CNMV BULLETIN

Quarter III

2009

CNMV Bulletin

Quarter III
2009

The CNMV publishes this Quarterly Bulletin to spread studies in order to contribute to the best knowledge of the Stock Markets and their regulation.

The opinions in these articles are exclusively from the authors and they do not have to be attributed to the CNMV.

The CNMV distributes its reports and publications via the Internet at www.cnmv.es

Publishing advice of the Quarterly Bulletin of the CNMV: Fernando Restoy (CNMV), Vicente Salas (Universidad de Zaragoza), Belén Villalonga (Harvard Business School) and Nieves García Santos (CNMV).

© CNMV. The contents of this publication may be reproduced, subject to attribution.

ISSN: 1988-253

Table of contents

I Securities markets and their agents: situation and outlook **9**

II Reports and Analyses **63**

Economic and financial performance of listed companies in the second half of 2008 65

Belén de Anta Montero and Carolina Moral Sánchez

The executive compensation plans of listed company directors 81

Soledad García Santa and Ángel Domínguez Fernández-Burgos

Organisation of derivatives markets and central counterparties 105

Javier González Pueyo

III Regulatory novelties **127**

The revision of the Market Abuse Directive 129

Cristina Ribó and Rodrigo Buenaventura

IV Legislative annex **143**

V Statistics annex **147**

Acronyms

ABS	Asset Backed Securities
AIAF	Asociación de Intermediarios de Activos Financieros (Spanish market in fixed-income securities)
ANCV	Agencia Nacional de Codificación de Valores (Spain's national numbering agency)
ASCRI	Asociación española de entidades de capital-riesgo (Association of Spanish venture capital firms)
AV	Agencia de valores (broker)
AVB	Agencia de valores y bolsa (broker and market member)
BME	Bolsas y Mercados Españoles (operator of all stock markets and financial systems in Spain)
BTA	Bono de titulización de activos (asset-backed bond)
BTH	Bono de titulización hipotecaria (mortgage-backed bond)
CADE	Central de Anotaciones de Deuda del Estado (public debt book-entry trading system)
CDS	Credit Default Swap
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESFI	Comité de Estabilidad Financiera (Spanish government committee for financial stability)
CESR	Committee of European Securities Regulators
CMVM	Comissão do Mercado de Valores Mobiliários (Portugal's National Securities Market Commission)
CNMV	Comisión Nacional del Mercado de Valores (Spain's National Securities Market Commission)
CSD	Central Securities Depository
EAFI	Empresa de Asesoramiento Financiero (financial advisory firm)
EC	European Commission
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECR	Entidad de capital-riesgo (venture capital firm)
EMU	Economic and Monetary Union (euro area)
ETF	Exchange traded fund
EU	European Union
FI	Fondo de inversión de carácter financiero (mutual fund)
FIAMM	Fondo de inversión en activos del mercado monetario (money-market fund)
FII	Fondo de Inversión Inmobiliaria (real estate investment fund)
FIICIL	Fondo de instituciones de inversión colectiva de inversión libre (fund of hedge funds)
FIL	Fondo de inversión libre (hedge fund)
FIM	Fondo de inversión mobiliaria (securities investment fund)
FTA	Fondo de titulización de activos (asset securitisation trust)
FTH	Fondo de titulización hipotecaria (mortgage securitisation trust)
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board

IFRS	International Financial Reporting Standards
IIC	Institución de inversión colectiva (UCITS)
IICIL	Institución de inversión colectiva de inversión libre (hedge fund)
IIMV	Instituto Iberoamericano del Mercado De Valores
IOSCO	International Organization of Securities Commissions
ISIN	International Securities Identification Number
LATIBEX	Market in Latin American securities, based in Madrid
MAB	Mercado Alternativo Bursátil (alternative stock market)
MEFF	Spanish financial futures and options market
MFAO	Mercado de Futuros del Aceite de Oliva (olive oil futures market)
MIBEL	Mercado Ibérico de Electricidad (Iberian electricity market)
MiFID	Markets in Financial Instruments Directive
MMU	CNMV Market Monitoring Unit
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
OICVM	Organismo de inversión colectiva en valores mobiliarios (UCITS)
OMIP	Operador do Mercado Ibérico de Energía (Operator of the Iberian energy derivatives market)
P/E	Price/earnings ratio
RENADE	Registro Nacional de los Derechos de Emisión de Gases de Efectos Invernadero (Spain's national register of greenhouse gas emission permits)
ROE	Return on Equity
SCLV	Servicio de Compensación y Liquidación de Valores (Spain's securities clearing and settlement system)
SCR	Sociedad de capital-riesgo (Venture capital company)
SENAF	Sistema Electrónico de Negociación de Activos Financieros (electronic trading platform in Spanish government bonds)
SEPBLAC	Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales e infracciones monetarias (Bank of Spain unit to combat money laundering)
SGC	Sociedad Gestora de Carteras (portfolio management company)
SGECR	Sociedad gestora de entidades de capital-riesgo (venture capital firm management company)
SGFT	Sociedad Gestora de Fondo de Titulización (asset securitisation trust management company)
SGIIC	Sociedad gestora de instituciones de inversión colectiva (UCITS management company)
SIBE	Sistema de Interconexión Bursátil Español (Spain's electronic market in securities)
SICAV	Sociedad de Inversión de Carácter Financiero (open-end investment company)
SII	Sociedad de Inversión Inmobiliaria (real estate investment company)
SIL	Sociedad de Inversión Libre (hedge fund in the form of a company)
SIM	Sociedad de Inversión Mobiliaria (securities investment company)
SME	Small and medium-sized enterprise
SON	Sistema Organizado de Negociación (multilateral trading facility)
SV	Sociedad de Valores (broker-dealer)
SVB	Sociedad de Valores y Bolsa (broker-dealer and market member)
TER	Total expense ratio
UCITS	Undertaking for Collective Investment in Tradable Securities

I Securities markets and their agents: situation and outlook

Contents

1	**Executive summary**		13
2	**Macro-financial setting**		16
	2.1	International economic and financial developments	16
	2.2	National economic and financial developments	23
	2.3	Outlook	32
3	**Performance of national markets**		32
	3.1	Equity markets	32
	3.2	Fixed-income markets	37
4	**Market agents**		42
	4.1	Investment vehicles	42
	4.2	Investment firms	48
	4.3	CIS management companies	52
	4.4	Other intermediaries: venture capital	54
5	**Recent initiatives for the regulation of short selling**		56
	5.1	Introduction	56
	5.2	IOSCO-sponsored initiatives	56
	5.3	CESR-sponsored initiatives	57
	5.4	Latest decisions by securities regulators	60
	5.5	Conclusions: the future of short selling regulations	61

List of exhibits

Exhibit 1:	Financial institutions' crisis losses and the impact of fair value accounting	17
Exhibit 2:	The new European architecture for financial supervision	19
Exhibit 3:	Regulation of credit rating agencies in Europe	30
Exhibit 4:	Recent changes in CDS contracts and conventions	40
Exhibit 5:	Comparison between the proposed EU Directive on alternative investment fund managers, the IOSCO principles and Spanish regulations.	47

1 Executive summary

- The international macro and financial landscape has shown signs of stabilisation in recent months. The rate of decline has slowed and in fact some economies were already reporting positive growth rates in the second quarter of 2009, leading to a revise-up in the growth forecasts for 2009 and 2010, especially in Europe, Japan and the emerging Asian economies. Monetary and fiscal policies have stayed notably expansive. Meantime, work has progressed on reforming the financial system on both sides of the Atlantic, with the accent on tighter regulation and a more closely coordinated supervisory effort.
- Against this backdrop, international financial markets have returned to a more even keel than in 2008. Equity prices have rallied strongly accompanied by a decrease in volatility, while fixed-income markets have witnessed a steady run-down in credit risk premiums. In interbank markets, finally, the spread between repo and deposit operations continued to narrow.
- In Spain, Quarterly National Accounts data for the second quarter of 2009 confirm that the fall in GDP was rather less pronounced, thanks basically to a stronger contribution from the net exports side. Domestic demand components, meantime, continued in retreat with some (pertaining to non public investment) betraying serious weakness. Labour market readings (as regards both employed and jobless numbers) declined once more, though at a lower rate, while inflationary pressures stayed tame. The latest European Commission forecasts indicate that Spain's GDP could decline by 3.7% in 2009 and 1% in 2010 (though others augur steeper falls).
- Deposit-taking entities again had to negotiate a tough business landscape, with higher unemployment provoking new rises in non performing loan ratios. However their financing conditions were significantly easier than in previous quarters, due to falling risk premiums, financial system support packages and the menu of borrowing options offered by the Eurosystem. Credit institution earnings have been driven lower year to date by the decline in gains on financial operations and, especially, the impact of loan impairment losses. Capital ratios remain comfortably above the regulatory minimum, though it is clear that some institutions have suffered more than others from the general macro and financial downturn. The Fondo de Reestructuración y Reordenación Bancaria (FROB) has been created precisely to help the financial sector over these risks.
- The growth stall also eroded the profits of non financial listed companies (down 11% in annual terms over the first half of 2009) albeit with major differences from one sector to another. Overall, company leverage rose in this period (to 1.7 times equity from 1.6 in 2008), while coverage ratios showed some improvement. Households had less money to invest despite the increase

in their savings rates and, when they did, maintained a conservative bias in their choice of financial assets. That said, some change is apparent in the decreased flow of assets out of higher-risk instruments.

- Leading institutions augur a modest recovery starting in the second half of 2009, though the prospect of the suspension or reversal of expansionary measures introduces a large dose of forecasting uncertainty. Indeed the downside risks are numerous, starting with what some fear could be a prolonged employment slump. Predictions for Spain suggest recovery will be slower than in other geographical zones, with the lag ascribed mainly to the graver deterioration of its labour market and/or public finances.

- Since the month of March, Spanish stock markets have been enjoying a prolonged price rally, a downturn in volatility and improved liquidity, especially among financial and construction-related companies. The Ibex 35 has recouped 32% of its value as of the lows reached in the years opening months, though it still stands 22% short of its pre-crisis level. With the exception of two shares, all Ibex 35 members are trading lower than they were at the onset of the credit crunch, though some have come back strongly in the last few months. The price-earnings ratio of Spanish shares has been boosted by this price recovery: moreover, rather more intensely than the multiples of other markets. Turnover has built back up after the dip of the year's outset but is still negative in year-on-year terms. Here too, recovery is hedged by uncertainties and contingent on solid improvement in real output indicators and corporate earnings.

- Short-term interest rates continued to fall, in line with the expansionary bent of ECB monetary policy, though the margin for further cuts is inevitably wearing thin. Long government bond yields moved lower in the second and third quarters of 2009, as perceptions of the credit risk of the Spanish economy subsided to some extent. The CDS spreads of Spanish financial and non financial issuers tightened, in line with the prevailing world trend. Bond issuance, finally, held up relatively well in year-on-year terms though the mix has varied substantially, with commercial paper and asset-backed securities losing relative weight in favour of non convertible and mortgage bonds, under the spur of government support measures and new financing options offered by the Eurosystem.

- Assets held in collective investment schemes dropped 5% in the first half relative to December 2008, as far as a mid-year volume of 167 billion euros. This decline was less than in earlier quarters thanks to the more moderate scale of unitholder redemptions and a small increase in portfolio value. The CNMV uses three sets of measures to track funds' portfolio liquidity: an estimation of the overall volume of less liquid instruments, whose relative size (8.7% of total CIS assets) has undergone no major changes in the last six months; controls on the quality and appropriateness of the information managers offer their unitholders; and checks that the underlying structures of guaranteed funds match adequately with market conditions.

- Investor withdrawals have continued to complicate life for real estate funds. Some have had to modify their redemption rules, while others have turned for assistance to the financial parents of their management companies. The outlook for this subset of collective investment schemes remains contingent

on the length and intensity of the domestic real estate market correction. In the case of hedge funds, the advance the sector had enjoyed since its end-2006 launch turned to a retreat in the third quarter of 2008 albeit with notable differences between funds of hedge funds and hedge funds per se. The first group was harder hit by losses at foreign CIS investees as well as suffering investor withdrawals on a higher scale (in fact more than half these schemes are in the process of winding up). Meantime, the more moderate decline in hedge fund assets and unitholder numbers may be nearing its end, to judge from the positive net subscriptions of the second quarter.

- Investment firm income statements took a further battering in the first half of 2009, despite operating in a less fraught environment than in prior quarters. Indeed some key fee income captions registered a lower rate of decrease. The aggregate pre-tax profits of broker-dealers to June 2009 (176 million euros) were 42% down versus the year-ago period due to lower fee income and results from financial operations. And the broker sub-sector fared even worse, with first-half income dropping to a point where it barely covered operating expenses. The contraction in demand for investment services has eaten heavily into earnings, with the result that a growing number of firms have reported losses since December 2007. Despite this adverse environment, companies' solvency levels have held up well. But there is still cause to see this sector as overdimensioned, and the opportune strategic decisions should not be too long in coming.

- A similar picture emerges with collective investment scheme management companies. The decline in assets under management has left a large dent in sector income statements, with a fall of almost 50% in aggregate (annualised) profits and around a third of managers reporting losses. As with investment firms, gathering evidence of excess capacity could prompt strategic decisions by parent companies that usher in a period of sector restructuring.

- The first-half period has witnessed a series of international and European regulatory initiatives directed at the practice of short selling. In Europe, supervisors' end-2008 measures to restrict short sales activity was followed by a May 2009 agreement by the Committee of European Securities Regulators to adopt a common disclosure regime for short positions. The regulatory outlook for this kind of trading is hedged by uncertainty, for while a consensus exists about its benefits, and supervisors are generally considered to be justified in imposing restrictions it if poses a threat to financial stability or market integrity, there is no unanimity about the tolerance to be exercised towards naked short selling.

2 Macro-financial setting

2.1 International economic and financial developments

The macroeconomic and financial landscape is more settled than a few months back. The slowdown is levelling off and some economies even achieved positive growth rate in the second quarter of 2009,...

Since the latest instalment of "Securities markets and their agents: situation and outlook" published in the CNMV Bulletin for the third quarter of 2009, the macroeconomic and financial environment has shown some encouraging signs of stabilisation. At least this is the message given out by certain indicators which point to a slower growth decrease in diverse world regions. A number of international analysts have even ventured an end to worldwide recession in the middle months of 2009. Some larger economies like Germany, France and Japan reported positive quarterly growth in the second quarter, surpassing market expectations, on the back of mild improvements in consumption, exports and government investment.

...leading to a revise-up of growth forecasts for 2009 and 2010, especially in Europe, Japan and the emerging Asian economies.

Even so, leading international organisations are still positing a world GDP contraction of near 1.4% over full-year 2009. Most industrialized economies are tipped to obtain positive quarterly growth rates in the second half and experience gradual recovery from there on in. However the IMF's forecast for 2010 (+2.5%) draws largely on an activity upswing in the United States, Japan and emerging nations, while the euro area economy is expected to stay relatively weak.

Gross domestic product (% annual change) TABLE 1

					IMF(*)		OECD(*)	
	2005	2006	2007	2008	2009F	2010F	2009F	2010F
World	4.4	5.0	5.2	3.4	-1.4 (-0.1)	2.5 (+0.6)	-	-
United States	2.9	2.8	2.0	1.1	-2.6 (+0.2)	0.8 (+0.8)	-2.8 (-1.9)	0.9 (-0.7)
Euro area	1.8	3.0	2.6	0.5	-4.8 (-0.6)	-0.3 (+0.1)	-3.9 (-3.3)	0.0 (-1.2)
Germany	0.9	3.2	2.6	1.0	-6.2 (-0.6)	-0.6 (+0.4)	-4.8 (-4.0)	0.2 (-1.0)
France	1.9	2.4	2.3	0.3	-3.0 (+0.0)	0.4 (+0.0)	-2.1 (-1.7)	0.2 (-1.3)
Italy	0.8	2.1	1.5	-1.0	-5.1 (-0.7)	-0.1 (+0.3)	-5.2 (-4.2)	0.4 (-0.4)
Spain	3.6	4.0	3.6	0.9	-4.0 (-0.8)	-0.8 (-0.1)	-4.2 (-3.3)	-0.9 (-1.7)
United Kingdom	2.1	2.8	3.0	0.7	-4.2 (-0.1)	0.2 (+0.6)	-4.7 (-3.6)	0.0 (-0.9)
Japan	1.9	2.0	2.3	-0.7	-6.0 (0.2)	1.7 (+1.2)	-5.6 (-5.5)	0.7 (+0.1)
Emerging	7.1	7.8	8.3	6.0	1.5 (-0.1)	4.7 (+0.7)		

Source: IMF, OECD and Spanish Statistics Office (INE).
(*) In brackets, percentage change versus the last published forecast. IMF, forecasts published July 2009 (versus April 2009). OECD, forecasts published June or September 2009 (versus December 2008).

However much of this improvement must be laid at the door of government support packages...

Much of the recent improvement in the economic situation owes to the expansionary measures taken by governments, many of which have now used up their remaining fiscal policy leeway. For this reason, there are still major doubts about the strength of the recovery once stimulus packages have run their course.

....in a non inflationary setting that has allowed central banks to keep official rates at historic lows...

Inflationary pressures remain practically non existent. The annual inflation rates of developed economies have dropped below zero in recent months due to oil price base effects, while underlying rates are currently running between 1% and 2%. Forecasts, however, point to a slight resurgence in the months ahead. In this context, monetary policies have maintained their expansionary course. In the last six months, official interest rates in the United States, Japan and the United Kingdom have been hovering near zero, while in the euro area the ECB has effected two 25 bp cuts to leave its main refinancing rate at 1.0%. Over this period, central banks have

prioritised non conventional monetary measures, involving basically longer dated loans and outright purchases of certain financial assets, so as to induce financial institutions to restart the credit cycle and ease the financing burden on businesses and households.

....and with public finances deep in deficit for cyclical reasons and as a consequence of expansionary measures.

Fiscal policies too remained expansionary. Public deficits and public debt ratios have deteriorated sharply in some economies, partly for cyclical reasons but also due to the stimulus measures set in train. Governments are now likely to react with budgetary adjustment plans to ensure the mid-term stability of public finances.

Financial system reform continued its course on both sides of the Atlantic and on both regulatory and supervisory fronts.

Financial institutions have to date recognised 1.6 trillion dollars in crisis losses[1], and have meantime raised 1.3 trillion dollars in capital, half of it from the public sector (see exhibit 1). In effect, financial system stimulus and restructuring packages continued to do their work in the first half of 2009. In the United States, the government launched a plan to reform financial system regulation under which the Federal Reserve would be assigned wider supervisory powers, and stricter controls brought to bear on complex financial assets. In Europe, the European Commission charged an expert group with drawing up priorities for the future supervisory and regulatory framework. Among the key recommendations in the resulting text (known as the Larosière Report) was the set-up of a European Systemic Risk Council, charged with deploying an effective risk alert system, and a European System of Financial Supervisors as a mechanism for coordinating and harmonising the supervisory action of Member States (see exhibit 2). In Spain, the main line of attack has comprised government guarantees for financial institution debt financing and recapitalisation plans.

Exhibit 1: Financial institutions' crisis losses and the impact of fair value accounting

In the past year and a half, various institutions have come up with estimates of financial institution losses due to the financial crisis, which they later enlarged on several occasions[1]. Specifically, in April 2009[2], the International Monetary Fund (IMF) published prospective figures for financial sector writedowns between end-2007 and 2010 in respect of assets exposed to credit risk (see table)[3]:

FINANCIAL SECTOR POTENCIAL WRITEDOWNS (2007-2010)

(billion dollars)	Outstanding	Estimated writedowns financial institutions	Estimated writedowns banks	Loss rate
Securities	16,884	1,967	1,199	11.6%
Loans	40,835	2,087	1,271	5.1%
Total	**57,719**	**4,054**	**2,470**	**7.0%**

Source: IMF.

These losses can be classified according to whether they originate in bad loans, which are generally stated at their amortised cost, or in securities, which are in most cases stated at fair value. As the IMF figures show, although financial institutions hold much more in loans than they do in securities, potential writedowns are very similar for both groups, i.e. the loss rate in securities is far higher than for loans.

1 From the second quarter of 2007 to 14 September 2009. Source: Bloomberg.

This disjuncture, together with the large increase in securities market liquidity premiums, has spurred discussion on the wisdom, from a financial stability perspective, of using the fair value method[4] to account for listed debt instruments. The underlying argument is that a decline in market value at times of crisis need not wholly correspond with the expected credit loss, but in fact takes in other factors, like liquidity premiums, that will have no real translation to capital losses if the securities are held to maturity.

We can further refine our analysis of the above IMF data by calculating how far the fair value method has contributed to system losses. In order to do so, we must find the percentage of total expected bank sector losses corresponding to factors present in the fair value of listed debt securities that do not generate a decrement in the future cashflow of the underlying loans. This calculation uses the following assumptions:

- All listed debt instruments are stated at fair value.
- The loans underlying listed debt instruments have a loss rate equal to that of unlisted loans stated at their amortised cost.
- The loss rates of banks coincide with those of the financial system.

The results found for the worldwide banks sector are summarised in our next table:

World banks (potential writedowns)	Total amount (billion dollars)	% (loss rate)	Fair value effect (billion dolar)	% (fair value effect/ writedowns)
Securities writedowns	1,199	11.6%	671.85	56.0%
Loan losses	1,271	5.1%	0	0
Total	**2,470**	**7.0%**	**671.85**	**27.2%**

Source: IMF and CNMV.

Under the assumptions stated, 56% of total securities writedowns would be a consequence of market factors, like liquidity premiums, which would not materialise as long as the instruments in question were held to maturity. We can say then that around 27.2% of expected bank sector losses are ascribable to a fair value effect incorporating factors that influence the market price of debt securities but need never translate into loan losses.

These figures should be handled with care, as they will logically vary if we consider loan loss estimates to be over conservative or that securities prices are discounting a higher loss rate.

Similar results emerge if we centre exclusively on the euro area banks[5]. In this case calculations factor banks' recognised losses to May 2009, so we can see how far potential writedowns are being realised.

Euro area banks (potential writedowns)	Total amount (billion dolars)	% (loss rate)	Fair value effect	% (fair value effect/ writedowns)	Recognised losses to May/2009	% Recognised/ potential losses
Securities writedowns	218	12.8%	152.55	70.0%	215	98.6%
Loan writedowns	431	3.3%	-	-	150	34.8%
Total potential writedowns	**649**	**4.4%**	**152.55**	**23.5%**	**365**	**56.2%**

Source: ECB, IMF and CNMV

Specifically, applying a calculation process resembling that described above, we find that the portion of expected writedowns for the 2007-2010 period ascribable to the fair value method stands at approximately 23%. In other words, most losses arise from the materialisation of today's credit risk and not the worsening conditions on securities markets. Stripping out securities originated in the United States in the hands of European institutions, whose loss rate is higher, the fair value effect on euro-area banks' expected writedowns fades to 18.8%.

ECB statistics shed useful light on when different types of losses are being recognised in sector balance sheets. Data for the first quarter of 2009 show that unrecognised losses are almost wholly on the loans side. We can say then that recording at fair value enables early recognition of losses, with 25% of the total at most corresponding to factors other than future loan losses – provided that projected loan loss rates are no higher than expected, in which case the fair value effect for non loan loss factors would be less than stated.

1 See exhibit 1 of the CNMV Bulletin for the first quarter of 2009.
2 Global Financial Stability Report, Responding to the Financial Crisis and Measuring Systemic Risk, April 2009.
3 After the closing date for this report, the IMF published new estimates of banks' potential writedowns that retain the same totals but imply a significant reduction in the fair value effect.
4 Instead of the amortised cost method.
5 According to data published by the European Central Bank in its Financial Stability Review of June 2009. The loss rate of loans originated in the United States, used to calculate the fair value effect in US asset sheld by European banks, has been taken from the IMF's *Global Financial Stability Report* of April 2009.

Exhibit 2: The new European architecture for financial supervision

The financial crisis has revealed serious flaws in financial regulation and supervision. To fix them, the international community, at the urging of the G-20 among others, has launched a battery of initiatives aimed primarily at preventing systemic risk or, failing this, ensuring its correct measurement and management. This was the remit given by the European Commission to a group of experts led by Jacques de Larosière, whose proposals were published in February 2009. The Report identified major shortcomings in the regulatory sphere as well as a plethora of at times inconsistent supervisory rules and practices. Most of its conclusions were subsequently adopted by the Commission in a Communication of May 2009.

The Report proposes a profound change in the EU's supervisory structure, starting with the establishment of a European Systemic Risk Council (ESRC) and a European System of Financial Supervision (ESFS).

The ESRC will have the task of identifying systemic risks, and issuing warnings and appropriate guidelines for action to the authorities concerned. It will be chaired by the ECB president and made up of the members of the central bank's General Council, the chairmen of sectoral supervisory committees (CESR, CEBS and CEIOPS) and a representative of the European Commission.

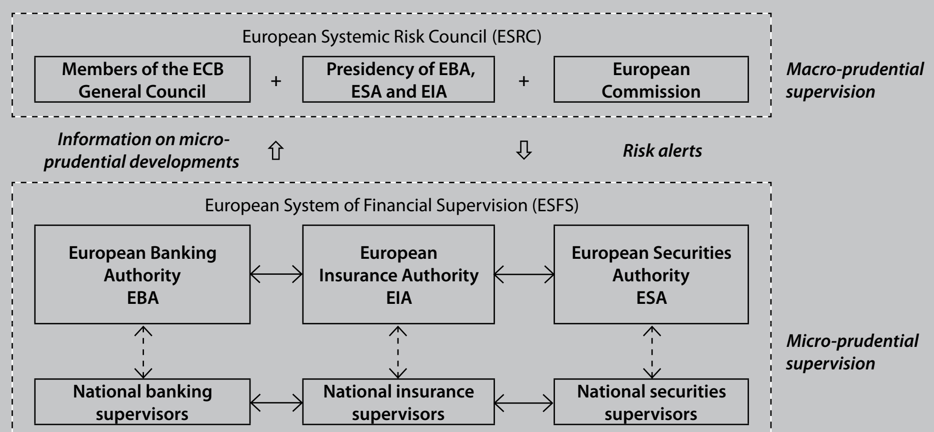
The ESFS will take charge of micro-prudential supervision and investor protection, and its design will address the shortcomings detected in the performance of Lamfalussy level 3 committees as well as the inefficiencies of the current legal framework. It will operate on a decentralised basis and will be made up of three

new supervisory authorities of Community-wide reach (replacing the current Lamfalussy level 3 committees), existing national supervisors (who will remain in charge of day-to-day supervision) and the colleges of supervisors envisaged in the Capital Requirements Directive for dealing with large cross-border institutions.

The new supervisory authorities will have more bite than current level 3 committees (being legally empowered to take binding decisions), and will work to the objectives of developing a common set of technical standards, improving the supervision of cross-border institutions and ensuring closer cooperation and consistent application of Community rules among national supervisors.

National authorities will, as stated, conserve their primacy in day-to-day supervision, but the Report calls for a decisive advance in the harmonisation of technical standards, powers and supervisory practices. It also calls for an expanded use of colleges of supervisors to oversee cross-border institutions, applying them to all financial groups with a Community-wide reach. The new authorities will also take on direct supervision of credit rating agencies in view of their cross-border nature and organisation.

The Larosière Report proposes a two-stage rollout for these changes. In the first (2009-2010), national supervisors must strengthen the quality of their supervision and embark on a process to align supervisors' competences and powers and establish a common rulebook and sanctions regime for all EU Member States. This last process should be finalised by the start of 2013. In the second stage (2011-2012) the ESFS will be formally constituted, with the level 3 committees being transformed legally into three new authorities: for securities (ESA - European Securities Authority), banking (EBA - European Banking Authority) and insurance (EIA - European Insurance Authority). The European Commission, in a Communication of May this year, announced that it was taking steps to speed up the procedure, and that the new framework for financial supervision should be up and running by 2010. On 23 September, it approved a draft legislative package to allow the creation of the European Systemic Risk Council (ESRC) and the start-up of the European System of Financial Supervision (ESFS) formed by national supervisors and the three new Community-wide authorities (ESA, EBA and EIA).



The course of financial markets has run a lot more smoothly this year to date, and especially since March. Equity markets have experienced a strong price rally on perceptions of a slowly improving macroeconomic outlook and the fact that some shares looked attractively priced after the sharp run-down of the previous months. In effect, after losing between 50% and 60% of their value since the onset of the crisis, main world stock indices staged a strong comeback as of March lows. The Nikkei and Euro Stoxx 50 made up 30% and 40%, respectively, of the ground lost, the Dow Jones around 50% and the Ibex 35 a little under 60%. The price surge was especially dramatic in the financial sector and among cyclical stocks like automobiles or natural resources. Share price recovery was accompanied by a sizeable downturn in the historical volatility[2] of leading indices, which by the closing date for this report[3] was back in the 15%-20% interval. The contraction in turnover (over 45% in annual terms on main world exchanges except some in Asia) casts some doubt on how long the bull trend can last. For it truly to consolidate would in all probability require positive developments on the corporate earnings front (especially among financial institutions) and in other indicators of real activity.

Financial markets have served up a more stable performance in 2009. Equity markets particularly have seen a strong price recovery and the dying-down of volatility...

Performance of main stock indices (%) TABLE 2

								3Q09 (to 15 September)		
	2004	2005	2006	2007	2008	1Q09	2Q09	%/prior qt.	%/Dec	% y/y[1]
World										
MSCI World	12.8	7.6	18.0	7.1	-42.1	-12.5	19.7	16.2	21.7	-9.5
Euro area										
Euro Stoxx 50	6.9	21.3	15.1	6.8	-44.4	-15.4	16.0	18.4	16.2	-9.8
Euronext 100	8.0	23.2	18.8	3.4	-45.2	-12.2	13.3	19.9	19.3	-10.8
Dax 30	7.3	27.1	22.0	22.3	-40.4	-15.1	17.7	17.1	17.0	-7.2
Cac 40	7.4	23.4	17.5	1.3	-42.7	-12.8	11.9	19.5	16.6	-10.0
Mib 30	17.5	13.9	19.0	-8.0	-48.7	-15.6	20.4	17.4	19.3	-14.7
Ibex 35	17.4	18.2	31.8	7.3	-39.4	-15.0	25.2	18.4	26.1	6.4
United Kingdom										
FT 100	7.5	16.7	10.7	3.8	-31.3	-11.5	8.2	18.7	13.7	-3.1
United States										
Dow Jones	3.1	-0.6	16.3	6.4	-33.8	-13.3	11.0	14.6	10.3	-11.3
S&P 500	9.0	3.0	13.6	3.5	-38.5	-11.7	15.2	14.5	16.5	-11.7
Nasdaq-Cpte	8.6	1.4	9.5	9.8	-40.5	-3.1	20.0	14.6	33.3	-3.5
Japan										
Nikkei 225	7.6	40.2	6.9	-11.1	-42.1	-8.5	22.8	2.6	15.3	-16.4
Topix	10.2	43.5	1.9	-12.2	-41.8	-10.0	20.2	0.3	8.5	-20.8

Source: Datastream.

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

In debt markets, the stand-out development of the past months has been sharp yield curve steepening in the United States and Europe, reflecting both the continuing downtrend in short-term rates (in line with official interest rates) and the upward run of long bond yields. This last movement (see figure 1) was initially due to the growing preference for higher risk instruments (and, therefore, a move out of safe-haven assets) and later to the increase in sovereign risk premiums, above all in the economies suffering most deterioration in their deficit and debt. In the last few weeks, however, we have seen some stabilisation in the longest dated instruments. In corporate debt, the more settled climate has translated as a substantial fall in credit risk premiums. As of mid March, the credit spreads of the highest rated North

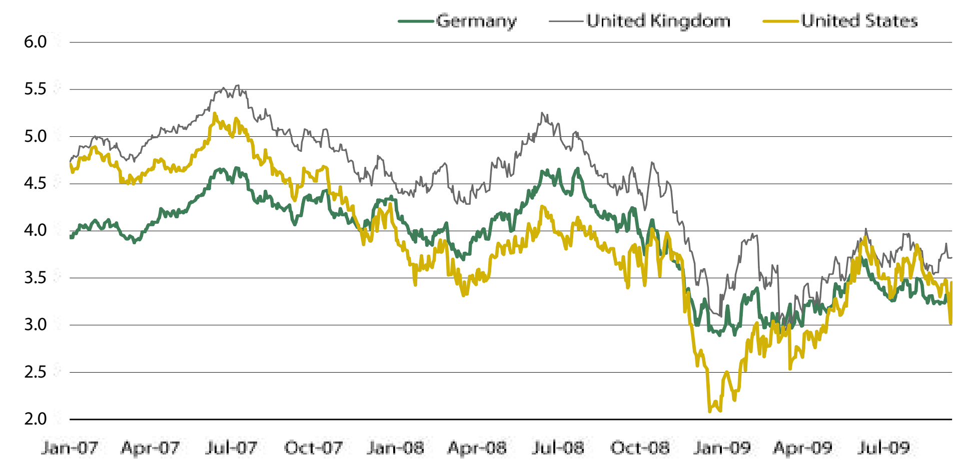
... in debt markets, credit risk premiums have come down substantially as a result of the more settled climate.

2 Defined as the annual standard deviation of daily price changes over the last twenty trading sessions.

3 Data to 15 September.

American companies have dropped from 265 bp to 104 bp (700 bp to 270 bp for lowest rated issuers) while the spreads of European companies have dropped from 200 bp to 85 bp at the top quality end and from 1,100 to 520 further down the ratings table[4].

Ten-year government bond yields (%) FIGURE 1



Source: Thomson Financial Datastream. Data to 15 September.

Signs of normalisation on interbank markets have brought further reductions in the deposit to repo spread, especially in the United States.

Interbank markets have also been showing signs of normalisation, especially in the United States. Interest rates at different maturities as well as the spread between deposit and repo rates have moved steadily lower over the last six months. In North America, this spread has dropped below 10 bp in the three-month term, significantly lower than its values at the crisis outset (between 15 and 20). In Europe, the spread began narrowing in March and was down to 35 bp by the month of September (versus a pre-crisis value of under 10).

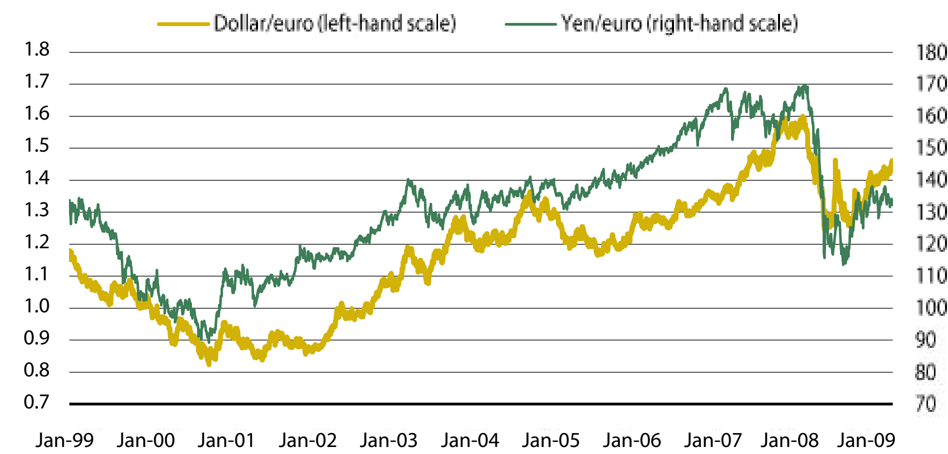
Currency markets performed more erratically though some of last year's trends have now reversed.

Currency markets kept up a somewhat erratic performance, though some of the main trends noted at the turn of the year have since unwound themselves. After appreciating strongly against the euro in late 2008 and early 2009, the dollar entered a renewed though irregular descent that carried it from under 1.30 dollars/euro in March to over 1.40 dollars/euro. Likewise the yen, which after gaining against the euro, began to fall back from its end January high, depreciating from around 115 yens per euro to 130 in mid September. Part of this last movement has to do with a new wave of carry trade[5] investments encouraged by the low interest rates of the Japanese economy.

4 Reference indices are the CDX and Itraxx in their Investment Grade and Cross Over modalities.

5 When investors borrow in a low-yielding currency to fund the simultaneous acquisition of assets denominated in other, high-yielding currencies.

Euro exchange rates vs. the dollar and yen FIGURE 2



Source: Thomson Financial Datastream. Data to 15 September.

2.2 National economic and financial developments

In Spain, Quarterly Accounts data for the second quarter of 2009 confirm that the downturn is decelerating,...

National Quarterly Accounts data for the second quarter of 2009 have confirmed that the GDP contraction is less than what it was. Nonetheless, the return to positive growth rates now being enjoyed in other geographical areas may have to wait until the middle of next year. Spain's GDP shrank by 1.1% in the second quarter (the fourth decrease in a row), compared to the -1.6% of the first three months, while the year-on-year decline was 4.2% (3.2% in the first quarter). Domestic demand continued to weaken (detracting 7.3 growth points) against a rather more positive growth contribution from the net exports side (up from 2.9 points in the first quarter to 3.1 in the second). On the supply side, the brunt of the correction fell on the industry and construction branches.

...though this has more to do with the foreign sector. Domestic demand components are still moving in negative territory and some (associated to non government investment) continue to worsen on a quarterly basis.

A closer analysis of demand components shows that household spending reduced in the period (-5.9% year on year) albeit rather less than in previous quarters. Main consumption drivers (disposable income and wealth) weakened anew although confidence indicators showed some improvement. Savings rates continued their ascent, to over 14% of disposable income. Government consumption was yet again the most dynamic domestic demand component (5.1% year on year). The decline in gross fixed capital formation accelerated in the second quarter (from -15.2% to -17.0% in year-on-year terms) though the quarterly fall was slightly less, a pattern repeated with household spending. Equipment investment produced the worst result (-28.9% year on year) in tune with the weakness of imports and industrial production. Construction investment, meantime, dropped by 12%, half a point more than in the previous quarter. Infrastructure investment continued to expand (1.2%), especially at local authority level and linked to the high-speed rail network, while residential investment went on slowing (-25.5% versus -24.3% the previous quarter), due to the intense real estate correction and attendant uncertainties.

Employment destruction continues, though the pace has slackened,...

The latest labour market data (Social Security, National Employment Office [INEM], Labour Force Survey) confirm a global picture of deterioration, though the rate of decline is rather less. According to the Labour Force Survey, the number of people in work fell by 145,000 in the second quarter (1.5 million in the last year), while jobless numbers increased 126,700 (1.7 million in the last year). The annual variation in the total of employed and unemployed persons stood at -7.2% and

73.7% respectively. Employment losses have been felt most intensely in industrial and construction sectors, which together accounted for 72% of the year-long decline. The unemployment rate increased in the second quarter to 17.9% of the labour force, an addition of five decimal points over the previous quarter's rate.

...and inflation remains at bay. The run-down in energy rates may be losing momentum, but other less volatile items look set to take over.

Annual inflation moved up in August from -1.4% to -0.8% with the fading of the energy effect that drove the run-down in rates between July 2008 and July 2009 (from 5.3% to -1.4%). However some moderation is clearly detectable among remaining components of the CPI basket, to the extent that underlying inflation (excluding energy and fresh food items) has eased from 3.5% to 0.4% over the last year. The inflation differential with the euro area has stayed negative for the past nine months.

The European Commission forecasts a GDP contraction of 3.7% in 2009 and 1.0% in 2010, and calls attention to the structural imbalances afflicting the Spanish economy.

The latest European Commission forecasts for Spain project a GDP contraction of 3.7% in 2009 and 1.0% in 2010. However other estimates say the 2009 decline may be greater than 4.0% in view of the rapid deterioration of the labour market and public finances. The unemployment rate is forecast to exceed 20% of the labour force in 2010, while the public deficit is likely to run to nearly 9% in 2009 and 10% in 2010.

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

					European Commission*	
	2005	2006	2007	2008	2009F	2010F
GDP	3.6	4.0	3.6	0.9	-3.7 (-1.7)	-1.0 (-0.8)
Private consumption	4.3	3.8	3.7	-0.6	-3.1 (-0.5)	-1.1 (-1.1)
Government consumption	5.5	4.6	5.5	5.5	5.1 (+2.8)	4.7 (+4.5)
Gross Fixed Capital Formation, of which:	7.0	7.2	4.6	-4.4	-14.7 (-8.7)	-8.0 (-4.3)
Equipment	9.2	9.9	9.0	-1.8	-23.3 (-10.6)	-9.6 (-5.1)
Exports	2.5	6.7	6.6	-1.0	-10.2 (-7.5)	0.1 (-0.5)
Imports	7.7	10.2	8.0	-4.9	-14.5 (-9.9)	-2.4 (-0.3)
Net exports (growth contribution, pp)	-1.7	-1.4	-0.9	1.4	2.0 (+1.2)	0.7 (-0.1)
Employment	3.2	3.2	2.9	-0.6	-5.3 (-1.4)	-2.7 (-0.7)
Unemployment rate[1]	9.2	8.5	8.3	11.3	17.3 (1.2)	20.5 (+1.8)
HICP	3.4	3.6	2.8	4.1	0.0 (-0.6)	1.4 (-1.0)
Current account (% GDP)	-7.5	-9.0	-10.1	-9.5	-6.9 (+0.2)	-6.3 (+0.3)
General government (% GDP)	1.0	2.0	2.2	-3.8	-8.6 (-2.4)	-9.8 (-4.1)

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

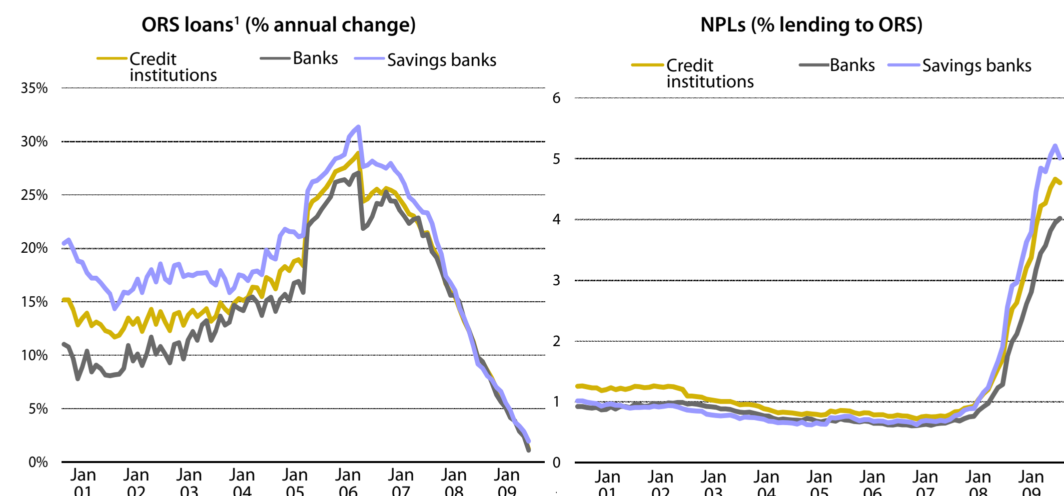
1 Eurostat definition.

* Forecasts published in spring 2009 (versus January 2009), except 2009 forecasts for GDP and inflation, published in September (versus January).

Deposit-taking entities face more bad loans as unemployment takes its toll...

Spanish deposit-taking entities have again had to negotiate a tough business landscape. Although financing difficulties have eased somewhat, fading demand for credit and, above all, rising unemployment have hit at sector activity and results. Lending to businesses and households by Spanish deposit-taking entities has been decelerating steadily since the start of 2007. Year-on-year growth was down to 1.2% in June from 5.4% in January this year (see figure 3). Meantime, non performing loans ratios have expanded to a June level of 4.6% (3.9% in January), with banks faring worse (4% in June versus 3.2% in January) in comparison to savings banks (5% and 4.5% in June and January respectively). In fact, savings bank NPL ratios actually fell slightly between May and June, delivering the first positive sector-wide reading since the outbreak of the subprime crisis.

Deposit-taking entities: loans and NPLs FIGURE 3



Source: Banco de España. Data to August 2009.

1 ORS: Other resident sectors.

...especially real estate developer financing and, to a lesser extent, loans to households.

The bad loan upswing of the last six months[6] traced mainly, as is becoming customary, to real estate developer financing, followed by loans to households for home purchase and refurbishment and, at a distance, loans to construction-related businesses. The differing loan-book mix of banks and savings banks means the latter are more exposed to payment arrears in household mortgage loans. Banks, conversely, have been worse affected in loans to productive activities other than real estate and construction, and in consumer loans to households for the acquisition of durable goods.

Their financing conditions have improved versus previous quarters thanks to falling risk premiums,...

The financing conditions of national deposit-taking entities have improved this year with respect to the preceding quarters. Among the factors at work have been the less uncertain climate, which has brought risk premiums down significantly, financial system support packages (basically the granting of government guarantees for entities' long-term debt financing) and, finally, the menu of borrowing options provided by the central bank.

...financial system support measures (basically government guarantees for long-term debt financing), and...

The amount of government-backed debt issued by Spanish institutions comes to 38.46 billion euros year to date[7]. A total of 39 entities have conducted 122 issues of this kind.

... the range of financing options put in place by the central bank.

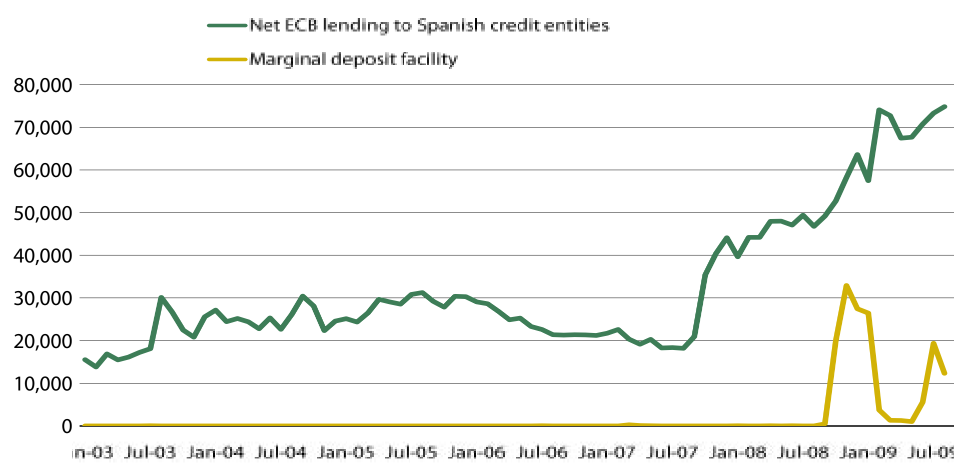
The amount of Eurosystem loans taken by Spanish institutions stands at nearly 75 billion euros. Spanish entities have turned increasingly if irregularly to this source of finance since the start of the crisis (see figure 4). The latest increase owes partly to the extension to one year (agreed in June) of the term for ECB refinancing operations with disbursement in full. Institutions have continued to leave a large part of these funds (over 12 billion euros) in the ECB's own deposit facility. Mortgage bond issues have also gained popularity among deposit-taking entities in recent months following the ECB's launch of a covered bond purchase programme. Since the programme was announced in May, Spanish entities have issues mortgage bonds worth 7.19 billion euros, equivalent to 32% of this year's total issuance.

6 In this case, the latest available bad loan data by transaction finality correspond to March 2009.

7 To 15 September.

Net ECB lending to Spanish credit entities and balance of the deposit facility (million euros)

FIGURE 4



Source: Banco de España. Data to August 2009.

Credit institutions' first-quarter net profits were 16% down on one year before due to falling profits on financial operations and rising impairment losses.

Credit institutions reported first-quarter net profits of 4.97 billion euros, 16% less than one year before. The decline traced mainly to gross income (-5.2% year on year), after growth in net interest income (24.1% year on year) was partly wiped out by lower inflows from other financial operations. The second big factor impacting on sector income statements was the surge in loan impairment losses (4.15 billion euros in the first quarter of 2009 compared to 2.24 billion over the same period in 2008). Return on equity (ROE), finally, was down to 12.9% by end 2008 from the 19% of 2007.

Capital ratios remain well clear of the statutory minimum, though some entities are more vulnerable than others to a worsening financial and macro outlook. The FROB will go some way to alleviating these risks.

The total capital ratio of Spanish deposit-taking entities was 11.3% in December 2008, while the core capital ratio (tier 1) stood at 8.4%. These levels were rather higher than one year before (10.6% and 7.5% respectively) and remain well clear of the regulatory minimum. That said, some entities are more exposed than others to a worsening macroeconomic and financial environment. To address this risk, the government has created the Fondo de Reestructuración y Reordenación Bancaria (FROB) in order to reinforce the solvency of the Spanish banking sector[8] and guarantee its proper functioning.

Non financial listed companies suffer further earnings decline albeit with large differences between sectors.

The profits of non financial listed companies continued to sag under the impact of the economic slowdown, though this year inter-sector differences have been especially pronounced. Overall, non financial companies reported first-half profits of almost 14.90 billion euros, a decline of 11% with respect to the same period in 2008 (see table 4). The slide was almost wholly centred on energy sector companies, whose profits slumped from 12.17 billion in first-half 2008 to around 6.75 billion in 2009 (-45%), and to a lesser extent industrial companies (down from 1.75 billion to 493 million euros). By contrast,

8 The plan contemplates three stages: (i) the affected credit institution resolves any problems by its own means; a process not regulated in the Royal Decree-Law, (ii) adoption of measures to tackle weaknesses that could impair the viability of credit institutions participating in Deposit Guarantee Funds, and (iii) restructuring processes with the intervention of the FROB. The fund, with a mixed financing structure, has been allocated an initial sum of 9 billion euros from the National Budget (6.75 billion euros) and amounts contributed to credit institutions by Deposit Guarantee Funds (2.25 billion euros). It will also draw on the retained earnings of the Financial Assets Acquisition Fund (FAAF) and is empowered to aise finance on securities markets in pursuit of its objectives, by issuing debt instruments backed by government guarantee, as well as to receive loans, apply for the opening of credit lines and conduct other borrowing operations for a sum not exceeding three times its endowment in the current year.

companies in the retail and services sector grew their profits 3.8% to 6.23 billion and, more important still, the construction and real estate companies that had suffered the sharpest correction in 2008, fought back from 2008 losses of 3.15 billion to 1.46 billion profits in the first half of 2009. Note, however, that these aggregate figures mask notable differences, with a number of construction and real estate operators still having to cope with seriously deteriorated earnings.

Earnings by sector[1]: listed companies TABLE 4

	EBITDA[2]		EBIT[3]		Profit for the year	
Million euros	**1H08**	**1H09**	**1H08**	**1H09**	**1H08**	**1H09**
Energy	14,782	14,984	10,660	10,111	12,166	6,749
Industry	3,506	2,200	2,444	1,129	1,752	493
Retail and Services	15,274	14,381	9,445	8,652	5,999	6,228
Construction and Real estate	707	2,736	-727	1,289	-3,154	1,465
Adjustments	-470	-360	-326	-220	-30	-40
AGGREGATE TOTAL	**33,799**	**33,941**	**21,496**	**20,961**	**16,733**	**14,895**

Source: CNMV.

1 Year-to-date earnings.

2 Earnings before interest, taxes, depreciation and amortisation.

3 Earnings before interest and taxes.

The debt of non financial listed companies swelled to 323.1 billion euros in June 2009 (4.4% more than at end 2008), representing 1.7 times their aggregate equity (1.6 times in 2008). As table 5 shows, the largest increase in both absolute and relative terms corresponded to companies in the energy sector, whose combined debt rose 25% in the first six months to nearly 103 billion euros, almost a third of the all-company total. Conversely, companies in retail and services and, more so, construction and real estate managed to reduce their debt in the same period, by 3.1% and 12.3% respectively. Despite this decline in the latters' external borrowings, the drain on equity raised their leverage from 3.8 times in December 2008 to 4.3 times in mid-year 2009.

The combined debt of these companies rises 4.4% in first-half 2009, with energy firms almost wholly responsible,...

Debt coverage ratios, meantime, have improved on their start-out levels (except among the industrial contingent) thank to the downward trend in interest rates. Specifically, earnings before interest and taxes (EBIT) stood 2.6 time higher than companies' aggregate interest expenses. Construction and real estate related firms were hardest pressed, with EBIT failing to cover more than half of their interest expenses, though here too we can detect some improvement.

... but coverage ratios improve overall except in the construction and real estate sectors.

Gross debt by sector: listed companies

TABLE 5

Million euros		2005	2006	2007	2008	1H09[5]
Energy	Debt	58,586	59,191	69,172	82,608	102,933
	Debt/Equity	0.9	0.9	0.8	0.9	1.1
	Debt/EBITDA[1]	2.4	2.2	2.5	2.8	3.4
	EBIT[2]/Interest expenses	4.0	4.7	4.1	3.7	3.8
Industry	Debt	12,760	15,684	13,312	15,645	15,880
	Debt/Equity	0.8	0.8	0.6	0.7	0.8
	Debt/EBITDA	2.1	2.1	1.8	2.7	3.6
	EBIT/Interest expenses	6.5	5.7	5.9	3.4	2.5
Construction and real estate	Debt	48,324	111,000	138,933	119,788	105,056
	Debt/Equity	2.2	3.1	3.1	3.8	4.3
	Debt/EBITDA	6.5	11.5	10.8	31.9	19.2
	EBIT/Interest expenses	2.8	2.0	1.2	0.0	0.5
Retail and Services	Debt	55,710	91,522	96,941	112,322	108,831
	Debt/Equity	1.7	2.5	1.7	2.1	2.1
	Debt/EBITDA	2.7	3.6	3.0	3.6	3.8
	EBIT/Interest expenses	3.4	2.4	3.2	2.9	3.1
Adjustments[3]	Debt	-7,942	-11,199	-17,391	-20,802	-9,583
AGGREGATE TOTAL[4]	Debt	**167,438**	**266,198**	**300,967**	**309,561**	**323,117**
	Debt/Equity	1.3	1.7	1.5	1.6	1.7
	Debt/EBITDA	2.9	3.9	4.0	4.6	4.8
	EBIT/Interest expenses	3.8	3.3	3.0	2.0	2.6

Source: CNMV.

1 Earnings before interest, taxes, depreciation and amortisation.

2 Earnings before interest and taxes.

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

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

5 EBITDA has been annualised in this case for the purpose of calculating Debt/EBITDA.

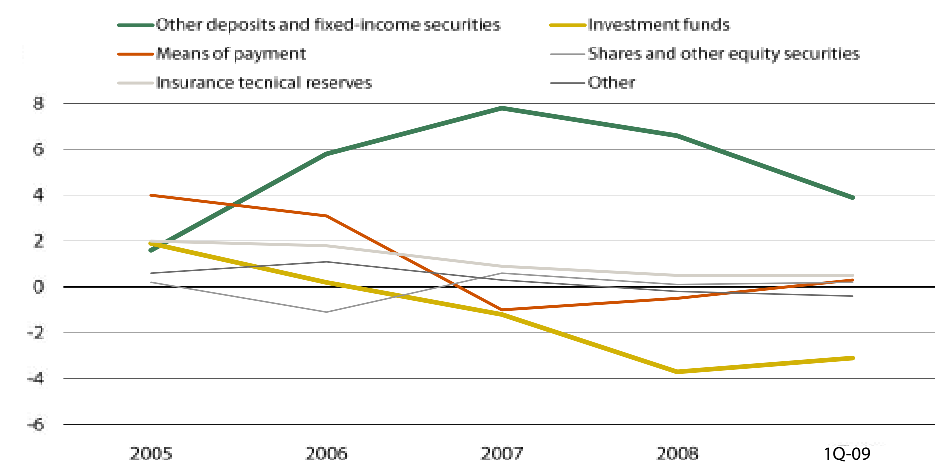
Households make a greater saving effort, but borrowing constraints bar them from investing more in financial and other assets. Their investment portfolios retain a conservative bias, though with less outflow from higher risk instruments.

Household asset indicators stayed pointing in the same direction as all though the crisis: an increase in the savings rate (now above 14% of gross disposable income), a decrease in indebtedness ratios to around 125% of gross disposable income (from highs of over 130% in 2007 and 2008) and a loss of wealth caused by the falling prices of financial assets and, above all, real estate properties. Financial asset purchases were again constrained by households' more limited resources and prolonged the decline begun in 2007 to end the first quarter of 2009[9] at 1.3% of GDP (against 2.8% in 2008 or the 7.4% of 2007). Retail investor portfolios have reduced their ultra conservative bias in recent months in response to the rather more settled market climate. So while low-risk assets continue to dominate in households' investment mix, we can detect a certain shift from term deposits to investment funds: inflows to the first are down considerably while withdrawals from collective investment products are beginning to slow (see figure 5).

9 Cumulative four-quarter data.

Household financial asset acquisitions (% GDP)

FIGURE 5



Source: Banco de España, Financial Accounts.

Investment fund subscriptions and redemptions (million euros)

TABLE 6

Category	Subscriptions				Redemptions			
	3Q08	4Q08	1Q09	2Q09[8]	3Q08	4Q08	1Q09	2Q09[8]
Fixed income[1]	17,342.5	24,475.2	18,299.3	15,572.6	24,503.3	32,332.9	19,963.9	19,433.2
Balanced fixed income[2]	239.0	739.4	361.9	515.0	1,437.2	1,946.2	806.2	549.3
Balanced equity[3]	272.4	192.9	71.0	156.3	900.0	854.7	493.0	284.4
Euro equity[4]	461.6	576.2	362.1	489.3	1,610	1,151.9	751.4	515.9
International equity[5]	621.7	336.1	390.8	598.4	1,642	965.6	506.3	592.0
Fixed income guaranteed	2,692.4	2,974.9	3,180.6	3.783.2	1,785.4	3,760.4	3,587.1	3,300.3
Equity guaranteed[6]	1,549.5	785.4	636.5	1.369.3	3,924.0	4,715.6	2,372.5	2,944.0
Global funds	738.3	997.5	600.6	971.5	3,570.2	3,670.3	1,538.5	588.0
Passively managed[7]				62.1				307.8
Absolute return[7]				567.8				627.3
Hedge funds	8.2	21.6	23.5	40.7	14.5	47.6	108.3	7.5
Funds of hedge funds	165.9	161.5	35.5		101.5	215.9	294.6	
TOTAL	**24,091.6**	**31,260.7**	**23,961.8**	**24,085.5**	**39,487.6**	**49,661.1**	**30,421.8**	**29,142.2**

Source: CNMV.

1 To 1Q09: Short and long fixed income, international fixed income and money market funds. From 2Q09: Euro and international fixed income and money market funds.
2 To 1Q09: Balanced fixed income and balanced international fixed income. From 2Q09: Balanced euro fixed income and balanced international fixed income.
3 To 1Q09: Balanced equity and balanced international equity. From 2Q09: Balanced euro equity and ba–lanced international equity.
4 To 1Q09: Spanish equity and euro equity. From 2Q09: Euro equity (including Spanish equity).
5 To 1Q09: International equity Europe, Japan, United States, emerging markets and others. From 2Q09: International equity.
6 To 1Q09: Guaranteed equity. From 2Q09: Guaranteed and partially guaranteed equity.
7 New categories as of 2Q09. All absolute return funds were previously classed as global funds.
8 Hedge fund subscription and redemption data corresponds to the months of April and May. Itemised information for funds of hedge funds (subscriptions and redemptions) is only available on a full quarter basis. Estimates for 2Q09 indicate that net redemptions from the hedge fund segment of the CIS market totalled some 72 million euros.

Exhibit 3: Regulation of credit rating agencies in Europe

The risk assessment labours of rating agencies have for years been of vital help in reducing information asymmetries between the offerors and users of rated financial products, thus facilitating their placement. In addition, the ratings they assign have been used to establish the risk weightings of different assets for the purpose of determining capital requirements, or to cap institutional investment in certain types of assets by the likes of pension funds or insurance companies. This is also a highly concentrated sector in which three major agencies command a market share of 95%.

Rating agencies operate a complex incentives structure in that it is the issuer not the investor who pays their fees. This could cause agencies to err on the side of generosity when rating the instruments issued by a client. The subprime crisis brought to light other problems in the way they function. In particular, criticisms were levelled at their ratings of structured products (whereby pools of loans are securitised then sold after grading by a rating agency), which turned out to be largely inaccurate as well as seriously miscalculating how the bonds might perform in certain adverse scenarios.

The financial crisis has prompted diverse initiatives to tighten up the rules on agency registration and supervision in a break with the self-regulation regime that had previously characterised the industry. In Europe, the need to bring agencies under stricter control was addressed in a Regulation still pending formal approval, but which will likely come into force at the end of this October. Its text confines the validity of ratings for regulatory purposes to those issued by registered agencies domiciled in the EU or a third country[1]. Further, issuers will be obliged to state whether a rating has been assigned by a registered agency on the occasion of public offers of securities or their admission to trading on a regulated market, and publish this information in the corresponding prospectus .

The new norm sets conditions for the issuing of credit ratings and regulates agency organisation and activities with the following goals in mind[2]:

a) To foster independence and avoid conflicts of interest by means of the following provisions, among others:

  a.1) At least two independent directors on the administrative or supervisory board, whose remuneration does not depend on the business performance of the agency.

  a.2) Agencies should not provide consultancy or advisory services except wherethere can be no conflict of interest with the issue of ratings.

  a.3) They should disclose the names of any rated entities that account for over 5% of their annual revenue.

  a.4) Employee remuneration should not be contingent on the revenue obtained from rated entities.

  a.5) Agencies should rotate analysts on a staggered or individual basis .

b) To improve the reliability of the methodologies, models and key assumptions used in drawing up ratings, by means of:

  b.1) Rigorous, systematic and continuous models subject to validation against historical experience.

b.2) Adoption of measures to ensure the input information for ratings is of sufficient quality and comes from reliable sources.

b.3) Monitoring of ratings and methodologies so they are kept responsive tochanged conditions.

c) To increase transparency by setting the following disclosure obligations:

c.1) Full and public disclosure of business information (list of ancillary services, methodologies, code of conduct...). Information on methodologies will allow ratings users to verify their reliability. Agencies will be exempt from disclosing confidential commercial information so as not to discourage innovation.

c.2) Differentiation between ratings of structured finance instruments and others. Agencies should provide the CESR with regular standard informa-tionon the performance of rated entities. CESR will create a central reposi-tory where these records will be available for public consultation.

c.3) Publication of an annual transparency report on their legal structure, recordkeeping policy and internal quality control system which also in-cludes financial information on the agency's revenue, distinguishing be-tween ratingand ancillary activities.

The competent authorities of the home Member State shall be responsible for registering and supervising credit rating agencies, though remaining national authorities may also participate through designated colleges of supervisors. In the event that the members of such colleges do not agree about the measures to apply, the Regulation states that the matter should be referred to the CESR and a mediator of its designation. The text, as such, tasks CESR with coordinating between college supervision and that of the competent authorities, i.e., it permits Community-wide supervision, although the CESR or mediator's opinions shall not be binding, and the final power of decision will remain with the competent authorities. Smooth cooperation will thus be required at the college level to avoid discrepancies between national decision-makers. Note finally that the supervisory architecture envisaged in the Regulation will be subject to far-reaching reforms in the light of the conclusions of the Larosière Report. Indeed, the preference now is for a more centralised model that entrusts the registration and supervision of credit rating agencies to a sole European body –possibly a transformed version of the CESR.

As of the Regulation's entry to force, agency subsidiaries established in Spain will come under the supervision of the CNMV, which will work closely in tandem with the Banco de España and with other European securities supervisors to ensure effective global oversight.

1 Two procedures are established whereby European issuers can use ratings issued by agencies domi-ciled in third countries for the purpose of regulatory compliance, the idea being in both cases to ensure the equivalence of their respective legal and supervisory frameworks. One of them, known as the endorsement system, is designed for large agencies deemed to have important links with the financial stability or integrity of Member State financial markets. The other, certification system is envisaged for small agencies that have no plans to set up subsidiaries in the EU.

2 The rules introduced in the Regulation draw heavily on the voluntary standards set out in IOSCO's Code of Conduct for Credit Rating Agencies.

2.3 Outlook

International forecasts point to a modest recovery in world GDP growth, though the suspension or reversal of expansionary policies introduces a substantial element of uncertainty.

The forecasts of leading international organisations suggest the downturn may have bottomed in the middle months of 2009, ushering in a recovery in world GDP that will be modest only except for the emerging economies. One source of uncertainty is how much this mooted growth may rely on the expansionary policies adopted by governments to help their economies out the recession, which cannot be prolonged indefinitely. Choosing the moment to suspend or reverse these policies is a delicate operation: too soon and they risk puncturing the nascent recovery; too late and inflation rates may rebound in excess.

Among the many downside risks for these projections is the prospect of a prolonged labour-market slump.

Although there are also upside risks for the above projections –for instance that government stimulus packages turn out more effective than expected, or financial institutions take less time to set their balance sheet to rights– the truth is that the downside risks are both numerous and significant. Among them we can cite a prolonged labour market downturn, a loss of confidence due to deteriorating public finances, the resurgence of protectionist temptations and the spread of deflationary expectations. Any combination of these factors could serve to reignite financial market turmoil.

Nationally, recovery is forecast to be somewhat slower than in other geographical zones, with a deeper decline in employment and/or public finances as the main factors ranged against. The FROB, meantime, will help attenuate the

Current forecasts suggest that the Spanish economy may be over the worst of the recession, but recovery will be somewhat slower than in other developed countries. The fundamental risks for this scenario are a larger-than-projected labour-market slump, especially when government support begins to run out; the possibility that public finances may sink deeper into the red, even threatening the sustainability of the public debt; and, finally, continuing difficulties at financial institutions requiring an added recapitalisation effort. In this last respect, a backstop is provided by the approval of the FROB.

Supply-side policies should now come to the fore.

As in other economies, demand policies have all but used up their room for manoeuvre, and supply-side policies must now step in to boost the country's economic competitiveness and its potential output rate.

3 Performance of national markets

3.1 Equity markets

Spanish equity prices have been rising significantly since March, accompanied by lesser volatility and improved conditions of liquidity.

All this year[10], and especially since March, Spain's financial markets have been showing signs of recovery, in line with other international markets. Stock markets particularly have been enjoying a prolonged price rally, accompanied by reduced volatility and improved liquidity conditions.

The Ibex 35 began to stir around mid-March, and has since risen 25.2% to June and 18.4% so far this quarter. The index's year to date gain (26.1%) outperforms all leading market indices except the Nasdaq (see table 2). Small and medium cap indices have moved up 29.9% and 19.5% respectively year to date, while the FTSE Latibex Top and All Share have surged 48.4% and 65.2% respectively after initiating their rally one quarter earlier.

10 The closing date for the report corresponds to 15 September.

Financial and construction-related stocks were in the vanguard of the recovery (see table 7), with industrial goods, discretionary consumer goods and insurance companies also faring well. This year's steepest losses were recorded by cyclical sectors like basic consumer goods, companies engaging in energy production and supply (oil, gas and utilities) and real estate operators.

Financial and construction companies lead the recovery, while cyclical stocks bring up the rear.

Table 8 below shows the price lows, current quotes and, by differences, the scale of recovery achieved by Ibex 35 shares between the onset of the crisis and the closing date for this report (quotes are normalised at a baseline 100 on 31 July 2007). The results permit some interesting conclusions. First of all, we can see that the Ibex 35 shed 54% of its summer 2007 baseline value as far as a period low of 46 points, before regaining 32 points to reach its current level of 78. However this last value is still 22% below its pre-crisis levels.

The Ibex 35 has recouped 32% of its value since the lows of the year's first months, but still stands 22% short of its pre-crisis level.

Performance of Spanish stock market indices and sectors (%) TABLE 7

							3Q09 (to 15 September)		
Indices	**2005**	**2006**	**2007**	**2008**	**1Q09[1]**	**2Q09[1]**	**%/prior qt.**	**%/Dec**	**% y/y**
Ibex 35	18.2	31.8	7.3	-39.4	-15.0	25.2	18.4	26.1	6.4
Madrid	20.6	34.5	5.6	-40.6	-16.2	24.4	19.3	24.2	3.4
Ibex Medium Cap	37.1	42.1	-10.4	-46.5	-12.5	23.8	10.3	19.5	-5.2
Ibex Small Cap	42.5	54.4	-5.4	-57.3	-6.0	19.5	15.7	29.9	-13.4
FTSE Latibex All-Share	83.9	23.8	57.8	-51.8	16.6	27.6	11.0	65.2	0.7
FTSE Latibex Top	77.9	18.2	33.7	-44.7	6.4	27.5	9.4	48.4	-7.6
Sectors[2]									
Oil and gas	29.1	18.3	1.8	-30.8	-32.4	12.6	12.5	-14.4	-29.2
Chemicals	176.1	-20.4	-58.4	-67.8	-15.5	13.2	14.2	9.3	-42.1
Basic materials	20.0	69.3	-17.2	-45.4	-20.9	37.6	21.0	31.7	3.1
Construction and constr. materials	50.4	61.6	-12.0	-51.0	-7.9	28.6	7.7	27.5	-0.2
Industrial goods and services	18.4	28.4	6.9	-41.9	-6.4	17.0	13.7	24.5	9.9
Health	19.0	40.7	19.2	-45.0	-5.5	29.2	-1.4	20.4	-20.7
Utilities	27.2	42.0	18.5	-31.0	-23.6	1.5	14.5	-11.2	-21.2
Banks	19.2	27.6	-4.5	-47.9	-23.4	48.8	25.7	43.2	10.2
Insurance	39.9	44.7	-13.3	-25.0	-32.6	41.6	27.1	21.3	1.4
Real estate	58.9	100.4	-42.6	-58.6	-36.3	-10.9	41.3	-19.7	-39.6
Financial services	58.6	91.1	-35.6	-44.3	-9.6	31.3	7.5	27.5	4.5
Telecommunications and media	-0.7	29.4	26.3	-31.4	-6.2	8.9	15.8	18.3	9.8
Discretionary consumption	24.8	21.2	-7.7	-39.2	-12.3	22.6	17.2	26.0	21.7
Basic consumption	19.0	12.9	6.9	-22.5	-19.4	2.3	11.9	-7.8	-23.4

Source: Thomson Datastream.

1 Change on previous quarter.

2 Classification obtained from Thomson Datastream.

Overall, banks and construction took the hardest beating in the thick of the crisis, with losses at times exceeding 75% (Sacyr shed almost 85% of its value and OHL 80%), while the lows reached by energy and, above all, communications companies stood considerably higher. The subsequent recovery trend was led by the two banking majors (Santander with 52 points and BBVA with 43), an insurance undertaking (Mapfre with 47 points), two industrial companies (Técnicas Reunidas with 50 points and Acerinox with 37) and one contractor (OHL). Finally, only two Ibex 35 shares are trading higher than they were at the start of the crisis (Telefónica and Red Eléctrica Corporación).

Although only two Ibex 35 stocks are trading higher than before the crisis, others have come back strongly in recent months.

Performance of Ibex 35 shares since the start of the crisis

TABLE 8

31/07/2007=100

Company	Low	Current value[1]	Recovery from low	Weighting (%)
SACYR-Vallehermoso	15.6	36.3	20.6	0.4
OHL	20.6	57.7	37.1	0.3
Telecinco	22.2	43.9	21.8	0.3
Gas Natural	23.5	40.5	17.0	1.3
Grupo Ferrovial	24.3	39.6	15.3	0.7
Abengoa	24.5	59.1	34.5	0.4
Banco Popular	25.2	53.7	28.5	2.1
BBVA	25.8	68.6	42.8	11.7
Gamesa	26.8	54.3	27.4	1.0
FCC	27.5	42.1	14.6	0.6
Arcelor Mittal	27.8	61.3	33.5	1.0
Técnicas Reunidas	28.7	78.3	49.7	0.4
Acciona	29.1	50.7	21.7	1.2
Cintra	30.5	63.4	32.9	0.5
Banco Santander	30.8	83.1	52.2	22.4
Banesto	32.3	58.7	26.4	0.3
BME	32.3	60.1	27.8	0.5
Iberia	36.1	57.8	21.7	0.4
Banco de Sabadell	37.4	61.6	24.3	1.5
Iberdrola Renovables[2]	38.8	65.2	26.4	0.7
Criteria[2]	39.0	65.7	26.7	1.2
Mapfre	40.6	87.4	46.8	0.8
Repsol	41.7	65.2	23.6	5.4
Acerinox	42.2	78.9	36.7	0.8
Iberdrola	43.3	63.8	20.6	8.5
Endesa	44.7	71.4	26.7	0.3
Bankinter	45.7	73.1	27.4	1.0
Abertis	49.1	77.6	28.6	2.2
Inditex	53.4	87.1	33.7	3.8
ACS	58.7	81.5	22.8	2.5
Enagás	60.9	80.3	19.5	0.9
Grifols	66.5	82.6	16.2	0.7
Indra	68.5	86.9	18.4	0.7
Telefónica	73.6	107.8	34.1	22.2
Red Eléctrica	81.6	100.7	19.1	1.2
Ibex 35	**46.1**	**78.3**	**32.3**	**100.0**

Source: Thomson Datastream, Sociedad de Bolsas and CNMV.

Companies are listed from lowest to highest according to their price low in the period. Shaded boxes indicate a recovery ahead of the Ibex 35.

1 Data to 15 September.

2 Changes in Criteria and Iberdrola Renovables calculated as of 10/10/2007 and 13/12/2007 respectively.

Share price recovery pushes up the price-earnings ratio on a scale outstripping other international markets ...

The price-earnings ratio (P/E) of Spanish shares surged from 8.2 at the end of the first quarter to 12.1 in mid September on the back of the intervening price rally, to recoup the levels registered in early 2008. The increase was greater than at other leading international markets, though the Spanish multiple still lags some way behind all but the Euro Stoxx 50.

... helping the earnings yield gap back into line with the average of recent years.

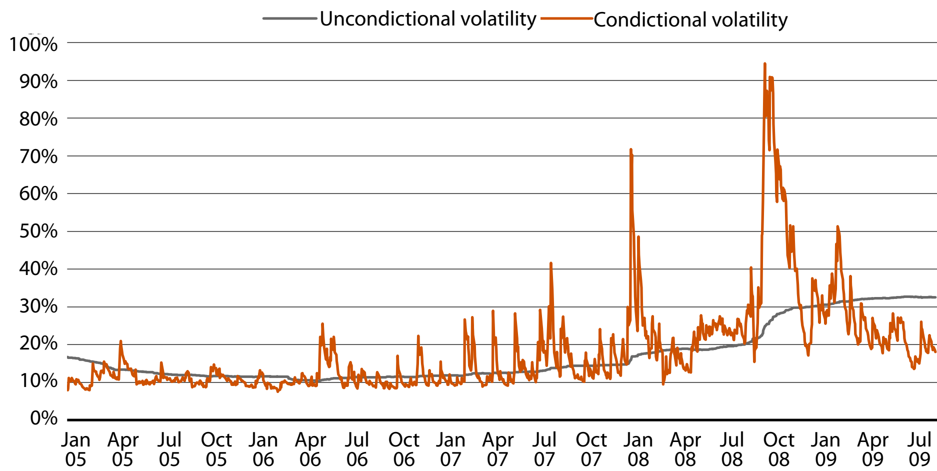
The earnings yield gap (reflecting the return premium required to be invested in equity versus long-term government bonds) headed steadily lower over the second and third quarter to a mid-year level of 4.4%. This marks the reversal of a run-up initiated in mid 2008, which reached its peak level in February last (8.7). The renewed descent is mainly explained by the above increase in market P/E and restores this indicator to its recent-year average (4.4% since 2005).

Volatility on Spanish equity markets eased to below 20% in mid September (see figure 6), continuing the journey back to normality after the peak levels of October 2008. The sensitivity of index volatility to falling prices repeated the readings of the first quarter close (see figure 7). And the bid-ask spread capturing equity market liquidity conditions indicated a solid improvement since March last, with monthly averages pulling back into line with their pre-crisis levels (see figure 8).

Volatility and liquidity conditions have improved substantially since March.

Historical volatility. Ibex 35

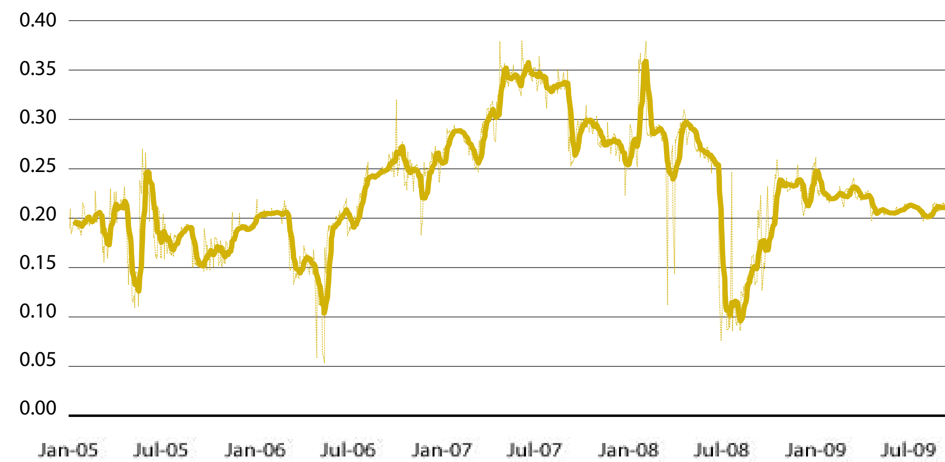
FIGURE 6



Source: Thomson Financial Datastream. Data to 15 September.

Volatility asymmetry of the Ibex 35

FIGURE 7



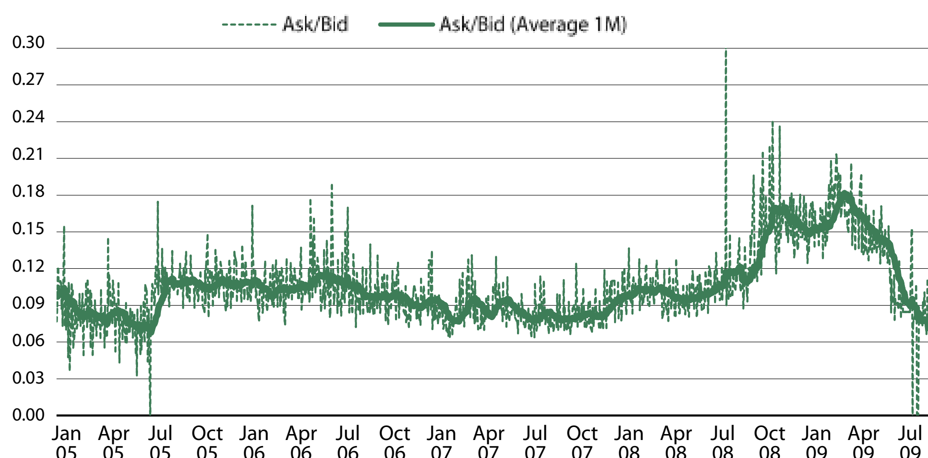
Source: Thomson Financial Datastream. Data to 15 September.

The parameter shown measures the sensitivity of conditional volatility to negative surprises in returns, in an asymmetric GARCH model (*).

(*) The specified equation is: $\ln(P_t / P_{t-1}) = \alpha + \varepsilon_t$,

with variance: $\sigma_t^2 = \omega + \theta \cdot \varepsilon_{t-1}^2 + \beta \cdot \sigma_{t-1}^2 + \eta \cdot \varepsilon_{t-1}^2 \cdot [1 \Leftrightarrow \varepsilon_{t-1} < 0] + u_t$

Ibex 35 liquidity. Bid/ask spread (%) FIGURE 8



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

Stock market turnover picks up in the second quarter after a prolonged decline, then falters somewhat in the following months.

Spanish stock market turnover picked up appreciably in the second quarter, as far as a daily average of 3.64 billion euros (2.93 billion in the previous quarter), after a decline lasting through all 2008 and into the first months of 2009. In the third quarter to date, and more so since August, activity has receded once more, returning daily average volume to around 3.26 billion euros[11]. Turnover velocity, the ratio between trading and capitalisation (in the electronic market), has traced very much the same course.

Turnover on the Spanish stock market TABLE 9

Million euros	2005	2006	2007	2008	1Q09	2Q09	3Q09[1]
All exchanges	854,145	1,154,294	1,667,219	1,243,387	184,654	225,638	179,193
Electronic market	847,664	1,146,390	1,658,019	1,235,330	183,367	224,385	178,220
Open outcry	5,899	5,318	1,154	207	19	27	12
of which SICAVs[2]	4,864	3,980	362	25	7	3	7
MAB[3]	-	1,814	6,985	7,060	1,178	1,109	883
Second Market	26	49	193	32	1	1	0
Latibex	557	723	868	758	89	115	78
Pro-memoria: non resident trading (% of all exchanges)							
	57.4	58.4	61.6	65.5	61.7	n.a.	n.a.

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

1 Cumulate data from 1 July to 15 September.

2 Open-end investment companies.

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

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

The improved climate on financial markets has failed to spark a revival in equity issuance.

Neither the mooted normalisation of financial markets nor the recovery of share prices have had much of an impact on equity issuance. The return of issuers (mainly financials) to primary markets has been above all through the vehicle of debt instruments. The result is that equity issuance year to date has been a no more than modest 9.07 billion euros, a long way short of pre-crisis levels but some improvement on the year-ago total of 7.15 billion.

11 Average daily trading on the stock market came to 6.59 billion euros in 2007 and 4.89 billion in 2008.

Equity issues and public offerings[1]

TABLE 10

	2005	2006	2007	2008	2009		
					1Q09	2Q09	3Q09[2]
CASH AMOUNTS[3] (million euros)	3,282	29,219	69,650	16,349	5,932	2,060	1,080
Capital increases	3,125	26,760	67,582	16,340	5,932	2,060	1,080
Of which, rights offerings	0	645	8,503	292	0	0	0
National tranche	0	303	4,821	292	0	0	0
International tranche	0	342	3,681	0	0	0	0
Public offerings	157	2,459	2,068	10	0	0	0
National tranche	55	1,568	1,517	10	0	0	0
International tranche	102	891	551	0	0	0	0
NUMBER OF FILINGS[4]	51	84	99	54	9	14	10
Capital increases	49	75	90	53	9	14	10
Of which, rights offerings	0	8	8	2	0	0	0
Of which, bonus issues	16	20	19	18	1	3	4
Public offerings	2	14	12	2	0	0	0

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

2 Data to 15 September 2009.

3 Excluding amounts recorded in respect of cancelled transactions.

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

Doubts persist about the enduring strength of the Spanish stock market recovery.

Despite the apparent strength of the share price recovery, its sustainability is hedged by uncertainties, as evidenced by the dispersion of analysts' forecasts. Turnover continues weak, despite the modest upswing of the second quarter, indicating that improvement is fragile at best and we cannot rule out new, though presumably less intense episodes of market turbulence. The publication of real activity indicators confirming the cycle change and positive newsflow on second-half corporate earnings (in the banks sector especially) are the balm the markets need to complete a confident return to normality.

3.2 Fixed-income markets

Short rates continue to fall in tune with the ECB's expansionary policy, but the downside is getting thinner.

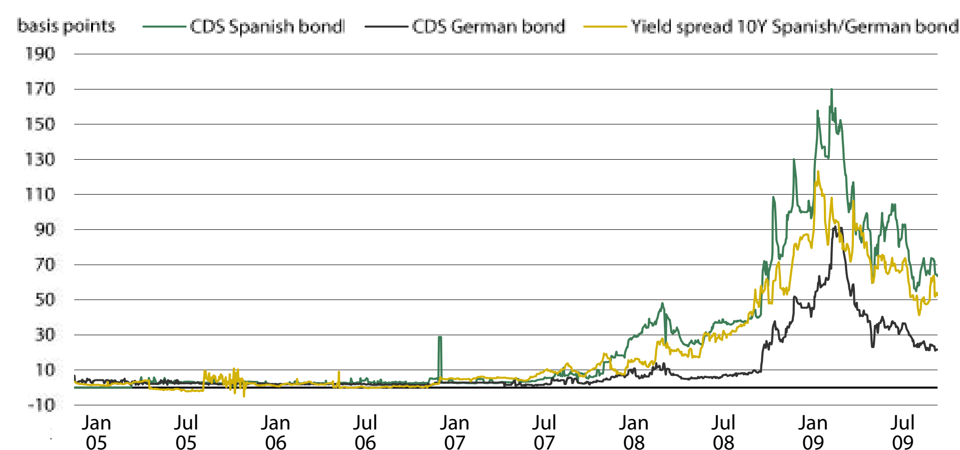
Short-term rates in public and private fixed-income markets stayed within the downward trend initiated in the last quarter of 2008 in line with the expansionary course of ECB monetary policy. However, the downside remaining is logically less, and falls since March has been contained at between 50 and 70 bp depending on the maturity. Hence the average August rates on Letras del Tesoro stood at 0.4%, 0.5% and 0.7% respectively in the three, six and twelve month tenors, while corporate debt rates in the same terms were 1.0%, 1.2% and 1.5%.

Long government yields move lower in the second and third quarter, due mainly to the perceived subsiding of credit risk on the Spanish economy and, to a lesser extent, the weakness of the economic activity and doubts about the timing and strength of the recovery.

Long-term government yields also came down in the second and third quarters of 2009 (except for June), though rather less so at the longest end. Much of this decrease can be traced to the lesser credit risk perception weighing on the Spanish economy, borne out by narrowing spreads between the Spanish and German benchmark (down to just over 50 bp from the 80 bp approximately of end March) and the sizeable reduction in the CDS spreads of the Spanish bond (see figure 9), down by over 50 bp to less than 70 bp. Other factors fuelling the decline in long government yields are the persistent weakness of economic activity and doubts about the timing and strength of recovery, against a backdrop of little or no inflationary pressure.

Risk premium of Spanish government debt[1]

FIGURE 9



Source: Thomson Datastream

1 Data to 15 September.

Long-term corporate bond yields rise in the second quarter then fall back slightly in the third, ...

In private fixed income, conversely, the interest rates of longer dated instruments moved higher in the second quarter before inching lower in the third. In all, the average rate on three-year bonds dropped from 3.24% in March to 3.17% in September against 0.27 and 0.35 point increases in five- and ten-year maturities as far as 4.27% and 5.11% respectively (see figure 11).

Interest rates on corporate debt[1]

TABLE 11

%

	Dec 05	Dec 06	Dec 07	Dec 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
Short term: commercial paper [2]									
3 months	2.58	3.78	4.97	3.45	5.24	3.45	1.70	1.28	0.97
6 months	2.74	3.91	4.91	3.54	5.45	3.54	1.86	1.52	1.23
12 months	2.93	4.00	4.85	3.68	5.63	3.68	2.10	1.80	1.47
Medium and long-term[3]									
3 years	3.15	4.04	4.59	3.79	5.39	3.79	3.24	3.40	3.17
5 years	3.48	4.14	4.65	4.17	5.48	4.17	4.00	4.46	4.27
10 years	3.89	4.26	4.94	4.73	5.65	4.73	4.76	5.24	5.11

Source: AIAF.

1 Average daily data. Data for September correspond to the average level from 1/9 to 15/9.

2 Traded on private fixed-income market AIAF.

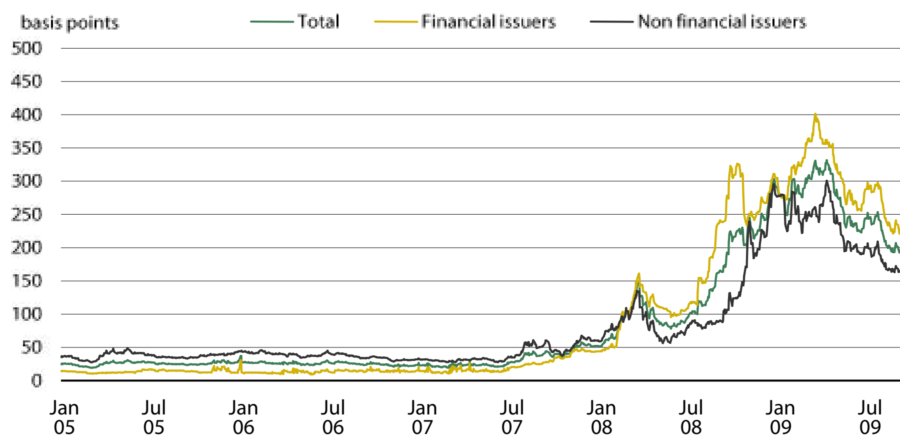
3 Bond and debenture trades to maturity on AIAF.

... while the CDS spreads of Spanish financial and non financial issuers join in the general easing trend.

The CDS spreads of Spanish issuers joined in the general easing trend, with average premiums falling from their March highs of 325 bp to 180 bp in mid September, similar to the levels in place before the Lehman Brothers collapse though still high by historical standards. The scale of decrease was similar across financial and non financial entities.

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

FIGURE 10



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

1 Simple average.

Fixed-income issues registered with the CNMV sum 297 billion euros year to date[12], compared to the 329 billion of the same period in 2008[13]. Although volumes are similar in annual terms, the issuance mix is starkly different, with commercial paper and asset-backed securities losing relative weight (together just over 70% of issuance against 94% in 2008) and bonds and mortgage bonds scaling up from 5% to 24%. Sales of non convertible bonds in particular have grown almost five times over versus 2008 to as far as 50 billion euros in September. This dynamism responds to a timid return to the issuance market as financing conditions improve, but, above all, to the granting of government guarantees on bank issuance of this kind of instrument. In effect, almost 80% of this year's bond issues have had some such guarantee attached. Meantime, the mortgage bond market has enjoyed a double stimulus from the Financial Asset Acquisition Fund (FAAF) and, more recently, the Eurosystem with its covered bond purchase programme. Sales this year sum 22.57 billion to date (7.6% of the total), surpassing the 14.30 billion issued in full-year 2008.

Corporate issues generate similar volumes but with a very different mix. Commercial paper and asset-backed securities lose ground in favour of non convertible and mortgage bonds under the spur of government support measures and new Eurosystem financing options.

12 To 15 September.

13 One of this year's big developments has been the step-up in foreign placements. In the first three quarters of 2009 (data to 15 September) foreign issues exceeded 103 billion euros, 20.1% more than in the same period in 2008, breaking down 32.6 billion in short-term and 70.8 billion in long-term instruments.

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

TABLE 12

	2005	2006	2007	2008	2009 1Q09	2009 2Q09	2009 3Q09[2]
NUMBER OF ISSUES	**263**	**335**	**334**	**337**	**111**	**180**	**88**
Mortgage bonds	21	37	32	47	31	11	9
Territorial bonds	3	6	8	8	0	1	0
Non convertible bonds and debentures	93	115	79	76	31	106	47
Convertible/exchangeable bonds and debentures	4	1	0	1	0	1	1
Asset-backed securities	54	82	101	108	21	26	12
Commercial paper facilities	80	83	106	88	20	16	11
Securitised	3	3	3	2	0	1	0
Other commercial paper	77	80	103	86	20	15	11
Other fixed-income issues	1	0	3	0	0	0	0
Preference shares	7	11	5	9	8	19	8
FACE VALUE (million euros)	**414,254**	**523,131**	**648,757**	**476,276**	**116,427**	**130,129**	**50,180**
Mortgage bonds	35,560	44,250	24,696	14,300	10,474	10,175	1,920
Territorial bonds	1,775	5,150	5,060	1,820	0	500	0
Non convertible bonds and debentures	41,907	46,688	27,416	10,490	15,492	28,249	4,845
Convertible/exchangeable bonds and debentures	163	68	0	1,429	0	300	200
Asset-backed securities	69,044	91,608	141,627	135,253	27,358	31,035	7,786
Domestic tranche	28,746	30,886	94,049	132,730	27,358	28,484	6,581
International tranche	40,298	60,722	47,578	2,522	0	2,551	1,206
Commercial paper[3]	264,360	334,457	442,433	311,738	61,552	49,697	34,242
Securitised	2,768	1,993	465	2,843	1,334	1,227	799
Other commercial paper	261,592	332,464	441,969	308,895	60,218	48,470	33,443
Other fixed-income issues	89	0	7,300	0	0	0	0
Preference shares	1,356	911	225	1,246	1,550	10,173	1,187
Pro memoria:							
Subordinated issues	11,079	27,361	47,158	12,950	8,484	5,571	1,082
Covered issues	94,368	92,213	86,161	9,170	0	2,559	1,450

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

2 Available data to 15 September 2009.

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

Exhibit 4: Recent changes in CDS contracts and conventions

A Credit Default Swap (CDS) is a trade contract conferring protection against credit risk (credit event) in a given company (reference entity). The buyer undertakes to pay a periodic premium until the contract's expiry or until the credit event occurs, in which case it has the right to sell the counterparty a particular obligation (bond or loan) issued by the reference entity for its par value[1]. The notional value of credit risk premiums have been climbing steadily from below one trillion dollars in 2001 to almost 40 trillion in 2008 (by way of a 60 trillion peak in 2007).

The financial crisis has brought to light a series of shortcomings in the functioning of these markets, and persuaded regulators of the need to make improvements in their infrastructure. Among them, a reduction in the notional value of outstanding positions, the cutting to the minimum of delays in trade confirmation and, above all, the clearing of positions by central counterparties (CCP).

The first step is to achieve more homogeneous contracts. In this respect, two protocols recently approved by the ISDA (International Swaps and Derivatives

Association) could mark a major step forward in standardisation. The first protocol, known as Big Bang, came into force on April 8 this year, and introduced global changes in contracts as well as a series of modifications in the trading convention for North American CDS. The second protocol, with the name Small Bang, is an addition to its predecessor, and addresses the need to conserve debt restructuring at a distressed underlying company as a credit event in the European system, while applying convention changes to European CDS similar to those effected for North American instruments. Contract changes came into force on 31 July, and convention changes in Europe on 20 June.

The most significant changes brought by both protocols appear in the text box below:

Global changes in contracts:

Big Bang	*Small Bang*
1. **Creation of Regional Determination Committees** empowered to decide whether a credit event has taken place, in which case it will also decide whether to hold an auction, the terms of the same and the bucket of bonds deliverable. Members will be twelve representatives of protection sellers, six of protection buyers and one representative from the ISDA. A committee will be set up for each of the following zones: Americas, Europe, Middle East and Africa, Japan, Asia (ex Japan), and Australia and New Zealand.	1. **Settlement by auction in the case of a credit restructuring event.** After restructuring, with no need for a Committee ruling, each contract will be grouped into one of nine buckets depending on maturity (0-2.5; 2.5; 5; 7.5; 10; 12.5; 15; 20 and 30 years). The Committee will decide whether to auction each bucket and the associated deliverables, while the buyers or sellers of protection will decide whether they wish to trigger the contract[2].
2. **Hardwiring of the auction mechanism** in most contracts, except for those specific terms that depend on the nature of the credit event.	2. **Decision powers of the Determination Committee. The Committee** will decide whether a credit event has occurred or not. It will also decide which bonds or loans (underlying CDS assets) will be delivered into which bucket within two weeks of the restructuring event.
3. **Change in the effective date** to trigger a credit event, which will no longer be the business day following the trade date. Now, protection of all outstanding positions on any date will commence 60 days before that date in the case of a credit event, and 90 days before in the case of a succession event.	3. **Time limit for triggering contract settlement** after a restructuring event. Protection buyer and sellers will have five business days in which to trigger their contracts. Should they decide not to do so, they may not go to auction to trigger a subsequent credit event in respect of these same contracts.

Changes in the convention for North American and European CDS:

Big Bang: North American CDS	*Small Bang: European CDS*
1. **Changes in periodic payments (coupons or spreads)**. The periodic payments from the protection buyer to the seller at spreads to the contract par were in most cases traded on a single name basis, such that the present value of the CDS at the contract outset was zero for the buyer and the seller (par spread). Under the new convention, coupons are fixed at 100 or 500 bp annually plus an upfront fee.	1. **Periodic payments** are established as annual fixed coupons of 25, 100, 300, 500, 750 or 1000 bp plus an upfront fee. The reason for this multi-step structure in Europe vs. the simpler North American format is the greater diversity in European CDS trades.
	2. Europe will switch over to the American convention of **full coupon payment** enshrined in the Big Bang protocol for North American CDS.
2. **The dates set for coupon strikes** (and for contract expiry) are those of the International Monetary Market (IMM): 20 March, 20 June, 20 September and 20 December. Under the previous convention, the first coupon payment was counted from the trade date.	3. **The restructuring clause convention will continue to be MMR** (Modified Modified Restructuring) for European corporate and sovereign CDS. Almost all European contracts are currently traded under this convention. Europe's diverse regulatory treatments of corporate bankruptcy and their scant overlap with United States federal bankruptcy laws means

3. **Elimination of underlying company restructuring as a credit event**. United States bankruptcy law obviates the need to incorporate this kind of event. Protection buyers are deemed to be sufficiently protected even if their contracts do not include restructuring as a credit event. In fact, most North American high-yield CDS are traded without this kind of clause. restructuring must be incorporated as a credit event in order to adequately safeguard the buyer side of a European CDS.

These two protocols entail large changes in the operational, trading and legal structure of the CDS market, favouring the consistency, standardisation and fungibility of contracts and, ultimately, the efficiency of the CCP clearing system.

1 In the absence of a material obligation, settlement is by differences, with the buyer receiving the agreed par value less a recovery fee as specified in the contract or determined by an auction of the underlying reference obligation.

2 In essence this means no change with respect to the old conventions of MMR (Modified Modified Restructuring), the European standard, and MR (Modified Restructuring), the North American standard, which placed limits on the obligations deliverable on a restructuring event as a function of their maturity. The MR convention was stricter than MMR regarding the obligations deliverable on the occurrence of a credit event.

4 Market agents

4.1 Investment vehicles

Financial collective investment schemes[14]

Investment fund assets fell 5% over first-half 2009 to 167 billion, representing a rather slower rate of decline. Redemptions were once again the main contributing factor, though signs are that investor opinion is turning less hostile.

Financial CIS closed the first half of 2009 with assets under management of 167.2 billion euros, 5% less than one year before (see table 13). Mutual fund assets have now chalked up eight successive monthly declines, though the rate of deceleration has reduced considerably (from the -31% of 2008). The decrease in assets was again mainly down to unitholder withdrawals. However these were less abundant than in 2008 thanks to the more settled market climate and the fading attraction of alternative investments, particularly deposits. Fund portfolios declined in value over the year's opening quarter, but made up the ground lost thereafter on the back of the stock market rally to close the six-month period in positive territory.

The fall was sharpest in pure fixed income categories. Other movements in the period owed more to the recent rejigging of funds by investment objective.

The largest falls in straight volume terms were in pure fixed income categories (see table 13), which missed the benefit of rising equity prices as well as registering net redemptions of over 5.50 billion euros. Global funds too experienced a sharp drop in assets, though the cause in this case was mainly the reclassifying of investment fund objectives[15]. Note in this respect that a new fund category has come into being ("absolute return") which groups funds previously classed as global. The assets under management in absolute return funds was nearly 5.60 billion euros by the first-half close. Among the period's few winners were guaranteed fixed-income funds which gained almost 400 million euros.

Unitholder numbers dropped less than in preceding quarters ...

Unitholder numbers also continued to fall, albeit less intensely than in preceding quarters. At June 30 2009, the number of CIS investors stood at just under 5.5 million or 425,000 less than at end 2008 (compared to an outflow of over 2.1 million in full-year 2008).

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

15 In force as of 1 April 2009.

Main investment fund variables

TABLE 13

	2007	2008	2008			2009
Number			**III**	**IV**	**I**	**II**
Total investment funds	**2,926**	**2,912**	**2,932**	**2,912**	**2,830**	**2,735**
Fixed income[1]	600	629	616	629	631	612
Balanced fixed income[2]	204	195	195	195	193	190
Balanced equity[3]	207	202	204	202	191	181
Euro equity[4]	247	237	239	237	235	193
International equity[5]	357	330	347	330	304	271
Fixed income guaranteed	251	260	255	260	249	253
Equity guaranteed[6]	590	590	600	590	586	610
Global funds	470	469	476	469	441	208
Passively managed[7]						69
Absolute return[7]						148
Assets (million euros)						
Total investment funds	**255,040.9**	**175,865.3**	**197,305.6**	**175,865.3**	**168,829.3**	**167,161.0**
Fixed income[1]	113,234.1	92,813.1	100,931.9	92,813.1	91,473.0	86,711.3
Balanced fixed income[2]	13,011.9	5,803.0	7,175.8	5,803.0	5,282.6	5,421.8
Balanced equity[3]	8,848.0	3,958.8	5,092.8	3,958.8	3,301.7	3,480.1
Euro equity[4]	16,589.7	5,938.9	7,853.3	5,937.0	4,778.1	4,946.0
International equity[5]	13,948.1	4,254.7	6,231.9	4,256.6	3,808.8	4,108.3
Fixed income guaranteed	17,674.4	21,150.3	20,968.0	21,281.7	20,952.0	21,664.1
Equity guaranteed[6]	42,042.1	30,873.7	33,782.8	30,742.4	29,433.3	29,120.6
Global funds	29,692.6	11,072.8	15,269.2	11,072.8	9,799.9	3,350.7
Passively managed[7]						2,714.5
Absolute return[7]						5,643.6
Unitholders						
Total investment funds	**8,053,049**	**5,923,346**	**6,520,089**	**5,923,346**	**5,626,786**	**5,498,325**
Fixed income[1]	2,763,442	2,204,652	2,389,795	2,204,652	2,145,607	2,067,091
Balanced fixed income[2]	493,786	277,629	319,445	277,629	247,833	241,097
Balanced equity[3]	331,214	209,782	236,645	209,782	194,064	187,244
Euro equity[4]	577,522	377,545	412,239	377,545	339,285	270,079
International equity[5]	800,556	467,691	526,696	467,691	431,575	419,928
Fixed income guaranteed	549,108	538,799	552,515	538,799	525,387	540,428
Equity guaranteed[6]	1,715,144	1,402,948	1,513,064	1,402,948	1,339,367	1,339,321
Global funds	822,277	444,300	569,690	444,300	403,668	96,581
Passively managed[7]						91,738
Absolute return[7]						244,818
Return (%)[8]						
Total investment funds	**2.63**	**-4.21**	**-0.79**	**-0.96**	**-0.32**	**2.43**
Fixed income[1]	2.68	2.06	0.48	0.45	0.23	0.55
Balanced fixed income[2]	2.01	-7.14	-1.29	-2.43	-1.51	3.48
Balanced equity[3]	2.79	-22.21	-4.73	-9.02	-5.66	9.86
Euro equity[4]	6.05	-39.78	-10.04	-17.45	-13.02	23.34
International equity[5]	1.31	-41.71	-11.95	-20.82	-6.60	20.08
Fixed income guaranteed	2.80	3.29	0.80	1.45	1.14	0.94
Equity guaranteed[6]	2.46	-2.61	0.42	1.50	1.11	0.85
Global funds	1.58	-8.64	-2.17	-3.88	-1.33	4.90
Passively managed[7]						16.50
Absolute return[7]						1.54

Source: CNMV.

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

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

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

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

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

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

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

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

8 Annual return for 2007 and 2008 and non annualised quarterly return for each quarter of 2008 and 2009.

... while fund numbers fell more steeply, especially in equity categories.

The number of funds fell to 2,735 at end June, 177 fewer than in 2008, after a wave of mergers in the intervening months (224 in all). Although the reclassification of fund objectives hinders comparison, it seems that decreases were mainly bunched in equity categories.

The liquidity of instruments held in investment fund portfolios is controlled by three distinct means:

The liquidity of investment fund holdings is a supervisory priority for the CNMV in today's complex landscape. The agency uses three sets of measures to track funds' portfolio liquidity: an estimation of the overall volume of less-liquid assets; controls on the quality and appropriateness of the information managers offer their unitholders; and checks that the underlying structures of guaranteed funds match adequately with market conditions, with special attention to guaranteed fixed-income funds.

...1) quantifying exposure to less-liquid assets (8.7% of the investment fund total); in this case largely unchanged over the last six months,...

Our estimates put the volume of less-liquid assets at around 14.58 billion in the second quarter of 2009, almost 900 million down on the figure for year-end 2008. The relative weight of these assets varied only a little (8.7% of total investment fund assets in June 2009, compared to 9.1% in March 2009 and 8.6% in December 2008). Of the total volume of less-liquid assets, about 43% are securitisation-related. A further 31% are financial fixed-income instruments rated below AA, and the other 24% are financial fixed income in the AAA/AA bracket (see table 14). To the relative stability of this variable over time we can add the lower concentration of less-liquid assets among the managers most exposed.

...2) verifying the quality of the information given out to unitholders, and ...

In the last six months, the CNMV has been especially attentive to the quality of manager information to unitholders about their exposure to assets caught up in the liquidity crisis, basically through periodic reporting (coinciding with the entry to force of new rules on the contents of CIS reports).

...3) checking that the underlying structures of guaranteed funds are correctly aligned with financial market conditions.

It has also issued specific guidelines to the managers of fixed-income guaranteed funds to ensure that their underlying structures are adequately matched to the conditions prevailing in certain private fixed-income market segments. Promoters have accordingly established financial collateral in the form of cash or government debt securities, over and above the standard third-party guarantee, to be exercised in the event that the fund is obliged to sell off assets at a market price lower than their valuation for NAV purposes. This collateral stands as a supplementary level of protection that should serve to smooth out fund volatility

Estimated liquidity of investment fund assets TABLE 14

Type of asset	Less-liquid investments					
	Million euros			% total portfolio		
	Nov 08	Mar 09	Jun 09	Nov 08	Mar 09	Jun 09
Financial fixed income rated AAA/AA	456.8	3,062.6	3,504.4[1]	2.9	18.3	19.0
Financial fixed income rated below AA	4,520.6	4,639.2	4,504.1	35.1	40.4	37.4
Non financial fixed income	128.7	396.3	260.7	3.1	8.9	5.4
Securitisations	10,351.7	7,309.3	6,314.4	88.4	81.1	78.6
AAA-rated securitisations	8,183.7	5,291.8	4,491.1	86.7	79.5	76.3
Other securitisations	2,168.0	2,017.5	1,823.3	95.3	85.6	84.9
TOTAL	**15,457.8**	**15,407.5**	**14,583.6**	**34.9**	**36.9**	**33.6**
% of investment fund assets	**8.6**	**9.1**	**8.7**			

Source: CNMV.

1 Of this amount, 2.18 billion correspond to government-backed issues.

The short-term outlook for the collective investment industry is rather brighter than in past quarters. Although the adverse macroeconomic and financial conditions mean there is less money to invest, there are signs that higher-risk instruments are regaining some of their lost popularity as agent uncertainties subside. Also, the bank deposits that for the last two years have been taking funds away from collective investment now offer significantly lower interest rates, making them less attractive for the investor public. This being so, and given that fund liquidity conditions have held up well, it is reasonable to expect that the redemption wave will continue to abate.

In a setting of less risk aversion and more abundant liquidity, the pace of redemptions may continue to slow in coming months, as more investors switch out of lower-earning bank deposits.

Real estate collective investment schemes

The situation of real estate schemes has been complicated by a continuous stream of redemption orders, which some funds are having difficulties in meeting, due to their intrinsic nature (investing in less liquid assets) and the downturn in the housing market.

The scale of redemption orders remains a major headache for real estate investment schemes.

The surge in withdrawals has led some managers to modify their redemption conditions. Two real estate schemes, one of them a major, have approached the CNMV so far this year requesting the suspension of redemptions due to their inability to meet current orders. Other funds have been able to avoid this step thanks only to the support received from managers' financial parents.

Some have had to amend their redemption conditions while others have turned for support to their managers' financial parent institutions.

In this context, the number of real estate funds dropped from nine to eight over the first half of 2009. Their assets contracted to 6.55 billion euros, almost 860 million less than at end 2008, and unitholder numbers shrank by 6,900 to fewer than 90,000. Fund returns were again negative (for the third quarter in a row) in line with the falling prices of real estate assets. That said, second-quarter returns were less steeply negative than those of the preceding quarters (see table 15).

Further decline in the number, assets and unitholders of both real estate funds...

The same nine real estate investment companies stayed in business over the first half of 2009, though their assets shrank to 258 million euros (372 million in 2008) and unitholder numbers fell to 770 (937 at end 2008).

...and real estate investment companies).

The short-term outlook for this CIS sector remains clouded by uncertainty. The pace of redemptions might slow in the course of the year, as has happened with other forms of collective investment, and this would especially benefit those that have struggled most to preserve their liquidity. However, there is little likelihood of any large-scale inflow of cash, at least until the real estate market issues clear signals that its adjustment process is safely over.

The outlook for these CIS will remain conditioned by the duration and intensity of the downturn in Spanish real estate.

Main real estate fund variables TABLE 15

					2008		2009	
	2005	2006	2007	2008	III	IV	I	II
FUNDS								
Number	7	9	9	9	9	9	9	8
Unitholders	118,857	150,304	145,510	96,361	135,307	96,361	95,284	89,461
Assets (million euros)	6,476.9	8,595.9	8,608.5	7,406.9	8,166.7	7,406.9	6,758.1	6,547.2
Return (%)	5.35	6.12	5.30	0.65	0.35	-1.71	-4.5	-1.23
COMPANIES								
Number	6	8	9	9	8	9	9	9
Unitholders	256	749	843	937	938	937	938	770
Assets (million euros)	213.9	456.1	512.9	371.9	363.8	371.9	369.1	258.0

Source: CNMV.

Hedge funds

After its initial growth spurt as of end 2006, the hedge fund sector entered a contraction phase in the third quarter of 2008 which has left the funds of funds segment in a worse condition.

After the growth spurt that followed its end 2006 launch, market turmoil, borrowing constraints, the illiquidity of certain investments and temporary restrictions on short selling sent the hedge fund industry into a phase of decline (in terms of assets and unitholders) as of the third quarter of 2008, albeit with a divergent performance from hedge funds and funds of hedge funds. The former were harder hit by the negative performance of foreign CIS investees, as well as registering a large spate of investor withdrawals. The latter also lost business, but at a far slower rate, and even managed to grow their assets and unitholder numbers in the second quarter of 2009, as one of the few industry segments obtaining positive net subscriptions.

Specifically, funds of hedge funds have been labouring under the negative performance of foreign investees as well as struggling to cope with large-scale redemptions. The result is that over half their number are currently in liquidation.

Although the number of funds of hedge funds at June 2009 was unchanged with respect to end 2008 (40 schemes), 21[16] had been forced to wind up by the end of the period[17], unable to cope with the scale of redemptions, while another five had issued at least one significant event notice on receiving sell orders on over 20% of their assets. Unitholder numbers fell from 8,516 at end 2008 to 5,630 in June 2009. Fund of hedge fund returns, however, fought back to positive territory after the red numbers of the first quarter, caused by the poor showing of foreign investees.

Hedge funds too have faced large withdrawals but have generally held up better, to the extent of capturing net subscriptions in the second quarter.

Meantime, 26 hedge funds remained on the register at mid-year 2009 (two more than at end 2008). Of this number, five were in liquidation and another four had notified at least one significant event for redemption orders exceeding 20% of their assets. Unitholder numbers continued to move in the same 1,500 to 1,600 interval as in the last 12 months, while their assets closed the first half at 480 million euros, compared to the 539 million of December 2008. The encouraging note came from a second-quarter upswing in both assets and unitholder numbers, breaking with the downward trend of the previous six months.

Despite the prevailing uncertainty, the timid normalisation of market conditions could prevent greater setbacks in 2009.

The outlook for the hedge fund industry remains fairy unsettled. The number of schemes in liquidation suggests asset volumes have further to fall, especially among funds of hedge funds. But once this process is over, the flow of redemptions may slow (as seems to be happening in the hedge funds segment), which, together with some normalisation of financial markets, could provide a backstop for the sector in 2009 and even permit a mild expansion in 2009.

Main hedge fund variables TABLE 16

	2007	2008				2009	
	IV	I	II	III	IV	I	II[1]
Funds of hedge funds							
Number	31	38	39	41	40	40	40
Unitholders	3,950	5,488	8,582	9,739	8,516	5,646	5,630
Assets (million euros)	1,000.0	1,129.6	1,389.6	1,427.5	1,021.1	775.2	759.8
Return[1] (%)	1.22	-2.31	2.2	-7.56	-9.89	1.34	1,733
Hedge funds							
Number	21	25	23	25	24	26	26
Unitholders	1.127	1.335	1.429	1.583	1.589	1.551	1.602
Assets (million euros)	445.8	546.3	603.9	597.7	539.4	451.4	480.0
Return[2] (%)	-1.31	-1.95	1.48	-0.29	-3.59	-0.4	0.08

Source: CNMV.

1 Figure for April.

2 Non annualised quarterly return. Second-quarter returns are those for April restated on a quarterly basis.

16 Accounting for around a third of fund of hedge fund assets as at April 2009.

17 Of this number, 10 have not signed a liquidation agreement but have advised the CNMV of their plans to do so.

Exhibit 5: Comparison between the proposed EU Directive on alternative investment fund managers, the IOSCO principles and Spanish regulations

Main arguments of the Proposal for a Directive on Alternative Investment Fund Managers

In the light of the current financial crisis and the debates now proceeding in leading European and international forums (G-20, IOSCO, Financial Stability Forum, etc.), the European Commission published a proposed Directive on 30 April last in order to harmonise requirements for the entities managing and administering alternative investment funds (AIFs), in the process obtaining vital information for the monitoring and control of systemic risk. AIFs are defined as funds outside the regulatory scope of Directive 85/611/EEC (UCITS Directive). The term, as such, includes hedge funds, private equity funds, real estate funds, commodity funds, infrastructure funds and, in general, any fund not falling within the remit of the UCITS Directive.

The proposed Directive applies to alternative fund managers (AIFM) rather than AIFs per se. Under its terms, AIFMs must be authorised by a competent authority and be equipped with risk control and management mechanisms, rules of conduct and arrangements for the valuation and safe-keeping of assets, as well as complying with a series of transparency obligations towards their investors and the competent authority. Additional obligations will apply to AIFMs managing leveraged AIFs and controlling stakes in companies.

Under its terms, an AIFM authorised in its home Member State can market its AIFs to professional investors (as per the MiFID definition) in any other EU Member State. However, it makes no provision for their sale to the retail public, leaving rights on this point in the hands of each national regulator. AIFMs may, moreover, manage AIFs established in other Member States (manager passport).

It is also envisaged that EU-headquartered AIFMs may manage and market AIFs domiciled in third countries (offshore funds) after a three-year transition phase starting from the Directive's transposition deadline. This same transition period will apply to third-country AIFMs which will be able to market their funds in Europe on condition that the regulatory framework and cooperation with European supervisors are commensurate with the corresponding provisions of the Directive, and that European managers enjoy comparable access to that country's market.

Current Spanish regulations on AIFMs and impact of the proposed Directive

Most of the measures referring to hedge funds in the proposed Directive have already been implemented in Spain through Royal Decree 1309/2005 of 4 November. The specific rules applying to hedge fund managers are laid down in CNMV Circular 1/2006 of 3 May on alternative collective investment schemes, and are in some respects more stringent that those envisaged in the draft.

Venture capital funds and their management companies are regulated in Law 25/2005 of 24 November. It bears mention, however, that the proposed Directive imposes a series of transparency obligations on venture capital managers that do not currently apply in Spain.

The big novelty in national regulations will be the passport given to Spanish AIFMs (investment fund and venture capital managers) to manage AIFs established in other EU Member States or third countries. Another will be the possibility for the free marketing in Spain to professional investors of EU-headquartered AIFs, subject only to a notification to the competent home country authority, at the same time as national AIFs can be marketed in any other Member State following the same notification in Spain.

IOSCO principles for hedge fund regulation

In June 2009, IOSCO published a report on the hedge fund industry setting out the six principles which it believes will help national regulators to address the regulatory and systemic risk posed by hedge funds in their own jurisdiction while supporting a globally consistent approach. These principles were prepared by a working group set up by the G-20 in November last year.

Among the group's recommendations was that hedge funds and/or hedge fund managers should be subject to mandatory registration. This would involve fulfilling a series of regulatory requirements vis à vis organisational and operational standards, conflicts of interests and other conduct of business rules, disclosure to investors and prudential regulation.

Also, the prime brokers and banks that provide funding to hedge funds should be subject to mandatory registration and have in place appropriate risk management and control systems to monitor their counterparty credit risk exposures to the sector. Both hedge funds and prime brokers should provide regulators with information for the purpose of controlling systemic risks, including the identification, analysis and mitigation of the same.

IOSCO also calls on regulators to encourage and take account of the development, implementation and convergence of industry good practices, where appropriate. They should cooperate and share information in order to facilitate efficient and effective oversight of globally active managers and funds and to help identify systemic, market integrity and other risks arising from the activities or exposures of hedge funds in their cross-border operation.

All of these IOSCO-promoted principles have found their way into both the draft Directive (within its scope of application) and the relevant Spanish regulations.

4.2 Investment firms

The more settled business environment has yet to make itself felt in investment firm income statements...

The investment firms providing a range of securities investment services should expect to see some benefit from the normalisation of conditions on financial markets. Despite this, sector income statements have yet to show any sizeable improvement on the standards of preceding quarters. The only encouraging signal is a levelling-off of the decline affecting main income captions.

...though some fee items are deteriorating to a smaller extent.

The weakness of financial market turnover in the year's opening months and the downturn in collective investment continue to erode the industry's main revenue streams. In the case of broker-dealers, the increase in primary market issues, especially the government-backed issues of financial institutions, has provided some relief in placement and underwriting income though year-on-year comparison still shows negative.

Broker-dealers obtained aggregate pre-tax profits of 176.4 million euros in the first six months of 2009, 41.5% less than in the equivalent period of 2008[18]. Leading the decline was gross income (-62.8%) with fees (-21.7%) and results of financial investments[19] (see table 17) both contributing on the negative side. Operating expenses, meantime, fell with rather less intensity (-21.7%).

The aggregate pre-tax profits of broker-dealers to mid-year 2009 (176 million euros) are 42% down on the year-before figure...

Under fees and commissions, key first-half developments were the moderation of order processing and execution income, which closed the period at 274.3 million euros (-20.2% year on year) and CIS marketing income, which came to 27.5 million (50.5% down on the same period in 2008). Note that the first-above item maintains its primacy, weighing in at 70% of total investment firm fee income. Fees from distribution and underwriting stood at 21.6 million euros, a reduction of 14% versus 2008. In this case the rate of decrease has apparently slowed thanks to the recent pick-up in primary market activity. Finally, note the large inflows reported for investment advising[20], totalling 28.6 million euros in the first-half period.

...due to falling fee revenues and results of financial investments. Fees from market trades and CIS marketing dropped more steeply, but those from issue distribution and underwriting reduced their rate of decrease.

Broker income statements have suffered an even larger dent. Aggregate profits in the first six months were down to almost nothing (144,000 euros), compared to the 16 million euros obtained to mid-year 2008. Aggregate gross income closed at slightly over 65 million euros (-25.5% year on year), just covering the sector's almost 62 million euros in operating expenses. Depreciation and amortisation, provisioning and tax expenses did the rest, leaving the bottom line as stated.

Broker income statements fared even worse, with income only just sufficing to cover operating costs.

The fee income of brokerage firms amounted to 72.3 million euros, 24.0% less than in the same period in 2008. Although the aggregate income caption in table 17 below evidences a year-on-year decline of some intensity, we can point to some important differences with respect to the broker-dealer group. To start with, order processing and execution fees dropped by 11.1% in the first six months, contrasting with last year's fall of over 51%. And the story with CIS marketing fees is broadly similar (-42.7% in the first half of 2009 against -57.4% in full-year 2008). Conversely, fees associated to primary market issuance fell considerably more sharply, while portfolio management income kept up a steady decline to close the period at 9.3 million euros.

Broker fee income was 24% down on the year-ago figure, though the pattern of decline was rather different.

18 2009 statistics for investment firms are not fully comparable with the prior year, because of accounting changes introduced in December 2008. These derived from CNMV Circular 7/2008 of 26 November adapting investment firm accounts to the new framework established in the National Chart of Accounts.

19 These results are not fully comparable with the former "Results on securities transactions" caption, as their content has been modified in line with new valuation standards.

20 Inter-year comparison is ruled out by accounting changes.

Aggregate income statement (Jun 09[1])

TABLE 17

Thousand euros	Broker-dealers			Brokers		
	Jun 08	Jun 09	% change	Jun 08	Jun 09	% change
1. Net interest income	22, 373	98, 211	339.0	6, 039	1, 679	-72.2
2. Net fee income	368, 472	263, 558	-28.5	82, 530	63, 582	-23.0
2.1. Fee income	501, 817	393, 081	-21.7	95, 111	72, 250	-24.0
2.1.1. Order processing and execution	343, 910	274, 323	-20.2	33, 728	30, 001	-11.1
2.1.2. Distribution and underwriting	25, 112	21, 567	-14.1	3, 010	1, 081	-64.1
2.1.3. Securities custody and administration	11, 477	7, 911	-31.1	394	166	-57.9
2.1.4. Portfolio management	9, 893	4, 858	-50.9	11, 966	9, 284	-22.4
2.1.5. Design and advising	12, 781	28, 642	124.1	1, 550	1, 033	-33.4
2.1.6. Search and placement	9	6	-33.3	0	0	-
2.1.7. Margin trading	7	10	42.9	0	3	-
2.1.8. Fund subscriptions and redemptions	55, 621	27, 509	-50.5	17, 156	10, 010	-41.7
2.1.9. Others	43, 007	28, 256	-34.3	27, 307	20, 673	-24.3
2.2. Fee expense	133, 345	129, 523	-2.9	12, 581	8, 668	-31.1
3. Result of financial investments	973, 352	51, 163	-94.7	-926	102	-
4. Net exchange income	-252, 335	-5, 750	97.7	-230	113	149.1
5. Other operating income and expense		6, 132	-		-382	-
GROSS INCOME	1, 111, 862	413, 314	-62.8	87, 413	65, 094	-25.5
6. Operating expenses	236, 825	185, 524	-21.7	73, 205	61, 891	-15.5
7. Depreciation and other charges	23, 822	5, 143	-78.4	4, 226	1, 249	-70.4
8. Impairment losses[2]	573, 826	36, 436	-93.7	437	16	-96.3
NET OPERATING INCOME	277, 389	186, 211	-32.9	9, 545	1, 938	-79.7
9. Other profit and loss	24, 322	11, 395	-53.1	6, 374	110	-98.3
PROFITS BEFORE TAXES	301, 711	197, 606	-34.5	15, 919	2, 048	-87.1
10. Corporate income tax	0	21, 165	-	0	1, 904	-
PROFITS FROM ONGOING ACTIVITIES	301, 711	176, 441	-41.5	15, 919	144	-99.1
11. Profits from discontinued activities		0	-	-	0	-
NET PROFIT FOR THE YEAR	301, 711	176, 441	-41.5	15, 919	144	-99.1

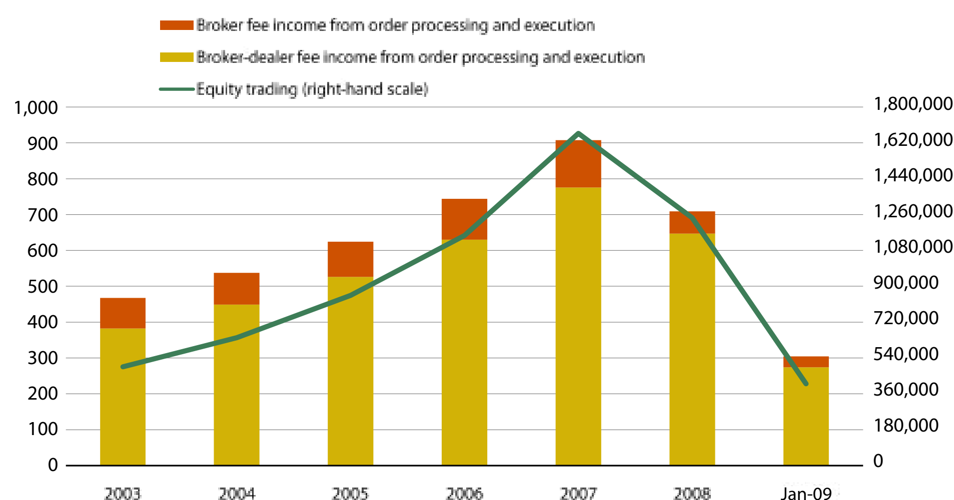
Source: CNMV.

1 Except one firm that only had data to May on the closing date for this report.

2 As of 2008, this caption includes the amount of "Net losses from capital loss provisions".

Investment firm fee income from order processing vs. trading on national equity markets (million euros)

FIGURE 11

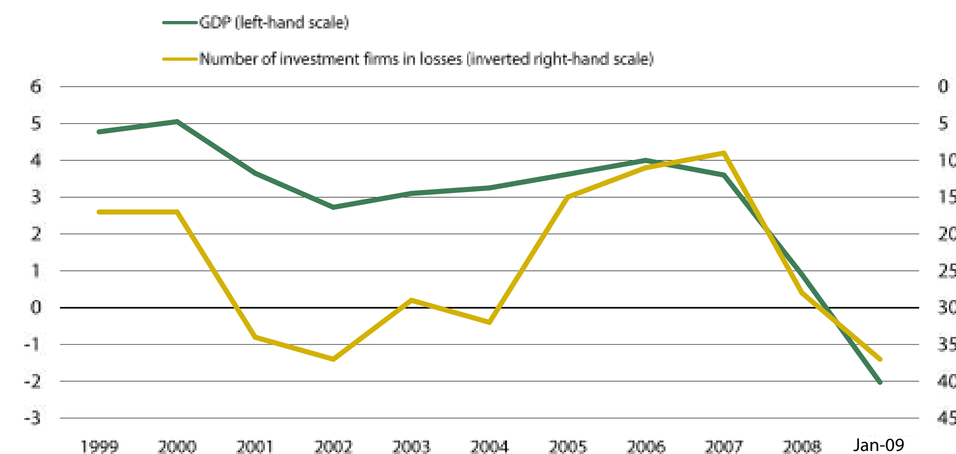


Source: CNMV. Aggregate 2009 data from January to June.

The continuing downturn in the investment services business pushed a growing number of firms into losses between December 2007 (with just two firms in this situation) and the first quarter of 2009 (44 firms). However this trend has halted in the second quarter, when the number of entities in losses dropped back to 37[21] (out of a total of 109), breaking down 23 brokers, 12 broker-dealers and two portfolio management companies. The aggregate losses of this group amounted to 7.3% of investment firm earnings (4.1% in December 2008 and 12.0% in March 2009).

The business contraction in investment services has pushed up the number of firms reporting losses since December 2007...

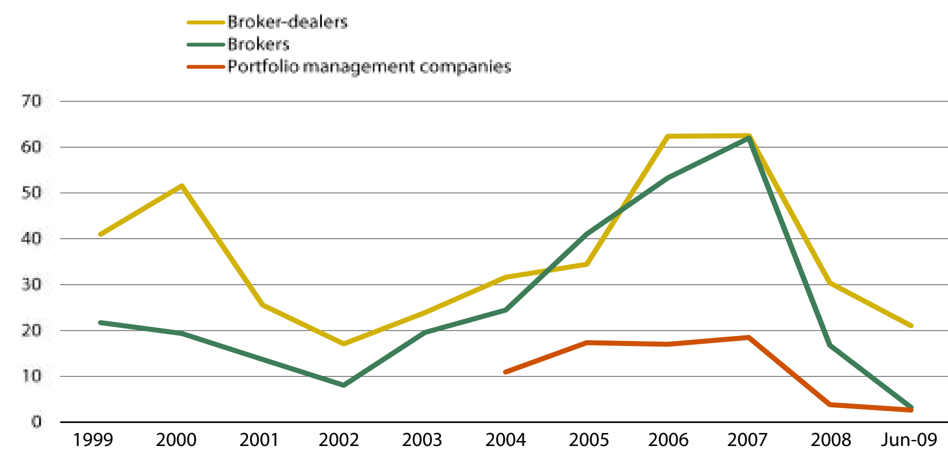
Number of investment firms in losses vs. GDP (% annual change) FIGURE 12



Source: CNMV and Spanish Statistics Office (INE). The GDP rate for the second quarter corresponds to the average year-on-year rates of the past four quarters.

ROE before taxes FIGURE 13

Broker-dealers, brokers and portfolio management companies



Source: CNMV and authors. June 2009 ratios on an annual basis.

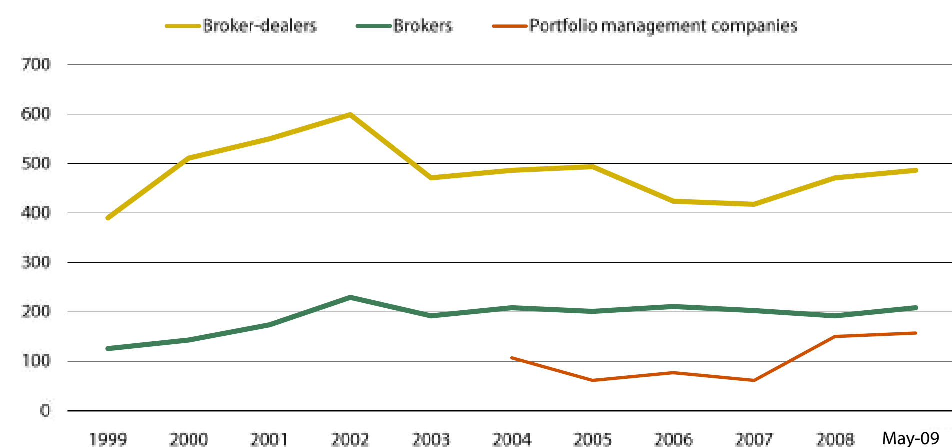
The downturn in activity made fresh inroads into the return on equity (ROE) of these financial intermediaries in the first half of 2009, with earnings decline and the strengthening of own funds both contributing on the downside (see figure 13). More specifically, the ROE of broker-dealers receded from 30.4% in December 2008 to 21.1% in June 2009. And the difference was even greater among the broker contingent, whose ROE slumped from 16.8% to 3.3%.

...and made large inroads into sector profitability ratios.

21 Data for one firm was not available at the closing date for this report.

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

FIGURE 14



Source: CNMV and authors.

In contrast, firms have strengthened their solvency to some degree by taking more earnings to reserves.

Investment firm solvency levels have improved somewhat in recent quarters, as those in profit have taken most of their surplus to reserves in order to strengthen equity. Hence the equity of broker-dealers was almost six times surplus to the mandatory requirement in May 2009 (figure 14), while that of brokers stood over three times higher. Only two firms (brokers and not market members) reported a deficit of own funds, while those running more tightly adjusted margins (below 50%) dropped from 10 in December 2008 to 7 in May 2009.

The near-term future is looking a little brighter thanks to the rise in equity prices and financial fixed-income issuance, though some firms could still face difficulties.

The short-term outlook for investment firms is rather less discouraging than in previous quarters given the recovery of stock market prices and the tentative revival remarked on in financial fixed-income issuance. This view is also endorsed by the smaller number of operators reporting losses. Most firms, moreover, are strongly enough capitalised to ride out a longish run of losses. This is a heterogeneous industry, however, and any added deterioration in the business environment could see some firms struggling to stay ahead.

4.3 Collective investment scheme management companies

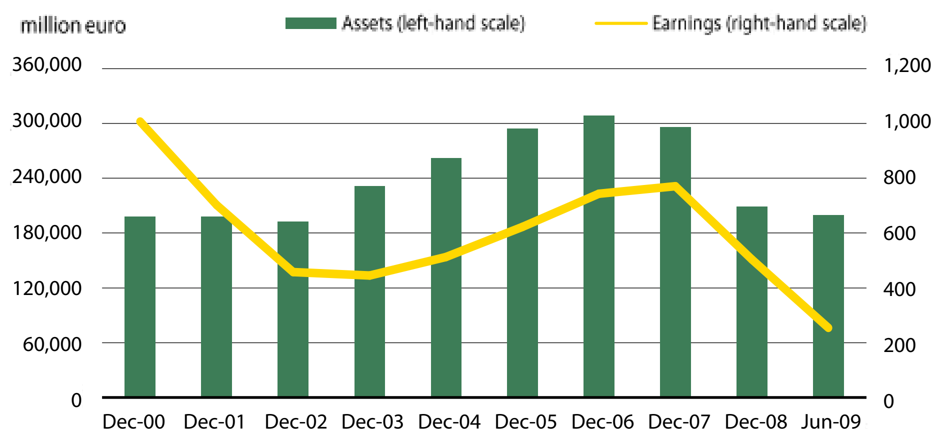
Assets under management continued to contract in the first half of the year (though the decline was less than in previous quarters)...

Aggregate figures for CIS management companies for the first half of 2009 put their assets under management[22] at just over 199 billion euros. Although this is 9.60 billion less than in December 2008, the rate of decrease has eased considerably (assets under management at these institutions fell by almost 87 billion over full-year 2008). After three years of decline, the volume of assets under management is back to the levels in place at the start of the decade (see figure 15).

22 Data for three management companies were not available at the closing date of this report.

CIS management companies: assets under management and pre-tax profits[1]

FIGURE 15



Source: CNMV and authors. June 2009 ratios on an annual basis.

1 Annualised 2009 profits.

...taking a large slice out of management company profits...

This decline in assets has eroded the fee income earned by fund management companies and taken a heavy toll on their aggregate profits. Specifically, the sector's (annualised) pre-tax profits closed the first-half period at 253 million euros, around half what they were in full-year 2008 (see table 18). The number of CIS management companies declaring losses jumped from 34 at end 2008 to 39 last June (out of a total of 120).

...and, finally, a severe drop in profitability.

Aggregate returns on equity dropped from 34% in 2008 to 17.3% in the first half of 2009 (in annual terms), due to the decline in sector earnings, while equity levels held flat after rising significantly over 2008.

The consolidation of excess capacity (given current expectations for assets under management), and the need for strategic decisions by parent companies, could herald a degree of sector restructuring.

On current prospects for the performance of managed investment funds (with assets holding up or else falling slightly), the number of loss-making management companies is likely to stay at current levels, signalling some excess of sector capacity. This circumstance, along with the likely redrawing of the credit institution map (with almost half of all managers belonging to financial groups) and extension of the Community manager passport to foreign groups with a presence in Spain, suggests sector restructuring may be not long in coming.

CIS management companies: pre-tax profits and ROE

TABLE 18

Million euros

	Profit before taxes	ROE before taxes (%)
2001	701.7	72.9
2002	457.1	50.1
2003	445.4	50.1
2004	512.2	57.3
2005	622.8	66.2
2006	744.0	68.9
2007	771.1	60.5
2008	503.5	34.0
June 09[1]	253.5	17.3

Source: CNMV.

1 Pre-tax profits and annualised ROE.

	Assets under management	CIS management fee income[1]	Average CIS management fee (%)	Fee ratio (%)[2]
2001	198,115	2,465	1.24	65.8
2002	192,099	2,259	1.18	72.7
2003	231,458	2,304	1.00	73.8
2004	262,132	2,670	1.02	73.6
2005	293,973	2,976	1.01	72.2
2006	308,476	3,281	1.06	71.5
2007	295,922	3,194	1.08	70.5
2008	209,020	2,302	1.10	70.8
June 09	199,397	1,675	0.84	70.2

Source: CNMV.

1 2009 data on an annual basis.

2 Ratio of fee expenses for fund marketing to fee income from CIS management.

4.4 Other intermediaries: venture capital

The number of venture capital entities registered with the CNMV has increased anew in 2009.

The CNMV's register of venture capital entities (VCEs) recorded twelve new entries between end 2008 and 31 August 2009. Of this number, five were venture capital funds, another five were venture capital companies, and the remaining two were venture capital management companies. A further five entities left the register over this same period (see table 20), leaving the number of operators at 329.

Movements in the VCE register in 2009 TABLE 20

	Situation at 31/12/2008	Entries	Retirals	Situation at 31/08/2009
Entities	**322**	**12**	**5**	**329**
Venture capital funds	95	5	1	99
Venture capital companies	154	5	3	156
Venture capital fund managers	73	2	1	74

Source: CNMV.

Venture capital fund assets dropped by 6.9% between 2007 and 2008...

Annual statistics on the entities registered with the CNMV put the total 2008 assets of venture capital funds at 2.58 billion euros, representing a 6.9% reduction on the total for 2007 (see table 21). The distribution of assets across investor groups is not entirely comparable between 2007 and 2008 due to accounting changes in the information entities supply to the CNMV[23]. Confining ourselves to items that admit inter-year comparison, we find that credit institutions (particularly savings banks) are again the largest corporate owners of fund assets, with a share of 23% just slightly down on the 26.6% of 2007. Next come the public authorities, holding 11.2%, while natural persons again account for a minority share of 7.0%.

...while the capital of venture capital companies contracted by something close to 30%.

Venture capital companies, meantime, closed the year 2008 with share capital of 3.65 billion euros, 30% down on the level of one year before. Non financial companies remain the largest subscribers, although their relative weight has dropped from 48% to 41%, while credit institutions (banks plus savings banks) conserve a similar share of around 25%.

23 CNMV Circular 11/2008 of 30 December on accounting standards, annual accounts and confidential disclosures of venture capital entities.

VCEs grew their total assets 3.5% in 2008 as far as 11.94 billion euros, breaking down 80% companies and 20% funds. Note however that this increase owed exclusively to new entities entering the register (otherwise total assets would have fallen by around 300 million euros). Around 6.82 billion of the 2008 total was invested in venture capital activities, 9.5% less than in 2007, of which amount 82% came from venture capital companies and the remainder from funds. Among the year's new-start entities, the same investment breakdown was 69% from companies and 31% from funds. Sector leverage (calculated as long-term payables to total liabilities) jumped from 0.7% in 2007 to as far as 2.2% in 2008. Most of this difference traced to venture capital companies which increased their leverage from 0.9% to 2.7%, while fund leverage remained unchanged at a negligible 0.1%. The leverage of new-start entities was zero in the case of funds and 5.4% in the case of companies.

The assets of venture capital entities rose 3.5% in 2008 to 11.94 billion euros, due exclusively to new firms entering the register. The sector's overall leverage increased from 0.7% in 2007 to 2.2% in 2008.

Venture capital entities: assets by type of investor TABLE 21

Million euros

	Venture capital funds		Venture capital companies	
	2007	**2008**	**2007**	**2008**
Natural persons				
Residents	237.79	181.45	182.56	46.90
Non residents	0.18	1.15	1.05	0.26
Legal persons				
Banks	134.22	191.17	1,026.03	466.35
Savings banks	603.30	398.70	307.17	422.05
Pension funds	266.85	266.43	26.62	24.20
Insurance undertakings	61.97	55.67	17.53	15.73
Broker-dealers and brokers	0.03	0.00	3.22	0.88
CIS	58.86	31.93	40.44	9.70
National venture capital entities		27.63		39.49
Foreign venture capital entities		123.65		7.98
Public authorities	331.46	289.10	134.48	120.41
Sovereign funds		20.27		
Other financial companies	512.83	252.19	684.06	679.63
Non financial companies	280.47	367.00	2,512.33	1,500.38
Foreign entities		286.04		32.69
Others		85.58		282.91
Academic institutions[1]			1.22	
Stock exchanges[1]			0.62	
Others[1]	264.92		289.92	
Available realised gains[1]	16.92		0.26	
TOTAL	**2,769.81**	**2,577.96**	**5,227.51**	**3,649.56**

Source: CNMV.

1 Items belonging to the old chart of accounts existing until 2007.

Data furnished by the Spanish industry association (ASCRI) for the first half of 2009 show a significant downturn in sector investment to 678 million, 49% less than in the year-ago period and back to the levels of 2004. Problems of access to bank finance tended to rule out any major takeovers (not one deal went through at over 100 million euros compared to two in 2008), and medium-size transactions were also fewer in number (14 transactions involving over 10 million euros capital versus 25 in the first half of 2008). Leveraged buy-outs, finally, numbered 12 in the period against 16 and 28 in first-half 2008 and 2007 respectively.

ASCRI data for the first half of 2009 show a large reduction in sector investment. Borrowing constraints are a dissuasory factor for large-scale operations...

Once more, borrowing constraints meant firms turned increasingly to expansion capital operations, which accounted for 47% of first-half investment and 59% of

...but are encouraging expansion capital deals and, generally, transactions requiring less leverage.

transaction numbers. Divestments in the period summed 269 million euros (316 million in the first half of 2008).

Credit constraints will go on dictating the amount and nature of sector investments in coming months, though liquidity, it appears, is not a problem.

Everything suggests that credit rationing will continue to dampen sector investment over the next few months, so the focus will stay on small and medium-size transactions placing fewer demands on funds. However, although finding cash is not easy in the current climate, venture capital entities have kept clear of liquidity problems and have the money on hand to go on investing substantially in the next few months.

5 Recent regulatory initiatives on short selling

5.1 Introduction

Regulator vigilance of speculative practices and their potentially destabilising impact prompted a widespread review of short selling regulations in the closing months of 2008...

World securities markets have been labouring since the start of the crisis under intense volatility. At times, this has been accompanied by price slumps in bank shares that have sown doubts in investors' minds about the viability of certain institutions.

In this context, some securities regulators identified speculative practices that could be the agent of destabilising spirals. The result was a review extending to all main markets on the rules governing short sales.

In most cases, supervisors' first reaction was an outright ban on naked short selling, when the seller does not actually own the securities being transferred. This was the case of the United States, France and Italy. Other countries opted for more restrictive measures. This was the case of the United Kingdom, which temporarily prohibited the building or expansion of short positions through any transaction modality. Most jurisdictions added new transparency requirements regarding significant short positions.

...concluding in outright bans (in some or all modalities) and/or the introduction of enhanced transparency requirements.

In Spain, naked short sales are prohibited by law. For this reason, the CNMV decided to reinforce its oversight by making it incumbent on market participants to disclose any short positions exceeding 0.25% in the stock of listed financial sector companies.

Recent months have brought new agreements under the auspices of IOSCO and CESR.

In general, the measures taken in different jurisdictions have lacked any common or consistent direction. However, recent agreements under the auspices of IOSCO and, above all, CESR have sought to achieve closer harmonisation of the rules governing short sales. In the following section we examine some recent advances in this regard.

5.2 IOSCO-sponsored initiatives

IOSCO calls for concerted regulatory action and a global approach, and puts forward the following principles and recommendations:

IOSCO set up a special task force to draw up guidelines or principles for the effective regulation of short selling. The organisation has called for concerted regulatory action to eliminate differences and develop a global approach to the short selling issue. The result is a document setting out four principles and a list of accompanying recommendations. These principles and recommendations are as follows:

a) Short selling should be subject to controls to reduce or minimise potential risks that could affect the stability of markets. To this end it recommends a strict settlement system, including the compulsory buy-in of failed trades that could disrupt the settlement process.

- short selling should be subject to controls,...

b) Short selling should be subject to a reporting regime that provides timely information to the market and market authorities. The recommendation here is adopt a specific disclosure regime for short positions and/or sales.

- communicated to the market and supervisors in a timely manner,...

c) Short selling should be subject to an effective compliance and enforcement system. To this end, supervisors should be empowered to proceed as follows: introduce regular monitoring and inspection of settlement incidents, require appropriate parties to maintain books and records of short sales (in jurisdictions with flagging systems in operation), require information from all market participants on their short selling activities, establish mechanisms to analyse the information obtained on short selling to detect potential abusive trading practices or systemic risk, and establish cooperation mechanisms with other regulators to facilitate investigation of cross-border cases.

- and come under an effective compliance and enforcement system,...

d) Regulations should allow appropriate exceptions for certain types of practice that facilitate efficient market functioning and development. In this respect it is important that market authorities clearly define the exempted activities.

- with exceptions for certain practices.

5.3 CESR-sponsored initiatives

Europe's supervisors slapped a series of (mainly temporary) restrictions on short selling at the height of market turmoil in late September 2008. These ran from simple disclosure requirements up to outright bans (in some cases, only of naked selling, and in other of all short sales). On September 22, the Executive Committee of CESR issued a resolution requiring the disclosure of all short positions of over 0.25% in the capital of listed financial sector companies and reiterating the prohibition on naked short sales of any exchange-traded shares.

European supervisors followed their emergency measures to restrict short selling, ...

5.3.1 Disclosure regime proposed by CESR

After months of deliberations, in late May 2009 CESR sent out a consultation document (in circulation till September 30) on the transparency standards to apply in a pan-European regime. Its proposal was, firstly, to prioritise disclosure measures in the regulation of short selling and, secondly, to provide the market with a harmonised reporting system that relieves participants of the cost of complying with different models. The text upholds each regulator's right to maintain or impose restrictive or limiting measures without closing the door to future agreements of a wider scope on the regulation of short sales activity.

...with a May 2009 agreement drawn up by the CESR on the transparency standards applicable to a Pan-European regime.

The model adopted by the CESR for the reporting and disclosure of short positions takes in the following elements:

The CESR proposal for the reporting and disclosure of short positions has the following main features:

1) **Disclosure thresholds.** The supervisor should be notified, without public disclosure, of any short positions between 0.1% and 0.5% of an issuer's share capital. Positions exceeding this upper threshold of 0.5% should be reported to the supervisor and will be communicated to the market, with disclosure of the

- Different disclosure triggers for short positions depending on the recipient (supervisor or market),

holder's identity. The supervisor will likewise be notified of any 0.1% step up or down after the initial disclosure requirement is triggered before and after reaching the second threshold of 0.5%, though only steps upward of 0.5% will trigger the public disclosure requirement. Thought went to the possibility that supervisors could regularly publish the aggregate sum of individual positions below 0.5%, without disclosure of identity, so the market could be apprised of the level of short positions in a given share, though this was finally ruled out for reasons of practical difficulty.

- though these may be modified in future if so desired.

CESR acknowledges that setting thresholds that are a perfect fit with all markets and jurisdictions is a complicated proposition (given the disparity of trading volumes, capitalisation and free float of listed stock) and that the percentages put forward might vary in future. However it chose these thresholds by reference to the experience of the regulators receiving the largest number of notifications (in the United Kingdom, Spain and France). In Spain, for instance, the average and median of initial holder disclosures were 0.43% and 0.32% respectively. It was also felt that thresholds should consist of an easy-to-remember figure; hence the choice of 0.5% for the public disclosure of short positions. In setting the 0.1% level the main consideration was to give the regulator an overview of those parties whose individual holdings were on too small a scale to merit disclosure to the market.

A flagging system was also considered, but was found to have two major drawbacks.

An alternative to this system would have been the flagging of short sales, whereby a flag is put on each short sale order a broker sends to the market for execution, and all such flags are aggregated by the regulator for eventual publication to the market. This system undoubtedly has its benefits as a way of tracking share price trends and providing the market and supervisors with real-time data on short selling, but it was also felt to have two major drawbacks. Firstly, the infrastructure required is extremely expensive (of all CESR members, only Greece currently operates a flagging system) and the extracost required would fall directly on market intermediaries. Secondly, the system does not provide information about outstanding short positions on a given share, nor does it factor shorting positions on OTC derivatives markets. Finally, the anonymity of the short seller that the flagging system confers would mean it is less effective as a constraint on aggressive short selling.

- Disclosure obligations apply to short positions on all listed companies in the European Economic Area.

2) **Notification and disclosure requirements apply to short positions in the stock of all listed companies in the European Economic Area (EEA)**. The above transparency regime extends to all issuers whose shares are quoted or have been admitted to trading on regulated markets or multilateral trading facilities (MTFs) within the EEA. There are no objective reasons to confine it solely to the financial sector (in effect, if we believe the mandatory reporting of short positions is a good thing for the market, it makes no sense to limit it to any given sector, even though the initial focus was on the financial sector due to the systemic importance of its component entities). The inclusion of MTFs is in order to prevent "regulatory arbitrage" and the competitive disadvantage posed to regulated markets if companies trading solely on MTFs were relieved of reporting requirements.

- Positions should be formulated in net terms (including cash and derivate products).

3) **The positions reported will invariably be calculated on a net basis and take in both cash positions and those in derivative products.** Although the document does not go into technical details, it is understood that positions in derivative instruments should factor the adjusted delta of each.

4) **Disclosure obligations will apply at the level of the legal entity**. The definition of "legal entity" for disclosure purposes will be decided after receiving the industry's feedback to the consultation paper. One option would be for disclosure to apply at the level of individual funds. It is likely, for instance, that various legal entities holding net short positions (funds, companies, etc.) will co-exist within an investor group. Another alternative would be to impose the disclosure requirement on the natural or legal person with decision power in respect of one or several legal entities (funds).

- Disclosure obligations to apply at the level of the legal entity.

5) **Short positions should be disclosed by the end of the trading day following the day on which the disclosure obligation is triggered**. Information on short positions must be notified to the regulator and conveyed to the market at the earliest opportunity. Delaying disclosures would lessen the value of the information and hinder investor decision-making and, where needed, the timely adoption of measures by the supervisory authority. The CNMV's experience to date regarding this timeframe (T+1) is fairly satisfactory, though it is necessary to keep an eye on compliance in cases where the holders of short positions begin to unwind them on dropping below the trigger level for disclosure. It bears mention that the proposed disclosure regime neither can nor aspires to offer information on intraday short positions. A real-time reporting system capturing intraday positions (similar to the flagging system) would be costly and difficult to implement without any assurance that the data provided offer an accurate picture of the level of short positions in a given share.

- Positions should be disclosed, at the latest, during the trading day after the day on which disclosure is triggered.

6) **Only market makers and similar entities are exempt from disclosing short positions when engaged in market making functions.** The functions of a market maker are set out in the consultation paper (although solely for illustrative purposes). Some countries contend that exemption should be extended to other forms of liquidity provision comparable to market making, while the CNMV's instinct is that the definition should not be made too all-embracing. CESR believes that market makers acting as such should be afforded a certain degree of flexibility in holding long and short positions. However, the consultation paper suggests that no exemption should apply to those found to be continually and systematically holding short positions at the close of the trading day.

- Only market makers and comparable entities may be exempt from reporting requirements.

7) **Disclosures should be made to the supervisor of the most relevant market in terms of liquidity**, in line with article 25.3 of the MiFID but contrary to the provisions of the Transparency Directive (article 21.1, home state authority criterion) vis à vis the reporting of voting rights. The argument here is that it would not be logical to have one competent authority for market supervision and investigative purposes and another for the reception of short position disclosures. The consultation paper also stresses the need for effective cooperation between supervisors.

- Disclosures should be sent to the supervisor of the most relevant market in liquidity terms.

8) **Finally, the public disclosure threshold is lowered to 0.25% when companies are raising capital**, on the grounds that such issuers require enhanced protection and on the evidence that attempts have been made in other jurisdictions to manipulate prices in this situation. The lower threshold of 0.1% is maintained for disclosure to the supervisor. These triggers may be subject to adjustment depending on the results of the consultation, particularly in the case of small rights issues which may be deemed not to require this added protection.

- The disclosure threshold is lowered to 0.25% on the occasion of rights issues.

The formal mechanics of disclosure will be decided once industry comments are in.

The paper also discusses the mechanics of disclosure, which will be finally decided once industry comments are in. The idea is to base the procedure on existing models so the reporting parties are spared any additional expenses, with main features as described below:

a) Responsibility for making the disclosure should rest with the position holder, although it would also be acceptable for an agent or broker to handle the procedure.

b) The disclosure should contain at minimum the identity of the short position holder, the identity of the issuer, the size or amount of the position held and the date on which the disclosure obligation came into being.

5.3.2 Other aspects: naked short sales, settlement incidents and emergency measures

CESR is concurrently working on another two aspects of short selling:

1) The design of contingency measures for supervisors in the event of an emergency, and

2) Analysis of naked short selling and its relationship with failures in transaction settlement.

CESR will go on looking into other aspects of short selling practices, in particular:

a) The design of contingency measures for supervisors to act on in the event of an emergency. These measures should at least allow the introduction of temporary disclosure requirements (over and above those stated in the proposal for a pan-European regime) and the possibility of imposing selective trading halts or other restrictions on naked or covered short sales. The triggers for activating these emergency measures would be, among others, evidence of "abusive" short selling, aggressive price falls in a given sector, a situation of severe losses in an issuer's shares which could pose a threat to financial stability or the existence of excessive volatility in a sector or share that could undermine confidence in the investment.

b) Analysis of the relationship between settlement incidents and short selling. In the CNMV's opinion, there are sufficient data to posit a direct relationship. Moreover, the settlement system employed by the Spanish market is especially conducive to this analysis, as opposed to other systems where the supervisor has to conduct an ad hoc study in every case.

5.4 Latest decisions by securities regulators

In summer 2009, rules on short selling were modified or extended in a number of major jurisdictions: SEC (United States), FSA (United Kingdom), CONSOB (Italy). SFC (Hong Kong) and AMF (France).

In summer 2009, rules on short selling were modified or extended in a number of jurisdictions. The most significant of these changes are discussed below.

In the United States, the SEC resolved on 27 July to make its temporary regulations permanent (Rule 204T, expiring 31 July). The rule in question attempts to limit any damage from naked short sales by obliging intermediaries to promptly borrow or arrange access to the securities deliverable in a flagged short sale. The idea is to dissuade agents from naked short selling. On the question of transparency, the SEC has announced that it is in talks with a number of market operators with self-regulation powers (Self Regulatory Organisations) to get them to post short sale figures on their websites.

The UK's FSA will shortly publish the opinions received in response to its consultation paper on short selling.

In Italy, the CONSOB retracted its view that securities from a securities loan could not serve as a deliverable in respect of short sale authorisation (de facto prohibition of naked sales), with effect as of 31 July. This interpretation is now only retained for sales taking place during a rights issue.

Hong Kong's SFC published a public consultation document on 31 July 31 on the subject of a disclosure regime for short positions (Hong Kong markets already operate a flagging system).

France's AMF has extended its September 2008 measures for 6 more months (to 31 January 2010), and has said that it will await the outcome of the CESR consultation before proposing a permanent regime. However, it has publicly stated its position on the contents of the future regulation, in particular its concern about the correlation between short selling and settlement failure. It also favours imposing the same settlement obligations on MTFs and regulated markets, and the conclusion of securities loan agreements between the short seller and lending entities prior to execution (naked short selling).

5.5 Conclusions: the future of short selling regulations

The consensus reached within CESR is a welcome first step towards a fully harmonised regime for the activity of short selling.

The consensus reached within CESR on a common pan-European transparency regime based on the private and public disclosure of short positions is an important step forward for future agreements. The tasks now must be to implement the proposed transparency regime and, at the same time, develop a scheme to harmonise remaining rules on short selling practices.

But although there is broad agreement over the benefits of short selling and the need for regulators to be able to restrict it in certain cases...

There are two common starting points that should aid progress towards this future regulation. Firstly, it is agreed that, under normal conditions, short selling is a beneficial activity[24], which contributes to efficiency and may help mitigate speculative bubbles. Secondly, it is accepted that supervisors should be empowered, in exceptional circumstances, to restrict or even ban short selling if it is deemed to pose a threat to financial stability or market integrity.

..there is still no clear view on how far to tolerate naked short sales.

At the core of the debate is how tolerantly to treat short selling in its naked modality. Many observers feel that this kind of trading may contribute to downward price spirals or failures in the settlement process. They also feel that the modality brings few benefits that could not be obtained through covered sales. Some take the opposite view, arguing that the stabilising effect of short sales is largely lost if principals have to pre-borrow the securities they are selling, and that we have ample mechanisms to ensure settlement discipline even in the presence of naked short sales. Spain's experience is that prohibiting naked short sales does not impair market efficiency, while it certainly limits the risk of settlement failure. Note, however, that the peculiarities of the Spanish settlement system, whereby transactions become firm at the point of trade, prevents us from drawing definitive conclusions about the effectiveness of naked short selling restrictions in mitigating settlement risk in the post-trade process.

24 For a fuller discussion about the benefits and drawbacks of short selling, see Rodrigo Buenaventura's article of the same name in the CNMV Bulletin for the fourth quarter of 2008.

II Reports and Analyses

Economic and financial performance of listed companies in the second half of 2008

Belén de Anta Montero and Carolina Moral Sánchez (*)

* Belén de Anta Montero and Carolina Moral Sánchez are members of the Financial and Accounting Reports Department of the CNMV.

1 Introduction

The purpose of this article is to analyse the key financial and operating data contained in the reports for the second half of 2008 submitted to the CNMV by issuers[1].

Said reports provide information about companies' results, financial position, cash flows, number of employees and dividends paid. The companies analysed, totalling 184, operate in the following industries: energy (13 companies); retail and services (39 companies); construction and real estate (27 companies); manufacturing (52 companies); banks (11 companies); savings banks (35 companies); other financial institutions (4 companies); insurance companies (3 companies).

The analysis has been carried out on the following basis:

- The data for analysis are obtained from the consolidated or individual periodic financial reports[2,3] submitted to the CNMV by the issuers of shares and debt instruments[4] that are listed on a regulated Spanish market, where Spain is the home Member State.
- The aggregate figures exclude issuers that are subsidiaries of listed groups. Such issuers are included in sector information, however, when their business is conducted in a sector other than that of their parent.
- Data for periods other than the second half of 2008 are taken from a representative sample of the companies that were listed in each period.

In section 2 of this article we analyse the growth of revenue since 2005; in sections 3 and 4 we analyse the behaviour of profit margins and the return on equity and on investment; section 5 covers the debt of non-financial institutions; in sections 6, 7 and 8 we consider the performance of cash flows, workforce and dividends. Lastly, our main conclusions are presented in section 9.

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

2 Prepared based on the model forms provided in Circular 1/2008.

3 Except for entities that, under the Fourth Transitional Provision of Royal Decree 1415/07 of 16 November, giving effect to the General Accounting Plan (Plan General de Contabilidad), are not required to present comparative information.

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

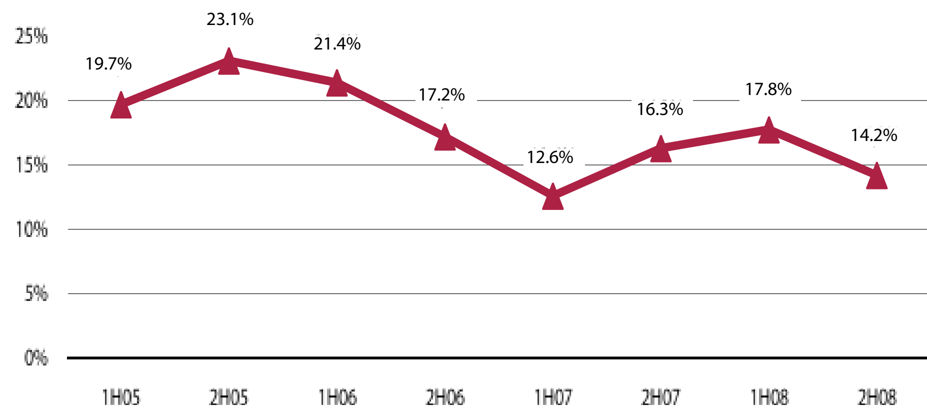
2 Revenue

Figure 1 shows year-on-year rates of change in revenue from the start of 2005 to the end of 2008[5].

The year-on-year rate of change at year-end 2008 was slightly lower than in the previous two halves, at 14.2%. This slower growth was due to a not-so-positive trend in the energy sector, partly due to the fall in crude oil prices during the second half of 2008. The energy, financial and insurance industries are the only ones with above-average rates of growth, around 20%, while the rest of the industries grew at rates well below average.

According to the information published by the main companies in our sample[6], the aggregate rate of growth of revenue in the first quarter of 2009 was down 1.80% compared to the first quarter of 2008.

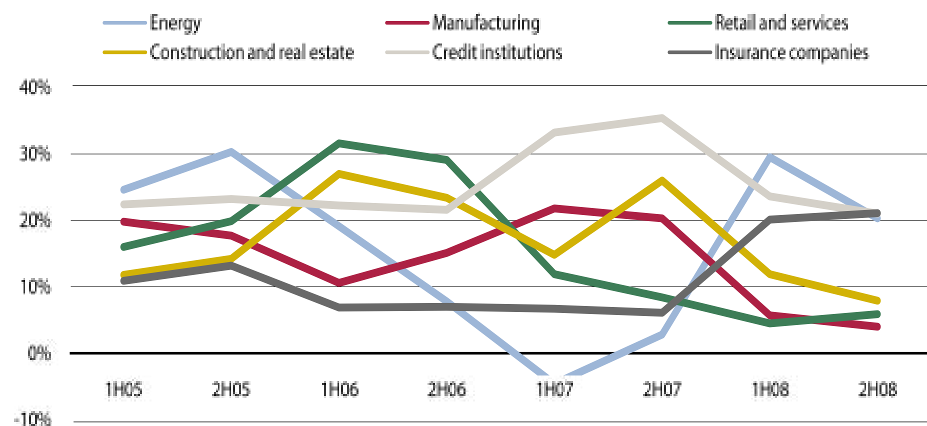
Rate of change of revenue FIGURE 1



Source: own preparation.

Figure 2 shows the growth of revenue in the different industries.

Rate of change of revenue by sector FIGURE 2



Source: own preparation.

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

6 We have taken a sample of 61 companies, including all the companies in the Ibex 35.

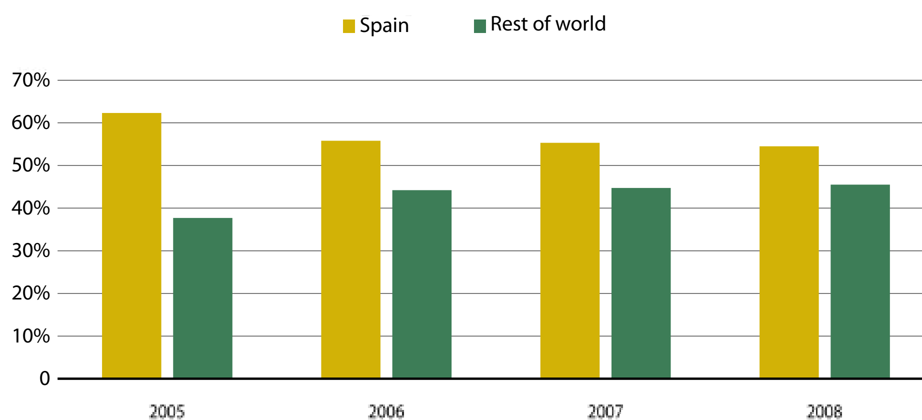
As indicated earlier, the rate of revenue growth varied between industries:

- **Energy.** Turnover increased by 20.3%, mainly for the following reasons:
  - (i) Revenue for financial year 2008 includes all the results for the entire period of certain key companies which in 2007 were not included for the entire period.
  - (ii) Although electricity companies were burdened by significant increases in generating costs due to rising fuel prices, electricity prices also increased considerably. The average price per barrel of Brent crude increased by 39.8% over the year as a whole, but within-year changes were uneven, with a significant increase during the first half and a sharp fall during the latter half.
- **Manufacturing.** Revenue growth in 2008 was 4%, much lower than in previous years, when it reached rates of more than 20%. This confirms the change of trend first noted in the first half of 2008 and the current slowdown in manufacturing activity.
- **Retail and services.** Revenue for 2008 as a whole grew by approximately 5.9%, slightly faster than in the first half of the year (4.5%), but well below the rates recorded in 2007, when the economic slowdown started.
- C**onstruction and real estate**. The 7.9% growth in aggregate revenue of the construction and property sectors is attributable mainly to the first-time consolidation of investments in energy companies. Excluding this impact, aggregate revenue growth falls to 2.2%, reflecting the scant increase in level of activity. Property sector revenue fell 8.2%.
- **Credit institutions**. Despite the upward trend in interest rates during the first nine months of 2008, interest income and similar income grew 21% year-on-year, much slower than in previous periods, due to the drop in business volume due to credit restrictions brought on by the liquidity squeeze and the worsening of the economic situation. The economic slowdown and the change of trend in interest rates in the second half of 2008 hit savings banks (*cajas de ahorro*) harder than banks, which managed to keep year-on-year growth more or less level.
- **Insurance companies.** Widespread organic growth of premium income due to the launch of new insurance products, the broadening of distribution channels, foreign expansion (especially in Latin America) and acquisitions resulted in revenue growth of around 21%.

Figure 3 shows the geographical distribution of the revenue of non-financial institutions from the start of 2005 until year-end 2008.

We can see that the relative weight of revenue generated outside Spain increased significantly in 2006 due to corporate acquisitions of foreign companies and, to a lesser extent, the establishment and development of companies or businesses (motorway concessions, etc.) in foreign markets. In subsequent periods the percentage of revenue generated abroad remained relatively stable, trending slightly upward. In 2008 the percentage of revenue generated abroad remained slightly above the level recorded in 2007, due to corporate acquisitions in the energy sector.

Geographical distribution of revenue FIGURE 3



Source: own preparation.

Table 1 shows the geographical distribution of the revenue of non-financial institutions by sector. As can be seen, in energy and in construction and real estate the proportion of revenue from abroad continued to increase in 2008.

Geographical distribution of revenue by sector TABLE 1

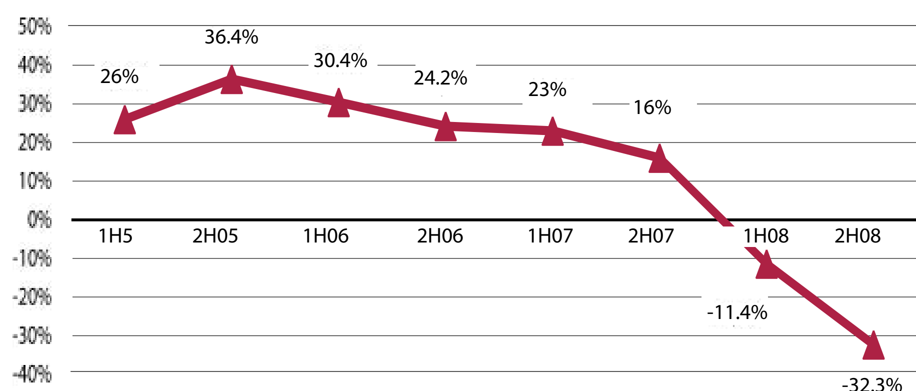
%		2005	2006	2007	2008
Energy	Spain	67.3	62.2	58.8	57.5
	Rest of world	32.7	37.8	41.8	42.5
Manufacturing	Spain	43.8	40.2	44.8	40.7
	Rest of world	56.2	59.8	55.2	59.3
Retail and services	Spain	55.9	45.2	47.7	49.9
	Rest of world	44.1	54.8	52.3	50.1
Construction and real estate	Spain	76.9	71.1	66.8	63.8
	Rest of world	23.1	28.9	33.2	36.2

Source: own preparation.

3 Profit

Figure 4 shows the year-on-year rate of change of the aggregate profit before tax from continuing activities of listed companies from the first half of 2005. From the first half of 2006 we see a steady decline in the rate of growth, accelerating significantly in 2008, when it dropped to -32.3%.

Rate of change of profit before tax FIGURE 4

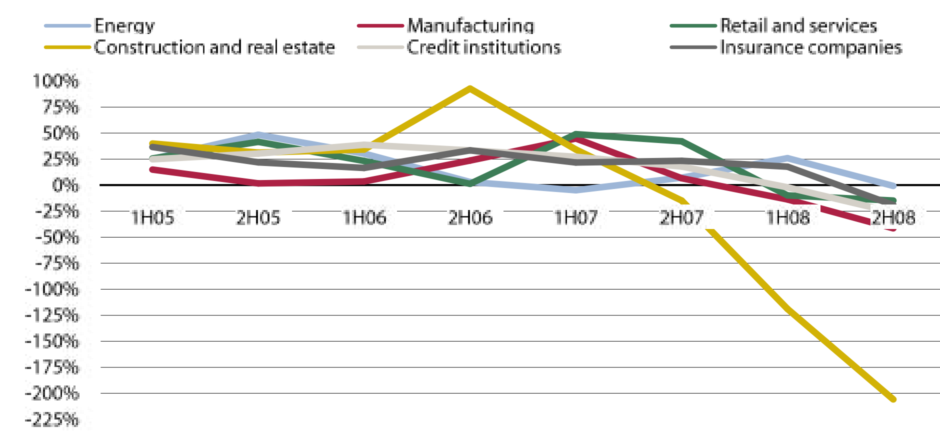


Source: own preparation.

Figure 5 charts the rate of change of profit before tax by sector, showing a general decline. The fall is especially steep in the construction and real estate sector, which in 2008 had losses of 6,428 million euros, compared to profit of 6,078 million at the end of 2007. In the energy sector, despite positive first-half earnings growth, up 26% on the first half of 2007 under the impact of non-recurring gains, the year-end result was down 0.8% compared to a year earlier.

Rate of change of profit before tax by sector

FIGURE 5



Source: own preparation.

Table 2 shows the main income statement margins at year-end 2008 and the change with respect to the previous year.

EBITDA[1], EBIT and profit/loss for the year

TABLE 2

Million euro	EBITDA		EBIT		Profit /loss for the year[2]	
	Amount	% Chg.	Amount	% Chg.	Amount	% Chg.
Energy	29,340	3.8	20,034	2.4	17,556	34.1
Manufacturing	5,775	-19.2	3,622	-30.7	2,380	-35.7
Retail and services	31,373	-1.9	19,427	-2.2	11,401	-23.0
Construction and real estate	3,759	-69.9	80	-99.2	-6,906	-191.4
Credit institutions			23,151	-21.91	22,665	-23.0
Insurance companies					999	-21.0

Source: own preparation.

1 EBITDA = EBIT (operating income = earnings before interest and tax) + depreciation and amortisation expense

2 Profit or loss after taxes

By industry, the highlights are:

- **Energy.** The energy industry's EBIT increased by 2.4%, significantly more slowly than revenue (up 20.3%) due to the increase in supply costs related to oil prices.

  This slower EBIT growth, combined with a 13.3% increase in net finance expense and a 12.4% decline in gains on disposal of financial instruments (compared with a 297% increase in the first half of the year), resulted in a 0.8% decline in profit before tax.

  Profit for the year was up 34.1%, mainly due to earnings from discontinued operations. Excluding said impact, the increase would have been 1%.

- **Manufacturing.** Manufacturing companies were hit particularly hard by the slowdown in the Spanish economy throughout 2008. Despite a 4% increase in revenue, EBIT fell 30.7% under the impact of the increase in operating costs, staff costs and depreciation and amortisation expense and the impairment of fixed assets and inventories due to the fall in raw materials prices at the end of the year. The first half of 2008 also saw an increase in raw materials procurement costs and in energy prices.

  Profit before tax fell 41.5% due to a 28.1% increase in net finance expense. Even so, thanks to a 43.5% decrease in the tax charge, the decline in profit for the year was not as steep as the fall in profit before tax.

- **Retail and services.** The profit for the year of the retail and services sector fell 23%, although EBITDA and EBIT remained broadly in line with the previous year (down just 1.9% and 2.2%, respectively), due to an 11.9% increase in finance costs, 358 million of losses on disposal of financial instruments (compared to profit of 539 million at year-end 2007) and a 39.5% increase in the tax charge.

- **Construction and real estate.** This was the sector most affected by the economic slowdown, with a loss for the year of 6,906 million (compared to profit of 7,552 million in 2007). Aggregate EBITDA and EBIT fell 69.9% and 99.2%, respectively. This trend was not uniform across the sector.

  Property companies reported negative EBITDA, negative EBIT and a loss for the year totalling 5,870, 5,966 and 8,887 million euros, respectively. This situation reflects:

  (i) the fall in sales;

  (ii) the decline in selling prices;

  (iii) the revaluation of property assets acquired in business combinations to their market value; and

  (iv) the decrease in value of inventories and investment property.

  In contrast to the property companies, construction companies reported positive EBITDA, positive EBIT and net profit for the year, with increases of 4.6%, 15.5% and 67.12%, respectively. The rate of increase was slower than the previous year, however, due to the companies' exposure to the property market (as a result of mergers in the sector), fixed asset impairment losses and losses on fixed asset disposals (236 million euros, compared to gains of 1,076 million in 2007) and changes in the fair value of financial instruments (losses of 1,097 million euros, compared to gains of 68 million euros in 2007).

- **Credit institutions.** The rise in finance costs, due to the greater difficulty in attracting deposits and the decrease in lending brought on by the economic downturn, directly affected net interest income, which grew 14% in 2008, down from a rate of 22% in 2007.

  In 2008 financial institutions in general were obliged to record substantial additional provisions to cover the increase in the non-performing loan (NPL) rate. In fact, the increase in provision expense significantly reduced operating income (down 22%), as impairment losses on financial assets rose 85.6%, absorbing 24% of gross margin at year-end 2008 (compared to 14% at year-end 2007). Reduced profit from discontinued operations drove the fall in profit for the year to 23%.

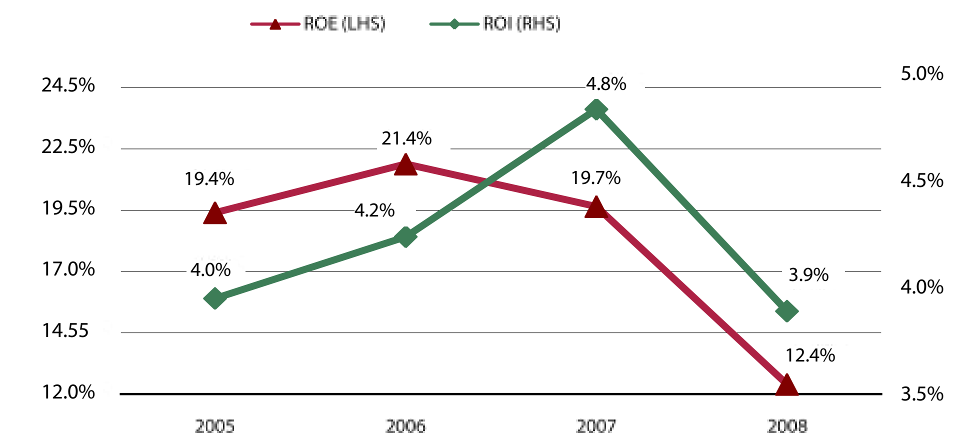
- **Insurance companies.** Despite a substantial increase in revenue (21%), the increase in claims incurred in both non-life (32%) and life (39%) insurance and in non-life operating expenses (35.8%) resulted in a 21% reduction in profit for 2008.

According to the information published by the main companies in our sample[7] in the first quarter of 2009 EBIT and profit decreased by 7.7% and 16.2%, respectively, compared to the first quarter of 2008.

4 Return on equity and return on investment

Figure 6 shows the trend in ROE (return on equity) and ROI (return on investment) since 2005. As can be seen, because of the decrease in aggregate earnings, in 2008 both ROE and ROI dropped below their 2005 levels.

ROE and ROI FIGURE 6



Source: own preparation.

Tables 3 and 4 show the trend of ROE and ROI growth for the different industries. In 2008 the ROE and ROI of companies in the retail and services sector decreased for the first time since 2005, by twelve and four percentage points, respectively.

Companies in the manufacturing and construction and real estate sectors followed the trend started in 2007, with a decline in both ROE and ROI, especially in construction and real estate, where ROE was negative due to the losses sustained during the year and ROI was below the cost of debt, down seven percentage points at levels close to zero.

The decline in the ROE of credit institutions and insurance companies is accentuated by the inclusion in the sample of fixed income issuing credit institutions that were not required to file periodic reports in 2007 or previous years. Excluding these entities, ROE would be 16.4%, lower than in previous periods due to the decrease in profit for the year.

In the energy industry, meanwhile, both ROE and ROI increased in 2008, thanks to profit from discontinued operations, which accounts for 28.1% of profit for the year.

7 We have taken a sample of 61 companies, including all the companies in the Ibex 35.

ROE				TABLE 3
	2005	2006	2007	2008
Energy	20.6%	18.6%	15.9%	19.5%
Manufacturing	16.0%	20.6%	17.7%	10.6%
Retail and services	25.4%	27.6%	32.4%	20.1%
Construction and real estate	19.4%	29.8%	18.3%	-17.6%
Credit institutions and insurance companies	17.2%	19.1%	19.1%	13.0%
TOTAL	19.4%	21.4%	19.7%	12.4%

Source: own preparation.

ROI				TABLE 4
	2005	2006	2007	2008
Energy	10.2%	9.6%	9.1%	10.5%
Manufacturing	9.0%	11.6%	11.5%	7.7%
Retail and services	10.5%	10.8%	12.1%	8.3%
Construction and real estate	8.3%	10.1%	7.8%	0.4%
Credit institutions and insurance companies	2.8%	3.0%	3.8%	3.8%
TOTAL	4.0%	4.2%	4.8%	3.9%

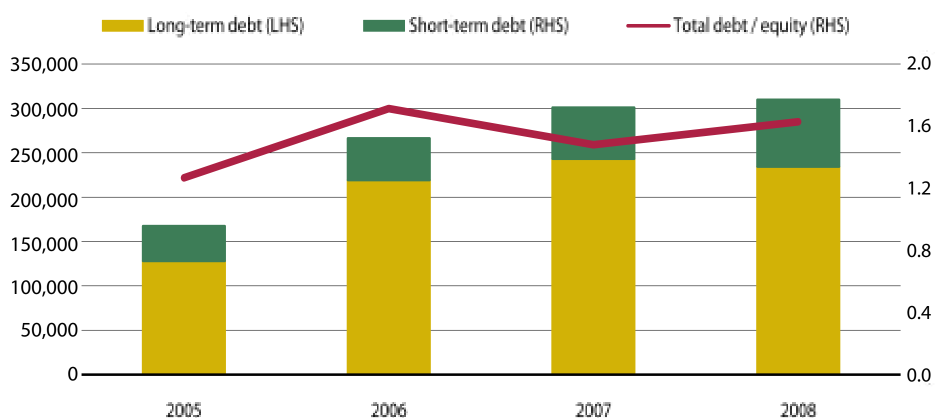
Source: own preparation.

5 Debt

Figure 7 shows the trend of the gross debt[8] (in millions of euros) of the companies in the sample, excluding credit institutions and insurance companies.

Debt structure and leverage ratio

FIGURE 7



Source: own preparation.

After several years of rapid growth of indebtedness (2003-2006), slowing to 13.1% in 2007, by year-end 2008 the rate of growth had fallen to 2.9%, mainly due to the decrease in acquisitions (despite deals by two companies in the retail and services sector and the widespread increase in acquisitions among companies in the energy sector) and the credit restrictions imposed by financial institutions.

8 Gross debt = amounts owed to credit institutions + issues of marketable bonds and securities.

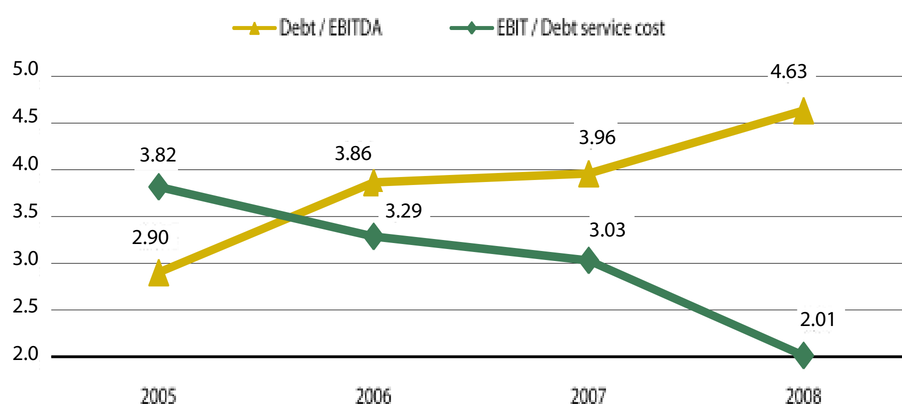
However, the percentage of debt maturing in the short term increased by five points compared to year-end 2007, partly because of non-fulfilment of borrower covenants due to the fall in corporate earnings and the deterioration of companies' financial condition. Under the International Financial Reporting Standards (IFRS) adopted, if a company breaches a loan covenant and has not obtained a waiver before the end of the accounting period, the debt must be reclassified to short-term, regardless of its contractual maturity.

In 2008 many companies (especially construction companies and property developers) restructured, or started negotiations to restructure, their debt, thus extending maturities and increasing finance costs.

The leverage ratio, which compares debt to equity, increased in 2008 to 1.63 times, compared to 1.48 at year-end 2007, without returning to the levels of 2006.

Figure 8 shows the trend in debt coverage through the debt-to-EBITDA ratio and the debt service coverage ratio. As a result of narrowing operating margins, both ratios deteriorated markedly, demonstrating the difficulties non-financial institutions are having in generating sufficient cash from operations to service their debts.

Coverage ratios FIGURE 8



Source: own preparation.

Table 5 shows the trend in level of debt and the relevant ratios by sector. Construction companies and property developers stand out, with debt-to-EBITDA of 31.87, compared to 10.83 in 2007. Their debt service coverage ratio was 0.01, down from 1.17 in 2007.

Trend of debt by sector

TABLE 5

		2005	2006	2007	2008
Energy	**Debt**	**58,586**	**59,191**	**69,172**	**82,608**
	Debt / Equity	0.93	0.89	0.78	0.89
	Debt / EBITDA	2.41	2.17	2.48	2.82
	EBIT / Debt service cost	4.02	4.65	4.10	3.67
Manufacturing	**Debt**	**12,760**	**15,684**	**13,312**	**15,645**
	Debt / Equity	0.75	0.78	0.61	0.69
	Debt / EBITDA	2.07	2.07	1.82	2.71
	EBIT / Debt service cost	6.50	5.71	5.93	3.41
Retail and services	**Debt**	**55,710**	**91,522**	**96,941**	**112,322**
	Debt / Equity	1.70	2.52	1.70	2.14
	Debt / EBITDA	2.68	3.58	3.01	3.58
	EBIT / Debt service cost	3.37	2.44	3.23	2.86
Construction and real estate	**Debt**	**48,324**	**111,000**	**138,933**	**119,788**
	Debt / Equity	2.16	3.10	3.08	3.77
	Debt / EBITDA	6.52	11.52	10.83	31.87
	EBIT / Debt service cost	2.79	2.04	1.17	0.01
Adjustment		-7,942	-11,199	-17,391	-20,802
TOTAL	**Debt**	**167,438**	**266,198**	**300,967**	**309,561**
	Debt / Equity	1.27	1.71	1.48	1.63
	Debt / EBITDA	2.90	3.86	3.96	4.63
	EBIT / Debt service cost	3.82	3.29	3.03	2.01

Source: own preparation.

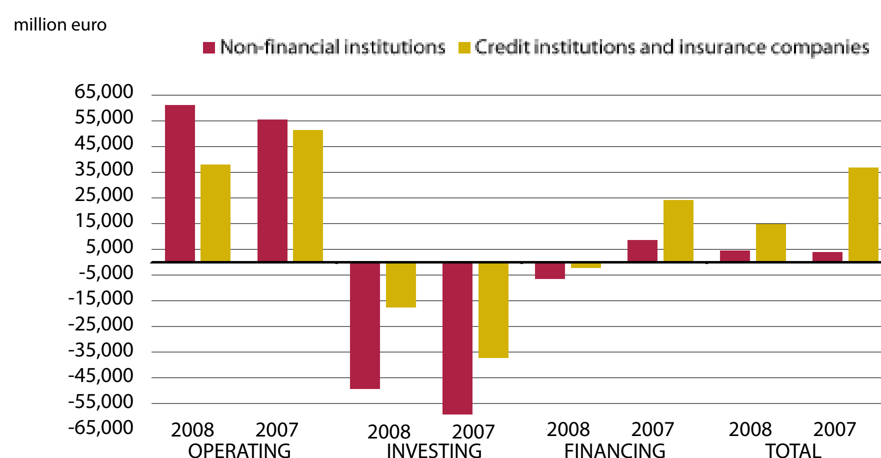
6 Cash flows

Figure 9 shows the aggregate change in cash flows generated in 2007 and 2008 by the companies in the sample. Non-financial institutions are shown separately from credit institutions and insurance companies, given the different nature of their activities.

Cash flows

FIGURE 9

million euro



Source: own preparation.

The trend in cash flows was uneven across the industry, as explained below.

- **Non-financial institutions.** The cash flows from operating activities and divestments during 2008 (37,530 million euros, compared to 28,866 million in 2007) offset the cash flows used in financing activities (6,535 million euros)

and the cash used in investments during the year (87,717 million euros), which held steady compared to the previous period.

By industry, energy was the only sector to post a net increase in cash and cash equivalents, due to divestments during the period (12,687 million euros) and financing received (11,481 million euros).

- **Credit institutions and insurance companies.** The cash flow statement of credit institutions as a whole for the first half of the year reflects the liquidity constraints in financial markets, as the cash flows generated were insufficient to prevent the consumption of part of the cash surpluses accumulated in previous periods. Towards the end of 2008 the programmes put in place by various governments and the European Central Bank to combat the crisis alleviated the resulting liquidity problems.

The cash flows generated by credit institutions from the operation of their businesses fell 24.7% in volume, due to the increase in default and the greater difficulty in raising customer funds. Net cash inflows from financing activities of 23,699 million euros at year-end 2007 gave way to net outflows of 3,621 million euros in 2008. These changes were offset by a 57% decrease in cash used in investing activities, resulting in an increase in aggregate cash and cash equivalents of 18.8% at year-end 2008 compared to year-end 2007.

Insurance companies, by contrast, saw a sharp increase in cash flows from financing activities (up 192%) and cash flows used in investing activities (up 124%). Cash flows from operating activities were insignificant. Aggregate cash and cash equivalents at year-end 2008 were down 16.2% on the previous year.

7 Number of employees

Table 6 shows the aggregate average workforce for the six sectors in 2008 and 2007, with an average increase over the previous year of around 6%.

Average number of employees by sector TABLE 6

	2008	2007	Change
Energy	142,303	137,531	3.5%
Manufacturing	230,974	211,142	9.4%
Retail and services	576,763	553,533	4.2%
Construction and real estate	423,619	397,763	6.5%
Credit institutions	432,680	407,138	6.3%
Insurance companies	39,439	32,562	21.1%
Adjustments	-29,163	-26,610	9.6%
TOTAL	**1,816,615**	**1,713,059**	**6.0%**

Source: own preparation.

The biggest increase is in insurance companies (21.1%), due to first-time consolidation of interests in foreign companies.

The growth in the average number of employees of credit institutions (6.28%) is also heavily influenced by the consolidation of subsidiaries acquired outside Spain. The average unit cost per employee held steady at 49,000 euros, while the ratio of interest income and similar income to average number of employees rose to 12%.

The aggregate average number of employees of non-financial institutions as a whole grew 5.6%. Most notable is the decline in number of employees in the property sector (-37.4 %) and the increase in other industries, driven in all cases except manufacturing by the consolidation of subsidiaries acquired in the first half of 2008.

The revenue per employee of non-financial institutions grew by approximately 5.7%. Sector dispersion was high, however, with a notable 4.9% fall in the manufacturing sector and a substantial 16.3% increase in the energy industry. The aggregate average unit cost per employee of non-financial institutions remained unchanged.

8 Dividends

Dividends paid in 2008 totalled 22,353 million euros. Table 7 shows dividends paid in 2008 and 2007 by industry.

Dividends by industry TABLE 7

	2008	2007	Change
Energy	5,847	5,109	14.4%
Manufacturing	1,557	1,614	-3.5%
Retail and services	6,838	10,135	-32.5%
Construction and real estate	1,645	1,515	8.6%
Credit institutions	7,467	7,253	2.9%
Insurance companies	435	302	44.0%
Adjustments	-1,436	-5,711	
TOTAL	**22,353**	**20,217**	**10.6%**

Source: own preparation.

As can be seen, dividends increased by 10.6% overall, due mainly to the increase in the dividends paid by credit institutions and energy companies. In contrast, the dividends paid by companies in the retail and services sector, mainly subsidiaries of listed groups, show a marked decrease.

9 Conclusions

The key financial data for 2008 of companies whose shares are admitted to trading reflect the instability in the international financial markets, especially from September onward, on the heels of the Lehman Brothers collapse, and the weakening of the real economy, which intensified in the last few months of the year.

The property market crisis sparked a significant drop in the sales volume and margins of construction companies and property developers, which are carrying high levels of debt due to corporate dealmaking from previous periods.

For credit institutions this macroeconomic environment resulted in: (i) major difficulties in obtaining financing, owing to their dependence on international wholesale markets; (ii) an abrupt slowdown in growth, due to the sharp contractions of the property market and construction industry, combined with a more restricted supply of credit, due to perceptions of a general increase in credit risk; and (iii) a sharp decline in profit for the year due to the steep rise in non-performing loans.

The manufacturing and retail and services sectors did not escape the general trend of declining profit, due to lower fixed cost absorption, impairment of inventories

and fixed assets, increases in supply costs due to the rise in energy prices during the first half of the year, and the increase in borrowing costs.

Companies in the energy sector, however, display an upward trend, based on non-recurring gains from discontinued operations.

Appendix

The following definitions of ROE and ROI are provided to help in the interpretation of the data:

- ROE is calculated using profit after taxes[9], including profit from discontinued operations; for the purposes of calculating ROI, we add back interest expense, net of the tax effect[10].

  For financial institutions, net interest for the ROI calculation is the interest and similar expenses that are included in the net interest income figure.

- The main balance sheet items (equity and investments) are calculated as the arithmetic average of the opening balance and the closing balance of each period.

  For non-financial institutions, investments are equal to total assets less non-interest-bearing current liabilities and, for financial institutions, to total assets.

9 For groups of companies, profit attributable to equity holders of the parent is used.

10 The corporate income tax rate used is the rate actually paid by the company to obtain the accounting tax expense.

The executive compensation plans of listed company directors

Soledad García Santa and Ángel Domínguez Fernández-Burgos (*)

* Soledad García and Ángel Domínguez belong to the CNMV Financial and Accountancy Reports Department.

1 Introduction

Within the context of the current economic crisis, financial authorities throughout the world have placed special emphasis on the executive compensation plans of directors and senior management of listed companies, resulting in it becoming a major issue in the debate on corporate governance.

This article contains an analysis of the compensation plans of the directors of Spanish listed companies. It identifies the main transparency practices by using the public information disclosed by the companies, especially that contained in annual corporate governance reports.

The article is divided into six sections. The first provides a summary of the transparency regulations framework regarding executive compensation on both a national and European level. Sections 3 to 7 describe the main characteristics of the compensation plans in Spanish listed companies, and the degree to which the recommendations of the Good Governance Code of listed companies are being followed. Finally, section 8 presents the conclusions.

2 Transparency regulations framework

2.1 European Commission recommendations

In December, 2004 (913/2004/EC) and February, 2005 (162/2005/EC), the recommendations by the European Commission to promote an adequate and transparent corporate governance framework regarding directors remuneration were approved.

Recommendation 913/2004/EC encourages Member States to adopt measures in four areas:

(a) On remuneration transparency policy, it recommends that all listed companies make their executive compensation policies public, either in an independent report, the annual accounts, or in the annual corporate governance report.

(b) Revealing the specific remuneration of each director in the annual accounts or in the report on remuneration, thereby allowing shareholders to assess the relationship between remuneration and results.

(c) A vote to be taken in the annual general meeting on the compensation policy (even if it is only in an advisory capacity). This measure will ensure that shareholders can express their opinions and exercise real influence on the company's remuneration policy.

(d) Prior approval by shareholders at the annual general meeting, by way of a resolution, of the payment schemes based on shares, share options or any other right to acquire them.

Among other things, recommendation 162/2005/EC establishes measures to promote the presence of non-executive directors in the administrative bodies. It specifically recommends the creation of a Remunerations Committee made up of mainly independent, external directors who play a fundamental role in the process that has been established to fix the directors' compensation.

The European Commission leaves up to Member States whether these recommendations can either be implemented as legal obligations or regulations based on the "comply or explain" principle, to guarantee a level of flexibility which permits the necessary changes to be made according to the specific circumstances of each company.

In 2007, two reports were issued by the European Commission on the degree these recommendations were being incorporated. It was revealed that:

- The majority of Member States have incorporated the recommendations regarding transparency of compensation policies, as well as the disclosure of information on the remuneration of individual directors, the approval in the annual general meeting of compensation plans based on shares and the creation of a Remunerations Committee.
- Less than a third of the Member States have incorporated the recommendation regarding the approval of the remuneration policy in the annual general meeting via a separate vote.
- Less than half of the Member States adopted the recommendation which advises a number of independent directors should be included in the Committee created by the Board of Directors.
- In the majority of the Member States which have incorporated these recommendations, the publication of the remuneration of individual directors and the approval of compensation plans based on shares in the annual general meeting have been adopted by law. The transparency and the vote on the compensation policy at the annual general meeting, as well as the creation of the Remuneration Committee, have been incorporated under the "comply or explain" principle.

On the 30th April, after a process of evaluation of the incorporation and application of the principles expressed in both recommendations, the European Commission published a new recommendation that complements the previous ones and includes new proposals regarding:

(i) The structure of the remuneration of directors:

- The variable components have to be linked to performance criteria that are predetermined and measurable. They should have limits and a part of them should be deferred so that checks can be made to ensure the established terms of performance are complied with. The companies must be able to reclaim them when the payment has not been in line with these terms of performance.
- Payments resulting from the termination of contracts should not exceed a set amount or a specific number of years of annual remuneration (no more

than two years of the fixed component) and should not be paid when the termination of the contract is due to inadequate performance.

(ii) Remuneration in shares must be limited to executive directors, be subject to predetermined and measurable performance criteria and not come into effect until at least three years after it was awarded. Directors who have been awarded shares as part of a compensation plan must keep them until the end of their term of office.

(iii) To make the task of assessment easier for the shareholders, the information regarding remuneration must be presented in a clear way, be easily understandable and more accessible. The shareholders, especially those belonging to the institution, should be encouraged to attend the annual general meeting and cast their vote.

(iv) At least one of the members of the Remuneration Committee should have knowledge and experience of compensation policies. Plus, this Committee should carry out periodic checks on the remuneration policy to avoid any possible conflicts of interests for the external directors they contract.

2.2 Regulatory framework in Spain

Recommendations in the codes

Before the recommendations by the European Commission were adopted, the Olivencia Code (1998) and the Aldama Report (2003) determined that a compensation policy should be based on a principle of maximum transparency and use market demands as a guide in order to attract competent people. The rule of moderation should prevail and the policy should be linked to the performance of both individuals and the company in general, offering incentives for true dedication shown by the directors, but without compromising their independence.

In May 2006 the Unified Code of Good Governance was approved. With its principle of "comply or explain", this Code incorporated all the measures established in European Commission Recommendations 913/2004/EC and 162/2005/EC which had not already been made legal obligations.

In addition to the recommendations of the European Commission, the Unified Code recommends: that the practice of linking compensation to the price of the shares should be reserved to the executive directors; that the variable compensation should include technical precautions to ensure this compensation is related to professional performance and does not simply derive from the general market fluctuations; and that the compensation for external directors is enough to ensure their dedication and qualification, but not so high as to compromise their independence.

Legal ruling

Listed companies must publically disclose the compensation received by their directors. This information is made available in several different ways, each with their own breakdown and requirement criteria. The information about the remuneration of directors is disclosed in the following documents:

- The Annual Report on Corporate Governance (ARCG): Law 26/2003, dated 17th July, on transparency obliges listed limited companies to make information on the remuneration of the members of the Board of Directors public in the Annual Report on Corporate Governance.

  The extension of this Law (CNMV Circular 1/2004, dated 17th March) states that, as part of the obligatory contents of the aforementioned report, the compensation must be broken down by concept and by type of director, and senior directors must be identified and the total remuneration accrued by them disclosed.

- The Management Report: the Boards of Directors of listed companies present a report in the annual general meeting which explains, among other things, the agreements between their company and its directors which have been compensated for their resignation or unfair dismissal, or if the working relationship reaches its end due to public acquisition.

- Annual Accounts: the NIC 24, Transactions with Related Parties, requires certain information on the remuneration of the directors to be included in the annual accounts report.

- Notification given by directors and senior managers: Royal Decree 1362/2007, on transparency requirements, describes the obligation to notify the CNMV of any compensation plans based on shares of which they are beneficiaries. The directors must also provide information about any financial instruments in their possession which give them the right to purchase shares in the future. The CNMV Circular 2/2007 featured the forms for notification.

Lastly, the Law regarding Listed Companies imposes a limit on any compensation consisting of part of the profit, and establishes the obligation to approve any compensation plans based on shares, share options, or any other derivative linked to the underlying share price, in the annual general meetings.

3 Remuneration of Directors and Senior Management in Spain

Listed limited companies disclose the compensation of the members of their Board of Directors and Senior Management in the financial information they release periodically and in their ARCG. This information shows us the following behaviour corresponding to the 2004-2008 period:

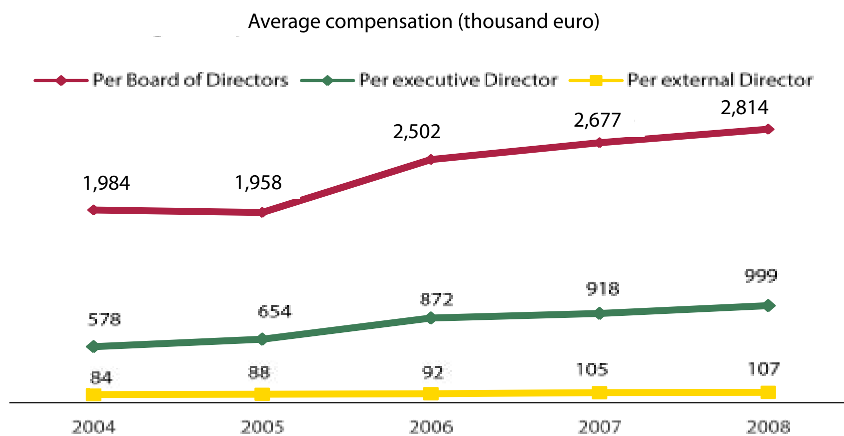
- Fixed compensation concepts (fixed remuneration and expenses) increase every year. In 2008, they also increased, but in a more moderate way than in preceding years.

- Variable, annual remuneration, linked to results (variable remuneration and director's fees) decreased for the first time in 2008.

- Multi-annual compensation plans (options and other concepts) are more cyclical in behaviour. In 2008 an increase in the expiry of option plans and a decrease in multi-annual non-share based incentive schemes were recorded.

Remunaration of the Directors

FIGURE 1



Source: Company ARCGs and own work.

1 In 2008, there were a total of 1,709 directors in the 166 listed companies of the sample section. 18.6% were executive directors, 45.9% nominee directors, 30.5% independent directors and 5.5% other external directors.

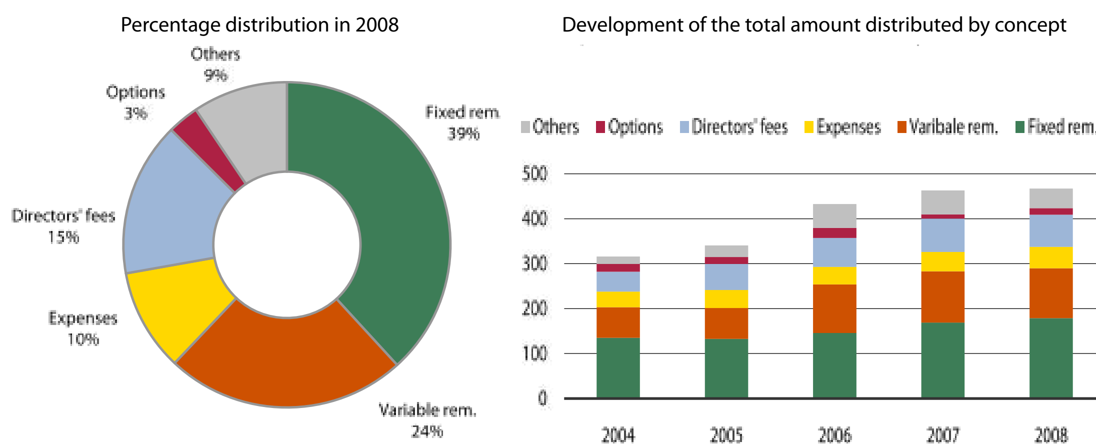
- However, it has been observed that the decrease in some of the compensation concepts is neutralised by the increase in others so, as a consequence, the average remuneration per Board of Directors and per director increases every year, as shown in figure 1.
- In 2008, the average compensation per Board of Directors for companies listed on the Ibex reached 7.6 million euros, whilst for the rest of the listed companies it was only 1.3 million euros.

3.1 Analysis of the compensation of the Board of Directors by compensation concepts

Figure 2 shows the distribution, in compensation concepts, of the remuneration awarded to the Boards of Directors of the listed companies and their development over the period of time covered by the study.

Remuneration of the Board of Directors by concept

FIGURE 2



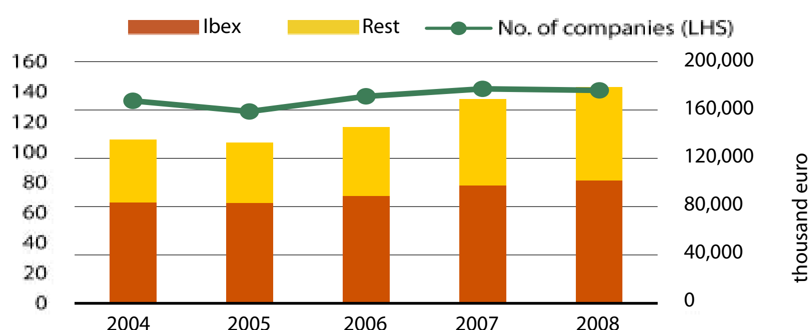
Source: Company ARCG and own work.

The sum of the fixed and variable compensation represents, each year, more than 50% of the total remuneration.

3.1.1 Fixed compensation

This is an annual compensation concept which, according to the companies, is determined following market standards.

Progress of the fixed compensation of the Board of Directors FIGURE 3



2008	No. of companies	Average (thousand euro)	Maximum (thousand euro)	Minimum (thousand euro)	% Variation average 2008-2007	% Variation total amount 2008-2004	% Weighting within the remuneration total
Ibex	35	2,903	10,976	380	4.3	21.9	38.4
Rest	106	728	4,331	5	8.8	48.4	41.1

Source: Company ARCGs and own work.

- In 2008, 75% of the companies analysed paid less than 1.5 million euros compensation in total per Board of Directors for this concept. The remaining 25% showed a high level of dispersion. A total of 9 companies (8 from the Ibex) were over the 4 million euro mark.
- The average fixed compensation per Board of Directors is the only compensation concept which increases every year in relation to the previous year. Around 50% of the total paid for this concept is concentrated in the companies on the Ibex.

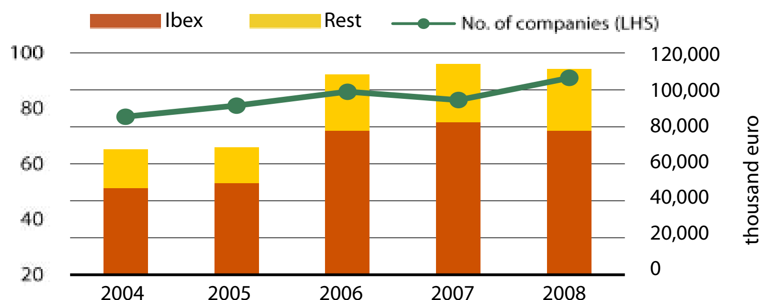
  The increase recorded in 2008 (6.5%) was more moderate than in previous years, even though only a third of the companies analysed reduced the compensation for this concept with regards to 2007.

3.1.2 Variable remuneration

This compensation concept is aimed, in the majority of cases, at executive directors and includes annual components, linked to the achievement of business objectives and the evaluation of individual performance, and/or mid- or long-term incentives related to strategic plans or to the creation of value.

Progress of the variable compensation of the Board of Directors

FIGURE 4



2008	No. of companies	Average (thousand euro)	Maximum (thousand euro)	Minimum (thousand euro)	% Variation average 2008-2007	% Variation total amount 2008-2004	% Weighting within the remuneration total
Ibex	33	2,227	15,240	9	-14.1	66.1	29.5
Rest	58	575	5,689	8	-3.4	58.8	17.8

Source: Company ARCGs and own work.

- 75% of the companies which have paid variable compensation to their directors in 2008 have not reached 1.5 million euros. A total of 12 organisations (10 on the Ibex), have exceeded 2.5 million euros.

  More than 70% of the total paid each year for this concept corresponds to the compensation pl--ans of the Ibex companies.

- Throughout the period analysed, an increase was observed in the variable compensation in 2006, it stabilised in 2007 and then descended in 2008. This is the first year the variable compensation has decreased in relation to the previous year.

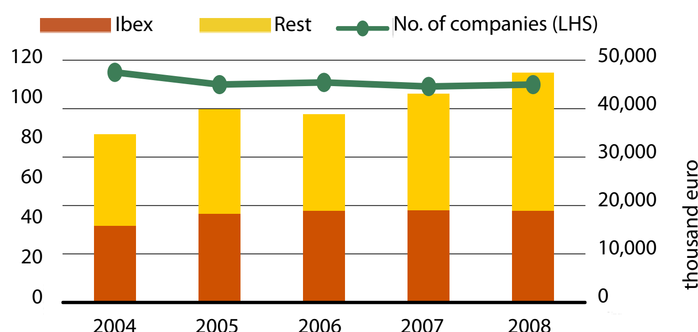
The companies which publish a report on compensation use the following, among others, as reference parameters for calculating short term variable compensation: net profit; operative results (EBITDA); or the creation of the budget. To calculate the mid- and long term variable remuneration, the parameters used are, among others: the progress of the stock market price; the profit per share; and the shareholder rate of return.

3.1.3 Expenses

Expenses are paid to cover the participation of the directors in the various governing bodies.

Progress of directors' expenses

FIGURE 5



2008	No. of companies	Average (thousand euro)	Maximum (thousand euro)	Minimum (thousand euro)	% Variation average 2008-2007	% Variation total amount 2008-2004	% Weighting within the remuneration total
Ibex	22	861	4,167	23	13.3	19.3	7.2
Rest	86	331	2,837	1	12.8	50.7	14.7

Source: Company ARCGs and own work.

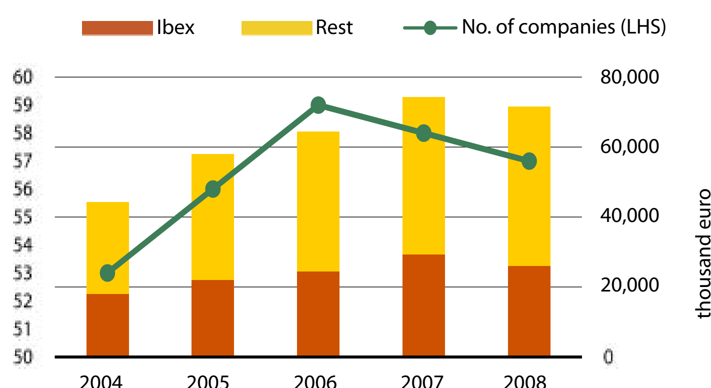
- In 2008, more than 70% of the companies paid less than 600.000 euros in expenses. Only 7 companies (4 from the Ibex) exceeded the 1 million mark.
- As with fixed compensation, the increase in the average amount of expenses paid to the Board of Directors in 2008 is more moderate than that of the previous year, even though only 25% of the companies in the sample section have shown a decrease in expenses compared with 2007.

3.1.4 Directors' fees

This is an annual compensation concept which all the members of the Board are beneficiaries of, whatever type of director they are.

Progress of directors' fees

FIGURE 6



2008	No. of companies	Average (thousand euro)	Maximum (thousand euro)	Minimum (thousand euro)	% Variation average 2008-2007	% Variation total amount 2008-2004	% Weighting within the remuneration total
Ibex	14	1,864	4,657	56	8,3	44.4	9.9
Rest	43	1,058	5,395	42	-3,6	73.2	16.8

Source: Company ARCGs and own work.

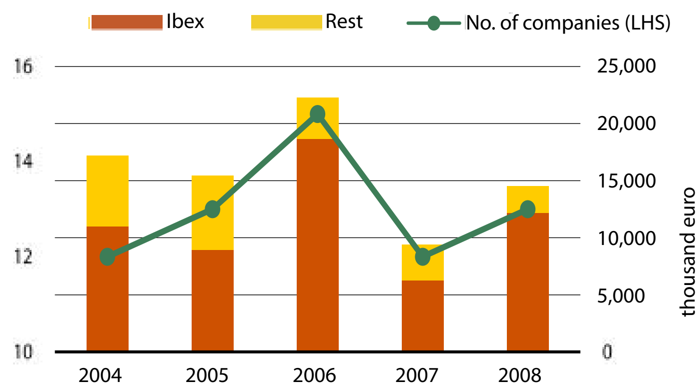
- Every year between 50 and 60 companies claim to have paid directors' fees. In 2008, more than 70% of the companies which paid directors' fees did not exceeded 1.5 million euros. 12 other companies (5 from the Ibex) paid more than 2 million euros in this year.

3.1.5 Share options and/or others

The majority of the beneficiaries of this form of compensation are executive directors. It usually appears in the mid- to long term incentive plans which are designed to promote loyalty among the team of directors.

As can be seen in figure 7, a high was reached in 2006 which dropped significantly in 2007 and then increased again in 2008.

Progress of share options to directors FIGURE 7



2008	No. of companies	Average (thousand euro)	Maximum (thousand euro)	Minimum (thousand euro)	% Variation average 2008-2007	% Variation total amount 2008-2004	% Weighting within the remuneration total
Ibex	6	2,031	6,612	172	29.5	10.9	4.6
Rest	7	334	1,044	92	-14.2	-62.1	1.7

Source: Company ARCGs and own work.

Each year, between 12 and 15 companies declare the use of these compensation plans. More than 60% of the total annual payment for this concept is concentrated in the Ibex companies.

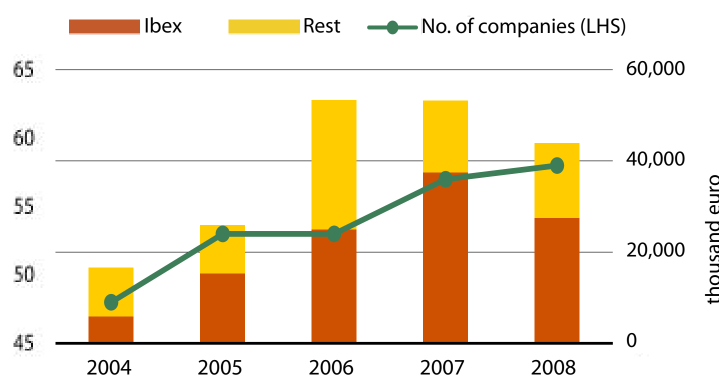
3.1.6 Other compensation concepts

The larger quantities included in this compensation concept correspond to the payment of compensation or multi-annual incentive schemes when they are not considered part of the variable remuneration.

Payments in kind are also portrayed in this section, although the amount declared by the companies relative to these payments is not significant.

Progress of other compensation concepts paid to directors

FIGURE 8



2008	No. of companies	Average (thousand euro)	Maximum (thousand euro)	Minimum (thousand euro)	% Variation average 2008-2007	% Variation total amount 2008-2004	% Weighting within the remuneration total
Ibex	22	1,251	10,539	3	-23.2	367.2	10.4
Rest	36	456	3,386	1	-1.8	53.9	7.8

Source: Company ARCGs and own work.

- In 2006, as a result of the expiry of a high number of multi-annual incentive plans, there was a very significant inter-annual increase, which was maintained in 2007 by the payment of large amounts of compensation for severance and retirements. In 2008, the payments for this concept decreased considerably.

- In 2008, a total of 91 companies (27 from the Ibex) stated they had golden parachute clauses for a total of 507 directors (278 from companies on the Ibex). The analysis of the companies which provide information regarding these compensation clauses show that the majority of them establish severance packages worth more than 2 years' pay, going up to 5 years' pay in the contracts of the executive directors of the 7 Ibex companies.

3.1.7 Other benefits

As well as the other compensation concepts mentioned, the organisations provide their directors with other benefits, the average value[1] and progress of which are shown in table 1:

Average total of Other benefits

TABLE 1

(thousand euro)

	Ibex					Rest					Total				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
Advances	343	219	44	149	430	38	44	74	22	134	89	160	108	106	282
Credit granted	9,047	3,191	4,358	6,073	7,938	27,465	28,233	49,256	17,818	9,230	20,448	18,693	30,889	12,784	8,861
Pension plan contributions	2,116	1,749	5,193	3,582	3,728	564	290	411	193	271	1,415	1,019	2,973	1,699	1,832
Obligations contracted with pension plans	41,938	38,961	48,268	68,280	80,843	8,571	13,756	8,092	7,412	7,605	28,591	28,459	32,815	40,613	47,553
Life insurance premiums	214	119	159	402	224	112	217	342	35	34	156	170	257	202	111
Established guarantees	3,840	2,024	4,876	4,191	8,612	33,988	41,726	42,987	18,692	7,705	21,929	24,711	26,653	12,650	8,083

Source: Company ARCGs and own work.

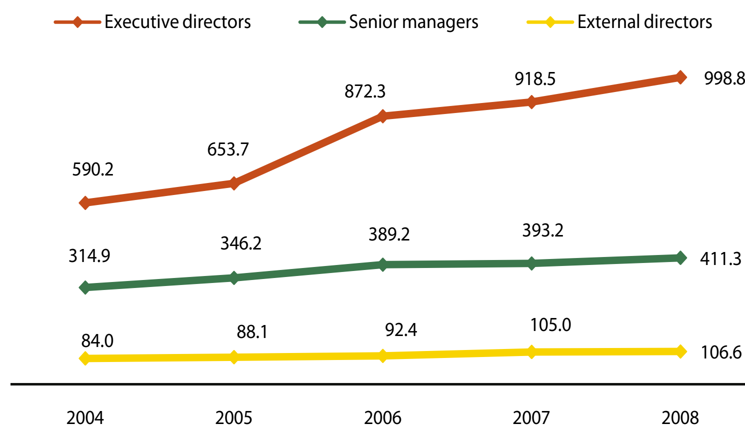
1 The average value is calculated by taking the number of companies which declare each concept as a base.

- The average total of these benefits has decreased progressively in all the stock market capitalisation groups, except regarding advances (the amount of which is not significant) and the obligations contracted through pension plans.
- It has been observed that the majority of companies paying these benefits to their directors are in the financial sector, with banks being the companies that pay the most for these concepts each year.

3.2 Progress of the remuneration of the Board by type of director

Figure 9 shows the progress of the average remuneration of members of the Board of Directors and senior management

Average remuneration of directors and senior managers FIGURE 9



Source: Company ARCGs and own work.

- It can be seen that, during the period analysed, the average remuneration of the directors and senior managers increased each year.
- The average remuneration for executive directors is more than twice that of the senior managers and more than seven times that of external directors.

3.2.1 Remuneration of executive directors

The remuneration of the executive directors represents, for each year of the period analysed, more than 60% of the total remuneration of the members of the Board of Directors. The executive directors are the main beneficiaries of the variable compensation concepts (annual variable compensation, mid- and long term incentive plans and option rights). Plus, the salary they earn for their performance as a director is included in the fixed compensation.

As can be seen in table 2, the average compensation of the executive directors in the Ibex companies is significantly higher than in the rest of the organisations covered in the sample section. This is due to the fact the majority have established compensation policies which aim to create loyalty in the team of directors via incentive plans, option rights and clauses in their contracts promising them a considerable sum on severance or retirement.

Average remuneration of the executive directors TABLE 2

(thousand euro)

	2004	2005	2006	2007	2008
Ibex	1,371	1,465	1,911	2,264	2,206
Rest	308	350	455	433	539
Total	578	654	872	918	999

Source: Company ARCGs and own work.

- A total of 18 companies paid an average remuneration per executive director of over 2 million euros in 2008.

  There are 12 companies which belong to the Ibex that maintain such a level of remuneration year after year.

  Among the 6 companies which do not belong to the Ibex, four of them (that in previous years did not reach 1 million euros average remuneration per executive director) exceeded the 2.5 million euro mark in 2008 due to severance pay.

- 2006 saw the greatest inter-annual variation in the average remuneration of executive directors, as a consequence of the expiry of a large number of multi-annual incentive plans.

- In 2008, a drop was recorded in the total remuneration paid to the executive directors of the Ibex companies. However, this is not a real reduction in terms of the real average level of compensation, but the consequence of the deviation in 2007 caused by the payment of severance to the teams of directors of three Ibex companies.

3.2.2 Remuneration of external directors

Table 3 shows the progress of the average remuneration per external director:

Average remuneration of external directors TABLE 3

(thousand euro)

	Ibex					Rest					Total				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
Nominees	124	135	119	131	144	67	66	74	90	87	82	83	86	101	102
Independent	113	130	148	184	171	37	47	48	63	65	65	80	85	105	104
Other external directors	239	439	528	169	321	69	104	88	88	99	119	212	208	135	162

Source: Company ARCGs and own work.

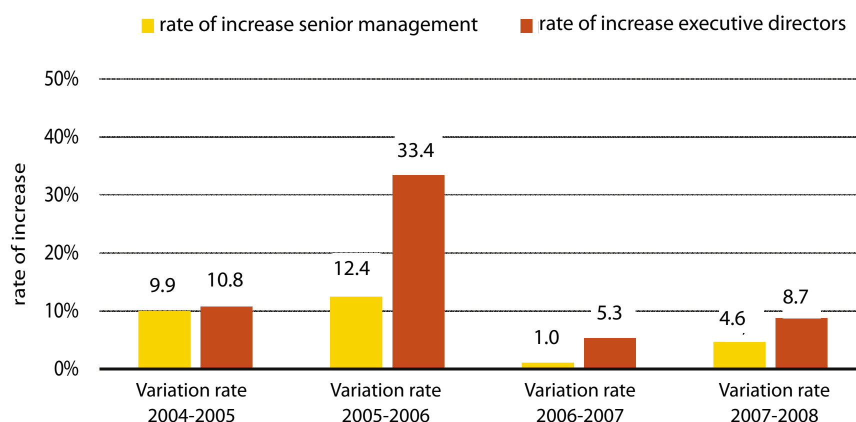
- In 2008, a total of 18 companies (7 from the Ibex) paid each of their external directors an average of more than 200,000 euros.
- In 2008, the nominee directors and other external directors saw their average remuneration total increase, whereas the independent directors have seen theirs decrease.
- In the Ibex companies, a significant increase in the compensation of those directors classified as other external directors was observed in 2008. This is in contrast to the drop in the amount paid to independent directors. This is due to the application of the definitions in the Unified Code, which meant the re-classification of all independent directors to the 'other external' category, translating the compensation rights to the latter.

3.2.3 Remuneration of senior management

As in the case of the executive directors, the compensation of the members of senior management has a fixed component (salary) and a variable component (variable annual compensation, mid- and long term incentive plans and option rights).

Figure 10 shows the progress of the remuneration of senior management, comparing it with that of the executive directors.

Rates of variation in the average remuneration of executive directors and senior managers FIGURE 10



Source: Company ARCGs and own work.

- As can be seen in the figure, the average remuneration for senior management increases each year during the period analysed, however, its rate of increase is inferior to that of the executive directors.

- In 2008, more than 50% of the sample section increased the remuneration of its directors and 13 companies (9 from the Ibex) paid an average remuneration per director of more than 600,000 euros.

4 Description of share-based executive compensation plans

According to the information contained in the Annual Reports of Corporate Governance, a total of 22 companies have declared that 70 directors are the titleholders of option rights to shares as part of compensation plans which have not yet expired.

Five directors of 3 listed companies are titleholders of option rights which represent between 0.5% and 1% of the capital. The other cases do not reach 0.5%.

The decline in equities markets has coincided with the fact that the companies are using compensation plans based on share prices less and less as remuneration for their directors. Since 2008, only 19 companies (11.4% of all listed companies) have stated that they use compensation plans based on share prices.

The impact that these plans have on the company and its directors has also significantly decreased:

(a) 40% of the option plans awarded in 2008 have a maximum limit of 12,000 euros per beneficiary, to make the most of certain tax benefits. These benefits provide their beneficiaries with the possibility of having part of their remuneration paid in shares and therefore benefiting from the corresponding tax exemption.

(b) In 7 companies which do not have this 12,000 euro limit, the awarding of shares is subject to no condition other than continuance of directors in their positions.

(c) The rest link the incentive amount to fulfilling business objectives, the personal evaluation of the beneficiary, or the profitability of the share, calculated by comparing it with the main international companies in the sector.

In the majority of cases the period the compensation plans are valid for is less than three years and no limits are established for this kind of variable components, except when there are underlying tax objectives. Apart from four companies, these are awarded to executive directors and directors only.

During 2008, share-based compensation plans have expired in 13 companies. The total gross profit before the tax applied to this concept is 14.3 million euros, with 73% of this amount corresponding to two organisations which are part of the Ibex.

5 Progress of remuneration in relation to results

In general, the progress of the average remuneration of Boards of Directors and senior management does not follow the same tendency as that recorded in the average results of the listed companies.

In 2008, 68% of the companies analysed reported a decrease in their returns compared with 2007. A total of 47 companies (21 in 2007) declared a negative result before tax and a further 73 companies made less profit than in 2007.

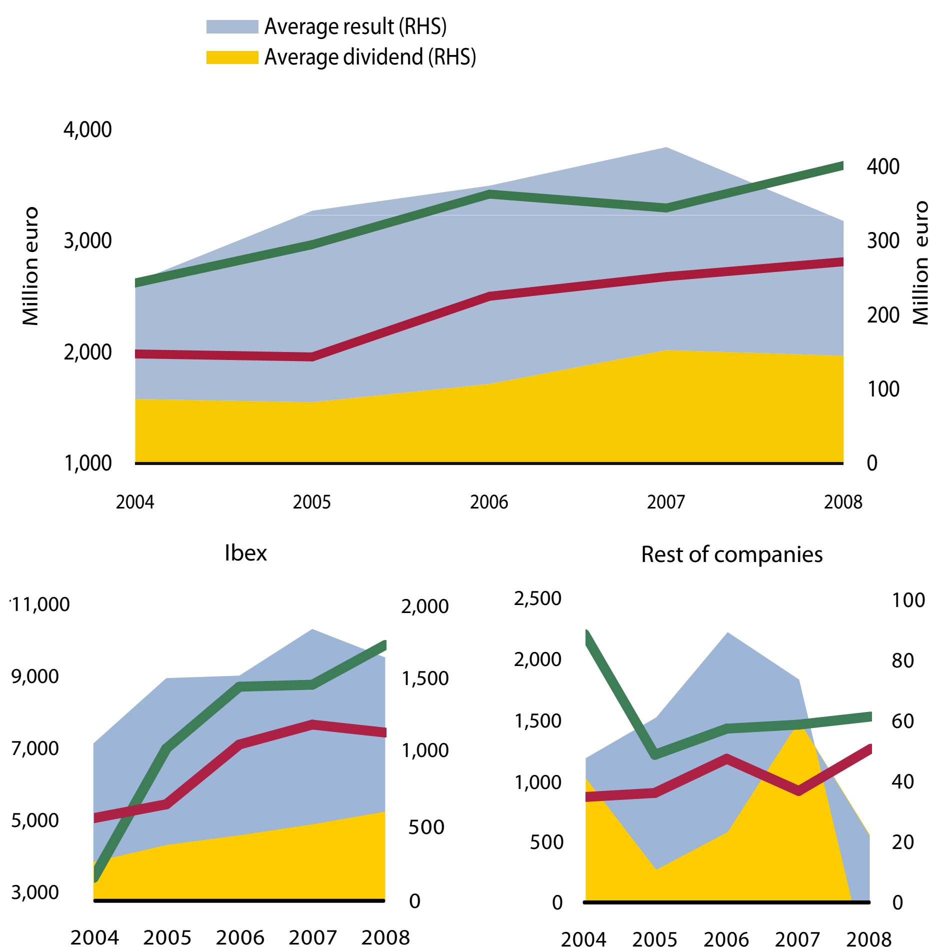
In this year, the average compensation of the Boards of Directors and senior management continued to increase. This is particularly noticeable in the case of directors and contrasts with the adverse progress of the returns.

However, as can be seen in figure 11, the decline in the returns of the 2008 financial year was accompanied by a certain degree of adjustment to the average compensation of the Boards of Directors and to the dividends paid. This is especially noticeable in the Ibex companies.

Nevertheless, the deceleration of compensation in the Ibex companies in 2008 is due to the fact that in 2007 they paid an extraordinary sum in severance pay.

Progress of the returns, dividends and remuneration of the Boards of Directors and senior management

FIGURE 11



Source: Company ARCGs and own work.

Table 4 shows the movements in the compensation structure of the companies which recorded a decline in returns in 2008:

Percentage of companies showing an increase in compensation for the Board of Directors and senior management

TABLE 4

	% of companies	
	Income before taxes 2008 positive but less than 2007 (73 companies)	Losses in 2008 (42 companies)
Increase in the compensation of the Board of Directors	46.6	57.1
Increase in fixed compensation	58.9	40.5
Increase in expenses	38.4	33.3
Increase in variable compensation	16.4	21.4
Increase in compensation under Other compensation concepts	21.9	16.7
Increase in average compensation of executive directors	50.7	42.9
Increase in average compensation of external directors	46.6	40.5
Increase in senior management compensation	56.2	38.1

Source: ARCG, company IPPs and own work.

Here it can be seen that the compensation concepts that are less sensitive to adjustments due to a decline in profits are those which are linked to efficiency or results, rather they are those that are compensation for simple performance (fixed compensation and expenses).

5.1 Companies with a negative income before tax in 2008

Of the 42 companies (4 from the Ibex) which showed losses in 2008, 57.1% of them increased compensation for the Board of Directors and 38.1% for senior management:

- In 7 of them, the fixed compensation paid increased by more than 10% with regards to the previous year. A further 12 companies increased the amount of some of the variable compensation concepts. This highlights the lack of adjustment measures in companies that are in a loss situation.

- The average compensation of the executive directors has increased by more than 15% in 10 organisations, due to the payment of severance pay or variable compensation concepts.

- In 11 companies with losses in 2008, compensation concepts that are limited by their bylaws to a maximum percentage of profit were paid.

- One of these companies states that the limit will be applied according to the results of the previous year, and another two explain that they will compensate for those payments with remuneration paid in future years.

5.2 Companies with fewer profits in 2008 than in 2007

The majority of the 73 companies (15 from the Ibex), which did not suffer losses, but whose profits were lower than the previous year, increased compensation for their Boards of Directors and senior management:

- In 20 cases fixed remuneration has increased by more than 20% compared with 2007. There are 6 companies which paid a variable compensation concept at 20% more, and a further 8 organisations increased the payment for other compensation concepts to an even greater percentage. In 17 companies, the compensation of executive directors increased by more than 20%.

- In the majority of cases, these increases are due to the expiry of multi-annual incentive plans which ended in 2007 and created the obligation to pay in 2008, independently of the progress of the results of the financial year.

6 Remuneration of the Board of Directors by sectors of business activity

Table 5 shows the average remuneration of the Boards of Directors in the listed companies, grouped by sectors of business activity, for the period 2004 to 2008

Average remuneration of the Boards of Directors by business sectors TABLE 5

	2004	2005	2006	2007	2008
Utilities	2,877	2,937	3,692	4,482	4,310
Industry	1,257	1,432	1,328	1,558	1,403
Construction and Real Estate	1,622	1,617	2,685	2,547	2,945
Commerce and Services	2,007	2,411	2,603	2,880	3,224
Financial Sector	2,020	2,327	3,522	3,616	5,495

Source: Company ARCGs and own work.

- The sector which traditionally has a greater average remuneration per Board of Directors is Utilities, as these are the companies with the highest capitalisation.

- In 2004, the average remuneration for the Utilities sector was double than that of the Boards of Directors in the Industry sector. This proportion kept increasing as from 2004, and reached more than triple in 2008.

- Until 2006 there were no major differences between the average compensation in the Financial and Commerce and Service sectors. However, in that year, due to the expiry of the multi-annual incentive plans of two banks, a greater increase in the financial sector was observed.

- In 2008, the average compensation of directors in the financial sector is 70.4% greater than that of the commerce and service sector. Over this last year, the remuneration of the financial sector increased by 52.8%, going from 3.6 million euros in 2007 to 5.5 million euros in 2008.

- In 2008, the average compensation in the Construction and Real Estate sector increased by 15.6%. Part of this increase is explained by the 135% remuneration of the board of directors of one company, which had to pay severance to directors.

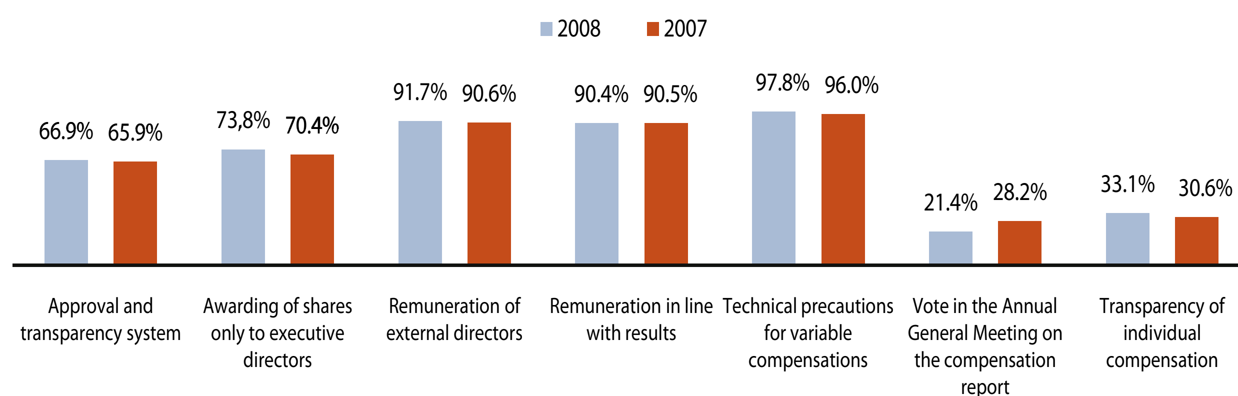
- The Commerce and Services sector has recorded an increase of 11.9% on 2007. This, however, does not correspond to an increase in the remuneration of the companies which make up the sector, but to the changes in the organisations which form part of the sample section.

7 Following the recommendations of the Unified Code

In their Annual Report on Corporate Governance, the companies have to provide information on the degree to which they follow the recommendations of the Code, in accordance with the "comply or explain" principle. The data analysed below has been taken from the ARCGs of 2008. It is, therefore, important to remember that any checks currently being carried out could lead to modifications in the ARGC headings regarding the degree to which the recommendations in the Unified Code are followed.

Figure 12 shows the degree to which the recommendations of the Unified Code are followed regarding compensation in years 2007 and 2008:

Degree of adherence to the Unified Code FIGURE 12



Source: Company ARCGs and own work.

- 33.1% of the limited companies declare they have deviated from the recommendation regarding the remuneration policy approval and transparency system, either because they have not defined it in this way, or because the policy does not cover all the areas detailed in the Code, especially regarding variable compensation and precautionary systems.

- The Unified Code recommends that compensation plans which include variable compensation linked to profits, to other financial management indicators or to share prices, should be limited to executive directors. During the 2008 financial year, the number of companies using this practice of good governance has increased, going from 70.4% of the companies complying in 2007 to 73.8% in 2008.

- 91.7% of the companies (90.6% in 2007) follow the recommendation that the remuneration of external directors should be enough to ensure the dedication, qualification and responsibility required by the position, but not so high that their independence is compromised.

- The Code recommends that the remuneration related to company returns take into account the possible exceptions in the audit report. 9.6% of the companies

declare in their ARCG that they have not considered this practice of good governance.

- The recommendation regarding the compensation of the Board of Directors that has been most widely accepted has been that which refers to the variable remuneration being related to the professional performance of the beneficiaries, and not simply to the general progress of the markets or other similar situations.

  Only 2.2% of companies declare that they do not follow this practice of good governance. However, the majority of the reports published regarding compensation do not specify the procedures used to measure performance.

- The recommendation which is least followed is that regarding the presentation of a report on the compensation policy of directors as a separate point on the agenda for consultation in the annual general meeting. Only 21.4% of the companies follow this recommendation to the letter, which is less than the 28.2% recorded in the ARCGs in 2007.

  Some companies have opted for the Board of Directors to approve the policy and report on the remuneration paid during the financial year in the annual general meeting, but without publishing the future compensation policy.

- 33.1% of the listed companies point out in their ARCGs that they detail the individual remuneration of their directors in the annual accounts report. The companies which do not follow this recommendation justify it by saying the information required by Law, in the ARCG and in the annual accounts, is sufficient.

8 Conclusions

In Spain, as in the rest of the Member States of the European Union, the regulatory structure regarding the compensation of directors in listed companies has developed in hybrid form, via a combination of legal requirements and recommendations in Codes of good governance in accordance with the "comply or explain" principle. The following points can be highlighted:

- In the vast majority of the Member States, with the exception of share-based plans, the approval of compensation plans is a subject which is reserved for the Board of Directors. The contents of the compensation policy is normally expressed in voluntary codes and the individual transparency of compensation is, currently, a legal requirement in the majority of countries in the European Union.

- When the reference framework on this subject is established in recommendations of codes of good practice, the level of transparency and the implication of the shareholders in the process of establishing the compensation policies are considerably reduced.

- In the United States, the reforms in the new law to protect shareholders (the "Schumer Bill") will allow boards to have their say on the compensation received by company directors ("say on pay").

The Spanish Unified Code incorporated the recommendations formulated by the European Commission in 2004. However, on analysing how effectively the Spanish listed companies are following them, it becomes clear that:

(a) The "comply or explain" principle grants the necessary flexibility so that each listed company can adapt the recommendations to their particular circumstances. It does, however, also imply that the shareholders are provided with information on compensation with different levels of transparency:

- In the 2007 and 2008 financial years, the recommendations of the Code which were followed the least were those related to the transparency of directors' compensation.
- The individual disclosure of all compensation concepts paid or granted to the members of the Board of directors is a recommendation which is being followed by only 33% in 2008.
- The percentage of listed companies following the recommendation to vote on the compensation policy report in the annual general meeting is down to 21% from 28% in 2007.

(b) Some reports on compensation only detail the precepts established in the internal regulations of their companies, whilst others detail, to a greater or lesser extent, the aspects of the compensation policy and individual remuneration.

(c) In almost all the listed companies which disclose information, the contents of the variable compensation components is not sufficiently detailed for the investor to be able to evaluate how reasonable it is, or the degree of alienation between their interests and those of the directors and, therefore, their appropriateness.

As regards the development of the structure and amount of compensation of the directors in 2008, the analysis of the public reports by Spanish companies allows us to highlight the following:

(d) The average compensation per Board of Directors and per director increases every year, even in 2008, in spite of the decrease in the returns of the listed companies. However, the increase recorded in this year was somewhat less than in previous years when there were quite significant increases.

(e) In 2008, the decrease in variable compensation concepts was compensated for with an increase in remuneration for fixed concepts.

(f) In some companies with losses in 2008, compensation concepts were paid which, according to statute, were linked to profits. Incentive plans and severance pay which did not take into account the situation of the company at the time also appeared.

(g) Companies are using compensation systems based on share prices less and less.

(h) Traditionally, the sector which best remunerated its directors was the Utilities. In 2008, these sectors were surpassed by the financial sector.

The complementary Recommendation published in 2009 by the European Commission establishes new measures, the majority of which are not in the Spanish Code. It should be pointed out that some of the practices of Spanish companies do not meet with the recommendations, as explained below:

(i) In the majority of cases, the period the share-based compensation plans are valid for is less than three years, instead of being over three years as recommended by the Commission.

(j) The majority of severance pay agreements established in contract clauses are equivalent to more than two years fixed salary, which is the limit recommended by the Commission.

Plus, the amount of severance pay agreed on by the Spanish directors is often not limited just to the recommended fixed component, but also includes the variable part.

(k) Although in some cases the reference parameters for calculating the variable compensation components are explained, practically none of the public reports on compensation break down the specific formula for determining the quantity in a predetermined and measurable way, as is recommended by the European Commission.

The Member States will have to study and evaluate the need to incorporate these new European Commission measures before the 31st December, 2009, and define the obligatory (binding regulation) or voluntary ("comply or explain" principle) course to adopt. The CNMV plans to offer a specific proposal on this matter to the Treasury.

9 Bibliography

Código Unificado de Buen Gobierno (2006) *(Unified Code of Good Governance).*

Executive Remuneration – ABI Guidelines on Policies and Practices (2007).

ICGN Remuneration Guidelines (2006).

Annual Reports of Good Governance of listed limited companies (years 2004 to 2008).

Reports on remuneration disclosed in the annual general meetings of the listed companies (years 2007 and 2008).

Reports written in 2007 by the European Commission on the incorporation of recommendations by the Member States 2004/913/EC and 2005/162/EC.

Periodic public information from the listed companies (years 2004 to 2008).

OECD - *Corporate Governance Lessons from the financial crisis* (2009).

Royal Legislative Decree 1564/1989, dated 22nd December, which approves the rewritten text on the Law for Limited Companies.

European Commission recommendation which complements recommendations 2004/913/EC and 2005/162/EC. (2009).

European Commission Recommendations 2004/913/EC and 2005/162/EC which regulate the remuneration of directors and the role of the boards of directors of companies floated on the stock market.

Organisation of derivatives markets and central counterparties

Javier González Pueyo (*)

* Javier González Pueyo works for the CNMV Department of Studies, Statistics and Publications. This paper is an up-to-date summary of Monograph no. 35 of the CNMV, with the same title, prepared by the author.

1 Introduction

The purpose of this article is to present the current situation and outlook for both exchange traded and over the counter (OTC) derivatives markets and central counterparties (CCP), which work as settlement infrastructure for these contracts. In the current market environment marked by the international financial crisis, derivatives markets are immersed in the largest change process in history. This transformation stage is a consequence of both the market's own strategic movements and the planned reform of the regulation and supervision scheme begun in Europe and the US, aimed at improving derivatives markets operation to safeguard financial stability.

The first section of this article describes the characteristics of the main exchange traded derivatives markets, their participants, competitive stance and growth trends and strategies employed. The second section is focused on the OTC market and, in addition to describing its most significant features, it pinpoints the effects resulting from the problems of its main participants.

A third section deals with CCPs, including a brief review of risks faced as well as the mechanisms used to control them. This section also reviews the international standards applicable to CCPs. A debate is presented on the feasibility and convenience of settling –even compulsorily– OTC contracts in central counterparties and the possible drawbacks this could generate on risks faced by CCPs and the entire financial system. Finally, there is a review of the projects to reform OTC market regulation and supervision in Europe and the US. Conclusions are set forth in the fifth section.

2 Exchange traded derivatives markets

Exchange traded derivatives markets have differentiated characteristics vis-à-vis OTC markets beyond their multilateral nature compared to the predominantly traditional bilateral nature of the latter.

2.1 Description

During 2008, 17,639 million contracts were traded on exchange traded markets, with 626 million open interest in late 2008. At 2008 year-end, the notional amount of derivatives contracts pending settlement (open interest) in all the exchange traded markets totalled 59.8 billion dollars[1]. Table 1 includes volumes in number of contracts traded in the world's leading markets and in the MEFF (Spanish market). Given the diversity of each contract's notional values, it is extremely difficult to classify them

1 BIS *Quarterly review*, March 2009.

in cash terms; however, leaving the Korean Exchange aside, whose contracts include very small notionals, we could conclude that the three most important exchanges are CME Group, Eurex and Liffe.

Main exchange traded derivatives markets

TABLE 1

Number of traded and/or settled contracts

Position	Market	Jan-Dec 2007	Jan-Dec 2008	Variation %
1	CME Group	3,158,383,678	3,277,645,351	3.8
2	Eurex (inc. ISE)	2,704,209,603	3,172,704,773	17.3
3	Korea Exchange	2,777,416,098	2,865,482,319	3.2
4	NYSE Euronext Liffe	1,525,247,465	1,675,791,242	9.9
5	CBOE	945,608,754	1,194,516,467	26.3
6	BM&F Bovespa	794,053,775	741,889,113	-6.6
24	MEFF (Spain)	51,859,591	83,416,762	60.9

Source: Futures Industry.

Types of contracts traded in the world's leading derivatives markets

TABLE 2

Contracts underlying	CME Group[1]	Eurex[2]	Liffe[3] (NYSE Euronext)	MEFF
Variable income indexes	✓	✓	✓	✓
Individual shares		✓	✓	✓
Interest rates	✓	✓	✓	✓ (no activity)
Commodities	✓	✓	✓	
Energy	✓	✓	✓	
Currencies	✓		✓	
Credit (CDS)	✓	✓	✓	

Source: Author's compilation based on public information issued by each exchange.

1 CME Group includes the Chicago Mercantile Exchange (CME), the Chicago Board of Trade (CBOT) and New York Mercantile Exchange (NYMEX).

2 Eurex is owned in equal shares by Deutsche Börse AG and SIX Swiss Exchange AG. International Securi–ties Exchange, Inc. was acquired in 2007.

3 Liffe is the NYSE Euronext Group's derivatives business area and operates in the Amsterdam, Brussels, Lis–bon, London and Paris Exchanges.

Most of the major exchanges offer trading on equity´s underlying contracts (indexes first and individual shares second). Precisely, it is in the equity contracts where the retail share is higher as they have smaller notional amounts and therefore become more accessible to retail.

Participants in exchange traded derivatives markets are chiefly credit entities, investment services companies, investment funds, insurance companies and businesses. In addition to the complexity of traded instruments, the size of contracts in nominal value is high[2], thus limiting retail investors' direct participation. The derivatives segment on short-term interest rate and notional bond has traditionally been a niche for interbank participants. Participants in the credit derivatives segment (CDS) are also almost exclusively credit entities, hedge funds and insurance companies.

Regulated markets[3] are guided by a regulation. Depending on the regulatory model, the regulation could derive from the market itself (self-regulatory organisations or

2 To illustrate this, a one-month futures contract on Eonia in the Eurex interest rate segment has a nominal value of 3 million euros, and 100,000 euros for futures on notional bond.

3 Directive 2004/39 of 21 April 2004 on Markets in Financial Instruments (MiFID) defines a regulated market as a multilateral system operated and/or managed by a market operator which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments. It also includes the need for the market to be authorised by a competent authority and to operate regularly.

SRO with powers in areas such as defining markets' participants, contracts admission and trading) or a competent authority (Securities Market Commission, Treasury or Ministry of Economy) that defines legal or higher regulations, and authorising or supervising SROs. In the European Union, the Markets in Financial Instruments Directive 2004/39 of 21 April 2004 (MiFID) states a number of requirements included in sections 37 to 45 that are compulsory for markets that wish to be authorised as regulated markets.

In addition, regulated markets are subject to supervision by the exchange itself, within a specific scope defined in its regulation, or by a public authority. In most cases there is shared supervision, at different levels, between the exchange and the supervisory authority, like in Spain.

2.2 Trends

Products internationalisation

As indicated in Table 2, the world's largest exchanges have a wide range of products. In each of them, contracts have international underlying assets (mainly shares and bonds), which did not usually happen in the recent past, except for contracts on notional bonds.

Until the mid 90's, the derivatives markets business was mainly based on domestic underlying instruments with physical delivery settlement. These two features differentiated each market markedly, which, together with entry barriers[4], reduced rivalry amongst markets from different countries[5].

Currently, the contracts on individual shares segment are subject to international competition as a result of coming substitutes, in the form of contracts with identical features[6]. Except for the CME Group, focused on indexes, most derivatives markets (MEFF included) offer futures and options contracts on international companies' shares and there are no entry barriers or regulatory objections to the delocalisation of listing and trading of national underlying instruments. Therefore, futures on the same share can be found in different international markets.

On the other hand, the cash settlement alternative eliminates the difficulties and higher costs implied by physical settlement in contracts on international shares, facilitating the participation of new players and the launching in already-established markets of contracts on different underlying instruments regardless of their spot trade country.

Connections, international access and growing investment in trading systems

Technological progress has facilitated remote access to different world derivatives markets and has provided tools for their interconnection and the implementation of joint ventures.

4 Materialised in high investment in trading systems and communications networks, in market's approval processes and in derivatives markets' specific know-how.

5 According to Porter's model (1985), there was little rivalry in the sector due to the lack of substitute products.

6 In the case of MEFF, contracts of futures on Spanish shares settled by offset are identical to those offered by Eurex and BClear.

International links and access range from the installation of trading screens in other countries to facilitate remote access to the market to agreements enabling other markets' contracts to trade through the cross-listing trading system. In both cases, the idea is to expand the customer base preventing market localisation from becoming an essential element to their business strategy.

A growing number of transactions is originated in automated trading systems, forcing derivatives markets to technologically upgrade their trading systems on a continuous basis in order to absorb an increasing flow of orders per second. This growing investment in technology is one of the main reasons behind derivatives markets consolidation.

Consolidations between markets

The globalisation of financial markets, regulatory convergence[7], the possibility of reaching economies of scale and the need to reduce regular operation costs have contributed to a continuous consolidation process in derivatives markets. This concentration did not stop with inter-market horizontal mergers. Instead, mergers have also occurred leading to joint derivatives and spot markets, or to vertical mergers between markets and central counterparties.

The three biggest derivatives markets in the world (CME Group, Eurex and Liffe) stem from the consolidation of different markets within their continent. In addition, Liffe, acquired in 2001 by Euronext, is part of a transatlantic alliance with NYSE (US).

According to IOSCO[8], one of the challenges posed by these groups operating in different jurisdictions is the implementation of coordinated supervision among the various countries involved. Among the proposed solutions, we can pinpoint the search for cooperation and exchange of information agreements between regulatory bodies and the collaboration of stock exchanges for a more efficient and effective supervision. We should highlight NYSE's request for Euronext transactions to continue under European supervision and regulation.

2.3 Convergence between regulated and OTC markets

Multilateral trading platform

Until a few years ago, one of the most distinctive traits between the OTC segment and exchange traded markets was trading organisation. Contracts in exchange traded derivatives markets are mainly traded through electronic platforms (a majority in European exchanges) and, in a diminishing extent through open outcry (almost disappearing and only used in some commodity derivatives markets). Trading is multilateral in both cases. On the other hand, trading in the OTC segment is usually bilateral and predominantly by phone.

In the last few years, there has been a convergence in regulated and OTC markets trading. On the one hand, OTC instruments trading through multilateral electronic platforms has increased[9] and, on the other, part of the trading on exchange traded

7 Promoted by IOSCO and CESR and enforced through European directives.

8 "Regulatory issues arising from exchange evolution."

9 For example, Creditex –acquired in 2008 by the regulated Intercontinental Exchange market– was in 2004 the first Credit Default Swaps (CDS) electronic trading platform, which can also be traded on other plat-

markets is channelled through bilateral transactions subsequently notified to the market for CCP registration.

CCP

Another traditional difference between both markets is the CCP, which guarantees clearing of contracts registered in regulated markets. Thus, regulated markets' participants substitute the counterparty's credit risk with that of a CCP. However, contracts registration in CCP is no longer an exclusive element of exchange traded instruments[10].

However, according to the Deutsche Börse Group's report "The Global Derivatives Market", still less than 10% of OTC contracts are settled through central counterparties. The OTC with most intensive use of central counterparties is the interest rates swaps, where SwapClear settles 40% of overall contracts according to the BIS quarterly review of December 2007.

Standardised contracts

Contracts traded in regulated markets are highly standardised in terms of their main features. This standardisation facilitates their fungibility so that the buying position in a contract can be cancelled by taking the opposite one (selling party) in the market.

In the last few years, OTC markets have increased contracts standardisation, especially that of derivatives on credit and interest rates swaps, which show most similarities with regulated markets. In both cases, contracts are highly standardised and a large percentage is traded on electronic platforms and settled in CCPs.

3 OTC derivatives markets

Pursuant to ISDA's definition[11], an over the counter (OTC) transaction is one in which the terms of the contract are freely set forth by two parties, by contrast with those performed in regulated markets, where contractual terms are pre-established. Even though OTC markets activity has not been traditionally subject to regulation and supervision, financial supervision system's reforms launched by the US and Europe foresee incorporating specific contracts to its scope of supervision, due to the crisis triggering and accelerating role ascribed to these markets by quite a few authors. Innovation –one of OTC markets' traits and a positive boost for general welfare– has also helped to meet objectives that solely benefit contracts' structuring and distributing agents, such as products' actual risk masking, search for regulatory loopholes and rapid major commission-generating distribution.

---

forms such as MarketAxess and Tradeweb.

10 An example of this has been the launching on 22 December 2008 of a central counterparty service for CDS by BClear, owned by LCH.Clearnet Ltd., and plans on the matter from Eurex Clearing, CME Group Citadel (authorised in December 2008 by the New York Federal Reserve and the CFTC) and Intercontinental Exchange, operating since March 2009. BClear will also offer central counterparty services for OTC commodity contracts (cocoa, coffee and sugar). Long before, in September 1999, LCH.Clearnet had launched SwapClear, a swaps on interest rates central counterparty, a project also assessed by MEFF Renta Fija in 1995, though never materialised.

11 International Swaps and Derivatives Association, Inc.

3.1 Description

OTC contracts' notional amount pending settlement (open interest) in December 2008 amounted to 591 billion dollars, implying a 92% share over the total derivatives market (OTC plus exchange traded), according to the latest report on OTC activity published by the BIS in May 2009. The OTC trading volume is several times higher than that of exchange traded derivatives markets, especially in interest rates and currency contracts.

The OTC and regulated markets trading share on equity contracts (indexes and shares) is distributed by 50%. One of the possible causes of this balance in the trading share of equity contracts could be the smaller nominal number of contracts in exchange traded markets, facilitating access and promoting increased retailers' participation (absent in OTC markets), which would entirely turn to regulated markets.

As to the weight of the different underlying instruments, interest rates contracts represent almost three quarters of the outstanding face value, commodity and variable income contracts representing the lowest outstanding volume. The essentially interbank nature of OTC markets makes interest rates swaps the most traded contracts with a higher outstanding volume (55% over the total OTC market).

Notionals pending settlement in thousand million dollars (market value % of notional contracts) TABLE 3

Underlying	Dec-07	Jun-08	Dec-08
Interest rates	393,138 (1.8)	458,304 (2.0)	418,678 (4.4)
Currencies	56,238 (3.2)	62,983 (3.5)	49,753 (7.8)
Credit Default Swaps (CDS)	57,894 (3.4)	57,325 (5.5)	41,868 (13.5)
Variable income	8,469 (13.4)	10,177 (11.2)	6,494 (17.1)
Commodities	8,455 (22.4)	13,229 (16.7)	4,427 (21.5)
Others	71,146 (2.5)	81,708 (2.8)	70,742 (5.4)
Total	**595,341 (2.6)**	**683,725 (2.9)**	**591,963 (5.7)**

Source: BIS.

The highlight of the latest information gathered in the BIS biannual report[12] of May 2009 is the reduction, for the first time since 1999, of open contracts volume (-13%), especially significant in the case of commodity contracts (-65%), equity (-36%) and CDS (-27%). There has also been an increase of the contracts' market value as a result of the significant price fluctuations of underlying assets during the second half of 2008. In the case of CDS, the change of trend observed in the previous report published by BIS containing June's data –which for the first time reported a fall of these contracts' volumes pending settlement– is now confirmed.

The ICAP report[13] estimates 2 million transactions are performed on a daily basis in OTC markets totalling 5 billion dollars. This accounts for an average 2.5 million dollars per transaction, indicating an almost exclusive wholesaler market share.

Data submitted to the BIS show contracts' counterparties are mainly banks, investment services companies, insurance companies and large businesses. Only 10% of the outstanding face value in interest rates contracts as at December 2008 belonged to

12 BIS (2008), "OTC derivatives markets activity in the first half of 2008." Includes information submitted by G-10 central banks.

13 ICAP White Paper, "The Future of OTC Markets", November 2008, p. 7.

non-financial counterparties. The most active participants in CDS include banks, hedge funds and insurance companies and, according to the Fitch Ratings report of August 2009, trading concentration has climbed since Lehman collapsed.

Precisely because the most active participants in certain OTC contracts have suffered the main impact of the financial crisis, OTC trading was specially affected in the second half of 2008 and earlier in regulated markets. Basically, what could happen with investment banks[14] is that, as market makers, they take risks for own account and could be forced to reduce OTC positions/risk taking ahead of the difficulty to obtain capital in markets and to reduce leverage. The main G-30 report recommendation on financial reform[15] recommends credit entities to limit risks for own account, subject to capital and liquidity requirements.

In late 2008, hedge funds were also affected by a deleveraging/closing positions process to: (i) cover losses in other markets; (ii) face increased collaterals in bilateral positions due to the counterparty risk increase; and (iii) meet participants' redemptions.

The first signs of stagnation in credit derivatives[16] –the segment where banks and hedge funds hold the largest share– were observed in June 2008. The BIS report –with data up to June 2008– reflected the first reduction (1%), since data have been published, in the outstanding face value of the credit derivatives segment due to CDS multilateral cancellations. This reduction contrasts with previous annual growth rates in excess of 45%. The latest information supplied by the BIS and the Depository Trust & Clearing Corporation (DTCC, 24 billion dollars in July 2009) report a significant drop of outstanding contracts notional amounts, though this is somewhat explained by the replacement of redundant contracts (portfolio compression) performed by the ISDA in October 2008. In this context, where liquidity falls due to reduced activity from market makers on the one hand, and where positions are closed "at any rate" (*distressed trades*) on the other, it would be convenient to consider the representative level of CDS prices as credit risk indicators.

Finally, it should be mentioned that the complexity of some OTC derivatives (especially in the credit segment) has led to a poor understanding of their risks and valuation. The problems triggered by such complex scenario and the consequences on issuance valuations that, in theory, had high credit ratings, have favoured a "flight to simplicity", i.e. trading concentration in simpler contracts. Such increased simplicity could favour standardisation and settlement of contracts in central counterparties. The US Treasury Department has proposed that only "sophisticated" investors should access OTC derivatives investments. This is aligned with the BIS's standpoint, which in its latest annual report states the need to create a register of products similar to that of medicines, which according to their risk could be gradually accessed by any investor, only by sophisticated investors and finally considered illegal.

14 Out of the five large American investment banks, Bear Sterns was acquired by J.P. Morgan Chase, Lehman Brothers went bankrupt, Merril Lynch was acquired by the Bank of America and, finally, Morgan Stanley and Goldman Sachs requested the Federal Reserve their change of status to bank holdings and have already announced they will reduce their risk on own account, which would diminish their OTC derivatives portfolio.

15 Group of Thirty, "Financial Reform. A framework for financial stability", 15 January 2009.

16 Whose first contract was created by J.P. Morgan in 1997 and which has been the most dynamic segment with the largest growth rates in the last few years.

3.2 Trends in OTC markets

Contracts standardisation

The OTC market is the innovative par excellence segment, as it allows flexibility in the terms of the contracts. Initially, new OTC market contracts emerged to meet very specific coverage/investment needs, a reason why they are highly customised instruments.

As the product matures an increasingly larger number of entities end using it. Thus, a significant portion of its characteristics (contract face value, maturity) might ultimately become standardised, yet without rendering contracts traded in regulated markets fully fungible.

In the last phase of these products' evolution, some OTC contracts are listed in exchange traded markets, though this option is not feasible for all OTC products, since some of them are extremely complex and have a limited liquidity.

Electronic platforms trading trend

OTC derivatives are usually traded bilaterally and, in most cases, also settled bilaterally.

In regulated markets, open contracts may be closed before maturity through a counter-operation in the market. In the OTC market, if a counterparty wants a close-out for a specific contract, usually an offsetting transaction is made with a third entity[17]. In March 2009, the ISDA amended the CDS market rules and practices to make contracts more fungible and thus facilitate positions opening/closing, as with exchange traded markets.

The OTC market trend is to trade a larger number of transactions in electronic systems, leaving telephone trading for more complex contracts and with a lower level of standardisation. According to the ICAP report[18], 80% of CDS index trading and 50% of single name CDS in Europe are performed electronically, mostly on multilateral platforms.

Registration and settlement of transactions in central counterparties

Transactions performed in regulated markets are confirmed and registered automatically, as the trading system is fully connected with the settlement and clearing systems. Regarding OTC transactions, the process is much slower and may be settled within 5 days in the case of more standardised contracts and a longer term for the rest. Unconfirmed transactions imply a risk for market participants, so electronic recording systems are being implemented. Another trend is the use of central counterparties in OTCs, as described in section 3 of this article.

Trading on electronic platforms, coupled with standardisation and even CCP registration are signs of convergence between OTC and regulated markets. With regard to credit derivatives and interest rates swaps with standardised contracts, a large number is traded on electronic systems and, in the case of swaps, 40% are registered in counterparties.

17 An advance cancellation could be agreed with the counterparty as well as novation with a third party.

18 ICAP White Paper, "The Future of OTC Markets", November 2008, p. 12.

Towards further transparency and regulation

Unlike regulated markets, OTC market activity has not been subject to direct supervision from regulatory authorities, though their main participants, credit entities (except for hedge funds) are. The origins and outcomes of the international financial crisis have stressed the need to address a reform of the OTC markets supervision scheme, which current state is described in section 4.

4 Central counterparties (CCP)

4.1 Description

Derivatives contracts traded in regulated markets are cleared and settled[19] in a CCP that guarantees fulfilment, since each counterparty replaces its original bilateral credit risk for the CCP credit risk. By contrast, most OTC contracts transactions are settled bilaterally between the counterparties, who assume the credit risk against each other.

A CCP is an entity that interposes itself between the counterparties in a derivatives contract acting as buyer for each and every seller and as seller for each and every buyer of the registered contracts. The legal figure whereby the CCP intervenes between the buyer and the seller is known as novation and consists of the substitution of the original contract between the counterparties for a new one from each of them with the CCP.

By interposing between the parties and guaranteeing the successful fulfilment of contracts, the CCP undertakes the credit risk with respect to both the contract buyer and seller. As the buying and selling positions are matched, the CCP would not initially assume market risk under normal circumstances, though it would should either party breach the contract, inasmuch as the CCP would remain with an open position as buying or selling party. In addition, the default risk by either party is higher than in the cash equity or fixed income settlement, as derivatives have a longer term until settlement.

There are different legal figures and business models in Europe and the US under which CCPs act. Russo, Hart and Schönenberger (2002) state that the main difference between CCPs in both continents lies in the fact that the American ones tend to be more specialised, whilst European ones offer services to a wide range of spot products in addition to derivatives (shares, bonds, repo and OTC).

Traditionally, derivatives markets had an embedded CCP[20], which only acted as counterparty for their own products. Or else, the CCP was an independent legal entity, owned by the derivatives market or its members. Markets listings, international partnerships and economies of scale have favoured the CCPs concentration process.

19 Bliss and Steigerwald (2006) state that clearing includes post-trading processes (confirmation, trade matching and registration) and risk management functions (netting, collateral calculation). Settlement includes transfer of money and/or securities to face contractual obligations.

20 Such is the case of MEFF and MFAO.

The consolidation of CCPs operating in different countries requires the cooperation and coordination of the different supervisory bodies involved. The most significant example of this is LCH.Clearnet: given the legal complexity involved in consolidated supervision, it is performed in each of the countries where it operates (Belgium, France, Luxemburg, the Netherlands, Portugal and the United Kingdom). The different competent supervisory authorities (securities commissions and central banks) have signed a memorandum of understanding (MOU) to set forth the terms ruling cooperation amongst authorities.

CCPs could be created pursuant to different legal statuses (credit entities, limited companies, counterparty entities), which entails different competent supervisory authorities (central banks, securities commissions).

4.2 CCP benefits and risks

Ripatti (2004) identifies and groups CCPs benefits for participants as indicated below (benefits in terms of risk).

In multilateral clearing, the bilateral credit risk of each participant is replaced by the one of the CCP and, therefore, risks for participants could be reduced whenever the CCP control risk´s design and management are appropriate. Assuming risks with the CCP rather than with another counterparty involves several advantages for participants. In fact, bilateral credit risk management implies information costs as each party's solvency should be analysed and individual limits (credit lines) established. In addition, positions in derivatives registered in a CCP are not subject to capital consumption requirements due to credit risk.

Bliss and Steigerwald (2006) sustain the most important effect of CCPs for clearing members is credit risk standardisation, as they are subject to the same solvency requirements, collaterals maintenance and risk supervision by counterparties.

Trading benefits

Contracts novation provides positions anonymity, which could contribute to foster participants' trading activity.

Operating benefits

Counterparties contribute to saving operating costs derived from positions monitoring through multilateral clearing of contracts settlement and collaterals calculation. In addition, if contracts are traded in regulated markets, confirmation of transactions is automatic, facilitating backoffice processes.

Information benefits for supervisors

One of the main counterparties' advantage for supervisors is access to consolidated information about each clearing member's position through a central registration system. Access to information about positions and risks of market participants is one of the highlights of the OTC markets supervision scheme reform launched by Europe and the US to make standardised OTC contracts registration in CCPs compulsory.

These benefits achieved by participants should be compared against the risks undertaken by counterparties. Given the CCP's role as counterparty of all registered transactions, they group and concentrate participants' (clearing members) credit risk.

Therefore a CCP problem could affect the members and markets it serves, should its resources be insufficient and/or its default management system inadequate.

In order to prevent defaults as far as possible and resolve them once they occur, CCPs count with a risk control system to which the defence lines deemed as own resources should be added together with the possibility to take out external insurances. The following should be highlighted among risk control mechanisms:

1 Restrictions to clearing members' access:

CCPs only admit clearing members with a specific level of own resources and operating and technical means to perform their functions (collateral calculation and request, daily settlement and upon contract maturity) compared to non-clearing members and clients.

2 Contracts replacement cost limit through collateral request and maintenance and limits to transactions:

In case of default, the CCP undertakes the position and should maintain it against the market. From that moment, the counterparty assumes the market risk. In specific situations, the position may not be immediately closed (due to lack of liquidity or a potential impact on the market). The CCP must, therefore, perform market risk hedging transactions through sales in spot and/or derivatives markets. To limit its risk, the counterparty calculates for each contract and underlying instrument a collateral (*initial margin*) sufficient to cover price fluctuations (*market risk*) of the sessions deemed necessary (between 1 and 3) to close the position in case of default, with a confidence interval between 95 and 97%.

Collaterals should be sufficient to cover non-extreme price fluctuations, without discouraging the use of CCP for being extremely conservative. On the other hand, EACH standard 2[21] states that competitive advantages should not be sought by slackening collateral requirements below reasonable limits to attract participants from competing markets.

In addition, CCPs follow two procedures to maintain the initial level of collateral (*variation margin*); namely:

- Every day, at session closure, CCPs value derivative positions[22] according to market conditions, so that each position pays or receives registered price variations. Therefore, the daily collateral is maintained without being affected by daily price variations.
- In another risk management model, other CCPs request additional collateral (margin call) when the position's accumulated negative daily variations push the initial collateral below a certain level (*maintenance margin*).

3 Loss mutualisation:

Most CCPs[23] have a so-called clearing fund, consisting of collaterals from all clearing members aimed at facing losses generated by a hypothetical default exceeding all collaterals deposited by the defaulter.

21 The European Association of Central Counterparty Clearing Houses (EACH), "Inter-CCP Risk Management Standards".

22 In the case of MEFF, option contracts have no daily loss or gain settlements, even though sellers should update collaterals following the session's calculation parameters.

23 MEFF and MFAO do not have this clearing fund at the moment.

4 CCP's own resources:

Most CCPs use their own resources if the defaulter's collaterals and the clearing fund are insufficient to cover the losses concerned.

5 External insurance contracts:

Some CCPs (such as LCH.Clearnet Ltd) hold insurance contracts to cover potential defaults up to a specific amount.

4.3 Requirements and standards applicable to CCPs

Even though several papers[24] underscore CCPs' benefits on financial markets stability and efficiency, there is also consensus on the risks of potential CCP bankruptcy, which, though very unlikely, has actually occurred (Paris 1973, Kuala Lumpur 1983 and Hong Kong 1987), as stated by Knott and Mills (2002).

There is no European directive setting forth minimum solvency and risk management capacity requirements for derivatives CCPs. Directive 98/26/EC on settlement finality in securities payment and settlement systems does not address these matters. In turn, the MiFID only tackles the principle of freedom of access to clearing and settlement systems of member countries.

The CPSS and IOSCO document on recommendations for central counterparties, published in 2004, highlights the importance of having appropriate resources and control schemes to meet their purpose. Fifteen recommendations are therefore gathered to obtain a CCP design that incorporates a risk control scheme. Said scheme includes aspects related to legal risk, risk management mechanisms, CCP own resources, procedures in case of default, corporate governance and supervision. Below are some of the recommendations considered particularly relevant.

The first recommendation refers to the need for CCPs to have a transparent and feasible legal scheme.

In terms of credit risk management, recommendation number 2 states that CCP participants (clearing members) should have enough financial and operating resources to perform their functions.

Recommendations number 3 and 4 refer to the need to measure the risk with its members at least once a day, and to limit exposure through the request of collaterals according to each position's risk to cover normal market movements.

Recommendation number 5 about financial resources is especially significant, pointing out that the CCP should maintain sufficient financial resources to cover, at least, the default of a participant with the largest exposure in the market[25]. Bankruptcy coverage of two or more members should also be assessed. These financial resources would not only include the CCP's own resources, but also the funds that could be demanded to defaulters (clearing fund), those that could be obtained from its matrix or external insurance contracts. A monthly or more frequent stress test is also recommended in case of high market volatility to periodically assess the suitability of resources to the risks assumed in extreme market situations.

24 Kirsi Ripatti, 2004, p. 3.

25 A member with the largest exposure is the one who, after a stress test, could suffer the highest losses in excess of the deposited collaterals.

Recommendation number 6 advises on clear and public procedures in case of default, which should also include statement assumptions. In addition, management and/or close-out of defaulter's positions should be allowed.

Recommendation number 15 (regulation and supervision) highlights the need of cooperation between regulatory bodies (banking, securities and international authorities). It further recommends that such bodies disclose their CPP supervision objectives and policies.

4.4 Incorporation of OTC derivatives to central counterparties

With the international financial crisis, there is increasing debate[26], on the one hand, about the need to further transparency of OTC derivatives markets and, on the other, about the convenience of incorporating these contracts to CCPs. The fall of Bear Stearns and the subsequent collapse of Lehman Brothers[27] spotlighted the systemic effects that may emerge from the concentration of a few entities with open positions with a size that could exceed several times the world's stock capitalisation.

The OTC market has been incorporating most of the risk control mechanisms (collaterals, limits to positions, novation) used by CCPs. Bliss and Papathanassiou paper (2006) states that, despite the markets where bilateral clearing is performed may be more vulnerable to systemic risk, they proved to be sound under several stress situations until 2006. The scope of a bankruptcy depends on the global risk profile of the entity's position, as well as the credit risk coverage (collaterals, arrangements on clearing of positions or netting) that their counterparties may have. In other words, the bilateral nature of the OTC counterparty risk is always maintained when a CCP intervenes, which, in case of default, can split its resolution between the clearing members (loss mutualisation).

Nevertheless, it should be noted that counterparties' clearing members are mostly financial entities that also participate in OTC markets and which could, therefore, affect the objective to mitigate and restrain the contagion effect if they were affected too. In other words, according to the extent of default, the CCP could be unable to fully contain the effects on the system and its scope would hinge on the number of clearing members[28] involved.

Proposals to clear OTC derivatives in CCPs are undergoing different progress stages in the US and Europe. US supervisors have already approved several exchange traded market proposals, and one of them (NYSE:ICE) has been clearing CDS since 9 March 2009. There is a commitment in Europe from the ten largest CDS market participants to clear all transactions in these contracts through a CCP. However, there is still disagreement on the need to clear or not all CDS in a single CCP. In this regard, there is still controversy between those who believe the CCP should be located in a Euro zone country and those who consider London should be the epicentre as it is the first

26 In July 2008, the New York Federal Reserve , headed by the current US Secretary of the Treasury, met with 17 banks (accumulating more than 90% of CDS trading) to propose contracts register in a CCP. In November 2008, the European Commissioner responsible for Internal Market and Services, McCreevy, urged the financial sector to increase OTC markets' transparency, especially CDS, and to create a central counterparty to reduce counterparty risk.

27 According to LCH.Clearnet, the volume of swaps cleared by Swapclear has doubled since the collapse of Lehman.

28 It should be noted that there are 125 in Eurex, 67 in CME Group, 50 in LIFFE, and 60 in MEFF.

European trading centre. Meanwhile, Eurex Clearing (Germany) and ICE (from the NYSE:ICE group) have already started to clear CDS on indexes and Clearnet France (LCH.Clearnet group) is planning to do so in the forthcoming months. The final CCP choice will affect its future supervision, since, in the case of the ICE, it would be a CCP created and supervised in an extra-Community country and with a bankruptcy regulation other than the European one. To analyse this matter, supervisors from Germany, the US, the UK, the BCE and the ESCB-CESR working group[29] have held two meetings aimed at identifying supervision objectives of a future CDS counterparty. One of the working areas is the enforcement of standards and the dissemination of supervision objectives and approaches, as well as the allocation of responsibilities among the different potentially involved jurisdictions.

Constraints to the incorporation of OTC contracts to CCPs

The possibility of incorporating OTC transactions to central counterparties involves a debate on certain matters. First, a decision should be made as to whether all transactions should be incorporated. It should be noted in this case that, given the volume of open positions involved, own resources and the clearing fund should be strengthened first to cover the increased risk of OTC transactions.

If, in addition, all transactions are to be centralised in a single counterparty, implications on systemic risk concentration could be significant and, therefore, counterparties resource allocation should be higher. Both the ISDA[30] and the FOA[31] agree on the advisability of a single global CCP to avoid complexities and extra costs, even though nine[32] of the main CDS market participants have stated their commitment to participate in a European CDS counterparty. Moreover, the legal scheme and protection applicable in each jurisdiction to collaterals deposited by clients in clearing members should be analysed, as they may differ from those in their countries of origin.

Another matter to be assessed is the counterparty model to be applied. Since a significant volume of new contracts would be incorporated, it seems convenient that the counterparty should count with different alternatives to resolve defaults. Among them, a clearing fund seems more suitable than the exclusive use of the defaulter's collaterals and the counterparty's own resources. A CCP with contracts and risks diversification (interest rates, currencies, variable income, credit and commodities) is more convenient than a highly concentrated one on a single type of risk. These multi-product CCPs also enable members to save on collaterals maintenance if they cleared several contracts with offsetting risks. A dilemma would then arise between a large CCP that would make the most of economies of scale and systemic risk concentration and which entity would be lender of last resort in case of trouble.

On the other hand, it might be difficult to fit all OTC products and non-standardised contracts diversity. According to Bliss and Steigerwald (2006), certain OTC contracts are too specialised and customised to achieve a critical volume that would make their settlement in counterparties efficient.

29 ESCB-CESR Working Group on Central Counterparties.

30 International Swaps and Derivatives Association.

31 Futures and Options Association.

32 Barclays Capital, Citigroup Global Markets, Crédit Suisse, Deutsche Bank, Goldman Sachs, HSBC, J.P. Morgan, Morgan Stanley and UBS.

New products should be incorporated to central counterparties following a number of requirements that can maintain operation safety. The following requirements to incorporate OTC contracts to CCPs should be noted:

Contracts should have a certain level of standardisation and liquidity to enable settlement in a CCP. There are market segments with such a level of maturity that they can be standardised, increasing their liquidity as well as their suitability to be settled in CCPs. Hence, CDS on indexes would be the first on the list to be registered in CCPs, since they would gather higher liquidity than most single name contracts.

Contracts should have a known risk profile that could be estimated under changes in price conditioning variables so that the CCP could calculate daily collaterals. The incorporation of new OTC contracts would demand CCP risk control adjustment, which would be even stricter in the case of credit derivatives given their higher complexity.

Since liquidity could be lower in an early stage, the CCP might not be able to close out the defaulter position and would have to manage the market risk by covering it with other simpler contracts or spot instruments.

The incorporation of new risks to CCPs should entail setting new international capital requirements, risk control systems and further coordination among supervisors on the activity and risks assumed by the leading participants. Following this, in April 2009 the ESCB/CESR working group[33] referred a recommendations draft to public consultation where several CPSS/IOSCO principles applicable to central counterparties were revised to adapt them to OTC settlement. The ESCB/CESR principle 5 was modified to highlight the need to provide counterparties with new resources (even a specific clearing fund for OTC) if OTC were to be registered. Preserving CCP soundness and its systemic risk curbing capacity is an objective emphasised by both the European Commission and the US Treasury in their standardised OTC contracts compulsory settlement proposals. The Bank of England's Executive Director for Financial Stability has also supported this motion[34].

Potential problems

The fact that OTC contracts could have a CCP does not imply it is trouble-free. Some potential problems are mentioned below.

Positions in large intermediaries may hinder the CCP's default management capacity. Given the potential impact of a close-out on the market, maintaining it for a term significantly longer than that estimated for standardised contracts might be necessary[35].

Pirrong (2006) states that there could be an adverse selection of counterparties and OTC contracts incorporated to the CCPs, so those with higher default likelihood would be settled at CCPs whilst contracts and counterparties with lower risk would

33 ESCB/CESR Consultation Paper, "Draft recommendations for central counterparties revised for CCPs clearing OTC derivatives".

34 During the Federal Reserve 45th Annual Conference he stated that, since CCPs are the only point of potential default, their resistance standards should be bullet-proof and comparable to other utilities such as gas, water and electricity.

35 This was the alternative followed by the counterparties consortium that resolved the LTCM fund bankruptcy, as indicated by the CPSS report "New developments in clearing and settlement arrangements for OTC derivatives", BIS, March 2007, p. 37.

be maintained as OTC. The alternative of making all OTC contracts settlement at the CCP compulsory is unfeasible as it could not be effectively supervised.

Moreover, it should be noted that in the OTC market there are major information asymmetries (Pirrong, 2006), since intermediaries with better means for analysis have further knowledge of more complex contracts and information on counterparties' solvency compared to a CCP.

On the other hand, CCP supervision should not be identified with financial aid should any of them go bankrupt as a result of poor risk management practices (Kroszner, 2006).

The best credit rated counterparties can oppose to the use of CCPs as it underestimates participants' credit rating importance[36]. Krozner (2006) points out the loss of competitive advantage stemming from higher solvency of members with better ratings.

5 State of derivatives markets supervision scheme regulation reform in the US and Europe

Since the onset of the financial crisis, there have been countless analyses about the origins, consequences and necessary reforms to prevent new episodes in the future and increase financial stability. One of the first conclusions, agreed by Larosière[37] and the Group of Thirty[38] reports, is focused on OTC derivatives markets. Both reports advise on providing the OTC segment with enhanced transparency, as well as CCP settlement of contracts with higher level of standardisation. Two main objectives are pursued here: 1) reducing counterparty and operating risk; and 2) allowing supervisors to access information on participants' positions and risk. The reform submitted by the Treasury to the US Congress and the European Commission's proposals include in a reconciled manner proposals to amend regulations aimed at meeting this twofold objective. Given the significance of the reforms set into motion, international coordination and harmonization are essential to avoid regulatory arbitrage. An example of such arbitrage could be found in the assessment of the US commodity derivatives markets regulator to amend the market rules. This proposal refers to the introduction of narrower limits to speculative positions, which could move trading to derivatives markets in the UK, Dubai and Brazil that have not yet considered this alternative.

The US Congress is debating the proposal to modify the OTC derivatives markets supervision scheme submitted by the Treasury Department. The reasons posed for the reform admit OTC markets regulation should achieve four objectives: 1) preventing market activities from posing risk to the financial system; 2) promoting transparency and efficiency; 3) preventing market abuse, manipulation and fraud; and 4) assuring OTC derivatives are not offered to retail investors. In order to attain the abovementioned objectives and systemic risk curbing, the Commodities Exchange Act will be amended to enforce compulsory notification of all OTC derivatives transactions, together with the CCP settlement of all standardised OTC

36 Randall S. Kroszner, "Central counterparty clearing: History, innovation and regulation", speech at the Board of Governors of the Federal Reserve System, April 3, 2006.

37 The high-level group on financial supervision in the EU, chaired by Jacques de Larosière, February 2009.

38 "Financial reform. A framework for financial stability," Group of Thirty, January 2009.

contracts, the trading of standardised OTC contracts in regulated markets and the observance of capital requirements by non CCP-settled OTC positions.

In July 2009, the European Commission referred to public consultation a document highlighting the need to modify derivatives markets transactions to safeguard the prime objective of financial stability. Two intermediate objectives are, therefore, set forth: 1) reducing counterparty risk; and 2) enhancing transparency. To this end, the proposal includes promoting OTC contracts standardisation; CCP settlement of already standardised OTC contracts (the document does not define or breakdown standard contracts); enhancing price, transactions and positions transparency through central data depositories; and strengthening bilateral collaterals management in contracts that cannot be CCP settled. These issues will be analysed in a conference by the end of September.

The international crisis will foster the highest transparency level to OTC markets structure and operation ever. The reconciliation, on the one hand, of OTC participants' interests in maintaining the highest margins of customised contracts vis-à-vis regulated markets' standardised contracts and, on the other, of the need to further transparency and risk control demanded by regulatory bodies, will be necessary. The initial global consensus whereby all intervening parties agreed on the need to modify and strengthen OTC derivatives markets supervision and transparency should be consolidated and materialised. The smoothening of the financial crisis effects and the first opposing actions from sector lobbies should not ease or delay the implementation of the regulatory reforms that both the US and Europe have set forth on a joint and coordinated basis.

Regulatory bodies' initiatives to further OTC market's transparency coincides with the investigation launched in July 2009 by the US Department of Justice on CDS market. Namely, the antitrust division is investigating pricing discovery process and its dissemination. Information was, therefore, requested to the market's leading agents, together with Markit, a source of pricing information owned by investment banks. The UK Serious Fraud Office has also started an investigation in July on the sale of complex structured products at prices above their fair value.

It should be noted that, in the case of Spain, Act 47/2007 of 19 December, whereby Act 24/1988 of 28 July on Securities Market is amended, included a new section on OTC financial instruments transactions transparency. Therefore, section 59 bis of Act 24/1988 states that ESI and credit entities performing transactions on financial instruments should notify the CNMV thereof no later than by the end of the working day following its execution. The definition of financial instrument described in section 2 of Act 24/1988 comprises almost all the derivatives and underlying instruments known to this date. The reform of the Spanish act has been particularly ambitious, since the obligation to notify transactions included in section 25.3 of the MiFID is exclusively limited to transactions with financial instruments listed on a regulated market, thus excluding OTC.

6 Conclusions

Regulated derivatives markets develop their activity within an international competitive framework without restrictions to launch contracts on underlying instruments listed on other jurisdictions. The current world´s major markets are

the result of an international consolidation process –that is still underway– to offer a wide range of products and enable the break-even of increasing investments in trading systems. These transnational alliances pose major challenges to coordination amongst the supervisors of the jurisdictions involved.

The OTC market is still the most innovative segment of derivatives markets boasting the highest trading and open positions volume. Some of the contracts are highly standardised and a growing number of transactions is performed through electronic trading systems and even cleared in CCPs, which shows convergence with regulated markets.

The international financial crisis has raised the interest of OTC markets participants in clearing contracts in CCPs to reduce counterparty risks, more obvious now given the difficulties experienced by the most active participants. This interest is aligned with the most recent income growth and diversification strategies followed by regulated markets to expand their central counterparty services to the OTC market. We should also add the regulatory reform projects launched by Europe and the US, including further OTC market transparency and supervision, as well as compulsory settlement in central counterparties of standardised OTC contracts to mitigate and curb systemic risk. All the above will result in the largest transformation of the OTC market in history.

CCP settlement of OTC transactions should begin by analysing the feasibility and convenience of forcing compulsory clearance, as well as the implications on systemic risk concentration on a single entity that, besides, could adopt different legal and governance figures depending on the country. Bearing in mind the incremental risks that the clearing of OTC contracts would imply for CCPs, counterparties risk management system's solvency, soundness and adequacy verification should be established as a prerequisite. International standard requirements on capital and risk control should also be enhanced and promoted using CPSS-IOSCO recommendations as a baseline. In addition, contracts to be registered should meet minimum standardisation requirements, including the possibility of assess and hedge their risks and the ability of the CCPs to calculate margins and manage potential defaults. We can conclude that not all OTC contracts could be cleared in central counterparties and not all CCPs could clear OTC.

7 Bibliography

BIS (2007). "New developments in clearing and settlement arrangements for OTC derivatives," March.

BIS (2008). "OTC derivatives markets activity in the first half of 2008."

BIS (2009). *Quarterly Review*, March.

Bliss, R. y Papathanassiou, C. (2006). "Derivatives clearing, central counterparties and novation: the economic implications."

Bliss, R. y Steigerwald, R. (2006). "Derivatives clearing and settlement: a comparison of central counterparties and alternative structures," *Economics Perspectives*, vol. 30, no. 4, Fourth Quarter 2006.

Committee on Payment and Settlement Systems (BIS) (2007). "New developments in clearing and settlement arrangements for OTC derivatives."

Committee on Payment and Settlement Systems (BIS) and the Technical Committe of the IOSCO (2004). "Recommendations for Central Counterparties."

Deutsche Börse Group (2007). "The global derivatives market." White paper.

EACH 82008). "Inter-CCP Risk Management Standards," July.

ECB (2002). "The evolution of clearing and central counterparty service for exchange-traded derivatives in the United States and Europe: A comparison." Occasional paper (September 2002) by Daniela Russo, Terry L. Hart and Andreas Schönenberger.

Elizalde, A. y Gallo, A. (2008). "Understanding Credit Derivatives," Banco de España, *Revista de Estabilidad Financiera*, May.

ESCB/CESR (2009). "Draft recommendations for central counterparties revised for CCPs clearing OTC derivatives," consultation paper.

European Association of Central Counterparty Clearing Houses (EACH) (2008). "Inter-CCP Risk Management Standards."

Financial Times (2008). *Reports,* October 16.

Group of Thirty (2009). "Financial Reform. A framework for financial stability," 15 January.

ICAP (2008). "The Future of OTC Markets." White Paper, November.

International Swaps and Derivatives Association, Inc (ISDA) (2008). "Margin Survey."

IOSCO (2003). "Objectives and principles of securities regulation."

IOSCO (2006). "Regulatory issues arising from exchange evolution."

Knott, R. y Mills, A. (2004). "Modelling risk in central counterparty clearing houses," *Financial Stability Review*, Bank of England, December.

Kroszner, R. S. (2006). "Central counterparty clearing: History, innovation and regulation," speech at the Board of Governors of the Federal Reserve System, April 3.

Larosière, Jacques de (2009). The high-level group on financial supervision in the EU, February.

Pirrong, C. (2006). "Rocket science, default risk and the organization of derivatives markets."

Ripatti, K. (2004). "Central counterparty clearing: constructing a framework for evaluation of risk and benefits," Bank of Finland discussion papers 30/2004, pp. 3-16.

III Regulatory novelties

The revision of the Market Abuse Directive

Cristina Ribó and Rodrigo Buenaventura (*)

* Cristina Ribó and Rodrigo Buenaventura are members of the CNMV Secondary Markets Department.

1 Introduction

More than six years have elapsed since promulgation of Directive 2003/6/EC[1] on market abuse, and some five years since it was transposed into the Spanish legal system. After this time it seems appropriate to look back and reflect on the degree of fulfilment of the objectives set out in its preamble in order to bring about an integrated and efficient financial market in the European Union: the fight against market manipulation and insider dealing. The European Commission so considered and recently published a consultation document (up to June 2009) on a possible revision of the Directive.

The passage of time, the evolution of markets and products listed on them, the appearance of new practices among investors and intermediaries and, above all, the learning itself involved in practical application of new legislation, have led to revision of the Market Abuse Directive (hereinafter the MAD) being essential in order not to lose the objective referred to, with adaptation to new characteristics and covering deficiencies which have been revealed over time.

The purpose of this article is to look at certain aspects of the MAD which, although they have aroused certain reflections within the international financial community, merit particular attention as a result of their importance to the securities market. The second section of the article thus indicates the bases on which this legislation is implemented and possibilities for modification. The third section focuses on the scope of application of the MAD, and section four deals with the obligation to publish relevant information and the possibility for issuers to delay its communication to the market. Section five covers the particular definition of relevant information for derivatives on commodities, and finally section six sets out the conclusions of the article.

2 Functioning of the MAD

The European legislation on market abuse was the first directive promulgated pursuant to the Lamfalussy procedure. This approach was conceived by a group of experts chaired by Baron Lamfalussy, and its recommendations comprised applying a more flexible legislative procedure than that traditionally used by the European Union in order to promulgate the financial legislation which was so urgent at that time. The Lamfalussy procedure, as is well known, is based on a legislative approach at four levels. The MAD, belonging to level 1, inaugurated this method, setting out the framework principles of general scope in order to guarantee the integrity of Community financial markets and increase investor confidence in these markets.

1 Directive 2003/6/EC of the European Parliament and Council of 28 January 2003 on insider dealing and market manipulation (market abuse) was published in the Official Journal of the European Union on 12 April 2003, with a deadline for entry into force in Member States of 12 October 2004.

Technical implementing measures were subsequently drawn up to apply it, corresponding to level 2 of the Lamfalussy scheme, such as Directives 2003/124/EC[2], 2003/125/EC[3] and 2004/72/EC[4], as well as Commission Regulation 2273/2003[5].

This series of legislation would not be complete, however, without taking into consideration the measures (without being legislation within the meaning of positive law) adopted at level 3, which consist of three packages of recommendations drawn up by the Committee of European Securities Regulators (CESR) approved in May 2005, July 2007 and May 2009, respectively.

The flexibility provided by this four-level legislative approach permits analysis of the matters we are concerned with by making suggestions for possible modification, not necessarily of the MAD itself, but of the second level directives or Regulations which implement it, thereby facilitating the process of change. There may also be clarifications or possible interpretations which can be resolved by means of CESR publications. The revision which the European Commission is considering at the present time in any event focuses on level 1: on the basic directive on which the remainder of Community regulation in the field of market abuse depends.

3 Scope of application of the Directive

The MAD applies to any financial instrument admitted to trading, or which is to be admitted to trading, on at least one European Union regulated market. With recent incorporation of the MiFID[6], the question has been raised as to the point at which the absence of a general regulation against market abuse can affect the objective of the MAD, since the latter does not cover:

- markets which are unregulated but are organised and included as such (one year after promulgation of the MAD in the MiFID Directive, i.e. multilateral trading systems (MTF). These have led to emigration of certain financial instruments and transactions from regulated markets to these new markets, and
- other financial instruments set out in the MiFID but which are not considered as such in the MAD, particularly new financial instruments the value of which depends on others which do fall within the scope of the MAD.

This has aroused reflections regarding the desirability or otherwise of modifying the

2 Commission Directive 2003/124/EC, of 22 December 2003, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the definition and public disclosure of inside information and the definition of market manipulation.

3 Commission Directive 2003/125/EC, of 22 December 2003, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest.

4 Commission Directive 2004/72/EC, of 29 April 2004, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions.

5 Commission Regulation No. 2273/2003, of 22 December 2003, implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments.

6 European Parliament and Council Directive 2004/39/EC, of 21 April 2004, on markets in financial instruments.

MAD to broaden its scope of application and extend the fight against market abuse in these two respects: including other markets in the MAD as well as regulated markets, along with other financial instruments in addition to those indicated in its Article 1.3.

3.1 Regulated markets

Given the interrelationship of markets, their integrity can only be guaranteed with general application of the prohibition against market abuse in all financial forums, independently of their organisation.

Multilateral trading systems, the trading volume of which is growing, even though at the present time it is not significant, are subject to less strict requirements, as far as the MAD is concerned, than regulated markets since they are only subject to the obligation to detect anomalies in trading conditions or actions which could involve market abuse.

It is important not to overlook that one of the principal reasons favouring the appearance of MTF is the legislation which is applied to regulated markets, since in the directives on creation of a single European financial market (legislation on market abuse, takeovers, offer prospectuses, issues and admission to listing, and legislation on transparency and information breakdown), the common applicable element is regulated markets. Consequently, extension of all requirements laid down in these directives to MTF would mean that their existence would cease to have meaning.

It is no less true, however, that the fight against market abuse becomes invalid if the MAD is not applied globally to all markets, establishing the same basic rules of play for them all, both in the field of market manipulation and the prohibition on insider trading.

Various Member States have considered this to be the case, such as France, the United Kingdom and Spain, which in transposition of the MiFID to national legislation have extended application of the prohibitions under the MAD to MTF. Specifically, in the Spanish market the rules governing market abuse (Chapter II of Title VII) are applicable without exception (Section 121.5 of the Securities Market Act) to the Latibex, to the Alternative Market, to SENAF and to MTF España, which at the present time are Organised Trading Systems (currently in the process of transformation to MTF).

On the other hand, there are Member States which consider that the extension to MTF must take place only in the portion relating to market manipulation and not the transparency obligations contained in the MAD, which in particular include publication of relevant information, the preparation of lists of insiders, the communication of transactions carried out by directors of an entity in the securities issued by it, rules on preparation of analyses, and the communication of suspicious transactions. One of the reasons put forward by the States which hold this opinion is that in MTF admission to listing of securities may not have been requested by the issuer itself, but by a third party. The option not to extend the obligations of the MAD to all MTF is principally based, however, on the cost which it would mean to issuers of securities which have opted for listing on an MTF instead of on a regulated market.

It should be emphasised on this point that of all prohibitions contained in the different FSAP[7] directives, those relating to manipulating listings, knowingly disseminating misleading information and using inside information are clearly the most universally accepted. It does not seem reasonable to argue that in certain trading systems it may be legitimate, for example, for an investor to manipulate closing prices for his benefit, for an executive of a company to sell all his shares at the time of finding out that the company will have to apply for creditors' insolvency, or for an investor to disseminate a false merger rumour in order to obtain a profit.

The question is thus basically reduced to an element of compliance cost: the costs associated with the measures which accompany the prohibitions listed above. Extension of the MAD market abuse regime to MTF (for instruments which are not listed on any regulated market) can nevertheless be defended without it being essential to make the measures which contribute to their compliance the same, and without therefore passing on the cost of compliance with them to the issuers of securities listed on an MTF.

The measures previously listed (specific obligation to publicise relevant events, communication of suspicious transactions, systems for monitoring and transparency of transactions by directors, etc.) facilitate compliance with the prohibitions indicated and are particularly useful from the point of view of supervision. It could be argued, with reason, that without these measures supervision of market abuse conduct would become highly complex. This being so, it is no less true that the absence of these measures does not prevent subsequent detailed investigation and suitable penalty.

Even though supervision would in fact be less effective and more costly, extending the prohibitions to MTF would facilitate an essential margin of penalization in order that these systems are not converted into spaces open to market abuse, the consequences of which are suffered with particular severity by the small investor. As a result of this, it would be extremely positive for the European legislator, as the Spanish legislator did at the time of transposing the MAD, to make a broad interpretation of the scope of application, and include MTF in at least the prohibitions under Articles 2, 3 and 4 of the MAD, which relate to improper use of inside information, and of Article 5, which relates to market manipulation practices.

3.2 Financial instruments

Various reflections can be made with respect to the definition of *financial instrument* to be used in the scope of application of the MAD, and the possibility of extending it in relation to the definition implemented in the MiFID:

a) Regarding the financial instruments defined directly in the MAD: the directive contains an explicit list of them and also adds *any other instrument admitted to trading on a regulated market in a Member State or for which a request for admission to trading on such a market has been made* (references contained in Article 1.3). In other words, the condition for inclusion in the scope of the MAD is admission of the said instrument to listing on a regulated market or application for its listing. All provisions relating to market manipulation and insider trading are currently applicable to such instruments.

7 Financial Services Action Plan, published in 1999 by the European Commission.

b) Regarding financial instruments not admitted to trading on a regulated market in a Member State, but the value of which depends on a financial instrument referred to in the previous paragraph (reference to Article 9, first paragraph, of the MAD): as explicitly stated in the same Article, the provisions are applicable to them relating to use of inside information, but nothing is said regarding the prohibitions on market manipulation, and therefore the doubt arises regarding the application of Article 5 to them.

c) Regarding other types of financial instrument, expressly defined in the MiFID (definitions contained in Annex I, Section C), and which are referred to simply in Article 1.3 of the MAD, such as:

- futures, options, swaps and forward interest rate agreements with settlement in cash, and admitted to listing on MTF or which, even though not listed, may be settled in kind and present the characteristics of other derivative financial instruments (settled through clearing houses or subject to regular adjustments in guarantee margins). For these instruments, which present the *characteristics of other derivative financial instruments* to which the full extent of the MAD is applied, since they are expressly set out in Article 1.3, it does not seem justified not to include them in its scope of application.

- Those other derivatives on commodities settled in kind which were admitted to listing on an MTF or those which may be settled by physical delivery and which present the characteristics of other derivative financial instruments (settled through clearing houses or subject to regular adjustments in guarantee margins). On this point an ad hoc individual judgement is necessary on each financial instrument in order to determine its financial or commercial nature.

d) Regarding other types of financial instrument expressly defined in the MiFID (definitions contained in Annex I, Section C) which are not considered in the MAD:

- Contracts for differences (CFD) and credit default swaps (CDS): it could be considered that the provisions on use of inside information are applicable to them, since they have the status of *related derivative financial instrument* specified in Article 1.1, but the doubt lies regarding the rules of market manipulation with respect to the lack of reference to them as such in the definition in Article 1.2 of the MAD. The specific inclusion of the two among the financial instruments of the MAD, as in fact happens in the MiFID, would dispel any doubt regarding their subjection to the rules on market manipulation and the desirability of their inclusion would be undeniable in order to avoid circumventing the prohibitions of the MAD through these instruments.

- Climatic derivatives, derivatives in greenhouse effect emission quotas, derivatives in inflation and other exotic derivatives with settlement in cash which are traded on a regulated market, MTF or present the characteristics of other derivative financial instruments (settled through clearing houses or subject to regular adjustments in guarantee margins). As a result of the special characteristics of these instruments, it appears appropriate to undertake a specific analysis, which in any event is not of particular importance to Spanish markets at the present time.

This all leads to considering that the definition in the MAD of financial instrument could be extended, firstly to cover those instruments not set out in it to which it is wished to apply the rules on market abuse and, secondly, explicitly to recognise the inclusion in the scope of application of the MAD of those instruments in respect of which there are any doubts. Since the two directives (MiFID and MAD) have the same objective of regulating securities markets in the broad sense, it seems reasonable that the same definition be used of *financial instrument* in the two. It would consequently be interesting, on the lines set out in Section 2.1 of this article, to be able to extend the prohibitions under Articles 2, 3, 4 and 5 of the MAD to the vast majority of the financial instruments contained in the MiFID.

4 Relevant information: concept and obligation to publicise

Unlike the Spanish legal system, where a distinction is made between relevant information and inside information, the MAD only covers the concept of inside information, defined as that of a precise nature regarding an issuer or its securities which has not been made public and which, if made public, would be likely to have a significant effect on price. There is an obligation in respect of this information to communicate it to the market as soon as possible, even though it is permitted to postpone this time provided that certain requirements are fulfilled.

Regarding inside information under the MAD, it is firstly subject to a prohibition of using it, directly or indirectly, in transactions in financial instruments to which the said information relates, and secondly an obligation to disclose it to the market as soon as possible. Both obligations arise at the same time, although the legal possibility is recognised of postponing communication of this information in certain circumstances. This is what has led Spanish legislators to maintain the distinction between relevant information and inside information, with the latter defined as relevant information at its initial stage of secrecy: whilst the obligation not to use this information appears at the time when the information arises, the obligation to communicate it to the market does not arise until the said information is sufficiently precise and probable so as to be useful to an investor.

The consultation by the European Commission on modifying the MAD includes the question of twin definition of *inside information* depending on whether it relates to the obligation to communicate to the public or the prohibition on its use in operating in the market. One adjusting variable plays a fundamental role in this debate, and has become a key point in the European regime of market abuse: the possibility of postponing publication of the relevant information, on the responsibility of the issuer.

The simultaneous conditions which permit this delay and therefore permit a period of time between the inside information arising and its communication to the public are:

- that confidentiality is ensured,
- that its omission does not make confusion in the market likely, and
- that it is done to protect the legitimate interests of the entity.

The different positions of issuers when deciding not to disclose this information can be seen in a detailed analysis of each of these requirements.

Firstly, ensuring confidentiality is fundamental to integrity of the market and it is necessary to this end that the issuer has adopted all relevant measures to safeguard the information. It is appropriate to highlight the need for the issuer to be permanently alert to the information which circulates regarding it or its securities in the market, such that it can react correctly and in good time on a leak or rumour.

A leak can propitiate the extension of a rumour in the market and affect the price, which necessarily requires disseminating the information. Conversely, if there is no basis or specificity is lacking in a rumour, or it is the result of pure market speculation, the issuer is not obliged to make any clarification.

Secondly, it has sometimes occurred that a premature disclosure of certain information has caused false expectations in the market; there are issuers with a propensity to disclose information rapidly, even if it is not sufficiently precise, therefore requiring several communications in order to specify the full information, whilst others are more reticent to make several disclosures and prefer to wait and give specific information in a single communication, thereby avoiding price volatility.

In this case as well the interpretation given to the mandate to disclose information *as soon as possible* is relevant: the longer the communication is delayed, the greater will be the specificity of the information, but the possibility of leaks and improper use of it will also be greater.

Thirdly, the delay must be due to the protection of the legitimate interests of an entity, since it is known that publicity of a certain type of information can hamper and even prevent reaching certain strategic agreements or give rise to fluctuations in the price of securities which could have been avoided. Such was the importance of this premise that the Commission prepared Directive 2003/124/EC in order to lay down at least two circumstances in which the interests of the entity were clearly justified: 1) dealings in which the financial viability of the company is in play, publicity on which could obstruct or abort a negotiated solution and therefore prejudice the shareholders of the entity, and 2) decisions which depend on approval by another superior body to that which has taken a decision and which is in the meantime conditional.

Nevertheless, it has been necessary to provide clarification in this respect in the second package of CESR recommendations, in which several examples were described which, always on the responsibility of the issuer and based on its particular circumstances, enabled the meaning of this legal provision to be illustrated, such that the greatest possible convergence is obtained in applying these concepts between Member States. In this respect communication to the regulator of the delay in relevant information does not provide any advantage. This option, covered by the MAD when it was conceived in 2002-2003, and which was used in the Spanish transposition, has proved to be inoperative and could be eliminated when the Securities Market Act is revised.

The fact of being able to delay communication of relevant information to the market has led to several authors and groups pointing out the inconsistencies of using a single concept (and therefore a single moment in time linked to its birth) as key to the prohibition on operating and the obligation of disclose to the public. As graphically expressed by one member of the ESME group (European Securities Markets Expert

Group) which advised the European Commission, the single definition in the MAD is, in relation to the two objectives it intends to cover, like "a blanket which is too short": if you pull it down the torso is exposed, and if it is pulled up the feet are exposed. Continuing with this simile, if birth of the first information is taken as the trigger for immediate publication, information will be given to the market which is still primitive, imprecise or, which is worse, in some cases improvised and full of uncertainty. On the other hand, if awaiting final specificity and absolute certainty for the prohibition on operating by those aware of it, unlawful use of it will be permitted by those who are aware of it before being published.

In any event, the delay which the MAD and the Securities Market Act treat as an exceptional case, or at least not as the norm, has *de facto* been converted into the most usual situation in the case of long genesis corporate operations (mergers, takeovers), and in the case of decisions or facts not immediately quantifiable (mineral deposits, scientific discoveries). With this type of relevant information, what is normal is for issuers to delay publication until they have data which is more concrete and, in particular, reliable on evolution of the operation.

By way of example, the dilemma can be visualised which is involved in a single definition. Two companies listed in a sector in clear need of consolidation, pressed by high debt, in an oligopolistic sector with strong competition, negotiate a merger. Their senior executives have met on two occasions and they have not yet appointed a team to study the operation, nor financial or legal advisers. The Boards of Directors have not been informed and it is clearly not yet known what the exchange equation would be. These companies hold talks with another two companies in the sector, with a similar degree of progress, without their success being ruled out. There are no specific rumours in the market on this possible merger operation.

If we apply a single definition, the merger talks, in the conditions described, would probably be relevant to an investor, insofar as the business base and market share on which the debt is maintained are greater in this scenario and prices would tend to rise. However, requiring that both companies announce to the market that they have commenced talks and that they are also holding talks with another two companies could be premature or confusing, particularly if followed by other announcements talking of obstacles or difficulties in negotiations. In parallel, for one of the two executives aware of the talks to take a loan to purchase 1 million shares in the other company would, of course, be reproachable and in all respects constitute use of inside information.

The ideal situation would be to be able to penalise any insider who takes a position in the securities after being aware of the existence of the project without requiring premature publication or a lack of specificity for the purpose, in the absence of rumours or market disruptions. In a situation of this type it should be possible, for example, to wait until there is a specific merger project sent to the respective Boards in order to publish a relevant event, independently of whether the operation has yet been approved.

It can be emphasised that, with the particular efforts made to find a European consensus on the definition of *inside information*, an amendment of the MAD making changes to it in the part which relates to relevant information for disclosure to the public has serious detractors who see no reason to change its current wording.

Nevertheless, and in favour of the amendment to differentiate the time at which relevant information must be made public, business practice shows that it is useful

to be able to separate the time when relevant information arises, with the consequent prohibition of operating on the part of those insiders who are aware of it, from the time when this information is sufficiently mature for investors to be informed. In these cases it is desirable that the issuer analyses whether each of the stages which form part of the operation in themselves constitute relevant information which should be communicated to the market, since the responsibility to select the time of publication lies with the issuer.

Spanish legislation, as indicated at the beginning, has continued, in the Securities Market Act, with the definitions of relevant information (Section 82, linked to publication) and inside information (Section 81, linked to the prohibition on insider operation); in the same manner, when the United Kingdom transposed the MAD into its legislation, it maintained the use of non-public inside information as unlawful (in the English abbreviation RINGA: *relevant information not generally available*) for the purpose of not narrowing the scope of application of the legislation on market abuse, since information which is not considered as "inside information" is not subject either to an obligation to publish nor a prohibition on trading. In both countries it is a question of non-public information which, received by an investor, the latter could consider relevant when deciding on his investment and therefore with an impact on the price of the financial instrument in question, and over which the prohibition on trading weighs.

5 Derivatives on commodities: particular definition of relevant information

The inconsistency which arises when dealing with these financial instruments derives from the undeniable correlation between evolution of their prices and evolution of the prices of their underlying commodities. Whilst these derivatives fall within the scope of securities markets, in commodities markets financial instruments are not traded and their supervision is not the competence of the same regulator.

Although their inclusion as financial instruments to which the prohibitions against market abuse and use of inside information under the umbrella of the MAD must be applied is clear, it is also true that the special characteristics of their structuring, since the issuer of these securities has nothing to do with the producer of the commodity, make it appropriate to establish a particular definition for inside information on these instruments.

With the passage of time it has been possible to verify that even though the definition established has required subsequent development through Directive 2004/72/EC, previously mentioned, for its correct application this definition continues to lack sufficient clarity when pursuing the use of inside information. Specifically, the reference to *that information which it would be expected to receive in accordance with accepted market practices in these markets* relates to information which is regularly made public (statistics, periodic data, etc.) or to that information which is disclosed by reason of a legal requirement, market rules, contracts, or practices both of the market for the commodity which constitutes the underlying and of the derivatives market where listed.

Even so, there is relevant information which affects these derivatives and which it is not obligatory to disclose to the market, such as change of quality of a consignment

of oil or a natural disaster which affects the goldmines of South Africa, since in the first instance it is known to the producer of the commodity. Neither the owner of the goldmines nor the company producing the oil are the issuers of the financial instrument (in this case the derivative on the price of oil or gold) and, therefore, they are not subject to immediate publication of this information.

There are two questions which will have to be tackled regarding information on the underlying of commodity derivatives. The first question is whether this information could be considered as information which an investor in this type of derivative would expect to receive. The second is whether this information, not disclosed to the market, used by the biochemist of the oil company or the finance director of the goldmine for his own benefit, following the previous example, and which would not be covered by the prohibition on use of inside information, should be considered subject to penalty. The answer to both questions is reasonably yes.

Since derivatives on commodities and the markets on which they are listed are fully included in the MiFID and it is intended that they also be included in the MAD, it seems appropriate that the general definition be used of inside information (therefore eliminating paragraph 2 of Article 1 of the MAD) for these financial instruments as well, thereby facilitating exercise of supervision over these markets.

6 Conclusions

Revision of the MAD constitutes a landmark in the European legislative framework for markets in financial instruments, since at the time it was the first directive promulgated under the "Lamfalussy" scheme. The existence of national options in its transposition and the publication of subsequent directives make this revision particularly relevant to one point (market abuse) which is crucial for integrity of the European capital market.

Of all matters opened up by the European Commission in its consultation of regulators regarding the desirability of modifying the MAD, those described here are the clearest insofar as they affect the scope of application of this legislation and the basic definitions which are then used to pursue market abuse.

In this respect, it will be beneficial to securities markets to be able to apply the legislation against price manipulation and use of inside information to all types of financial instruments, particularly those which depend on or are related to instruments already included in the MAD, arguing that the general definition of relevant information should also be applied to derivatives on commodities.

It would furthermore be similarly beneficial to be able to distinguish the time when relevant information is subject to an obligation of communication to the public from the time when the prohibition affects it against using it to operate in the market, as already happens under Spanish legislation. The time when it is decided to disclose the information to the market could be subsequent to and not simultaneous with the time when the information arises as such, whilst the obligation not to engage in transactions in the market with use of this information arises with the latter. The foregoing all subject to the responsibility of the issuer and provided there are no leaks which would require mandatory dissemination of the relevant information to the public.

7 Bibliography

ESME Report: *Market abuse. EU legal framework and its implementation by Member States: a first evaluation*. Brussels, July 6th, 2007.

European Commission: *Call for evidence. Review of Directive 2003/6/EC on insider dealing and market manipulation. (Market Abuse Directive)*. 20/04/2009.

CESR's response to the European Commission's call for evidence on MAD. 22/06/2009.

IV Legislative Annex

New legislation promulgated since publication of the CNMV bulletin for the second quarter of 2009 is as follows, in chronological order:

- Regulation (EC) No. 636/2009 of the Commission, of 22 July 2009, modifying Regulation (EC) No. 1126/2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 15.

  This Regulation incorporates into European Union Law Interpretation No. 15 of the International Financial Reporting Interpretations Committee (IFRIC). It relates to the time when income deriving from the construction of real estate must be recognised and also whether this income is subject to IAS 11 (Construction contracts) or IAS 18 (Ordinary income).

- Directive 2009/83/EC of the Commission, of 27 July 2009, modifying certain annexes of Directive 2006/48 of the European Parliament and Council with respect to technical provisions relating to risk management.

  This Directive was promulgated in the context of a broad reform in the field of capital requirements of financial institutions (credit institutions and investment undertakings), the processing of which has not yet been completed and which, in the framework of the current financial crisis, seeks improvement in management of the so-called major risks of financial institutions; an improvement in the supervision of cross-border financial groups; an improvement in the quality of their own funds, particularly in relation to hybrid instruments; an improvement in management of their liquidity risk and better management of risk relating to financial instruments deriving from securitisation.

  This Directive deals with various specific aspects which can be directly regulated by European Commission Directive, in implementation of Directive 2006/48/EC of the European Parliament and Council, of 14 June 2006, relating to the taking up and pursuit of the business of credit institutions. In particular, certain clarifications and adaptations are made in relation to several matters: criteria for organisation and treatment of risk; standard methods; methods based on internal evaluation; reduction in credit risk; own funds requirements for investment in securitisation bonds; operating risk and publication of information on own funds. It also clarifies the forms in which credit institutions can demonstrate transfer of a significant part of the risk off their balance sheet.

- Regulation (EC) No. 824/2009 of the Commission, of 9 September 2009, amending Regulation (EC) No. 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 39 and International Financial Reporting Standard (IFRS) 7.

  This rule incorporates into European Union Law various modifications approved by the International Accounting Standards Board in relation to IAS No. 39 and IFRS 7. These amendments deal with various questions regarding the accounting reclassification of financial assets in certain cases.

V Statistics annex

1 Markets

1.1 Equity

Share issues and public offerings[1] TABLE 1.1

	2006	2007	2008	2008 III	IV	2009 I	II	III[2]
CASH VALUE[3] (Million euro)	29,436.3	69,955.5	16,349.3	1,916.6	9,199.5	5,932.0	2,060.1	205.0
Capital increases	26,977.4	67,887.0	16,339.7	1,916.6	9,199.5	5,932.0	2,060.1	205.0
Of which, primary offerings	644.9	8,502.7	292.0	0.0	0.0	0.0	0.0	0.0
With Spanish tranche	302.9	4,821.3	292.0	0.0	0.0	0.0	0.0	0.0
With international tranche	342.0	3,681.4	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	2,458.9	2,068.5	9.5	0.0	0.0	0.0	0.0	0.0
With Spanish tranche	1,568.2	1,517.1	9.5	0.0	0.0	0.0	0.0	0.0
With international tranche	890.7	551.4	0.0	0.0	0.0	0.0	0.0	0.0
NOMINAL VALUE (Million euro)	1,272.9	6,441.5	1,835.8	237.6	946.0	970.4	596.8	108.7
Capital increases	1,154.1	6,358.4	1,835.7	237.6	946.0	970.4	596.8	108.7
Of which, primary offerings	51.3	1,122.9	100.0	0.0	0.0	0.0	0.0	0.0
With Spanish tranche	17.6	676.0	100.0	0.0	0.0	0.0	0.0	0.0
With international tranche	33.7	446.9	0.0	0.0	0.0	0.0	0.0	0.0
Secondary offerings	118.7	83.2	0.1	0.0	0.0	0.0	0.0	0.0
With Spanish tranche	75.7	46.0	0.1	0.0	0.0	0.0	0.0	0.0
With international tranche	43.0	37.1	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF FILES[4]	86	100	54	9	19	9	14	8
Capital increases	77	91	53	9	19	9	14	8
Of which, primary offerings	8	8	2	0	0	0	0	0
Of which, bonus issues	20	19	18	2	8	1	3	4
Secondary offerings	14	12	2	0	0	0	0	0
NO. OF ISSUERS[4]	58	57	39	9	16	8	9	7
Capital increases	53	52	38	9	16	8	9	7
Of which, primary offerings	6	6	2	0	0	0	0	0
Secondary offerings	10	8	2	0	0	0	0	0

1 Includes registered offerings with issuance prospectuses and listings admitted to trading without register issuance prospectuses. In previous quarterly bulletins, both type of offerings were collected in separate tables.
2 Available data: August 2009.
3 Does not include registered amounts that were not carried out.
4 Includes all registered offerings, including the issues that were not carried out.

Primary and secondary offerings. By type of subscriber TABLE 1.2

Million euro	2006	2007	2008	2008 III	IV	2009 I	II	III[1]
PRIMARY OFFERINGS	644.9	8,502.7	292.0	0.0	0.0	0.0	0.0	0.0
Spanish tranche	303.0	4,646.2	282.0	0.0	0.0	0.0	0.0	0.0
Private subscribers	8.7	2,841.0	191.5	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	294.3	1,805.2	90.5	0.0	0.0	0.0	0.0	0.0
International tranche	342.0	3,681.4	0.0	0.0	0.0	0.0	0.0	0.0
Employees	0.0	175.2	10.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SECONDARY OFFERINGS	2,458.8	2,068.5	9.5	0.0	0.0	0.0	0.0	0.0
Spanish tranche	1,565.0	1,505.7	9.5	0.0	0.0	0.0	0.0	0.0
Private subscribers	390.0	393.9	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	1,175.0	1,111.8	9.5	0.0	0.0	0.0	0.0	0.0
International tranche	890.7	551.4	0.0	0.0	0.0	0.0	0.0	0.0
Employees	3.1	11.4	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2009.

Companies listed[1]

TABLE 1.3

				2008		2009		
	2006	2007	2008	III	IV	I	II	III[2]
Total electronic market[3]	135	143	136	140	136	136	136	135
Of which, without Nuevo Mercado	124	142	136	140	136	136	136	135
Of which, Nuevo Mercado	11	1	0	0	0	0	0	0
Of which, foreign companies	6	5	5	5	5	5	5	5
Second Market	12	11	8	8	8	8	8	7
Madrid	2	2	2	2	2	2	2	2
Barcelona	9	9	6	6	6	6	6	5
Bilbao	0	0	0	0	0	0	0	0
Valencia	1	0	0	0	0	0	0	0
Open outcry ex SICAV	38	31	29	29	29	29	29	29
Madrid	16	13	13	13	13	13	13	13
Barcelona	24	20	19	19	19	19	19	19
Bilbao	10	9	8	8	8	8	8	8
Valencia	13	9	7	7	7	7	6	6
Open outcry SICAV	744	8	3	4	3	3	3	3
MAB[4]	2,405	3,287	3,347	3,364	3,347	3,322	3,296	3,286
Latibex	34	34	35	35	35	33	34	34

1 Data at the end of period.

2 Available data: August 2009.

3 Without ETF (Exchange Traded Funds).

4 Alternative Stock Market.

Capitalisation[1]

TABLE 1.4

				2008		2009		
Million euro	2006	2007	2008	III	IV	I	II	III[2]
Total electronic market[3]	813,765.1	892,053.8	531,194.2	634,275.0	531,194.2	435,027.6	534,519.3	611,987.3
Of which, without Nuevo Mercado	800,148.0	891,875.7	531,194.2	634,275.0	531,194.2	435,027.6	534,519.3	611,987.3
Of which, Nuevo Mercado	13,617.1	178.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies[4]	105,600.9	134,768.6	61,317.5	94,553.7	61,317.5	52,843.4	68,600.4	76,255.9
Ibex 35	512,828.0	524,651.0	322,806.6	374,922.1	322,806.6	276,053.0	334,760.9	387,709.6
Second Market	392.7	286.8	109.9	112.5	109.9	76.1	82.4	84.0
Madrid	18.9	27.8	22.8	24.1	22.8	21.4	23.0	26.0
Barcelona	184.2	259.0	87.1	88.3	87.1	54.7	59.4	58.0
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	189.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAV	7,905.3	7,444.9	5,340.7	5,850.5	5,340.7	4,438.8	4,142.7	4,022.3
Madrid	2,698.1	1,840.6	1,454.7	1,475.4	1,454.7	1,225.5	968.6	1,034.0
Barcelona	4,966.3	4,627.8	3,580.2	3,966.4	3,580.2	2,808.5	2,898.7	3,238.5
Bilbao	59.5	108.2	45.9	27.0	45.9	45.9	45.9	339.2
Valencia	741.9	1,206.5	760.4	885.3	760.4	792.1	467.4	526.9
Open outcry SICAV[5]	9,284.1	245.4	155.0	148.6	126.8	106.9	125.1	129.0
MAB[5]	29,866.3	41,659.8	35,520.2	26,952.4	24,718.6	24,020.8	24,896.2	26,059.2
Latibex	271,641.8	427,773.6	287,188.9	529,494.2	287,188.9	319,943.1	436,745.3	456,073.1

1 Data at the end of period.

2 Available data: August 2009.

3 Without ETF (Exchange Traded Funds).

4 Foreign companies capitalisation includes their entire shares, whether they are deposited in Spain or not.

5 It is only calculated with outstanding shares, but not with treasury shares, because they only report the capital stock at the end of the year.

Trading

TABLE 1.5

Million euro	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[1]
Total electronic market[2]	1,144,562.9	1,653,354.8	1,228,392.4	285,162.3	249,638.7	182,762.4	223,468.1	149,599.7
Of which, without Nuevo Mercado	1,118,546.1	1,627,369.5	1,228,380.9	285,162.3	249,638.7	182,762.4	223,468.1	149,599.7
Of which, Nuevo Mercado	26,016.8	25,985.3	11.4	0.0	0.0	0.0	0.0	0.0
Of which, foreign companies	11,550.3	7,499.3	1,407.1	206.9	265.7	418.7	1,141.5	894.4
Second Market	49.3	192.9	31.7	9.7	1.2	1.2	1.4	0.1
Madrid	7.2	8.9	3.4	0.1	1.1	0.3	1.1	0.1
Barcelona	41.6	182.3	28.3	9.6	0.1	0.9	0.3	0.0
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.5	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAV	737.6	792.7	182.1	58.1	63.0	12.3	24.0	4.5
Madrid	257.9	236.1	73.9	45.6	3.7	5.1	8.3	1.5
Barcelona	297.8	402.8	103.6	12.2	59.1	6.9	10.3	1.9
Bilbao	159.9	0.1	0.1	0.0	0.1	0.0	0.0	1.1
Valencia	22.0	153.8	4.5	0.4	0.1	0.3	5.4	0.0
Open outcry SICAV	4,580.6	361.6	25.3	7.2	9.6	7.2	3.0	6.8
MAB[3]	1,814.2	6,985.2	7,060.3	1,406.3	2,041.8	1,177.5	1,109.4	822.1
Latibex	723.3	868.2	757.7	136.2	116.4	89.4	115.2	66.1

1 Available data: August 2009.

2 Without ETF (Exchange Traded Funds).

3 Alternative Stock Market.

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

TABLE 1.6

Million euro	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[2]
Regular trading	1,080,117.5	1,577,249.5	1,180,835.9	279,188.2	241,955.6	178,078.6	207,873.9	143,003.9
Orders	658,839.2	985,087.6	774,718.1	183,639.9	159,841.1	117,321.9	130,334.7	76,367.3
Put-throughs	105,910.7	155,085.1	105,673.9	22,654.9	18,800.1	11,402.0	12,739.6	7,833.9
Block trades	315,367.7	437,076.8	300,443.9	72,893.4	63,314.4	49,354.7	64,799.6	58,802.7
Off-hours	11,651.6	18,301.5	10,175.2	1,341.7	2,148.1	79.9	284.1	681.6
Authorised trades	4,052.0	4,189.6	3,183.2	974.9	1,300.5	752.6	2,710.4	229.9
Art. 36.1 SML trades	6,439.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tender offers	18,094.6	26,284.3	17,461.2	0.0	0.0	0.0	7,085.4	0.0
Public offerings for sale	3,264.0	11,177.4	292.0	292.0	0.0	0.0	1,325.0	0.0
Declared trades	10,347.9	2,954.4	1,066.8	33.0	177.3	594.4	205.2	4,394.0
Options	8,279.8	10,240.4	9,661.9	1,693.1	2,938.7	1,695.1	2,731.1	484.4
Hedge transactions	2,315.7	2,957.8	5,716.3	1,639.5	1,118.5	1,561.8	1,253.0	805.9

1 Without ETF (Exchange Traded Funds).

2 Available data: August 2009.

Margin trading for sales and securities lending

TABLE 1.7

Million euro	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[1]
TRADING								
Securities lending[2]	550,850.4	835,326.9	583,950.8	138,864.1	109,281.2	82,710.3	118,161.0	86,606.6
Margin trading for sales of securities[3]	379.9	555.4	624.9	149.4	150.8	168.0	202.7	130.1
Margin trading for securities purchases[3]	511.9	411.3	154.7	33.6	33.2	25.2	27.7	20.4
OUTSTANDING BALANCE								
Securities lending[2]	62,058.2	79,532.9	43,647.8	58,394.2	43,647.8	36,825.4	42,636.4	38,771.0
Margin trading for sales of securities[3]	73.6	112.4	20.7	62.3	20.7	24.7	38.3	81.2
Margin trading for securities purchases[3]	70.1	59.4	7.0	31.2	7.0	3.6	4.5	6.2

1 Available data: August 2009.

2 Regulated by Article 36.7 of the Securities Market Law and Order ECO/764/2004.

3 Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.

1.2 Fixed-income

Gross issues registered[1] at the CNMV

TABLE 1.8

	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[2]
NO. OF ISSUERS	159	173	179	48	75	62	88	50
Mortgage covered bonds	11	10	19	5	5	16	6	8
Territorial covered bonds	5	4	7	0	1	0	1	0
Non-convertible bonds and debentures	46	41	30	16	9	14	38	21
Convertible bonds and debentures	1	0	1	0	1	0	1	1
Backed securities	61	77	88	18	34	21	24	11
Commercial paper	68	80	77	11	29	20	16	11
Of which, asset-backed	3	3	2	0	1	0	1	0
Of which, non-asset-backed	65	77	75	11	28	20	15	11
Other fixed-income issues	0	2	0	0	0	0	0	0
Preference shares	9	5	8	2	1	6	15	6
NO. OF ISSUES	336	335	337	62	107	111	180	83
Mortgage covered bonds	37	32	47	8	8	31	11	9
Territorial covered bonds	6	8	8	0	1	0	1	0
Non-convertible bonds and debentures	115	79	76	18	29	31	106	43
Convertible bonds and debentures	1	0	1	0	1	0	1	1
Backed securities	82	101	108	23	37	21	26	12
Commercial paper	84	107	88	11	29	20	16	11
Of which, asset-backed	3	3	2	0	1	0	1	0
Of which, non-asset-backed	81	104	86	11	28	20	15	11
Other fixed-income issues	0	3	0	0	0	0	0	0
Preference shares	11	5	9	2	2	8	19	7
NOMINAL AMOUNT (Million euro)	523,131.4	648,757.0	476,275.7	90,553.9	133,726.6	116,426.5	130,128.7	44,054.2
Mortgage covered bonds	44,250.0	24,695.5	14,300.0	1,685.0	1,245.0	10,473.9	10,175.0	1,920.0
Territorial covered bonds	5,150.0	5,060.0	1,820.0	0.0	800.0	0.0	500.0	0.0
Non-convertible bonds and debentures	46,687.5	27,416.0	10,489.6	4,215.1	1,926.9	15,492.0	28,248.9	4,775.3
Convertible bonds and debentures	68.1	0.0	1,429.1	0.0	1,429.1	0.0	300.0	200.0
Backed securities	91,607.7	141,627.0	135,252.5	11,736.1	60,473.0	27,358.5	31,035.3	7,786.3
Spanish tranche	30,885.7	94,049.0	132,730.1	10,606.9	60,473.0	27,358.5	28,483.9	6,580.6
International tranche	60,722.1	47,578.0	2,522.4	1,129.2	0.0	0.0	2,551.5	1,205.7
Commercial paper[3]	334,457.0	442,433.5	311,738.5	72,867.7	66,852.7	61,552.2	49,696.5	28,320.6
Of which, asset-backed	1,992.7	464.8	2,843.1	94.0	2,568.1	1,333.9	1,226.7	748.8
Of which, non-asset-backed	332,464.3	441,968.7	308,895.4	72,773.7	64,284.6	60,218.3	48,469.8	27,571.8
Other fixed-income issues	0.0	7,300.0	0.0	0.0	0.0	0.0	0.0	0.0
Preference shares	911.0	225.0	1,246.0	50.0	1,000.0	1,550.0	10,173.0	1,052.0
Pro memoria:								
Subordinated issues	27,361.5	47,158.3	12,949.5	1,574.5	7,119.6	8,484.3	5,571.2	1,060.6
Underwritten issues	92,213.5	86,161.1	9,169.5	946.1	928.1	0.0	2,559.0	1,450.0

1 Includes issuance and trading prospectuses.

2 Available data: August 2009.

3 The figures for commercial paper refer to the amount placed in the year.

Issues admitted to trading on AIAF

TABLE 1.9

Nominal amount in million euro	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[1]
Total	507,525.3	640,096.2	476,710.4	102,755.3	120,809.0	126,940.2	112,139.7	61,332.2
Commercial paper	332,328.4	439,787.3	314,417.4	74,588.8	65,221.2	63,663.5	49,459.9	28,586.6
Bonds and debentures	45,155.4	30,006.9	10,040.3	4,878.2	1,490.6	15,358.6	25,239.7	7,901.3
Mortgage covered bonds	43,720.0	27,195.5	14,150.0	3,300.0	1,480.0	10,623.9	7,925.0	3,220.0
Territorial covered bonds	2,650.0	7,450.0	1,930.0	0.0	800.0	0.0	500.0	0.0
Backed securities	83,042.5	135,149.5	135,926.6	19,938.3	51,817.3	35,794.3	26,211.9	13,966.6
Preference shares	629.0	507.0	246.0	50.0	0.0	1,500.0	2,803.2	7,657.7
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: August 2009.

AIAF. Issuers, issues and outstanding balance

TABLE 1.10

	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[1]
NO. OF ISSUERS	438	492	556	540	556	585	611	625
Commercial paper	69	73	72	72	72	73	72	70
Bonds and debentures	80	92	93	93	93	95	104	105
Mortgage covered bonds	14	14	22	22	22	25	25	26
Territorial covered bonds	5	7	11	11	11	11	11	11
Backed securities	257	316	383	366	383	409	425	440
Preference shares	46	50	52	52	52	53	57	60
Matador bonds	20	15	12	14	12	12	12	12
NO. OF ISSUES	3,681	4,314	4,639	4,767	4,639	4,487	4,335	4,280
Commercial paper	2,242	2,493	2,489	2,670	2,489	2,206	1,926	1,765
Bonds and debentures	398	445	450	457	450	460	526	571
Mortgage covered bonds	83	111	146	144	146	175	181	190
Territorial covered bonds	11	19	26	26	26	26	25	25
Backed securities	856	1157	1436	1376	1436	1528	1,578	1,624
Preference shares	65	71	78	78	78	78	85	91
Matador bonds	26	18	14	16	14	14	14	14
OUTSTANDING BALANCE[2] (Million euro)	588,942.3	758,559.8	819,637.7	812,631.3	819,637.7	851,854.3	874,645.0	890,332.1
Commercial paper	70,778.6	98,467.6	71,762.2	90,658.5	71,762.2	68,065.3	57,337.7	57,196.1
Bonds and debentures	131,107.8	139,586.3	122,001.9	132,099.8	122,001.9	125,691.2	138,770.0	142,776.6
Mortgage covered bonds	129,710.0	150,905.5	162,465.5	163,475.5	162,465.5	171,439.4	178,166.9	181,386.9
Territorial covered bonds	9,525.0	16,375.0	17,030.0	16,505.0	17,030.0	17,030.0	16,030.0	16,030.0
Backed securities	222,866.1	328,924.6	422,010.7	385,434.9	422,010.7	444,611.0	456,650.9	457,715.3
Preference shares	23,115.6	23,062.6	23,308.6	23,308.6	23,308.6	23,958.6	26,630.7	34,168.4
Matador bonds	1,839.2	1,238.2	1,058.8	1,148.9	1,058.8	1,058.8	1,058.8	1,058.8

1 Available data: August 2009.

2 Nominal amount.

AIAF. Trading

TABLE 1.11

Nominal amount in million euro	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[1]
BY TYPE OF ASSET	910,493.9	1,127,477.7	2,521,040.1	612,761.1	975,625.6	1,198,440.2	1,505,460.0	654,327.4
Commercial paper	489,069.5	568,009.6	591,943.8	158,910.1	167,322.0	166,501.8	130,286.2	82,004.0
Bonds and debentures	82,421.1	87,035.7	80,573.8	20,573.0	17,674.7	35,272.8	94,121.0	55,029.8
Mortgage covered bonds	70,113.5	80,811.2	129,995.3	47,216.7	23,439.6	52,026.3	101,235.5	36,158.2
Territorial covered bonds	3,659.1	7,749.8	10,142.3	711.3	3,484.9	3,308.9	1,535.1	990.9
Backed securities	257,628.9	378,005.2	1,704,341.8	384,574.7	762,280.4	939,895.5	1,176,736.3	479,057.7
Preference shares	4,647.8	4,492.4	4,030.0	774.5	1,419.6	1,402.7	1,535.5	1,086.8
Matador bonds	2,954.1	1,373.8	13.2	0.9	4.4	32.3	10.4	0.0
BY TYPE OF TRANSACTION	910,493.9	1,127,477.7	2,521,040.1	612,761.1	975,625.6	1,198,440.2	1,505,460.0	654,327.4
Outright	386,368.8	416,477.9	387,897.1	82,175.9	104,266.6	107,441.3	120,109.1	42,748.3
Repos	330,839.9	441,362.7	381,505.0	110,322.5	99,100.6	98,632.7	85,740.8	63,460.6
Sell-buybacks/Buy-sellbacks	193,285.1	269,637.1	1,751,638.0	420,262.6	772,258.4	992,366.3	1,299,610.1	548,118.6

1 Available data: August 2009.

AIAF. Third-party trading. By purchaser sector

TABLE 1.12

Nominal amount in million euro	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[1]
Total	702,608.8	837,308.5	744,652.5	188,252.8	194,739.0	188,606.5	186,780.1	98,369.9
Non-financial companies	260,108.1	364,490.6	285,044.4	73,146.1	64,374.3	73,863.1	72,117.6	43,507.0
Financial institutions	247,876.4	282,816.9	334,851.6	89,107.4	97,617.7	85,291.5	77,038.4	40,088.6
Credit institutions	83,999.1	99,492.0	130,056.0	31,066.3	41,816.2	37,039.8	43,243.2	10,281.5
IIC[2], insurance and pension funds	145,911.5	152,429.2	154,709.8	38,242.3	36,255.0	31,537.7	23,313.6	21,209.4
Other financial institutions	17,965.8	30,895.6	50,085.8	19,798.7	19,546.5	16,714.0	10,481.7	8,597.7
General government	7,058.9	7,762.4	6,331.2	907.8	2,233.1	2,622.8	1,018.1	941.8
Households and NPISHs[3]	23,675.9	28,534.8	13,344.0	2,951.3	3,126.5	4,089.4	2,506.4	1,520.4
Rest of the world	163,889.4	153,703.8	105,081.2	22,140.3	27,387.4	22,739.6	34,099.6	12,312.1

1 Available data: August 2009.

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

3 Non-profit institutions serving households.

Issues admitted to trading on equity markets[1]

TABLE 1.13

	2006	2007	2008	2008 III	IV	2009 I	II	III[2]
NOMINAL AMOUNTS (Million euro)	1,928.1	9,020.3	3,390.6	2,402.6	738.0	1,310.8	0.0	500.0
Non-convertible bonds and debentures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible bonds and debentures	68.1	0.0	0.0	0.0	0.0	1,310.8	0.0	500.0
Backed securities	1,860.0	2,020.3	3,390.6	2,402.6	738.0	0.0	0.0	0.0
Others	0.0	7,000.0	0.0	0.0	0.0	0.0	0.0	0.0
NO. OF ISSUES	22	16	33	20	9	1	0	1
Non-convertible bonds and debentures	0	0	0	0	0	0	0	0
Convertible bonds and debentures	1	0	0	0	0	1	0	1
Backed securities	21	15	33	20	9	0	0	0
Others	0	1	0	0	0	0	0	0

1 Private issuers. Includes issuance and trading prospectuses.

2 Available data: August 2009.

Equity markets. Issuers, issues and outstanding balances

TABLE 1.14

	2006	2007	2008	2008 III	IV	2009 I	II	III[1]
NO. OF ISSUERS	57	53	58	56	58	59	58	59
Private issuers	40	40	45	44	45	46	45	46
Non-financial companies	10	6	5	6	5	7	7	7
Financial institutions	30	34	40	38	40	39	38	39
General government[3]	17	13	13	12	13	13	13	13
Regional governments	3	3	3	3	3	3	3	3
NO. OF ISSUES	264	249	271	262	271	273	265	259
Private issuers	131	133	157	151	157	155	150	150
Non-financial companies	18	12	9	10	9	11	11	11
Financial institutions	113	121	148	141	148	144	139	139
General government[3]	133	116	114	111	114	118	115	109
Regional governments	89	83	82	80	82	87	82	77
OUTSTANDING BALANCES[2] (Million euro)	17,105.4	25,654.7	29,092.6	27,916.8	29,142.6	30,804.3	31,829.4	31,657.2
Private issuers	6,784.3	14,958.1	17,237.9	16,764.9	17,237.9	18,299.1	17,908.5	18,033.7
Non-financial companies	492.1	452.5	381.0	381.2	381.0	1,691.7	1,691.7	1,691.7
Financial institutions	6,292.2	14,505.6	16,856.9	16,383.7	16,856.9	16,607.4	16,216.8	16,342.0
General government[3]	10,321.1	10,696.6	11,904.7	11,151.9	11,904.7	12,505.1	13,920.9	13,623.5
Regional governments	8,319.8	8,862.6	9,972.5	9,269.6	9,972.5	10,573.6	11,978.2	11,639.8

1 Available data: August 2009.

2 Nominal amount.

3 Without public book-entry debt.

Trading on equity markets

TABLE 1.15

Nominal amounts in million euro	2006	2007	2008	2008 III	IV	2009 I	II	III[1]
Electronic market	257.3	444.8	1,580.1	189.3	487.0	64.8	150.5	70.4
Open outcry	5,009.9	7,154.3	7,842.1	4,656.8	1,188.8	182.1	634.2	272.7
Madrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	4,879.6	7,040.1	7,674.9	4,626.3	1,131.9	146.9	601.4	256.3
Bilbao	24.8	7.5	6.1	2.8	0.8	2.6	0.7	0.5
Valencia	105.5	106.7	161.1	27.6	56.1	32.7	32.1	15.9
Public book-entry debt	35.6	33.6	46.2	6.7	18.9	14.3	14.0	6.0
Regional governments debt	84,443.6	84,178.3	71,045.0	16,948.8	17,798.7	18,666.5	19,367.6	9,717.5

1 Available data: August 2009.

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

TABLE 1.16

Nominal amounts in million euro	2006	2007	2008	2008 III	IV	2009 I	II	III[1]
Total	175.1	95.8	81.6	20.2	12.9	35.5	30.9	17.2
Outright	94.3	58.6	38.3	8.5	4.2	5.2	8.1	8.6
Sell-buybacks/Buy-sellbacks	80.2	37.2	43.3	11.7	8.7	30.2	22.8	8.4
Others	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.2

1 Available data: August 2009.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF TABLE 1.17

				2008		2009		
Number of contracts	2006	2007	2008	III	IV	I	II	III[1]
Debt products	15	13	12	2	2	6	4	0
Debt futures[2]	15	13	12	2	2	6	4	0
Ibex 35 products[3, 4]	7,119,853	9,288,909	8,433,963	2,256,855	1,936,368	1,520,980	1,663,403	994,575
Ibex 35 plus futures	6,408,961	8,435,258	7,275,299	1,934,608	1,643,742	1,330,851	1,461,307	878,626
Ibex 35 mini futures	159,830	286,574	330,042	84,677	88,747	70,698	88,829	59,851
Call mini options	288,542	227,535	323,874	106,673	80,383	56,410	60,400	31,142
Put mini options	262,521	339,542	504,749	130,897	123,497	63,021	52,868	24,955
Stock products[5]	33,655,790	34,887,808	64,554,817	15,788,553	17,297,456	21,082,892	22,320,897	14,012,952
Futures	21,229,811	21,294,315	46,237,568	11,983,940	10,936,605	13,024,306	14,386,553	9,616,163
Call options	7,664,125	6,775,525	7,809,423	1,673,144	2,979,971	3,689,989	4,025,150	2,425,263
Put options	4,761,854	6,817,968	10,507,826	2,131,469	3,380,880	4,368,597	3,909,194	1,971,526
Pro-memoria: MEFF trading on Eurex								
Debt products[6]	1,117,956	1,059,113	869,105	132,608	173,444	157,746	171,829	56,074
Index products[7]	1,423,441	1,371,250	1,169,059	275,658	276,397	286,512	211,834	58,813

1 Available data: August 2009.
2 Contract size: 100 thousand euros.
3 The number of Ibex 35 mini futures (multiples of 1 euro) was standardised to the size of the Ibex 35 plus futures (multiples of 10 euro).
4 Contract size: Ibex 35 , 10 euros.
5 Contract size: 100 Stocks.
6 Bund, Bobl and Schatz futures.
7 Dax 30, DJ EuroStoxx 50 and DJ Stoxx 50 futures.

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

Issues registered at the CNMV TABLE 1.18

				2008		2009		
	2006	2007	2008	III	IV	I	II	III[1]
WARRANTS[2]								
Premium amount (Million euro)	5,143.1	8,920.3	12,234.4	3,087.6	2,820.6	1,950.5	522.9	1,084.3
On stocks	3,697.6	6,215.1	6,914.1	1,576.8	1,417.0	1,074.8	251.0	562.8
On indexes	1,064.9	2,311.2	4,542.8	1,385.3	1,160.6	628.4	198.0	432.9
Other underlyings[3]	380.6	394.0	777.5	125.5	243.0	247.3	73.9	88.6
Number of issues	4,063	7,005	9,790	2,523	2,548	2,516	1,111	1,263
Number of issuers	8	7	8	6	6	6	6	6
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (Million euro)	206.8	151.0	77.0	20.0	0.0	0.0	0.0	0.0
On stocks	196.2	145.0	77.0	20.0	0.0	0.0	0.0	0.0
On indexes	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other underlyings[3]	10.0	6.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of issues	12	9	4	1	0	0	0	0
Number of issuers	4	3	1	1	0	0	0	0

1 Available data: August 2009.
2 Includes issuance and trading prospectuses.
3 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

Equity markets. Warrants and ETF trading

TABLE 1.19

	2006	2007	2008	2008		2009		
				III	IV	I	II	III[1]
WARRANTS								
Trading (Million euro)	2,907.4	5,129.6	2,943.7	701.7	665.1	491.3	488.2	272.4
On Spanish stocks	1,805.3	3,200.7	1,581.9	333.5	364.1	222.7	213.2	130.2
On foreign stocks	293.3	474.2	145.7	30.9	17.5	22.3	21.4	19.4
On indexes	695.6	1,376.6	1,063.3	295.7	233.4	208.7	233.2	111.8
Other underlyings[2]	113.1	78.1	152.8	41.6	50.1	37.6	20.4	11.0
Number of issues[3]	4,284	7,837	9,770	4,219	4,151	3,655	3,451	2,508
Number of issuers[3]	9	9	10	8	9	9	9	9
CERTIFICATES								
Trading (Million euro)	58.8	49.8	16.8	2.8	3.9	7.6	8.5	10.6
Number of issues[3]	15	14	26	17	20	21	16	16
Number of issuers[3]	5	5	4	4	4	4	2	2
ETF								
Trading (Million euro)	-	4,664.5	6,938.1	900.6	1,643.0	604.3	916.6	576.7
Number of funds	-	21	30	29	30	30	31	32
Assets[4] (Million euro)	-	885.8	1,630.3	2,111.2	1,630.3	1,523.0	1,443.9	n.a.

1 Available data: August 2009.

2 Includes the following underlying: baskets of stocks, exchange rates, interest rates and commodities.

3 Issues or issuers which were traded in each period.

4 Assets from national collective investment schemes is only included because assets from foreign ones are not available.

n.a.: No available data.

1.3.3 Non-financial derivatives

Trading on MFAO[1]

TABLE 1.20

Number of contracts	2006	2007	2008	2008		2009		
				III	IV	I	II	III[2]
On olive oil								
Extra-virgin olive oil futures[3]	35,079	46,405	48,091	7,530	12,365	29,615	36,455	32,895

1 Olive oil futures market.

2 Available data: August 2009.

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

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

	2006	2007	2008	2008		2009		
				III	IV	I	II	III[1]
BROKER-DEALERS								
Spanish firms	47	46	51	50	51	50	50	50
Branches	108	102	83	85	83	78	78	79
Agents	6,610	6,657	6,041	6,546	6,041	5,840	5,930	5,928
BROKERS								
Spanish firms	57	53	50	53	50	49	49	49
Branches	11	12	9	10	9	8	9	8
Agents	589	625	638	631	638	682	645	621
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	15	11	10	10	10	10	9	9
Branches	4	4	4	4	4	5	5	5
Agents	5	6	6	5	6	6	5	5
CREDIT INSTITUTIONS[2]								
Spanish firms	204	201	195	200	195	196	196	195

1 Available data: August 2009.

2 Source: Banco de España.

Investment services. Foreign firms

TABLE 2.2

	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[1]
Total	1,321	1,766	2,222	2,156	2,222	2,270	2,300	2,323
European Economic Area investment services firms	973	1,394	1,808	1,760	1,808	1,849	1,878	1,902
Branches	22	29	36	33	36	35	35	35
Free provision of services	951	1,365	1,772	1,727	1,772	1,814	1,843	1,867
Credit institutions[2]	348	372	414	396	414	421	422	421
From EU member states	339	363	405	387	405	411	412	411
Branches	44	52	56	56	56	54	54	54
Free provision of services	294	310	348	330	348	356	357	356
Subsidiaries of free provision of services	1	1	1	1	1	1	1	1
From non-EU states	9	9	9	9	9	10	10	10
Branches	8	8	8	8	8	8	8	8
Free provision of services	1	1	1	1	1	2	2	2

1 Available data: August 2009.

2 Source: Banco de España and CNMV.

Intermediation of spot transactions[1]

TABLE 2.3

Million euro	II 2008 Spanish organised markets	II 2008 Other Spanish markets	II 2008 Foreign markets	II 2008 Total	II 2009 Spanish organised markets	II 2009 Other Spanish markets	II 2009 Foreign markets	II 2009 Total
FIXED-INCOME								
Total	6,874	2,079,778	422,708	2,509,360	139,743	2,715,331	147,760	3,002,834
Broker-dealers	6,197	295,890	50,627	352,714	129,431	44,188	44,200	217,819
Brokers	677	1,783,888	372,081	2,156,646	10,312	2,671,143	103,560	2,785,015
EQUITY								
Total	495,000	1,390	19,052	515,442	208,161	1,442	20,228	229,831
Broker-dealers	463,258	1,175	17,578	482,011	185,334	1,174	18,341	204,849
Brokers	31,742	215	1,474	33,431	22,827	268	1,887	24,982

1 Period accumulated data.

Intermediation of derivative transactions[1,2]

TABLE 2.4

Million euro	II 2008 Spanish organised markets	II 2008 Foreign organised markets	II 2008 Non-organised markets	II 2008 Total	II 2009 Spanish organised markets	II 2009 Foreign organised markets	II 2009 Non-organised markets	II 2009 Total
Total	197,932	1,926,265	904,682	3,028,879	535,202	1,279,602	895,035	2,709,839
Broker-dealers	179,547	1,595,485	96,850	1,871,882	486,357	1,067,051	13,130	1,566,538
Brokers	18,385	330,780	807,832	1,156,997	48,845	212,551	881,905	1,143,301

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

2 Period accumulated data.

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

TABLE 2.5

	II 2008 Total	II 2008 IIC[2]	II 2008 Other[3]	II 2009 Total	II 2009 IIC[2]	II 2009 Other[3]
NUMBER OF PORTFOLIOS						
Total	15,832	125	15,707	12,599	88	12,511
Broker-dealers	8,847	34	8,813	6,806	17	6,789
Brokers	3,495	42	3,453	3,228	41	3,187
Portfolio management companies	3,490	49	3,441	2,565	30	2,535
ASSETS UNDER MANAGEMENT (Thousand euro)						
Total	11,426,977	1,108,012	10,318,965	8,033,203	570,307	7,462,896
Broker-dealers	5,081,913	276,965	4,804,948	3,272,765	122,517	3,150,248
Brokers	2,602,030	587,346	2,014,684	1,887,970	267,146	1,620,824
Portfolio management companies	3,743,034	243,701	3,499,333	2,872,468	180,644	2,691,824

1 Data at the end of period.

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

3 Includes the rest of clients, both covered and not covered by the Investment Guarantee Fund, an investor compensation scheme regulated by Royal Decree 948/2001.

Aggregated income statement. Broker-dealers[1]

TABLE 2.6

				2008			2009	
Thousand euro[2]	2006	2007	2008	II	III	IV	I	II
I. Financial income	17,325	-29,968	117,783	22,373	53,300	117,783	54,459	98,211
II. Net commission	775,377	893,803	674,542	368,472	502,553	674,542	132,918	263,558
Commission revenues	1,009,089	1,181,772	943,619	501,817	693,140	943,619	187,315	393,081
Brokering	629,952	775,418	648,036	343,910	484,674	648,036	130,572	274,323
Placement and underwriting	73,278	62,145	42,502	25,112	28,263	42,502	12,301	21,567
Securities deposit and recording	22,367	25,351	21,555	11,477	16,421	21,555	4,224	7,911
Portfolio management	23,883	29,649	16,949	9,893	13,886	16,949	2,673	4,858
Design and advising	55,918	65,083	56,671	12,781	17,039	56,671	9,528	28,642
Stocks search and placement	0	9	12	9	11	12	6	6
Market credit transactions	33	23	19	7	9	19	4	10
IIC subscription and redemption	141,312	138,481	91,167	55,621	74,113	91,167	13,970	27,509
Other	62,346	85,613	66,708	43,007	58,724	66,708	14,036	28,256
Commission expenses	233,712	287,969	269,077	133,345	190,587	269,077	54,397	129,523
III. Net income from securities trading[3]	92,719	-239,572	792,084	973,352	1,140,505	792,084	36,623	51,163
IV. Net exchange differences and other operating products and expenses	109,130	486,643	-625,826	-252,335	-511,353	-625,826	-38,326	383
V. Gross income	994,551	1,110,906	958,583	1,111,862	1,185,005	958,583	185,674	413,315
VI. Operating income	490,336	587,354	434,601	277,389	325,196	434,601	79,440	186,212
VII. Earnings from continuous activities	430,651	540,390	365,287	301,711	361,479	365,287	88,475	176,442
VIII. Net earnings of the period	430,651	540,390	367,579	301,711	361,479	367,579	88,475	176,442

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

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

3 This does not include provisions for losses in value of securities portfolio, nor their recovering and application. These items are included in "Operating income".

Results of proprietary trading. Broker-dealers[1]

TABLE 2.7

	Total		Financial income		Securities portfolio[2]		Exchange differences and other[3]	
Thousand euro[4]	II 2008	II 2009	II 2008	II 2009	II 2008	II 2009	II 2008	II 2009
Total	727,432	149,740	22,373	98,209	973,352	51,163	-268,293	368
Money market assets and public debt	-456	4,401	4,723	522	-5,179	3,879	-	-
Other fixed-income securities	32,495	-176,907	29,308	59,974	3,187	-236,881	-	-
Domestic portfolio	28,335	-173,105	28,324	58,654	11	-231,759	-	-
Foreign portfolio	4,160	-3,801	984	1,320	3,176	-5,121	-	-
Equities	-219,099	482,978	24,317	39,016	-243,416	443,962	-	-
Domestic portfolio	-145,008	79,018	12,593	19,161	-157,601	59,857	-	-
Foreign portfolio	-74,091	403,960	11,724	19,855	-85,815	384,105	-	-
Derivatives	1,233,531	-154,252	-	-	1,233,531	-154,252	-	-
Repurchase agreements	5,403	-13,246	5,403	-13,246	-	-	-	-
Market credit transactions	0	0	0	0	-	-	-	-
Deposits and other transactions with financial Intermediaries	-67,925	955	-67,925	955	-	-	-	-
Net exchange differences	-252,335	-5,750	-	-	-	-	-252,335	-5,750
Other operating products and expenses	n.a.	6,132	-	-	-	-	n.a.	6,132
Other transactions	-4,182	5,428	26,547	10,988	-14,771	-5,546	-15,958	-14

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

2 Securities portfolio income does not include provisions for losses in value of securities portfolio, nor their recovering and application.

3 Former column "Other charges" has been replaced by a new column which includes, besides provisions for risks, net exchange results and other operating products and expenses.

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

n.a.: No available data.

Aggregated income statement. Brokers[1]

TABLE 2.8

Thousand euro[2]	2006	2007	2008	2008 II	2008 III	2008 IV	2009 I	2009 II
I. Financial income	12,934	14,395	7,977	6,039	7,822	7,977	1,060	1,679
II. Net commission	233,447	237,403	149,873	82,530	115,919	149,873	30,688	63,582
Commission revenues	297,030	310,892	172,343	95,111	133,583	172,343	34,647	72,250
Brokering	114,111	131,976	62,344	33,728	47,825	62,344	15,132	30,001
Placement and underwriting	3,183	2,501	4,847	3,010	4,354	4,847	307	1,081
Securities deposit and recording	1,520	1,680	676	394	512	676	73	166
Portfolio management	28,672	27,457	21,137	11,966	16,783	21,137	3,956	9,284
Design and advising	2,360	2,224	4,962	1,550	2,181	4,962	486	1,033
Stocks search and placement	0	0	0	0	0	0	0	0
Market credit transactions	0	0	10	0	0	10	0	3
IIC subscription and redemption	68,513	74,918	31,287	17,156	24,309	31,287	5,041	10,010
Other	78,671	70,136	47,081	27,307	37,619	47,081	9,651	20,673
Commission expenses	63,583	73,489	22,470	12,581	17,664	22,470	3,959	8,668
III. Net income from securities trading[3]	3,841	2,212	-734	-926	-1,204	-734	-364	102
IV. Net exchange differences and other operating products and expenses	-282	-407	4,173	-230	-83	4,173	90	-269
V. Gross income	249,940	253,603	161,289	87,413	122,454	161,289	31,474	65,094
VI. Operating income	85,744	85,423	20,906	9,545	14,596	20,906	-1,252	1,938
VII. Earnings from continuous activities	62,449	86,017	14,519	15,919	25,623	14,519	-1,775	144
VIII. Net earnings of the period	62,449	86,017	14,519	15,919	25,623	14,519	-1,775	144

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

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

3 This does not include provisions for losses in value of securities portfolio, nor their recovering and application. These items are included in "Operating income".

Aggregated income statement. Portfolio management companies[1]

TABLE 2.9

Thousand euro[2]	2006	2007	2008	2008 II	2008 III	2008 IV	2009 I	2009 II
I. Financial income	895	1,442	1,482	789	1,210	1,482	163	247
II. Net commission	15,195	15,501	12,044	6,583	9,382	12,044	2,632	5,174
Commission revenues	27,625	27,340	23,877	12,392	18,138	23,877	5,416	10,653
Portfolio management	22,068	24,239	20,683	10,886	16,044	20,683	4,683	8,995
Design and advising	4,951	2,614	2,484	1,226	1,677	2,484	595	1,316
IIC subscription and redemption	261	34	66	32	49	66	5	7
Other	345	453	644	248	368	644	133	335
Commission expenses	12,430	11,839	11,833	5,809	8,756	11,833	2,784	5,479
III. Net income from securities trading[3]	15	96	-108	12	24	-108	-53	25
IV. Net exchange differences and other operating products and expenses	-14	-37	-424	-4	-2	-424	-119	-247
V. Gross income	16,091	17,002	12,994	7,380	10,614	12,994	2,623	5,199
VI. Operating income	5,937	6,896	1,156	1,125	1,540	1,156	277	507
VII. Earnings from continuous activities	4,112	4,837	764	1,009	1,428	764	111	290
VIII. Net earnings of the period	4,112	4,837	764	1,009	1,428	764	111	290

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

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

3 This does not include provisions for losses in value of securities portfolio, nor their recovering and application. These items are included in "Operating income".

Surplus equity over capital adequacy requirements[1,2]

TABLE 2.10

Thousand euro	Surplus Total amount	%[3]	< 50	<100	<150	<200	<300	<400	<500	<750	<1000	>1000
			Number of companies according to its surplus percentage									
Total	1,588,545	493.88	9	13	12	8	19	7	9	9	6	16
Broker-dealers	1,488,038	553.72	0	3	1	3	11	4	7	5	4	12
Brokers	77,896	202.14	8	9	7	5	6	3	2	3	2	3
Portfolio management companies	22,611	157.25	1	1	4	0	2	0	0	1	0	1

1 Available data: May 2009

2 Due to the entry into force, on 30 June 2009, of Circular CR CNMV 12/2008 on investment services companies solvency, May 2009 is the latest available data, reported according to the former Circular CR CNMV 6/1992.

3 Average percentage is weighted by the required equity of each company. It is an indicator of the number of times, in percentage terms, that the surplus contains the required equity in an average company.

Return on equity (ROE) before taxes[1]

TABLE 2.11

	Average[2]	Losses	0-5%[3]	6-15%	16-30%	31-45%	46-60%	61-75%	76-100%	>100%
		Number of companies according to its annualized return								
Total	19.81	36	14	27	13	5	3	3	1	6
Broker-dealers	21.06	12	6	15	5	3	1	3	1	4
Brokers	5.70	22	6	10	4	2	2	0	0	2
Portfolio management companies	3.16	2	2	2	4	0	0	0	0	0

1 Available data: June 2009.

2 Average weighted by equity, %.

3 Includes companies which have not sent information.

3 Collective investment schemes (IIC)[a,b,c,d,e]

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

TABLE 3.1

	2006	2007	2008	2008 III	IV	2009 I	II	III[1]
Total financial IIC	6,006	6,296	6,354	6,389	6,354	6,294	6,168	6,079
Mutual funds	2,850	2,954	2,943	2,954	2,943	2,898	2,808	2,730
Investment companies	3,149	3,290	3,347	3,369	3,347	3,330	3,294	3,284
Funds of hedge funds	2	31	40	41	40	40	40	39
Hedge funds	5	21	24	25	24	26	26	26
Total real estate IIC	17	18	18	17	18	18	17	16
Real estate investment funds	9	9	9	9	9	9	8	8
Real estate investment companies	8	9	9	8	9	9	9	8
Total foreign IIC marketed in Spain	340	440	563	535	563	566	555	575
Foreign funds marketed in Spain	164	225	312	290	312	313	309	326
Foreign companies marketed in Spain	176	215	251	245	251	253	246	249
Management companies	114	120	120	120	120	120	120	120
IIC depositories	132	126	125	126	125	125	125	125

1 Available data: August 2009.

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

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

c Due to the entry into force, on 31 December 2008, of CR CNMV 3/2008 and CR CNMV 7/2008, which modify accounting information to be reported to CNMV, data has been adapted to new regulation.

d From 2009-II Bulletin on, hedge funds and funds of hedge funds data is shown on table 3.12.

e From December 2008 on, foreign collective investments schemes shareholders and total net assets data do not include exchange traded funds (ETF).

Number of IIC investors and shareholders

TABLE 3.2

				2008		2009		
	2006	2007	2008	III	IV	I	II	III[1]
Total financial IIC	9,048,207	8,492,282	6,328,637	6,970,806	6,328,366	6,054,199	5,924,375	5,896,432
Mutual funds	8,637,781	8,053,049	5,892,984	6,520,089	5,892,984	5,626,786	5,497,753	5,477,245
Investment companies	410,403	434,156	435,653	439,395	435,382	427,413	426,622	419,187
Total real estate IIC	151,053	146,353	98,327	136,245	98,327	96,222	90,398	90,489
Real estate investment funds	150,304	145,510	97,390	135,307	97,390	95,284	89,461	89,552
Real estate investment companies	749	843	937	938	937	938	937	937
Total foreign IIC marketed in Spain	779,165	850,931	587,032	648,457	551,849	463,757	n.a.	-
Foreign funds marketed in Spain	144,139	142,782	99,873	112,064	98,224	66,647	n.a.	-
Foreign companies marketed in Spain	635,026	708,149	487,159	536,393	453,625	397,110	n.a.	-

1 Available data: July 2009. Real estate investment companies and foreign IIC send this information quarterly.

n.a.: No available data.

IIC total net assets

TABLE 3.3

				2008		2009		
Million euro	2006	2007	2008	III	IV	I	II	III[1]
Total financial IIC	300,584.0	287,968.7	200,506.9	226,473.9	200,522.2	192,776.1	191,25.0	193,475.6
Mutual funds[2]	270,406.3	255,040.9	175,865.3	197,305.6	175,865.3	168,829.4	167,133.5	168,167.5
Investment companies	30,152.7	31,481.5	24,641.6	27,143.2	24,656.9	23,946.7	24,791.5	25,308.1
Total real estate IIC	9,052.0	9,121.4	7,778.8	8,530.6	7,778.8	7,127.2	6,907.9	6,899.5
Real estate investment funds	8,595.9	8,608.5	7,406.9	8,166.7	7,406.9	6,758.1	6,547.2	6,543.7
Real estate investment companies	456.1	512.9	371.9	363.8	371.9	369.1	360.7	355.8
Total foreign IIC marketed in Spain	44,102.9	37,092.7	18,181.3	22,046.4	17,873.5	13,059.9	n.a.	-
Foreign funds marketed in Spain	12,099.3	7,010.3	2,245.5	3,064.6	2,235.3	1,410.6	n.a.	-
Foreign companies marketed in Spain	32,003.5	30,082.4	15,935.8	18,981.8	15,638.2	11,649.3	n.a.	-

1 Available data: July 2009. Real estate investment companies and foreign IIC send this information quarterly.

2 For July 2009, mutual funds investments in financial IIC reached 7.8 billion euro.

n.a.: No available data.

Mutual funds asset allocation[1]

TABLE 3.4

				2008			2009	
Million euro	2006	2007	2008	II	III	IV	I	II[2]
Asset	270,406.3	255,040.9	175,865.3	214,251.8	197,305.6	175,865.3	168,829.4	167,161.0
Cash[3]	10,462.4	15,413.5	19,374.1	17,560.5	20,578.7	19,374.1	18,374.5	19,338.4
Portfolio investment	260,002.9	239,266.6	155,869.1	196,542.0	176,239.7	155,869.1	150,265.0	147,739.6
Domestic securities	127,355.4	134,564.1	96,628.7	115,695.7	105,007.9	96,628.7	92,915.7	88,738.0
Shares	13,806.8	11,550.1	4,022.0	6,802.7	5,501.0	4,022.0	3,264.8	3,743.8
Mutual funds units	17,322.8	18,662.1	10,134.3	15,651.3	13,587.1	10,134.3	9,037.4	8,300.9
Public money market assets	2,887.7	2,206.6	7,985.5	4,618.6	4,488.8	7,985.5	10,181.3	10,120.8
Other public fixed-income	9,891.6	8,708.7	5,940.0	6,299.7	6,334.9	5,940.0	7,667.2	8,161.6
Private money market assets	28,483.2	37,486.9	16,276.4	35,514.6	30,277.3	16,276.4	14,265.6	15,526.0
Other private fixed-income	23,105.3	24,251.5	23,665.5	22,873.3	20,885.2	23,665.5	22,565.9	20,749.5
Spanish warrants and options	603.3	553.2	541.6	414.4	309.7	541.6	490.5	536.5
Repos	31,229.4	31,144.9	28,062.7	23,520.9	23,623.7	28,062.7	25,441.4	21,597.7
Unlisted securities	25.4	0.2	1.0	0.2	0.2	1.0	1.5	1.3
Foreign securities	132,647.4	104,702.5	59,240.4	80,846.3	71,231.8	59,240.4	57,349.3	59,001.6
Euros	118,664.1	94,085.1	56,222.6	74,454.1	66,423.8	56,222.6	54,581.0	55,697.1
Shares	11,418.0	10,771.3	3,287.2	5,859.1	4,588.6	3,287.2	2,627.4	3,361.6
Mutual fund units	23,414.2	13,029.8	2,783.9	6,922.6	5,021.6	2,783.9	2,479.4	2,673.2
Fixed-income	78,933.4	65,972.8	49,294.3	59,589.4	55,158.9	49,294.3	48,749.2	49,080.0
Foreign warrants and options	4,898.7	4,311.2	857.1	2,083.0	1,654.6	857.1	724.9	582.3
Unlisted securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	13,983.3	10,617.4	3,017.8	6,392.1	4,808.0	3,017.8	2,768.3	3,304.5
Shares	7,343.0	5,960.3	1,918.3	3,823.6	3,104.1	1,918.3	1,747.0	2,033.8
Mutual fund units	5,491.5	3,894.6	740.5	2,153.8	1,337.3	740.5	674.4	908.2
Fixed-income	1,011.7	631.1	343.3	386.8	336.4	343.3	333.6	351.9
Foreign warrants and options	136.0	130.5	15.6	27.7	30.2	15.6	13.2	10.6
Unlisted securities	1.2	0.9	0.0	0.1	0.0	0.0	0.0	0.0
Net balance (Debtors - Creditors)	-58.9	360.8	622.1	149.4	487.2	622.1	189.9	83.0

1 Hedge funds and funds of hedge funds are not included in these figures due to the entry into force, on 31 December 2008, of Circular CR CNMV 3/2008 which establishes a different deadline in reporting accounting information to CNMV.

2 Provisional data.

3 Includes portfolio deposits.

Investment companies asset allocation

TABLE 3.5

Million euro	2006	2007	2008	2008 II	2008 III	2008 IV	2009 I	2009 II[1]
Asset	30,152.7	31,481.5	24,656.9	28,415.3	27,143.2	24,656.9	23,946.7	24,791.5
Cash[2]	802.2	1,182.2	2,433.6	1,938.4	2,759.1	2,433.6	2,410.4	2,566.9
Portfolio investment	29,294.1	30,037.4	21,965.7	26,306.3	24,131.2	21,965.7	21,312.4	21,980.3
Domestic securities	15,553.8	17,075.3	14,763.4	16,012.2	15,391.9	14,763.4	13,779.8	13,280.2
Shares	6,727.3	6,173.6	3,214.3	4,372.0	3,756.4	3,214.3	2,584.9	2,871.0
Mutual funds units	1,095.0	1,362.3	1,108.8	1,311.4	1,216.1	1,108.8	1,125.6	1,151.8
Public money market assets	463.4	382.8	359.8	348.3	403.9	359.8	416.1	272.4
Other public fixed-income	678.2	710.2	705.0	523.1	559.9	705.0	678.4	748.2
Private money market assets	555.4	1,568.6	1,149.1	2,199.0	2,102.8	1,149.1	891.0	814.4
Other private fixed-income	554.8	620.8	1,359.6	930.2	943.7	1,359.6	1,402.4	1,168.5
Spanish warrants and options	19.7	22.1	4.0	12.9	23.0	4.0	9.6	7.2
Repos	5,459.1	6,234.1	6,862.1	6,311.6	6,382.2	6,862.1	6,671.0	6,245.7
Unlisted securities	0.8	0.8	0.6	3.6	4.1	0.6	0.8	1.0
Foreign securities	13,740.3	12,962.2	7,202.4	10,294.1	8,739.3	7,202.4	7,532.6	8,700.0
Euros	9,847.7	9,413.7	5,697.6	7,711.5	6,568.0	5,697.6	6,190.2	7,020.6
Shares	3,379.9	3,367.7	1,245.8	2,083.2	1,633.1	1,245.8	1,075.5	1,381.3
Mutual fund units	4,169.1	3,826.1	1,858.2	3,148.5	2,419.5	1,858.2	1,767.4	1,813.8
Fixed-income	2,041.5	2,006.7	2,510.2	2,308.5	2,369.1	2,510.2	3,285.2	3,754.7
Foreign warrants and options	257.2	213.1	81.5	171.2	146.2	81.5	61.7	70.5
Unlisted securities	0.0	0.0	1.9	0.0	0.0	1.9	0.4	0.5
Other	3,892.6	3,548.5	1,504.8	2,582.6	2,171.3	1,504.8	1,342.4	1,679.4
Shares	2,104.7	1,752.2	766.6	1,298.7	1,101.1	766.6	725.0	933.2
Mutual fund units	1,517.7	1,600.6	628.3	1,148.1	945.6	628.3	474.5	585.4
Fixed-income	234.8	183.2	102.6	123.4	111.9	102.6	137.5	154.5
Foreign warrants and options	11.3	12.5	7.1	12.3	12.7	7.1	5.4	6.1
Unlisted securities	24.1	0.0	0.1	0.0	0.0	0.1	0.1	0.2
Net balance (Debtors - Creditors)	56.4	261.8	257.6	170.6	252.9	257.6	223.8	244.2

1 Provisional data.

2 Includes portfolio deposits.

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

TABLE 3.6

	2006	2007	2008	2008 III	2008 IV	2009 I	2009 II	2009 III[2]
NO. OF FUNDS								
Total financial mutual funds	2,822	2,926	2,912	2,932	2,912	2,830	2,735	2697
Fixed-income[3]	606	600	629	616	629	631	612	603
Mixed fixed-income[4]	212	204	195	195	195	193	190	178
Mixed equity[5]	222	207	202	204	202	191	181	179
Euro equity[6]	232	247	237	239	237	235	193	191
Foreign equity[7]	353	357	330	347	330	304	271	267
Guaranteed fixed-income	220	251	260	255	260	249	253	245
Guaranteed equity[8]	559	590	590	600	590	586	610	611
Global funds	418	470	469	476	469	441	208	212
Passive management[9]	-	-	-	-	-	-	69	67
Absolute return[9]	-	-	-	-	-	-	148	144
INVESTORS								
Total financial mutual funds	8,637,781	8,053,049	5,923,346	6,520,089	5,923,346	5,626,786	5,498,325	5,477,873
Fixed-income[3]	2,960,879	2,763,442	2,204,652	2,389,795	2,204,652	2,145,607	2,067,091	2,055,256
Mixed fixed-income[4]	524,827	493,786	277,629	319,445	277,629	247,833	241,097	244,494
Mixed equity[5]	357,013	331,214	209,782	236,645	209,782	194,064	187,244	187,264
Euro equity[6]	615937	577,522	377,545	412,239	377,545	339,285	270,079	272,285
Foreign equity[7]	959,875	800,556	467,691	526,696	467,691	431,575	419,928	416,443
Guaranteed fixed-income	497,540	549,108	538,799	552,515	538,799	525,387	540,428	548,887
Guaranteed equity[8]	1,783,867	1,715,144	1,402,948	1,513,064	1,402,948	1,339,367	1,339,321	1,318,810
Global funds	937,843	822,277	444,300	569,690	444,300	403,668	96,581	99,652
Passive management[9]	-	-	-	-	-	-	91,738	91,470
Absolute return[9]	-	-	-	-	-	-	244,818	243,312
TOTAL NET ASSETS (Million euro)								
Total financial mutual funds	270,406.3	255,040.9	175,865.3	197,305.6	175,865.3	168,829.4	167,161.02	168,253.5
Fixed-income[3]	116,511.9	113,234.1	92,813.1	100,931.9	92,813.1	91,473.0	86,711.4	86,391.3
Mixed fixed-income[4]	15,314.5	13,011.9	5,803.0	7,175.8	5,803.0	5,282.6	5,421.8	5,620.6
Mixed equity[5]	10,149.2	8,848.0	3,958.8	5,092.8	3,958.8	3,301.8	3,480.1	3,631.6
Euro equity[6]	18,258.5	16,589.7	5,938.9	7,853.3	5,937.0	4,778.1	4,946.0	5,447.8
Foreign equity[7]	16,957.5	13,948.0	4254.67	6,231.8	4,256.6	3,808.8	4,108.3	4,402.4
Guaranteed fixed-income	14,484.8	17,674.4	21,150.3	20,968.0	21,281.7	20,952.0	21,664.1	21,667.9
Guaranteed equity[8]	44,796.6	42,042.1	30,873.7	33,782.8	30,742.4	29,433.3	29,120.6	28,849.0
Global funds	33,933.3	29,692.6	11,072.8	15,269.2	11,072.8	9,799.9	3,350.7	3,549.0
Passive management[9]	-	-	-	-	-	-	2,714.5	2,856.6
Absolute return[9]	-	-	-	-	-	-	5,643.6	5,837.4

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

2 Data available: July 2009.

3 Until I 2009 this category includes: Short-term fixed income, Long-term fixed income, Foreign fixed-income and Monetary market funds. From II 2009 on includes: Fixed income euro, Foreign fixed-income and Monetary market funds.

4 Until I 2009 this category includes: Mixed fixed-income and Foreign mixed fixed-income. From II 2009 on includes: Mixed euro fixed-income and Foreign mixed fixed-income.

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

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

7 Until I 2009 this category includes: Foreign equity Europe, Foreign equity Japan, Foreign equity USA, Foreign equity emerging countries and Other foreign equity. From II 2009 on includes: Foreign equity.

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

9 New categories from II 2009 on. Before it, absolute return funds were classified as global funds.

Financial mutual funds: Detail of investors and total net assets by type of investors[1]

TABLE 3.7

				2008		2009		
	2006	2007	2008	III	IV	I	II	III[2]
INVESTORS	8,637,782	8,053,049	5,923,346	6,520,089	5,923,346	5,626,786	5,498,325	5,477,873
Individuals	8,389,302	7,814,633	5,753,966	6,330,948	5,754,043	5,465,873	5,343,778	5,325,033
Residents	8,292,252	7,721,427	5,677,116	6,249,631	5,677,116	5,391,902	5,271,331	5,253,324
Non-residents	97,050	93,206	76,850	81,317	76,927	73,971	72,447	71,709
Legal entities	248,480	238,416	169,380	189,141	169,303	160,913	154,547	152,840
Credit Institutions	1,603	2,235	1,713	1,093	1,713	705	689	690
Other resident Institutions	244,977	234,376	166,041	186,459	166,041	158,816	152,453	150,743
Non-resident Institutions	1,900	1,805	1,626	1,589	1,549	1,392	1,405	1,407
TOTAL NET ASSETS (Million euro)	270,406.3	255,041.0	175,865.3	197,305.6	175,868.1	168,817.0	167,152.8	168,258.9
Individuals	201,408.2	190,512.2	135,754.1	150,212.4	135,758.8	132,435.3	131,667.2	132,790.3
Residents	198,328.1	187,746.8	133,877.8	159,079.3	133,877.8	130,481.7	129,704.0	130,852.4
Non-residents	3,080.1	2,765.4	1,876.2	2,314.0	1,881.0	1,953.6	1,963.2	1,937.9
Legal entities	68,998.1	64,528.7	40,111.3	52,864.9	40,109.3	36,381.7	35,485.6	35,468.6
Credit Institutions	5,296.2	5,721.0	4,193.0	3,281.4	4,193.0	2,339.4	2,319.6	2,328.5
Other resident Institutions	61,646.2	56,974.4	34,738.0	47,928.5	34,738.0	33,151.7	32,275.4	32,217.9
Non-resident Institutions	2,055.7	1,833.3	1,180.3	1,655.0	1,178.4	890.5	890.6	922.1

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

2 Available data: July 2009.

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

TABLE 3.8

				2008			2009	
Million euro	2006	2007	2008	II	III	IV	I	II
SUBSCRIPTIONS								
Total financial mutual funds	194,787.4	180,943.6	135,461.7	33,450.5	23,917.5	31,077.6	23,902.8	24,085.5
Fixed-income	118,705.9	116,323.9	101,909.7	22,581.5	17,342.5	24,475.2	18,299.3	15,572.6
Mixed fixed-income	8,476.6	5,859.4	1,914.5	315.9	239.0	739.4	361.9	515.0
Mixed equity	2,783.6	2,749.8	1,350.2	606.0	272.4	192.9	71.0	156.3
Euro equity	10,273.7	9,625.7	2,858.0	873.2	461.621	576.2	362.1	489.3
Foreign equity	12,979.0	11,408.2	3,309.6	1,016.9	621.78	336.1	390.8	598.4
Guaranteed fixed-income	6,126.2	9,161.3	11,937.0	2,983.5	2,692.4	2,974.9	3,180.6	3,783.2
Guaranteed equity	8,914.1	8,070.6	6,544.7	3,120.4	1,549.5	785.4	636.5	1,369.3
Global funds	26,528.3	17,744.2	5,638.0	1,953.1	738.3	997.5	600.6	971.5
Passive management	-	-	-	-	-	-	-	62.1
Absolute return	-	-	-	-	-	-	-	567.8
REDEMPTIONS								
Total financial mutual funds	198,600.1	202,827.4	202,864.3	52,061.9	39,372.1	49,397.6	30,018.9	29,142.2
Fixed-income	127,469.1	122,178.3	124,242.9	32,357.6	24,503.3	32,332.9	19,963.9	19,433.2
Mixed fixed-income	7,048.4	7,809.6	8,136.6	1,891.3	1,437.2	1,946.2	806.2	549.3
Mixed equity	3,644.7	4,023.0	4,675.6	1,245.2	900.0	854.7	493.0	284.4
Euro equity	12,105.4	12,438.0	8,617.2	1,756.3	1,610.0	1,151.9	751.4	515.9
Foreign equity	12,210.1	14,358.4	8,657.3	1,712.6	1,642.0	965.6	506.3	592.0
Guaranteed fixed-income	5,029.3	6,430.6	9,499.1	1,867.5	1,785.4	3,760.4	3,587.1	3,300.3
Guaranteed equity	11,830.1	11,602.6	18,216.4	5,929.2	3,924.0	4,715.6	2,372.5	2,944.0
Global funds	19,263.1	23,986.6	20,819.0	5,302.1	3,570.2	3,670.3	1,538.5	588.0
Passive management	-	-	-	-	-	-	-	307.8
Absolute return	-	-	-	-	-	-	-	627.3

1 Estimated data.

Financial mutual funds asset change by category: Net subscriptions/redemptions and return on assets[1]

TABLE 3.9

Million euro	2006	2007	2008	2008 II	III	IV	2009 I	II
NET SUBSCRIPTIONS/REDEMPTIONS								
Total financial mutual funds	-4,524.5	-21,877.7	-67,030.5	-18,602.1	-15,158.3	-18,320.0	-6,116.1	-5,056.7
Fixed-income	-9,423.4	-5,852.4	-22,071.5	-9,672.7	-7,021.1	-7,857.7	-1,664.6	-3,860.6
Mixed fixed-income	1,539.2	-1,942.0	-6,406.0	-1,739.2	-1,221.8	-1,206.8	-444.3	-34.3
Mixed equity	-854.7	-1,277.0	-3,337.8	-648.4	-636.4	-661.8	-422.0	-128.1
Euro equity	-4,057.7	-5,071.3	-8,218.2	-1,288.5	-1,654.4	-575.7	-389.3	-26.6
Foreign equity	2,972.1	-585.7	-2,740.8	-280.8	-415.2	-629.5	-115.5	6.4
Guaranteed fixed-income	1,018.9	2,714.6	2,426.3	1,041.5	979.4	-785.5	-406.5	482.9
Guaranteed equity	-3,021.1	-3,604.9	-11,869.7	-2,830.0	-2,545.1	-3,930.2	-1,736.0	-1,574.7
Global funds	7,302.1	-6,258.9	-14,812.7	-3,183.9	-2,643.7	-2,672.8	-937.9	383.5
Passive management	-	-	-	-	-	-	-	-245.7
Absolute return	-	-	-	-	-	-	-	-59.5
RETURN ON ASSETS								
Total financial mutual funds	12,733.7	6,675.7	-12,624.1	-1,188.8	-1,808.9	-3,580.8	-654.8	3,657.3
Fixed-income	2,260.2	3,082.8	1,927.7	618.0	483.4	227.3	193.4	491.6
Mixed fixed-income	606.6	287.0	-716.8	-111.9	-98.4	-219.4	-66.7	184.3
Mixed equity	984.2	266.1	-1,589.0	-172.3	-265.3	-506.2	-207.0	313.9
Euro equity	4,047.0	1,072.5	-5,172.6	-656.6	-896.4	-1,481.7	-764.6	1,065.0
Foreign equity	1,572.0	21.0	-4,092.4	-89.2	-961.6	-1,080.1	-304.2	652.6
Guaranteed fixed-income	112.3	441.5	597.6	-11.8	156.2	264.5	311.6	225.4
Guaranteed equity	1,995.2	1,037.0	-1,310.4	-719.8	140.2	345.1	335.9	263.9
Global funds	1,156.2	467.7	-1,632.1	-45.1	-366.8	-494.5	-153.2	205.4
Passive management	-	-	-	-	-	-	-	193.0
Absolute return	-	-	-	-	-	-	-	62

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

Financial mutual funds return on assets. Detail by category

TABLE 3.10

% of daily average total net assets	2006	2007	2008	2008 II	III	IV	2009 I	II
MANAGEMENT YIELDS								
Total financial mutual funds	5.73	3.45	-4.09	-0.30	-0.66	-0.71	-0.13	2.39
Fixed-income	2.51	3.32	2.53	0.71	0.63	0.57	0.39	0.74
Mixed fixed-income	5.30	2.98	-5.75	-0.84	-0.94	-1.91	-0.91	3.72
Mixed equity	11.31	4.25	-23.30	-2.18	-4.36	-9.30	-5.60	9.51
Euro equity	25.15	7.04	-47.02	-6.58	-9.21	-14.08	-14.44	20.00
Foreign equity	12.04	2.00	-49.55	-2.00	-11.67	-20.91	-9.83	16.86
Guaranteed fixed-income	1.67	3.25	3.39	0.09	0.91	1.48	1.64	1.23
Guaranteed equity	5.86	3.65	-1.88	-1.71	0.78	1.65	1.48	1.23
Global funds	4.84	2.57	-7.36	0.09	-1.90	-4.01	-1.16	4.67
Passive management	-	-	-	-	-	-	-	14.13
Absolute return	-	-	-	-	-	-	-	1.67
EXPENSES. MANAGEMENT FEE								
Total financial mutual funds	1.04	1.00	0.87	0.22	0.22	0.22	0.21	0.21
Fixed-income	0.63	0.61	0.58	0.14	0.15	0.17	0.15	0.15
Mixed fixed-income	1.21	1.13	1.14	0.29	0.30	0.29	0.29	0.29
Mixed equity	1.63	1.54	1.54	0.38	0.39	0.39	0.38	0.39
Euro equity	1.74	1.65	1.60	0.41	0.39	0.42	0.40	0.43
Foreign equity	1.86	1.79	1.69	0.41	0.41	0.42	0.39	0.44
Guaranteed fixed-income	0.75	0.62	0.49	0.13	0.13	0.14	0.13	0.14
Guaranteed equity	1.34	1.30	1.29	0.33	0.33	0.35	0.33	0.33
Global funds	1.26	1.16	1.04	0.27	0.27	0.28	0.27	0.28
Passive management	-	-	-	-	-	-	-	0.15
Absolute return	-	-	-	-	-	-	-	0.28
EXPENSES. DEPOSITORY FEE								
Total financial mutual funds	0.09	0.09	0.08	0.02	0.02	0.02	0.02	0.02
Fixed-income	0.08	0.08	0.08	0.02	0.02	0.02	0.02	0.02
Mixed fixed-income	0.10	0.09	0.09	0.02	0.02	0.02	0.02	0.02
Mixed equity	0.11	0.10	0.11	0.03	0.03	0.03	0.03	0.03
Euro equity	0.11	0.10	0.10	0.03	0.03	0.03	0.03	0.02
Foreign equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Guaranteed fixed-income	0.09	0.08	0.07	0.02	0.02	0.02	0.02	0.02
Guaranteed equity	0.11	0.10	0.11	0.03	0.03	0.03	0.03	0.03
Global funds	0.10	0.10	0.09	0.02	0.02	0.02	0.02	0.02
Passive management	-	-	-	-	-	-	-	0.02
Absolute return	-	-	-	-	-	-	-	0.02

Mutual fund quarterly returns. Detail by category

TABLE 3.11

In %	2006	2007	2008	2008 II	2008 III	2008 IV	2009 I	2009 II
Total financial mutual funds	5.59	26	-4.21	-0.56	-0.79	-0.96	-0.32	2.43
Fixed-income	1.95	2.68	2.06	0.57	0.48	0.45	0.23	0.55
Mixed fixed-income	4.18	2.01	-7.14	-1.29	-1.29	-2.43	-1.51	3.48
Mixed equity	10.34	2.79	-22.21	-2.91	-4.73	-9.02	-5.66	9.86
Euro equity	27.33	6.05	-39.78	-6.38	-10.04	-17.45	-13.02	23.34
Foreign equity	13.21	1.31	-41.71	-1.07	-11.95	-20.82	-6.60	20.08
Guaranteed fixed-income	0.83	2.80	3.29	-0.01	0.80	1.45	1.14	0.94
Guaranteed equity	4.66	2.46	-2.61	-1.94	0.42	1.50	1.11	0.85
Global funds	4.01	1.58	-8.64	-0.29	-2.17	-3.88	-1.33	4.90
Passive management	-	-	-	-	-	-	-	16.50
Absolute return	-	-	-	-	-	-	-	1.54

Hedge funds and funds of hedge funds

TABLE 3.12

	2006	2007	2008	2008 II	2008 III	2008 IV	2009 I	2009 II[1]
HEDGE FUNDS								
Investors/shareholders	21	1,127	1,589	1,429	1,583	1,589	1,551	1,698
Total net assets (million euro)	24.4	445.8	539.4	603.9	597.7	539.4	451.4	513.8
Subscriptions (million euro)	24.4	380.8	390.4	77.8	8.2	21.6	23.5	40.1
Redemptions (million euro)	0.1	2.6	256.7	26.5	14.5	47.6	108.3	6.4
Net subscriptions/redemptions (million euro)	24.3	164.7	134.3	51.4	-6.3	-26.0	-84.8	33.7
Return on assets (million euro)	0.1	0.2	-39.1	7.0	-2.8	-30.9	2.7	23.1
Returns (%)	n.s.	0.84	-4.82	1.48	-0.29	-3.59	-0.4	6.42
Management yields (%)[2]	n.s.	0.57	-2.51	2.58	-0.31	-6.29	0.31	5.19
Management fee (%)[2]	n.s.	1.39	2.50	0.61	0.57	0.78	0.65	0.55
Financial expenses (%)[2]	n.s.	0.33	0.16	0.05	0.05	0.02	0.02	0.02
FUNDS OF HEDGE FUNDS								
Investors/shareholders	2	3,950	8,151	8,582	9,739	8,151	5,646	5,347
Total net assets (million euro)	0.6	1,000.6	1,021.3	1,389.6	1,427.5	1,021.3	775.2	725.5
Subscriptions (million euro)	0.6	1,071.2	967.3	447.3	165.9	161.5	35.5	-
Redemptions (million euro)	0.0	65.9	616.6	234.5	101.5	215.9	294.6	-
Net subscriptions/redemptions (million euro)	0.6	1,005.5	350.7	215.5	64.4	-54.4	-259.1	-
Return on assets (million euro)	0.0	-9.6	-245.7	23.3	-29.6	-244.9	13.1	-
Returns (%)	n.s.	-0.43	-17.80	2.20	-7.56	-9.84	1.34	1.94
Management yields (%)[3]	n.s.	-1.36	-17.84	2.86	-1.88	-18.14	1.91	-
Management fee (%)[3]	n.s.	1.15	1.63	0.42	0.36	0.45	0.35	-
Depository fee (%)[3]	n.s.	0.06	0.11	0.03	0.02	0.03	0.03	-

1 Available data: May 2009. Return refers to the period March-May 2009.

2 % of monthly average total net assets.

3 % of daily average total net assets.

n.s.: It is not significant.

Management companies. Number of portfolios and assets under management[1]

TABLE 3.13

	2006	2007	2008	2008 II	2008 III	2008 IV	2009 I	2009 II
NUMBER OF PORTFOLIOS								
Mutual funds	2,850	2,954	2,943	2,968	2,954	2,943	2,898	2,842
Investment companies	3,049	3,181	3,284	3,256	3,261	3,240	3,226	3,195
Funds of hedge funds	2	31	40	39	41	40	40	40
Hedge funds	5	21	24	23	25	24	26	26
Real estate investment fund	9	9	9	9	9	9	9	8
Real estate investment companies	8	9	9	8	8	9	9	9
ASSETS UNDER MANAGEMENT (Million euro)								
Mutual funds	270,406.3	255,040.9	175,850.2	214,251.8	197,305.6	175,850.2	168,829.6	167,133.5
Investment companies	28,992.7	30,300.0	24,038.8	27,394.2	26,149.4	23,789.5	23,132.7	23,941.7
Funds of hedge funds	0.6	1,000.6	1,021.3	1,389.6	1,427.5	1,021.3	240.2	775.2
Hedge funds	24.4	445.8	539.4	603.9	597.7	539.4	394.5	451.4
Real estate investment fund	8,595.9	8,608.5	7406.9	8,394.0	8,166.7	7,406.9	6,758.1	6,547.2
Real estate investment companies	456.1	512.9	371.9	359.2	363.8	371.9	369.2	258.0

1 From II quarter 2009 on it is considered as "assets under management" all the assets of the investment companies which are co-managed by management companies and other different companies.

Foreign Collective Investment schemes marketed in Spain[1]

TABLE 3.14

				2008			2009	
	2006	2007	2008	II	III	IV	I	II
INVESTMENT VOLUME[2] (Million euro)	44,102.9	37,092.7	18,181.3	28,581.0	22,046.4	17,873.5	13,059.9	n.a.
Mutual funds	12,099.3	7,010.3	2,245.5	4,313.5	3,064.6	2,235.3	1,410.6	n.a.
Investment companies	32,003.5	30,082.4	15,935.8	24,267.5	18,981.8	15,638.2	11,649.3	n.a.
INVESTORS/SHAREHOLDERS	779,165	850,931	587,032	697,732	648,457	551,849	463,757	n.a.
Mutual funds	144,139	142,782	99,873	124,446	112,064	98,224	66,647	n.a.
Investment companies	635,026	708,149	487,159	573,286	536,393	453,625	397,110	n.a.
NUMBER OF SCHEMES	340	440	563	490	535	563	566	n.a.
Mutual funds	164	225	312	253	290	312	313	n.a.
Investment companies	176	215	251	237	245	251	253	n.a.
COUNTRY								n.a.
Luxembourg	189	229	274	253	265	274	275	n.a.
France	83	122	161	138	148	161	161	n.a.
Ireland	46	52	63	59	63	63	64	n.a.
Germany	12	15	16	15	16	16	17	n.a.
UK	6	12	14	13	14	14	14	n.a.
The Netherlands	1	1	1	1	1	1	1	n.a.
Austria	1	5	28	5	22	28	28	n.a.
Belgium	1	3	5	5	5	5	5	n.a.
Malta	1	1	1	1	1	1	1	n.a.

1 From December 2008 on, foreign collective investments schemes shareholders and total net assets data do not include exchange traded funds (ETF).

2 Investment volume: participations or shares owned by the investors/shareholders at the end of the period valued at that moment of time.

n.a.: No available data.

Real estate investment schemes

TABLE 3.15

				2008		2009		
	2006	2007	2008	III	IV	I	II	III[1]
REAL ESTATE MUTUAL FUNDS								
Number	9	9	9	9	9	9	8	8
Investors	150,304	145,510	92,158	135,307	97,390	95,284	89,461	89,552
Asset (Million euro)	8,595.9	8,608.5	7,406.9	8,166.7	7,406.9	6,758.1	6,547.2	6,543.7
Return on assets (%)	6.12	1.27	0.69	0.35	-1.70	-4.50	-1.23	-0.25
REAL ESTATE INVESTMENT COMPANIES								
Number	8	9	9	8	9	9	9	8
Shareholders	749	843	937	938	937	938	937	937
Asset (Million euro)	456.1	512.9	371.9	363.8	371.9	369.1	360.7	355.8

1 Available data: July 2009. In this case, return on assets is monthly.