master-feeder structures, as follows:

- i. The master and feeder UCITS must adopt the appropriate measures to coordinate the timetable for calculation and publication of liquidating values in order to avoid improper arbitrage practices related to market times. The CESR advice proposes that these measures be included in the agreement between the two UCITS, placing particular emphasis on the case in which holdings are traded on a secondary market.
- ii. Options of the feeder UCITS in the event of liquidation, merger or demerger of the master UCITS. If the master UCITS is subject to liquidation, the feeder will also be liquidated unless the competent authority of its Member State authorises it to invest at least 85% of its assets in another master UCITS or be transformed into an ordinary UCITS. Master UCITS may only be liquidated after at least three months have elapsed from when information on the liquidation has been given to holders and to the competent authorities of the Member States of the feeder UCITS. In the case of a merger this will not take effect until at least 60 days after the corresponding information has been provided.
- iii. The depositary of the master UCITS must immediately report to the competent authority of the Member State of origin of the master UCITS, to the feeder UCITS (or its manager) and to the depositary of the latter on any possible irregularity detected which could have a negative impact on its liquidating value.

7 New procedure for cross-border commercialisation (UCITS passport)

As from entry into force of the Directive, a new passport regime will be articulated based on electronic communication between competent authorities, together with a system of periods which aims to simplify and promote transnational activity. Up to now UCITS which wanted to commercialise in another Member State had to apply firstly for the passport with the competent authority of the State of origin and, after obtaining it, apply for registration in the host State.

The fundamental principle of the new regime is that after the host Member State receives the notification (or passport) from the Member State of origin, the UCITS can begin to commercialise in this host State.

The communication will be electronic and the host Member State may not impose any additional requirement on the UCITS.

With respect to the procedure, this is regulated by Article 93 of the Directive which provides that a UCITS wishing to commercialise its units in another Member State must submit to the competent authority:

- a. A notification letter, which must contain information regarding the planned modes of commercialisation in the host State. For this purpose Member States must ensure that this information can be easily obtained remotely by electronic means.
- b. The latest version of its fund rules or instruments of incorporation, prospectus and KID and, as the case may be, the most recent annual report and if necessary the half-yearly report. With respect to translation, it is only mandatory to submit the KID translated, without the need for the translation to be sworn. The remaining documentation may be submitted translated or in a language commonly accepted in the international financial field, at the election of the UCITS.

The competent authority of the State of origin will verify that the documentation is complete and send it to the competent authority of the host State within a maximum of ten business days, attaching a certificate of attestation that the UCITS complies with the conditions of the Directive. After the documentation has been sent to the competent authority of the host State, it will notify the sending to the UCITS, which may gain access to the market in question as from that date.

Member States must ensure that their competent authorities accept the electronic sending and filing of the documentation. The State of origin must ensure that the competent authority of the host State has access by electronic means to the documentation and ensure that the UCITS maintains it up to date. The UCITS must notify the competent authority of the host State of any modification of the documentation and indicate the place where it can be obtained in electronic format.

In the case of modification of the provisions for commercialisation communicated in the notification letter or of modifications in relation to the classes of shares to be commercialised, the UCITS must previously report this in writing to the competent authority of the host State.

With respect to the information to be provided to investors in the host State, the principle is that they are provided with all documentation and information which must be provided to investors in the State of origin in accordance with the provisions of the Directive.

In relation to the UCITS passport, the CESR advice to the EC for implementation of the Level 2 rules places particular emphasis on four aspects:

- a. Scope of the information required by each host Member State, which affects solely commercialisation in its territory: it proposed the contents of the information which each country must keep up to date and published on its website, with particular mention of commercialisers and advertising material.
- b. Providing the host State with access to the notification documents: the reference in the Directive to “access by electronic means” can include notifications by e-mail to the creation of a centralised system for exchange of passports at European level.
- c. Notification letter and attestation certificate: Annexes I and II of the CESR advisory document contain standardised models for both documents.
- d. Electronic transmission of information: the CESR document specifies the procedure for exchange of e-mails as a minimum solution for compliance with the provisions of the Directive.

Furthermore, the possibility is assessed of implementing a centralised system to deal with the procedure for notification and subsequent updates.

8 Conclusions

This article contains the several new features introduced by the UCITS IV Directive. This Directive strengthens transnational manager-fund structures by permitting funds created in one country to be managed by managers located in another. Local managers will thus now have more options when internationalising their activities and a reorganisation is therefore foreseeable of the different activities of management and commercialisation at continental level. Furthermore, the Community passport for managers will require the coordination and cooperation of supervisors in order to ensure the level of investor protection required by the Directive, which raises important challenges for forthcoming years. In this respect it can be emphasised that CNMV Circular 6/2009 sets out the principles of risk management approved by the CESR in February 2009, and most of the content of its advice to the European Commission regarding Level 2 of the UCITS IV Directive. It can be concluded in this respect that the Circular is highly consistent with the recommendations issued by the CESR.

In the field of investor information, one important novelty of the Directive is establishment of the KID (Key Information Document). By specifying its content and making its delivery mandatory, this document constitutes a true harmonisation of the information which investors will receive. In Spain adaptation is still pending of the current simplified prospectus to the KID, but it does not seem that this task will be particularly complicated since work has been carried out in this respect for some time.

Measures relating to mergers of funds and master-feeder structures could favour greater integration of the UCITS market at European level, although the difference in tax treatment may still have a dissuasive effect on cross-border mergers. For this reason the CESR requested in its advisory document that the European Commission examine the efficacy of the system of mergers provided in the Directive.

Finally, the new notification procedure for cross-border commercialisation means speeding up and simplifying the system of UCITS passports. These passports adopt the current communication procedure for ISF and managers by establishing the competent authorities of the Member State of origin as interlocutor. By harmonising the procedure adaptation will be required of current procedures to a greater or lesser extent, depending on whether it is a procedure for exchange of e-mails or a centralised IT system.

IV Legislative Annex

New legislation promulgated since publication of the CNMV bulletin for the first quarter of 2010 was as follows, in chronological order:

- **Commission Regulation (EU) No. 243/2010 of 23 March 2010** amending Regulation (EC) No. 1126/2008, adopting certain international accounting standards, as regards Improvements to International Financial Reporting Standards (IFRS).

This Regulation incorporates into EU law various improvements in IFRS published by the IASB in the framework of the improvement procedure which this body undertakes annually. The amendments affect the following standards:

- IFRS 2, on share-based payments, in relation to its scope of application in order to maintain consistency with the provisions of IFRS 3, on business combinations.
 - IFRS 5, in relation to the information to be disclosed regarding non-current assets (or disposable groups of elements) held for sale and interrupted activities.
 - IFRS 8, in relation to the information to be disclosed regarding the value of total assets and liabilities for each operating segment.
 - IAS 1, on presentation of financial statements, in relation to classification of liabilities as current and non-current.
 - IAS 7, on the cash flow statement, in relation to classification of an asset as investment activity.
 - IAS 17, on leases, in particular on leasing agreements which simultaneously include components of buildings and land.
 - IAS 36, on impairment in value of assets, with respect to the modes of tests of impairment of goodwill.
 - IAS 38, regarding intangible assets, with particular effect on the valuation of intangible assets acquired as a result of a business combination.
 - IAS 39, regarding recognition and valuation of financial instruments in relation to cash flow hedging and derivatives which give rise to a business combination.
 - Interpretation 9 of the International Financial Reporting Standards Interpretations Committee (IFRSIC) relating to new evaluation of implicit derivatives, with this amendment specifying the scope of application of this rule in relation to business combinations.
 - Interpretation 16 of the IFRSIC, regarding hedging of an investment in a business abroad.
- **Commission Regulation (EU) No. 244/2010 of 23 March 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 Council as regards International Financial Reporting Standards (IFRS) 2.

This Regulation incorporates a modification of IFRS 2 into EU Law, relating to the accounting treatment of transactions in shares.

As a general rule it provides that in these transactions which include payments in shares, if the fair value of the shares delivered by one of the parties exceeds the consideration received an additional consideration must be recorded for the difference even if it is not identifiable.

- **Royal Decree-Act 5/2010, of 31 March**, extending the term of certain temporary measures.

Together with other aspects with no relationship to security markets, this Royal Decree-Act extends, for a further two years, the regime established by Royal Decree-Act 10/2008, of 12 December, pursuant to which account is not taken of losses from impairment of tangible fixed assets, real estate investments, and stocks in cases of mandatory reduction of capital and dissolution of joint stock and limited liability companies.

- **Royal Decree-Act 6/2010, of 9 April, on measures for promoting economic recovery and employment.**

Amongst other aspects, the following measures affecting the securities market area are covered:

- Several periods relating to functioning of the FROB (Orderly Bank Restructuring Fund) are reduced.
 - The issue of equity shares in savings banks to be subscribed for by the FROB is simplified.
 - The legislation regarding asset securitization funds is amended, permitting these funds to hold real estate, rights and amounts resulting from awards on the enforcement of mortgage loans which they hold as a result of their securitization.
 - The Securities Market Act is amended, to require the involvement of an authorised entity to provide investment services in certain securities offerings aimed at the public in general which do not require a prospectus and which use for the purpose any form of advertising communication, with the ultimate objective of instrumenting adequate channels for investor protection.
 - The amounts are raised which cannot be attached in the event that the price obtained from the sale of a mortgaged regular dwelling is insufficient to cover the credit secured.
- **Resolution of 9 March 2010 of the Directorate General for the Treasury and Financial Policy**, publishing the resolution of the Governing Council of the Fund for the Acquisition of Financial Assets, of 8 March 2010, regarding partial amendment of fund investment directives.

The Fund for Acquisition of Financial Assets is permitted to exceed the pre-existing limits on risk concentration with a single issuer, taking into account that

this Fund will no longer make further investments since it is not possible to hold auctions after 31 December 2009.

- **Royal Decree 437/2010, of 9 April**, implementing regulation of the process for securitization of the electricity system deficit.

In accordance with Additional Provision 21 of Act 54/1997, of 27 November, on the Electricity Sector, the State meets the difference between the tariffs paid by consumers and actual costs of the energy by acknowledging long term collection rights in favour of the electricity sector, which are assigned to the Fund for Securitization of the Electricity System Deficit, which will issue its corresponding liabilities by means of a competitive mechanism in the financial market with State guarantee. This Royal Decree determines the price and terms and conditions of assignment of collection rights to the securitization fund and the bases of the competitive procedure by which the Fund's financial instruments will be issued.

- **Act on prevention of money laundering and financing of terrorism.**

This legislation consolidates the administrative regulation relating to the prevention of money laundering and financing of terrorism for the basic purpose of transposing European Parliament and Council Directive 2005/60/EC, of 26 October 2005, regarding prevention of use of the financial system for money laundering and financing terrorism. The aspects of this legislation with greatest effect on the securities market are as follows:

- Section 43.1.j) of the Collective Investment Undertakings Act, 35/2003 of 4 November, is amended in relation to internal risk control procedures, including the prevention of money laundering as one of the objectives of these procedures.
- Persons under obligations pursuant to the legislation must not establish nor maintain business relations with companies whose shares are represented by bearer certificates.
- The Financial Ownership File is created and an obligation imposed on credit institutions to declare the opening and closing of current accounts, savings accounts, securities accounts and term deposits and to identify their holders for inclusion in this file.

- **Royal Decree on the legal regime of payment entities.**

This legislation implements Act 16/2009, of 13 November, on payment services and completes the process of transposing European Parliament and Council Directive 2007/64/EC, of 13 November 2007, on payment services in the internal market. Payments, the best mode of settling payment obligations, is subject to regulation by this Directive insofar as it involves the provision of widespread professionalised services by certain legal entities through certain media. From this perspective user protection and the stimulation of competition are pursued through harmonisation of requirements for access to this market and the creation of a new category of persons, payment entities.

The principal aspects covered by the Royal Decree are as follows:

- The legal regime of payment entities is developed, regulated by the Payment Services Act.
 - Initial capital and own funds requirements are established for this type of entity, as well as requirements for applying for authorisation to the Ministry of Economy and Finance.
 - The system of payment entity agents and delegation of functions is developed in a manner very similar to the regulation of credit institutions.
 - Cross-border activities of payment entities are also covered: activities in Spain of payment entities authorised in another European Union Member State; opening of branches and free provision of services in a non-European Union Member State by Spanish payment entities; and creation or acquisition of holdings in payment entities of a non-European Union Member State.
 - A Register of Senior Officers of payment entities is established, maintained by the Bank of Spain, and a register of persons responsible for the management of branches and agent network.
 - The concept of the hybrid payment entity is regulated, which is one which engages in an economic activity other than the provision of payment services. The Bank of Spain may request information from hybrid payment entities regarding the economic activities which they engage in or intend to engage in, which determine their classification as such and which are relevant to exercise of its supervisory function.
 - The possibility is restricted for a payment account to have a debit balance. Payment accounts of these entities may only show a debit balance as a result of providing payment services initiated by their beneficiary, but never as a result of payment transactions initiated directly by the instructing holder of the payment account.
- **Royal Decree 628/2010, of 14 May**, amending Royal Decree 2606/1996, of 20 December, on deposit guarantee funds in credit institutions, and Royal Decree 948/2001, of 3 August, on investor compensation systems.

This legislation consolidates the texts of Royal Decree 2606/1996 and Royal Decree 948/2001 with the modifications introduced by Royal Decree 1642/2008, of 10 October, which extended the amount guaranteed by the deposit guarantee fund from 20,000 to 100,000 euros.

An obligation is further established for credit institutions to broaden the information which they provide to depositors in relation to the deposit guarantee fund protection system. It also provides that deposit guarantee funds must carry out functioning tests and, as appropriate, must be informed when the competent authorities discover problems in a credit institution which could give rise to involvement of the deposit guarantee system.

- **Royal Decree 749/2010, of 7 June**, amending the Regulations under Act 35/2003, of 4 November, on Collective Investment Undertakings, promulgated by Royal Decree 1309/2005, of 4 November, and other regulations in the tax field.

This Royal Decree amends various specific aspects of the Regulations under Act 35/2003, of 4 November, on Collective Investment Undertakings:

- The system is extended of quoted investment funds under Section 49 of the CIU Regulations to certain variable capital investment companies which replicate or reproduce stock exchange or fixed income indices.
- The creation is permitted of special purpose collective investment undertakings or compartments, known internationally as “side pockets”, in which assets affected by the situation of economic crisis will be housed, which makes their valuation difficult and reduces their liquidity.
- The regime of investment by collective investment undertakings of a real estate nature is made more flexible, including listed real estate market investment companies amongst the assets in which their investments can be made.
- Certain limits are made more flexible on the investments which investment funds must comply with for purposes of guaranteed return.
- The rules governing transparency of commissions is improved.
- An exemption is made from the obligation to make a withholding or payment in on account of income deriving from transfers or redemptions of shares or holdings representing the capital or net worth of listed investment funds or quoted index variable capital investment companies.

V Statistics Annex

1 Markets

1.1 Equity

Share issues and public offerings¹

TABLE 1.1

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ²
CASH VALUE³ (Million euro)	69,955.5	16,349.3	11,390.7	2,060.2	1,087.1	2,311.3	241.5	3,144.3
Capital increases	67,887.0	16,339.7	11,388.7	2,060.2	1,087.1	2,309.4	241.5	2,609.9
Of which, primary offerings	8,502.7	292.0	17.4	0.0	7.0	10.3	14.8	910.0
With Spanish tranche	4,821.3	292.0	17.4	0.0	7.0	10.3	14.8	910.0
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	0.0	1.9	0.0	534.4
With Spanish tranche	1,517.1	9.5	1.9	0.0	0.0	1.9	0.0	534.4
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	596.8	142.1	182.8	143.8	787.8
Capital increases	6,358.4	1,835.7	1,892.0	596.8	142.1	182.7	143.8	787.8
Of which, primary offerings	1,122.9	100.0	0.1	0.0	0.0	0.1	0.1	0.1
With Spanish tranche	676.0	100.0	0.1	0.0	0.0	0.1	0.1	0.1
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 FILES⁴	100	54	53	14	11	19	10	12
Capital increases	91	53	53	14	11	19	10	11
Of which, primary offerings	8	2	2	0	1	1	2	2
Of which, bonus issues	19	18	11	3	4	3	1	2
Secondary offerings	12	2	1	0	0	1	0	2
NO. OF ISSUERS⁴	57	39	34	9	9	16	10	8
Capital increases	52	38	34	9	9	16	10	8
Of which, primary offerings	6	2	2	0	1	1	2	2
Secondary offerings	8	2	1	0	0	1	0	1

1 Includes registered offerings with issuance prospectuses and listings admitted to trading without register issuance prospectuses.

2 Available data: May 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

Million euro	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
PRIMARY OFFERINGS	8,502.7	292.0	17.4	0.0	7.0	10.3	14.8	910.0
Spanish tranche	4,646.2	282.0	17.4	0.0	7.0	10.3	14.8	910.0
Private subscribers	2,841.0	191.5	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	1,805.2	90.5	17.4	0.0	7.0	10.3	14.8	910.0
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	0.0	1.9	0.0	534.4
Spanish tranche	1,505.7	9.5	1.9	0.0	0.0	1.9	0.0	534.4
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	0.0	1.9	0.0	534.4
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: May 2010.

Companies listed¹

TABLE 1.3

	2007	2008	2009			2010		
			2009	II	III	IV	I	II ²
Total electronic market ³	143	136	133	136	133	133	132	133
Of which, without Nuevo Mercado	142	136	133	136	133	133	132	133
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	8	7	7	6	6
Madrid	2	2	2	2	2	2	2	2
Barcelona	9	6	5	6	5	5	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	29	28
Madrid	13	13	13	13	13	13	13	13
Barcelona	20	19	19	19	19	19	19	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	3	2	1	1	1
MAB ⁴	3,287	3,347	3,251	3,296	3,277	3,251	3,213	3,199
Latibex	34	35	32	34	33	32	32	32

1 Data at the end of period.

2 Available data: May 2010.

3 Without ETF (Exchange Traded Funds).

4 Alternative Stock Market.

Capitalisation¹

TABLE 1.4

Million euro	2007	2008	2009			2010		
			2009	II	III	IV	I	II ²
Total electronic market ³	892,053.8	531,194.2	639,087.1	534,519.3	623,810.3	639,087.1	590,182.8	515,828.9
Of which, without Nuevo Mercado	891,875.7	531,194.2	639,087.1	534,519.3	623,810.3	639,087.1	590,182.8	515,828.9
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	68,600.4	80,146.3	94,954.0	92,275.8	78,989.0
Ibex 35	524,651.0	322,806.6	404,997.3	334,760.9	401,655.7	404,997.3	376,747.6	324,401.1
Second Market	286.8	109.9	80.9	82.4	82.9	80.9	69.1	66.5
Madrid	27.8	22.8	24.9	23.0	24.9	24.9	23.4	24.9
Barcelona	259.0	87.1	56.0	59.4	58.0	56.0	45.7	41.5
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	4,142.7	4,278.8	4,226.5	4,159.1	4,101.2
Madrid	1,840.6	1,454.7	997.3	968.6	1,091.0	997.3	958.0	931.1
Barcelona	4,627.8	3,580.2	3,400.6	2,898.7	3,501.8	3,400.6	3,336.4	3,303.9
Bilbao	108.2	45.9	435.4	45.9	338.9	435.4	433.4	384.1
Valencia	1,206.5	760.4	559.2	467.4	526.9	559.2	554.8	543.4
Open outcry SICAV ⁵	204.9	126.8	28.5	125.1	94.3	28.5	28.9	30.4
MAB ^{5,6}	31,202.5	24,718.6	26,490.7	24,896.2	26,318.9	26,490.7	26,948.4	26,338.0
Latibex	427,773.6	210,773.5	412,628.9	354,085.6	360,557.7	412,628.9	437,016.7	410,991.7

1 Data at the end of period.

2 Available data: May 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			2010	
				II	III	IV	I	II ¹
Total electronic market ²	1,653,354.8	1,228,392.4	877,073.5	223,468.1	214,547.9	256,295.3	226,191.0	215,347.0
Of which, without Nuevo Mercado	1,627,369.5	1,228,380.9	877,073.5	223,468.1	214,547.9	256,295.3	226,191.0	215,347.0
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	1,141.5	1,616.9	1,573.3	1,704.5	1,689.4
Second Market	192.9	31.7	3.2	1.4	0.2	0.4	0.3	0.8
Madrid	8.9	3.4	2.0	1.1	0.2	0.4	0.3	0.6
Barcelona	182.3	28.3	1.2	0.3	0.0	0.0	0.0	0.2
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	24.0	6.1	10.4	14.1	7.6
Madrid	236.1	73.9	16.5	8.3	1.8	1.3	1.2	4.0
Barcelona	402.8	103.6	29.4	10.3	3.2	9.0	9.1	3.5
Bilbao	0.1	0.1	1.1	0.0	1.1	0.0	3.9	0.0
Valencia	153.8	4.5	5.9	5.4	0.0	0.1	0.0	0.1
Open outcry SICAV	361.6	25.3	19.7	3.0	7.9	1.7	3.3	3.7
MAB ³	6,985.2	7,060.3	5,080.1	1,109.4	1,248.8	1,544.4	1,089.0	796.9
Latibex	868.2	757.7	434.7	115.2	110.1	120.0	146.5	135.2

1 Available data: May 2010.

2 Without ETF (Exchange Traded Funds).

3 Alternative Stock Market.

Trading on the electronic market by type of transaction¹

TABLE 1.6

Million euro	2007	2008	2009	2009			2010	
				II	III	IV	I	II ²
Regular trading	1,577,249.5	1,180,835.9	833,854.9	207,873.9	204,427.1	243,475.3	218,800.9	209,298.5
Orders	985,087.6	774,718.1	499,182.8	130,334.7	122,153.3	129,372.8	135,802.4	114,421.7
Put-throughs	155,085.1	105,673.9	51,335.8	12,739.6	12,043.7	15,150.6	14,134.7	10,820.8
Block trades	437,076.8	300,443.9	283,336.3	64,799.6	70,230.1	98,952.0	68,863.7	84,056.0
Off-hours	18,301.5	10,175.2	5,996.6	284.1	1,379.4	4,253.2	3,481.0	2,448.8
Authorised trades	4,189.6	3,183.2	4,695.6	2,710.4	443.6	789.1	246.2	608.2
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	7,085.4	100.0	3.6	0.0	273.1
Public offerings for sale	11,177.4	292.0	1,325.0	1,325.0	0.0	0.0	0.0	1,448.2
Declared trades	2,954.4	1,066.8	5,202.6	205.2	4,394.0	9.0	0.0	0.7
Options	10,240.4	9,661.9	11,443.2	2,731.1	1,953.7	5,063.3	1,741.6	267.7
Hedge transactions	2,957.8	5,716.3	7,366.7	1,253.0	1,850.1	2,701.8	1,921.4	1,001.7

1 Without ETF (Exchange Traded Funds).

2 Available data: May 2010.

Margin trading for sales and securities lending

TABLE 1.7

Million euro	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
TRADING								
Securities lending ²	835,326.9	583,950.8	471,007.1	118,161.0	111,062.6	159,073.2	116,966.4	125,890.7
Margin trading for sales of securities ³	555.4	624.9	704.3	202.7	180.6	153.0	153.6	95.8
Margin trading for securities purchases ³	411.3	154.7	106.4	27.7	32.0	21.5	19.0	11.5
OUTSTANDING BALANCE								
Securities lending ²	79,532.9	43,647.8	47,322.2	42,636.4	42,993.7	47,322.2	42,162.6	40,977.4
Margin trading for sales of securities ³	112.4	20.7	21.1	38.3	63.1	21.1	18.7	13.4
Margin trading for securities purchases ³	59.4	7.0	5.6	4.5	7.4	5.6	4.8	4.6

1 Available data: May 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 registered¹ at the CNMV

TABLE 1.8

	2007	2008	2009			2010		
			2009	II	III	IV	I	II ²
NO. OF ISSUERS	173	179	168	88	58	69	36	43
Mortgage covered bonds	10	19	27	6	11	16	9	16
Territorial covered bonds	4	7	1	1	0	0	2	3
Non-convertible bonds and debentures	41	30	50	38	22	30	0	0
Convertible bonds and debentures	0	1	3	1	2	1	16	16
Backed securities	77	88	68	24	15	13	5	5
Commercial paper	80	77	69	16	11	26	13	11
Of which, asset-backed	3	2	2	1	0	1	0	0
Of which, non-asset-backed	77	75	67	15	11	25	13	11
Other fixed-income issues	2	0	0	0	0	0	0	0
Preference shares	5	8	23	15	8	1	0	0
NO. OF ISSUES	335	337	512	180	103	118	70	83
Mortgage covered bonds	32	47	75	11	13	20	11	26
Territorial covered bonds	8	8	1	1	0	0	2	3
Non-convertible bonds and debentures	79	76	244	106	51	56	39	38
Convertible bonds and debentures	0	1	6	1	3	2	0	0
Backed securities	101	108	76	26	16	13	5	5
Commercial paper	107	88	73	16	11	26	13	11
Of which, asset-backed	3	2	2	1	0	1	0	0
Of which, non-asset-backed	104	86	71	15	11	25	13	11
Other fixed-income issues	3	0	0	0	0	0	0	0
Preference shares	5	9	37	19	9	1	0	0
NOMINAL AMOUNT (Million euro)	648,757.0	476,275.7	387,475.8	130,128.7	66,721.8	74,198.8	51,667.5	35,465.1
Mortgage covered bonds	24,695.5	14,300.0	35,573.9	10,175.0	3,870.0	11,055.0	4,650.0	8,654.9
Territorial covered bonds	5,060.0	1,820.0	500.0	500.0	0.0	0.0	400.0	3,700.0
Non-convertible bonds and debentures	27,416.0	10,489.6	62,249.0	28,248.9	6,138.1	12,370.1	8,732.8	5,424.9
Convertible bonds and debentures	0.0	1,429.1	3,200.0	300.0	2,200.0	700.0	0.0	0.0
Backed securities	141,627.0	135,252.5	81,651.2	31,035.3	12,956.3	10,301.2	2,875.0	5,954.0
Spanish tranche	94,049.0	132,730.1	77,289.4	28,483.9	11,750.6	9,696.5	2,875.0	5,954.0
International tranche	47,578.0	2,522.4	4,361.9	2,551.5	1,205.7	604.7	0.0	0.0
Commercial paper ³	442,433.5	311,738.5	191,341.7	49,696.5	40,340.4	39,752.6	35,009.7	11,731.3
Of which, asset-backed	464.8	2,843.1	4,758.4	1,226.7	952.8	1,245.0	995.0	507.0
Of which, non-asset-backed	441,968.7	308,895.4	186,583.3	48,469.8	39,387.6	38,507.6	34,014.7	11,224.3
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	10,173.0	1,217.0	20.0	0.0	0.0
Pro memoria:								
Subordinated issues	47,158.3	12,949.5	20,988.5	5,571.2	4,679.0	2,254.1	3,284.0	1,688.5
Underwritten issues	86,161.1	9,169.5	4,793.8	2,559.0	1,450.0	784.8	299.0	0.0

1 Includes issuance and trading prospectuses.

2 Available data: May 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			2010	
				II	III	IV	I	II ¹
Total	640,096.2	476,710.4	388,455.0	112,139.7	80,868.2	68,506.9	56,592.9	35,626.0
Commercial paper	439,787.3	314,417.4	191,427.7	49,459.9	41,194.3	37,110.1	37,414.8	12,069.2
Bonds and debentures	30,006.9	10,040.3	61,862.5	25,239.7	9,304.6	11,959.7	8,323.1	5,476.9
Mortgage covered bonds	27,195.5	14,150.0	35,568.9	7,925.0	5,820.0	11,200.0	4,775.0	8,360.0
Territorial covered bonds	7,450.0	1,930.0	500.0	500.0	0.0	0.0	125.0	3,975.0
Backed securities	135,149.5	135,926.6	85,542.9	26,211.9	16,041.6	7,495.2	5,855.0	5,745.0
Preference shares	507.0	246.0	13,552.9	2,803.2	8,507.7	742.0	100.0	0.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: May 2010.

AIAF. Issuers, issues and outstanding balance

TABLE 1.10

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
NO. OF ISSUERS	492	556	614	597	610	614	618	618
Commercial paper	73	72	67	72	70	67	66	66
Bonds and debentures	92	93	91	90	91	91	92	91
Mortgage covered bonds	14	22	29	25	26	29	30	30
Territorial covered bonds	7	11	11	11	11	11	11	11
Backed securities	316	383	442	425	439	442	445	447
Preference shares	50	52	60	57	60	60	61	60
Matador bonds	15	12	12	12	12	12	12	12
NO. OF ISSUES	4,314	4,639	4,084	4,334	4,218	4,084	4,062	3,921
Commercial paper	2,493	2,489	1,507	1,926	1,696	1,507	1,464	1,298
Bonds and debentures	445	450	611	526	577	611	625	645
Mortgage covered bonds	111	146	202	181	192	202	210	217
Territorial covered bonds	19	26	25	25	25	25	23	24
Backed securities	1,157	1,436	1,629	1,577	1,624	1,629	1,630	1,628
Preference shares	71	78	96	85	90	96	96	95
Matador bonds	18	14	14	14	14	14	14	14
OUTSTANDING BALANCE² (Million euro)	758,559.8	819,637.7	870,981.1	874,640.9	887,608.4	870,981.1	866,273.2	855,016.4
Commercial paper	98,467.6	71,762.2	41,647.0	57,337.7	54,560.4	41,647.0	45,347.2	37,839.5
Bonds and debentures	139,586.3	122,001.9	150,886.3	138,770.0	143,761.9	150,886.3	152,333.9	150,903.9
Mortgage covered bonds	150,905.5	162,465.5	185,343.8	178,166.9	183,686.9	185,343.8	186,018.8	186,718.8
Territorial covered bonds	16,375.0	17,030.0	16,030.0	16,030.0	16,030.0	16,030.0	15,725.0	18,050.0
Backed securities	328,924.6	422,010.7	442,831.5	456,646.7	454,922.0	442,831.5	432,505.7	427,246.6
Preference shares	23,062.6	23,308.6	33,183.8	26,630.7	33,588.4	33,183.8	33,283.8	33,198.8
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: May 2010.

2 Nominal amount.

AIAF. Trading

TABLE 1.11

Nominal amount in million euro	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
BY TYPE OF ASSET	1,127,477.7	2,521,040.1	4,658,633.2	1,505,457.8	946,141.6	1,008,622.5	655,522.1	534,189.9
Commercial paper	568,009.6	591,943.8	533,331.0	130,286.2	125,139.0	111,412.5	116,534.6	66,533.6
Bonds and debentures	87,035.7	80,573.8	321,743.0	94,118.5	83,499.1	108,864.2	158,121.4	148,773.1
Mortgage covered bonds	80,811.2	129,995.3	263,150.0	101,235.5	59,334.2	50,553.9	20,802.8	38,457.9
Territorial covered bonds	7,749.8	10,142.3	7,209.0	1,535.1	1,584.0	781.1	889.3	6,984.6
Backed securities	378,005.2	1,704,341.8	3,527,486.4	1,176,736.3	675,114.4	735,745.7	357,996.5	272,471.8
Preference shares	4,492.4	4,030.0	5,668.5	1,535.8	1,470.9	1,262.6	1,176.7	826.3
Matador bonds	1,373.8	13.2	45.2	10.4	0.0	2.5	0.9	142.6
BY TYPE OF TRANSACTION	1,127,477.7	2,521,040.1	4,658,633.2	1,505,457.8	946,141.6	1,008,622.5	655,522.1	534,189.9
Outright	416,477.9	387,897.1	378,348.4	120,106.9	64,565.1	86,264.0	82,774.2	50,906.0
Repos	441,362.7	381,505.0	362,068.7	85,740.8	94,429.8	83,265.5	88,416.1	54,947.3
Sell-buybacks/Buy-sellbacks	269,637.1	1,751,638.0	3,918,216.1	1,299,610.1	787,146.7	839,093.0	484,331.9	428,336.6

1 Available data: May 2010.

AIAF. Third-party trading. By purchaser sector

TABLE 1.12

Nominal amount in million euro	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
Total	837,308.5	744,652.5	681,946.6	186,777.9	148,153.9	158,437.3	162,210.3	98,216.6
Non-financial companies	364,490.6	285,044.4	256,224.6	72,117.7	60,996.6	49,251.8	49,505.8	27,177.3
Financial institutions	282,816.9	334,851.6	298,909.1	77,035.9	63,803.2	72,792.9	75,137.6	52,134.7
Credit institutions	99,492.0	130,056.0	125,547.5	43,243.2	17,547.5	27,731.9	24,254.8	17,526.9
IIC ² , insurance and pension funds	152,429.2	154,709.8	115,865.3	23,311.1	31,404.8	29,611.2	35,927.1	24,359.9
Other financial institutions	30,895.6	50,085.8	57,496.3	10,481.7	14,850.9	15,449.8	14,955.7	10,247.9
General government	7,762.4	6,331.2	5,808.5	1,018.1	1,267.5	900.1	1,222.0	596.6
Households and NPISHs ³	28,534.8	13,344.0	14,647.8	2,506.6	2,026.9	6,031.8	6,377.6	2,278.1
Rest of the world	153,703.8	105,081.2	106,356.6	34,099.6	20,059.7	29,460.8	29,967.2	16,029.9

1 Available data: May 2010.

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

3 Non-profit institutions serving households.

Issues admitted to trading on equity markets¹

TABLE 1.13

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ²
NOMINAL AMOUNTS (Million euro)	9,020.3	3,390.6	5,866.8	0.0	500.0	4,056.0	200.0	200.0
Non-convertible bonds and debentures	0.0	0.0	0.0	0.0	0.0	0.0	200.0	200.0
Convertible bonds and debentures	0.0	0.0	4,510.8	0.0	500.0	2,700.0	0.0	0.0
Backed securities	2,020.3	3,390.6	1,356.0	0.0	0.0	1,356.0	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	0	1	8	3	4
Non-convertible bonds and debentures	0	0	0	0	0	0	3	4
Convertible bonds and debentures	0	0	4	0	1	2	0	0
Backed securities	15	33	6	0	0	6	0	0
Others	1	0	0	0	0	0	0	0

1 Private issuers. Includes issuance and trading prospectuses.

2 Available data: May 2010.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.14

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
NO. OF ISSUERS	53	58	62	58	58	62	61	62
Private issuers	40	45	48	45	45	48	47	48
Non-financial companies	6	5	6	7	6	6	5	5
Financial institutions	34	40	42	38	39	42	42	43
General government ³	13	13	14	13	13	14	14	14
Regional governments	3	3	3	3	3	3	3	3
NO. OF ISSUES	249	271	269	265	263	269	260	262
Private issuers	133	157	155	150	149	155	152	156
Non-financial companies	12	9	10	11	10	10	8	8
Financial institutions	121	148	145	139	139	145	144	148
General government ³	116	114	114	115	114	114	108	106
Regional governments	83	82	76	82	80	76	69	67
OUTSTANDING BALANCES² (Million euro)	25,654.7	29,142.6	36,299.5	31,829.4	31,571.0	36,299.5	36,329.8	34,905.0
Private issuers	14,958.1	17,237.9	21,600.9	17,908.5	17,914.3	21,600.9	21,083.8	19,602.0
Non-financial companies	452.5	381.0	1,783.7	1,691.7	1,691.7	1,783.7	1,778.2	377.3
Financial institutions	14,505.6	16,856.9	19,817.2	16,216.8	16,222.6	19,817.2	19,305.6	19,224.7
General government ³	10,696.6	11,904.7	14,698.6	13,920.9	13,656.7	14,698.6	15,246.0	15,303.0
Regional governments	8,862.6	9,972.5	12,338.3	11,978.2	11,577.3	12,338.3	12,836.3	12,893.3

1 Available data: May 2010.

2 Nominal amount.

3 Without public book-entry debt.

Trading on equity markets

TABLE 1.15

Nominal amount in million euro	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
Electronic market	448.9	1,580.1	633.0	150.5	138.1	279.6	83.8	185.7
Open outcry	7,154.3	7,842.1	4,008.4	634.2	299.6	2,892.5	328.9	1,012.1
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	601.4	273.5	2,798.4	101.5	866.5
Bilbao	7.5	6.1	4.6	0.7	0.6	0.8	0.8	0.5
Valencia	106.7	161.1	182.7	32.1	25.5	92.4	226.6	23.9
Public book-entry debt	33.6	46.2	49.1	14.0	11.2	9.6	11.8	297.1
Regional governments debt	83,967.7	71,045.0	70,065.8	19,367.6	16,815.4	15,216.3	18,577.3	8,262.6

1 Available data: May 2010.

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

TABLE 1.16

Nominal amounts in million euro	2007	2008	2009	2009			2010	
				II	III	IV	I	II'
Total	174,046.3	132,327.4	202,120.5	38,433.8	55,827.0	65,944.6	83,724.5	37,013.2
Outright	134,147.0	89,010.5	114,314.0	15,644.0	36,141.0	50,843.5	53,396.0	14,941.0
Sell-buybacks/Buy-sellbacks	39,899.3	43,316.9	86,806.5	22,789.8	19,211.0	14,576.1	29,997.5	22,031.2
Others	0.0	0.0	1,000.0	0.0	475.0	525.0	331.0	41.0

1 Available data: May 2010.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF

TABLE 1.17

Number of contracts	2007	2008	2009	2009			2010	
				II	III	IV	I	II'
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	1,663,403	1,503,939	1,499,223	1,635,380	1,602,548
Ibex 35 plus futures	8,435,258	7,275,299	5,436,989	1,461,307	1,321,524	1,323,307	1,467,635	1,447,844
Ibex 35 mini futures	286,574	330,042	314,829	88,829	85,642	69,660	87,166	91,625
Call mini options	227,535	323,874	230,349	60,400	59,988	53,552	35,979	21,699
Put mini options	339,542	504,749	205,377	52,868	36,785	52,704	44,600	41,381
Stock products ⁵	34,887,808	64,554,817	80,114,693	22,320,897	20,467,870	16,243,034	13,957,914	6,550,289
Futures	21,294,315	46,237,568	44,586,779	14,386,553	11,674,200	5,501,720	4,136,308	1,477,885
Call options	6,775,525	7,809,423	18,864,840	4,025,150	5,103,159	6,046,542	4,357,759	2,604,150
Put options	6,817,968	10,507,826	16,663,074	3,909,194	3,690,511	4,694,772	5,463,847	2,468,254
Pro-memoria: MEFF trading on Eurex								
Debt products ⁶	1,059,113	869,105	558,848	171,829	90,935	138,338	137,861	70,188
Index products ⁷	1,371,250	1,169,059	835,159	211,834	128,087	208,726	212,055	110,055

1 Available data: May 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

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
WARRANTS²								
Premium amount (Million euro)	8,920.3	12,234.4	5,165.1	522.9	1,439.7	1,252.0	1,324.5	825.4
On stocks	6,215.1	6,914.1	2,607.1	251.0	755.6	525.7	699.4	359.2
On indexes	2,311.2	4,542.8	2,000.1	198.0	559.3	614.4	491.5	329.9
Other underlyings ³	394.0	777.5	558.0	73.9	124.9	111.9	133.6	136.3
Number of issues	7,005	9,790	7,342	1,111	2,099	1,616	2,164	1,449
Number of issuers	7	8	9	6	9	6	7	4
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (Million euro)	151.0	77.0	35.0	0.0	0.0	35.0	5.0	17.0
On stocks	145.0	77.0	25.0	0.0	0.0	25.0	5.0	17.0
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	0.0	10.0	0.0	0.0
Number of issues	9	4	3	0	0	3	1	2
Number of issuers	3	1	1	0	0	1	1	1

1 Available data: May 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

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
WARRANTS								
Trading (Million euro)	5,129.6	2,943.7	1,768.4	488.2	407.0	382.0	335.5	350.7
On Spanish stocks	3,200.7	1,581.9	809.9	213.2	203.3	170.7	144.8	168.6
On foreign stocks	474.2	145.7	97.6	21.4	28.3	25.6	14.4	16.4
On indexes	1,376.6	1,063.3	761.2	233.2	158.9	160.4	159.9	153.4
Other underlyings ²	78.1	152.8	99.7	20.4	16.5	25.2	16.4	12.3
Number of issues ³	7,837	9,770	8,038	3,451	3,086	3,038	3,066	2,812
Number of issuers ³	9	10	10	9	10	10	9	8
CERTIFICATES								
Trading (Million euro)	49.8	16.8	39.2	8.5	13.4	9.7	6.5	1.8
Number of issues ³	14	26	22	16	16	16	15	14
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	916.6	856.9	1,092.8	1,675.4	1,965.0
Number of funds	21	30	32	31	32	32	32	32
Assets ⁴ (Million euro)	885.8	1,630.3	1,648.4	1,443.9	1,510.5	1,648.4	1,452.8	n.a.

1 Available data: May 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 MFAO¹

TABLE 1.20

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ²
Number of contracts								
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: May 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			2010		
			2009	II	III	IV	I	II'
BROKER-DEALERS								
Spanish firms	46	51	50	50	50	50	50	51
Branches	102	79	78	78	77	78	79	79
Agents	6,657	6,041	6,102	5,930	5,991	6,102	6,183	6,153
BROKERS								
Spanish firms	53	50	50	49	49	50	52	50
Branches	12	9	9	9	9	9	9	8
Agents	625	639	638	645	629	638	691	672
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	11	10	9	9	9	9	9	8
Branches	4	4	5	5	5	5	5	5
Agents	6	6	5	5	5	5	5	4
FINANCIAL ADVISORY FIRMS²								
Spanish firms	-	-	16	3	6	16	26	29
CREDIT INSTITUTIONS³								
Spanish firms	201	195	193	196	194	193	194	193

1 Available data: May 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			2010	
				II	III	IV	I	II'
Total	1,766	2,232	2,345	2,300	2,363	2,345	2,443	2,477
European Economic Area investment services firms	1,394	1,818	1,922	1,878	1,945	1,922	2,011	2,047
Branches	29	37	36	35	36	36	35	37
Free provision of services	1,365	1,781	1,886	1,843	1,909	1,886	1,976	2,010
Credit institutions ²	372	414	423	422	418	423	432	430
From EU member states	363	405	413	412	408	413	422	420
Branches	52	56	53	54	54	53	54	55
Free provision of services	310	348	359	357	353	359	367	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: May 2010.

2 Source: Banco de España and CNMV.

Intermediation of spot transactions¹

TABLE 2.3

Million euro	I 2009				I 2010			
	Spanish organised markets	Other Spanish markets	Foreign markets	Total	Spanish organised markets	Other Spanish markets	Foreign markets	Total
FIXED-INCOME								
Total	84,779	2,429,843	238,248	2,752,870	172,394	2,419,525	199,750	2,791,669
Broker-dealers	76,097	147,241	45,375	268,713	146,378	69,956	46,305	262,639
Brokers	8,682	2,282,602	192,873	2,484,157	26,016	2,349,569	153,445	2,529,030
EQUITY								
Total	243,169	1,661	20,768	265,598	257,073	1,515	18,837	277,425
Broker-dealers	228,246	1,441	19,467	249,154	249,227	1,322	17,392	267,941
Brokers	14,923	220	1,301	16,444	7,846	193	1,445	9,484

1 Period accumulated data.

Intermediation of derivative transactions^{1,2}

TABLE 2.4

Million euro	I 2009				I 2010			
	Spanish organised markets	Foreign organised markets	Non-organised markets	Total	Spanish organised markets	Foreign organised markets	Non-organised markets	Total
Total	305,999	975,567	776,502	2,058,068	900,978	2,385,072	654,745	3,940,795
Broker-dealers	295,044	806,015	27,886	1,128,945	875,119	2,034,636	33,529	2,943,284
Brokers	10,955	169,552	748,616	929,123	25,859	350,436	621,216	997,511

- 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 management¹

TABLE 2.5

	I 2009			I 2010		
	Total	IIC ²	Other ³	Total	IIC ²	Other ³
NUMBER OF PORTFOLIOS						
Total	12,805	199	12,606	12,927	95	12,832
Broker-dealers	6,855	11	6,844	6,989	19	6,970
Brokers	3,158	156	3,002	3,324	48	3,276
Portfolio management companies	2,792	32	2,760	2,614	28	2,586
ASSETS UNDER MANAGEMENT (Thousand euro)						
Total	7,897,438	872,183	7,025,255	9,721,135	756,737	8,964,398
Broker-dealers	3,153,451	42,314	3,111,137	4,147,360	185,044	3,962,316
Brokers	2,075,636	664,071	1,411,565	2,453,903	382,795	2,071,108
Portfolio management companies	2,668,351	165,798	2,502,553	3,119,872	188,898	2,930,974

- 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-dealers¹

TABLE 2.6

Thousand euro ²				2009			2010	
	2007	2008	2009	II	III	IV	I	II ³
I. Interest income	-29,968	109,682	163,202	98,211	132,653	163,202	7,810	16,256
II. Net commission	893,803	674,204	529,792	263,558	389,667	529,792	131,174	183,153
Commission revenues	1,181,772	943,619	781,555	393,081	578,824	781,555	195,160	269,153
Brokering	775,418	648,036	548,951	274,327	404,912	548,951	137,816	192,923
Placement and underwriting	62,145	42,502	25,726	21,567	23,616	25,726	772	994
Securities deposit and recording	25,351	21,198	16,183	7,911	11,993	16,183	4,054	7,395
Portfolio management	29,649	17,306	11,543	4,858	7,403	11,543	3,043	4,508
Design and advising	65,083	56,671	60,392	28,642	43,552	60,392	14,069	17,586
Stocks search and placement	9	12	10	6	6	10	7	7
Market credit transactions	23	19	14	10	11	14	2	3
IIC marketing ⁴	138,481	91,167	63,296	27,509	44,368	63,296	16,388	21,566
Other	85,613	66,708	55,440	28,251	42,963	55,440	19,009	24,172
Commission expenses	287,969	269,415	251,763	129,523	189,157	251,763	63,986	86,000
III. Financial investment income ⁵	-239,572	800,194	43,855	51,163	56,609	43,855	-4,943	-17,339
IV. Net exchange differences and other operating products and expenses	486,643	-626,527	21,582	383	1,697	21,582	41,152	63,029
V. Gross income	1,110,906	957,553	758,431	413,315	580,626	758,431	175,192	245,100
VI. Operating income	587,354	434,209	275,747	185,957	210,563	275,747	72,507	107,148
VII. Earnings from continuous activities	540,390	365,374	260,458	173,295	264,988	260,458	64,583	96,692
VIII. Net earnings of the period	540,390	367,665	260,458	173,295	264,988	260,458	64,583	96,692

- 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: April 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-dealers¹

TABLE 2.7

Thousand euro ⁴	Total		Interest income		Financial investment income ²		Exchange differences and other items ³	
	I 2009	I 2010	I 2009	I 2010	I 2009	I 2010	I 2009	I 2010
Total	52,198	44,074	54,459	7,810	36,622	-4,944	-38,883	41,208
Money market assets and public debt	3,716	3,889	331	1,099	3,385	2,790	-	-
Other fixed-income securities	-161,171	24,342	45,749	4,843	-206,920	19,499	-	-
Domestic portfolio	-174,405	20,081	44,783	4,356	-219,188	15,725	-	-
Foreign portfolio	13,234	4,261	966	487	12,268	3,774	-	-
Equities	55,544	48,680	14,744	3,321	40,800	45,359	-	-
Domestic portfolio	827	-4,213	9,171	2,090	-8,344	-6,303	-	-
Foreign portfolio	54,717	52,893	5,573	1,231	49,144	51,662	-	-
Derivatives	200,597	-72,275	-	-	200,597	-72,275	-	-
Repurchase agreements	-13,496	-786	-13,496	-786	-	-	-	-
Market credit transactions	0	0	0	0	-	-	-	-
Deposits and other transactions with financial Intermediaries	2,034	1,321	2,034	1,321	-	-	-	-
Net exchange differences	-38,367	41,056	-	-	-	-	-38,367	41,056
Other operating products and expenses	42	96	-	-	-	-	42	96
Other transactions	3,299	-2,249	5,097	-1,988	-1,240	-317	-558	56

- 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. Brokers¹

TABLE 2.8

Thousand euro ²	2007	2008	2009	2009			2010	
				II	III	IV	I	II ³
I. Interest income	14,395	7,980	2,652	1,679	2,301	2,652	191	262
II. Net commission	237,403	149,874	127,410	63,582	93,005	127,410	33,190	34,792
Commission revenues	310,892	172,344	144,373	72,250	105,442	144,373	37,513	40,478
Brokering	131,976	62,345	53,988	30,001	41,786	53,988	13,931	11,520
Placement and underwriting	2,501	4,847	2,989	1,081	1,148	2,989	387	457
Securities deposit and recording	1,680	676	509	166	343	509	94	130
Portfolio management	27,457	21,137	19,633	9,284	14,067	19,633	4,654	6,394
Design and advising	2,224	4,962	2,806	1,033	1,535	2,806	719	1,264
Stocks search and placement	0	0	0	0	0	0	0	0
Market credit transactions	0	10	28	3	10	28	354	10
IIC marketing ⁴	74,918	31,287	23,966	9,943	15,993	23,966	6,613	8,615
Other	70,136	47,081	40,453	20,740	30,560	40,453	10,763	12,088
Commission expenses	73,489	22,470	16,963	8,668	12,437	16,963	4,323	5,686
III. Financial investment income ⁵	2,212	-1,176	1,709	26	265	1,709	-37	-56
IV. Net exchange differences and other operating products and expenses	-407	3,526	-1,111	-289	-986	-1,111	-102	-171
V. Gross income	253,603	160,204	130,661	64,998	94,585	130,661	33,243	34,827
VI. Operating income	85,423	20,377	9,090	1,843	4,376	9,090	4,729	2,699
VII. Earnings from continuous activities	86,017	14,372	4,862	125	3,725	4,862	4,354	2,282
VIII. Net earnings of the period	86,017	14,372	4,862	125	3,725	4,862	4,354	2,282

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: April 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 companies¹

TABLE 2.9

Thousand euro ²	2007	2008	2009	2009			2010	
				II	III	IV	I	II ³
I. Interest income	1,442	1,482	341	247	305	341	63	91
II. Net commission	15,501	12,044	10,820	5,175	7,964	10,820	3,333	4,200
Commission revenues	27,340	23,877	21,835	10,653	16,237	21,835	6,085	7,854
Portfolio management	24,239	20,683	18,549	8,995	13,634	18,549	4,642	6,192
Design and advising	2,614	2,484	2,698	1,316	2,141	2,698	1,289	1,459
IIC marketing ⁴	34	66	18	7	9	18	17	20
Other	453	644	571	335	453	571	138	183
Commission expenses	11,839	11,833	11,016	5,479	8,273	11,016	2,752	3,655
III. Financial investment income ⁵	96	-108	92	25	91	92	-11	86
IV. Net exchange differences and other operating products and expenses	-37	-418	-383	-247	-308	-383	-111	-86
V. Gross income	17,002	13,000	10,869	5,200	8,051	10,869	3,275	4,290
VI. Operating income	6,896	1,157	1,395	508	1,150	1,395	806	1,168
VII. Earnings from continuous activities	4,837	765	961	291	836	961	724	979
VIII. Net earnings of the period	4,837	765	961	291	836	961	724	979

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: April 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

Thousand euro	Surplus		Number of companies according to its surplus percentage									
	Total amount	% ³	< 50	<100	<150	<200	<300	<400	<500	<750	<1000	>1000
Total	1,388,370	304.12	21	16	17	9	11	11	5	10	7	4
Broker-dealers	1,305,941	326.82	5	3	4	3	10	9	4	4	5	3
Brokers	61,002	147.75	15	11	11	4	1	2	1	5	2	0
Portfolio management companies	21,427	136.88	1	2	2	2	0	0	0	1	0	1

1 Available data: March 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 taxes¹

TABLE 2.11

	Average ²	Losses	Number of companies according to its annualized return							
			0-5%	6-15%	16-30%	31-45%	46-60%	61-75%	76-100%	>100%
Total	14.34	37	18	17	14	14	3	0	4	4
Broker-dealers	14.47	15	10	9	8	5	2	0	1	0
Brokers	14.10	18	7	7	4	9	1	0	3	3
Portfolio management companies	8.22	4	1	1	2	0	0	0	0	1

1 Available data: March 2010.

2 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

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
Total financial IIC	6,296	6,354	5,892	6,168	6,050	5,892	5,808	5,787
Mutual funds	2,954	2,943	2,593	2,808	2,705	2,593	2,534	2,521
Investment companies	3,290	3,347	3,232	3,294	3,278	3,232	3,206	3,201
Funds of hedge funds	31	40	38	40	40	38	37	35
Hedge funds	21	24	29	26	27	29	31	30
Total real estate IIC	18	18	16	17	16	16	16	16
Real estate investment funds	9	9	8	8	8	8	8	8
Real estate investment companies	9	9	8	9	8	8	8	8
Total foreign IIC marketed in Spain	440	563	582	555	577	582	615	627
Foreign funds marketed in Spain	225	312	324	309	327	324	353	361
Foreign companies marketed in Spain	215	251	258	246	250	258	262	266
Management companies	120	120	120	120	121	120	120	120
IIC depositories	126	125	124	125	124	124	124	124

1 Available data: May 2010.

Number of IIC investors and shareholders

TABLE 3.2

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
Total financial IIC	8,487,205	6,358,730	5,894,907	5,921,511	5,878,213	5,894,907	5,907,673	5,924,503
Mutual funds	8,053,049	5,923,346	5,475,403	5,498,325	5,461,473	5,475,403	5,489,598	5,507,113
Investment companies	434,156	435,384	419,504	423,186	416,740	419,504	418,075	417,390
Total real estate IIC	146,353	98,327	84,511	90,398	88,832	84,511	82,574	82,446
Real estate investment funds	145,510	97,390	83,583	89,461	87,903	83,583	81,647	81,519
Real estate investment companies	843	937	928	937	929	928	927	927
Total foreign IIC marketed in Spain	850,931	593,488	685,094	602,487	613,561	685,094	748,749	-
Foreign funds marketed in Spain	142,782	102,922	133,289	117,389	118,200	133,289	157,027	-
Foreign companies marketed in Spain	708,149	490,566	551,805	485,098	495,361	551,805	591,722	-

1 Available data: April 2010. Foreign IIC send this information quarterly.

IIC total net assets

TABLE 3.3

Million euro	2007	2008	2009	2009			2010	
				II	III	IV	I	II ¹
Total financial IIC	286,522.40	200,522.20	196,472.5	191,952.4	195,352.4	196,472.5	193,941.8	191,572.5
Mutual funds ²	255,040.9	175,865.3	170,547.7	167,160.9	169,458.4	170,547.7	167,524.3	165,101.1
Investment companies	31,481.5	24,656.9	25,924.8	24,791.5	25,894.0	25,924.8	26,417.5	26,471.4
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	6,636.0
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	6,324.8
Real estate investment companies	512.9	371.9	308.6	360.7	313.0	308.6	304.6	311.2
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	-
Foreign funds marketed in Spain	7,010.3	3,352.0	6,080.8	4,157.9	4,850.5	6,080.8	6,519.3	-
Foreign companies marketed in Spain	30,082.4	14,902.8	19,126.4	13,898.2	15,834.3	19,126.4	24,345.6	-

1 Available data: April 2010. Foreign IIC send this information quarterly.

2 For April 2010, mutual funds investments in financial IIC reached 8.5 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 allocation¹

TABLE 3.4

Million euro	2007	2008	2009	2009				2010
				I	II	III	IV	I
Asset	255,040.9	175,865.5	170,547.7	168,829.4	167,161.0	169,458.4	170,547.7	167,524.3
Portfolio investment	239,266.6	166,384.7	163,165.5	161,288.0	159,013.4	161,747.5	163,165.5	160,119.6
Domestic securities	134,564.1	107,346.9	100,642.7	104,282.0	100,254.7	101,271.6	100,642.7	95,576.2
Debt securities	103,798.8	81,904.0	74,629.0	80,121.5	76,128.9	76,391.9	74,629.0	71,916.5
Shares	11,550.1	4,023.1	4,741.0	3,265.8	3,744.5	4,453.4	4,741.0	4,384.1
Investment collective schemes	18,662.1	10,134.3	9,041.5	9,037.4	8,300.3	8,122.9	9,041.5	8,930.1
Deposits in Credit institutions	-	10,657.5	11,552.2	11,228.8	11,436.7	11,681.3	11,552.2	10,531.5
Derivatives	553.2	627.9	679.0	628.4	644.4	622.2	679.0	560.7
Other	-	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Foreign securities	104,702.5	59,036.0	62,487.0	56,983.3	58,732.0	60,440.5	62,487.0	62,922.0
Debt securities	66,604.8	49,660.5	48,435.2	49,058.9	49,431.8	48,807.4	48,435.2	47,491.3
Shares	16,731.6	5,216.1	7,784.3	4,374.4	5,395.4	6,655.1	7,784.3	8,291.3
Investment collective schemes	16,924.4	3,524.5	5,665.4	3,153.8	3,582.0	4,444.6	5,665.4	7,398.7
Deposits in Credit institutions	-	17.5	82.4	0.8	4.3	27.4	82.4	79.9
Derivatives	4,441.7	599.5	518.7	383.9	317.8	505.1	518.7	483.6
Other	-	17.9	1.1	11.3	0.7	1.0	1.1	1.2
Doubtful assets and matured investment	-	1.7	35.8	22.8	26.6	35.3	35.8	49.9
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	7,268.2	7,144.9	7,897.4	7,456.9	7,268.2	7,350.8
Net balance (Debtors - Creditors)	360.8	777.7	114.1	396.5	250.3	254.0	114.1	53.9

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				2010
				I	II	III	IV	I
Asset	31,481.5	24,656.8	25,924.8	23,946.7	24,791.5	25,894.0	25,924.8	26,417.5
Portfolio investment	30,037.4	23,445.9	24,813.9	22,877.5	23,501.7	24,849.6	24,813.9	25,334.6
Domestic securities	17,075.3	16,175.1	13,514.7	15,289.2	14,766.2	14,457.6	13,514.7	12,862.8
Debt securities	9,516.5	10,434.1	7,400.4	10,057.8	9,248.2	8,237.0	7,400.4	6,744.2
Shares	6,174.4	3,214.9	3,376.3	2,585.8	2,871.8	3,363.8	3,376.3	3,153.2
Investment collective schemes	1,362.3	1,108.8	1,091.1	1,125.6	1,151.8	1,171.2	1,091.1	987.1
Deposits in Credit institutions	-	1,383.2	1,631.9	1,507.8	1,481.8	1,665.8	1,631.9	2,014.0
Derivatives	22.1	9.8	-6.6	-5.1	-4.5	-4.3	-6.6	-11.8
Other	-	24.4	21.7	17.3	17.1	24.1	21.7	22.0
Foreign securities	12,962.2	7,267.9	11,294.2	7,584.1	8,730.3	10,386.2	11,294.2	12,352.2
Debt securities	2,189.9	2,609.7	4,606.5	3,425.7	3,904.1	4,502.7	4,606.5	4,681.7
Shares	5,120.0	2,014.6	3,559.4	1,794.6	2,314.7	3,099.6	3,559.4	4,002.4
Investment collective schemes	5,426.7	2,486.4	2,987.4	2,241.9	2,399.4	2,638.4	2,987.4	3,611.3
Deposits in Credit institutions	-	28.9	26.3	15.9	5.4	30.3	26.3	16.8
Derivatives	225.6	120.5	113.1	102.2	104.1	113.7	113.1	105.3
Other	-	7.8	1.6	3.8	2.5	1.6	1.6	2.4
Doubtful assets and matured investment	-	2.8	5.1	4.3	5.1	5.8	5.1	6.2
Intangible assets	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net fixed assets	-	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Cash	1,182.2	1,021.0	975.9	902.6	1,079.5	970.2	975.9	0.2
Net balance (Debtors - Creditors)	261.8	188.8	134.8	166.4	210.1	74.0	134.8	919.9

Financial mutual funds: number, investors and total net assets by category¹

TABLE 3.6

	2007	2008	2009			2010		
			2009	II	III	IV	I	II ²
NO. OF FUNDS								
Total financial mutual funds	2,926	2,912	2,536	2,735	2,628	2,536	2,500	2,479
Fixed-income ³	600	629	582	612	598	582	567	562
Mixed fixed-income ⁴	204	195	169	190	171	169	171	165
Mixed equity ⁵	207	202	165	181	174	165	161	146
Euro equity ⁶	247	237	182	193	185	182	179	181
Foreign equity ⁷	357	330	242	271	252	242	239	239
Guaranteed fixed-income	251	260	233	253	241	233	239	245
Guaranteed equity ⁸	590	590	561	610	593	561	549	547
Global funds	470	469	187	208	193	187	182	182
Passive management ⁹	-	-	69	69	69	69	66	65
Absolute return ⁹	-	-	146	148	152	146	147	147
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	5,507,113
Fixed-income ³	2,763,442	2,204,652	2,041,487	2,067,091	2,044,082	2,041,487	1,994,558	1,971,914
Mixed fixed-income ⁴	493,786	277,629	290,151	241,097	254,599	290,151	298,542	300,710
Mixed equity ⁵	331,214	209,782	182,542	187,244	184,985	182,542	180,722	179,119
Euro equity ⁶	577,522	377,545	299,353	270,079	277,093	299,353	290,734	288,533
Foreign equity ⁷	800,556	467,691	458,097	419,928	434,299	458,097	478,952	490,429
Guaranteed fixed-income	549,108	538,799	570,963	540,428	550,041	570,963	617,901	642,469
Guaranteed equity ⁸	1,715,144	1,402,948	1,188,304	1,339,321	1,271,266	1,188,304	1,153,385	1,145,921
Global funds	822,277	444,300	88,337	96,581	79,288	88,337	94,630	97,067
Passive management ⁹	-	-	85,403	91,738	97,399	85,403	92,352	93,973
Absolute return ⁹	-	-	270,766	244,818	268,421	270,766	287,822	296,978
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	165,101.1
Fixed-income ³	113,234.1	92,813.1	84,657.2	86,711.3	85,935.6	84,657.2	79,655.6	76,934.1
Mixed fixed-income ⁴	13,011.9	5,803.0	8,695.5	5,421.8	6,322.4	8,695.5	8,867.1	8,652.6
Mixed equity ⁵	8,848.0	3,958.8	3,879.6	3,480.1	3,812.4	3,879.6	3,930.7	3,842.9
Euro equity ⁶	16,589.7	5,936.9	6,321.6	4,945.9	6,094.1	6,321.6	6,017.6	5,787.8
Foreign equity ⁷	13,948.0	4,256.6	5,902.4	4,108.3	5,020.9	5,902.4	6,869.4	7,177.4
Guaranteed fixed-income	17,674.4	21,281.6	21,033.4	21,664.1	21,322.7	21,033.4	22,047.8	22,649.6
Guaranteed equity ⁸	42,042.1	30,742.4	25,665.8	29,120.6	27,835.8	25,665.8	24,814.2	24,447.3
Global funds	29,692.6	11,072.8	3,872.5	3,350.7	3,400.4	3,872.5	4,130.3	4,167.7
Passive management ⁹	-	-	3,216.6	2,714.5	3,066.3	3,216.6	2,971.9	2,955.4
Absolute return ⁹	-	-	7,303.0	5,643.6	6,647.7	7,303.0	8,219.9	8,486.4

1 Mutual funds that have sent reports to the CNMV (therefore mutual funds in a process of dissolution or liquidation are not included).

2 Data available: April 2010.

3 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.

4 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.

5 Until I 2009 this category includes: Mixed equity and Foreign mixed equity. From II 2009 on includes: Mixed euro equity and Foreign mixed equity.

6 Until I 2009 this category includes: Spanish equity and Euro Equity. From II 2009 on includes: Euro equity (which includes domestic equity).

7 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.

8 Until I 2009 this category includes: Guaranteed equity. From II 2009 on includes: Guaranteed equity and partial guarantee.

9 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 investors¹

TABLE 3.7

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ²
INVESTORS	8,053,049	5,923,346	5,475,403	5,498,325	5,461,473	5,475,403	5,489,598	5,507,113
Individuals	7,814,633	5,754,043	5,322,190	5,343,778	5,309,003	5,322,214	5,334,304	5,352,498
Residents	7,721,427	5,677,116	5,236,839	5,271,331	5,238,302	5,252,126	5,264,655	5,283,466
Non-residents	93,206	76,927	85,351	72,447	70,701	70,088	69,649	69,032
Legal entities	238,416	169,303	153,213	154,547	152,470	153,189	155,294	154,615
Credit Institutions	2,235	1,713	698	689	673	674	631	639
Other resident Institutions	234,376	166,041	151,479	152,453	150,398	151,479	153,637	152,957
Non-resident Institutions	1,805	1,549	1,036	1,405	1,399	1,036	1,026	1,019
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	165,101.1
Individuals	190,512.2	135,756.2	132,860.2	131,675.4	133,194.9	132,860.5	130,952.9	129,755.4
Residents	187,746.8	133,878.0	130,680.7	129,704.0	131,331.5	130,954.4	129,010.4	127,783.2
Non-residents	2,765.4	1,878.2	2,179.5	1,971.4	1,863.4	1,906.0	1,942.5	1,972.2
Legal entities	64,528.7	40,109.3	37,687.5	35,485.6	36,263.5	37,687.2	36,571.4	35,345.7
Credit Institutions	5,721.0	4,193.0	2,572.3	2,319.6	2,455.5	2,572.0	2,437.5	2,274.5
Other resident Institutions	56,974.4	34,738.0	34,065.1	32,275.4	32,833.8	34,065.1	33,287.2	32,132.6
Non-resident Institutions	1,833.3	1,178.4	1,050.1	890.6	974.1	1,050.1	846.7	938.7

1 Hedge funds and funds of hedge funds are not included.

2 Available data: April 2010.

Subscriptions and redemptions of financial mutual funds by category¹

TABLE 3.8

Million euro	2007	2008	2009 ²	2009			2010	
				I	II	III	IV	I
SUBSCRIPTIONS								
Total financial mutual funds	180,943.1	135,461.7	109,915.2	23,902.8	24,085.5	28,762.7	33,164.2	25,226.0
Fixed-income	116,323.9	101,909.7	73,718.8	18,299.3	15,572.6	19,696.6	20,150.3	15,240.8
Mixed fixed-income	5,859.4	1,914.5	5,267.6	361.9	515.0	1,081.7	3,309.0	1,243.5
Mixed equity	2,749.8	1,350.2	1,135.4	71.0	156.3	541.5	366.6	292.1
Euro equity	9,625.7	2,858.0	2,183.8	362.1	489.3	589.2	743.2	582.5
Foreign equity	11,408.2	3,309.6	2,929.5	390.8	598.4	775.0	1,165.3	1,259.1
Guaranteed fixed-income	9,161.3	11,937.0	11,755.4	3,180.6	3,783.2	2,544.8	2,246.8	2,359.6
Guaranteed equity	8,070.6	6,544.7	5,589.1	636.5	1,369.3	1,683.7	1,899.6	1,607.4
Global funds	17,744.2	5,638.0	2,754.4	600.6	971.5	389.4	792.9	545.0
Passive management	-	-	535.5	-	62.1	204.4	269.0	242.6
Absolute return	-	-	4,045.7	-	567.8	1,256.4	2,221.5	1,853.3
REDEMPTIONS								
Total financial mutual funds	202,827.1	202,864.1	122,617.5	30,018.9	29,142.2	30,511.1	32,945.1	28,324.7
Fixed-income	122,178.3	124,242.9	81,197.6	19,963.9	19,433.2	20,090.1	21,710.4	19,940.5
Mixed fixed-income	7,809.6	8,136.6	2,724.4	806.2	549.3	576.6	792.3	1,106.0
Mixed equity	4,023.0	4,675.6	1,596.5	493.0	284.4	554.2	264.9	225.7
Euro equity	12,438.0	8,617.2	2,457.8	751.4	515.9	455.6	734.9	709.6
Foreign equity	14,358.4	8,657.3	2,165.3	506.3	592.0	457.5	609.5	704.9
Guaranteed fixed-income	6,430.6	9,499.1	15,004.5	3,587.1	3,300.3	4,046.6	4,070.5	2,135.7
Guaranteed equity	11,602.6	18,216.4	10,990.8	2,372.5	2,944.0	3,100.2	2,574.1	1,818.0
Global funds	23,986.6	20,819.0	2,548.6	1,538.5	588.0	141.6	280.5	269.3
Passive management	-	-	708.0	-	307.8	164.3	235.9	396.2
Absolute return	-	-	3,224.0	-	627.3	924.6	1,672.1	1,018.9

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 assets¹**

TABLE 3.9

Million euro	2007	2008	2009 ²	2009				2010
				I	II	III	IV	I
NET SUBSCRIPTIONS/REDEMPTIONS³								
Total financial mutual funds	-21,884.0	-67,402.4	-12,702.3	-6,116.1	-5,056.7	-1,748.4	219.1	-3,098.8
Fixed-income	-5,854.4	-22,333.2	-7,478.8	-1,664.6	-3,860.6	-393.5	-1,560.1	-4,699.7
Mixed fixed-income	-1,950.2	-6,222.1	2,543.2	-444.3	-34.3	505.1	2,516.7	137.5
Mixed equity	-1,273.2	-3,325.4	-461.1	-422.0	-128.1	-12.7	101.7	66.5
Euro equity	-2,812.3	-5,759.2	-274.0	-389.3	-26.6	133.6	8.3	-127.1
Foreign equity	-2,950.2	-5,347.7	764.2	-115.5	6.4	317.5	555.8	554.2
Guaranteed fixed-income	2,730.7	2,437.9	-3,249.1	-406.5	482.9	-1,501.8	-1,823.7	223.8
Guaranteed equity	-3,532.0	-11,671.7	-5,401.7	-1,736.0	-1,574.7	-1,416.5	-674.5	-210.6
Global funds	-6,242.4	-15,181.0	205.8	-937.9	383.5	247.8	512.4	275.7
Passive management	-	-	-172.5	-	-245.7	40.1	33.1	-153.6
Absolute return	-	-	821.7	-	-59.5	331.8	549.4	834.4
RETURN ON ASSETS								
Total financial mutual funds	6,675.6	-11,988.0	8,389.8	-654.8	3,657.3	4,022.8	1,364.5	930.1
Fixed-income	3,082.8	1,927.7	1,535.3	193.4	491.6	657.9	192.4	359.6
Mixed fixed-income	287.0	-716.8	507.9	-66.7	184.3	229.7	160.6	34.1
Mixed equity	266.1	-1,589.0	529.9	-207.0	313.9	346.4	76.6	-10.0
Euro equity	1,072.5	-5,172.6	1,477.1	-764.6	1,065.0	981.7	195.0	-184.3
Foreign equity	21.0	-4,092.4	1,309.0	-304.2	652.6	606.0	354.6	346.4
Guaranteed fixed-income	441.5	597.6	830.5	311.6	225.4	206.0	87.5	213.6
Guaranteed equity	1,037.0	-1,310.4	1,024.0	335.9	263.9	381.2	43.0	94.7
Global funds	467.7	-1,632.1	272.2	-153.2	205.4	152.7	67.3	55.6
Passive management	-	-	657.8	-	193.0	330.3	134.5	-52.8
Absolute return	-	-	246.4	-	62.2	131.0	53.2	73.3

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				2010
				I	II	III	IV	I
MANAGEMENT YIELDS								
Total financial mutual funds	3.45	-4.09	6.13	-0.13	2.39	2.71	1.09	0.80
Fixed-income	3.32	2.53	2.69	0.39	0.74	0.99	0.44	0.62
Mixed fixed-income	2.98	-5.75	9.34	-0.91	3.72	4.43	2.46	0.71
Mixed equity	4.25	-23.30	16.44	-5.60	9.51	9.99	2.45	0.24
Euro equity	7.04	-47.02	31.02	-14.44	20.00	18.78	3.73	-2.57
Foreign equity	2.00	-49.55	33.16	-9.83	16.86	14.22	7.23	6.06
Guaranteed fixed-income	3.25	3.39	4.10	1.64	1.23	0.99	0.57	1.15
Guaranteed equity	3.65	-1.88	5.08	1.48	1.23	1.74	0.49	0.70
Global funds	2.57	-7.36	10.82	-1.16	4.67	5.17	2.16	1.71
Passive management	-	-	-	-	14.13	11.63	4.60	-1.54
Absolute return	-	-	-	-	1.67	2.44	1.11	1.25
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	1.00	0.87	0.87	0.21	0.21	0.23	0.23	0.22
Fixed-income	0.61	0.58	0.63	0.15	0.15	0.16	0.17	0.16
Mixed fixed-income	1.13	1.14	1.14	0.29	0.29	0.31	0.31	0.29
Mixed equity	1.54	1.54	1.58	0.38	0.39	0.40	0.40	0.38
Euro equity	1.65	1.60	1.75	0.40	0.43	0.45	0.45	0.43
Foreign equity	1.79	1.69	1.79	0.39	0.44	0.45	0.47	0.46
Guaranteed fixed-income	0.62	0.49	0.65	0.13	0.14	0.15	0.16	0.14
Guaranteed equity	1.30	1.29	1.26	0.33	0.33	0.34	0.31	0.29
Global funds	1.16	1.04	1.08	0.27	0.28	0.31	0.27	0.27
Passive management	-	-	-	-	0.15	0.17	0.17	0.16
Absolute return	-	-	-	-	0.28	0.30	0.29	0.28
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	0.03	0.02	0.02	0.03	0.02
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	0.03	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
Absolute return	-	-	-	-	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				2010
				I	II	III	IV	I
Total financial mutual funds	2.73	-4.21	5.73	-0.32	2.43	2.80	0.73	0.61
Fixed-income	2.68	2.06	1.91	0.23	0.55	0.88	0.24	0.46
Mixed fixed-income	2.01	-7.14	6.85	-1.51	3.48	4.18	0.63	0.42
Mixed equity	2.79	-22.21	16.47	-5.66	9.86	10.18	1.99	-0.14
Euro equity	6.05	-39.78	32.41	-13.02	23.34	19.76	3.06	-2.57
Foreign equity	1.31	-41.71	37.28	-6.60	20.08	15.15	6.30	5.63
Guaranteed fixed-income	2.80	3.29	3.81	1.14	0.94	1.31	0.37	0.98
Guaranteed equity	2.46	-2.61	3.56	1.11	0.85	1.40	0.16	0.39
Global funds	1.58	-8.64	10.90	-1.33	4.90	5.18	1.87	1.43
Passive management	-	-	-	-	16.50	12.09	4.61	-1.26
Absolute return	-	-	-	-	1.54	1.90	0.70	0.98

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

CUADRO 3.12

	2007	2008	2009	2009				2010
				I	II	III	IV	I ¹
HEDGE FUNDS								
Investors/shareholders	1,127	1,589	1,917	1,551	1,768	1,778	1,917	2,066
Total net assets (million euro)	445.8	539.4	652.0	451.4	536.9	602.6	652.0	668.5
Subscriptions (million euro)	378.2	390.4	235.4	23.5	71.6	66.5	73.8	68.6
Redemptions (million euro)	2.6	256.7	182.8	108.3	17.5	24.5	32.5	45.2
Net subscriptions/redemptions (million euro)	164.7	134.3	52.6	-84.8	54.1	41.9	41.4	23.4
Return on assets (million euro)	0.2	-39.1	62.2	2.7	25.7	25.9	7.9	-6.8
Returns (%)	0.84	-4.82	14.94	-0.40	8.12	5.21	1.45	-1.21
Management yields (%) ²	0.57	-2.51	13.75	0.31	5.84	5.25	1.80	-0.66
Management fee (%) ²	1.39	2.50	2.55	0.65	0.75	0.65	0.48	0.35
Financial expenses (%) ²	0.33	0.16	0.10	0.02	0.03	0.02	0.03	0.01
FUNDS OF HEDGE FUNDS								
Investors/shareholders	3,950	8,516	5,321	5,646	5,577	5,303	5,321	5,352
Total net assets (million euro)	1,000.6	1,021.3	810.2	775.2	709.5	846.9	810.2	790.4
Subscriptions (million euro)	1,071.2	967.3	302.4	35.5	9.2	170.1	87.6	-
Redemptions (million euro)	65.9	616.6	565.4	294.6	93.3	56.6	120.9	-
Net subscriptions/redemptions (million euro)	1,005.5	350.7	-263.0	-259.1	-84.1	113.5	-33.3	-
Return on assets (million euro)	-9.6	-245.7	85.0	13.1	32.0	28.3	11.6	-
Returns (%)	-0.43	-17.80	7.85	1.34	2.59	2.88	0.83	0.78
Management yields (%) ³	-1.36	-17.84	11.54	1.91	2.86	3.29	1.77	-
Management fee (%) ³	1.15	1.63	1.34	0.35	0.37	0.41	0.29	-
Depository fee (%) ³	0.06	0.11	0.19	0.03	0.03	0.02	0.05	-

1 Available data: February 2010. Return refers to the period Dec-Feb 2010.

2 % of monthly average total net assets.

3 % of daily average total net assets.

Management companies. Number of portfolios and assets under management¹

TABLE 3.13

	2007	2008	2009	2009			2010	
				II	III	IV	I	II ³
NUMBER OF PORTFOLIOS								
Mutual funds	2,954	2,943	2,593	2,808	2,705	2,593	2,534	2,524
Investment companies	3,181	3,240	3,124	3,194	3,175	3,135	3,111	3,111
Funds of hedge funds	31	40	38	40	40	38	37	35
Hedge funds	21	24	28	25	26	28	31	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	175,850.2	170,547.7	167,161.0	169,458.4	170,547.7	167,524.3	165,101.1
Investment companies	30,300.0	23,656.1	24,953.0	23,941.7	24,966.5	24,953.0	25,416.6	25,489.5
Funds of hedge funds ²	1,000.6	1,021.3	810.2	709.5	846.9	810.2	790.4	-
Hedge funds ²	445.8	539.4	652.0	530.8	596.8	652.0	668.5	-
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	6,324.8
Real estate investment companies	512.9	371.9	308.5	360.7	313.0	308.5	304.6	311.2

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: February 2009.

3 Available data: April 2010.

Foreign Collective Investment schemes marketed in Spain¹

TABLE 3.14

	2007	2008	2009	2009				2010
				I	II	III	IV	I
INVESTMENT VOLUME² (Million euro)	37,092.7	18,254.8	25,207.2	16,207.1	18,056.1	20,684.8	25,207.2	30,864.9
Mutual funds	7,010.3	3,352.0	6,080.8	3,207.4	4,157.9	4,850.5	6,080.8	6,519.3
Investment companies	30,082.4	14,902.8	19,126.4	12,999.7	13,898.2	15,834.3	19,126.4	24,345.6
INVESTORS/SHAREHOLDERS	850,931	593,488	685,094	545,521	602,487	613,561	685,094	748,749
Mutual funds	142,782	102,922	133,289	103,124	117,389	118,200	133,289	157,027
Investment companies	708,149	490,566	551,805	442,397	485,098	495,361	551,805	591,722
NUMBER OF SCHEMES	440	563	582	566	555	577	582	615
Mutual funds	225	312	324	313	309	327	324	353
Investment companies	215	251	258	253	246	250	258	262
COUNTRY								
Luxembourg	229	274	275	275	270	273	275	278
France	122	161	178	161	163	180	178	201
Ireland	52	63	64	64	58	59	64	67
Germany	15	16	17	17	16	17	17	19
UK	12	14	14	14	14	14	14	15
The Netherlands	1	1	1	1	1	1	1	1
Austria	5	28	27	28	27	27	27	28
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 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			2010	
				II	III	IV	I	II ¹
REAL ESTATE MUTUAL FUNDS								
Number	9	9	8	8	8	8	8	8
Investors	145,510	97,390	83,583	89,461	87,903	83,583	81,647	81,519
Asset (Million euro)	8,608.5	7,406.9	6,465.1	6,547.2	6,494.3	6,465.1	6,363.7	6,324.8
Return on assets (%)	1.27	0.69	-8.31	-1.23	-1.37	-1.45	-1.63	-0.38
REAL ESTATE INVESTMENT COMPANIES								
Number	9	9	8	9	8	8	8	8
Shareholders	843	937	928	937	929	928	927	927
Asset (Million euro)	512.9	371.9	308.6	360.7	313.0	308.6	304.6	311.2

1 Available data: April 2010. In this case, return on assets is monthly.