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Acronyms

AACGR	Annual Corporate Governance Reports
AIAF	Asociación de Intermediarios de Activos Financieros/Spanish Brokers' Association
ASCRI	Asociación Española de Entidades de Capital-riesgo/Spanish association of venture capital firms
BME	Bolsas y Mercados Españoles
CEBS	Committee of European Banking Supervisors
CESR	Committee of European Securities Regulators
CNMV	Comisión Nacional del Mercado de Valores
DAC	Directive on Capital Requirements
DSI	Directive on Investment Services
EBITDA	Earnings Before Interests, Tax, Depreciation and Amortization
EC	European Commission
EFAMA	European Fund and Asset Management Association
ESI	Investment services company
ETF	Exchange Traded Funds
EU	European Union
EVCA	European Private Equity & Venture Capital Association
FIAMM	Money market fund
FIM	Securities investment fund
FRA	Forward Rate Agreement
GDP	Gross Domestic Product
IGBM	Índice General de la Bolsa de Madrid/Madrid Stock Exchange General Index
IIC	Collective Investment Schemes
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offerings
LMV	Ley del Mercado de Valores/ Securities Markets Law
MAB	Mercado Alternativo Bursátil/Alternative Stock Market
MEFF	Mercado Español de Futuros y Opciones Financieros/Spanish market in financial futures and options
MFAO	Mercado de Futuros del Aceite de Oliva/Olive oil futures market
MiFID	Markets in Financial Instruments Directive
OECD	Organization for Economic Co-operation and Development
PER	Price Earnings Ratio
RD	Royal Decree
RDL	Royal Decree Law
ROE	Return On Equity
SENAF	Sistema Electrónico de Negociación de Activos Financieros/An electronic trading platform for Spanish public debt
SGIIC	Collective investment scheme management company
SIBE	Sistema de Interconexión Bursátil Español/Spanish electronic market
SICAV	Open-end investment company
UCITS	Undertakings for Collective Investment in Transferable Securities

I Securities markets and their agents: situation and outlook

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1 Executive summary

- In the last six months[1], international markets have continued to feel the after effects of the subprime crisis against a backdrop of deteriorating global financial and macroeconomic prospects.

- After a brief respite in April and May, share price corrections[2] and high credit spreads returned with force in the year's middle months, accompanied by sluggish issuance and a dearth of activity in interbank markets. In the last few weeks, the crisis gripping American mortgage companies and insurers and the investment banking industry sent fresh shock waves running through securities and interbank markets, which were partly stilled by central bank interventions and, above all, the announcement of a rescue plan by the United States government – still to be approved by Congress at the closing date for this report.

- In order to keep the markets functioning smoothly, securities regulators in the world's main financial centres have tightened disclosure requirements on short positions, in many cases placing restrictions on naked short sales. In Spain, the CNMV reminded all members of official secondary markets about the rules penalising naked short selling, and obliged any individual or entity holding short positions in the equity securities of twenty listed financial institutions to declare all such positions in excess of 0.25% of their outstanding capital.

- In Spain, the business cycle downturn has intensified due basically to the contraction in the construction industry and the slowdown in consumption. Financial institutions suffered some deterioration in their loan-book quality, though non performing loans are still at manageable levels and their solvency is in the comfort zone.

- Non-financial companies posted lower first-half profits combined with higher debt ratios and financial charges. That said, with the exception of construction and real estate, the balance sheets of listed companies have, on the whole, suffered only moderate weakening due to slower activity and more stringent financing conditions.

- Forecasts for Spain point to further deceleration in the next three quarters[3] then a gradual recovery next year. However, estimates risk is tilted to the

1 The closing date for this report is 19 September.

2 European stock markets have recorded year-to-date losses between 23% and 27%, against around 22% for the Japanese and 14% for the Americans.

3 The European Commission is projecting 1.8% growth for the Spanish economy in 2008, eight percentage points less than the rate forecast in its Spring Report.

downside given the recent turn of international events and the scale and duration of the real estate downturn.

- The performance of Spanish equity markets has mirrored the main international trends. Following the short-lived rally of March-April, share prices began to run down steadily as of May[4], accompanied by an upswing in volatility and a contraction in liquidity. Furthermore, the price correction has reduced market turnover, discouraging the issuance of new paper, one notable exception being the *cuotas participativas* issue of savings bank Caja de Ahorros del Mediterráneo (CAM).

- One development to watch for is the narrowing distribution of the shares of exchange-listed companies. Although free-float remains at acceptable levels in most cases, the recent downward trend is an alert call to market operators who may wish to review their rules to ensure a wide enough ownership for efficient price formation.

- Spanish fixed-income markets repeated the main features of the previous semester. Prices again showed the evidence of high credit spreads while issuance activity remained slow, centring mainly on the asset-backed securities and commercial paper that are typically acquired by the entities selling the securitised loans.

- Collective investment schemes experienced a further drain in assets and unitholder numbers. Investors' growing preference for lower-risk products in today's volatile markets combined with the share price correction to drive down volumes under management[5]. At the same time, more aggressive competition from the banks eroded the relative attractiveness of conservative funds versus traditional deposits.

- Less liquid instruments again represented a low percentage of investment fund portfolios (8.4% in June 2008). However, persistent liquidity shortages in some fixed-income markets and a certain outflow of investors, oblige managers to be doubly vigilant for their exposure to hard-to-shift assets. It is also important that they follow strict valuation policies aligned with applicable accounting standards.

- Investment firm earnings were hit by the downturn in securities market trading and higher redemptions from the mutual funds under their management. This has made significant inroads into their profitability ratios, though these remain high by any standards (ROE of broker-dealers at 28% in June 2008 and that of brokers at 21%). Solvency indicators likewise continued in the comfort zone and even improved on the readings of 2007. This means firms are better primed to withstand the likely pressures on their balance sheets from the persistence of thin trading volumes and growing competition within Europe.

4 The Ibex-35 has dropped 23.9% year to date and 19.9% in the last twelve months.

5 Mutual fund assets closed the second quarter of 2008 at €214 billion euros compared to €255 billion at end-2007.

- Venture capital business continued to expand in Spain throughout 2007 by the measure of both operator numbers and industry assets. Figures for first-half 2008 indicate some tailing-off of investment volumes though transaction numbers have continued to rise. Scarce bank finance is conditioning the development of leveraged operations, though note their lower incidence in Spain compared to other countries.

- The turmoil ensuing from the subprime lending crisis in the United States has prompted a series of initiatives to perfect the regulatory framework for financial activity. A first and vital goal is to improve transparency, as regards both the situation of issuers and borrowers and the nature of financial products and the conditions of the markets where they are traded. In this respect, the CNMV, like other securities regulators, has launched or supported initiatives to strengthen the quality of the information provided by listed and supervised companies, with special attention to asset valuation policies and the issue prospectuses of structured products. Transparency requirements in fixed-income and derivative markets will best be served by a review of European legislation, which has proved less than effective in these more straitened times.

- Also needed is more effective oversight of the activity of rating agencies. Given the difficulties of getting a global supervisory system quickly into place, we must welcome the European Commission's initiative in circulating a public consultation document proposing two alternative models of authorisation and supervision. However, Europe's authorities need to go a step further and contemplate a centralised authorisation and supervision system with binding powers in all member countries.

- Finally, the crisis has uncovered a number of weaknesses in the treatment of financial entities' liquidity risk. In the collective investment sphere, the work going on within the CESR may provide a good opportunity to tighten up the relevant rules. The CNMV, meantime, plans to revisit the definition of "money-market funds" to make the nature of the product more consistent with investor expectations.

2 Macro-financial setting

2.1 International economic and financial developments

The world growth slowdown intensifies on the heels of the real estate contraction against a backdrop of unsettled markets and strong inflationary pressures...

The international economy continued along the deceleration path that has characterised these past few quarters. The knock-on effects of financial market turbulence were joined by a severe slowdown in the real estate market in several economies and, above all, the escalating prices of food and commodities like oil. The slowdown was felt in almost all world regions though with varying intensity; the US, for instance, is projected to grow 1.0% in 2008 compared to the 1%-2% augured for the euro area and Japan. Emerging economies, meantime, lost only a little of their dynamism with exports once again the main growth driver.

... that continue to complicate monetary policy decisions.

One feature of the current world slowdown is the parallel run-up in inflation caused by rising commodity prices, most notably oil[6]. This fact has heavily conditioned the policy options of leading central banks, which have pressed on with their extraordinary cash injections to counter the frictions dominating interbank markets, at the same time as they have maintained or even hiked their interest rates, despite growth moderation, to cope with mounting inflationary tensions.

Gross domestic product (% annual change) TABLE 1

					IMF(*)		OECD(*)	
	2004	2005	2006	2007	2008S	2009S	2008S	2009S
World	4.9	4.4	5.0	4.9	4.1 (+0.4)	3.9 (+0.1)	-	
United States	3.6	3.1	2.9	2.2	1.3 (+0.8)	0.8 (+0.2)	1.8 (+0.6)	1.1 (-1.1)
Euro area	2.1	1.6	2.8	2.6	1.7 (+0.3)	1.2 (=)	1.3 (-0.4)	1.4 (-0.6)
Germany	1.1	0.8	2.9	2.5	2.0 (+0.6)	1.0 (=)	1.5 (-0.4)	1.1 (-0.5)
France	2.5	1.7	2	1.9	1.6 (+0.2)	1.4 (+0.2)	1.0 (-0.8)	1.5 (-0.5)
Italy	1.5	0.6	1.8	1.5	0.5 (+0.2)	0.5 (+0.2)	0.1 (-0.4)	0.9 (-0.4)
Spain	3.3	3.6	3.9	3.8	1.8 (=)	1.2 (-0.5)	1.6 (-0.9)	1.1 (-1.3)
United Kingdom	3.3	1.8	2.9	3.1	1.8 (+0.2)	1.7 (+0.1)	1.2 (-0.6)	1.4 (-1.0)
Japan	2.7	1.9	2.4	2.1	1.5 (+0.1)	1.5 (=)	1.2 (-0.5)	1.5 (-0.3)
Emerging	7.5	7.1	7.8	7.9	6.9 (+0.2)	6.7 (+0.1)	-	-

Source: IMF and OECD.

(*) In brackets, percentage change versus the last published forecast. IMF, forecasts published July 2008 vs. April 2008. OECD, 2008 forecasts published September 2 versus those published June, except in the case of Spain. The OECD published its 2009 forecasts in June 2008, compared here with those published in December 2007. OECD forecasts for Spain date from June 2008 and are compared with those published in December 2007.

In the United States, the Federal Reserve has left its funds rate unchanged since the 25 basis points (bp) cut to 2% effected on 30 April[7]. In the euro area, the ECB traced the opposite course, and raised its rates by 25 bp on 9 July to 4.25%.

Financial markets rocked by fresh turbulence in September after the relative quiet of April and part of May...

Financial markets managed a return to stability over April and most of May, but turned edgier in the year's middle months with doubts persisting about the macroeconomic outlook and the quality of financial sector banking and trading books. The result was to hold back the normalisation of money and fixed-income markets and set share prices falling. The economic slowdown is making a visible dent on banks' revenues just as they start to notice the deterioration of a part of their loan portfolios. The financial sector is also labouring under its exposure to insurance companies (monolines), some of which have already suffered a sharp revise-down in their credit ratings.

September brought a new wave of turbulence that started with the state's bail-out of two US mortgage companies (see exhibit 1) and intensified with the collapse of

6 Crude prices have been escalating almost without interruption since January 2007, when they stood at just over 50 dollars/barrel, as far as a July 2008 high of 145 dollars/barrel. Prices have since eased back to around 100 dollars/barrel.

7 The Federal Reserve initiated its rates downcycle on 19 September 2007, when they stood at 5.25%. It has announced seven cuts since then, two of 75 bp, two of 50 bp and three of 25 bp, leaving its federal funds rate at the current 2.0%.

Lehman Brothers, the purchase of Merrill Lynch by Bank of America, the nationalising of the world's largest insurer (American International Group, AIG), the suspension of trading on the Moscow stock exchange and HBOS' buy-up by Lloyds TSB (see exhibit 2). The results were not long in coming. A generalised slump in equity prices, rising credit spreads, resurgent volatility and further interventions by main central banks. And concerns about the fragile state of other investment banking names sowed additional disquiet among market agents. After this chain of events, the publication of the US government's rescue plan appears to have calmed the market waters, pending fuller details and its backing by Congress.

Exhibit 1: Freddie Mac and Fannie Mae

These companies trace their origins to the end of the Second World War and the American government's pledge that any US citizen could borrow the money needed to buy a home. With this intent, it created a series of state- or semi state-owned institutions to energise the secondary mortgage market. These goals were successfully met, meaning any local bank, cooperative or broker could arrange mortgage loans with American citizens then sell them on to these institutions for "packaging" and re-sale to the investor public. The Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) fall within the category known as Government-Sponsored Enterprises or GSEs. At the end of the 1960s, the former was privatised and the second set up in order to inject competition into the sector. Their regulation and supervision were entrusted to an office within the US Federal Department of Housing and Urban Development.

Fannie Mae and Freddie Mac grant or guarantee mortgages and also issue securitisation bonds backed by their own loans or those bought from other lenders. The total loans they can arrange or purchase are capped at a given amount, as a function of the annual increase in housing prices. They had recently entered the subprime mortgage segment in cases where borrowers were considered deserving of a good credit rating.

The size attained by these two institutions in the US mortgage market (where they are reckoned to have granted or guaranteed almost half the loans outstanding) and the relative opacity of their finances had promoted numerous calls for a revised regulatory treatment, accompanied by a growing scepticism about the quality of their bonds. The main regulatory flaws identified had to do with their low-key capital requirements and the standards being used to value their assets. They were even fined at one stage for management misconduct, although their semi-official status and the authorities' refusal to admit any problems with their regulation or capitalisation saved them from penalisation at the hands of the market and allowed them to go on raising finance at a small spread to treasuries.

In recent months, Government-Sponsored Enterprises have come increasingly under the microscope, with agents beginning to speculate that their mortgage losses might undermine their solvency and leave the Treasury no option – given their large size – but to bail them out. GSEs were also finding it harder and harder to refinance themselves. The result was that year to date (to 2 September) the Fannie Mae share has tumbled almost 81.4% and that of Freddie Mac by 84.8%.

In July 2008, the US Treasury announced a rescue plan to prevent the two companies collapsing under a combined debt of over USD 4,900 billion and to try to restore agents' shaken confidence. The plan envisaged liquidity assistance and the review of certain aspects of their regulatory framework. But the markets were kept in suspense until early September, when the Treasury and the Federal Housing Finance Agency (FHFA) released a detailed plan for taking control of the two institutions. Its main measures, received warmly by the markets, are summarised below:

- The Treasury will purchase USD 1 billion in each company's preferred stock to keep their balance sheets in the black.

- The Treasury will purchase Fannie and Freddie mortgage-backed paper in the open market. Possible creation of an MBS purchasing facility through the Treasury's general fund held at the Federal Reserve Bank of New York.

- The companies' management passes into the hands of the FHFA. Shareholders' economic and voting rights are temporarily suspended.

- Stabilisation and subsequent managing down of the two companies' mortgage-backed securities portfolios (10% a year as of 2010) in order to reduce exposure .

- Extension of liquidity facilities to the end of next year.

Exhibit 2: The events of September 2008 that will change the face of the international financial system

The speed of events in September 2008 suggests that the financial crisis is not completely over and that more political action may be called for on the regulatory front. Below we offer a brief chronology of the main incidents to date:

- <u>7 September. Nationalisation of Freddie Mac and Fannie Mae</u>. After weeks of rumours concerning the solvency of these mortgage companies, the Treasury Department finally approved their "conservatorship" (see exhibit 1).

- <u>14 September. Bank of America agrees to buy Merrill Lynch</u>. After dropping out of talks for the possible purchase of Lehman, Bank of America acquires a controlling stake in Merrill Lynch for USD 44 billion, making it the country's largest banking group.

- <u>15 September. Lehman Brothers folds</u>. The heavy third-quarter losses reported and Standard & Poor's decision to put its credit rating under review launched its shares into free fall and sent the firm scrabbling around to find a bank-sector buyer. Its failure to do so meant Lehman had no option but to file for bankruptcy. The announcement was another blow to the market's confidence, since Lehman was America's fourth largest investment bank.

- 16 September. Collapse of AIG. AIG's share price plummeted and the New York State insurance regulators pumped in USD 20 billion on 15 September to cover its immediate cash needs. Finally, on 16 September, the Federal Reserve had to step in to save the world's biggest insurer with a loan of USD 85 billion collateralised by the company's own shares and those of its subsidiaries. The US Government will receive 79.9% of AIG's shares and will hold a veto over dividend payments on ordinary and preferred stock.

- 17-19 September. The Russian stock exchange closes its doors. The sharp run-down in prices at the start of the 17 September session prompted an order from the Federal Service for Financial Markets (FSFM) to suspend trading on all the country's main exchanges. Activity resumed on 19 September.

- 18 September. Lloyds TSB acquires HBOS. The UK's fifth bank (Lloyds TSB) confirmed that it would purchase the country's largest mortgage specialist (HBOS) for around GBP 12.20 billion. The scantly diversified HBOS had been hit full on by the crisis and was having trouble refinancing itself .

Authorities and supervisory agencies have reacted differently in each case, and with varying degrees of intensity. Leading central banks have been on hand with liquidity injections for the markets. Some of these interventions were a coordinated effort, like that of 18 September involving the banks of Canada, England, Japan and Switzerland, along with the European Central Bank and the Federal Reserve.

That same day (18 September), the US government announced a financial sector rescue plan, with a cost that could run to USD 700 billion. Under its terms, which are still to be revealed in detail, the state would undertake to buy mortgage-related assets off any institution with its headquarters in the United States. Leaving aside concerns about moral hazard associated to the nationalisation of struggling banks and the concept of "systemic enterprise", there appears to be a growing international consensus about the failure of the US model and its separation between investment and commercial banking. The conversion of the last two investment banking majors (Goldman Sachs and Morgan Stanley) into commercial banks, as approved on 22 September, could be the death knell in this respect.

Finally, regulators in the world's main economies have taken precautionary moves against short selling, to stop market instability getting further out of hand. Measures were of various types: in most cases, an express prohibition or restriction on short selling across the board or in a determined subset of shares; in others, the imposing of disclosure requirements on agents holding a particular short position in certain shares. The list to date reads approximately as follows:

1) Some countries have banned all short selling on sets of listed shares, usually financials. This is the case of the United States, United Kingdom, Germany, Ireland and Australia.

2) In other countries, the prohibition is confined to naked short sales (without arrangement of a securities loan). Among the countries that have imposed such a ban, or reminded the market of its existence, are Spain, Italy, France, Netherlands, Belgium, Switzerland and Hong Kong.

3) Finally, most countries have tightened their transparency rules on this kind of trade, requiring that short positions be disclosed to the market. In most cases, the disclosure threshold has been set at 0.25% of the issuer's outstanding capital.

The second and third quarters of 2008 have witnessed a sharp fall in share prices, increased volatility and a downturn in trading volumes...

The losses accumulated by main stock indices in the second quarter of 2008 ranged from 2% to 9% (see table 2). And the bear run has continued into the third-quarter period[8], after the difficulties at US investment banks. Year to date, losses run from the 23%- 27% of euro area indices to the 14% of the United States, with the UK and Japan in between at -18% and -22% respectively. Markets' implied volatility died down during the share price rally, then rose once more to slightly ahead of the recent-year average. Another keynote trend has been the declining turnover of main European and Asian markets compared to the vitality of the United States (see figure 1).

Performance of main stock market indices[1] (%) TABLE 2

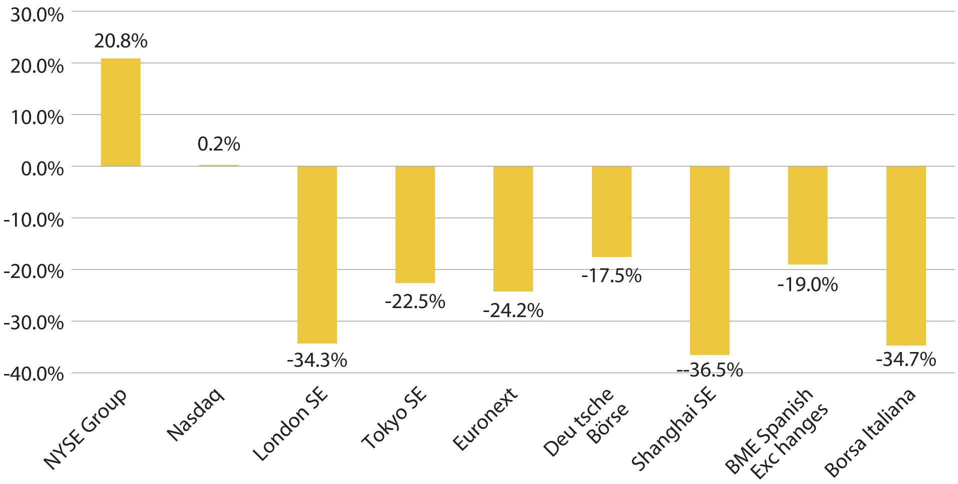
	2004	2005	2006	2007	I 08[2]	II 08[2]	III 08 (to 19 September) %/prior quarter	%/Dec	% y/y[3]
World									
MSCI World	12.8	7.6	18.0	7.1	-9.5	-2.5	-8.3	-19.0	-20.1
Euro area									
Euro Stoxx 50	6.9	21.3	15.1	6.8	-17.5	-7.6	-3.0	-26.1	-25.5
Euronext 100	8.0	23.2	18.8	3.4	-16.2	-6.1	-4.2	-24.6	-25.7
Dax 30	7.3	27.1	22.0	22.3	-19.0	-1.8	-3.6	-23.3	-20.0
Cac 40	7.4	23.4	17.5	1.3	-16.2	-5.8	-2.5	-23.0	-24.0
Mib 30	16.9	13.3	17.5	-6.5	-17.3	-5.1	-7.0	-27.0	-29.7
Ibex 35	*17.4*	*18.2*	*31.8*	*7.3*	*-12.6*	-9.2	-4.1	-23.9	-19.9
United Kingdom									
FT 100	7.5	16.7	10.7	3.8	-11.7	-1.3	-5.6	-17.7	-17.4
United States									
Dow Jones	3.1	-0.6	16.3	6.4	-7.6	-7.4	0.3	-14.1	-17.3
S&P 500	9.0	3.0	13.6	3.5	-9.9	-3.2	-1.9	-14.5	-17.4
Nasdaq-Cpte	8.6	1.4	9.5	9.8	-14.1	0.6	-0.8	-14.3	-14.3
Japan									
Nikkei 225	7.6	40.2	6.9	-11.1	-18.2	7.6	-11.6	-22.1	-27.4
Topix	10.2	43.5	1.9	-12.2	-17.8	8.8	-13.0	-22.1	-26.7

Source: Datastream.
1. In local currency.
2. Change over previous quarter.
3. Year-on-year change to the reference date.

8 Data to 19 September.

Annual change in turnover on main world exchanges[1] (Jan-Aug 08 / Jan-Aug 07)

FIGURE 1



Source: World Federation of Exchanges.

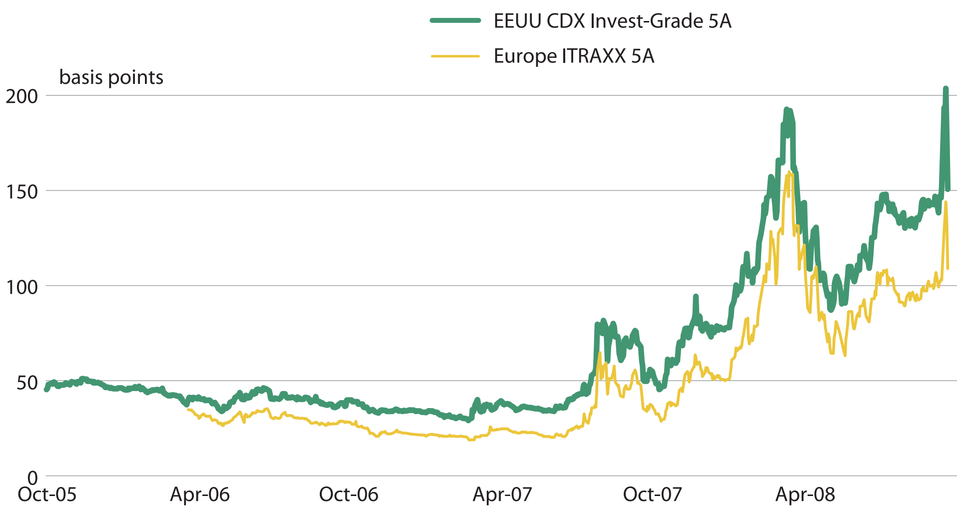
1 Exchanges appear in the figure by order of trading volumes between 1 January and 31 August 2008. Changes on the basis of amounts in local currency.

In fixed-income markets, financing tensions relaxed in the opening weeks of the second quarter, but since the end of May have been mounting once more in tune with agents' changing risk perceptions. The CDS[9] spreads of top-rated issuers now stand at around 150 bp in the United States and 110 bp in Europe (see figure 2). Financing constraints are apparent in the virtual shutdown of primary markets, especially for high-yield bonds and structured products, the little activity there is being mainly confined to conventional corporate bonds from investment grade issuers.

...a renewed increase in CDS spreads upkeep of issuance activity...

Credit risk indices

FIGURE 2



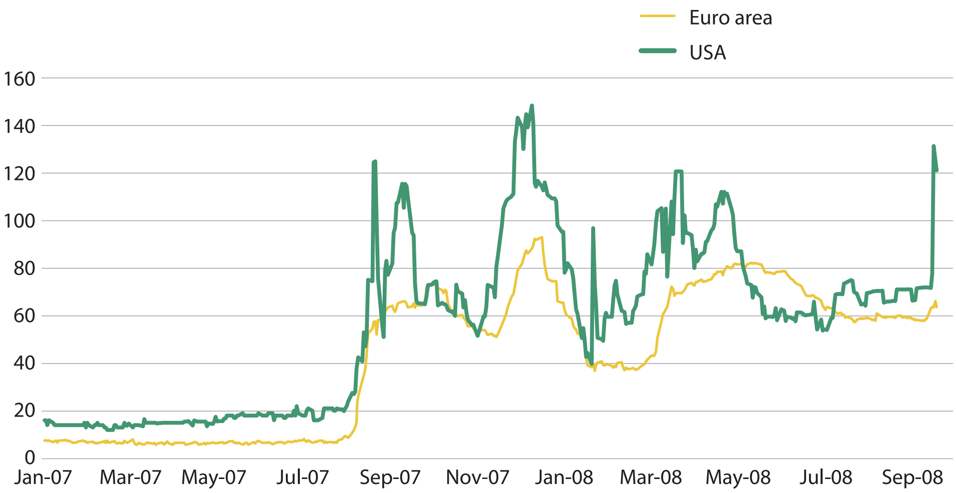
Source: Thomson Datastream. To 19 September.

9 Credit default swap.

...and continuing problems finding funds on the interbank market.

Problems persisted on interbank markets, where the spread between non-transferable deposits and repos continued at highs, especially in a US traumatised by recent events. In the three-month term, these spreads were hovering around 120 bp in the US and 64 bp in the euro area.

Three-month interbank rates: depo-repo spread FIGURE 3



Source: Thomson Datastream. To 19 September.

In currency markets, the euro stayed more or less flat against the dollar in the second quarter, while gaining new ground against the yen. The situation has since reversed, with the euro dropping 9.7% against the dollar this quarter to date[10] (to 1.42/euro) and 8.1% against the yen (to 153/euro).

2.2 National economic and financial performance

The Spanish economy slows more steeply as consumption and construction investment rein back sharply...

The deceleration of the Spanish economy that commenced towards end-2007 intensified in second-quarter 2008 with GDP growing just 0.1% vs. the prior quarter (1.8% in year-on-year terms). This sharper-than-expected slowdown owes to the adjustment in construction investment and consumption due to weaker household income and the declining value of financial and real estate assets. Disposable income is being squeezed between higher unemployment and inflation, while household wealth has been eroded by falling prices of both properties and equity investments.

A look at the second-quarter growth mix reveals the sluggish advance of households' final consumption spending (a quarterly 0.1%), along with a decline in gross fixed capital formation (a quarterly -1.7%) with all components, including equipment investment[11], contributing on the downside. Conversely, the growth contribution of the external sector turned positive in the period thanks to the more rapid moderation of imports versus exports.

10 Data to 19 September.

11 Equipment investment fell by 0.8% in the quarter, construction investment by 2.4% (its third consecutive decline) and investment in other products by 0.8%.

The Spanish economy has thus seen itself affected by the international slowdown and the continuing tensions on interbank and corporate bond markets. Simultaneously, its real estate sector is undergoing a sharp correction in a context of reduced availability of bank finance and deteriorating consumer and business confidence. Institutional forecasters have taken note and have substantially revised down their near-term growth figures for the Spanish economy, simultaneously rolling back the horizon for its recovery. In the September advance on its autumn report, the European Commission put Spain's full-year growth rate at 1.4% (versus the 2.2% forecasts of its spring report) accompanied by an inflation rate of 4.5% (3.8% previously).

..leading to a sizeable revise-down in growth forecasts for the next few quarters.

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

	2004	2005	2006	2007	European Commission 2008A	2008S	2009A	2009S
PGDP	**3.3**	**3.6**	**3.9**	**3.7**	**3.0**	**1.4[2] (2.2)**	**2.3**	**1.8**
Private consumption	4.2	4.2	3.8	3.5	2.7	2.2	2.4	1.9
Government consumption	6.3	5.5	4.8	4.9	5.0	5.0	4.9	4.3
Gross Fixed Capital Formation, of which:	5.1	6.9	6.8	5.3	3.0	1.4	0.6	-1.5
Equipment	5.1	9.2	10.4	10.0	5.9	4.3	5.8	1.5
Exports	4.2	2.6	5.1	4.9	4.7	4.0	4.6	4.9
Imports	9.6	7.7	8.3	6.2	5.2	4.5	4.2	3.0
Net exports (growth contribution, pp)	-1.7	-1.6	-1.2	-0.8	-0.5	-0.4	-0.1	0.3
Employment	2.7	3.2	3.2	3.0	2.1	1.3	1.7	0.7
Unemployment rate[1]	10.6	9.2	8.5	8.3	8.5	9.3	9.1	10.6
HICP	3.1	3.4	3.6	2.8	2.9	4.5[2] (3.8)	2.7	2.6
Current account (% GDP)	-5.9	-7.5	-8.8	-10.0	-9.6	-11.0	-9.8	-11.2
General government (% GDP)	-0.3	1.0	1.8	2.2	1.2	0.6	0.6	0.0

Source: Ministry of Economy and Finance, National Statistics Office (INE) and European Commission.
S: Spring report forecasts A: Autumn report forecasts.
1 Eurostat definition.
2 In September, the European Commission revised its growth and inflation forecasts for a number of European economies (before publication of its autumn report). In Spain's case, it lowered its 2008 GDP growth forecast from 2.2% (spring report) to 1.4% and raised its inflation forecast from 3.8% to 4.5%.

Spain's financial institutions confront these uncertain times from a position of relative strength, since they have invested little in the products worst hit by the subprime debacle, in general do not operate the kind of vehicles (conduits, etc.) that the crisis has made unviable and maintain only limited exposure to leveraged buyouts and none whatsoever to monolines[12]. However, they still have serious challenges ahead of them:

Spanish financial institutions maintain a sound position, but with some major risks ahead:

- The impairment of a part of their loan books due to the rise in non-performing loans, though note that loan loss ratios continue low. Portfolio impairment originates in the increased financial pressure weighing on higher leveraged agents exposed to the business slowdown and rising interest rates.

(i) loan-book impairment due to the rise in non-performing loans, and

12 See the Banco de España Financial Stability Report of April 2008.

ii) the scant demand for paper in certain wholesale markets.

- Slack demand for paper in certain wholesale markets. Although the retail model dominates in the Spanish industry, part of banks' business growth in recent years has been financed through the wholesale markets using medium and long-dated instruments. But the recent turbulence has thinned the supply of funds to certain markets, forcing them to take money at shorter maturities. One manifestation of this has been higher net borrowings from the Eurosystem[13], though these still have little weight in sector balance sheets. Another is the step-up in the issuance of commercial paper.

Non-financial companies feel the effects of slowdown in their income statements...

The latest income statements of non-financial companies show some profits erosion due to the slowdown. As we can see from table 4, the aggregate net profits of non-financial listed companies came to €18.84 billion at the June 2008 close, 1.9% down on the equivalent period in 2007. Performance was notably uneven across sectors. The worst affected were construction and real estate which saw their combined profits slump from over €5.40 billion euros in first-half 2007 to €821 million red numbers one year later. Service sector profits also fell, though less dramatically (8% to €5.77 billion), while industrial firms reported earnings on a par with 2007. At the other extreme were the energy companies, which near doubled their profits in first-half 2008 (see table 4), thanks to the run-up in energy prices.

Earnings by sector: listed companies TABLE 4

	EBITDA[1]		EBIT[2]		Net profit	
Million euros	1H07	1H08	1H07	1H08	1H07	1H08
Energy	13,831.4	15,906.4	9,654.1	11,482.2	6,460.7	12,857.8
Industry	3,670.1	3,689.9	2,713.8	2,605.7	1,763.6	1,790.5
Construction and Real Estate	7,268.8	4,314.8	5,503.5	2,169.0	5,407.5	-821.0
Services	15,581.9	15,447.9	9,576.2	9,578.9	6,280.1	5,775.3
Adjustments	-1,940.8	-2,004.3	-1,378.2	-1,422.7	-710.2	-763.5
AGGREGATE TOTAL	**38,411.3**	**37,354.7**	**26,069.4**	**24,413.1**	**19,201.8**	**18,839.2**

Source: CNMV.
1 Earnings before interest and taxes.
2 Earnings before interest, taxes, depreciation and amortisation.

...in a framework of more stringent financing conditions.

The tougher financing conditions companies face is reflected in a dearth of fixed-income issues (see table 12) and a deceleration in bank finance which is also considerably more expensive. In effect, commercial lending growth in the Spanish banking sector dropped from around 30% at end-2006 to 18% approximately in first-half 2008. But here too, certain differences are apparent: lending to industry (ex. construction) is expanding at year-on-year rates exceeding those of some quarters of 2006 and 2007 (in annual terms). Conversely, the growth of lending to construction and real estate operators slowed from 34% to 12% and 51% to 17% respectively between December 2006 and March 2008. This more moderate credit growth has had a stabilising effect on companies' indebtedness (as a percentage of assets or equity), which had been climbing steadily higher with the years. By contrast, their financial charge ratios

13 Spanish credit institutions' net borrowing from the ECB rose from around €20 billion in September 2007 to more than €47 billion in June 2008. This translates as an increase in the Spanish bank's' share of total Eurosystem lending from 4%-5% to around 10%.

Gross debt by sector: listed companies TABLE 5

Million euros		2003	2004	2005	2006	2007	1H08[1]
Energy	Debt	54,159	54,776	58,586	59,191	69,172	73,119
	Debt/ Equity	0.98	1.06	0.93	0.89	0.78	0.77
	Debt/ EBITDA[2]	2.92	2.78	2.41	2.17	2.48	2.30
	EBIT[3]/ Interest expenses	2.06	3.52	4.02	4.65	4.10	4.62
Industry	Debt	10,507	10,397	12,760	15,684	13,312	14,899
	Debt/ Equity	0.61	0.69	0.75	0.78	0.61	0.68
	Debt/ EBITDA	1.98	1.91	2.07	2.07	1.82	2.02
	EBIT/ Interest expenses	3.99	6.64	6.5	5.71	5.93	5.09
Construction and Real estate[4]	Debt	24,552	32,293	48,324	111,000	138,933	140,364
	Debt/ Equity	1.59	1.93	2.16	3.1	3.08	3.17
	Debt/ EBITDA	5.91	5.71	6.51	11.52	10.83	16.27
	EBIT/ Interest expenses	3.38	2.83	2.79	2.04	1.17	0.52
Services	Debt	34,956	44,505	55,710	91,522	96,941	106,478
	Debt/ Equity	0.89	1.61	1.7	2.52	1.70	1.92
	Debt/ EBITDA	2.08	2.58	2.68	3.58	3.01	3.45
	EBIT/ Interest expenses	3.18	2.67	3.37	2.44	3.23	2.81
Adjustments[5]	Debt	-208	-5,566	-7,943	-11,199	-17,390	-23,245
AGGREGATE TOTAL[6]	Debt	123,966	136,405	167,438	266,198	300,967	311,614
	Debt/ Equity	1.01	1.26	1.27	1.71	1.48	1.51
	Debt/ EBITDA	2.8	2.9	2.9	3.86	3.96	4.17
	EBIT/ Interest expenses	2.63	3.33	3.82	3.29	3.03	2.49

Source: CNMV.

1 Debt/EBITDA based on annualised EBITDA for the first half of 2008.

2 Earnings before interest, taxes, depreciation and amortisation.

3 Earnings before interest and taxes.

4 The sample includes Martinsa-Fadesa financial variables as at 31 March, excluding debt which figures at the amount corresponding to the date of application for insolvency proceedings.

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

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

have continued expanding as a result of rising interest rates and more subdued business earnings.

The aggregate debt of non-financial listed companies exceeded €311 billion in mid-2008, representing a leverage ratio of 1.51 times against the 1.48 times of end-2007. The largest risks are lodged with the companies whose debt has climbed fastest in recent years; that is those belonging to the construction and real estate sectors. Their debt was not only almost half that of all non-financial listed companies, it was also 3.2 times their equity as at June 2008. Further, sector EBIT was insufficient to cover the whole of their interest expenses. Companies in other sectors also recorded a rising debt total in first-half 2008, though without abandoning the comfort zone.

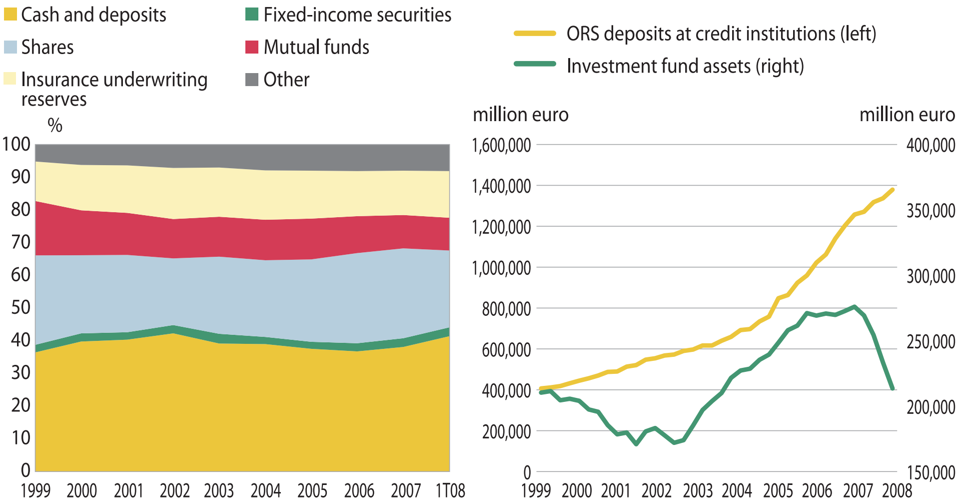
Retail investors let their natural conservatism lead them in the opening months of the year in a climate of growing distrust spurred by economic slowdown and more restrictive credit conditions. Financial information for first-half 2008[14] shows households investing less in financial assets and also reining back their

14 Financial Accounts of the Spanish Economy, Banco de España.

The climate of uncertainty has accentuated households' conservative leanings, as reflected in the gathering shift out of mutal funds into bank deposits.

aggregate borrowings. Specifically, financial asset purchases[15] amounted to 5.8% of GDP prolonging a downward trend in place uninterruptedly since the 10.9% of end-2006. Also, their choice of assets revealed a marked preference for more liquid, low-risk instruments, especially deposits (attracted by the aggressive pricing of financial institutions), contrasting with the outflows from mutual funds and listed and unlisted equity instruments, whose share in household portfolios receded sharply due to rising divestments and fast falling market prices .

Composition of household financial assets and performance of deposits vs. mutual funds FIGURE 4



Source: CNMV and Banco de España.

Debt ratios have stabilised while households have come under increased financial pressure due to higher interest rates and more moderately rising income.

Household borrowings have moved down significantly in the last few quarters as a result of the prevailing supply and demand conditions, from over 12% of GDP in

Investment funds subscriptions and redemptions (million euros) TABLE 6

	Subscriptions				Redemptions			
Category	**3Q07**	**4Q07**	**1Q08**	**2Q08**	**3Q07**	**4Q07**	**1Q08**	**2Q08**
Fixed income[1]	30,581	26,566	37,511	22,581.5	28,983	32,606	35,049	32,357.6
Balanced fxd income[2]	1,142	956	620	315.9	2,050	2,128	2,862	1,891.3
Balanced equity[3]	635	452	279	606.0	999	1,107	1,676	1,245.2
Spanish equity	483	943	415	344.4	1,429	1,683	1,980	733.9
Intern. equity[4]	3,215	2,971	1,867	1,545.7	5,242	5,834	6,457	2,735.1
Fxd-income guaranteed	2,191	2,981	3,286	2,983.5	1,897	1,712	2,086	1,867.5
Equity guaranteed	1,316	3,096	1,089	3,120.4	2,142	4,437	3,648	5,929.2
Global funds	3,046	3,543	1,949	1,953.1	5,906	6,942	8,276	5,302.1
Hedge funds[5]	62.2	243.0	164.1	77.8	0.45	2.1	50.9	26.5
Funds of hedge funds[5]	232.8	215.5	200.1	447.3	11.1	53.2	98.7	234.5
TOTAL	42,610.5	41,508.2	47,016.2	33,450.6	48,647.5	56,448.9	62,032.7	52,061,9

Source: CNMV

1 Includes: Short-term, long-term and international fixed-income and money-market assets.

2 Includes: Balanced fixed income and balanced international fixed income.

3 Includes: Balanced equity and balanced international equity.

4 Includes: Euro, international Europe, international Japan, international US, international emerging market and other international equity.

5 Estimated, provisional data for funds of hedge funds and hedge funds.

15 Cumulative four-quarter data.

2006 to 7.4% in the first quarter of 2008. And this has allowed debt ratios to stabilise to some extent. As with non-financial companies, the biggest risk lies with heavily indebted households who feel the full force of rising interest rates and the consequent increase in financial pressure.

2.3 Outlook

Leading institutions expect growth to recover in the course of 2009. The main risks for this scenario are inflationary pressures and the persistence of today's fragile markets.

The macro and financial forecasts issued by national and international institutions point to a further slowdown of the world economy in the next few quarters, with a chance that some or other developed country may enter recession, then a gradual recovery in the course of 2009. These projections, however, are hedged by uncertainties about the evolution of certain variables. The main estimate risks lie in the fragility of financial markets, the upkeep or intensifying of inflationary pressures and the ability of certain economies to cope with their imbalances (for instance, the US with its high current account deficit). The recent failures in the US investment banking industry and the difficulties of some credit institutions in the United Kingdom have aggravated a crisis of confidence whose macroeconomic consequences are hard to divine. And more of this instability could end up damaging the real economy by interfering with the normal course of the credit-investment-consumption cycle.

Nationally, an added risk is the downturn affecting the construction industry.

The economic-financial outlook for Spain has undoubtedly worsened since the last edition of this report, and the latest forecasts suggest the deceleration phase will last a few more quarters at least. The main downside risks for this scenario are no different from the general risks confronting the economy; namely, the prolongation of financial market turbulence and inflationary pressures. Nationally, an added risk is the downturn in construction and real estate, which is gaining speed and intensity and may end up cutting much deeper than expected. The upside for Spain is represented by the balance-sheet strength of its financial institutions, whose high provisions and capital offer a useful shield against the likely upswing in non-performing loans.

3 Spanish markets

3.1 Stock markets

After a modest rally in April and part of May, Spanish equities are again moving in negative territory...

Spanish stock indices closed both the second and third quarter[16] with sizeable losses after a modest rally lasting through April and most of May, registering year-to-date lows in both cases. The Ibex-35 posted levels unseen since 2006 as a result of worsening macroeconomic prospects and the deepening crisis of confidence on financial markets. Specifically, the select index dropped 9.2% in the second quarter

16 Data to 19 September.

and a further 4.1% to the closing date for this report, while small and medium cap stock indices fell even further (see table 7). Year to date, the Ibex-35 has lost almost 24% of its value, a performance comparable to that of other European bourses and significantly worse than American markets.

Performance of Spanish stock market indices (%) TABLE 7

	2004	2005	2006	2007	I-08[1]	II-08[1]	III 08 (to 19 September) % /prior quarter	% /Dec	% y/y
Ibex-35	17.4	18.2	31.8	7.3	-12.6	-9.2	-4.1	-23.9	-19.9
Madrid	18.7	20.6	34.5	5.6	-12.4	-9.8	-4.6	-24.6	-21.8
Ibex Medium Cap	25.1	37.1	42.1	-10.4	-9.8	-15.0	-8.5	-29.8	-35.7
Ibex Small Cap	22.4	42.5	54.4	-5.4	-13.6	-11.6	-18.9	-38.1	-44.6
FTSE Latibex All-Share	31.0	83.9	23.8	57.8	-10.5	14.5	-21.6	-19.7	-7.9
FTSE Latibex Top	28.1	77.9	18.2	33.7	-6.2	15.8	-18.7	-11.7	-7.0

Source: Thomson Datastream.
1 Change vs. prior quarter.

... with consumer goods, real estate, construction and finance bringing up the rear.

By sector, basic consumer goods and hotels, restaurants and catering were among the biggest losers out of the domestic demand contraction. The shares of real estate and construction firms also fell sharply, reflecting the downturn gripping their respective sectors. Finally, the price run-down affecting financial institution shares, which has levelled off in the third quarter, reflects a growing concern about sector earnings, which goes beyond the funding difficulties caused by the financial crisis to other questions like revenue erosion and the possible losses deriving from loan-book deterioration in today's climate of widespread economic weakness (see table 8).

Performance by sector of the Spanish stock market (%) TABLE 8

	2004	2005	2006	2007	I-08[1]	II-08[1]	III 08 (to 29 August) % /prior quarter	% /Dec	% y/y
Steel	25.3	20.7	81.2	-17.5	2.9	-12.8	-12.2	-21.2	-29.6
Water	31.2	18.1	55.6	-0.8	-13.0	-18.6	-16.5	-40.9	-38.8
Auto	0.6	21.8	171.1	0.0	-14.8	5.3	-9.4	-18.6	-30.1
Food and drink	1.3	10.4	14.6	10.8	-4.9	2.8	-7.5	-9.5	-13.2
Construction and construction materials	28.5	50.4	61.6	-12.0	-13.2	-10.5	-12.9	-32.3	-41.1
Basic consumption	40.0	19.0	12.9	6.9	0.0	-3.4	-3.3	-6.5	-12.2
Discretionary consumption	33.7	24.8	21.2	-7.7	-16.4	-19.4	4.5	-29.7	-38.3
Electricity	19.6	32.9	46.1	16.9	-9.4	-6.6	-0.9	-16.1	-15.3
Financial companies	10.1	22.5	35.5	-10.5	-12.6	-13.0	-4.9	-27.7	-31.7
Hotels	17.3	41.8	27.9	-25.0	-14.1	-19.5	-10.0	-37.8	-56.3
Real estate	29.5	58.9	100.4	-42.6	-7.0	-21.0	-19.9	-41.1	-52.8
Paper	30.2	13.7	36.6	-12.4	-12.5	-18.2	-4.3	-31.6	-48.1
Chemicals	19.2	176.1	-20.4	-58.4	-6.9	-22.2	-3.7	-30.3	-58.7
Tobacco	49.8	13.7	5.0	21.5	0.0	0.1	0.0	0.1	1.0
Telecommunications and media	16.7	-0.7	29.4	26.3	-17.2	-9.9	0.3	-25.2	-10.5
Utilities	21.5	27.2	42.0	18.5	-8.8	-6.7	-2.9	-17.4	-16.7

Source: Thomson Datastream. Monthly data, to 29 August.
1 Change vs. prior quarter.

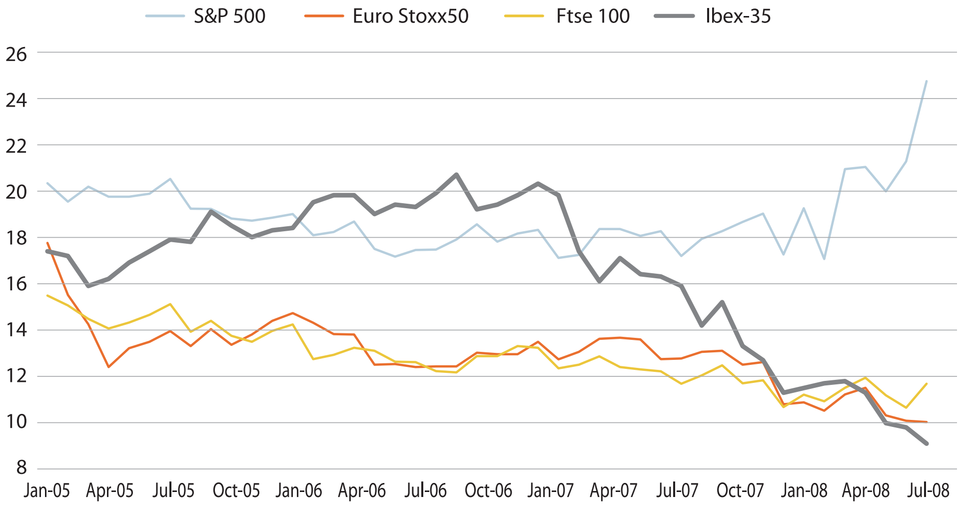
Today's volatile and falling markets have proved an encouragement to short selling, contemplated in Spanish regulation through two operating modalities: margin trading and securities loans[17]. The CNMV has reminded all members of official secondary markets about the ban and penalties affecting naked short selling, and has agreed that any individual or entity holding short positions in the equity securities of twenty listed financial institutions must declare all such positions in excess of 0.25% of their outstanding capital.

Falling markets have proved an incentive to naked short selling, ...

The price-earnings ratio (P/E) of Spanish shares, after stabilising somewhat in the year's middle months, has since fallen back to below 10 times. This is lower than the levels recorded by other European indices, where the downtrend has been less acute, and marks a reversal of the situation over most of 2007, when the multiple was equal to or higher than those of main US stock indices (between 16 and 20).

... and have helped drive down the price/earnings ratio (P/E) of Spanish shares.

Historical P/Es of international indices FIGURE 5



Source: Thomson Datastream. Monthly data, to 29 August.

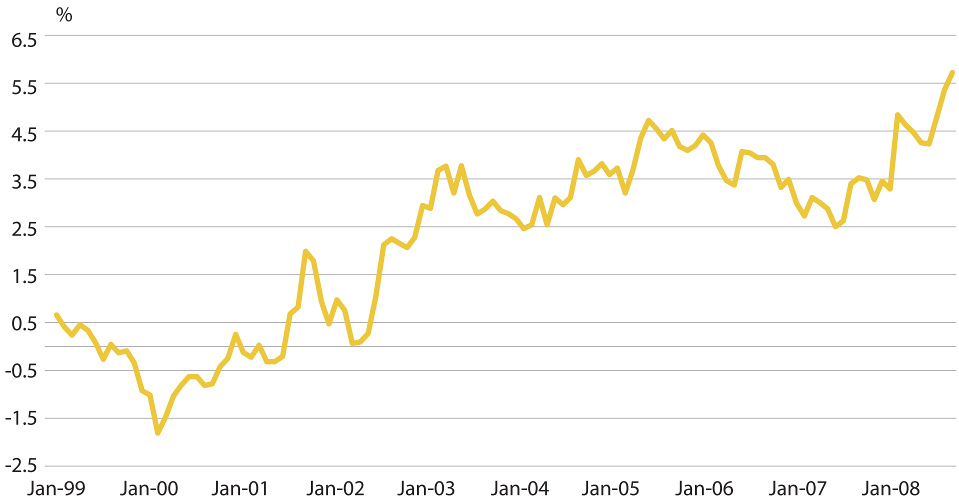
The earnings yield gap (which reflects the return premium required to be invested in equity versus long-term government bonds) has headed sharply higher due to renewed price falls and, since end-July, a downward trend in bond yields. The latest estimates available put the yield gap above 5%, contrasting with the 2% average registered since 1999.

The uptrend in the earnings yield gap has accentuated further.

17 Margin trading in securities is a variant of the securities loan with its own specific regulation (Ministerial Order of 25 March 1991) which imposes a series of limitations on this practice though not on the general loan transactions provided for in article 36 of the Securities Markets Law. These limitations concern: the securities loaned under margin arrangement, which may only be used for spot sales (ruling out other options such as re-lending); the amount of the transaction, which may be no less than €1,200 euros per sale or buy order; transaction maturity, which may be no more than three months, and collateral requirements, which are set by stock exchange management companies (collateral deposit and execution are likewise regulated). The bilateral securities loans envisaged in article 36 of the Securities Markets Law have no limitations regarding the volume or use of loans, maturities or collateral arrangements, though they are subject to certain restrictions under other legal provisions.
In practice, these differences mean that securities loans under margin arrangement are typical of retail investors while bilateral loans are used by domestic and foreign institutional investors. For this reason, the volume of securities loans (that is, their outstanding balance) is significantly higher than that of margin loans, though note that use of both modalities has been rising sharply.

Earnings yield gap (Ibex 35)

FIGURE 6



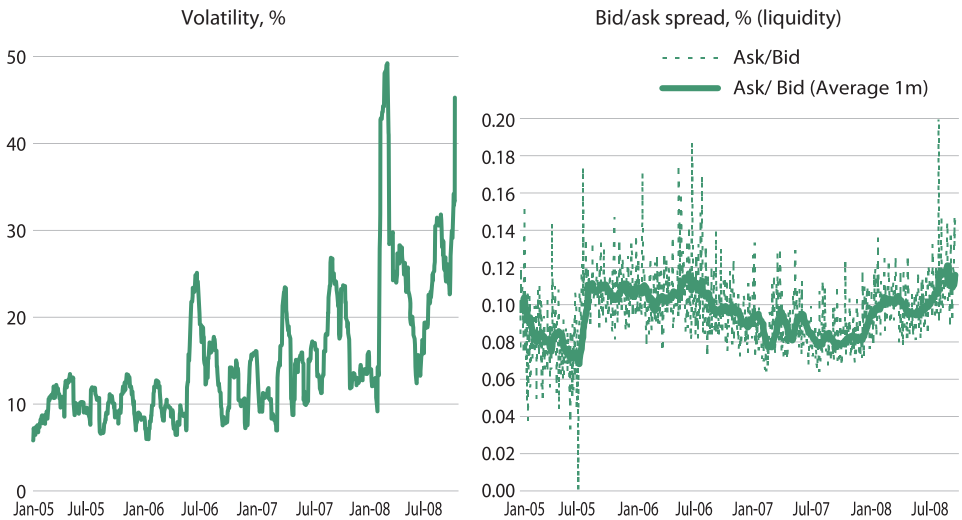
Source: Thomson Datastream and authors. Monthly data, to 1 September.

Market volatility and liquidity take a fresh turn for the worse after the respite of April-May.

Market volatility and liquidity conditions improved somewhat over April and May only to deteriorate once more. Volatility, tracing a rather more irregular course, has reached a second high of nearly 45%, just a little short of the January spike which carried it to 50%. Meantime, Ibex-35 liquidity conditions as measured by the bid-ask spread broke out of the improvement trend in place since mid-2006.

Historical volatility and bid/ask spread (Ibex 35)

FIGURE 7



Source: Thomson Datastream and authors. Data to 19 September.

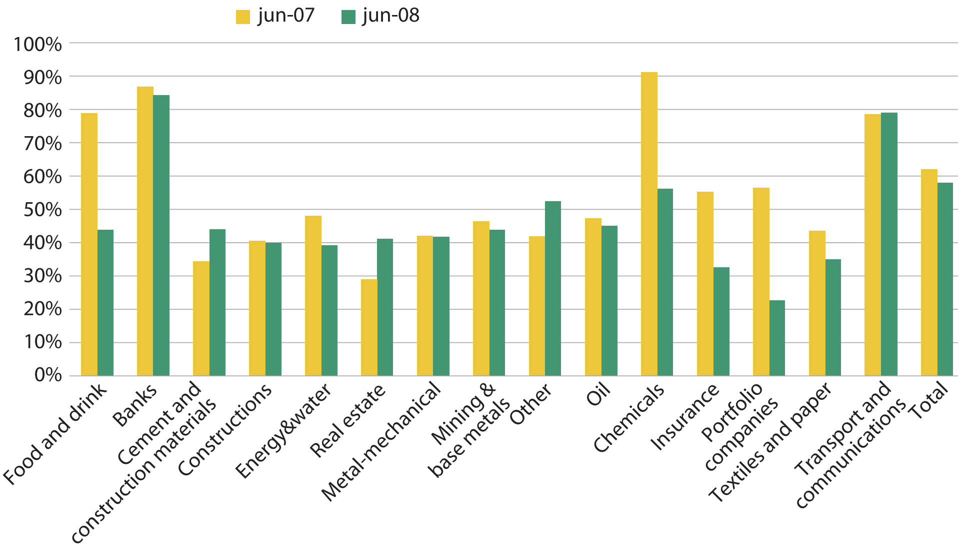
The free-float of the shares traded on the electronic market has continued to decline, though it remains in most cases within acceptable bounds.

An analysis of the aggregate free-float[18] of the companies trading on Spanish equity markets reveals that the percentage of capital changing hands freely is within acceptable levels, though with some decline appreciable over the last year. Specifically, the free-float of shares trading on the electronic market dropped from

18 The percentage of a company's capital that is freely traded on the market. Normally arrived at by subtracting treasury shares and significant holdings from the company's total capital.

62% to 58% between June 2007 and June 2008[19]. The sectors with the highest proportions of free-floating equity are the banks (84%) and transport and communications (79%), with the other extreme (below 40%) occupied by insurance, clothing and paper, and energy and water.

Free-float by sector on the electronic market FIGURE 8



Source: Thomson Datastream and authors.

There is nonetheless justification for some tightening of controls over the distribution of listed company shares.

Levels of free-float decreased across practically all the sectors analysed, most appreciably among food, chemicals and insurance firms, with only construction and real estate registering a meaningful increase (more than 0.10 percentage points). Among the ten largest listed companies, the twelve-month variation has been either negative or negligible. In any case, too little free-float means the market cannot function properly and is more exposed to price manipulation. It is also an obstacle to the correct valuation of listed securities. For these reasons, it is appropriate to strengthen controls over the distribution of listed company shares through amendments to the Stock Exchange Regulations.

Exhibit 3: Listing conditions vis à vis distribution of shares to the public in leading European markets

EU law requires that companies applying for stock market trading meet certain minimum requirements regarding capital and the distribution of share ownership. However it makes no similar demands once firms are admitted. Thus, article 43 of the Consolidated Admission and Reporting Directive (CARD) states that the foreseeable market capitalisation of the shares for which admission to official listing is sought or, if this cannot be assessed, the company's capital and reserves, including profit or loss, from the last financial year, must be at least one million euros. And article 48 of the same text requires that a sufficient number of shares must be distributed to the public in one or more Member States not later than the

19 Source: Thomson Datastream and authors.

time of admission, a condition deemed to be met when the shares so distributed represent at least 25% of subscribed capital.

CARD allows Member States some flexibility in applying these two conditions. This means they may, for instance, permit the admission to trading of firms with a lower capital, providing the shares are deemed to have a wide enough market. They can also impose higher thresholds of capitalisation in cases where the country in question is home to "another regulated, regularly operating, recognised open market" where the Directive threshold does apply. As regards share distribution to the public, the threshold may be set lower than 25% when, "in view of the large number of shares of the same class and the extent of their distribution to the public, the market will operate properly with a lower percentage".

Community legislation in this respect is completed by the Directive on Markets in Financial Instruments (MiFID), which takes on board the CARD requirements while leaving regulated markets free to set their own admission and listing rules, providing they are clearly expressed and transparently applied. Indeed most leading European markets have applied stricter capitalisation requirements than those envisaged in the CARD, though the difference is only truly substantial in the Italian case. Regarding ownership distribution, additional conditions refer to the determination of the 25% minimum. Though note that both the United Kingdom and NYSE Euronext establish most lasting requirements in this respect.

The conditions applying in main European markets are summarised below:

- United Kingdom. While the main continental EU countries have transposed admission and trading directives with few variations, leaving the fine-tuning to the markets themselves, the UK regulator has opted for an active approach. The FSA operates a different system of admission and listing requirements for firms of British (Primary List) and foreign (Secondary List) nationality. In both cases, it sets the capital threshold at GBP 700,000. On the question of share distribution, however, it stipulates that significant holdings (board members and equity stakes above 5%) may not compute towards the 25% and also makes this a permanent condition for British companies, while adhering to the CARD terms for foreign issuers.

- NYSE Euronext. This market requires a minimum capital of 5,000,000 euros and adopts the 25% threshold for distribution of shares to the public. It also goes further in imposing a minimum distribution threshold of 5% in order for companies to stay in trading.

- Borsa Italia. The admission threshold is set at a considerably higher 40,000,000 euros. Likewise, stringent conditions are imposed regarding the 25% threshold for distribution to the public, with director holdings and those over 2% excluded from the calculation. In both cases, these rules apply to admission only.

- Germany. The German exchange's capitalisation and distribution rules coincide with the minimum requirements of Community legislation.

In Spain, the regulator has made only minor adjustments to directive requirements. Royal Decree 1310/2005 implementing the admission conditions set out in the Securities Markets Law sets the foreseeable capitalisation threshold at 6,000,000 euros and adopts the CARD criteria for share distribution. The rules, in both cases, are for admission only, i.e., they cease to apply once firms are in trading.

The Spanish stock exchanges will shortly be developing their own internal rules. Meantime, the aforementioned RD 1310/2005 provides that Chapter V of the Securities Exchange Regulations will stay provisionally in force in all respects not at odds with the new legislation. These regulations, tracing to 1967, must be updated as soon as possible.

Falling prices and tougher financing conditions have taken a year-long toll on stock market turnover, with average daily trading fading progressively from the €6.18 billion of the first quarter to the €4.22 billion of the third.

...Market turmoil and worsening economic prospects have caused a climate of uncertainty that has borne down on stock market trading volumes.

Turnover in the Spanish stock market

TABLE 9

Million euros	2005	2006	2007	I 08	II 08	III 08[1]
All exchanges	**854,145**	**1,154,294**	**1,667,219**	**383,254**	**318,939**	**185,865**
Electronic market	847,664	1,146,390	1,658,019	380,935	317,051	184,862
Open outcry	5,899	5,318	1,154	44	25	15
of which SICAVs[2]	4,864	3,980	362	6	3	2
MAB[3]	-	1,814	6,985	1,966	1,646	883
Second Market	26	49	193	3	18	6
Latibex	557	723	868	306	199	99
Pro-memoria: non resident trading (% all exchanges)						
	57.1	58.2	61.6	na	na	na

Source: CNMV and Directorate-General of Trade and Investment.
1 Cumulative data to 31 August.
2 Open-end investment companies.
3 Alternative equity market. Data since the start of trading on 29 May 2006.
na: data not available on the closing date for this report.

Equity issues and public offerings[1]

TABLE 10

	2004	2005	2006	2007	I-08	II-08	III-08[2]
CASH AMOUNTS[3] (million euros)	21,735.6	2,960.5	5,021.7	23,757.9	9.5	356.6	40.8
Capital increases	18,748.0	2,803.4	2,562.9	21,689.5	0.0	356.6	40.8
Of which, rights offerings	1,101.9	0.0	644.9	8,502.7	0.0	292.0	0.0
Domestic tranche	537.9	0.0	303.0	4,821.4	0.0	292.0	0.0
International tranche	564.0	0.0	342.0	3,681.4	0.0	0.0	0.0
Public offerings	2,987.6	157.1	2,458.8	2,068.5	9.5	0.0	0.0
Domestic tranche	1,664.4	54.7	1,568.1	1,517.1	9.5	0.0	0.0
International tranche	1,323.2	102.5	890.7	551.4	0.0	0.0	0.0
NUMBER OF FILINGS[4]	42	27	30	35	1	4	2
Capital increases	37	25	21	26	0	4	2
Of which, rights offerings	4	0	8	8	0	2	0
Of which, bonus issues	15	6	0	0	0	0	0
Public offerings	7	2	14	12	1	1	0

1 Issues filed with the CNMV. Initial and supplemental filings.
2 Available data: 31 August 2008.
3 Excluding amounts recorded in respect of cancelled transactions.
4 Including all transactions registered, whether or not they eventually went ahead.

The squeeze on borrowing and the unsettled state of markets also explain the dearth of new equity issues in the second and third quarter of the year. Capital increases in the period were a bare €400 million[20] while public offerings were entirely absent. Accordingly the main event was the first ever issue of savings bank *cuotas participativas*, conducted by CAM in the month of July (for a description of these instruments, see exhibit 4). A total of 50 million *cuotas* were placed on the market, equivalent to 7.5% of CAM's equity.

Exhibit 4: Savings bank *cuotas participativas*

Cuotas participativas[1] had their first mention in an aborted piece of legislation dating from 1988, then reappeared briefly in the guise of *cuotas asociativas* (subscribable only by *Cajas* themselves) in a 1998 issue by savings banks federation CECA. Subsequently, Financial Law 44/2002 amended Article 7 of Law 13/1985 to regulate these *cuotas*, a provision later repealed by Royal Decree 302/2004 on the Participation Quotas of Savings Banks. This new text brings them partly within the regime laid down for shares in the Public Limited Companies Law, while making their issuance subject to the Securities Markets Law and its implementing regulations.

Cuotas participativas are marketable securities that can only be issued by savings banks (*Cajas de Ahorro*) and represent monetary contributions of an indefinite duration. They are configured as a pure equity instrument (similar to shares though rather more complex) without voting rights attached and forming an integral part of the issuer's core capital, and may only be traded on an organised market.

In payment priority, they stand behind the *Caja*'s ordinary and subordinated creditors, and even the holders of preferred stock, with the same claim as the community welfare fund. *Cuotas* outstanding may not exceed 50% of the saving bank's equity. Direct or indirect control by a single investor is capped at 5% and any breach of this limit will result in the suspension of all economic rights.

Each *Caja* can choose to establish a *cuota*-holders syndicate to act as its interlocutor and to defend the interests of investors.

Cuotas may be applied to offset savings bank losses in the same proportion and order as the endowment fund and reserves and, in extreme cases, may be used up entirely in the process.

In order to issue *cuotas*, the savings bank must first calculate the economic or market value that will serve to establish the issue premium. For first-time issuers, this internal valuation must be cross checked against an external report in cases

1. Reform of Art. 7 of Law 13/1985 of 25 May on the investment ratios, own funds and reporting obligations of financial intermediaries, later implemented though Royal Decree 664/1990 of 25 May on savings bank participation quotas.

20 As against €21.69 billion in 2007 and 2.56 billion in 2006.

where the placement is via a public offering with a minimum of 20% going to qualified investors. The sale price of the *cuotas* will comprise their face value plus the issue premium, which will then be split between the issuer's general reserves (*Caja* funds) and the Reserve Fund of the *cuota*-holders (investors' funds). The issue of cuotas will thus give rise to three funds or account captions on the *Caja*'s balance sheet:

- Participation Fund, equal to the sum of *cuotas'* face value, and only distributable among *cuota*-holders in the event of an issue redemption or the liquidation of the savings bank.

- The *Cuota*-holders Reserve Fund, summing: a) a percentage of the *cuota* issue premium and b) subsequently, the part of the unrestricted surplus of *cuota*-holders that is not paid out in cash or apportioned to the Stabilisation Fund. This fund may only be distributed with the authorisation of the Banco de España.

- The Stabilisation Fund, a voluntary option which the *Caja* can fund out of *cuota*-holders' unrestricted surplus. Available for distribution to investors to smooth out excessive fluctuations in *cuota* remuneration.

The holders of *cuotas* enjoy the following economic rights:

- A variable, non cumulative remuneration from the institution's unrestricted surplus (net profit for the year) pro rata with their equity holding. The *Caja*'s General Assembly votes each year on the distribution of this surplus, which is freely available after meeting capital requirements .

- A pre-emptive right in the issue of new *cuotas*, unless the General Assembly votes to suspend it.

- Receipt of the corresponding net asset value in the event of *Caja* liquidation.

- The right to sell cuotas to the issuing *Caja* at their current market value in the event of a merger.

Cuota-holders' share in profit and loss is calculated as a proportion of *cuotas* outstanding over the *Caja*'s book equity plus the amount of *cuotas* outstanding. The formula for deciding the current share-out between *cuota*-holders and the rest (*Caja* general reserves and the community welfare fund) is based on total *cuota*-holder funds as a percentage of the *Caja*'s book equity. Hence if *cuota*-holders receive a proportionally greater share of cash remuneration than the community welfare fund, their weight in earnings distribution will progressively decline. Since this adjustment is a function of the *Caja*'s book equity rather than its market value, this declining weight may also signify a progressive dilution in *cuota*-holders' allocation of unrealised capital gains. In other words, they will gradually lose ownership of the unbooked portion of the *Caja*'s real value.

The fact that the return of *cuotas participativas* can be affected by discretionary actions of the *Cajas* makes them a more complex instrument than public limited company shares. Their market prices must therefore factor not only expectations of the *Caja*'s future earnings, but also the policy of cash payouts to *cuota*-holders and the community welfare fund decided discretionally by the General Assembly and any other of its decisions affecting capital gains not taken to the income statement. This is why CNMV instructed CAM to exercise maximum caution in placing its product among retail investors, including the requirement to run a suitability test on prospective buyers.

Note, however, that article 9.1.2 of the framework Royal Decree allows issuers to attenuate the effects of differences between the cash remuneration of *cuota*-holders and allocation to the community welfare fund on the formers' earnings share. Applying this adjustment mechanism, which was not used in the CAM operation, could reduce some of the complexities of *cuotas* and make them more like conventional shares, to the benefit of future issues.

3.2 Fixed-income markets

The June run-up in corporate and government bond rates following the ECB's change of stance has since given way to a period of stabilisation.

After the falls of the opening quarter, short-term rates in domestic markets resumed an upward course. This movement intensified in early June, as elsewhere in Europe, due to changing expectations for ECB monetary policy, since when both government and corporate bond yields have traced a relatively stable course. Interest rates rose across all maturities, albeit more sharply in the 12-month term and in private fixed-income instruments. In particular, the interest rates on commercial paper climbed well ahead of 5%.

Long bond yields headed lower after their second-quarter spike, accompanied by a sharply widening spread between governments and corporates...

In the medium and long segment, private fixed-income and government yields moved substantially higher in the second quarter of 2008. The increase was almost one full point in governments (depending on the term, see table 11) and around a point and a half for corporates, resulting in a widening of the spread. The more stable markets of July sent yields heading lower once more. Spreads

Yields of medium- and long-term government bonds and private fixed income[1] TABLE 11

%	Dec 05	Dec 06	Dec 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08
Private fixed income[2]								
3 year	3.15	4.04	4.59	4.35	4.59	4.21	5.79	5.35
5 year	3.48	4.14	4.65	4.42	4.65	4.41	5.97	5.42
10 year	3.89	4.26	4.94	4.68	4.94	4.82	5.94	5.60
Government bonds								
3 year	2.91	3.74	4.07	4.09	4.07	3.50	4.69	4.18
5 year	3.06	3.77	4.14	4.20	4.14	3.62	4.67	4.21
10 year	3.36	3.81	4.27	4.37	4.27	3.87	4.80	4.51
Spread[3]								
3 year	25	30	52	26	52	71	110	117
5 year	42	37	51	22	51	79	130	121
10 year	54	45	67	31	67	94	114	109

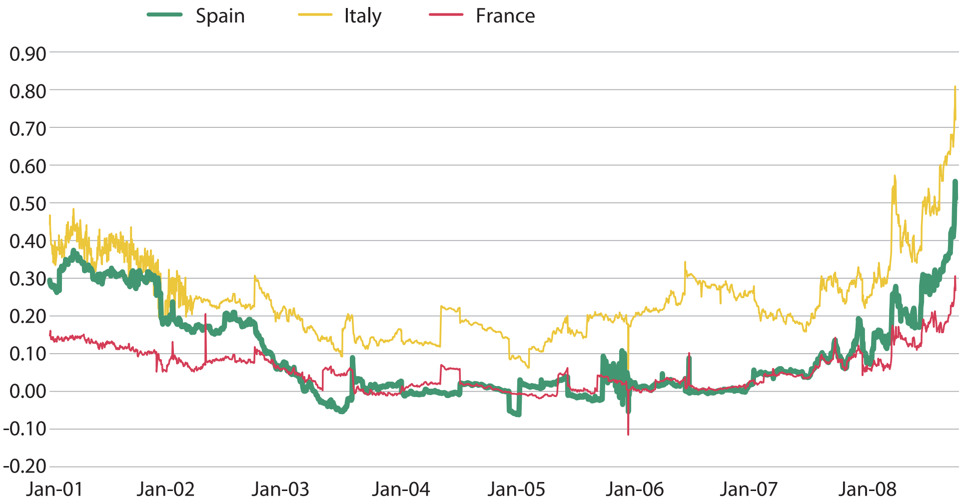
Source: Thomson Datastream y AIAF.
1 Average daily data. September data from 1/9 to 19/9.
2 Bonds and debentures in outright trades on the AIAF market.
3 In basis points

tightened slightly in response but remained at relative highs in comparison to recent years.

The spread between the Spanish 10Y government and the German benchmark also widened further in the period. After holding round the zero mark in 2004, 2005 and 2006, the spread began to pull higher in mid-2007 and by mid-September 2008 was moving upwards of 50 points (see figure 9). This pattern, which has repeated with differing intensities throughout the euro area, reflects changed perceptions of the country risk associated to each economy.

... and also between Spanish and German public debt.

Yield spread vs. the 10Y German benchmark FIGURE 9



Source: Thomson Datastream. Data to 19 September.

Perceptions of Spanish issuers' credit risk improved notably in April and a large part of May, taking credit spreads down by around 100 bp on average (based on 5-year CDS). From this point on, worsening economic conditions and bad debt problems sent risk premiums rising higher once more to a mid-September high of around 180 bp for the universe of Spanish issuers (see figure 10).

Financing constraints also left their mark on the number and amount of fixed-income issues registered with the CNMV (see table 12). Issuance volumes to date are trailing those of 2007 and are still mainly bunched in commercial paper (69% year to date[21]) and asset-backed securities (24%), though we can see a timid recovery in certain segments of the mortgage bond and bond and debentures markets[22]. Asset-backed securities were again mainly acquired by the originating entities, in order to stock up on assets for use as collateral against Eurosystem funds.

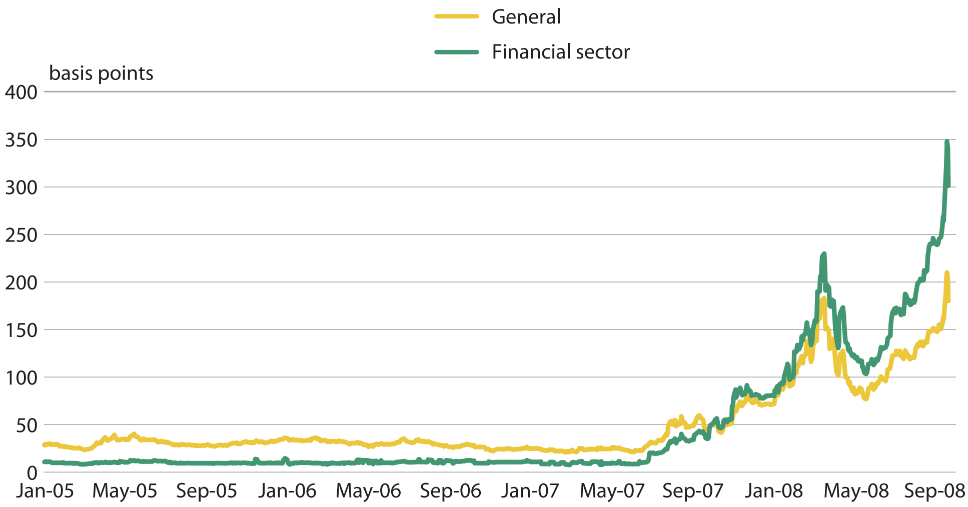
Fixed-income issues were thin on the ground, though with signs of recovery in concrete segments.

21 To 31 August.

22 In fact, a large portion of these entities' long-term fixed-income issues was placed abroad. Between 1 January and 31 July 2008, the face value of foreign sales of such long-term issues (bonds, debentures and asset-backed securities) summed over €29 billion, with the sum of short-term issuance even higher at over €33 billion euros.

Aggregate risk premium[1] based on the 5-year CDS of Spanish issuers

FIGURE 10



Source: Thomson Datastream and authors. Data to 19 September.
1 Simple average.

Gross fixed-income issues filed[1] with the CNMV

TABLE 12

				2008		
	2005	2006	2007	I-08	II-08	III-08[3]
NUMBER OF ISSUES	**263**	**335**	**334**	**74**	**94**	**56**
Mortgage bonds	21	37	32	11	20	6
Territorial bonds	3	6	8	7	0	0
Non convertible bonds and debentures	93	115	79	7	22	18
Convertible/exchangeable bonds and debentures	4	1	0	0	0	0
Asset-backed securities	54	82	101	18	30	20
Commercial paper facilities	80	83	106	27	21	10
Securitised	3	3	3	0	1	0
Other commercial paper	77	80	103	27	20	10
Other fixed-income issues	1	0	3	0	0	0
Preference shares	7	11	5	4	1	2
FACE VALUE (million euros)	**414,254**	**523,131**	**648,757**	**117,527**	**134,468**	**67,779**
Mortgage bonds	35,560	44,250	24,696	1,250	10,120	1,610
Territorial bonds	1,775	5,150	5,060	1,020	0	0
Non convertible bonds and debentures	41,907	46,688	27,416	604	3,744	4,215
Convertible/exchangeable bonds and debentures	163	68	0	0	0	0
Asset-backed securities	69,044	91,608	141,627	28,657	34,386	14,336
Domestic tranche	63,908	85,100	141,627	28,657	34,386	14,336
International tranche	5,136	6,508	0	0	0	0
Commercial paper[2]	264,360	334,457	442,433	85,900	86,118	47,567
Securitised	2,768	1,993	465	133	48	48
Other commercial paper	261,592	332,464	441,969	85,767	86,070	47,519
Other fixed-income issues	89	0	7,300	0	0	0
Preference shares	1,356	911	225	96	100	50
Pro memoria:						
Subordinated issues	11,079	27,361	47,158	2,313	1,945	943
Covered issues	94,368	92,213	121,608	6,534	7,573	1,115

1 Incorporating issues admitted to trading without a prospectus being filed.
2 Figures for commercial paper issuance correspond to the amount placed.
3 Available data: 31 August 2008

4 Market agents

4.1 Investment vehicles

Financial collective investment schemes[23]

The collective investment industry has been hit hard by market turbulence and competition from the banks. Assets are down,...

Investors' mounting unease over the deteriorating national outlook and stock market turmoil plus fierce competition from financial institutions (see figure 4) are pressing down on the investment fund industry, which has been suffering a drain in assets and unitholders since 2007. In the first two quarters of 2008, the assets in collective investment schemes (CIS) fell by 16% to €214 billion, due to the large volume of net redemptions[24], most notably in global funds, fixed-income funds, international equity and guaranteed equity funds (see table 6). As in previous quarters, the only categories registering net inflows were guaranteed fixed income and, some way behind, the hedge fund collective in its pure and fund of hedge fund variants.

...unitholders are fewer, and ....

Unitholder numbers also declined sharply in the year's first half to a total of just over seven million, more than a million down on the figure for end-2007. Hardest hit in this case were fixed-income funds, which lost around 265,000 members, alongside global funds, guaranteed fixed income and balanced fixed income, with losses ranging from 134,000 to 151,000.

..returns have declined across almost all fund categories.

Fund returns are also being driven down by the fall in equity markets, which left them in negative territory in both the first and second quarter of 2008 (-2.0% and -0.6% for the industry as a whole). The decline was extensive to all fund categories except those with no or little exposure to equities, with losses naturally steepest in pure equity categories (national and international).

Note however that the Lehman Brothers failure had only a modest impact on Spanish CIS. As the CNMV assured in a press release on 17 September 2008, schemes' direct exposure to Lehman counterparty risk, whether through spot holdings or derivative products, was just 0.13% of their global assets (€300.2 million) at 31 July. Of this sum, 242.7 million fell to mutual funds (129) and 57.5 million to SICAVs (330). Half of the mutual funds affected were guaranteed or else specialised in short-term fixed-income products. Here again it is vital for unitholders to be properly informed in a spirit of maximum transparency.

Exhibit 5: Money-market funds: characteristics and recent performance

Money-market funds are the most conservative of mutual fund categories, whose unitholders accordingly seek to minimise the risk of loss. Although most of the money-market funds commercialised in Spain are still generating positive returns,

23 Although this term includes hedge funds and funds of hedge funds, we make no separate reference to them here, since they are the subject of their own sub-section further ahead.
24 Over €33.60 billion euros in the year's first half.

the subprime crisis has brought to light pockets of losses caused by the severe impairment of certain fund assets. There has also been an increase in the number of funds with monthly volatility exceeding 0.1%, the maximum reading the regulator allows[1] for a fund to be considered low-volatility.

Money-market funds are regulated in CNMV Circular 1/2007 on European Union statistical reporting requirements of CIS, which partially amends the earlier Circular 2/1998. They are defined as funds whose portfolio has a duration of under one year and which comply with the following conditions:

- Assets may not have a term to maturity exceeding 18 months except those with floating coupons linked to monetary indices and reviewed at least on an annual basis.

- No more than 40% of assets with a term to maturity exceeding one year.

- Spot holdings may not include either equity assets or derivatives whose underlier is not a fixed-income instrument.

Their conditions, as such, should bar money-market funds from holding significant percentages of long-dated assets or assets subject to credit risk, because this would push their volatility above the tolerance levels of their target public. The CNMV is accordingly considering a review of its Circular 1/2007 to tighten up risk requirements for CIS electing to include themselves in the money-market category. Specifically, the new definition will impose stricter limits on their holdings in assets without assured credit quality or with maturities longer than those of traditional money-market instruments.

Toughening the credit risk conditions of assets eligible for money-market fund investment may lead some schemes to switch to the fixed-income category, with the greater leeway it allows, in which case the number of money-market funds would reduce accordingly.

1. CNMV Circular 3/98.

Market uncertainty accentuates the low-risk profile of collective investment vehicles...

Agent unease has accentuated the low-risk profile that traditionally characterises Spanish collective investment schemes. Hence the weight of more conservative funds (fixed income and guaranteed) in total CIS assets has climbed steadily in the last year, from 66% to more than 71% in June 2008. The distribution of investments has changed in consequence, with a significant shift out of equity, down from 30% of fund assets in June 2007 to 19% one year later, to the benefit of fixed-income instruments (up from 63% to 71% of total fund assets in the same period). The growing weight of short-term fixed-income investment (over 16% of fund assets against 11% one year ago) has also pushed up the share of the domestic vs. the international portfolio.

As explained in the first report on “Securities markets and their agents: situation and outlook” published six months back, Spanish schemes’ exposure to the assets

Main investment fund variables[1]

TABLE 13

			2007		2008	
Number	**2006**	**2007**	**III**	**IV**	**I**	**II**
Total investment funds	**2,822**	**2,926**	**2,920**	**2,926**	**2,942**	**2,950**
Fixed income [2]	606	600	604	600	609	614
Balanced fixed income [3]	212	204	203	204	203	197
Balanced equity [4]	222	207	216	207	206	205
Spanish equity	118	123	121	123	123	122
International equity [5]	467	481	485	481	477	482
Guaranteed fixed-income	220	251	241	251	256	251
Guaranteed equity	559	590	589	590	592	601
Global funds	418					
	470	461	470	476	478	
Assets (million euros)						
Total investment funds	**270,406.3**	**255,040.9**	**269,907.0**	**255,040.9**	**234,043.9**	**214,251.8**
Fixed income [2]	116,511.9	113,234.1	118,489.4	113,234.1	116,544.0	107,349.4
Balanced fixed income [3]	15,314.5	13,011.9	14,142.3	13,011.9	10,551.0	8,488.5
Balanced equity [4]	10,149.2	8,848.0	9,753.4	8,848.0	6,811.6	5990.9
Spanish equity	10,416.4	7,839.4	8,353.3	7,839.4	5,369.9	4,584.1
International equity [5]	24,799.6	22,698.4	26,453.8	22,698.4	14,962.8	13,433.5
Guaranteed fixed-income	14,484.8	17,674.4	16,291.2	17,674.4	19,253.8	19,841.0
Guaranteed equity	44,796.6	42,042.1	43,365.6	42,042.1	38,521.4	36,633.2
Global funds	33,933.3	29,692.6	33,058.2	29,692.6	22,029.4	18,931.4
Shareholders						
Total investment funds	**8,637,781**	**8,053,049**	**8,467,203**	**8,053,049**	**7,420,379**	**7,023,292**
Fixed income [2]	2,960,879	2,763,442	2,869,191	2,763,442	2,620,712	2,498,451
Balanced fixed income [3]	524,827	493,786	511,811	493,786	434,935	359,904
Balanced equity [4]	357,013	331,214	359,667	331,214	289,184	263,926
Spanish equity	317,386	288,210	343,208	288,210	219,842	204,259
International equity [5]	1,258,426	1,089,868	1,184,871	1,089,868	942,733	907,345
Guaranteed fixed-income	497,540	549,108	540,637	549,108	552,116	542,500
Guaranteed equity	1,783,867	1,715,144	1,754,596	1,715,144	1,639,760	1,575,766
Global funds	937,843	822,277	903,222	822,277	721,097	671,141
Return[6] (%)						
Total investment funds	**5.59**	**2.73**	**-0.15**	**0.10**	**-1.96**	**-0.56**
Fixed income [2]	1.95	2.71	0.63	0.68	0.54	0.57
Balanced fixed income [3]	4.18	1.93	-0.16	0.18	-2.32	-1.29
Balanced equity [4]	10.34	2.69	-1.17	-0.40	-7.56	-2.91
Spanish equity	33.25	8.02	-2.42	2.53	-12.01	-7.66
International equity [5]	14.98	2.13	-2.80	-3.28	-15.06	-2.73
Guaranteed fixed-income	0.83	2.78	1.03	0.84	1.02	-0.01
Guaranteed equity	4.66	2.44	0.13	0.12	-2.56	-1.94
Global funds	4.01	1.47	-0.70	-0.38	-2.56	-0.29

1 Funds which have filed reserved statements (i.e. not including cases of winding-up or liquidation). Subscription and redemption figures are provided in table 5.
2 Includes: Short and long fixed-income, international fixed-income and money market funds.
3 Includes: Balanced fixed-income and balanced international fixed-income.
4 Includes: Balanced equity and balanced international equity.
5 Includes: Euro equity and international equity Europe, Japan, United States, emerging markets and others.
6 Annual return for 2006 and 2007 and non annualised quarterly return for each quarter of 2007 and 2008.

"contaminated" by the subprime crisis is limited in most cases. However the liquidity shortages provoked by the crisis have put new demands on managers vis à vis the complexity of portfolio management and the valuation of assets traded on less active markets. In any event, illiquid products are not too great a problem for the Spanish investment fund industry. In June 2008, the proportion of fund assets

...which maintain only a small share of assets in illiquid instruments.

held in instruments for which no quotes were given in the chosen price communicator stood at 8.4%, as against the 6.3% observed in December 2007 (see table 14). This increase had its origin in the wave of redemptions affecting CIS in the intervening period, which had to be attended via the sale of the most liquid assets in fund portfolios.

Private fixed-income holdings (June 08) TABLE 14

a) Volume and composition of the fixed-income portfolio

Type of asset	Volume (million euros)			% private fixed-income		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Commercial paper	35,776.0	-	35,776.0	38.9%	-	38.9%
Mortgage bonds	3,236.4	-	3,236.4	3.5%	-	3.5%
Structured products	4,229.6	3,321.1	7,550.7	4.6%	3.6%	8.2%
Securitisation	9,847.5	6,813.4	16,660.9	10.7%	7.4%	18.1%
Other private fxd income	3,449.4	25,257.7	28,707.1	3.8%	27.5%	31.2%
TOTAL	56,538.9	35,392.2	91,931.1	61.5%	38.5%	100.0%

b) Percentage of assets with and without market quotation

Type of asset (% portfolio)	Bloomberg price	No Bloomberg price
Mortgage bonds	1.5%	-
Structured products	1.7%	1.8%
Securitisation	5.1%	2.8%
Other private fixed income	9.8%	3.8%
TOTAL	18.1%	8.4%

Source: CNMV.

Managers must make doubly sure they are applying appropriate valuation standards.

Finally, for as long as liquidity problems persist and redemptions go on growing, fund managers will have to take regular and careful checks on the depth of the financial markets where they operate, and be sure to apply appropriate standards in valuing less liquid instruments.

Real estate collective investment funds

Real estate funds are also losing assets...

Real estate funds served up a similar first-half performance to the rest of the collective investment industry. Fund assets closed the period at 8,753 million euros, 8% down on the peak levels of August 2007, with outflows reflecting the sharp rise in net redemptions. Fund returns remained in positive territory (0.9%) with some small erosion versus previous quarters.

Main real estate fund variables TABLE 15

					2007		2008	
	2004	2005	2006	2007	III	IV	I	II
FUNDS								
Number	7	7	9	9	10	9	9	9
Shareholders	86,369	118,857	150,304	145,510	151,916	145,510	144,197	141,037
Assets (million euros)	4,377.9	6,476.9	8,595.9	8,608.5	8,905	8,608.5	8,563.8	8,394.0
Return (%)	6.65	5.35	6.12	5.30	1.53	1.26	1.16	0.89
COMPANIES								
Number	2	6	8	9	9	9	8	8
Shareholders	121	256	749	843	661	843	839	839
Assets (million euros)	56.4	213.9	456.1	512.9	504.3	512.9	349.0	359.2

Source: CNMV.

The downturn in Spanish real estate is gradually making itself felt in this fund segment. Uncertainties about the scale and duration of the adjustment remain the biggest risk facing real estate funds. And here too the importance of appropriate valuation methodologies cannot be emphasised enough.

...and their performance remains contingent on the scale and duration of the real estate downturn.

Hedge funds

The youngest segment of the collective investment industry (taking in hedge funds and funds of hedge funds) has gone on expanding through successive waves of market turmoil, and was, along with fixed income, the only category to register net fund inflows in the first half of the year. The number of funds of hedge fund on the market reached an end-June total of 39, eight more than at the start of the year, while unitholder numbers practically doubled (see table 16) to more than 8,500. Fund assets, meantime, climbed from €1 billion to €1.39 billion in June 2008. Hedge funds also expanded, though to a rather modest extent, with numbers up to 23 in June (versus 21 at the 2007 close), 1,429 unitholders against the 1,335 of the year's outset and funds under management up from €446 to 604 million.

The hedge fund segment keeps up its expansion...

The rollout of hedge funds in Spain has coincided with a time of financial turbulence, and this has certainly got in the way of their normal development. Among the obstacles, we can cite market liquidity shortages and possible difficulties raising the finance they need to carry forward certain strategies. In effect, these are the main clouds hanging over the sector's near-term development.

... despite having to contend with a period of market turmoil that has complicated certain strategies.

Main hedge fund variables TABLE 16

	2006	2007				2008	
	IV	I	II	III	IV	I	II
Funds of hedge funds							
Number	2	2	22	30	31	38	39
Shareholders	2	26	1,456	3,142	3,950	5,488	8,582
Assets (million euros)	0.6	9.5	600.2	829.2	1,000.6	1,129.6	1,389.6
Return[1] (%)	ns	-0.55	1.08	-2.14	1.22	-2.31	2.20
Hedge funds							
Number	5	6	9	17	21	25	23
Shareholders	21	108	183	251	1,127	1,335	1,429
Assets (million euros)	24.4	119.9	152	210.2	445.8	546.3	603.9
Return[1] (%)	ns	1.26	3.18	-2.2	-1.31	-1.95	1.48

1 Non annualised quarterly return.
ns: not significant.

4.2 Investment firms

The investment firms exercising important financial market functions...

Investment firms perform a series of functions in regard to securities markets, including order processing and execution, issue placement, securities custody, portfolio management, CIS subscriptions and redemptions and investment guidance.

...have experienced a profits slide attributable to the downturn in market trading and the current listlessness of the CIS industry.

The decline in financial market turnover, the standstill in primary market issuance and the apathy gripping the investment fund industry conspired to drive down brokers' and broker-dealers' first-half earnings with respect to the same period in 2007.

The decline extends to both ordinary and extraordinary income lines, while firms have simultaneously been stepping up provisions...

Broker-dealers obtained aggregate pre-tax profits in 1H 2008[25] of €174.8 million, a long way short of the €458.2 million of first-half 2007 (see table 17). The causes, in this case, lie with lower inflows at both ordinary (fee income) and extraordinary income lines, along with increased provisioning in the period.

Of the three items making up gross income (net interest income, results on securities transactions and net fee income), only the first recorded year-on-year growth in broker-dealer income statements. Securities transactions generated over €11.5 million losses, while net fee income from recurrent business (provision of investment services) was 30% down on the 2007 figure at €307 million. By fee category, falls were steepest in order processing (17%), consistent with the downturn in equity market trading, and fund subscriptions and redemptions (39%), reflecting cooler demand for this kind of investment vehicle.

Aggregate income statement TABLE 17

	Broker-dealers			Brokers		
Thousand euros	1H 07	1H 08	% change	1H 07	1H 08	% change
I. INET INTEREST INCOME	56,641	78,974	39.4	6,884	5,973	-13.2
II. RESULT ON SECURITIES TRANSACTIONS	83,815	-11,556	-113.8	1,120	-1,363	-221.7
III. NET FEE INCOME	435,607	307,088	-29.5	121,236	81,830	-32.5
Fee income (=1 to 9)	573,211	435,954	-23.9	159,500	93,180	-41.6
1. Order processing and execution	365,738	302,749	-17.2	66,060	33,645	-49.1
2. Distribution and underwriting	31,775	25,057	-21.1	1,470	3,010	104.8
3. Securities custody and administration	12,344	11,142	-9.7	1,005	165	-83.6
4. Portfolio management	14,570	9,623	-34.0	14,534	11,916	-18.0
5. Design and advising	38,310	10,264	-73.2	1,119	1,534	37.1
6. Search and placement	9	9	0.0	0	0	-
7. Margin trading	11	7	-36.4	1	0	-
8. Fund subscriptions and redemptions	70,425	42,820	-39.2	37,345	15,609	-58.2
9. Others	40,029	34,283	-14.4	37,966	27,301	-28.1
Fee expense	137,604	128,866	-6.4	38,264	11,350	-70.3
IV. GROSS INCOME (=I+II+III)	576,063	374,506	-35.0	129,240	86,440	-33.1
10. Operating expenses	210,990	190,570	-9.7	75,796	72,225	-4.7
V. NET OPERATING INCOME (=IV-10)	365,073	183,936	-49.6	53,444	14,215	-73.4
11. Depreciation and other charges	10,538	30,947	193.7	4,322	4,139	-4.2
12. Other profit and loss	103,723	21,778	-79.0	15,040	6,409	-57.4
VI. PROFIT BEFORE TAXES (=V-11+12)	458,258	174,767	-61.9	64,162	16,485	-74.3
VII. NET PROFIT	458,258	174,767	-61.9	64,162	16,485	-74.3

Source: CNMV.

Brokers obtained aggregate pre-tax profits of €16.5 million compared to the €64.2 million of 1H 2007[26], an even steeper decline in percentage terms than their broker-dealer counterparts.

25 Excluding the figures of one broker-dealer which books part of its proprietary trading under "Other profit and loss", with a grave distorting effect on aggregates such as "result on securities transactions" and thereby "gross income" and "net operating income".

26 In the case of brokers, comparison of aggregate income statements versus 2007 is distorted by the large number of firms de-registering from the CNMV in 2008 (six to date, three definitively and the other three due to their transformation into broker-dealers). That said, the declines reported at various income lines can be ascribed to the same conditioning factors as those affecting broker-dealers

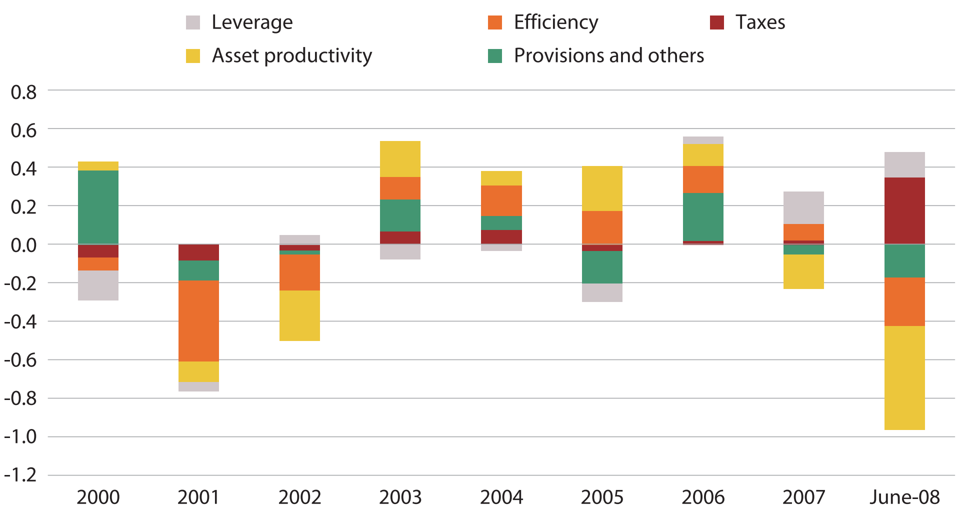
The gross income reported by this group was €86.4 million in June 2008 compared to €129.2 million in 2007 with fee income leading the downside. Brokers cannot engage in proprietary trading so register few inflows at remaining gross income lines. Fees from brokerage transactions (down 49% to €33.6 million) and fund subscriptions and redemptions (down 58% to €15.6 million) performed in line with those of broker-dealers, but brokers also took substantial cuts in other important items such as portfolio management fees.

Lower income plus lower extraordinaries reduced the pre-tax profits of the broker contingent, despite the buffer effect of a small decrease in operating expenses.

... significantly eroding the profitabilty ratios of both brokers and broker-dealers...

The result was to lower the aggregate return on equity (ROE) of these two groups below the levels of end-2007. Specifically, the aggregate ROE of broker-dealers and brokers closed the first-half period at 27.2% compared to the 44% of December 2007[27-28]. An analysis of the components driving this reduction[29] lays the blame on lower asset productivity, a decline in efficiency and a more subdued contribution at extraordinary income lines (see figure 11).

Breakdown of year-on-year change in ROE: brokers and broker-dealers FIGURE 11



Source: CNMV and authors.

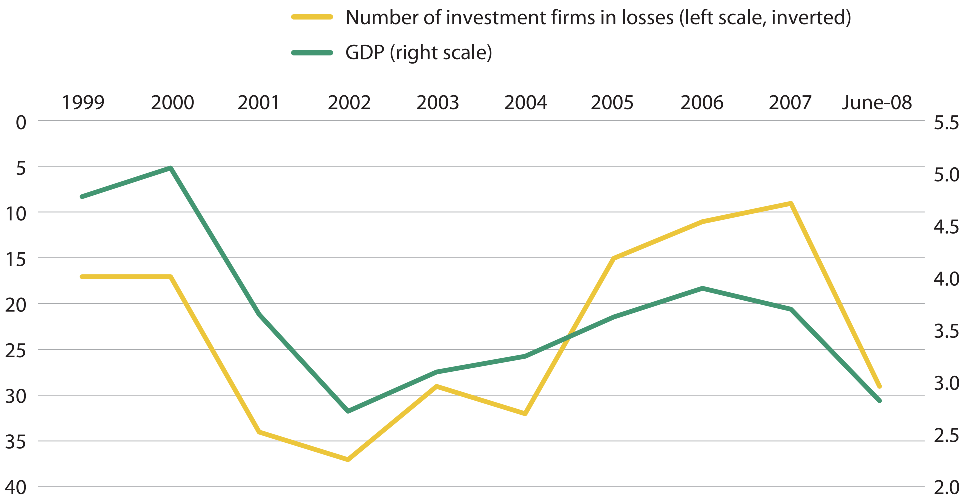
...and an increase in the number of firms in losses, though the proportion remains low.

The lull in investment services business has pushed up the number of intermediaries posting (pre-tax) losses, though the proportion remains low. The number of broker-dealers in losses grew from two in December to nine in June, while the number of brokers moved up from 6 to 16 (none of them exchange members[30]). The combined losses of all these firms amounted to 13.5% of

27 The ROE of broker-dealers dropped from 44% to 28% and that of brokers from 45% to 21%.
28 Results on an annual basis.
29 For a fuller description of change factors for ROE see the exhibit in the first report on "Securities markets and their agents" published in CNMV Bulletin I 2008.
30 Though they are not dealt with separately in this section, note that the number of portfolio managers reporting losses rose from 1 to 4, out of a total of 11.

aggregate earnings. Note however that one firm alone, now under restructuring, accounts for over three-quarters of this total, so though the numbers may be higher, the losses at each are reasonably small.

Number of investment firms in losses vs. GDP FIGURE 12

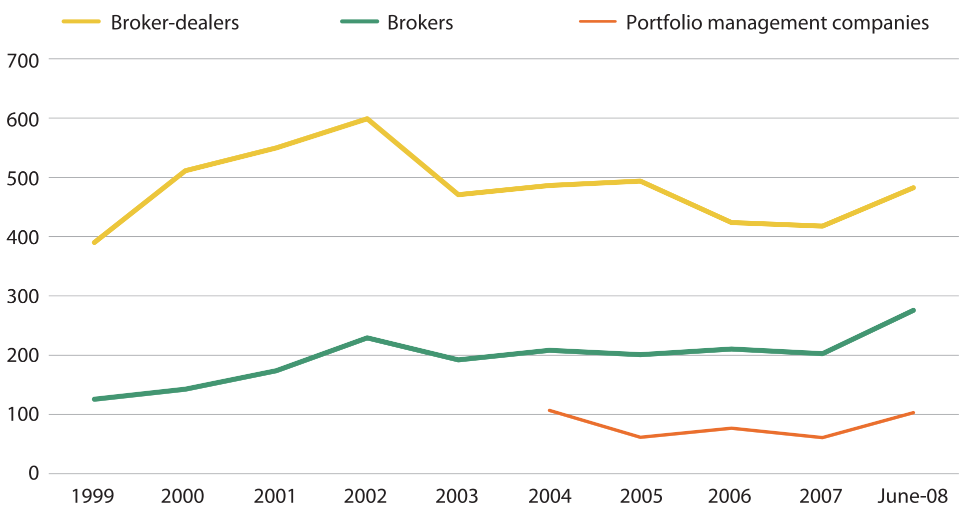


Source: CNMV and authors.

Despite earnings slippage, these financial intermediaries have improved their solvency via the build-up of reserves...

Investment firms remain comfortably compliant with capital adequacy requirements, with no sign for the moment of any knock-on impact from lower earnings. On the contrary, the sector as a whole has reported a significant build-up in reserves that will strengthen its already solid equity position. Hence June 2008 equity was almost six times higher than the minimum requirement in the case of broker-dealers (figure 13), and almost four times above in the case of brokers. Only two firms stood below this threshold (one broker-dealer and one broker) while the number running a tighter margin (less than 50%) actually fell from 14 to 8.

Investment firm capital adequacy FIGURE 13
(surplus of qualifying equity to the minimum requirement, %)



Source: CNMV and authors.

The next few quarters will presumably bring further deterioration in sector income statements. Not only are there no signs yet of a firm recovery in market trading volumes or the collective investment industry, but primary market activity is likely to remain subdued. However, the sector's many resources, including its high standards of capital adequacy, should carry it through the business slowdown in reasonable health. In the meantime, competition will continue to increase and corporate movements cannot be ruled out as firms struggle to position themselves ahead of the implementation of MiFID rules.

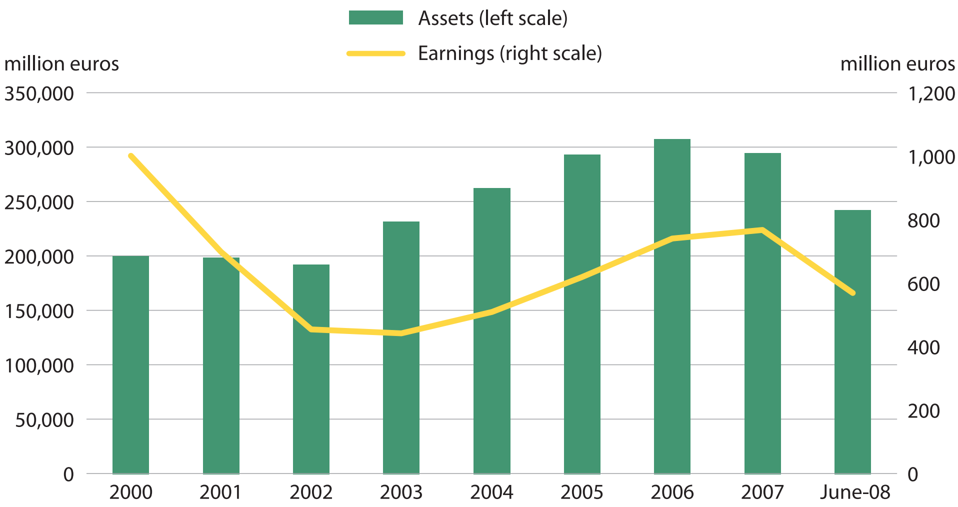
...so are better primed to negotiate this period of greater business difficulties.

4.3 Collective investment scheme management companies

Managers are bearing the brunt of the collective investment industry's current difficulties, since their income relies on fund management, subscriptions and redemptions. Aggregate figures for 1H 2008 reveal a sharp contraction in the assets under management in this kind of vehicle; €243 billion at the June close against almost €296 billion in December 2007. Managed assets have been trending lower since end-2006 and are now back to the levels of 2004.

The slowdown in the collective investment industry has made serious inroads into assets under management...

CIS management companies: Assets under management and pre-tax profits[1] FIGURE 14



Source: CNMV.
1. 2008 earnings on an annual basis.

This asset shrinkage has been paralleled by a deceleration in sector management fees which has made notable inroads into pre-tax profits: €572 million approximately in June 2008[31], compared to €791 million at the 2007 close. Declining profitability has been accompanied by an increase in the number of managers posting losses (31 of the 119 registered against just 19 in 2007). Over ten of them, additionally, have declared more or less persistent losses in the last few years.

... with the resulting deceleration of income driving more managers into losses.

31 Annual basis.

Aggregate profitability came down substantially in the first half of 2008...

The aggregate return on equity of CIS management companies dropped from 61% in 2007 to 35% in June 2008[32] with the decline in this case tracing to both lower profits and an increase in own funds (28%).

...and the outlook is not too bright.

The sector's prospects, moreover, are clouded for the moment by fierce competition from the banks to capture investors' savings plus the continuation of market turbulence.

CIS management companies: pre-tax profits and ROE TABLE 18

Million euros	Pre-tax profits	ROE before taxes
2000	1,005.8	84
2001	701.7	63
2002	457.1	44
2003	445.3	44
2004	512.3	49
2005	622.8	53
2006	744.0	69
2007	790.6	61
June 08[1]	571.9	35

Source: CNMV.
1 Pre-tax profits and ROE on an annual basis.

CIS management companies: assets under management, management fee income and average fees TABLE 19

Million euros	Assets managed	Fund management fee income[2]	Average fund management fee (%)	Fee ratio (%)[1]
2000	200,832	2,869	1.429	63.46
2001	199,427	2,465	1.236	65.78
2002	192,982	2,259	1.171	72.70
2003	232,915	2,304	0.989	73.78
2004	263,369	2,672	1.015	73.58
2005	294,372	2,976	1.011	72.17
2006	308,476	3,281	1.063	71.55
2007	295,907	3,206	1.084	70.22
June 08	243,458	2,528	1.038	71.61

Source: CNMV.
1 Fee expense on fund distribution to fee income from fund management.
2 2008 data on an annual basis.

4.4 Other intermediaries: venture capital

A steady flow of new venture capital entities onto the CNMV register...

A total of 40 venture capital entities (VCEs) joined the CNMV register between end-2007 and 11 August 2008, breaking down 19 companies, 16 funds and 5 venture capital fund managers. And the fact that entries to this voluntary register show no signs of slackening is due in no small measure to the enactment of Law 25/2005 of 24 November regulating venture capital entities and their management companies[33].

32 Annual basis.
33 This law allows for a speedier registration process in the hands of the CNMV. Prior to its enactment, numerous entities engaging in venture capital activities (VCEs) were not entered in the corresponding register. The new

Movements in the VCE register in 2008 TABLE 20

	Situation at 31/12/2007	Entries	Retirals	Situation at 11/08/2008
Entities	**276**	**40**	**4**	**312**
Venture capital funds	76	16	1	91
Venture capital companies	134	19	2	151
Venture capital fund managers	66	5	1	70

Source: CNMV.

24% growth in venture capital fund assets in 2007.

According to the CNMV's annual statistics on registered entities, the 2007 assets of venture capital funds totalled €2.72 billion, almost 24% more than in 2006. The breakdown of this sum by type of participant varied little in the year, with the savings banks conserving their lead (22% of assets in 2007 and 25% in 2006) followed by other financial companies, excluding banks (around 18% in both years) and public authorities and non-financial companies (12% and 11% respectively). The assets of first-time registrants in 2007 amounted to €208 million, with some changes in ownership distribution. Specifically, savings banks represented a significantly lower 11.5%, overtaken by the 35% of other financial companies, and collective investment schemes, whose end-2007[34] share of 18% stood in stark contrast to the 0.1% and 2% of 2005 and 2006 respectively.

Capital risk entities: assets by type of investor TABLE 21

	VCF		VCC	
Euros	**2006**	**2007**	**2006**	**2007**
Natural persons				
Residents	208,347,489	237,555,822	103,626,290	181,607,647
Non residents	214,600	182,600	873,485	1,045,943
Legal persons				
Banks	86,242,621	133,527,409	1,130,947,568	1,026,033,294
Savings banks	556,817,092	603,358,750	212,226,190	307,171,769
Pension funds	167,671,947	231,897,998	24,727,335	26,623,865
Insurance companies	42,182,043	66,925,990	47,160,597	17,531,003
Brokers and broker-dealers	-	34,530	5,665,232	3,224,672
CIS	1,866,469	58,859,119	41,507,138	40,439,372
Other financial companies	385,658,361	503,927,684	426,815,331	684,285,762
Non-financial companies	250,210,163	275,802,833	1,919,404,896	2,571,148,263
Public authorities	276,565,233	332,433,991	94,596,270	134,476,084
Academic institutions	-	-	1,860,291	1,217,083
Securities markets	-	-	-	621,683
Others	213,863,034	224,900,047	124,443,428	290,365,431
Available realised capital gains	-	16,916,725	-	-

Source: CNMV.

Venture capital companies grow their capital by 28%.

Venture capital companies (VCCs) had a combined share capital of €5.28 billion in 2007, 28% up on the previous year, of which around half was subscribed by non-

law addresses this problem by establishing a more simplified form of VCE; a more flexible investment vehicle with less protectionist rules for qualified investors. Now, venture capital entities can invest in other VCEs or acquire listed companies to withdraw them from trading. The former option has encouraged the creation of venture capital funds specialising in other VCEs and targeted mainly on the retail public.

34 CIS began investing in VCEs following enactment of Regulation 1309/2005 which expands their choice of investment instruments.

financial companies (49% versus 46% in 2006). Banks remained important players, though their share dropped from 27% to 19%, leaving them a shorter distance ahead of other financial companies, up from 10% in 2006 to 13% in 2007. Savings banks, finally, held around 5% in both years. New VCCs incorporated in 2007 had a total capital of €1.19 billion, breaking down 60% for the banks, 14% for other financial companies, 13% for non-financial companies and 5% for the savings banks. One salient development in both VCFs and VCCs is the dwindling share of pension funds, which held only 0.25% in new-start operators compared to almost 4% among the rest. These percentages will presumably rise in 2008 following the approval of Royal Decree 1684/2007 of 14 December amending pension scheme and pension fund regulations, which gives them more flexible rules for investing in VCEs.

Total VCE assets stood at € 9.76 billion in 2007, of which €6.05 billion were invested in venture capital activities.

VCEs' total assets rose by 26% in 2007 to €9.76 billion euros, with 71% corresponding to companies and the other 29% to funds. The increase traced almost entirely to the assets of new VCEs joining the registers in 2007. At end 2007, entities had €6.05 billion of these assets invested in venture capital activities, compared to just €3.46 billion in 2006. The difference here is because in 2006 they held 18% of their total assets in listed securities, especially repos and government bonds. Again, VCCs account for the lion's share of invested capital; 76% against the 24% of VCFs. This trend was yet more marked among entities registering in 2007, when the split was 94% to 6% in favour of VCCs. Invested capital/total assets rose substantially among the VCC contingent, from 50% in 2006 to more than 67% in 2007. Among VCFs, the rise was a less striking 43% to 50%. Sector leverage eased somewhat in 2007, with the ratio of long-term debt to total liabilities and equity dropping from 5.26% to 2.51%. However these data mask a divergent performance, in that VCCs reduced their leverage from 7.16% to 3.41% while VCFs increased it slightly from 0.17% to 0.35%. Among first-time registrants these ratios were a lower 0.80% for VCCs and zero for VCFs.

ASCRI data for first-half 2008 point to a contraction in sector investment...

Recent data from the industry association ASCRI (including a representative sample of VCEs operating in Spain) reveal a significant drop in sector investment to €1.19 billion in 1H 2008 from €2.02 billion one year before. This decline could reflect the relative scarcity of bank finance, which would translate eventually as a decline in the number of leveraged transactions. In fact, the first six months of 2008 brought only 13 leveraged transactions, a long way short of the 22 concluded to mid-year 2007.

... though the number of transactions has increased.

On the upside, the total number of industry transactions was a little higher than in first-half 2007; a total of 360 as opposed to 300 albeit on a significantly smaller scale. Only two 2008 transactions so far have involved over €100 million investment (Gamesa Solar by First Reserve and Unión Radio by 3i), compared to the five major deals executed in 2007.

Bank credit constraints get in the way of leveraged transactions (LBOs)...

Bank credit constraints tended to favour capital search, with the result that VCEs raised €1.70 billion against €1.31 million in first-half 2007 and €1.56 billion in the same period of 2006.

Divestment statistics too reflect the market mood. Aware that the time was not right, venture capital entities closed fewer sales in 1H 2008, for a total of €328 million compared to €716 million in the first six months of 2007.

Everything suggests that industry investment will go on slowing this year, in view of the unsupportive climate of financial markets. In particular, credit constraints will get in the way of leveraged operations, requiring VCEs to put in more of their own capital. That said, the lesser importance of LBOs in the Spanish context gives local entities a rather better outlook than their European counterparts.

...which in any case are less important in the Spanish market.

5 Initiatives of financial supervisors in response to the subprime crisis

In summer 2007, international markets entered a turbulent period that has persisted to this day, disrupting the world of finance and the progress of the real economy. Lasting distortion in certain wholesale bond markets, the dearth of interbank activity, the worsening expectations being discounted in share prices and the chastisement of credit risk are just some of the more visible symptoms of the crisis.

Market turmoil has prompted a global debate around the regulatory framework...

These developments are largely a consequence of the fading confidence of market participants, which is linked in turn to a lack of transparency on what are frequently essential factors for financial decision-making as well as flaws in the incentive system applying to certain key agents.

In this respect, the crisis has laid bare some shortcomings in the regulatory framework for financial activity, and prompted a series of initiatives to set them to rights; among them, the initiatives drawn up by the Financial Stability Forum (FSF) at the request of the G7 (see exhibit 6), which are currently under discussion in various international forums. In this section, we look at some of the main points being debated among securities supervisors and some of the steps taken by the CNMV.

... and the launch of reform initiatives like those proposed by the FSF.

Exhibit 6: Financial Stability Forum recommendations to improve institutional and market resilience

In October 2007, the finance ministers and central bank governors of the G7 countries asked the Financial Stability Forum (FSF) for an analysis of the causes and weaknesses underlying the recent financial turmoil and recommendations on how to enhance the resilience of both markets and institutions. In mid April, the FSF published a report with the results of this analysis and a set of recommendations which included the following:

- **Strengthened prudential oversight of capital, liquidity and risk management**. Basel II is viewed as the appropriate framework for actions under this head, and priority should go to implementing and strengthening its component measures. There is also a need to review supervisory liquidity guidelines and tighten up the prudential framework for securitisation and off-balance-sheet activities.

- **Enhanced transparency and valuation**. A block of measures is proposed to restore agents' confidence in the markets focusing on the qualitative and quantitative information that participants disclose on their risk exposure, valuation methods, off-balance-sheet vehicles, etc. Other proposals touch on accounting and valuation practices and the quality of financial reporting vis à vis certain instruments. It is seen as vital to improve transparency in securitisation processes and markets.

- **Changes in the role and uses of credit ratings.** Rating agencies should stake steps to improve the quality of the rating process and the management of conflicts of interest. They should also provide differentiated ratings on structured products and improve their analyses of the underlying assets. Finally, measures are proposed to help investors and regulators make better use of rating information.

- **Strengthening the authorities' responsiveness to risk**. Supervisors should make more effort to translate their risk analyses into action in time to have a mitigating effect, and to improve information exchange and cooperation among different authorities. International institutions should enhance the speed, prioritisation and coordination of their policy development work.

- **Robust arrangements for dealing with stress in the financial system**. Central bank operational frameworks should be sufficiently flexible to deal with extraordinary situations. Agreements are needed to help the authorities deal better with weak or failing banks (division of responsibilities between national authorities, cross-border banks, deposit guarantee schemes, etc.).

The FSF will facilitate coordination of these initiatives and oversee their timely implementation, and will report on progress at regular intervals.

5.1 Transparency

Greater transparency on issuers, products and markets is a vital means to restore confidence.

Adequate transparency is one of the surest ways to alleviate crises of confidence. Providing it requires a robust effort in three key respects: transparency on the financial situation of issuers or borrowers, transparency regarding the nature of financial products and transparency on the real supply and demand conditions prevailing on the markets[35]:

5.1.1 Issuer transparency

Exposure to complex products and vehicles should be brought into the open...

There are in fact two main dimensions to this problem: the information available on participants' exposure to the complex products and investment vehicles embroiled in the subprime crisis and the difficulties of valuing products that are traded on less liquid markets.

35 For further information, see the CNMV Monograph 31 "The subprime crisis: some lessons for financial supervisors", authored by Fernando Restoy.

In the past few months, financial institutions have been recognising losses incurred through investment in complex products affected by the market turmoil. And the consensus is that losses due to impairment of assets linked directly to subprime mortgage paper are now more or less out in the open. However, periodic financial reporting has done little to facilitate the *ex ante* identification of materialised risks by investors and even supervisors. The full implementation of Basel II and a more strictly controlled and, perhaps, precise application of international financial reporting standards regarding the consolidation of investment vehicles are the main corrective tools at the system's disposal. At the same time, the IASB, which draws up international accounting standards, is working on a review of itemisation rules, forcing entities to be more explicit about the risks held in non-consolidated vehicles.

... and more rigorous criteria brought to bear on the accounting valuation of assets and liabilities, based on fair value measurement.

As to asset valuation, the liquidity crisis has shown up certain weaknesses in the applicable norms. These oblige entities to state part of their financial assets – particularly those held in trading portfolios – at a fair-value price, that is, the market price or a proxy arrived at using different valuation techniques. Despite the abnormal performance of certain markets, except in exceptional cases lacking a valid benchmark (forced sales, for instance), observed prices are still the best guide to determine how marketable securities are contributing to the balance-sheet – the ultimate end of any financial reporting rules.

A number of agencies are looking at ways to improve the application of current valuation standards.

In any case, the market appears to be looking for guidance on the standards to apply at times like the present – market prices or valuation techniques and, in the latter case, using exactly what inputs. All these points are currently being considered by the IASB. At the same time, the Committee of European Securities Regulators (CESR), after public consultation, has published guidelines[36] to assist listed companies in applying current valuation standards and in knowing what information they must itemise on the valuation procedures used for each asset type.

And this is also a priority concern for the CNMV in its work with listed and supervisee companies.

Spanish entities have suffered next to no losses from exposure to subprime products, and also include investment vehicles in their consolidated accounts as prescribed by international financial reporting standards. The CNMV, even so, is keeping a close watch on compliance with fair-value measurement standards, particularly the way issuers and other companies under its supervision are reflecting market price movements in their asset value.

Valuation methodologies are of course no less vital for other assets such as real estate. In July this year, the CNMV published guidelines for listed real estate and appraisal firms, after several meetings with the sector, to ensure they follow the correct valuation procedures for this type of asset.

5.1.2 Product transparency

More standardised transparency requirements regarding the nature of financial products

Financial innovation and, in particular, the development of structured product markets have brought improvements in efficiency by favouring credit risk

36 "Consultation paper - CESR statement on fair value measurement and related disclosures of financial instruments in illiquid markets" Reference: [08-437].

distribution and a wider choice of investment, while opening up new funding sources for the banks.

However the speed of this process – fuelled at times by regulatory arbitrage – has engendered highly complex products that may be hard to value, causing liquidity problems in the markets they are traded on.

... and improved information on the securitisation process.

This calls for a combined effort by regulators, issuers and intermediaries to enhance the transparency of this kind of product. In fact, this is an area where self-regulation could come into its own. By working towards a greater standardisation of its products, the industry could make them easier to understand and by this means boost their liquidity.

The CNMV has called for a series of improvements in issue prospectuses and is designing a periodic public information system for asset-backed securities.

The FSF recommends that regulators take steps to improve the transparency of the asset securitisation process. The CNMV has already moved in this direction by demanding fuller and clearer information in the issue prospectuses of asset-backed securities, including a declaration stating whether the asset originator intends to subscribe for the issue wholly or in part. It has also taken care to ensure that the prices of issues subscribed entirely by the originator – to use as collateral, for instance, for Eurosystem loans – do not serve as a valuation benchmark for similar instruments. Finally, the CNMV is working on a periodic disclosure system for securitisation funds that will offer improved information on securitised assets throughout their lifespan.

5.1.3 Market transparency

Recent episodes have revealed a transparency deficit in fixed-income markets...

Another shortcoming revealed by the subprime crisis is the lack of data available on transactions closed in structured product markets. European regulations (as contained in the MiFID) impose stringent conditions of transparency on equity market operations, both pre-trade (ask prices) and post-trade (prices and volumes of transactions closed). However no such requirements apply to fixed-income and derivative markets.

Compare this with the United States, where the TRACE system, in place since 2002, provides detailed post-trade data on a large set of fixed-income securities.

...causing European authorities to review their position.

The European authorities have till now taken the view that lack of transparency on fixed-income markets does not constitute a market failure. But this posture is now being revised within the CESR in the light of the FSF recommendations. In any case, the industry itself is taking steps to enlarge its regular information flows. The European Securitisation Forum, for instance, has joined with eight other European associations (among them the European Banking Federation) to publish (July 2008) ten initiatives to boost transparency in European securitisation markets[37].

Spanish fixed-income markets are more transparent than those of most other European countries, but here too there is room for improvement – by disclosing

37 The initial idea was to offer a response to ECOFIN's route map of October 2007, but the end result went a lot further with proposals ranging from a quarterly statistical bulletin on European and American securitisation markets to measures to provide easier access to transaction information, by way of a code of conduct for information breakdown by the issuers of structured products.

trading prices, for example, instead of just the average price at the end of each session. It should also be possible to introduce counterparty mechanisms through the figure of the market specialist, with the added liquidity benefits this would bring. All such changes would, of course, bear in mind the current European framework so they do not impair the competitiveness of Spanish markets.

Although Spanish-fixed income markets can boast above par transparency, there is room for improvement.

5.2 Rating agencies

The transparency deficit regarding the nature of new financial instruments has made the rating agencies key players in the development of structured product markets. And their inability to incorporate the risks materialising in the subprime crisis into their valuation mechanisms has not only helped spread the effects of the crisis but has also contributed to the deterioration of agent confidence.

There is broad agreement that rating agencies have been failing in their work...

Studies carried out by international bodies like the FSF, IOSCO or CESR, and even the agencies themselves, concur in their main findings; namely, that agencies' work has suffered from four kinds of deficiencies: methodological, problems of internal organisation, insufficient transparency and too great a weight in financial regulation.

They also lead to the inevitable conclusion that the self-regulation favoured in the European Union is not doing its work properly, and what is called for its more direct regulation and supervision, as has been the case in the US for some years now.

... above all, that the regulatory framework is in need of tightening.

In this context, the European Commission recently sent a document out for public consultation which includes a proposed Directive or Regulation, and which sets out two alternative authorisation and supervisory models. In the first, applications for authorisation would be directed to the CESR and its members would appoint a national supervisor as the competent authority in the home Member State (following the established home/host system). This supervisor would decide on the rating agency's authorisation, valid throughout the European Union[38], and would be responsible for its oversight.

The European Commission's initiative is undoubtedly a step forward...

The second model would involve a new European agency (or possibly the CESR) with responsibility for authorisation, and for the appointment of a national supervisor as the competent authority in the home Member State[39].

The approach adopted by the European Commission is a necessary response to the absence of controls over these agencies within the EU. But it is also true that the structure of the industry – a de facto global oligopoly – calls for a coordinated system of recognition and oversight on an international scale. Until this can come about, Europe's strategy must rest on a single control system binding on all

...but Europe's authorities could also consider more ambitious options.

38 Remaining national supervisors would not lose their powers to act as and when necessary (in cases regarding the use of a rating in their territory or the relinquishment of the supervisor initially appointed). The CESR would take charge of supervisory coordination and convergence.

39 The appointed supervisor would conduct its oversight functions on the same terms as in the first option, but stepping aside for the new agency (or the CESR) if its members fail to agree on the measures to be taken.

Member States. Otherwise, we run the risk of producing more dispersion in financial regulation, which will only hamper the progress of the single market. The European authorities should accordingly look further than the Commission's options to the possible establishment of a new body to authorise and supervise agencies on an EU-wide basis, or, failing this, assign the CESR sufficient powers and resources to take on these responsibilities, along the lines of the Securities Exchange Commission (SEC) in the United States.

5.3 Liquidity risk

The crisis has highlighted the need for stronger controls on liquidity risk.

The liquidity shortages affecting a number of wholesale markets and their effects on participating entities have prompted an official review of the treatment of liquidity risk in financial regulation.

We can identify at least two regulatory avenues to address this problem in the area of market conduct supervision. Firstly, current financial reporting standards are fairly lax regarding the obligation to offer a breakdown of liquidity positions. For instance, they require entities to disclose the maturity of their liabilities, but there is no parallel requirement for asset maturities, leaving investors uninformed about the liquidity risk deriving from asset-liability mismatches. The IASB should consider a review of the relevant standards.

This invites further reflection on the European rules governing conventional CIS...

A second avenue of interest is liquidity risk management in collective investment schemes. The UCITS Directive, which provides a regulatory framework in Europe for conventional mutual funds, places no limits on positions in assets traded on organised markets by reference to these markets' liquidity. Some countries, Spain among them, have imposed additional controls in their national legislation so managers monitor the depth of the markets on which their balance-sheet instruments are quoted.

... and confirms the wisdom of a redefinition of money-market funds.

In any case, there is a need to review the liquidity requirements applying to investment funds marketed in Europe. These requirements should, probably, be especially strict for the funds labelling themselves "money-market", which, as recent experience has shown, has not stopped them being heavily exposed to products carrying credit and liquidity risk. At the time of writing, the CNMV is planning a review of investment fund categories, one of whose aims will be to tighten the rules on money-market fund holdings so they match the highly conservative vocation of their target investor public (see exhibit 5 on money-market funds in section 4.1).

II Reports and analyses

The Link Up Markets project: a new step forward in European market integration

José Massa (*)

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1 Introduction

The clearing and settlement sector is the least visible cog in the institutional machinery of securities markets, but one that is vital for it to function smoothly.

After trading, the next step is to ensure that the transaction is performed effectively, that is, that the buyer pays and receives the securities and the seller delivers them and collects payment. Without efficient post-trade services, securities markets could never have undergone the rapid development of these past few years, given the risk that an excellent transaction in the trading sphere could be ruined by a settlement failure.

The article that follows starts with a thumbnail description of the various actors intervening at what is known as the post-trade stage. We look at the changes brought by the advent of the euro and briefly sketch out the current situation of the post-trade sector, before turning our attention to the "Giovannini barriers" and the Clearing and Settlement Code of Conduct which represents the private sector's bid at self-regulation.

The article centres on a private-sector initiative – Link Up Markets – in which Iberclear, the Spanish Central Securities Depository is a key player. It lists the CSDs that have signed up for the project and describes the settlement model chosen and the company that will manage it, with its headquarters in Madrid, along with the costs of implementation and the time frame envisaged. Finally, it discusses Iberclear's role with regard to Link Up Markets now and in the future.

The author then sums up the main ideas in some concluding remarks.

2 Actors in the post-trade arena

The post-trade industry takes in transaction clearing and settlement as well as securities registration and custody.

The huge volume of trades that are closed each day on modern securities markets could never be properly executed without the dematerialisation of paper certificates, and their replacement by a book-entry system of recording ownership. It was this change precisely which brought into being the most important of post-trade infrastructures, the Central Securities Depositories (CSDs), to take charge of the central registration via book entries of each issuer's securities and their subsequent distribution to investors via financial intermediaries.

The intermediaries, in turn, record their customers' securities in books of account, such that the aggregate sum of their customers' positions in a given instrument coincides with the global balance in the securities account they hold at the Central Securities Depository, which guarantees that the sum of the securities held by investors matches the number of securities outstanding from that particular issuer.

This organisational schema (Exchange – CSD – financial intermediaries that connect with issuers and investors to ensure the smooth, fast and efficient performance of primary and secondary market transactions) arose between the 1980s and 1990s in each of our national financial markets. The procedures, market practices, trading hours and legal and tax norms in place depend on the customs and standards of each financial centre but also, and more importantly, on the national laws governing such overarching matters as property rights, commercial laws, corporate forms and governance, taxation, etc.

The advent of the euro as a single currency, and the goals of the Lisbon Agenda, call for a single financial market within the European Union with the scale to compete successfully with the financial markets of the United States and Japan.

Achieving an integrated financial market also means reworking settlement processes so that cross-border trades within Europe are as simple, efficient and cheap as their domestic equivalents. The ultimate manifestation of this process would be for there to be absolutely no difference between in-country and cross-border settlement.

For the moment, however, the truth is that domestic settlement in Europe, for instance that of a resident in Spain buying shares in Telefónica, is extremely cheap and highly efficient, even more so than in North America. But the situation gets complicated when we move the transaction across a national border; for example, when the resident in Spain decides to purchase shares in Deutsche Telekom.

The reason for this difference lies in the differing legislations applicable and the chains of intermediaries that are required to settle and register Telefónica and Deutsche Telekom shares on behalf of our Spanish resident. In-country, the investor can approach an intermediary with an office in Spain, familiarised with Spanish market practices and legislation, the applicable tax regime and the rules and standards of the CSD, in this case Iberclear, where it holds a global account on behalf of all its clientele. In other words, there are just two actors in the settlement and custody chain aside from the investor: a financial intermediary and the CSD, Iberclear.

In the cross-border situation, the Spanish financial intermediary must have access to an account held at the German CSD. Often the way to do this is by contracting with other intermediaries specialised in multi-country settlement and custody, the so-called global custodians, who frequently turn in their stead to financial intermediaries with a knowledge of the relevant national market, known in this case as local custodians.

In conclusion, the cross-border settlement and custody chain is longer than the domestic equivalent, in that more actors intervene. Also, the technical and human resources of global custodians are extremely costly, due basically to the different national standards for settling, registering and administering securities. As each country has its own rules in place, they need to provide a "regulatory transformation" service so investors can hold securities in different countries in a relatively simple manner. This "regulatory transformation" is hard to provide and expensive to maintain. And it is precisely regulatory differences and the need to absorb them that account for the greater complexity and costliness of cross-border settlements in Europe.

This is so because CSD tariffs are exactly the same whether they are settling a purely domestic or a cross-border trade. Iberclear charges the same for all the settlements it conducts for participant banks, regardless of whether behind them lies a Spanish investor buying Telefónica shares or an investor resident in Germany. In fact, Iberclear only has a record of the global positions of its participating financial intermediaries. The breakdown of this global balance among individual clients is recorded in the IT systems of the said intermediaries. So when Iberclear, the Spanish CSD forming part of Bolsas y Mercados Españoles (BME), settles a transaction, it has no means of knowing whether it is domestic or cross-border in scope.

The problem of cross-border settlement in Europe, therefore, does not lie with the tariffs charged by CSDs but with the diverse legal rules applying and the need to maintain multiple accounts in order to invest in different countries.

3 The response of the public authorities

The authorities in Europe spent the first part of the decade debating whether the best way forward was to form a single European CSD along the lines of the American DTCC, or to promote efficient interconnection between European CSDs by means of an interoperability solution that would also favour sector competition.

They concluded that it was best to opt for multiple CSDs competing within an interoperability framework.

The reasons for deciding against the single CSD option were above all pragmatic. The truth is that the European Union is very different from the United States.

3.1 Giovannini barriers

The different practices and regulatory and tax frameworks frequently referred to in this article are summed up in the fifteen barriers identified in the report of the expert group chaired by Italian Alberto Giovannini in 2001, and elaborated on in its second report of April 2003.

Very briefly, these had to do with technical requirements and market practices (eight barriers), taxation (two) and legal uncertainty (three).

Some of these barriers could be laid at the door of the private sector (differences in settlement hours, for example) while others, generally the most restrictive, required coordinated action by the public authorities (for example, rules on withholding taxes).

Five years later, the barriers ascribed to the private sector are those where most progress has been made, while those the public sector has been left to deal with have suffered considerable delays.

Curiously, the public sector tends to finger CSDs as the culprits of European market fragmentation, when, in fact, its root cause is the existence of twenty-seven different legal regimes. Even if there was a single CSD, it would still have to contend with twenty-seven families of laws and we would undoubtedly still suffer a fragmented market.

3.2 The Code of Conduct

Aside from the legal complexity involved, delays in eliminating public barriers may owe to doubts about how exactly to proceed. Indeed discussions are still continuing on the most suitable solution for the European post-trade sector. Some argue for direct public action at the regulatory level, an ad hoc directive supplementing the MiFID, while others favour a more liberal approach based on industry self-regulation, with competition built in.

For the moment, the European Commission has adopted the liberal option of self-regulation plus competition. In June 2006, representatives of the three associations grouping European post-trade facilities were called to a meeting to formally institute talks for a new Code of Conduct.

After long and heated debate, the Code was signed in Brussels on 7 November 2006, with a tight implementation timetable for each of its component measures.

The first measure, in force as of 1 January 2007, was the price transparency of securities market infrastructure services, which has so far been satisfactorily complied with.

The second Code measure addresses the interconnection of post-trade facilities so participants have the practical means to clear and settle with the provider of their choice. To this end, the Code called for a set of "Access and Interoperability Guidelines", which securities market infrastructures should present to the European Commission – as they did – before 1 July 2007. The Link Up Markets project dealt with later in this article takes its cue, precisely, from this Code of Conduct measure .

The third measure the Code prescribes is accounting separation between different services, to rule out cross subsidies between core and value-added activities on the part of CSDs. This measure will be compulsory as of the financial statements for 2008, to be published in the first half of 2009.

3.3 Demand for efficient cross-border settlement

The fact is that the continuing fragmentation of European markets at the clearing and settlement stages traces directly to the fragmentation of legal systems, which reflect the singularity of each Member State.

The recently published conclusions of the Legal Certainty Group are eloquent in this respect, as is the name of the group itself. In the reply to the question "why do we need a legal certainty group?" for the cross-border trading of securities lies the reason for the fragmented state of Europe's markets.

But it is no less true that the arrival of the euro has triggered an unprecedented boom in cross-border demand for securities, for investment purposes and for their use as collateral in the financing operations of the European Central Bank.

And for investors who need to move their securities freely around Europe – especially within the euro area – talk about legal barriers, Giovannini barriers or communication difficulties is absolutely no help in solving their problems. Investors want – and need – to move their securities within Europe with the same speed and flexibility they enjoy in their home markets.

4 The private-sector response: Link Up Markets

The evidence that investor demand is running ahead of legislative changes, and the occasion provided by the Code of Conduct, is what has led a number of European CSDs, Iberclear among them, to seek a pragmatic alternative combining practical solutions and a quality service. Instead of dwelling on the obstacles, we have preferred to invest our efforts in giving clients the service they want. And we have done so, furthermore, in a spirit of conviction.

It is this conviction that has led the CSDs of Germany, Austria, Denmark, Spain, Greece, Norway and Switzerland to create Link Up Markets, proving anew that private initiative employed in a free-market context is capable of responding to customers' needs, in a framework of economic freedom that allows us to proceed with the required flexibility. And it is precisely this framework that the aforementioned Code of Conduct provides.

The logic behind the Link Up Markets project is relatively simple: given that domestic settlement in Europe is handled with extraordinary efficiency by local CSDs and that demand is growing for cross-border settlements, let's make the latter as efficient as the in-country equivalent by using domestic resources for cross-border services. In this way we can meet our customers' demands while maintaining the same standards of settlement quality.

The solution chosen by the CSD members of Link Up Markets is that of "smart interconnection" between their systems, thus making the superior efficiency of domestic settlements available to the clients of other affiliated CSDs. In this way, while accepting that Europe is a diverse entity (and will likely continue to be so for the foreseeable future), we can get on with giving investors a quality service that is right for their needs.

4.1 How Link Up Markets works

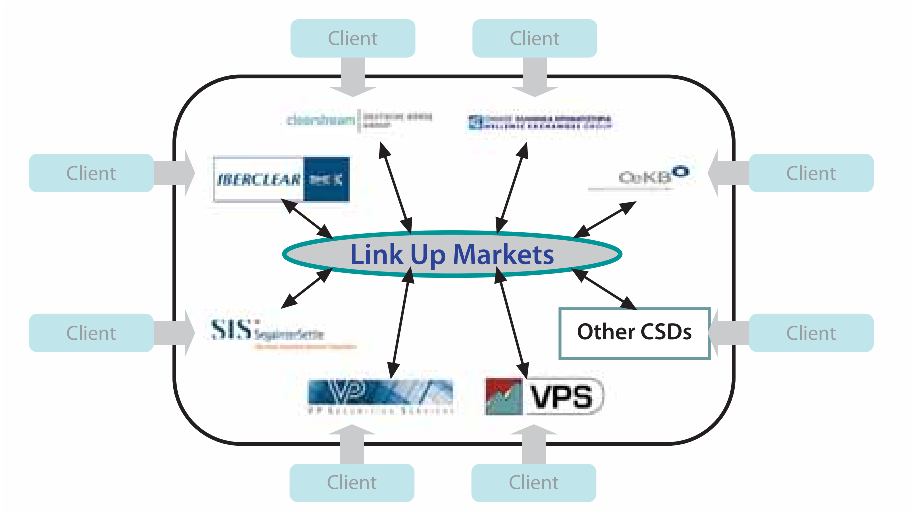
Link Up Markets is a joint venture involving seven European CSDs whose goal is to improve the efficiency and bring down the costs of cross-border securities clearing and settlement in Europe.

Link Up Markets is developing a shared technical platform, described later on, which supports interoperability between member CSDs, thus facilitating cross-border settlement. This solution should smooth out many of the differences between domestic and cross-border processing.

The initiative is a combined product of today's market conditions and the provisions of the Code of Conduct. The founding CSDs share the belief that system interoperability, correctly handled with a single access point for users, will unlock considerable cost savings.

The common technical infrastructure will enable efficient interoperability among member CSDs. On connection to the platform (figure 1), each participating CSD gains access to the services offered by remaining CSDs for all registered assets. Link Up Markets will absorb inter-market differences while drawing on the existing structures and processes operated by CSDs. By this means, the solution can be brought rapidly to market, with only a minimum of adaptation by participating venues.

Investors will thus enjoy single-point access to markets representing almost 50% of the European total, as well as receiving top-quality clearing and settlement services through the CSD of their choice. This centralised access, based on the existing facilities of local CSDs, which customers are already familiar with, will be



passed onto investors, whose local CSD will offer them the same services as always but enlarged to include all the securities deposited with the seven member CSDs.

In sum, Link Up Markets will allow investors to work with seven CSDs via a single securities account and a single connection, compared to the seven accounts and seven connections they would previously have needed. The goal of eliminating differences between domestic and cross-border settlement is thus effectively fulfilled: with the backbone CDS now offering a cross-border service based on the interoperability of Link Up Markets.

Through Link Up Markets, a Spanish intermediary belonging to Iberclear can contract via existing systems for the settlement and custody of securities held at Clearstream, SIS, VP, OeKB, VPS and Helex, opting for the "issuer model" whereby trades are settled at the CSD where the securities were first issued – that is, the CSD offering the best guarantee of performance efficiency and reliability.

4.2 Technological solution

The technological solution was designed jointly by the founder CSDs (figure 1). It is a key piece in Link Up Markets, supporting an efficient interconnection between depositories, and thus ensuring the correct performance of cross-border settlement transactions. This system also supports access to the services of the seven CSDs through a single connection with any one.

Its design technicalities draw on the fact that the informational content required for transaction settlement is the same across all CSDs (type of security, number of securities, cash amount, debit and credit accounts, value date, etc.). And the differences between them basically refer to format rather than content.

With this reality in mind, the chosen solution will perform three basic functions:

a) routing of settlement instructions and associated messages to the appropriate CSD;

b) translation of these instructions into the language of each CSD, so they can all go on working with their current protocols yet, thanks to the real-time translator, communicate efficiently among themselves, precisely because the information content is essentially the same, and

c) a central database of corporate securities and events, enabling the correct management of custody and deposit services.

The total estimated cost of the technological platform, including software, hardware and communications network, plus commissioning expenses, works out at under 10 million euros.

The low cost of this solution owes to the decision to make maximum use of existing installed capacity, which has been tried and tested in local markets, and concentrate the project's efforts on solving the practical problems of cross-border operation.

4.3 Formal aspects of Link Up Markets

Link Up Markets has the form of a company with its headquarters in Madrid, Spain. Each partner CSD holds an equal share in capital (except those applying for a half stake, with the agreement of the rest).

It has a Board of Directors with representatives from all affiliated CDS, attended also by the company's Chief Executive.

Finally, Link Up Markets will welcome new CSD members that share the vision and goals of the founding partners. Those wishing to join may elect to do so as clients only (accessing the platform but not participating in its capital) or as clients and shareholders.

This open-ended, flexible approach to would-be participants is a feature of the Link Up Markets project that expresses its founders' belief that progress in Europe will come about by cooperation and acceptance of our mutual differences within a shared environment open to all.

4.4 Link Up Markets and the gathering integration of European markets

As stated, Link Up Markets will allow investors to operate through a single securities account giving access to all the financial instruments registered in member CSDs through any of the seven.

In this respect, Link Up Markets is not only giving investors a service they want, namely simple access to any market, it is also opening the door to competition between member CSDs. Both these aspects, ease of access and increased competition, merit some additional reflection.

One-stop access to all settlement services is facilitated by recent advances in telecommunications and computer processing capacity. With the technical means in place, and demand growing, its realisation was just a matter of time.

For CSDs, one-stop access also means having to compete more among themselves: once intermediaries can choose, each depository will face exponential growth in the demand for cost efficiency and service quality. And it is significant, I believe, that the CSDs joining in Link Up Markets have voluntarily taken this course.

It shows, firstly, that we prioritise the service given to our customers (we are interconnecting because they want it), but also that we see competition as the best formula and, true to our condition, believe firmly in the virtues of the market as a mechanism for allocating resources. We are convinced this will be good for our clients but also for ourselves. As the experience of other sectors shows, competition engenders more efficient companies and a better deal for clients, as well as being a key driver of product and service innovation.

5 Conclusions

The European clearing and settlement industry is currently in the grip of change. The 1990s saw the emergence of central post-trade infrastructures, the Central Securities Depositaries (CSDs). Back then, the business was configured as a monopoly on certain basic settlement and custody services with a home-market scope.

The settlement and custody facilities provided by European CSDs have a reputation as safe, efficient and cheap. However, the advent of the euro and the ensuing rush to invest in non-domestic securities meant customers and public authorities were soon calling for an efficient solution for the settlement of cross-border trades; more expensive and also less efficient than their in-country equivalents.

The reasons for these differences lie mainly in the so-called Giovannini barriers or the fact that market practices and procedures and legal and tax requisites differ widely from one country to another. This obliges global and local custodians to invest heavily in human and technical resources so they can access each of Europe's local CSDs. Logically, not all financial intermediaries can afford to mount a global operation, leaving them no choice but to use long chains of intermediaries they can dispense with in their domestic markets, with the increased cost and risk entailed.

Through the Code of Conduct, Europe's public authorities have opted for a European model based on interoperability, which allows CSDs to compete among themselves and with other cross-border investment channels currently in operation.

Link Up Markets, formed by seven European CSDs, with Iberclear prominent among them, is the private sector's response to the demand emanating from European financial intermediaries, their customers and the public authorities.

The project, whose managing company is headquartered in Madrid, is based on the interoperability of participating CSDs. The idea is to conserve the safety and reliability of domestic services, while offering a successful response to the cross-border challenge.

This pragmatic approach finds a clear expression in the project's low development costs and time to market. With the central platform costing less than 10 million euros and rollout scheduled for one year, Link Up Markets should be up and running by mid-2009.

In sum, CSDs and the agents participating in the European post-trade sector now confront far-reaching changes in their business model. The next decade will be very different from the present one and more different still from the one before. Iberclear is aware of the profound changes looming for its business and services and, as always in its short but successful history, is prepared to move at the speed of events and offer its clients the best possible service.

Overview of securitisation in Europe

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1 Introduction

Securitisation of assets or, more generally, securitisation of receivables, is a financial disintermediation formula that has acquired considerable prominence in recent years. Thanks to securitisation, financial institutions have a mechanism that allows them to more actively manage their credit portfolios, helping them finance their activities and manage their portfolio risk. But securitisation has also proved useful to non-financial companies, which can get funding by using their commercial credit portfolios or even future receivables, such as motorway tolls or bills generated under long-term service contracts. The financial crisis that began in August 2007 has given rise to reasonable doubts as to some securitisation practices, chiefly in the US banking system. However, the current circumstances should not make us forget that this activity has clearly positive potential for companies and for the economy as a whole.

This article presents an updated overview of securitisation in Europe, including the characteristics and magnitude of securitisation activity and also notable aspects of regulation in the major European countries. The article focuses on off-balance-sheet securitisation. To define the various assets or receivables that may serve as collateral in securitisation issues, we follow the pattern now consolidated on the market of distinguishing between (i) issues of ABS (asset backed securities) in the strict sense (company loans, commercial credit portfolios, credit cards, student loans, car-buying loans, future receivables, etc.), (ii) debt backed issues or CDOs (collateralised debt obligations), (iii) residential mortgage backed securities (RMBS), (iv) commercial mortgage backed securities (CMBS) and (v) issues backed by the expected cash flows of a project or business (whole business backed securities – WBS). The various forms of off-balance-sheet securitisation also include so-called synthetic securitisation, where a special purpose vehicle (SPV) set up for the occasion acquires the credit risk attached to certain assets and issues securities so as to establish a pool of liquidity which, where appropriate, guarantees its obligations to the transferor.

2 Key data

European issues of securitised bonds have grown sharply since the turn of the century. In the period 2000-06 securitised placements increased continuously, with average annual growth of 38%. In 2007, despite the adverse impact of the US subprime mortgage crisis, primary market transactions totalled some 454 billion euros, nearly six times more than in 2000. The latest data, for the first half of 2008, show ongoing adverse conditions on the market, with a fall in placements of a little more than 25% over the same period of the previous year.

The growth in securitisation activity in Europe is also appreciable in the trend in issues of asset backed commercial paper (ABCP), which in 2007 also totalled nearly 454 billion euros. As in the case of securitised bonds, commercial paper has been significantly affected by the worsening financial conditions, with placements dropping by 33% in the first half of 2008 over the same period of the previous year.

Despite its strong growth, the European securitisation market remains considerably smaller than the American one, as may be seen in figure 1. Placements of US securitisation bonds amounted to 2.4 trillion euros in 2007, some five and a half times more than in Europe. The data for the first half of 2008 suggest that the impact of the financial crisis is being felt more sharply in US issues than in European ones, though even so, American issues in that period amounted to 740 billion euros, three and a half times more than European ones. The different between the two markets is even greater if we take the balance outstanding of securitisation bonds as a reference. In June 2008 that balance amounted to 1.4 trillion euros in Europe and 6.6 trillion in the US.

Securitisation placements FIGURE 1

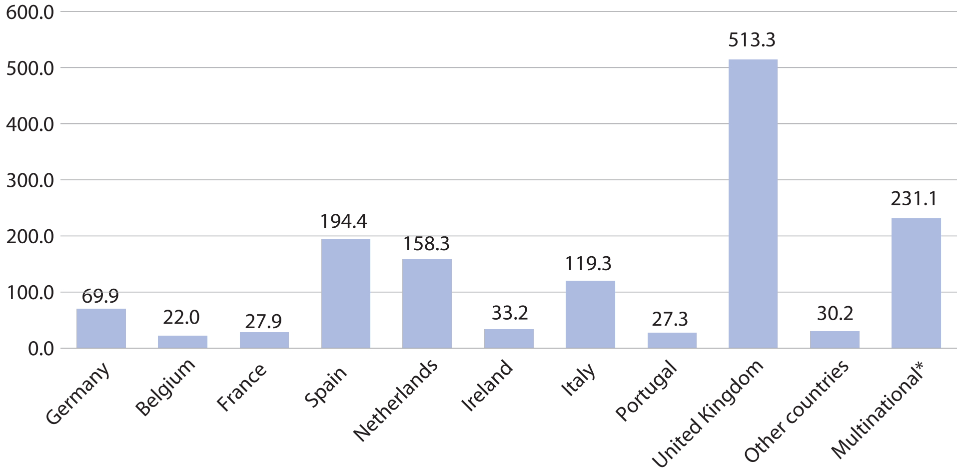
Source: European Securitisation Forum.
* First half.

As may be seen in figure 2, the UK, with 36% of balances outstanding for securitisation issues backed by European assets in June 2008, is the clear leader in European issuance activity. Spain and the Netherlands come second and third, with 13.6% and 11.1% of those balances respectively. It is worth noting that a significant share of European securitisation issues are multinational as regards their collateral assets, i.e. they are backed by pools of assets originated in more than one jurisdiction. Multinational issues accounted for 16.2% of European balances outstanding.

The European securitisation market, like the American one, is chiefly based on assets with mortgage collateral. The share of these issues in total outstanding in June 2008 was 65.2%, while in the US the percentage was 72.4%. In European

Outstanding of securitisation issuance in Europe by country of collateral FIGURE 2

June 2008
Billion euros



Source: European Securitisation Forum.
* Collateral originated in more than one country.

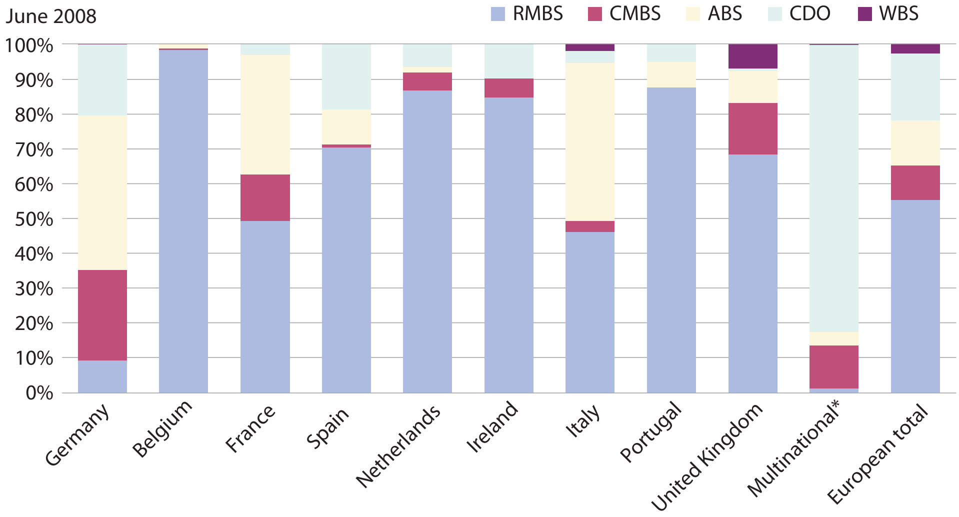
mortgage securitisation it is especially worth noting RMBS issues, i.e. those backed by house-buying mortgages, which accounted for 55.3% of total outstanding. The remaining mortgage securitisation corresponds to CMBS issues (mortgages for the purchase of offices, commercial premises, industrial buildings, etc.). Of total European outstanding in mortgage securitisation issues, 79.2% corresponds to issues in the UK, Spain and the Netherlands, countries whose property markets have undergone strong growth in recent years.

As to non-mortgage securitisation, the main issuance sector as regards its share of total European outstanding is the CDO segment, in which issues represent 19.1% of the total, while ABS issues, backed by loans for buying cars, credit cards and consumer and student loans, among other assets, represent 12.9%. As to issues backed by future cash flows from businesses or investment projects (bonds, WBS), their share is still small, at 2.8% of total outstanding. Among these securitisation types it is worth noting that multinational issues account for 69.7% of European CDO issues, that 82.4% of ABS issues originate in Italy, the UK, Germany and Spain (in that order) and that 91.7% of WBS issues corresponds to the UK.

Mortgage backed securitisation issues remain in a dominant position in most European countries, though some notable differences are appreciable between them. The share of this type of issue in the respective national balances outstanding is especially high in the UK and the Netherlands, where they account for more than 80% of the total. In Spain and France their share is 71.2% and 62.4% respectively. Italy has a smaller share, though still near 50%. The main exception among the major European countries is Germany, where mortgage backed securitisation issues account for just 35.2% of total outstanding. Moreover in this country the outstanding of CMBS issues is considerably higher than of RMBS issues – a state of affairs not to be found in any other European country.

Distribution of securitisation outstanding in Europe by country and collateral

FIGURE 3



Source: European Securitisation Forum.
* Collateral originated in more than one country.

The worsening financial conditions have led to a broad downgrading of the credit ratings given to securitisation bonds by the specialist agencies since August 2007. As we see in table 1, credit ratings were downgraded sooner and more sharply in the US than in Europe, where downgrades did not clearly overtake upgrades until the first half of 2008. Among European issues, rating downgrades have affected CDO issues in particular, largely channelled through multinational issues, as we have seen. By country, the largest number of downgrades has been in the UK.

Number of changes in securitisation issue credit ratings

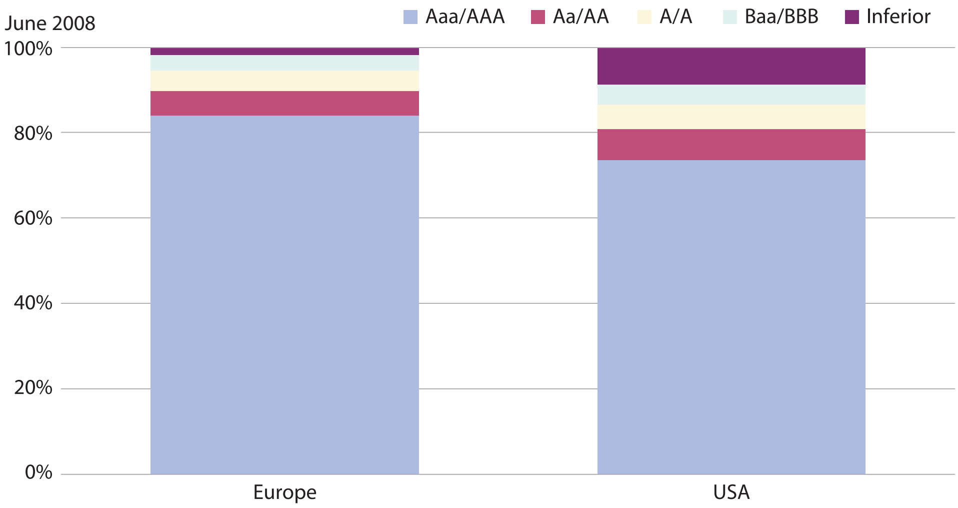
TABLE 1

(Upgrade/downgrade)	Moody's		Standard & Poor's		Fitch	
	2007	2008*	2007	2008*	2007	2008*
France	0 / 0	0 / 1	3 / 0	1 / 8	3 / 1	0 / 2
Germany	4 / 0	2 / 7	34 / 5	6 / 19	34 / 21	11 / 18
Italy	1 / 4	0 / 7	20 / 6	11 / 7	37 / 1	2 / 13
Netherlands	20 / 0	0 / 0	17 / 0	6 / 0	62 / 0	14 / 0
Spain	0 / 0	1 / 5	16 / 0	6 / 1	31 / 2	0 / 13
UK	21 / 11	16 / 89	77 / 22	38 / 159	278 / 188	30 / 48
Multinational**	236 / 235	70 / 803	215 / 326	47 / 975	36 / 1	12 / 126
European total	282 / 250	89 / 912	382 / 359	115 / 1,169	481 / 214	69 / 220
US	1,603 / 9,655	334 / 21,314	1,531 / 6,537	322 / 13,786	1,758 / 6,016	500 / 10,664

Source: European Securitisation Forum.
* First half.
** Collateral originated in more than one country.

Despite the recent increase in downgrades, the bulk of European issues enjoy a high rating, as shown in table 2. In June 2008 nearly 95% of European outstanding corresponded to issues with an updated A or higher rating on Moody's scale. In particular, issues with Aaa or higher rating accounted for 84.13% of total outstanding. The credit standing of European issuers compares quite favourably to that of American ones, whose issues with Aaa/AAA rating represented 73.7% of total outstanding in the US.

Distribution of securitisation issue outstanding in Europe according to Moody's ratings FIGURE 4



Source: European Securitisation Forum.

3 Regulation and characteristics of securitisation activity in Spain and other European countries

Some European countries, such as Spain, France, Italy, Norway, Belgium and Luxembourg, have developed specific legislation to regulate securitisation activity. Other major markets such as Germany and the UK have opted not to undertake such regulation, so in legal terms, securitisation activity is restricted only by general companies and commercial legislation. In this section we give a summary of the most notable features of the regulatory framework and of the market itself in Spain, France, Italy, Germany and the UK.

Spain

Spanish regulation on securitisation has been primarily driven by the mortgage market. Indeed, the earliest legislation, Law 19/1992, regulating real estate investment trusts and funds and mortgage backed securities funds, provided solely for mortgage backed transactions and established a highly restrictive operating environment. Only in 1998, with Royal Decree 926 of that year, did Spanish legislation allow the extension of securitisation to other assets and receivables, including future receivables, and provide for the establishment of special purpose vehicles better suited to the new environment, such as asset backed securities funds. Other subsequent legislation has progressively introduced more flexibility, allowing for synthetic securitisation (2003) and clarifying the conditions on which future receivables may be securitised (2005).

Spanish securitisation is channelled through SPVs with the form of portfolios without legal personality known as mortgage backed securities funds (*fondos de* *titulización hipotecarios* – FTH), for securitizing mortgage assets pursuant to the 1992 law, and asset backed securities funds (*fondos de titulización de activos* – FTA) for broader securitisation transactions as regards the collateral or receivables provided for by Royal Decree 926/1998. The acquisition of portfolio assets by Spanish securitisation funds is typically funded by debt issues, which may be subordinated to various degrees. FTHs are closed funds, i.e. exclusively associated with a securitisation transaction. FTAs can be open funds, though in practice almost all securitisers have chosen closed formulas. Securitisation funds must necessarily be managed by a company with that sole purpose. The regulations require minimum capital of 901,000 euros and that a suitable organizational structure and human and material resources be available, including auditing systems.

The bulk of activity on the Spanish securitisation market is based on mortgage backed bonds, which in 2007 accounted for 63% of securitisation issues. It is worth noting that most mortgage bond issuance was channelled through FTA issues, which offer more flexibility in the structuring of operations than do FTHs under the 1992 law. A significant portion of FTA issuance ultimately backed by mortgage collateral takes the form of CDO issues, as the collateral held by the fund is materialized in individual mortgage certificates. Despite the predominance of mortgage securitisation, in the last few years, ABS issues in the strict sense have grown considerably, especially those backed by loans to small and midsize companies, partly thanks to the existence of government support programmes. Overall, issues backed by bank loans to companies of all kinds accounted in 2007 for 21% of total securitisation issuance.

France

France was the first to regulate securitisation activity in Europe through its Securitisation Law of 1988, subsequently amended several times. This legislation is currently codified in the Monetary and Financial Code that regulates the French financial system as a whole. As in other European countries, French securitisation legislation was initially prompted by the wish to facilitate the utilization of banks' mortgage portfolios, and therefore the funding of mortgage activity and the management of banks' regulatory capital. Subsequently, with the development of securitisation in other countries, chiefly Anglo-Saxon ones, the French regulations have been amended so as to cater for a greater range of mortgage assets, extend activity to non-financial companies and facilitate its location in France.

As in Spanish case, the SPVs recognised by French legislation are mere portfolios without legal personality, called, in this case, common debt funds (*fonds commun de créances* – FCC). Up to 2003 these funds were able to finance only the acquisition of receivables in their portfolio through the share issues, in the manner of standard hedge funds in the collective investment industry. This peculiar restriction seriously hampered the attraction of resources, especially among institutional investors from other countries, as the shares were regarded as equity instruments, and therefore as having high credit risk. But in 2003 a regulatory change allowed FCCs to be funded also through the issue of debt instruments (*titres de créances*) or commercial paper (*titres de créances négociables*). This greater flexibility has in practice involved a distinction between financing formulas based on seniority on insolvency: whereas debt instruments may be regarded as senior notes, shares belong to the junior portion of the financing structure.

FCCs may be open funds, i.e. not necessarily linked to a single securitisation operation. They may moreover be set up as umbrella funds, i.e. they may consist of various compartments, each one financed by distinct issues of shares or debt for the exclusive acquisition or the assets or receivables belonging to it. These compartments must keep mutually separate accounts.

FCCs must be managed by a management firm authorized by the securities regulator, in this case the Autorité des Marchés Financiers (AMF). FCC managers must be devoted exclusively to this activity. These funds must also have entities acting as depositories for the assets forming their portfolios.

As to the assets, or receivables in general, that may be subject to securitisation, the successive changes in the French legislation have opened up a wide range of possibilities, including debt (CDO issues), synthetic securitisation and securitisation of future receivables.

Italy

The Italian securitisation law dates from 1999. Here too, regulation was largely driven by the desire for securitisation operations based on Italian assets to be located on Italian soil. This type of operation was not possible before the law was passed, partly because of the general ceiling on debt (no greater than capital) imposed on companies by commercial law, and partly because of the lack of specific legislation on special purpose vehicles.

Unlike the French and Spanish regulations, Italian regulations provide for the possibility of an SPV being either a limited company (public or private) or a fund without legal personality, though in practice all securitisation operations to date have used the former vehicle. Another interesting distinctive feature of Italian legislation is the possibility that the company acquiring assets to be securitised from the transferor and the issuer of the securities backed thereby may be different. In any event both companies must be registered as financial institutions with the Bank of Italy, which is responsible for supervising them. Both companies are subject to relatively small minimum capital requirements and are allowed to acquire debt, backed by the assets acquired, in excess of their capital. Issuers must notify the Bank of Italy of their issue plans in advance (20 days) and the Bank may delay or even block an issue if it deems that it may disturb the normal working of the Italian financial markets. The directors of both the acquiring company and the issuer are subject to competence and reputability requirements, in line with legislation on financial institutions. Shareholders of such companies with holdings of more than 5% are also subject to fitness requirements.

Italian legislation makes no particular types of asset or receivables, including future ones, ineligible for securitisation, provided that they may be clearly identified. But securitisation is confined to true-sale assets, therefore excluding synthetic securitisation. We should note that ABS issues on the Italian market, and in particular those backed by future receivables based on bills issued by public utilities, have acquired considerable importance.

Italian securitisation issues may be listed on a regulated market, but they are rarely listed on Italian markets. Most issuers tend to opt for the Luxembourg stock exchange.

Finally it is worth highlighting the latest reworking of the Italian securitisation law, in 2005, which, for the first time in Italy, regulates issues of covered bonds, an instrument characteristic of financial institutions. One notable feature of the new law is the possibility of the overall credit portfolio backing the issue being removed from the balance sheet of the originating financial institution and transferred to the hands of an SPV.

Germany

Unlike Spain, France and Italy, Germany has no securitisation law, though there are legal provisions affecting the activity at least partially in various laws, such as the Banking Act, the Building Society Act and some tax provisions. Accordingly, from a legal perspective, participants in this market look to the major German codes with potential impact on the contracts on which the activity is based, such as the Civil Code, the Commercial Code or the Insolvency Act.

Though securitisation first took place in Germany early in the 90s, the activity took off in terms of the number and volume of transactions only in the first half of the 2000s. It is worth noting that up to then bank securitisation had been clearly dominated by synthetic operations, whereas the take-off of true-sale securitisation, responsible for the recent growth in the activity, was driven by the public bank Kreditanstalt für Wiederaufbau (KfW) and twelve private banks which, in 2003, set up the so-called *True Sale Initiative*. As a result of this initiative the tax conditions for such operations were improved and the transfer of collateral was streamlined and made more secure. The initiative's sponsors also made platforms available to the market to facilitate the setting up of special purpose vehicles and, generally speaking, the design and structuring of securitisation operations.

Recent data from the German market show a predominance of non-mortgage issues over mortgage backed ones. Among the former we should note in particular the issues of ABS, especially those backed by bank loans to small and midsize companies, a sector encouraged by the banks taking part in the *True Sale Initiative*. CDO issues also account for a significant share.

United Kingdom

The UK has on occasion been described as a laboratory of ideas in the field of securitisation. The lack of regulation in this sphere, the influence of the US market and the British financial industry's innovative tradition have led to a greater development of securitisation techniques in this country than anywhere else in Europe. Though most British securitisation is still backed by mortgage collateral, other formulas barely used in the rest of Europe, such as WBS issues, have a significant presence.

The lack of legal regulation gives securitisers great leeway when setting up special purpose vehicles. French or Spanish-style securitisation funds are very rare, so the vast majority of British SPVs are companies. A considerable portion of those sponsored by asset transferors are set up as "orphan subsidiaries", a formula characterized by the interposing of a foundation or non-profit entity with a dominant holding in the SPV and which is in turn under the transferor's control. This kind of vehicle is chosen for tax reasons, normally in order to avoid accounting consolidation. It is also worth noting that many vehicles have been set up in territories with considerable fiscal and regulatory autonomy, most notably in the Channel Islands.

4 Conclusions

European securitisation activities have developed considerably since the turn of the century, though the European market remains far behind the much larger American one. As in the US, most securitisation collateral consists of mortgage assets, with RMBS-type issues predominating. But there has been a significant increase in the securitisation of other assets, chiefly company loans and debt. A significant portion of European securitisation issues are backed by assets originating in more than one jurisdiction (multinational issues), mainly via the CDO formula.

The financial crisis that began in August 2007 has considerably affected European securitisation issues. This impact, especially appreciable in the first half of 2008, has however been less sharp than in the US. The worsening financial conditions have also led to a growing number of credit rating downgrades, but the ratings of most current issues remain high. The portion of low-rated issues in the current outstanding is lower in Europe than in America.

Not all European countries have opted to enact specific regulations on securitisation. Of the five major EU countries in this field, Spain, France and Italy have opted to regulate, while Germany and the UK have not. Among the countries with specific legislation, Italy allows for the possibility of setting up SPVs both via portfolios without legal personality and via joint stock companies, though in practice only the latter type is used. The French and Spanish regulations allow only for the former type of vehicle.

III Regulatory novelties

Credit Rating Agencies: the debate on future European legislation

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1 Introduction

Increased attention has been paid to credit rating agencies and their role in financial markets in recent years as a result of major bankruptcies of companies which had a high credit rating (i.e. Enron, Parmalat, etc.). In some of these cases the activities of the rating agencies were subject to particular criticism, as a result of being incapable of anticipating the financial difficulties of these undertakings until a point in time very close to their collapse.

The concern regarding the activities of rating agencies has led to international supervisors carrying out an in-depth study of their activities, given the lack of information regarding their functioning. Annex details the principal initiatives of international supervisors in this context.

The mortgage crisis, which began in the US market at the beginning of 2007 (known as the subprime crisis) has dealt a major blow to this sector. As prices of mortgage assets collapsed the three agencies most active in securitization rating (Fitch Ratings, Moody's Investors Service and Standard & Poor's Rating Services) began a similarly spectacular downgrading of ratings.

The dubious actions of the agencies in this latter crisis has been the determining factor in supervisors deciding to increase control over these agencies. In Europe this will very likely mean adopting Community regulation in this sector, similar to that which already exists in the USA.

In the USA regulation has intensified in recent years. The US Congress passed a law in September 2006 modifying the system of registration of agencies who wish to obtain the status of NRSRO (Nationally Recognised Statistical Rating Organisation) for the purpose of clarifying the necessary requirements for obtaining this status and the supervisory powers of the Securities and Exchange Commission (SEC). In June 2007 the SEC published the rules pursuant to the new law.

After a period of analysis of the practical functioning of the legislation, and taking into account the new problems identified in the area of structured products as a result of the subprime crisis, the SEC this summer published, for public consultation, its proposals for modifying legislation in order to intensify the control over agencies.

In the European Union the deficiencies detected in the functioning of agencies in the mortgage market have been a definitive element which has convinced certain regulators, such as Charlie McCreevy, the European Commission member responsible for the Internal Market Directorate, of the need to regulate the activities of rating agencies.

Specifically, on 31 July 2008 the European Commission published two documents for consultation[1] until 5 September. The first proposes a Directive or Regulation providing for regulation of agencies. The second requests comments on how to tackle the excessive value which is given to the ratings in European legislation.

The purpose of this article is to set out possible responses to the principal questions which European legislators will have to resolve when discussion begins in the Parliament and Council of the legislative proposal from the European Commission.

In the first section the advantages and drawbacks will be set out of the decision by the European Commission to introduce European legislation on rating agencies. The principal questions will then be examined which arise in relation to the future legislation: Who will be covered? What should the underlying principles be? What aspects of the activities of agencies should be regulated? What action would the supervisor take? Who would be responsible for supervision? and What is the most appropriate supervisory model for Europe? The final part of the article sets out its conclusions.

2 What are the advantages and drawbacks of introducing legislation in Europe covering rating agencies?

The proposal to legislate on the activities of rating agencies in the European Union is not free from controversy. There is a certain consensus among participants in securities markets and supervisors as to the deficiencies in the activities of agencies; nevertheless they begin to diverge when discussing what the most appropriate solution would be to the problems. It has not been just the pressure group consisting of agencies and investment banks which has repeatedly stated its opposition to any legislative initiative; professional investors have also failed to show any enthusiasm for the regulatory option.

The principal arguments raised for not introducing a regulation of rating agencies are as follows:

- Community legislation could induce excessive confidence among market participants in respect of ratings, since the existence of public supervision could give the appearance that the supervisor is to a certain extent guaranteeing their quality. In addition, reference to ratings in legislation has already been identified as a possible incentive for excessive confidence in them. The European Commission itself, together with its legislative proposal, published the paper referred to on how to tackle the problem of excessive confidence in ratings. It also mentions that the greater demand for

1 http://ec.europa.eu/internal_market/consultations/2008/securities_agencies_en.htm

and confidence in ratings amongst investors may have been the result of the increase in references to ratings in legislation. The Financial Stability Forum further recommends that authorities ensure that the functions which have been attributed to ratings in their legislation do not provoke excessive confidence in them; according to the Financial Stability Forum, ratings should not substitute independent analysis of the risks of securities which investors should undertake.

- There is a risk that the legal regime becomes inflexible and prejudices innovation.

- The legislation could limit the already scant competition in the sector by creating barriers to the growth of small or medium-size agencies or to the creation of new ones.

Notwithstanding the foregoing, the deficiencies identified in recent years in the actions of agencies have highlighted the shortcomings of the self-regulation system which has existed up to now in Europe. European supervisors have consequently considered that it is necessary to establish effective public supervision of agencies which resolves the detected market shortcomings. International coordination of this supervision in the short term is complicated, and therefore the European Commission has decided to propose the introduction of legislation on agencies in the European Union. The advantages of this option are basically as follows:

- An authority responsible for supervision would verify that agencies comply with the legislation. The principal weakness of the IOSCO Code is the absence of an adequate system for supervising compliance by agencies with its principles.

- The legislation could motivate agencies to be more diligent and avoid substantial failings in the future in the process of preparing ratings.

- Some Member States attribute certain legal effects to ratings in their domestic legislation. A Community regime would introduce greater consistency in the treatment of ratings in the European Union.

3 Who would be covered by the legislation?

A determination of who would be covered by the regulation is a complex question. Despite the fact that the market is dominated by the three major agencies previously referred to, in the European Union there are also many small agencies which only operate locally and which could also fall within the scope of application of the legislation. These agencies may obtain income from issuers, investors or other market participants. There may also be different ways of producing ratings: agencies may use qualitative or quantitative models or combinations of the two.

Furthermore, the types of user of ratings vary considerably. Banks and insurance companies use ratings to determine the capital required by prudential legislation. Issuers need ratings in order to place the securities which they issue or to obtain better prices. Investors assess ratings in their investment decision-making process, and in some cases institutional investors also necessarily require them in order to purchase certain products.

The alternative principles which could be used to determine the scope of application of the regulation of ratings are briefly described below, based on the broadest and most limited scope which is sought.

3.1 Agencies as direct subjects of the legislation

One option would be to establish a regulation which affects all agencies, such that any entity which falls within the definition laid down by legislation would have to comply with Community legislation, irrespective of the use made of their ratings by market participants. This option, which could at first sight appear the simplest, would give rise to major practical difficulties since a determination of which entities would be subject to the legislation would depend solely on the definition of rating agencies and of a rating. A broad definition could give rise to a multitude of entities subject to the regulation, of different sizes and with different business models.

In addition, it would be complicated to apply a territorial principle to determine the agencies which are subject to European legislation; the agencies which dominate the market have their management and principal business centre outside the European Union and there are also many small and medium-size rating agencies also operating outside the European Union which issue ratings which may be used by European investors.

These difficulties could lead to considering the users of ratings, instead of the agencies directly, as the subject of regulation.

3.2 Agencies as indirect subjects of the legislation

A second option would consequently be to regulate the use made of ratings by market participants. In this case, the agencies would be indirectly subject to regulation since they would have to comply with the requirements laid down by legislation in order for their ratings to be used by market participants. This is the system adopted by the US legislator, given the different use made of ratings in different US legislation, and it is also that provided for in the Capital Requirements Directive.

In principle, under this option the scope of application would be more restricted than under the previous option, since it would be necessary for ratings to be used for one of the purposes stipulated in the legislation itself. This scope would nevertheless depend on which uses are covered by it.

a) One example of restricted scope of application is that proposed by the European Commission in the draft legislation which it published in August for consultation, which solely regulates the use of ratings by regulated entities (banks, insurance companies, etc.) in order to comply with obligations laid down by their Community sector regulation.

This would mean that banks and insurance companies could only use ratings from regulated agencies for these purposes. The regulation proposed by the European Commission consequently presupposes that Community legislation (at least the Capital Requirements Directive) will continue to attribute certain functions to ratings.

This option would probably give rise to a fairly limited number of supervised agencies, since the number of entities which issue ratings used by regulated entities in order to comply with legal requirements is very reduced at the present time.

b) A second option would consist of adding the use of ratings made by securities issuers in order to place their issues in the market (for example, Asset Securitization Funds). The purpose of including this activity in legislation is to protect investors who acquire securities taking into account the additional information given to them by the rating. In the case of ratings not requested by issuers, however, their use by investors would not give rise to any obligation on the rating agency since they would not be subject to the regulation.

A key question in this model is determining which issuers rating requests determine that an agency is subject to the European regulation. It would seem most reasonable, given that the purpose of the regulation is to protect European investors, to take into account only those which offer their securities to persons domiciled in the European Union (independently of the country where the issuer is domiciled).

This option would probably give rise to a higher number of supervised agencies than under the previous option, since small agencies of local scope would foreseeably also request registration in the European Union in order that issuers could request their ratings in order to place securities.

c) A more extensive scope would be to regulate the use of ratings not only by regulated entities or by issuers who place their securities, but also by investors in general. This scope of application would include ratings not requested by issuers (for example those which the agency sells to investors who have subscribed for its services). This would be equivalent to the first option, consisting of regulating agencies as such independently of the use made of their ratings. This system is that followed by Directive 2003/125/EC[2] when regulating investor recommendations.

2 Directive 2003/125/EC as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest.

4 What should the principles be which underlie the legislation?

It appears that there is a certain consensus as to a series of principles which should underlie the legislation:

a) Regulation based on general principles

Although the sector is basically concentrated in three major agencies, at local level there are numerous small agencies with different business models which would also foreseeably be covered by the legislation. Principles-based legislation would permit better adaption of requirements to the characteristics of each agency.

This philosophy would also facilitate the international harmonisation of legislation, as demonstrated in preparation of the IOSCO Code. European principles-based legislation would give rise to fewer tensions with the legislation of third party countries than a more detailed legislation.

Furthermore, the greater adaptability to changes in markets of principle-based rules is an additional argument for defending this type of regulation. If necessary, a certain development of the general principles could use lower-ranking legislation, more easily subject to modification, as provided by the Lamfalussy system which divides European securities legislation into two levels: general principles at level 1 and more detailed implementing legislation in level 2.

b) Neutral regulation with respect to competition in the sector

The oligopolistic nature of this sector is one of its principal problems. Market participants have consequently stressed the need for any legislative initiative to be neutral with respect to competition in the sector.

The means most indicated for not prejudicing competition in the sector would be to establish rules proportional to the size of the agency, such that a small agency can comply with the objectives of the legislation by using different means than those which are appropriate for the large ones.

c) Neutral regulation with respect to business models

Although the large agencies have a business model based on rating requests by issuers, which provide non-public information to the agency and pay for the rating, there are other business models: there are many small and medium-size agencies which do not obtain their income from issuers but from investors who pay a fee for access to the reports and ratings issued by the agency which have not been requested by issuers. These unsolicited ratings are normally based on public information which the agencies introduce into their typically quantitative models.

The coexistence of the two models is in principle positive, and therefore legislation should not favour one to the detriment of the other.

d) Neutral regulation with respect to methodologies

The regulation should not interfere in the methodologies used by agencies. It is considered that it would be a mistake to prescribe methods for determining ratings, since this would be a disincentive to innovation and could consequently lead to deterioration in the quality of ratings. Furthermore, even if supervisors were qualified to judge the models, selecting the most appropriate would constitute a considerable risk.

e) Regulation based on the procedures which agencies must implement

The legislation should focus on ensuring that agencies have and apply the procedures necessary to ensure the quality and integrity of their ratings. In accordance with this principle, the actions of the supervisor would have to consist of verifying that the agency publishes these procedures and that it applies them in practice, without in any event judging whether the individual ratings are correct or not.

5 What aspects of rating agency activities should be regulated?

There is a certain consensus regarding the areas in which problems have been detected in the activities of agencies. The substantive legislation would have to establish measures which help to resolve the deficiencies identified. The scope of these measures will obviously depend on the principles underlying the legislation (agencies could be required to produce a result or solely establish a procedure which leads to this result, to do or abstain from doing certain things, or solely to report on what they do).

Despite the fact that the debate has recently focused on the securitization sector, the aspects detailed below are in general common to all business areas of agencies, independently of the fact that development of these points takes account of the specific features of the ratings of structured products.

- Agency managers. The legislation could in general terms require managers to have the necessary experience and integrity to direct the business.

- Agency resources. In order to obtain authorisation, the agency would have to demonstrate that it has sufficient financial and human resources to produce ratings in accordance with the methodologies which they publish and to comply with the procedures laid down by legislation.

- Conflicts of interest. The agency would have to have adequate procedures to identify and prevent or manage possible conflicts of interest in such manner that they do not affect the integrity of ratings.

- Principles relating to the transparency of methodologies. The agency would have to publish the methodologies and procedures which it applies in determining ratings.

- Changes in methodologies and their impact on ratings already issued. The agency would have to report on whether changes in methodologies are applied retrospectively to ratings already issued.

- Transparency of ratings and their presentation. The legislation could contain requirements relating to the publication of ratings (for example, that all ratings requested and paid for by issuers be published) and the categories used to classify them.

- Following up ratings in order to change them when circumstances so require. The agency would have to publish information regarding the frequency of its reviews of ratings and the models and criteria which it applies to carry out such reviews.

- Use of non-public information. The agency would need to have procedures which prevent unsuitable use of such information.

- Information provided by third parties which agencies use to determine ratings. The agency would have to publish information as to whether it makes any verification of the quality and integrity of the data provided by originators regarding securitized assets and how such possible verification affects determination of the rating.

- Maintaining records. The agency will have to document its procedures in order that the supervisory authority can verify whether ratings are determined in practice in accordance with these procedures.

6 What actions would supervisors undertake?

As in any area of financial regulation, the actions of supervisors would comprise the stages described below.

6.1 Authorisation/registration of agencies

Following the model established by US legislation, registration would typically comprise an application by the agency, with provision of the documentation required by legislation (identifying the public or confidential nature of the documents), updating information when changes take place in relation to the initial situation and periodic certification (for example, annually) of continued fulfilment of requirements. The legislation would further have to determine a procedure for the agency to voluntarily elect to be taken off the register.

The documentation which the agency would have to provide with its application should cover the following aspects:

- Description of the agency's business.

- Structure of the agency's group (parent, subsidiaries, associated companies), internal structure (departments or business areas) and an organisational chart of the agency's management.

- Information regarding the number and experience of analysts and the aggregate amount of their remuneration.

- Financial statements.

- Statistical information regarding the ratings issued by the agency which enable their activities to be evaluated (default and downgrade rates).

- Procedures and methodologies for determining ratings.

- Procedures for avoiding improper use of non-public information.

- Conflicts of interest which could arise from the business model and organisation of the agency and procedures to prevent or manage them.

- Code of conduct of the agency.

6.2 Supervising fulfilment of legal requirements

The scope of supervision of rating agency activities is the subject of debate in Europe, since it is a new sector which until now has not been supervised by any authority in Europe. This question is tackled with considerable caution, however, since possible supervisors wish to prevent the supervision of agencies being perceived by the public as a guarantee that the ratings issued by the supervised agencies are correct.

The intensity of supervision could vary between a traditional supervision of regulated entities (such as that of banks or investment service undertakings, for example), and a voluntary and informal supervision such as that which until now has been carried out by the CESR of compliance by agencies with the IOSCO Code.

It can be deduced from the draft European Commission proposal for Directive/Regulation that it would be a traditional supervision since extensive powers are granted to the competent authority, including the possibility or requiring documentation of all types and carrying out on-site inspections in order to verify compliance with legal requirements.

This model is consistent with the principal problem that regulation attempts to resolve, being the absence of effective supervision of compliance by the agencies with the internationally agreed principles in the IOSCO Code. Up to now the CESR has each year verified that agency codes set out the principles contained in the IOSCO Code or they provide explanations regarding the reason for deviations, but this supervision was limited to examining what the agencies had included in their codes without verifying actual compliance with these codes in practice.

6.3 Penalty in the event of non-compliance

As in any other regulated sector, the legislation must grant supervisors the capacity to penalise infringements.

The catalogue of penalties must include the possibility of publishing non-compliance (with the consequent negative effect on the reputation of the firm), the ability to impose fines and, in the case of very serious infringements, a prohibition on engaging in certain activities or, in the final instance, the withdrawal of authorisation.

7 Who would carry out this supervision?

The debate in Europe as to who should carry out the supervision of agencies is particularly complex as a result the large number of regulators who have a direct interest in their activities and who could therefore legitimately claim to be involved in this supervision.

Within Europe, the activities of rating agencies affect not only securities supervisors but also bank and insurance supervisors. The latter consequently raise the question of what the effect could be of a regulation on the scope of their powers and functions and are interested in participating in the supervisory model.

From the point of view solely of supervision of securities markets, the activities of rating agencies affect investors and issuers of all European securities markets. The competent authorities of each of the Member States consequently have an interest in the supervision of agencies.

This diversity of interests means that it is difficult to agree on a model which is satisfactory to all supervisors, and an intensive debate has thus been generated on this question.

In broad terms the three models being debated are described below, although there are many intermediate variants.

7.1 State of Origin – Host State (lead supervisor model)

In accordance with this model, one national authority would be designated to carry out the functions of authorisation, supervision and penalising of agencies. The criteria for designating the authority of origin would have to be clearly laid down in the legislation. Possible criteria which have been indicated include the following: the domicile of the principal office or management of the agency or the jurisdiction where the majority of its activities are carried out (for example, where most income of the agency is generated). The proposal by the European Commission under this system is that formal designation be made by the CESR. A preferable alternative, however, would be for effective selection of the competent authority, in accordance with the pre-established criteria in the legislation, to take place directly by the agency (as provided, for example, in the Prospectus Directive), avoiding the intermediate CESR step.

After designation of the competent authority, the latter would be responsible for the functions of authorisation, supervision and penalties previously described. It would be advisable, however, to articulate mechanisms for possible participation by host authorities.

i) Authorisation: the agency would have to submit a single application to the authorisation of origin and the authorisation would be the exclusive responsibility of that authority. This authorisation would, however, have pan-European effect and therefore it appears advisable that before taking the formal authorisation decision the authority should consult with the remaining supervisors, even if the agency which has submitted the application does not have a major international presence.

ii) Supervision: it would also be the authority of origin which is responsible for verifying that the agency complies with the legislation and which would have to periodically report to the remaining authorities with the most relevant conclusions of this supervision. This would be without prejudice to the host authorities being able to raise questions with the supervisor of origin which arise in their markets. In the event that the problems are exclusively local, it seems reasonable to provide that the host supervisor can cooperate with the supervisor of origin in the investigation.

    The legislation should impose an obligation on host authorities to inform the authorities of origin of any infringement by the agency in its territory of which they become aware. In the absence of measures by the authority of origin, or when these measures are inappropriate, the host State should further have the capacity to take the measures which are necessary to protect investors.

iii) Penalties: it would be the responsibility of the authority of origin to impose adequate penalties in accordance with its legislation. Nevertheless, it would be appropriate for the legislation to impose an obligation on the authority of origin to inform the remaining supervisors of breaches detected and the penalties imposed on agencies.

7.2 CESR coordinated supervision

A second option outlined in the initial proposal from the European Commission would attribute a central role to the CESR, particularly at the agency authorisation and supervision stages. The options being debated on the function which the CESR would have are mentioned below:

i) Authorisation: there would be different alternatives for articulating this process, but they would all have in common that analysis of the application sent by the agency would be made by the CESR, although formal registration of the agency would take place with each of the competent authorities. This is inevitable with the current legal configuration of the CESR, since it has no legal personality and consequently cannot take decisions with effects on third parties. For the same reason the application by the agency would have to be submitted individually to all competent authorities.

   What would distinguish the different alternatives would be the degree of automation of the decision by authorities, which could vary from adopting the results of the CESR analysis without modification to reserving a certain discretion to add additional requirements.

   Furthermore, the possibility would be open to establish different degrees of participation by the different CESR members in analysis of the application for authorisation, based on the presence of the agency in the different markets. It would be logical, for example, for the Portuguese authority to participate in this analysis if the agency in question engages in activities exclusively in Portugal.

ii) Supervision: the conclusions of this supervision would be agreed by the CESR members. Effective ongoing supervisory work of the activities of the agency could take place through a group of CESR members (for example, the authorities of the States where the agency has most activity) which would subsequently present their proposals to all members of the Committee.

iii) Penalties: penalties would be imposed by national authorities, although it would be appropriate to articulate a procedure for exchange of information in order to prevent the duplication of penalties.

7.3 European Agency

Another of the options raised in the current debate is creation of a body with its own legal personality at European level (European Agency) to which the legislation would allocate the functions of authorisation, supervision and penalties. Under this model, securities supervisors (and, as the case may be, banking and insurance supervisors) would not be entrusted directly with any function, although they could approach the European Agency to raise questions or report problems which may arise in their jurisdiction. The national authorities could furthermore cooperate with the European Agency in implementing supervisory functions if necessary. In addition, a mechanism could be established which attributes to European supervisors, through the CESR, the role of monitoring adequate compliance by the European Agency with its objectives.

8 What is the most appropriate supervisory model for Europe?

In order to assess the advantages and drawbacks of the possible supervisory models it is of fundamental importance to take the following particular features of this sector into account:

1. The global nature of the ratings sector.

   As previously mentioned, this is a sector where large agencies, which monopolise the majority of business, have a clearly international character. It is consequently necessary to provide a harmonised solution at European level or, if possible, at worldwide level. The major rating agencies aim to produce ratings which are comparable throughout the world and to this end their processes should be organised in a global manner. Furthermore, from the point of view of investor protection it is complicated to circumscribe the actions of rating agencies to a single country since inadequate activities by rating agencies have significant negative effects beyond a specific jurisdiction.

2. At the present time no national legislation in Europe establishes a specific mechanism for the supervision of agencies.

   The conclusions of the questionnaires submitted by CESR amongst its members[3] in order to identify legislation on rating agencies which currently exists in each country highlights a virtual absence of regulation in this area. In the field of securities market supervision, no registration of agencies in a particular register is in general required nor is any authority granted general competence to supervise the ratings industry. Only when securities legislation requires the mandatory use of ratings, as may be the case with legislation relating to public offerings or securitizations in certain States, is the securities market supervisory authority on some occasions given a certain supervisory competence over agencies, and only for the specific scope in which the rating is mandatory.

   This means that, contrary to what happens in other securities market legislative fields where Community legislation has had to take the previous national regulatory framework into account, it is a sector where there is scarcely any national regulation. This situation could facilitate agreement on creating a single body at European level responsible for authorisation, supervision and penalising of ratings agencies, since States would not have to give up any competence or change their legislation.

Taking the foregoing into account, the creation of a European Agency would seem to be the most appropriate model since it would have the following advantages in relation to the other two models:

3 CESR/08-277 and CESR 05/139b Annex C.

- As with the State of Origin-Host State model, it establishes a single authority commissioned with and responsible for the authorisation, supervision and penalising of rating agencies, as opposed to the system of supervision coordinated by the CESR where the involvement of multiple authorities complicates and slows down all processes. The European Agency has the advantage, compared with the State of Origin-Host State model, that it avoids having to articulate mechanisms for intervention by host authorities.

- The European nature of the Agency, compared with the State of Origin-Host State system where competence is assigned to a local authority, ensures a supervision which is more sensitive to the problems and concerns which arise in all European countries. The European nature of this model is also reflected in the system of supervision coordinated by the CESR, although establishment of the European Agency has the advantage of greater simplicity. The existence of a single autonomous body of executive nature will facilitate much more effective functioning and decision-making.

- In terms of costs, although the creation of a European Agency means creating a new body with the corresponding costs, unification of supervision would avoid the need for each of the 27 competent European authorities to devote specific resources to the supervision of rating agencies. Even under the State of Origin-Host State model all authorities would have to have personnel devoted to supervising the credit rating industry, since they could all potentially be designated authorities of origin, and in any event as host authorities they retain the capacity to intervene in specific circumstances.

- The European Agency model would create a single entry point for all rating agencies which wish to be recognised in Europe. The State of Origin-Host State model could involve the existence of multiple authorities of origin, such that each rating agency may be subject to supervision by a different authority with the possible risk that supervision takes place without uniformity. In order to avoid differences in supervision it would be necessary to establish mechanisms for cooperation and exchange of information, with the consequent complication of processes. The State of Origin-Host State model could mean that supervision of the three major agencies is attributed exclusively to the authority of the State in which its management and greatest volume of operations in Europe are concentrated. There would furthermore be other competent authorities which supervise the small agencies which principally operate in their markets (German, Czech, Portuguese, etc. agencies).

- Finally, the European Agency would hugely facilitate the necessary coordination at international level with other rating agency supervisors since it would be the European Agency which is responsible for transmitting the European Union position on international forums. This would facilitate a greater weight of the European position in the field of rating agencies in international discussions.

9 Final considerations

As previously mentioned, a global system of supervision would be difficult to implement, at least in the short term. Consequently, the initiative by the European Commission to regulate the sector appears to be a suitable response to the absence of effective control of the activities of the agencies in Europe.

In forthcoming months Community legislators will have to define the most appropriate specific supervisory model for Europe. This article has set out the technical considerations which would lead to electing for the creation of a European Agency as the most efficient system for the supervision of rating agencies. These considerations have also been set out by the CNMV in its letter in reply to the consultation by the European Commission.

ANNEX: Principal initiatives by international financial market supervisors in respect of rating agencies

Initiatives in the field of financial stability

On commission from international supervisors, various works have recently been prepared which analyze the role of rating agencies and have served to fuel the debate. These particularly include the report published in April 2008 by the **Financial Stability Forum**[4] at the request of the Ministers and Governors of G7 Central Banks, which contains a series of recommendations relating to rating agencies. Furthermore, in July of this year the report of the **Committee on the Global Financial System** published a document[5] which, at the request of the Financial Stability Forum, updates a report prepared in January 2005[6] on the function of ratings in structured financing. In its July report the Committee on the Global Financial System provided an analysis of the weaknesses detected in the ratings of structured products and issued a series of recommendations to resolve these weaknesses and increase investor confidence in ratings.

IOSCO

In December 2004 IOSCO published a code of conduct for rating agencies (the IOSCO Code), including various specific measures which laid down the "Principles of the activities of rating agencies", published in September 2003. The measures in the Code, which is of a voluntary nature and is based on the principle of comply or explain, aim to promote the quality and integrity of the rating process, avoiding conflicts of interest and clarifying the responsibilities of agencies to investors and securities issuers.

In February 2007 IOSCO published a review of the degree of compliance with the Code by agencies, concluding that for the most part they complied with the Code.

In April 2007, as a result of the difficulties experienced in the American securitization market (the previously mentioned subprime crisis), IOSCO decided to analyse the activities of rating agencies in the securitization sector. As a result this work, IOSCO decided to reform the Code. The revised version was published in February 2008.

In September 2008 IOSCO announced that it is studying the adoption of measures which could improve the international supervision of agencies. Amongst these, IOSCO will consider the possibility of developing mechanisms for coordinating the

4 Report of the Financial Stability Forum on "Enhancing Market and Institutional Resilience". April 2008.
5 Report of the CGFS on "Ratings in structured finance: what went wrong and what can be done to address shortcomings?". July 2008.
6 Report of the CGFS on "The role of ratings in structured finance: issues and implications". January 2005.

supervision carried out by national authorities, and the creation of an international supervisory body which discusses questions with agencies (similar to the international body on supervision of auditing principles – the "Public Interest Oversight Board").

CESR

In March 2005, at the request of the European Commission, the CESR published its advice (Ref. CESR/05-139b) regarding the possible options for regulating the activities of rating agencies. In that document the CESR proposed not regulating rating agencies at European level but for the time being adopting a system of self-regulation, proposing monitoring of the degree to which rating agencies apply the voluntary rules of conduct set out in the IOSCO Code.

In January 2006 the European Commission, following the advice of the CESR, published a communication reporting on its intention not to propose legislative measures for rating agencies for the time being and commissioning an annual report from CESR on the degree of compliance by agencies with the IOSCO Code.

The CESR consequently established a voluntary framework by which rating agencies who wish to join into the process would report annually to CESR on their degree of compliance with the Code, and explaining as the case may be the reasons for possible deviations. Moody's, Standard & Poors, DBRS and Fitch Ratings decided to adhere to the CESR proposal.

In January 2007 CESR published its first report for the European Commission (Ref. CESR/06-545), concluding that agencies to a large extent complied with the IOSCO Code but also indicating certain areas where relevant deviations existed common to the four agencies reviewed. The need was further identified to analyse the actions of agencies in the securitization field.

In May 2007 the European Commission asked the CESR for a second report on degree of compliance with the IOSCO Code, and in September it extended the scope of its request and asked the CESR to investigate the activities of the agencies in the securitization field, asking whether the recent events in financial markets made it advisable to modify the European decision taken in 2006 not to regulate rating agencies.

In May 2008 the CESR published its advice to the European Commission (CESR/08-277). The CESR proposal consisted of strengthening the self-regulation system by creating an international body comprising market participants designated by regulators, which would have a two-fold function: establishing a series of principles for conduct in line with those set out in the IOSCO Code, and supervising compliance with it. The CESR proposed that the creation of this body be coordinated with regulators of other international markets. In the event that this global proposal raises short term difficulties which cannot be overcome, the CESR recommended that this solution be adopted within the scope of the European Union.

Duties of disclosure in the field of major holdings: notification obligations under new Royal Decree 1362/2007, of 19 October

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1 Introduction

"The public should be informed of changes to major holdings in issuers whose shares are traded on a regulated market situated or operating within the Community". This preamble to the 2004 Transparency Directive[1] constitutes a stimulus from the European Union to development of a system which improves investor knowledge of the capital of the companies which form the subject of their past or potential investments.

The Transparency Directive thus defined the general principles for development of a system of public information in relation to securities issuers ("regulated information"), which firstly affects information which must be periodically disseminated (annual and half-yearly reports, for example), and secondly the information which must be available to the public and be disseminated on an ongoing basis: relevant events, the identity of major shareholders and transactions in own shares.

As previously occurred in the development of other Community Directives, and after application of what became known as from the Lamfalussy report as the "comitology process"[2], in June 2004 the Committee of European Securities Regulators (CESR) received a mandate from the European Commission to draw up a technical advisory document for the purpose of bringing about greater Community convergence in transposition of the Transparency Directive.

In June 2005 the CESR submitted its technical proposals to the European Commission, which in turn adopted them as reference for subsequent implementation of level 2 Commission Directive 2007/14/EC, of 8 March 2007, in which a series of provisions were established applicable to the harmonisation of regulated information requirements.

In Spain, Royal Decree 1362/2007, of 19 October, in implementation of the Securities Market Act (Ley del Mercado de Valores - 24/1988) in relation to regulated information requirements concerning issuer information (hereinafter the Regulated Information Royal Decree) is the reference framework for all information dissemination requirements regarding issuers for investors in Spanish securities markets. This Royal Decree came into force on 20 December 2007, but its origins can be found in the 1999 European Union Financial Services Action Plan which sought to bring about a single market in financial services based on the conviction that the existence of efficient, transparent and integrated securities

1 European Parliament and Council Directive 2004/109/EC, of 15 December 2004, on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC.

2 See the "Lamfalussy process», approved by the European Parliament in 2001 and its subsequent revision in the European Communities Communication of 20-11-2007.

markets contributes to achieving a single market and which, amongst others, gave rise to the Transparency Directive.

The Regulated Information Royal Decree defines the elements which make up this information and lays down a series of dissemination obligations on the part of issuers. They must publish and disseminate this information and furthermore simultaneously register it with the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores - CNMV) which becomes the "official central storage mechanism" for regulated information on issuers. In order to disseminate the information issuers may consequently elect between doing so directly or entrusting this function to a third party which, in the case of Spain, may be the Spanish National Securities Market Commission or other medium such as securities exchanges or the general media.

In general regulated information includes the following:

- periodic information, principally of a financial nature, regulated by Sections 35 and 35 bis of the Securities Market Act;

- information relating to major holdings and transactions by issuers in their own shares, on the terms of Sections 53 and 53 bis, and to the total number of voting rights and capital resulting from changes in the total number of voting rights, as referred to in the second paragraph of Section 53.1 of the Securities Market Act, and

- the relevant information regulated by Section 82 of the said Act.

This article focuses on information relating to major holdings and transactions by issuers in their own shares. The following section describes the most novel aspects of the Regulated Information Royal Decree; in section three the parties under an obligation are identified along with notification periods; and sections four and five respectively focus on exceptions from the obligation to notify and notifications and exemptions in the case of groups of undertakings.

2 Royal Decree 1362/2007. Ongoing information. The most novel aspects

Title II of the Regulated Information Royal Decree implements information obligations in respect of major holdings and own shares, and its most novel aspects are highlighted below:

- Calculation base for determining whether any of the thresholds subject to notification has been reached.

  The total number of voting rights attributed to the whole of the issuer's shares, including in cases in which exercise of the said rights is suspended, has replaced the amount of share capital as the calculation base. It should consequently be emphasised that voting rights attributed to its shares held by the issuer itself should not be deducted in order to calculate the total number of voting rights of the issuer, even if they are suspended in accordance with the Revised Text of the Companies Act (Ley de Sociedades Anónimas).

The issuer must notify the CNMV of any increase or reduction in the number and amount of voting rights and capital[3] which has been registered in the Commercial Registry. The deadline for notification will be the final stock exchange business day of the month in which the modification has taken place.

The percentage of the holdings of parties under an obligation notified prior to entry into force of this Royal Decree has not been modified as a result the change in calculation base. This is due to the fact that under the previous legislation capital had to be taken into account comprising any shares of the issuer, whether or not admitted to listing, with the exception of non-voting shares.

- Reduction in minimum notification threshold.

  The first threshold for notification by major shareholders is fixed at 3%, from the minimum of 5% which was laid down by the Transparency Directive[4] and which was also applied in Spain until 2007; the special obligation is continued for residents of tax havens (a threshold of 1%) which was applied in the earlier Spanish legislation.

- Notification of intervening variations as a result of capital increases or reductions.

  This means a major shareholder who does not take part in a capital increase, and consequently has not engaged in any transaction, may be under an obligation to notify if, on dilution of his holding as a result of the increase, it falls below one of the notification thresholds laid down. This likewise applies in the case of reductions in capital.

- Notification of financial instruments.

  The previous legislation only obliged directors to notify transactions carried out in derivatives. Royal Decree 1362/2007 extends the obligation to those individuals or legal entities who, not having the status of director, have entered into financial instruments which grant the right to acquire shares, exclusively on own initiative, which have attached voting rights, provided that this position reaches or exceeds a notification threshold.

3 Legislation currently in force does not provide that increases in paid up capital or reductions in capital are subject to an obligation to publish an information prospectus.
4 The Directive on regulated information lays down minimum requirements, and therefore the Member State of origin may subject issuers to stricter requirements. This is set out in Article 3.

The intention with this new obligation is that the market becomes aware that in the more or less near but certain future the entry of a new shareholder into the capital of an issuer will take place.

It is important to highlight that in order to have to notify such instruments the underlying shares must be admitted to trading at the time they are formalised.

In no event must the position in voting rights be aggregated with that of financial instruments in order to calculate whether a notification threshold has been reached or crossed.

- Voting rights represented.

  One of the most novel aspects of notification cases is that relating to the delegation of voting rights received for a Shareholders General Meeting when the representative has discretion to decide on manner of voting. In order to verify whether he has reached any notification threshold, the representative must aggregate the voting rights which he held previously with the voting rights received by way of proxy. The person granting the representation, if so doing results in falling below any notification threshold, must also notify it.

  In order to avoid double notification, one at the time when the proxy is received and another when it ends on the day following the General Meeting, this information can be provided in the same notification. The same applies to the person granting the proxy.

- Concerted action.

  There is a change in the manner of notifying concerted action. Although the definition of concerted action is virtually the same as that applicable under the previous legislation ("entry into an agreement with a third party which obliges them, by means of concerted exercise of voting rights held by them, to adopt a lasting common policy in relation to management of the company or which has the purpose of having a relevant influence on it"), the manner of notifying it has changed.

  Up to now concerted action was attributed to the party entering into the arrangement who previously held the highest number of voting rights. Now, however, all holdings are aggregated in a single notification without attributing it to any of the participants, and each one of them must be identified along with their individual holdings.

- Notification periods.

  Some periods for notification by those under an obligation are shortened, as is the case with major shareholders who now have four days to notify compared with the six under the previous system. Computation of days for the purpose of calculating these periods now takes into account "stock exchange business days" in replacement for "administrative business days". In the event that the issuer is listed in more than one country, the timetable of stock exchange days which must be applied will be that of the Member State of origin of the issuer subject to the notification.

- Other aspects worthy of mention relate to the exceptions from notification and treatment of communications by those under an obligation who are included in groups of entities, both dealt with in more detail in subsequent sections of this article.

3 Cases of notification. Those under an obligation to notify and notification periods

As previously indicated, the Transparency Directive regulates cases of notification of major holdings but does not introduce additional obligations on directors and executives of issuers. Regulated information obligations in respect of transactions by directors of an issuer had already been tackled in other Directives relating to the prevention of market abuse, transposed into our legal system by Royal Decree 1333/2005, of 11 November. In particular, Section 9 of this Royal Decree provides that the directors and executives of an issuer are under an obligation to report transactions carried out in shares admitted to trading and in derivatives whose underlying comprises shares of the issuer, but without an obligation to report on the final position after the transactions carried out.

The now repealed Royal Decree 377/1991 set out an obligation however for directors to report on transactions carried out in shares and options as well as reporting on final position independently of the amount thereof, and therefore in Spain it was wished to maintain this level of regulated information regarding directors in the new system.

As a result, the new Regulated Information Royal Decree has been the legislative step which incorporates the obligation of directors to report on final position in voting rights and financial instruments, irrespective of the amount thereof, i.e. the thresholds established for major shareholders are not applied.

It is very important to emphasise that this regulated information system establishes that those under an obligation to notify include both the direct holding of shares which have attached voting rights and those who, without being holdings of shares, have discretion to decide on the manner of exercising voting rights. This obligation would also apply to transactions carried out in financial instruments whose underlying comprises the shares and they have attached voting rights.

Given the specific nature of those under an obligation, depending on whether they have the status of director or executive of the issuer of the shares, a classification of such persons has been provided below, indicating the thresholds applicable to them.

3.1 Major Shareholders

Major shareholders means those individuals or legal entities who, without being directors, have reached any of the notification thresholds indicated below:

- An initial notification threshold of 3% of voting rights of the issuer. The following threshold is 5% and successive multiples thereof until 50%. As from the latter, the notification thresholds are 60%, 70%, 75%, 80% and 90%.

- If the holdings are in issuers affected by a takeover bid, shareholders must notify when they reach the thresholds of 1% and 2% of voting rights. Shareholders who already have 3% of voting rights must notify any operation which leads to a variation in this percentage.

- If major shareholders are resident in a tax haven, the minimum threshold for notification is 1%. As from this threshold they must give notice of successive multiples thereof.

Cases of notification are those which affect:

- The percentage of voting rights which remain in their possession after carrying out a transaction in shares which leads to them reaching or crossing a notification threshold or when, without being direct holdings of the shares, they acquire, transfer or have the possibility of exercising the voting rights attached to the shares of which they are not direct holders.

- Transactions carried out in financial instruments, taking into account solely those which grant them entitlement to acquire shares which have attached voting rights and when the final decision to exercise the financial instrument lies with the holder of the financial instrument.

- The position, both in voting rights and financial instruments, at the time of first admission of the issuer or when an intervening variation takes place in the threshold as the result of modification of the number of voting rights of the issuer.

As previously indicated, in order to calculate whether any of the notification thresholds have been reached, in no case must transactions carried out in shares (voting) be aggregated with those resulting from transactions in financial instruments.

Notifications must be sent to the CNMV and to the issuer within a maximum period of four stock exchange business days from the day following the date on which the transaction has been executed. If transactions derive from sale and purchase in an official Spanish secondary market or in another regulated market domiciled in the European Union, the period of four days will begin to run by no later than two stock exchange business days following that of the transaction. For other transactions the period will run from the stock exchange business day following the date on which the transaction takes effect.

3.2 Directors

Directors are under specific obligations as a result their special status in the issuer and must notify the following transactions:

- The position in voting rights at the time of their appointment as director, their departure and on first admission to listing of the issuer.

- All transactions they carry out in shares or voting rights attached to shares of the issuer in which they occupy the position, both those which they hold directly and those which they carry out through a close connection, in accordance with the definition laid down in Section 9 of the Royal Decree on market abuse.

- All transactions carried out in financial instruments linked to shares of the issuer in which they occupy the position of director. All financial instruments must be included which grant a right or obligation to acquire or transfer shares and including those which are settled by differences and those received as a result approval of a remuneration system linked to shares. They must notify both transactions in financial instruments of which they are direct holders and those which they carry out through a close connection.

  They must indicate, as final position, the percentage represented by the voting rights attached to the shares which they acquire or transfer in the event of exercise of the financial instrument.

They must send the notification to the CNMV and to the issuer within five stock exchange business days following that on which the transaction takes place, irrespective of whether the transaction takes place in a market or is of another nature of those previously indicated.

3.3 Executives

The obligation of executives to notify is regulated by Section 9 of the Market Abuse Royal Decree. In their case they must notify all transactions in shares admitted to listing or in derivatives or financial instruments linked to the said shares. Executives must only report transactions carried out, without indicating final position in either voting rights or the financial instruments which are in their possession after the transactions carried out.

The notification period is five stock exchange business days from the day following that on which the transaction takes place.

The Regulated Information Royal Decree sets out an obligation for executives to give notice of any remuneration system of which they are beneficiaries, although it is normally the issuer itself which makes the notification, and which also reports it as a Relevant Event.

3.4 Issuers. Transactions in own shares

Issuers of securities must notify transactions carried out in their own shares when the voting rights attached to acquisitions, without deducting sales, exceed the threshold of 1%.

The notification period is four stock exchange business days from the date on which acquisitions reach 1%.

The issuer must aggregate transactions carried out in its own name with those carried out through a controlled company or through an interposed person. In relation to interposed persons it must be taken into account that many issuers formalise equity swap transactions in their own shares in order to finance themselves for a particular period, such that they receive these shares on the due date laid down. Depending on the manner in which it is instrumented, the counterparty to the transaction may be taken to be an interposed person of the issuer by considering that he is covered against the risks inherent in the swap transaction. In order that the interpretation is not so open the Royal Decree establishes that those entities which, acting as counterparty of the issuer, engage in transactions which have the specific purpose of covering market risk of a share option plan granted by the issuer to its directors or employees and which is formalised by financial instruments which are settled solely by differences, will not treated as an interposed person. Otherwise, the conditions laid down in the swap contract must be examined in order to determine whether the counterparty acts as an interposed person.

4 Exemptions from the obligation to notify major holdings

The Regulated Information Royal Decree not only identifies the individuals or legal entities who are under an obligation to notify, but also establishes cases in which there is exemption from the obligation to notify provided that certain conditions are fulfilled. The cases to which the exemptions apply and their principal conditions are indicated below:

- To shares acquired solely for the purposes of clearing and settlement, provided that they take place within the regular short settlement cycle, which has been established for these purposes at a maximum of three stock exchange business days. Such cases do not require a prior request for exemption.

- To those who hold shares in their capacity as financial intermediaries who provide the service of securities administration and custodianship (custodians or nominees) provided that they can only exercise the voting rights inherent in the said shares in accordance with instructions given in writing.

A financial intermediary who provides the securities administration and custodianship service acquires shares in his own name on behalf of third parties (beneficial owners), but also may acquire shares for own account. Only the voting rights attached to shares which they hold on behalf of third parties are exempted from notification, and provided that the foregoing condition is fulfilled.

Custodians do not need to apply for exemption, they must simply give notice that they wish to take advantage of it. During 2008 documents were received from five custodians requesting removal from the records of the Commission of major holdings which affected several issuers notified under the earlier system. The CNMV may for its part ask custodians to identify the clients who have given the voting instructions.

- To market makers, provided that they have the corresponding authorisation and are not involved in management of the issuer, nor exercise any influence on the issuer or on the price of the share in any other manner. The exemption from notification will only be applied to the 3% and 5% thresholds. Those who wish to take advantage of this exemption must apply to the CNMV by no later than the four days following that on which they reach the first notification threshold. At the date of preparation of this article, no application for exemption from market makers had been received.

5 Notifications and exemptions in the case of groups of entities

The Regulated Information Royal Decree devotes particular attention to notifications by companies included in groups. In these cases the parent company of the group must notify, aggregating all voting rights held both directly or indirectly through controlled companies, and permitting companies controlled not to notify except in the event that they have the status of director. In the event of restructuring the holding within the group, the parent is under an obligation to notify whenever any of the entities controlled has crossed any notification threshold, even though the percentage total holding of the parent has not changed.

This measure simplifies the official recording of major holdings which is available to the public on the CNMV website and it enables the information disseminated to be clearer. Nevertheless, although many controlled companies have requested the removal of notifications sent prior to entry into force of the new Royal Decree, there are still many outstanding applications and the simplification process has not been completed. At the date of preparation of this article, 35 written requests have been received for removal of records of the holdings of controlled companies.

The foregoing would also apply in the case of transactions carried out in financial instruments by the parent of a group and its controlled companies.

On the other hand, the parent company of a group need not aggregate the voting rights of collective investment undertaking management companies ("SGIIC") and investment services undertakings ("ESI"), provided that they exercise voting rights independently of the parent entity. In the case of ESI, it is also required that they be subject to prior authorisation.

For its part, the parent company of a group which wishes to take advantage of the exemption in order not to aggregate must give notice without delay to the CNMV:

- with a list identifying the SGIIC and ESI which form part of the group and the competent authority which supervises them; and

- a declaration indicating that it fulfils the conditions laid down, i.e. that it does not interfere by giving instructions for the exercise of voting rights and that the SGIIC and ESI are in a position to exercise them independently of the parent company.

At the date of preparation of this article, 25 parent companies of groups have sent separate written applications to take advantage of the exemption from aggregation of holdings.

6 Conclusions

The transition process to Royal Decree 1362/2007 has taken place satisfactorily. This has meant a major effort by all parties involved, basically due to the implications of the changes both in notification forms and content, and a series of substantive improvements in electronic notification, registration and dissemination processes.

The outcome constitutes a substantial improvement in the quantity and quality of information disseminated to the market. The majority of notifications is still being received in the registry in physical form however, and not by the remote means provided by the CNMV. It is expected that in the future most notifications will be submitted by the latter means, which would shorten information dissemination periods.

In any event, even though at domestic level major steps have been taken and the process is highly advanced, there is still room for convergence at Community level. In the CESR an ad hoc expert group has been working since the beginning of 2008 in level 3 developments of the Transparency Directive. This began with preparation of a comparative study of the transposition made of the Directive by each European Union Member State. This study will be completed in the final quarter of 2008 and serve as a reference in order that the market, and basically regulators, can identify the areas in which it is most necessary to continue working in the field of convergence or interpretation.

Finally, a major effort remains in order to bring about equivalency recognition agreements with third party countries which have requested that their issuers access the European market, avoiding a duplication of requirements which on occasions are perhaps unnecessary.

V Statistics annex

1 Markets

1.1 Equity

Share issues and public offerings[1]

TABLE 1.1

				2007		2008		
	2005	2006	2007	III	IV	I	II	III[2]
CASH VALUE[3] (Million euro)	2,960.5	5,021.7	23,757.9	4,337.2	7,398.7	9.5	356.6	40.8
Capital increases	2,803.4	2,562.9	21,689.5	4,273.8	6,823.1	0.0	356.6	40.8
Of which, primary offerings	0.0	644.9	8,502.7	3,485.2	4,683.3	0.0	292.0	0.0
With Spanish tranche	0.0	303.0	4,821.4	2,449.6	2,037.6	0.0	292.0	0.0
With international tranche	0.0	342.0	3,681.4	1,035.6	2,645.8	0.0	0.0	0.0
Secondary offerings	157.1	2,458.8	2,068.5	63.4	575.6	9.5	0.0	0.0
With Spanish tranche	54.7	1,568.1	1,517.1	63.4	432.4	9.5	0.0	0.0
With international tranche	102.5	890.7	551.4	0.0	143.3	0.0	0.0	0.0
NO. OF FILES[4]	27	30	35	6	12	1	4	2
Capital increases	25	21	26	5	7	0	4	2
Of which, primary offerings	0	8	8	2	4	0	2	0
Of which, bonus issues	6	0	0	0	0	0	0	0
Secondary offerings	2	14	12	1	7	1	1	0
NO. OF ISSUERS[4]	24	23	29	6	10	1	4	2
Capital increases	23	18	24	5	7	0	4	2
Of which, primary offerings	0	6	6	2	4	0	2	0
Secondary offerings	1	10	8	1	5	1	1	0

1 Total files registered with the CNMV (including supplements of initial files).
2 Available data: August 2008.
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

				2007		2008		
Million euro	2005	2006	2007	III	IV	I	II	III[1]
PRIMARY OFFERINGS	0.0	644.9	8,502.7	3,485.2	4,683.3	0.0	292.0	0.0
Spanish tranche	0.0	303.0	4,646.2	2,277.0	2,035.0	0.0	282.0	0.0
Private subscribers	0.0	8.7	2,841.0	1,898.5	830.5	0.0	191.5	0.0
Institutional subscribers	0.0	294.3	1,805.2	378.5	1,204.5	0.0	90.5	0.0
International tranche	0.0	342.0	3,681.4	1,035.6	2,645.8	0.0	0.0	0.0
Employees	0.0	0.0	175.2	172.6	2.6	0.0	10.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SECONDARY OFFERINGS	157.1	2,458.8	2,068.5	63.4	575.6	9.5	0.0	0.0
Spanish tranche	54.7	1,565.0	1,505.7	63.4	430.8	9.5	0.0	0.0
Private subscribers	27.3	390.0	393.9	0.0	88.4	0.0	0.0	0.0
Institutional subscribers	27.3	1,175.0	1,111.8	63.4	342.4	9.5	0.0	0.0
International tranche	102.5	890.7	551.4	0.0	143.3	0.0	0.0	0.0
Employees	0.0	3.1	11.4	0.0	1.6	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2008.

Admission to listing. Files registered at the CNMV

TABLE 1.3

				2007		2008		
	2005	2006	2007	III	IV	I	II	III[1]
NOMINAL VALUE (Million euro)								
With issuance prospectus	498.0	963.4	5,894.3	171.8	5,562.1	13.3	25.5	124.2
Capital increases	494.0	575.9	5,687.2	171.8	5,439.6	13.3	25.5	124.2
Of which, primary offerings	0.0	145.3	5,424.4	0.0	5,419.8	0.0	0.0	100.0
Secondary offerings	4.0	387.5	207.1	0.0	122.5	0.0	0.0	0.0
Without issuance prospectus	167.3	564.7	8,366.1	440.9	6,438.4	274.7	448.1	46.6
NO. OF FILES								
With issuance prospectus	26	18	22	4	8	2	1	3
Capital increases	25	13	18	4	6	2	1	3
Of which, primary offerings	0	5	6	0	4	0	0	1
Secondary offerings	1	9	7	0	4	0	0	0
Without issuance prospectus	27	61	72	20	16	9	12	5

1 Available data: August 2008.

Companies listed[1]

TABLE 1.4

	2005	2006	2007	2007 III	2007 IV	2008 I	2008 II	2008 III[2]
Total electronic market[3]	126	135	143	136	143	141	139	140
Of which, without Nuevo Mercado	115	124	142	126	142	141	139	140
Of which, Nuevo Mercado	11	11	1	10	1	0	0	0
Of which, foreign companies	5	6	5	6	5	5	5	5
Second Market	14	12	11	11	11	10	9	8
Madrid	2	2	2	2	2	2	2	2
Barcelona	10	9	9	9	9	8	7	6
Bilbao	0	0	0	0	0	0	0	0
Valencia	2	1	0	0	0	0	0	0
Open outcry ex SICAV	47	38	31	32	31	29	29	29
Madrid	22	16	13	14	13	13	13	13
Barcelona	28	24	20	20	20	19	19	19
Bilbao	14	10	9	9	9	8	8	8
Valencia	18	13	9	10	9	7	7	7
Open outcry SICAV	3,111	744	8	9	8	5	4	4
MAB[4]	-	2,405	3,287	3,241	3,287	3,322	3,362	3,360
Latibex	32	34	34	34	34	34	35	35

1 Data at the end of period.
2 Available data: August 2008.
3 Without ETF (Exchange Traded Funds).
4 Alternative Stock Market.

Capitalisation[1]

TABLE 1.5

Million euro	2005	2006	2007	2007 III	2007 IV	2008 I	2008 II	2008 III[2]
Total electronic market[3]	616,659.5	813,765.1	892,053.8	840,333.3	892,053.8	780,720.1	739,386.7	706,747.4
Of which, without Nuevo Mercado	607,167.8	800,148.0	891,875.7	829,721.5	891,875.7	780,720.1	739,386.7	706,747.4
Of which, Nuevo Mercado	9,491.8	13,617.1	178.1	10,611.9	178.1	0.0	0.0	0.0
Of which, foreign companies[4]	64,312.7	105,600.9	134,768.6	104,807.9	134,768.6	120,418.7	133,614.0	124,744.9
Ibex 35	411,712.5	512,828.0	524,651.0	527,210.1	524,651.0	455,694.3	412,258.4	399,484.6
Second Market	444.2	392.7	286.8	295.7	286.8	217.1	167.1	123.5
Madrid	9.2	18.9	27.8	24.6	27.8	23.2	25.9	23.7
Barcelona	291.2	184.2	259.0	271.1	259.0	193.9	141.1	99.8
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	143.8	189.6	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAV	6,874.8	7,905.3	7,444.9	8,890.0	7,444.9	7,228.8	6,672.3	6,038.1
Madrid	3,486.7	2,698.1	1,840.6	2,796.4	1,840.6	1,810.9	1,562.0	1,477.5
Barcelona	3,129.2	4,966.3	4,627.8	5,247.4	4,627.8	4,963.8	4,698.4	4,144.6
Bilbao	405.9	59.5	108.2	137.1	108.2	107.3	27.0	27.0
Valencia	836.1	741.9	1,206.5	1,145.5	1,206.5	994.2	971.7	893.2
Open outcry SICAV	33,171.1	9,284.1	245.4	990.1	245.4	200.2	184.2	177.8
MAB[5]	0.0	29,866.3	41,659.8	41,259.2	41,659.8	39,298.0	39,001.1	38,900.6
Latibex	216,111.3	271,641.8	427,773.6	387,064.2	427,773.6	389,629.9	712,179.3	634,859.1

1 Data at the end of period.
2 Available data: August 2008.
3 Without ETF (Exchange Traded Funds).
4 Foreign companies capitalisation includes their entire shares, whether they are deposited in Spain or not.
5 Alternative Stock Market.

Trading

TABLE 1.6

Million euro	2005	2006	2007	2007 III	IV	2008 I	II	III[1]
Total electronic market[2]	847,652.2	1,144,562.9	1,653,354.8	438,830.9	369,572.5	430,021.7	377,897.7	211,778.7
Of which, without Nuevo Mercado	818,653.2	1,118,546.1	1,627,369.5	433,444.8	364,309.6	425,558.0	377,886.2	211,778.7
Of which, Nuevo Mercado	28,999.0	26,016.8	25,985.3	5,386.2	5,262.9	4,463.7	11.4	0.0
Of which, foreign companies	15,115.1	11,550.3	7,499.3	1,313.2	939.4	1,018.2	552.1	260.6
Second Market	25.9	49.3	192.9	21.4	37.7	11.8	3.2	1.7
Madrid	1.8	7.2	8.9	2.4	0.9	0.8	0.5	1.6
Barcelona	22.9	41.6	182.3	18.7	36.0	11.0	2.7	0.2
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	1.3	0.5	1.7	0.3	0.7	0.0	0.0	0.0
Open outcry ex SICAV	887.1	737.6	792.7	152.4	65.4	258.6	38.5	17.2
Madrid	198.2	257.9	236.1	55.4	21.3	92.7	17.5	6.4
Barcelona	667.0	297.8	402.8	94.5	40.1	29.1	17.6	10.5
Bilbao	13.4	159.9	0.1	0.0	0.0	0.0	0.0	0.0
Valencia	8.4	22.0	153.8	2.5	3.9	136.7	3.3	0.4
Open outcry SICAV	5,022.8	4,580.6	361.6	56.4	32.4	15.2	5.9	2.1
MAB[3]	0.0	1,814.2	6,985.2	1,604.9	1,369.1	2,240.4	1,966.1	1,114.9
Latibex	556.7	723.3	868.2	226.5	209.1	215.6	305.9	123.0

1 Available data: August 2008.
2 Without ETF (Exchange Traded Funds).
3 Alternative Stock Market.

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

TABLE 1.7

Million euro	2005	2006	2007	2007 III	IV	2008 I	II	III[2]
Regular trading	798,934.5	1,080,117.5	1,577,249.5	359,745.1	389,841.9	354,712.5	304,979.6	180,676.6
Orders	488,416.3	658,839.2	985,087.6	232,805.5	246,015.5	245,239.9	185,997.3	110,426.9
Put-throughs	82,403.1	105,910.7	155,085.1	34,295.0	38,761.4	34,574.7	29,644.2	14,453.7
Block trades	228,115.1	315,367.7	437,076.8	92,644.6	105,064.9	74,898.0	89,338.1	55,796.0
Off-hours	27,863.0	11,651.6	18,301.5	3,563.2	5,902.5	4,260.1	2,425.3	869.8
Authorised trades	4,773.4	4,052.0	4,189.6	304.6	640.3	374.6	533.1	826.2
Art. 36.1 SML trades	1.3	6,439.7	0.0	0.0	0.0	0.0	0.0	0.0
Tender offers	6,682.8	18,094.6	26,284.3	1,995.7	20,079.8	14,049.1	3,412.1	0.0
Public offerings for sale	226.3	3,264.0	11,177.4	0.0	9,237.9	0.0	0.0	292.0
Declared trades	2,298.9	10,347.9	2,954.4	172.5	233.6	836.3	20.2	33.0
Options	5,268.0	8,279.8	10,240.4	2,795.7	3,227.0	2,450.3	2,579.7	338.4
Hedge transactions	1,615.4	2,315.7	2,957.8	995.9	858.8	1,214.7	1,743.7	1,183.4

1 Without ETF (Exchange Traded Funds).
2 Available data: August 2008.

Margin trading for sales and securities lending

TABLE 1.8

Million euro	2005	2006	2007	2007 III	IV	2008 I	II	III[1]
TRADING								
Securities lending[2]	393,964.1	550,850.4	835,326.9	179,969.9	213,637.3	159,984.9	175,820.7	103,308.3
Margin trading for sales of securities[3]	152.2	379.9	555.4	166.6	136.3	189.5	135.2	99.9
Margin trading for securities purchases[3]	465.0	511.9	411.3	72.5	84.5	52.7	35.1	21.9
OUTSTANDING BALANCE								
Securities lending[2]	66,737.5	62,058.2	79,532.9	92,265.1	79,532.9	69,068.6	66,326.8	59,396.6
Margin trading for sales of securities[3]	28.5	73.6	112.4	133.7	112.4	97.8	57.8	65.2
Margin trading for securities purchases[3]	52.3	70.1	59.4	45.3	59.4	30.7	28.2	29.6

1 Available data: August 2008.
2 Regulated by Article 36.7 of the Securities Market Law and Order ECO/764/2004.
3 Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.

1.2 Fixed-income

Gross issues registered[1] at the CNMV

TABLE 1.9

				2007		2008		
	2005	2006	2007	III	IV	I	II	III[2]
NO. OF ISSUERS	155	159	173	53	75	59	65	43
Mortgage covered bonds	9	11	10	6	4	7	13	4
Territorial covered bonds	2	5	4	2	1	7	0	0
Non-convertible bonds and debentures	49	46	41	16	3	5	13	16
Convertible bonds and debentures	4	1	0	0	0	0	0	0
Backed securities	53	61	77	16	34	16	26	15
Commercial paper	68	68	80	18	35	26	21	10
Of which, asset-backed	3	3	3	1	0	0	1	0
Of which, non-asset-backed	65	65	77	17	35	26	20	10
Other fixed-income issues	1	0	2	2	0	0	0	0
Preference shares	6	9	5	2	0	4	1	2
NO. OF ISSUES	263	335	334	76	84	74	94	56
Mortgage covered bonds	21	37	32	9	5	11	20	6
Territorial covered bonds	3	6	8	4	1	7	0	0
Non-convertible bonds and debentures	93	115	79	20	3	7	22	18
Convertible bonds and debentures	4	1	0	0	0	0	0	0
Backed securities	54	82	101	19	40	18	30	20
Commercial paper	80	83	106	20	35	27	21	10
Of which, asset-backed	3	3	3	1	0	0	1	0
Of which, non-asset-backed	77	80	103	19	35	27	20	10
Other fixed-income issues	1	0	3	2	0	0	0	0
Preference shares	7	11	5	2	0	4	1	2
NOMINAL AMOUNT (Million euro)	414,253.9	523,131.4	648,757.0	163,782.9	154,568.4	117,526.8	134,468.4	69,172.4
Mortgage covered bonds	35,560.0	44,250.0	24,695.5	6,525.0	2,525.0	1,250.0	10,120.0	1,610.0
Territorial covered bonds	1,775.0	5,150.0	5,060.0	2,000.0	110.0	1,020.0	0.0	0.0
Non-convertible bonds and debentures	41,907.1	46,687.5	27,416.0	7,750.0	257.0	604.1	3,743.6	4,215.1
Convertible bonds and debentures	162.8	68.1	0.0	0.0	0.0	0.0	0.0	0.0
Backed securities	69,044.3	91,607.7	141,627.0	17,898.3	52,819.0	28,657.0	34,386.4	14,336.1
Spanish tranche	63,908.3	85,099.9	141,627.0	17,898.3	52,819.0	28,657.0	34,386.4	14,336.1
International tranche	5,136.0	6,507.8	0.0	0.0	0.0	0.0	0.0	0.0
Commercial paper [3]	264,359.5	334,457.0	442,433.5	122,464.6	98,857.4	85,899.6	86,118.5	48,961.2
Of which, asset-backed	2,767.5	1,992.7	464.8	85.0	85.0	133.0	48.0	48.0
Of which, non-asset-backed	261,592.0	332,464.3	441,968.7	122,379.6	98,772.4	85,766.6	86,070.5	48,913.2
Other fixed-income issues	89.3	0.0	7,300.0	7,075.0	0.0	0.0	0.0	0.0
Preference shares	1,356.0	911.0	225.0	70.0	0.0	96.0	100.0	50.0
Pro memoria:								
Subordinated issues	11,078.5	27,361.5	47,158.3	12,702.1	16,196.9	2,312.5	1,944.9	943.0
Underwritten issues	94,368.0	92,213.5	121,608.5	17,898.3	32,701.5	6,533.5	7,573.4	1,114.5

1 This Includes the volume of issues admitted to trading without register issuance prospectuses.
2 Available data: August 2008.
3 The figures for commercial paper refer to the amount placed in the year.

Issues admitted to trading on AIAF

TABLE 1.10

				2007		2008		
Nominal amount in million euro	2005	2006	2007	III	IV	I	II	III[1]
Total	425,137.4	507,525.3	640,096.2	172,663.4	144,959.2	121,675.6	131,470.5	78,100.0
Commercial paper	263,728.9	332,328.4	439,787.3	120,587.0	98,821.1	89,157.4	85,450.1	50,683.6
Bonds and debentures	56,771.5	45,155.4	30,006.9	9,375.0	2,704.9	507.0	3,164.6	4,578.2
Mortgage covered bonds	31,600.0	43,720.0	27,195.5	8,575.0	2,575.0	1,225.0	8,145.0	3,250.0
Territorial covered bonds	1,775.0	2,650.0	7,450.0	3,500.0	0.0	930.0	200.0	0.0
Backed securities	67,480.5	83,042.5	135,149.5	30,556.5	40,858.1	29,760.2	34,410.8	19,538.3
Preference shares	3,781.5	629.0	507.0	70.0	0.0	96.0	100.0	50.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2008.

AIAF. Issuers, issues and outstanding balance

TABLE 1.11

				2007		2008		
	2005	2006	2007	III	IV	I	II	III[1]
NO. OF ISSUERS	384	438	492	472	492	509	526	542
Commercial paper	66	69	73	71	*73*	74	73	73
Bonds and debentures	82	80	92	92	*92*	91	91	93
Mortgage covered bonds	12	14	14	14	*14*	17	22	23
Territorial covered bonds	3	5	7	7	*7*	11	11	11
Backed securities	211	257	316	297	*316*	333	352	367
Preference shares	42	46	50	50	50	52	52	52
Matador bonds	20	20	15	16	*15*	15	14	14
NO. OF ISSUES	2,836	3,681	4,314	4,293	4,314	4,410	4,693	4,794
Commercial paper	1,724	2,242	2,493	2,552	2,493	2,480	2,669	2,683
Bonds and debentures	329	398	445	452	445	442	452	465
Mortgage covered bonds	54	83	111	106	111	121	140	144
Territorial covered bonds	8	11	19	19	19	25	26	26
Backed securities	631	856	1,157	1,074	1,157	1,249	1,314	1,382
Preference shares	58	65	71	71	71	75	76	78
Matador bonds	32	26	18	19	18	18	16	16
OUTSTANDING BALANCE[2] (Million euro)	448,679.3	588,942.3	758,559.8	729,774.6	758,559.8	772,385.6	809,241.1	826,682.8
Commercial paper	57,719.4	70,778.6	98,467.6	97,795.9	98,467.6	96,152.7	101,545.3	99,020.4
Bonds and debentures	103,250.7	131,107.8	139,586.3	142,655.3	139,586.3	132,397.1	131,568.3	134,975.6
Mortgage covered bonds	90,550.0	129,710.0	150,905.5	151,330.5	150,905.5	152,130.5	160,275.5	163,525.5
Territorial covered bonds	7,575.0	9,525.0	16,375.0	16,375.0	16,375.0	16,305.0	16,505.0	16,505.0
Backed securities	164,810.0	222,866.1	328,924.6	297,196.9	328,924.6	351,003.4	374,939.4	388,198.7
Preference shares	22,486.6	23,115.6	23,062.6	23,062.6	23,062.6	23,158.6	23,258.6	23,308.6
Matador bonds	2,287.6	1,839.2	1,238.2	1,358.4	1,238.2	1,238.2	1,148.9	1,148.9

1 Available data: August 2008.
2 Nominal amount.

AIAF. Trading

TABLE 1.12

				2007		2008		
Nominal amount in million euro	2005	2006	2007	III	IV	I	II	III[1]
BY TYPE OF ASSET	877,812.1	910,493.9	1,127,477.7	287,044.2	291,041.6	338,568.2	594,085.2	434,215.5
Commercial paper	408,185.0	489,069.5	568,009.6	148,715.3	124,955.9	130,792.9	134,918.8	105,952.6
Bonds and debentures	86,585.7	82,421.1	87,035.7	19,214.4	15,580.9	19,036.9	23,289.2	15,088.2
Mortgage covered bonds	60,060.9	70,113.5	80,811.2	16,042.3	24,196.7	17,036.8	42,302.2	40,673.2
Territorial covered bonds	2,740.1	3,659.1	7,749.8	4,315.0	1,649.6	4,669.9	1,276.3	123.3
Backed securities	313,778.5	257,628.9	378,005.2	97,548.2	123,504.1	166,049.8	391,436.8	271,804.3
Preference shares	4,046.2	4,647.8	4,492.4	897.7	1,153.4	976.0	860.0	573.5
Matador bonds	2,415.7	2,954.1	1,373.8	311.4	0.9	6.0	1.9	0.4
BY TYPE OF TRANSACTION	877,812.1	910,493.9	1,127,477.7	287,044.2	291,041.6	338,568.2	594,085.2	434,215.5
Outright	322,819.1	386,368.8	416,477.9	104,013.7	97,807.4	99,070.8	102,383.8	57,542.3
Repos	284,520.0	330,839.9	441,362.7	109,684.9	94,131.8	84,487.7	87,594.2	74,716.3
Sell-buybacks/Buy-sellbacks	270,473.0	193,285.1	269,637.1	73,345.6	99,102.3	155,009.7	404,107.3	301,956.8

1 Available data: August 2008.

AIAF. Third-party trading. By purchaser sector

TABLE 1.13

				2007		2008		
Nominal amount in million euro	2005	2006	2007	III	IV	I	II	III[1]
Total	591,837.2	702,608.8	837,308.5	209,271.8	184,318.1	178,672.7	182,988.0	129,918.1
Non-financial companies	218,139.5	260,108.1	364,490.6	91,476.3	82,132.5	73,182.6	74,341.5	51,196.6
Financial institutions	218,381.1	247,876.4	282,816.9	73,910.0	69,024.8	71,161.5	76,965.1	60,317.0
Credit institutions	71,118.9	83,999.1	99,492.0	26,507.9	26,550.0	25,715.4	31,458.1	22,808.6
CIS[2], insurance and pension funds	138,580.4	145,911.5	152,429.2	39,606.4	34,195.3	39,714.3	40,498.2	25,103.5
Other financial institutions	8,681.8	17,965.8	30,895.6	7,795.7	8,279.5	5,731.7	5,008.8	12,404.9
General government	5,629.4	7,058.9	7,762.4	1,944.6	1,108.1	1,224.6	1,965.7	571.1
Households and NPISHs[3]	14,433.3	23,675.9	28,534.8	4,047.5	3,749.2	3,656.6	3,609.7	2,093.4
Rest of the world	135,253.9	163,889.4	153,703.8	37,893.3	28,303.5	29,447.4	26,106.1	15,740.0

1 Available data: August 2008.
2 Collective Investment Schemes.
3 Non-profit institutions serving households.

Issues admitted to trading on equity markets. Files registered at the CNMV

TABLE 1.14

	2005	2006	2007	2007 III	IV	2008 I	II	III[1]
NOMINAL AMOUNTS (Million euro)	1,234.6	68.1	7,000.0	0.0	7,000.0	0.0	0.0	0.0
Non-convertible bonds and debentures	1,140.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible bonds and debentures	94.6	68.1	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	7,000.0	0.0	7,000.0	0.0	0.0	0.0
NO. OF FILES	6	1	1	0	1	0	0	0
Non-convertible bonds and debentures	3	0	0	0	0	0	0	0
Convertible bonds and debentures	3	1	0	0	0	0	0	0
Others	0	0	1	0	1	0	0	0

1 Available data: August 2008.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.15

	2005	2006	2007	2007 III	IV	2008 I	II	III[1]
NO. OF ISSUERS	56	57	53	50	53	53	52	56
Private issuers	39	40	40	37	40	40	40	44
Non-financial companies	12	10	6	7	6	6	6	6
Financial institutions	27	30	34	30	34	34	34	38
General government[3]	17	17	13	13	13	13	12	12
Regional governments	3	3	3	3	3	3	3	3
NO. OF ISSUES	267	264	249	243	249	245	248	265
Private issuers	122	131	133	120	133	133	133	153
Non-financial companies	22	18	12	13	12	10	10	10
Financial institutions	100	113	121	107	121	123	123	143
General government[3]	145	133	116	123	116	112	115	112
Regional governments	92	89	83	89	83	81	84	81
OUTSTANDING BALANCES[2] (Million euro)	16,323.0	17,105.4	25,654.7	16,918.2	25,654.7	25,583.8	26,027.7	28,295.3
Private issuers	5,507.3	6,784.3	14,958.1	6,055.4	14,958.1	14,800.1	14,609.4	16,929.0
Non-financial companies	835.4	492.1	452.5	454.0	452.5	381.2	381.2	381.2
Financial institutions	4,671.9	6,292.2	14,505.6	5,601.4	14,505.6	14,418.9	14,228.2	16,547.8
General government[3]	10,816.1	10,321.1	10,696.6	10,862.8	10,696.6	10,783.7	11,418.3	11,366.2
Regional governments	8,457.2	8,319.8	8,862.6	8,788.0	8,862.6	9,100.3	9,535.4	9,483.4

1 Available data: August 2008.
2 Nominal amount.
3 Without public book-entry debt.

Trading on equity markets

TABLE 1.16

Nominal amounts in million euro	2005	2006	2007	2007 III	IV	2008 I	II	III[1]
Electronic market	220.0	257.3	444.8	17.8	316.3	537.7	366.0	170.9
Open outcry	4,538.3	5,009.9	7,154.3	471.1	4,023.6	1,873.2	123.2	4,119.3
Madrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	4,404.2	4,879.6	7,040.1	445.3	3,998.2	1,829.1	87.6	4,100.3
Bilbao	9.2	24.8	7.5	1.7	2.1	1.6	1.0	0.7
Valencia	124.8	105.5	106.7	24.1	23.2	42.6	34.7	18.3
Public book-entry debt	36.1	35.6	33.6	6.9	8.7	8.8	11.7	4.5
Regional governments debt	83,204.0	84,443.6	84,178.3	20,750.1	21,152.6	16,972.7	19,324.8	11,181.3

1 Available data: August 2008.

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

TABLE 1.17

Nominal amounts in million euro	2005	2006	2007	2007 III	IV	2008 I	II	III[1]
Total	219.6	175.1	95.8	14.1	32.8	27.3	21.2	10.4
Outright	71.0	94.3	58.6	12.0	15.2	19.5	6.1	5.6
Sell-buybacks/Buy-sellbacks	148.5	80.2	37.2	2.0	17.6	7.8	15.1	4.8
Others	0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2008.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF TABLE 1.18

				2007		2008		
Number of contracts	2005	2006	2007	III	IV	I	II	III[1]
Debt products	46	15	13	4	4	4	4	0
Debt futures[2]	46	15	13	4	4	4	4	0
Ibex 35 products[3,4]	5,490,958	7,119,853	9,288,909	2,423,272	2,176,326	2,346,726	1,894,015	1,391,958
Ibex 35 plus futures	4,935,648	6,408,961	8,435,258	2,211,103	1,931,745	2,042,491	1,654,458	1,196,732
Ibex 35 mini futures	114,563	159,830	286,574	78,006	75,552	84,643	71,975	51,070
Call mini options	232,825	288,542	227,535	43,365	82,293	76,766	60,052	66,782
Put mini options	207,922	262,521	339,542	90,798	86,736	142,826	107,529	77,374
Stock products[5]	29,728,916	33,655,790	34,887,808	8,141,493	13,011,176	12,300,311	19,168,497	9,091,355
Futures	18,813,689	21,229,811	21,294,315	5,105,492	8,637,161	8,519,578	14,797,445	7,146,608
Call options	6,803,863	7,664,125	6,775,525	1,398,403	2,097,371	1,585,176	1,571,132	819,568
Put options	4,111,364	4,761,854	6,817,968	1,637,598	2,276,644	2,195,557	2,799,920	1,125,179
Pro-memoria: MEFF trading on Eurex								
Debt products[6]	1,440,370	1,117,956	1,059,113	294,058	219,959	342,976	220,077	74,579
Index products[7]	1,080,801	1,423,441	1,371,250	365,491	265,783	348,341	268,663	139,169

1 Available data: August 2008.
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 1.19

				2007		2008		
	2005	2006	2007	III	IV	I	II	III[1]
WARRANTS[2]								
Premium amount (Million euro)	1,840.0	5,144.3	8,920.3	2,971.6	2,513.7	3,173.0	3,153.2	2,150.5
On stocks	1,180.8	3,697.6	6,215.1	1,888.6	1,836.7	2,257.1	1,663.2	963.5
On indexes	559.9	1,064.9	2,311.2	951.7	529.1	726.8	1,270.1	1,155.1
Other underlyings[3]	99.3	381.8	394.0	131.2	147.8	189.1	219.9	31.9
Number of issues	1,720	4,063	7,005	1,808	2,126	2,791	1,928	1,056
Number of issuers	6	8	7	7	7	7	7	4
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (Million euro)	112.2	206.8	151.0	25.0	20.0	12.0	45.0	20.0
On stocks	87.8	196.2	145.0	25.0	20.0	12.0	45.0	20.0
On indexes	16.4	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Other underlyings[3]	8.0	10.0	6.0	0.0	0.0	0.0	0.0	0.0
Number of issues	13	12	9	1	2	1	2	1
Number of issuers	4	4	3	1	1	1	1	1

1 Available data: August 2008.
2 Includes issues not requiring a prospectus by application of the new regulations.
3 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

Equity markets. Warrants and ETF trading

TABLE 1.20

	2005	2006	2007	2007 III	IV	2008 I	II	III[1]
WARRANTS								
Trading (Million euro)	2,142.3	2,907.4	5,129.6	1,429.6	1,206.7	892.9	684.1	433.1
On Spanish stocks	1,431.7	1,803.9	3,200.7	805.4	788.0	521.5	362.8	206.6
On foreign stocks	155.8	294.7	474.2	115.1	104.6	47.0	50.4	19.4
On indexes	516.8	727.4	1,376.6	489.9	297.7	303.2	231.1	179.4
Other underlyings[2]	38.0	81.4	78.1	19.3	16.5	21.2	39.8	27.6
Number of issues[3]	2,520	4,284	7,837	3,848	4,083	4,144	4,214	3,213
Number of issuers[3]	8	9	9	9	9	9	8	8
CERTIFICATES								
Trading (Million euro)	69.8	58.8	57.5	14.67	13.3	5.1	5.0	2.2
Number of issues[3]	15	14	18	11	17	17	21	17
Number of issuers[3]	5	5	4	3	4	4	4	4
ETF								
Trading (Million euro)	-	-	4,664.5	844.9	2,059.6	3,037.1	1,357.4	643.1
Number of funds	-	-	21	12	21	27	32	32
Assets[4] (Million euro)	-	-	885.8	511.8	885.8	1,994.7	2,212.6	na

1 Available data: August 2008.
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 Foreign collective investment schemes including the investment volume marketed in Spain.
na: No available data.

1.3.3 Non-financial derivatives

Trading on MFAO[1]

TABLE 1.21

Number of contracts	2005	2006	2007	2007 III	IV	2008 I	II	III[2]
On olive oil								
Extra-virgin olive oil futures[3]	21,145	35,079	46,405	5,832	9,721	13,586	14,610	5,785

1 Olive oil futures market.
2 Available data: August 2008.
3 Nominal amount of the contract: 1,000 kg.

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

	2005	2006	2007	2007 III	IV	2008 I	II	III[1]
Broker-dealers								
Spanish firms	46	47	46	46	46	49	51	50
Branches	96	108	102	100	102	109	80	84
Agents	6,562	6,610	6,657	6,618	6,657	6,674	6,526	6,557
Brokers								
Spanish firms	56	57	53	54	53	50	52	53
Branches	11	11	12	12	12	7	10	10
Agents	516	589	625	647	625	624	625	627
Portfolio management companies								
Spanish firms	17	15	11	12	11	11	11	10
Branches	4	4	4	4	4	4	4	4
Agents	14	5	6	6	6	5	5	5
Credit institutions[2]								
Spanish firms	206	204	201	202	201	200	200	200

1 Available data: August 2008.
2 Source: Banco de España.

Investment services. Foreign firms

TABLE 2.2

	2005	2006	2007	2007 III	2007 IV	2008 I	2008 II	2008 III[1]
Total	1,196	1,321	1,766	1,432	1,766	1,949	2,054	2,117
European Economic Area investment services firms	867	973	1,394	1,068	1,394	1,573	1,676	1,723
Branches	18	22	29	26	29	30	33	33
Free provision of services	849	951	1,365	1,042	1,365	1,543	1,643	1,690
Credit institutions[2]	329	348	372	364	372	376	378	394
From EU member states	320	339	363	355	363	367	369	385
Branches	38	44	52	50	52	55	56	56
Free provision of services	281	294	310	304	310	311	312	328
Subsidiaries of free provision of services institutions	1	1	1	1	1	1	1	1
From non-EU states	9	9	9	9	9	9	9	9
Branches	8	8	8	8	8	8	8	8
Free provision of services	1	1	1	1	1	1	1	1

1 Available data: August 2008.
2 Source: Banco de España.

Intermediation of spot transactions

TABLE 2.3

Million euro	II 2007 Spanish Stock Exchange	II 2007 Other Spanish markets	II 2007 Foreign markets	II 2007 Total	II 2008 Spanish Stock Exchange	II 2008 Other Spanish markets	II 2008 Foreign markets	II 2008 Total
FIXED-INCOME								
Total	6,223	2,387,396	386,262	2,779,881	6,874	2,079,778	422,708	2,509,360
Broker-dealers	5,888	199,685	50,140	255,713	6,197	295,890	50,627	352,714
Brokers	335	2,187,711	336,122	2,524,168	677	1,783,888	372,081	2,156,646
EQUITY								
Total	598,498	1,897	33,250	633,645	495,000	1,390	19,052	515,442
Broker-dealers	561,947	1,016	30,511	593,474	463,258	1,175	17,578	482,011
Brokers	36,551	881	2,739	40,171	31,742	215	1,474	33,431

Intermediation of derivative transactions[1]

TABLE 2.4

Million euro	II 2007 Spanish organised markets	II 2007 Foreign organised markets	II 2007 Non-organised markets	II 2007 Total	II 2008 Spanish organised markets	II 2008 Foreign organised markets	II 2008 Non-organised markets	II 2008 Total
Total	238,135	4,460,818	1,054,768	5,753,721	197,932	1,926,265	904,682	3,028,879
Broker-dealers	98,894	339,608	177,805	616,307	179,547	1,595,485	96,850	1,871,882
Brokers	139,241	4,121,210	876,963	5,137,414	18,385	330,780	807,832	1,156,997

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.

Portfolio management. Number of portfolios and assets under management

TABLE 2.5

	II 2007 Total	II 2007 IIC[1]	II 2007 Other[2]	II 2008 Total	II 2008 IIC[1]	II 2008 Other[2]
NUMBER OF PORTFOLIOS						
Total	19,737	95	19,642	15,832	125	15,707
Broker-dealers	11,024	25	10,999	8,847	34	8,813
Brokers	4,090	35	4,055	3,495	42	3,453
Portfolio management companies	4,623	35	4,588	3,490	49	3,441
ASSETS UNDER MANAGEMENT (Thousand euro)						
Total	14,496,725	1,569,471	12,927,254	11,426,977	1,108,012	10,318,965
Broker-dealers	6,039,778	745,462	5,294,316	5,081,913	276,965	4,804,948
Brokers	3,582,278	526,529	3,055,749	2,602,030	587,346	2,014,684
Portfolio management companies	4,874,669	297,480	4,577,189	3,743,034	243,701	3,499,333

1 IIC: Collective investment schemes.
2 Includes the rest of clients, both covered and not covered by the Investment Guarantee Fund, an investor compensation scheme regulated by Royal Decree 948/2001.

Aggregated income statement. Broker-dealers

TABLE 2.6

				2007		2008		
Thousand euro[1]	2005	2006	2007	III	IV	I	II	III[2]
I. FINANCIAL INCOME	57,653	17,325	-29,968	-15,840	-29,968	-10,488	22,373	38,338
II. NET INCOME FROM SECURITIES TRADING	200,360	48,335	-224,173	-214,615	-224,173	78,843	399,526	370,194
III. NET COMMISSION	653,273	775,377	893,803	680,927	893,803	195,164	368,472	417,974
Commission revenues	847,524	1,009,089	1,181,772	894,244	1,181,772	270,711	501,817	571,235
Brokering	526,241	629,952	775,418	588,741	775,418	186,711	343,910	395,570
Placement and underwriting	58,685	73,278	62,145	47,019	62,145	10,560	25,112	26,471
Securities deposit and recording	17,593	22,367	25,351	18,665	25,351	5,861	11,477	13,329
Portfolio management	20,599	23,883	29,649	20,388	29,649	5,946	9,893	11,221
Design and advising	52,180	55,918	65,083	51,793	65,083	7,729	12,781	14,823
Stocks search and placement	6	0	9	9	9	7	9	9
Market credit transactions	56	33	23	17	23	5	7	7
IIC subscription and redemption	118,871	141,312	138,481	105,659	138,481	30,202	55,621	61,892
Other	53,293	62,346	85,613	61,953	85,613	23,690	43,007	47,913
Commission expenses	194,251	233,712	287,969	213,317	287,969	75,547	133,345	153,261
IV. TOTAL NET REVENUES	911,286	841,037	639,662	450,472	639,662	263,519	790,371	826,506
V. OPERATING INCOME	498,362	395,105	180,892	113,320	180,892	144,447	553,546	556,895
VI. EARNINGS AFTER TAXES	266,734	430,651	540,390	674,057	540,390	151,025	301,711	336,485

1 Added amounts from the beginning of the year to the last day of every quarter. It includes companies removed through out the year.
2 Available data: July 2008.

Results of proprietary trading. Broker-dealers

TABLE 2.7

	Total		Financial income		Securities portfolio		Other charges	
Thousand euro[1]	II 2007	II 2008	II 2007	II 2008	II 2007	II 2008	II 2007	II 2008
Total	-156,263	405,941	11,025	22,373	-166,565	399,526	-723	-15,958
Money market assets and public debt	-13,372	-5,258	1,959	4,723	-15,331	-9,981	-	-
Other fixed-income securities	39,902	38,845	26,446	29,308	13,456	9,537	-	-
Domestic portfolio	28,378	33,858	23,433	28,324	4,945	5,534	-	-
Foreign portfolio	11,524	4,987	3,013	984	8,511	4,003	-	-
Equities	189,622	-794,473	64,441	24,317	125,181	-818,790	-	-
Domestic portfolio	134,855	-251,846	27,559	12,593	107,296	-264,439	-	-
Foreign portfolio	54,767	-542,627	36,882	11,724	17,885	-554,351	-	-
Derivatives	-280,317	1,233,531	-	-	-280,317	1,233,531	-	-
Repurchase agreements	-2,546	5,403	-2,546	5,403	-	-	-	-
Market credit transactions	0	0	0	0	-	-	-	-
Deposits and other transactions with financial								
Intermediaries	-91,887	-67,925	-91,887	-67,925	-	-	-	-
Other transactions	2,335	-4,182	12,612	26,547	-9,554	-14,771	-723	-15,958

1 Added amounts from the beginning of the year to the last day of every quarter. It includes companies removed through out the year.

Aggregated income statement. Brokers

TABLE 2.8

				2007		2008		
Thousand euro[1]	2005	2006	2007	III	IV	I	II	III[2]
I. FINANCIAL INCOME	10,665	12,934	14,395	10,500	14,395	2,434	6,039	6,603
II. NET INCOME FROM SECURITIES TRADING	3,306	3,906	580	651	580	-939	-1,363	-1,633
III. NET COMMISSION	184,113	233,447	237,403	177,379	237,403	41,507	82,530	92,947
Commission revenues	229,752	297,030	310,892	233,859	310,892	48,935	95,111	107,009
Brokering	97,948	114,111	131,976	96,183	131,976	19,349	33,728	38,283
Placement and underwriting	3,821	3,183	2,501	2,409	2,501	994	3,010	3,261
Securities deposit and recording	1,357	1,520	1,680	1,294	1,680	314	394	462
Portfolio management	14,868	28,672	27,457	20,239	27,457	5,847	11,966	13,230
Design and advising	2,664	2,360	2,224	1,273	2,224	252	1,550	1,772
Stocks search and placement	0	0	0	0	0	0	0	0
Market credit transactions	0	0	0	0	0	0	0	0
IIC subscription and redemption	46,171	68,513	74,918	57,090	74,918	9,679	17,156	19,634
Other	62,923	78,671	70,136	55,371	70,136	12,500	27,307	30,367
Commission expenses	45,639	63,583	73,489	56,480	73,489	7,428	12,581	14,062
IV. TOTAL NET REVENUES	198,084	250,287	252,378	188,530	252,378	43,002	87,206	97,917
V. OPERATING INCOME	66,420	95,026	98,596	76,858	98,596	9,302	14,001	15,480
VI. EARNINGS AFTER TAXES	38,264	62,449	86,017	85,525	86,017	9,427	15,919	19,052

1 Added amounts from the beginning of the year to the last day of every quarter. It includes companies removed through out the year.
2 Available data: July 2008.

Aggregated income statement. Portfolio management companies

TABLE 2.9

				2007		2008		
Thousand euro[1]	2005	2006	2007	III	IV	I	II	III[2]
I. FINANCIAL INCOME	575	895	1,442	1,095	1,442	376	789	930
II. NET INCOME FROM SECURITIES TRADING	65	6	21	-8	21	-32	-158	-142
III. NET COMMISSION	17,164	15,195	15,501	11,313	15,501	3,459	6,583	7,517
Commission revenues	25,508	27,625	27,340	22,411	27,340	6,308	12,392	14,306
Portfolio management	18,813	22,068	22,545	19,114	22,545	5,203	10,243	11,883
Design and advising	4,380	4,951	2,614	1,668	2,614	637	1,226	1,372
IIC subscription and redemption	592	261	1,728	1,281	1,728	368	675	763
Other	1,723	345	453	348	453	100	248	288
Commission expenses	8,344	12,430	11,839	11,098	11,839	2,849	5,809	6,789
IV. TOTAL NET REVENUES	17,804	16,096	16,964	12,400	16,964	3,803	7,214	8,305
V. OPERATING INCOME	6,051	6,352	7,226	4,967	7,226	1,041	1,543	1,752
VI. EARNINGS AFTER TAXES	3,465	4,112	4,837	3,597	4,837	730	1,009	1,176

1 Added amounts from the beginning of the year to the last day of every quarter. It includes companies removed through out the year.
2 Available data: July 2008.

Surplus equity over capital adequacy requirements[1]

TABLE 2.10

	Surplus		Number of companies according to its surplus percentage									
Thousand euro	Total amount	%[2]	< 50[3]	<100	<150	<200	<300	<400	<500	<750	<1000	>1000
Total	1,359,458	433.10	10	12	15	8	17	8	11	9	8	16
Broker-dealers	1,226,038	483.07	3	1	3	2	11	3	7	4	7	10
Brokers	114,159	275.92	5	9	9	5	5	4	4	5	1	5
Portfolio management companies	19,261	102.92		2	2	3	1	1	1	0	0	0

1 Available data: June 2008.
2 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.
3 Includes all registered companies, even if they have not sent information.

Return on equity (ROE) before taxes[1]

TABLE 2.11

		Number of companies according to its annualized return								
	Average[2]	Losses	0-5%	6-15%	16-30%	31-45%	46-60%	61-75%	76-100%	>100%
Total	37.09	29	16	13	24	9	6	3	7	7
Broker-dealers	39.62	9	8	6	10	5	4	1	4	4
Brokers	20.30	16	6	6	11	3	2	2	3	3
Portfolio management companies	5.46	4	2	1	3	1	0	0	0	0

1 Available data: June 2008.
2 Average weighted by equity, %.

3 Collective investment schemes (IIC)*

Number, management companies and depositories of collective investment schemes registered at the CNMV

TABLE 3.1

				2007		2008		
	2005	2006	2007	III	IV	I	II	III[1]
Total financial IIC	5,841	6,006	6,296	6,245	6,296	6,347	6,395	6,391
Mutual funds	2,723	2,850	2,954	2,947	2,954	2,956	2,968	2,961
Investment companies	3,118	3,149	3,290	3,251	3,290	3,328	3,365	3,364
Funds of hedge funds	-	2	31	30	31	38	39	41
Hedge funds	-	5	21	17	21	25	23	25
Total real estate IIC	13	17	18	19	18	17	17	17
Real estate investment funds	7	9	9	10	9	9	9	9
Real estate investment companies	6	8	9	9	9	8	8	8
Total foreign IIC marketed in Spain	260	340	440	397	440	465	490	509
Foreign funds marketed in Spain	115	164	225	197	225	241	253	268
Foreign companies marketed in Spain	145	176	215	200	215	224	237	241
Management companies	112	114	120	121	120	121	120	120
IIC depositories	135	132	126	127	126	126	126	126

1 Available data: August 2008.

* In this document, neither hedge funds nor funds of hedge funds are included in the figures referred to mutual funds.

Number of IIC investors and shareholders

TABLE 3.2

				2007		2008		
	2005	2006	2007	III	IV	I	II	III[1]
Total financial IIC	8,869,084	9,048,207	8,492,282	8,900,911	8,492,282	7,861,369	7,466,954	-
Mutual funds	8,450,164	8,637,781	8,053,049	8,467,203	8,053,049	7,420,379	7,023,292	6,820,688
Investment companies	418,920	410,403	434,156	430,315	434,156	434,167	433,651	-
Funds of hedge funds[2]	-	2	3,950	3,142	3,950	5,488	8,582	8,033
Hedge funds[2]	-	21	1,127	251	1,127	1,335	1,429	1,456
Total real estate IIC	119,113	151,053	146,353	152,577	146,353	145,036	141,876	142,235
Real estate investment funds	118,857	150,304	145,510	151,916	145,510	144,197	141,037	141,296
Real estate investment companies	256	749	843	661	843	839	839	939
Total foreign IIC marketed in Spain	560,555	779,165	850,931	834,914	850,931	729,321	697,732	-
Foreign funds marketed in Spain	104,089	144,139	142,782	158,925	142,782	137,933	124,446	-
Foreign companies marketed in Spain	456,466	635,026	708,149	675,989	708,149	591,388	573,286	-

1 Available data: July 2008. Real estate investment companies and foreign IIC send this information quarterly.
2 Provisional data in case of funds of hedge funds and hedge funds.

IIC total net assets

TABLE 3.3

				2007		2008		
Million euro	2005	2006	2007	III	IV	I	II	III[1]
Total financial IIC	289,810.7	300,584.0	287,968.7	303,306.6	287,968.7	264,775.7	244,660.6	237,196.8
Mutual funds[2]	262,200.9	270,406.3	255,040.9	269,907.0	255,040.9	234,043.9	214,251.8	207,152.0
Investment companies	27,609.8	30,152.7	31,481.5	32,360.1	31,481.5	29,055.9	28,415.3	28,017.9
Funds of hedge funds[3]	-	0.6	1,000.6	829.2	1,000.6	1,129.6	1,389.6	1,414.0
Hedge funds[3]	-	24.4	445.8	210.2	445.8	546.3	603.9	613.0
Total real estate IIC	6,690.8	9,052.0	9,121.4	9,409.6	9,121.4	8,912.8	8,753.1	8,791.5
Real estate investment funds	6,476.9	8,595.9	8,608.5	8,905.3	8,608.5	8,563.8	8,394.0	8,427.4
Real estate investment companies	213.9	456.1	512.9	504.3	512.9	349.0	359.2	364.1
Total foreign IIC marketed in Spain	33,668.1	44,102.9	37,092.7	44,847.4	37,092.7	30,184.5	28,581.0	-
Foreign funds marketed in Spain	8,267.3	12,099.3	7,010.3	10,530.7	7,010.3	5,004.9	4,313.5	-
Foreign companies marketed in Spain	25,400.8	32,003.5	30,082.4	34,316.7	30,082.4	25,179.6	24,267.5	-

1 Available data: July 2008. Real estate investment companies and foreign IIC send this information quarterly.
2 For the second quarter 2008, mutual funds investments in financial IIC reached 15.6 billion euro.
3 Provisional data in case of funds of hedge funds and hedge funds.

Mutual funds asset allocation[1,2]

TABLE 3.4

				2007		2008		
Million euro	2005	2006	2007	III	IV	I	II	III[3]
Asset	262,200.9	270,406.9	256,040.2	270,736.3	256,040.2	235,173.5	215,618.2	208,565.9
Cash	8,207.5	10,462.9	15,485.2	14,698.8	15,485.2	15,768.9	17,710.9	18,406.6
Portfolio investment	255,273.6	260,002.9	240,110.5	255,694.9	240,110.5	219,010.7	197,728.4	189,838.6
Domestic securities	123,683.6	127,355.4	134,700.7	137,101.4	134,700.7	128,697.2	115,902.8	111,330.9
Shares	11,602.1	13,806.8	11,600.7	12,619.2	11,600.7	8,137.3	6,802.7	6,328.7
Mutual funds units	17,255.9	17,322.8	18,720.4	19,667.5	18,720.4	17,772.2	15,822.3	14,795.0
Public money market assets	4,149.4	2,887.7	2,206.6	2,329.6	2,206.6	3,493.5	4,618.6	3,826.1
Other public fixed-income	10,088.7	9,891.6	8,708.7	9,488.6	8,708.7	6,608.3	6,299.7	6,411.7
Private money market assets	26,850.7	28,483.2	37,486.9	35,565.7	37,486.9	35,309.7	35,514.6	33,672.5
Other private fixed-income	18,835.6	23,105.3	24,251.5	24,363.4	24,251.5	23,039.2	22,873.3	22,147.8
Spanish warrants and options	483.1	603.3	553.2	569.1	553.2	344.0	414.4	434.4
Repos	34,417.8	31,229.4	31,172.4	32,497.9	31,172.4	33,992.7	23,557.0	23,713.9
Unlisted securities	0.2	25.4	0.2	0.2	0.2	0.2	0.2	0.8
Foreign securities	131,590.0	132,647.4	105,409.8	118,593.5	105,409.8	90,313.5	81,825.6	78,507.7
Euros	118,871.5	118,664.1	94,205.2	106,110.8	94,205.2	82,742.5	74,569.0	71,879.2
Shares	8,925.1	11,418.0	10,772.1	12,735.6	10,772.1	6,970.4	5,859.8	5,379.0
Mutual fund units	15,986.0	23,414.2	13,149.1	16,876.9	13,149.1	8,659.6	7,036.7	6,503.6
Fixed-income	90,220.7	78,933.4	65,972.8	71,585.9	65,972.8	64,362.8	59,588.6	58,164.2
Foreign warrants and options	3,739.7	4,898.7	4,311.2	4,912.4	4,311.2	2,749.7	2,083.0	1,830.5
Unlisted securities	0.0	0.0	0.0	0.0	0.0	0.0	0.8	1.8
Other	12,718.5	13,983.3	11,204.6	12,482.7	11,204.6	7,571.0	7,256.6	6,628.5
Shares	7,019.5	7,343.0	5,964.0	6,893.3	5,964.0	3,972.9	3,823.9	3,583.1
Mutual fund units	4,395.6	5,491.5	4,477.8	4,774.1	4,477.8	3,097.6	3,018.0	2,627.9
Fixed-income	1,204.8	1,011.7	631.1	675.9	631.1	413.5	386.2	383.2
Foreign warrants and options	97.2	136.0	130.8	138.4	130.8	86.4	27.7	33.6
Unlisted securities	1.4	1.2	0.9	1.1	0.9	0.8	0.8	0.7
Net balance (Debtors -Creditors)	-1,280.3	-58.8	444.5	342.5	444.5	393.9	178.8	320.7

1 Hedge funds are not included in these figures. The information is not available because hedge funds have different accounting regulation.
2 Provisional data in case of funds of hedge funds and hedge funds.
3 Available data: July 2008.

Distribución del patrimonio social de las sociedades de inversión de carácter financiero

TABLE 3.5

Million euro	2005	2006	2007	2007 III	2007 IV	2008 I	2008 II	2008 III[1]
Asset	27,610.0	30,152.7	31,481.5	32,360.1	31,481.5	29,055.9	28,415.2	28,017.9
Cash	728.9	802.2	1,182.2	1,021.6	1,182.2	1,457.3	1,938.4	2,251.5
Portfolio investment	26,884.9	29,294.1	30,037.4	31,105.2	30,037.4	27,440.2	26,306.3	25,541.6
Domestic securities	13,851.1	15,553.8	17,075.3	16,841.4	17,075.3	17,080.2	16,012.2	15,716.9
Shares	5,906.5	6,727.3	6,173.6	6,528.1	6,173.6	5,073.8	4,372.0	4,052.9
Mutual funds units	941.2	1,095.0	1,362.3	1,392.5	1,362.3	1,370.6	1,311.4	1,266.9
Public money market assets	128.1	463.4	382.8	434.3	382.8	386.6	348.3	343.2
Other public fixed-income	897.0	678.2	710.2	755.0	710.2	536.7	523.1	542.4
Private money market assets	359.1	555.4	1,568.6	1,032.2	1,568.6	1,854.6	2,199.0	2,237.0
Other private fixed-income	397.3	554.8	620.8	548.8	620.8	702.0	930.2	936.4
Spanish warrants and options	15.3	19.7	22.1	25.2	22.1	19.5	12.9	18.2
Repos	5,206.2	5,459.1	6,234.1	6,121.4	6,234.1	7,132.6	6,311.6	6,315.8
Unlisted securities	0.3	0.8	0.8	4.0	0.8	3.7	3.6	4.1
Foreign securities	13,033.8	13,740.3	12,962.2	14,263.8	12,962.2	10,360.0	10,294.1	9,824.7
Euros	9,178.6	9,847.7	9,413.7	10,295.1	9,413.7	7,768.0	7,711.5	7,404.4
Shares	2,885.6	3,379.9	3,367.7	3,928.2	3,367.7	2,319.8	2,083.2	1,887.3
Mutual fund units	3,351.6	4,169.1	3,826.1	4,254.0	3,826.1	3,252.4	3,148.5	2,962.7
Fixed-income	2,755.8	2,041.5	2,006.7	1,877.3	2,006.7	2,017.6	2,308.5	2,387.9
Foreign warrants and options	185.7	257.2	213.1	235.7	213.1	178.3	171.2	166.5
Unlisted securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	3,855.2	3,892.6	3,548.5	3,968.7	3,548.5	2,592.0	2,582.6	2,420.3
Shares	2,173.9	2,104.7	1,752.2	1,923.8	1,752.2	1,304.0	1,298.7	1,195.9
Mutual fund units	1,403.7	1,517.7	1,600.6	1,816.5	1,600.6	1,139.2	1,148.1	1,086.0
Fixed-income	270.0	234.8	183.2	219.5	183.2	138.9	123.4	126.6
Foreign warrants and options	7.5	11.3	12.5	8.9	12.5	9.9	12.3	11.7
Unlisted securities	0.1	24.1	0.0	0.0	0.0	0.0	0.0	0.0
Net balance (Debtors - Creditors)	-3.8	56.4	261.8	233.3	261.8	158.5	170.6	224.7

1 Available data: July 2008.

Financial mutual funds: number, investors and total net assets by category[1]

TABLE 3.6

	2005	2006	2007	2007 II	2007 III	2007 IV	2008 I	2008 II
NO. OF FUNDS								
Total financial mutual funds	2,705	2,822	2,926	2,919	2,920	2,926	2,942	2,950
Fixed-income[2]	624	606	600	606	604	600	609	614
Mixed fixed-income[3]	217	212	204	211	203	204	203	197
Mixed equity[4]	222	222	207	216	216	207	206	205
Spanish equity	116	118	123	118	121	123	123	122
Foreign equity[5]	454	467	481	488	485	481	477	482
Guaranteed fixed-income	211	220	251	233	241	251	256	251
Guaranteed equity	514	559	590	579	589	590	592	601
Global funds	347	418	470	457	461	470	476	478
Funds of hedge funds[6]	-	2	31	22	30	31	38	39
Hedge funds[6]	-	5	21	9	17	21	25	23
INVESTORS								
Total financial mutual funds	8,450,164	8,637,781	8,053,049	8,755,921	8,467,203	8,053,049	7,420,379	7,023,292
Fixed-income[2]	3,071,656	2,960,879	2,763,442	2,881,128	2,869,191	2,763,442	2,620,712	2,498,451
Mixed fixed-income[3]	492,988	524,827	493,786	539,799	511,811	493,786	434,935	359,904
Mixed equity[4]	408,757	357,013	331,214	376,559	359,667	331,214	289,184	263,926
Spanish equity	365,301	317,386	288,210	363,017	343,208	288,210	219,842	204,259
Foreign equity[5]	1,199,460	1,258,426	1,089,868	1,263,619	1,184,871	1,089,868	942,733	907,345
Guaranteed fixed-income	455,237	497,540	549,108	541,442	540,637	549,108	552,116	542,500
Guaranteed equity	1,849,626	1,783,867	1,715,144	1,766,834	1,754,596	1,715,144	1,639,760	1,575,766
Global funds	607,139	937,843	822,277	1,023,523	903,222	822,277	721,097	671,141
Funds of hedge funds[6]	-	2	3,950	1,456	3,142	3,950	5,488	8,582
Hedge funds[6]	-	21	1,127	183	251	1,127	1,335	1,429
TOTAL NET ASSETS (Million euro)								
Total financial mutual funds	262,200.9	270,406.3	255,040.9	276,600.4	269,907.0	255,040.9	234,043.9	214,251.8
Fixed-income[2]	123,890.7	116,511.9	113,234.1	116,344.7	118,489.4	113,234.1	116,544.0	107,349.4
Mixed fixed-income[3]	14,625.8	15,314.5	13,011.9	15,329.1	14,142.3	13,011.9	10,551.0	8,488.5
Mixed equity[4]	10,005.6	10,149.2	8,848.0	10,289.1	9,753.4	8,848.0	6,811.6	5,990.9
Spanish equity	9,741.7	10,416.4	7,839.4	9,523.4	8,353.3	7,839.4	5,369.9	4,584.1
Foreign equity[5]	20,925.1	24,799.6	22,698.4	29,428.3	26,453.8	22,698.4	14,962.8	13,433.5
Guaranteed fixed-income	13,442.0	14,484.8	17,674.4	15,810.4	16,291.2	17,674.4	19,253.8	19,841.0
Guaranteed equity	45,839.8	44,796.6	42,042.1	44,140.0	43,365.6	42,042.1	38,521.4	35,633.2
Global funds	23,730.1	33,933.3	29,692.6	35,735.4	33,058.2	29,692.6	22,029.4	18,931.4
Funds of hedge funds[6]	-	0.6	1,000.6	600.2	829.2	1,000.6	1,129.6	1,389.6
Hedge funds[6]	-	24.4	445.8	152.0	210.2	445.8	546.3	603.9

1 Mutual funds that have sent reports to the CNMV (therefore mutual funds in a process of dissolution or liquidation are not included).
2 This category includes: Short-term fixed income, Long-term fixed income, Foreign fixed-income and Monetary market funds.
3 This category includes: Mixed fixed-income and Foreign mixed fixed-income.
4 This category includes: Mixed equity and Foreign mixed equity .
5 This category includes: Euro equity, Foreign equity Europe, Foreign equity Japan, Foreign equity USA, Foreign equity emerging countries and Other foreign equity.
6 Provisional data in case of funds of hedge funds and hedge funds.

Financial mutual funds: Detail of investors and total net assets by type of investors

TABLE 3.7

				2007		2008		
	2005	2006	2007	III	IV	I	II	III[1]
INVESTORS	8,450,164	8,637,804	8,058,126	8,470,596	8,058,126	7,427,202	7,033,303	6,830,177
Individuals	8,202,638	8,389,315	7,818,701	8,219,220	7,818,701	7,206,815	6,827,129	6,631,297
Residents	8,101,310	8,292,264	7,725,443	8,123,347	7,725,443	7,116,692	6,740,765	6,546,578
Non-residents	101,328	97,051	93,258	95,873	93,258	90,123	86,364	84,719
Legal entities	247,526	248,489	239,425	251,376	239,425	220,387	206,174	198,880
Credit Institutions	1,634	1,609	2,276	1,715	2,276	1,130	1,192	1,167
Other resident Institutions	244,223	244,980	235,298	247,752	235,298	217,441	203,254	196,002
Non-resident Institutions	1,669	1,900	1,851	1,909	1,851	1,816	1,728	1,711
TOTAL NET ASSETS (Million euro)	262,200.9	270,431.3	256,487.3	270,946.4	256,487.3	235,719.8	216,245.3	209,178.9
Individuals	193,948.6	201,411.0	190,980.6	200,464.5	190,980.6	175,579.4	162,024.9	157,564.7
Residents	190,753.2	198,330.5	188,210.0	197,507.1	188,210.0	173,073.0	159,705.6	155,311.7
Non-residents	3,195.4	3,080.5	2,770.6	2,957.4	2,770.6	2,506.4	2,319.3	2,253.0
Legal entities	68,252.3	69,020.3	65,506.7	70,481.9	65,506.7	60,140.4	54,220.5	51,614.2
Credit Institutions	4,253.2	5,318.0	5,920.9	5,116.4	5,920.9	3,700.6	3,552.0	3,750.7
Other resident Institutions	62,749.8	61,646.6	57,670.6	63,190.9	57,670.6	54,904.4	48,892.1	46,010.6
Non-resident Institutions	1,249.4	2,055.7	1,915.2	2,174.7	1,915.2	1,535.4	1,776.4	1,852.8

1 Available data: July 2008.

Subscriptions and redemptions of financial mutual funds by category[1]

TABLE 3.8

				2007			2008	
Million euro	2005	2006	2007	II	III	IV	I	II
SUBSCRIPTIONS								
Total financial mutual funds[2]	169,807.0	194,787.4	180,943.6	44,063.4	42,610.5	41,508.2	47,016.2	33,450.6
Fixed-income	108,566.1	118,705.9	116,323.9	27,498.6	30,580.5	26,566.0	37,510.5	22,581.5
Mixed fixed-income	6,677.3	8,476.6	5,859.4	1,439.3	1,141.7	955.7	620.2	315.9
Mixed equity	2,065.2	2,783.6	2,749.8	753.2	635.6	452.2	278.9	606.0
Spanish equity	5,588.5	5,590.4	4,402.4	991.9	482.5	943.4	414.5	344.4
Foreign equity	14,006.2	17,662.3	16,631.5	4,925.4	3,215.9	2,971.3	1,867.3	1,545.7
Guaranteed fixed-income	6,923.9	6,126.2	9,161.3	1,915.3	2,191.3	2,981.1	3,286.2	2,983.5
Guaranteed equity	13,520.7	8,914.1	8,070.6	1,858.3	1,316.4	3,095.7	1,089.4	3,120.4
Global funds	12,459.2	26,528.3	17,744.2	4,681.2	3,046.3	3,542.7	1,949.1	1,953.1
Funds of hedge funds[4]	-	0.6	1,071.2	614.0	232.8	215.5	200.1	447.3
Hedge funds[4]	-	24.4	380.8	28.6	62.2	243.0	164.1	77.8
REDEMPTIONS								
Total financial mutual funds[3]	155,304.2	198,600.1	202,827.4	45,164.4	48,647.5	56,448.9	62,032.7	52,061.9
Fixed-income	107,150.9	127,469.1	122,178.3	28,502.6	28,982.4	32,605.9	35,049.1	32,357.6
Mixed fixed-income	4,339.6	7,048.4	7,809.6	1,664.7	2,049.5	2,128.0	2,861.9	1,891.3
Mixed equity	2,602.5	3,644.7	4,023.0	893.9	999.2	1,106.9	1,675.7	1,245.2
Spanish equity	5,323.3	7,824.6	6,723.3	1,861.3	1,429.0	1,682.8	1,979.7	733.9
Foreign equity	11,390.2	16,490.9	20,073.1	4,010.5	5,242.4	5,833.8	6,456.5	2,735.1
Guaranteed fixed-income	7,014.0	5,029.3	6,430.6	1,369.5	1,897.1	1,712.0	2,085.8	1,867.5
Guaranteed equity	8,931.6	11,830.1	11,602.6	2,238.1	2,142.1	4,437.3	3,647.6	5,929.2
Global funds	8,552.1	19,263.1	23,986.6	4,623.8	5,905.5	6,942.2	8,276.4	5,302.1
Funds of hedge funds[4]	-	0.0	65.9	1.6	11.1	53.2	98.7	234.5
Hedge funds[4]	-	0.1	2.6	0.1	0.45	2.1	50.9	26.5

1 Estimated data.
2 For the second quarter 2008, mutual funds subscriptions in financial IIC reached 2.9 billion euro.
3 For the second quarter 2008, mutual funds redemptions in financial IIC reached 4.6 billion euro.
4 Provisional data in case of funds of hedge funds and hedge funds.

Financial mutual funds asset change by category: Net subscriptions/redemptions and return on assets

TABLE 3.9

				2007			2008	
Million euro	2005	2006	2007	II	III	IV	I	II
NET SUBSCRIPTIONS/REDEMPTIONS								
Total financial mutual funds	14,444.3	-4,524.5	-21,877.7	-1,114.8	-5,995.1	-14,990.5	-14,950.1	-18,602.1
Fixed-income	1,445.5	-9,423.4	-5,852.4	-1,009.7	1,601.6	-6,029.3	2,480.0	-9,672.7
Mixed fixed-income	2,349.6	1,539.2	-1,942.0	-224.7	-909.6	-1,163.6	-2,238.2	-1,739.2
Mixed equity	-546.5	-854.7	-1,277.0	-141.0	-367.8	-655.8	-1,391.2	-648.4
Spanish equity	276.0	-2,219.4	-2,314.4	-871.0	-940.2	-745.6	-1,561.2	-412.4
Foreign equity	2,652.4	1,133.8	-3,342.6	928.6	-2,007.2	-2,817.5	-4,553.7	-1,156.9
Guaranteed fixed-income	-354.4	1,018.9	2,714.6	623.8	294.6	1,174.5	1,190.9	1,041.5
Guaranteed equity	4,693.6	-3,021.1	-3,604.9	-479.7	-802.2	-1,340.2	-2,564.4	-2,830.0
Global funds	3,928.2	7,302.1	-6,258.9	58.9	-2,864.3	-3,412.9	-6,312.3	-3,183.9
Funds of hedge funds	-	0.6	1,005.5	612.4	221.7	162.6	107.9	215.5
Hedge funds	-	24.3	164.7	28.5	61.8	241.0	113.3	51.4
RETURN ON ASSETS								
Total financial mutual funds	11,670.2	12,733.7	6,517.0	4,303.9	-696.7	125.6	-6,045.6	-1,188.8
Fixed-income	1,837.6	2,260.2	3,073.5	747.3	723.6	771.5	599.0	618.0
Mixed fixed-income	620.3	606.6	271.8	145.9	-30.6	15.6	-287.1	-111.9
Mixed equity	1,053.4	984.2	261.5	258.2	-120.3	-39.4	-645.2	-172.3
Spanish equity	1,623.7	2,882.9	768.3	203.5	-229.8	215.1	-908.3	-373.4
Foreign equity	3,507.1	2,736.1	251.5	1,678.4	-942.1	-905.3	-3,191.1	-372.4
Guaranteed fixed-income	222.8	112.3	334.7	40.7	164.0	42.8	188.7	-11.8
Guaranteed equity	1,635.5	1,995.2	1,105.8	694.2	25.0	144.6	-1,075.9	-719.8
Global funds	1,169.8	1,156.2	450.2	535.8	-286.3	-119.4	-725.7	-45.1
Funds of hedge funds	-	0.0	-9.6	2.3	-16.7	4.8	5.5	23.3
Hedge funds	-	0.1	0.2	3.6	-3.9	-5.3	-12.4	7.0

Financial mutual funds return on assets. Detail by category

TABLE 3.10

% of daily average total net assets[1]	2005	2006	2007	2007 II	2007 III	2007 IV	2008 I	2008 II
MANAGEMENT YIELDS								
Total financial mutual funds	5.87	5.73	3.45	1.87	0.02	0.32	-2.24	-0.30
Fixed-income	2.31	2.51	3.32	0.84	0.79	0.85	0.68	0.71
Mixed fixed-income	6.18	5.30	2.98	1.27	0.11	0.44	-2.17	-0.84
Mixed equity	12.96	11.31	4.25	2.94	-0.78	-0.01	-8.18	-2.18
Spanish equity	20.10	30.10	9.14	2.54	-2.13	3.01	-15.02	-6.58
Foreign equity	22.82	13.82	2.78	6.42	-2.95	-3.19	-18.34	-2.00
Guaranteed fixed-income	2.45	1.67	3.25	0.46	1.22	1.02	1.16	0.09
Guaranteed equity	5.26	5.86	3.65	1.95	0.44	0.47	-2.32	-1.71
Global funds	7.41	4.84	2.57	1.88	-0.52	-0.07	-2.64	0.09
Funds of hedge funds	-	ns	-1.36	0.96	-1.83	1.04	0.38	2.86
Hedge funds	-	ns	0.57	4.50	-1.64	-0.69	-2.38	2.58
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	1.07	1.04	1.00	0.27	0.25	0.24	0.23	0.22
Fixed-income	0.73	0.63	0.61	0.16	0.15	0.15	0.15	0.14
Mixed fixed-income	1.24	1.21	1.13	0.30	0.29	0.29	0.29	0.29
Mixed equity	1.69	1.63	1.54	0.40	0.39	0.39	0.38	0.38
Spanish equity	1.77	1.83	1.59	0.44	0.41	0.42	0.42	0.41
Foreign equity	1.80	1.78	1.70	0.48	0.41	0.41	0.42	0.41
Guaranteed fixed-income	0.77	0.75	0.62	0.17	0.17	0.16	0.14	0.13
Guaranteed equity	1.38	1.34	1.30	0.33	0.34	0.34	0.34	0.33
Global funds	1.41	1.26	1.16	0.35	0.25	0.26	0.28	0.27
Funds of hedge funds	-	ns	1.15	0.29	0.42	0.43	0.47	0.42
Hedge funds	-	ns	1.39	0.99	0.09	0.67	0.56	0.61
EXPENSES. DEPOSITORY FEE[2]								
Total financial mutual funds	0.10	0.09	0.09	0.02	0.02	0.02	0.02	0.02
Fixed-income	0.09	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Mixed fixed-income	0.11	0.10	0.09	0.02	0.02	0.02	0.02	0.02
Mixed equity	0.11	0.11	0.10	0.03	0.03	0.03	0.03	0.03
Spanish equity	0.11	0.11	0.11	0.03	0.03	0.03	0.03	0.03
Foreign equity	0.11	0.11	0.11	0.03	0.03	0.03	0.03	0.03
Guaranteed fixed-income	0.09	0.09	0.08	0.02	0.02	0.02	0.02	0.02
Guaranteed equity	0.11	0.11	0.10	0.03	0.03	0.03	0.03	0.03
Global funds	0.09	0.10	0.10	0.03	0.03	0.03	0.02	0.02
Funds of hedge funds	-	ns	0.06	0.01	0.02	0.02	0.02	0.03
Hedge funds	-	ns	0.33	0.52	0.05	0.05	0.04	0.05

1 The % refers to monthly average total net assets for the Hedge fund category.
2 Instead of the depository fee, the figures for the Hedge fund category refers to the financial expenses.
ns: it is not significant.

Mutual fund quarterly returns. Detail by category

TABLE 3.11

In %	2005	2006	2007	2007 II	2007 III	2007 IV	2008 I	2008 II
Total financial mutual funds	5.00	5.59	2.73	1.65	-0.15	0.10	-1.96	-0.56
Fixed-income	1.53	1.95	2.71	0.65	0.63	0.68	0.54	0.57
Mixed fixed-income	5.00	4.18	1.93	0.96	-0.16	0.18	-2.32	-1.29
Mixed equity	11.85	10.34	2.69	2.57	-1.17	-0.40	-7.56	-2.91
Spanish equity	20.60	33.25	8.02	2.07	-2.42	2.53	-12.01	-7.66
Foreign equity	24.18	14.98	2.13	6.38	-2.80	-3.28	-15.06	-2.73
Guaranteed fixed-income	1.66	0.83	2.78	0.29	1.03	0.84	1.02	-0.01
Guaranteed equity	3.95	4.66	2.44	1.62	0.13	0.12	-2.56	-1.94
Global funds	6.16	4.01	1.47	1.57	-0.70	-0.38	-2.56	-0.29
Funds of hedge funds	-	ns	-0.43	1.08	-2.14	1.22	-2.31	2.20
Hedge funds	-	ns	0.84	3.18	-2.20	-1.31	-1.95	1.48

ns: it is not significant.

Management companies. Number of portfolios and assets under management

TABLE 3.12

	2005	2006	2007	2007 III	2007 IV	2008 I	2008 II	2008 III[1]
NUMBER OF PORTFOLIOS								
Mutual funds	2,723	2,850	2,954	2,947	2,954	2,956	2,968	2,965
Investment companies	2,989	3,049	3,181	3,143	3,181	3,217	3,256	3,257
Funds of hedge funds	-	2	31	30	31	38	39	41
Hedge funds	-	5	21	17	21	25	23	25
Real estate investment fund	7	9	9	10	9	9	9	9
Real estate investment companies	6	8	9	9	9	8	8	8
ASSETS UNDER MANAGEMENT (Million euro)								
Mutual funds	262,200.9	270,406.3	255,040.9	269,907.1	255,040.9	234,043.9	214,251.8	207,152.0
Investment companies	25,486.0	28,992.7	30,300.0	31,125.9	30,300.0	27,984.8	27,394.2	27,026.6
Funds of hedge funds	-	0.6	1,000.6	829.2	1,000.6	1,129.6	1,389.6	1,414.0
Hedge funds	-	24.4	445.8	210.2	445.8	546.3	603.9	613.0
Real estate investment fund	6,476.9	8,595.9	8,608.5	8,905.3	8,608.5	8,563.8	8,394.0	8,427.4
Real estate investment companies	213.9	456.1	512.9	504.3	512.9	349.0	359.2	364.1

1 Available data: July 2008.

Foreign Collective Investment schemes marketed in Spain

TABLE 3.13

				2007			2008	
	2005	**2006**	**2007**	**II**	**III**	**IV**	**I**	**II**
INVESTMENT VOLUME[1] (Million euro)	33,614.7	44,102.9	37,092.7	50,141.4	44,847.4	37,092.7	30,184.5	28,581.0
Mutual funds	8,267.2	12,099.3	7,010.3	14,211.5	10,530.7	7,010.3	5,004.9	4,313.5
Investment companies	25,347.4	32,003.5	30,082.4	35,929.9	34,316.7	30,082.4	25,179.6	24,267.5
INVESTORS/SHAREHOLDERS	560,555	779,165	850,931	825,771	834,914	850,931	729,321	697,732
Mutual funds	104,089	144,139	142,782	176,884	158,925	142,782	137,933	124,446
Investment companies	456,466	635,026	708,149	648,887	675,989	708,149	591,388	573,286
NUMBER OF SCHEMES	260	340	440	362	397	440	465	490
Mutual funds	115	164	225	171	197	225	241	253
Investment companies	145	176	215	191	200	215	224	237
COUNTRY								
Luxembourg	161	189	229	196	210	229	241	253
France	47	83	122	92	105	122	127	138
Ireland	35	46	52	48	50	52	59	59
Germany	11	12	15	12	15	15	15	15
UK	5	6	12	9	11	12	13	13
The Netherlands	1	1	1	1	1	1	1	1
Austria	-	1	5	1	1	5	5	5
Belgium	-	1	3	2	3	3	3	5
Malta	-	1	1	1	1	1	1	1

1 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 3.14

				2007		2008		
	2005	**2006**	**2007**	**III**	**IV**	**I**	**II**	**III**[1]
REAL ESTATE MUTUAL FUNDS								
Number	7	9	9	10	9	9	9	9
Investors	118,857	150,304	145,510	151,916	145,510	144,197	141,037	141,296
Asset (Million euro)	6,476.9	8,595.9	8,608.5	8,905.3	8,608.5	8,563.8	8,394.0	8,427.4
Return on assets (%)	5.35	6.12	1.27	1.53	1.27	1.16	0.89	0.13
REAL ESTATE INVESTMENT COMPANIES								
Number	6	8	9	9	9	8	8	8
Shareholders	256	749	843	661	843	839	839	939
Asset (Million euro)	213.9	456.1	512.9	504.3	512.9	349.0	359.2	364.1

1 Available data: July 2008. In this case, the return on assets is monthly.