CNMV BULLETIN

Quarter I

2012

CNMV Bulletin

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

ISSN (Printed edition): 1887-8458

ISSN (Digital edition): 1988-253X

Depósito legal: M-20083-2008

Layout: Composiciones Rali, S.A.

Printing: Artegraf, S.A.

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Abbreviations

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)
CCP	Central Counterparty
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)
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECR	Entidad de capital-riesgo (venture capital firm)
EIOPA	European Insurance and Occupational Pensions Authority
EMU	Economic and Monetary Union (euro area)
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
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)
FSB	Financial Stability Board
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 Organisation 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	Mercado Español de Futuros y Opciones Financieros (Spanish financial futures and options market)
MFAO	Mercado de Futuros del Aceite de Oliva y Opciones Financieros (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 fondos 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 capital variable (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

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1 Executive summary

- Macroeconomic and financial conditions deteriorated markedly in the closing months of 2011 as a result of the deceleration of the world economy and mounting tensions around the sovereign debt crisis in a number of European countries. Growth forecasts have been revised down for both the advanced economies – the euro area in particular – and the emerging market economies, which will nonetheless continue at the forefront of growth over coming quarters. Inflation expectations remain well anchored and interest rates in the main advanced economies are likely to be left untouched for the next few months at least. The dominant concerns among many economies were once more to ensure the sustainability of public finances and press on with financial sector restructuring.

- Debt market tensions drew in a growing number of Europe's economies in what was a generally unsettled second-half period. Risk premiums touched annual highs in the month of November but tended to ease back thereafter, helped by European governments' commitment to advance in fiscal consolidation, the progress made around the Greek rescue deal and the ECB's recent extraordinary auctions of three-year loans. Deteriorating debt financing conditions caused a slump in issuance in the year's second half. Equity prices, meantime, headed sharply lower in the third-quarter period then rallied in the closing months. Of late, the release of rather more upbeat activity and employment indicators in Europe and the United States has set main world stock markets rising again.

- Spain's GDP contracted 0.3% in the fourth quarter of 2011 on weakening domestic demand, for a full-year rate of just 0.7% compared to the 1.5% of the euro area. Inflation rates moderated from a spring 2011 high of nearly 4% to 1.8% in March 2012, widening the negative differential versus the euro area to 0.8 points. Job destruction persisted through 2011 (-2%) lifting the unemployment rate as far as 21.6% of the labour force, while the public deficit closed the year at 8.5% of GDP (9.3% in 2010). Some forecasters are now auguring that the Spanish economy will re-enter recession in 2012.

- Spanish credit institutions are immersed in a root-and-branch restructuring process. The weakness of domestic activity has hit hard at sector earnings while pushing up non-performing loan ratios. Banks' funding conditions tightened anew in the second half of 2011 on the resurgence of debt market stress. Their response was to fund themselves increasingly through traditional deposits and covered instruments such as mortgage bonds, while striving to build up their top-quality capital. In addition, Spanish institutions also borrowed more heavily from the Eurosystem in the period.

- The aggregate earnings of non-financial listed companies fell by 32% as far as 21.44 billion euros at the 2011 close, while their aggregate debt dropped by 6.7%.

- Domestic equity markets were rocked by the turbulence emanating from sovereign debt markets and the worse prospects coming through for the Spanish economy. The Ibex 35 shed 6.5% in the first quarter of 2012 (on top of the -13.1% of 2011), with major price falls in the oil and gas sector, real estate and chemicals. Meantime, the index's historical volatility fell from the 65% peak of November last to around 25% in mid-March 2012. The end of restrictions on short selling in Spanish financial shares, in mid-February 2012, provided a mild boost to stock market turnover though without recouping the volumes in place before the ban was imposed, in August 2011.

- Domestic fixed-income markets remained under heavy stress through the second half of 2011. And though tensions abated in the opening stretch of 2012, by late March they were once more running high. In any event, government and corporate bond yields retreated from the peak levels of November 2011. The yield spread of Spanish ten-year bonds over the German benchmark narrowed to around 360 basis points (bp) in mid-March from a November high of 469 bp. In the first few weeks of 2012, the largely favourable progress of corporate bond spreads permitted a mild upturn in debt issuance. Specifically, fixed-income issues filed with the CNMV totalled 119 billion euros in the opening quarter, 55% more than in 2011, with commercial paper, non-convertible bonds (87% backed by government guarantee) and mortgage bonds as the most popular instruments.

- Assets under management in investment funds fell by 8% in 2011 to 132 billion euros, owing mainly to the flood of redemptions from fixed-income funds. Funds in operation and unit-holder numbers also decreased in the year, while the weight of less-liquid assets in fund portfolios dropped from 7.4% to 5.6%. Aggregate earnings of UCITS management companies declined broadly in line with industry assets, though the number of loss-making entities reduced from 35 to 32. The collective investment sector faces another unsettled period, characterised by stiff competition from deposits and other bank savings products and the changes sweeping the industry as a result of the broader restructuring of the Spanish financial system.

- Investment firm pre-tax profits receded 21.5% in the full-year period to 227 million euros. Fee income from key financial services continued in decline, while only pure brokerage houses made meaningful headway in operating cost containment. Portfolio management companies and investment advisory firms fared better as a rule than brokers and broker-dealers. In all, 31 sector operators reported full-year losses, eight more than in 2010, although the sector's solvency conditions remained within the comfort zone. The industry outlook is far from certain, given its reliance on the performance of financial markets, and the consequences for individual firms of the ongoing restructuring of the Spanish financial sector.

- The report includes seven monographic exhibits:

  – The first sets out the main points of the European Commission's proposal to modify the EU regime for rating agencies.

  – The second focuses on the trading conditions of preference shares in the last few years, and changes in their regulatory framework.

  – The third summarises the CNMV's guidelines on the quarterly financial reports that listed companies must prepare and disclose, in view of the non-standard nature of their informative content and resulting problems of comparability.

  – Exhibit four lists the organisational requirements and minimum controls proposed by the European Securities and Markets Authority (ESMA) for agents intervening in trades conducted through an organised trading platform.

  – Exhibit five explores the implications for guaranteed investment funds of credit institution rating downgrades.

  – The sixth exhibit runs through ESMA's recently published guidelines for exchange-traded funds (ETFs) and structured UCITS in view of their potential impact on financial stability and investor protection.

  – Finally, exhibit seven discusses the main features of the European Commission's draft regulation on venture capital funds.

2 Macro-financial setting

2.1 International economic and financial developments

World macroeconomic conditions turn sharply for the worse in late 2011…

Macroeconomic and financial conditions deteriorated sharply in the closing months of 2011 due to the deceleration of the world economy and the deepening sovereign debt crisis in Europe. The second-half slowdown was also more acute among European economies, labouring under increasingly constrained financing conditions and, in many cases, obliged to simultaneously keep up an intense fiscal consolidation effort. However, the opening months of 2012 have brought some faint signs of improvement in the form of rather more upbeat employment and activity indicators in the United States and the orderly restructuring of Greece's public debt.

… with the euro area, particularly, facing the threat of a re-entry to recession in 2012.

World economic growth decelerated from the 5.2% of 2010 to a final 3.8% in 2011, with rates slowing in both the advanced economies (from 3.2% in 2010 to 1.6% in 2011) and the emerging contingent (from 7.3% to 6.2%). The latest IMF forecasts, published in January 2012, calculate that the world economy will grow this year and next at rates some way below 3.5% and 4% respectively. The United States and Japan are projected to see growth of just under 2% in 2012, while the euro area, it is feared, will sink back into recession (-0.5%). Several of Europe's largest economies could suffer GDP contraction on a major scale, particularly Italy (-2.2%) and Spain (-1.7%). The emerging economies, finally, are expected to expand in the neighbourhood of 5.5%, with China and India leading the advance.

Inflation rates in the main advanced economies moderated in the second-half period, and expectations remain anchored at low levels. Monetary policy is accordingly predicted to stay loose.

After the peak levels reached in the third quarter of 2011, inflation rates in the main advanced economies headed lower in the closing months to end the year in the interval of 2.7% to 3.4% (the exception being Japan, with a zero rate). The chief factor driving the reduction was slower climbing energy prices. Although core inflation stayed relatively tame through the second half of 2011, there were signs of prices straining higher in economies, like the United States, experiencing greater dynamism. In all, inflation expectations remain well anchored, and it seems likely that official rates will be kept on hold, except in the euro area. The activity stall affecting the euro economies in the last few months of 2011 led the ECB to cut rates on two occasions (in November and December) as far as the current 1.0%. U.S. rates, meantime, stayed at 0-0.25%, Japanese rates at 0.1% and the UK rate at 0.5%. Readings of three-month forward rates suggest that the United States will stick with its present rates for the coming quarters but some further cut may be forthcoming in the euro area.

Non-standard monetary measures have retained their primacy, particularly with the ECB…

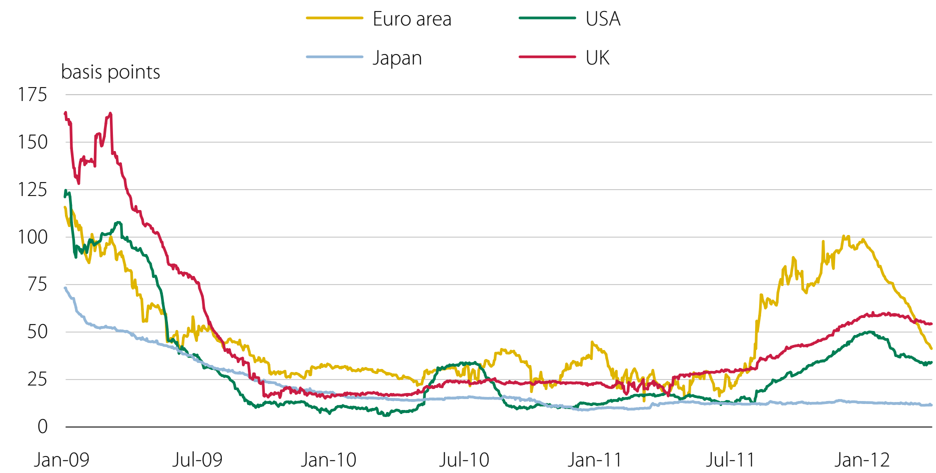
Against this backdrop, the central banks of the advanced economies opted to prolong some of the non-conventional monetary measures adopted in previous years, and even to add a few new ones. Of particular note was the ECB's decision to temporarily accept bank loans satisfying specific eligibility criteria as collateral in its refinancing operations, and to conduct two longer-term refinancing operations with maturity of 36 months, in order to boost liquidity in the area's financial system. Both these offerings were taken up in their entirety, with over one trillion euros adjudicated. This, in theory, should suffice to cover the redemptions of euro-area banks in 2012 and 2013. A large portion of the funds borrowed by financial institutions were placed in the Eurosystem deposit facility.

Tensions on European debt markets ran particularly high from the central months of the year to the closing weeks. During this period, the sovereign spreads of a broad set of European economies increased significantly. Tensions abated to some extent at the start of 2012 on evidence that governments were committed to pushing ahead with fiscal consolidation, the non-standard measures taken by the ECB and the new Greek rescue deal concluded in early March, with greater-than-expected private sector participation.

Sovereign debt market turmoil has placed a large strain on European interbank markets…

The stress that afflicted debt markets through 2011 was also felt in other financial markets. In interbank money markets, the three-month euro LIBOR-OIS spread widened from below 25 bp in the first six months of 2011 to 100 bp highs in the closing weeks (see figure 1). This spread also increased elsewhere, though with less intensity, reaching end-2011 levels of almost 60 bp in the United Kingdom and 50 bp in the United States. Spreads have since moderated to a fair degree though without recouping the levels recorded before summer 2011.

Three-month Libor-OIS spread FIGURE 1



Source: Bloomberg. Data to 31 March.

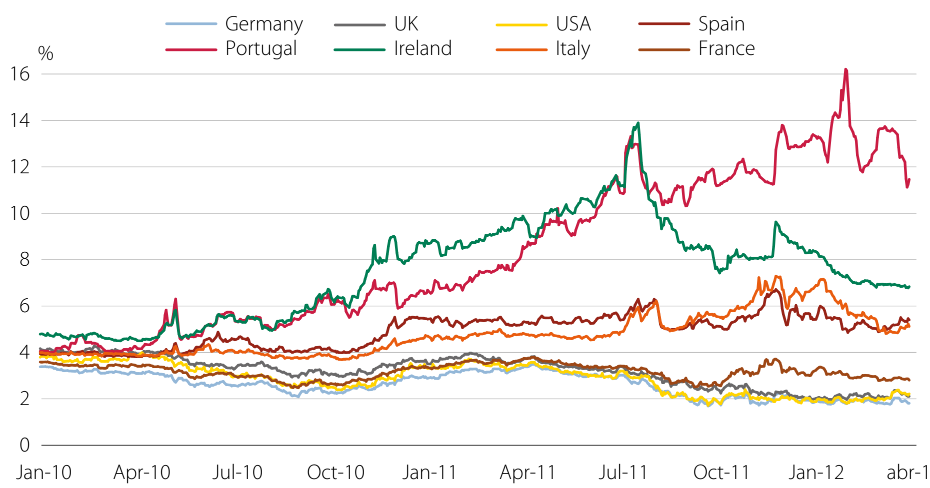
… and has spread to a large number of European economies including Italy, Spain, France and Belgium…

In sovereign debt markets, tensions persisted through the second half of 2011. As in previous episodes, long-term government bond yields in the United States, Germany and the United Kingdom remained at lows close to 2%. Conversely, a wide set of European countries endured a run-up in yields to late November (see figure 2), by which point the interest rate of the ten-year Italian bond was at 7.3%, the Spanish bond at 6.7% and the Belgian bond at 5.8%, with the French bond further back at 3.7%. Interest rates have since registered falls ranging from the 89 bp of the French to the 218 bp of the Italian bond.

… albeit with some mild remission in the opening months of 2012.

Credit spreads traced a similar course to government bond yields, with late 2011 highs giving way to a downward trend in the first quarter of 2012. In the case of Italy and Spain, yield spreads over the German bond narrowed from their November peaks of 550 and 469 bp respectively to around 330 and 360 bp at the end of March. The information offered by European sovereign CDS points in the same general direction (see figure 3), though of course spreads remain high from a historical standpoint.

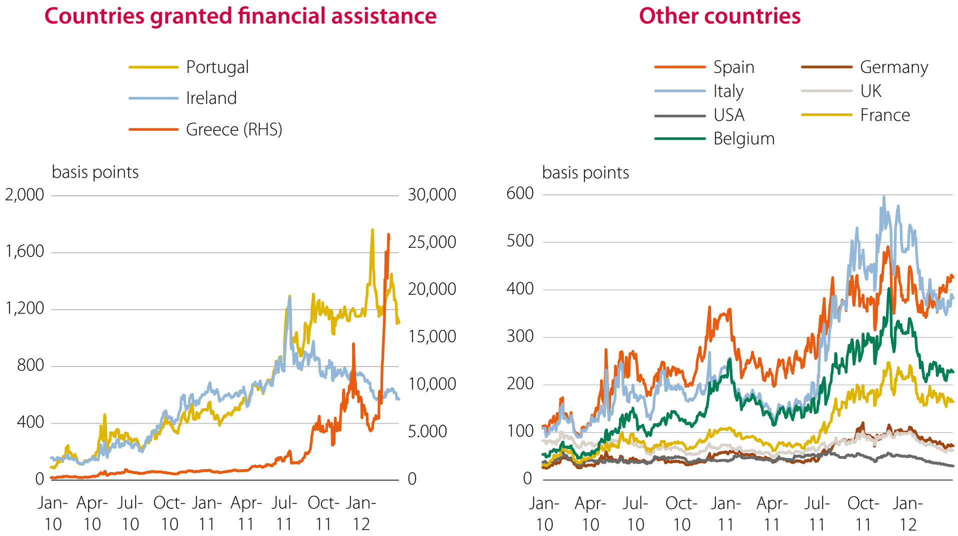
Ten-year government bond yields FIGURE 2



Source: Thomson Datastream. Data to 31 March.

Sovereign credit spreads, 5-year CDS

FIGURE 3



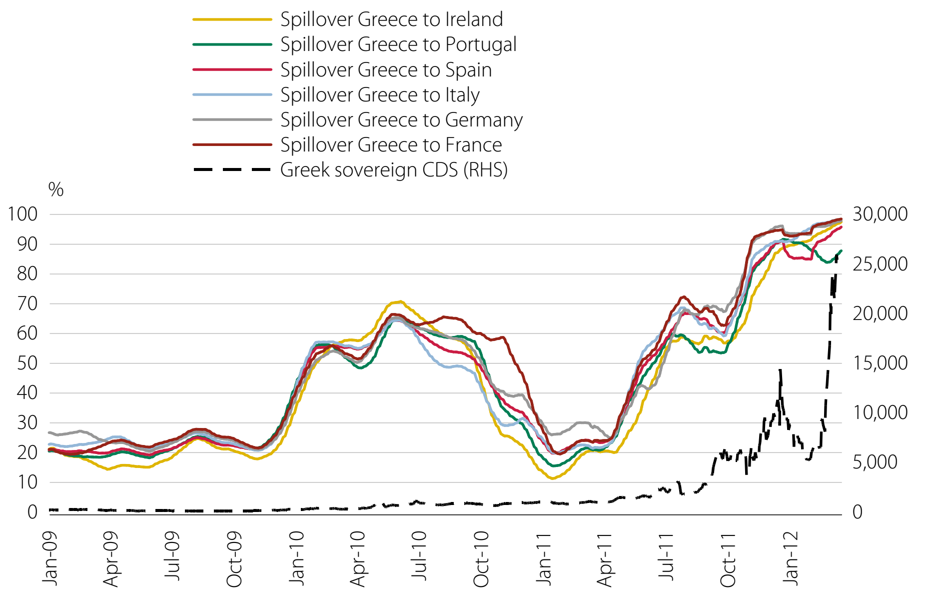
Source: Thomson Datastream. Data to 31 March.

Indicators of spillover effects between European sovereign CDS show contagion from Greece continues strong.

In this context, indicators of spillover effects between European sovereign CDS show that the systemic risk factor common to these markets, and apparently emanating from the Greek CDS, is still running extremely high (see figure 4).

Greek debt and systemic risk in European sovereign debt markets[1]

FIGURE 4



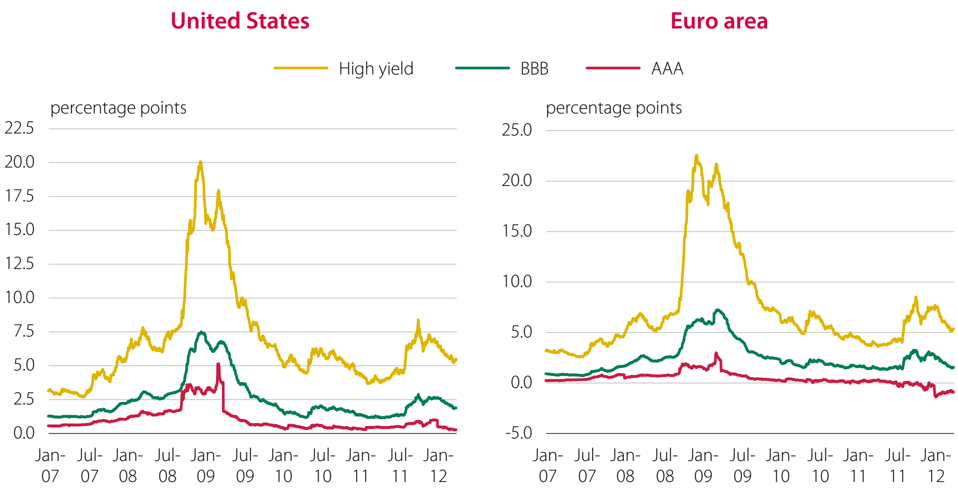
Source: CNMV.

1 The figure shows the percentage of variance in the CDS premiums of various European countries that is not ascribable to historical information but to contemporaneous shocks in Greece's credit risk. The resulting contagion indicator is increasing with the intensity of the effect produced by specific shocks in Greek sovereign spreads. The scale of contagion on a given day is calculated from available data for the 100 days preceding the current date, with the series also filtered by 30-day moving averages.

The increase in sovereign risk premiums in the public sector over the closing months of 2011 spread with some virulence to corporate bond spreads in both the euro area and the United States. The impact was severest in high-yield segments, where spreads widened to around 8.5 points in October before falling back over subsequent months. The rising costs of business financing caused a stall in issuance compared to the first half of the year and the second half of 2010.

Rising sovereign risk premiums have a significant knock-on to corporate debt…

Corporate bond risk premiums[1] FIGURE 5



Source: Thomson Datastream (Merrill Lynch and IBOXX indices). Data to 31 March.

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

Net international debt issuance came to 4.9 trillion dollars in the full-year period, 26.5% less than in 2010 (6.6 trillion dollars). Most of the shrinkage traced to public sector borrowers, particularly in the United States. In general, the worsening global outlook of the second half proved a strong disincentive for issuance (see figure 6), to the extent that financial-sector issue volumes sank below redemptions in both Europe and the United States. In fact issuance activity almost dried up entirely during some weeks of the third quarter. Non-financial corporations in most regions also cut back on issuance in response to the debt crisis, after a busy first half with activity far exceeding that of the previous year. Even so, full-year sales were higher than in 2010 everywhere except the United States.

… though the impact has been nowhere harder than in primary debt markets.

Issuance returned to strength in the opening quarter of 2012 across all areas and sectors of reference, with private-sector placement especially vibrant, in Europe most of all.

International debt issuance appears to pick up in the first weeks of 2012.

Net international debt issuance FIGURE 6

Source: Dealogic. Half-year data. Data for 2012 run to 31 March, but are restated on a semiannual basis to facilitate comparison.

Exhibit 1: "Proposed amendments to EU regulations on credit rating agencies"

Regulation (EC) No. 1060/2009 on credit rating agencies (the CRA Regulation) came into force on 7 December 2010. Under its provisions, agencies were obliged to register in the EU and to abide by certain rules of conduct, in order to mitigate the potential conflicts of interest arising from their activity and enhance the transparency and quality of the ratings issued.

On 1 June 2011, an amendment to the CRA Regulation empowered ESMA to register and supervise credit rating agencies, as a means to centralise and simplify their oversight at European level (EU Regulation 513/2011). On 31 October 2011, DBRS, Fitch, Moody's and Standard & Poor's, the main agencies operating in Europe, all added their names to the ESMA register. The CNMV played an active part in the registration of the last three firms through its involvement in the designated colleges of supervisors.

Despite the short time that the CRA Regulation has been on the statute books, the European Commission proposed substantial amendments to the text in November 2011. At the closing date for this article, its draft was under discussion in the

European Council and the European Parliament. The Commission's changes are designed to reinforce agencies' transparency, diversity, independence and civil liability. They would also make it explicitly incumbent on financial institutions and big institutional managers to perform their own credit risk assessments rather than mechanistically relying on the ratings issued by the agencies. Finally, special requisites would be introduced for sovereign debt ratings. These and other points of the new proposal are explained in the following sections.

Measures to reduce overreliance on ratings by authorities, financial institutions and investors

In this regard, the European Commission subscribes to the international consensus reflected in the 2010 principles of the Financial Stability Board (FSB), as endorsed by the G-20 summit of November 2010 and, in Europe, by the European Council agreement of 23 October 2011. As stated, under the proposed amendments to the CRA Regulation major financial intermediaries (credit institutions, investment firms, insurance undertakings, institutions for occupational retirement provisions, management and investment companies, alternative investment fund managers and central counterparties) will be bound to exercise due diligence in credit risk matters. Further, European supervisory authorities will adapt their guidelines and standards to remove any reference that could potentially trigger mechanistic reliance on ratings by competent authorities or financial market participants. This requirement will also apply to the recommendations of the European Systemic Risk Board (ESRB).

The European Commission proposal on the CRA Regulation was joined the same month by a series of modifications along these same lines to the UCITS Directive and Directive on Alternative Fund Managers, with regard to institutional investors. Previously, in June 2011, it had put forward similar amendments addressing financial institutions as part of the drafting process for the Fourth Capital Requirements Directive, and will do the same next year in regulations bearing upon insurance and reinsurance undertakings.

Enhanced disclosure and reinforced rules for sovereign bond ratings

Among other measures, the text proposes that sovereign credit ratings (those of the state or regional or local authorities) should be revised every six months instead of every 12 months. Also, where a credit rating agency issues sovereign ratings or related rating outlooks, it should publish them only after the close of business at trading venues established in the Union and at least one hour before their opening, in order to avoid market perturbations.

Increased diversity and stricter standards of rating agency independence

In order to mitigate the potential conflicts of interest arising from the "issuer pays" model, the European Commission calls for a compulsory rotation rule for the CRAs engaged by an issuer to rate either itself or its debt instruments. Specifically, the CRA engaged should not be in place for more than three years or for more than a year if it rates more than ten consecutive rated debt instruments of the issuer. However, this latter rule shall not lead to shortening the permitted period of engagement to less than a year. The period during which the outgoing agency should not provide rating services to the issuer would be set at four years.

Also, structured finance instruments should be rated by two separate agencies and steps taken to eliminate or mitigate conflicts of interest involving agency shareholders (for instance, such that the same shareholders cannot be significantly invested in different credit rating agencies).

Civil liability of credit rating agencies

The European Commission proposes that any investor considering that a rating agency has infringed the provision of the Regulation intentionally or through gross negligence, and that such infringement can be shown to have had an impact on the credit rating on which they relied when purchasing a rated instrument, shall be entitled to bring an action against that agency for any damage caused.

Rigor in rating agency methodologies

The Commission proposes that ESMA should assess and confirm whether intended changes in agencies' rating methodologies comply with the terms of the Regulation (that they be rigorous, systematic, continuous and subject to validation based on historical experience, including back-testing).

Greater visibility for small agencies and enhanced comparability of ratings

It is also proposed that ESMA should keep an updated list of credit ratings, to be published on its website. In order that investors can easily compare ratings, the Commission calls for agencies to convert them to a harmonised scale, developed by ESMA, so they can be presented in a standard format (agencies would nonetheless be free to use in-house scales when posting ratings on their own websites). Finally, this ESMA index would display the average of all current agency ratings on a given instrument or issuer.

Stock markets rally strongly after the third-quarter slump.

Stock markets fell in all main advanced economies over the third quarter of 2011, then rallied in the closing weeks on the release of more upbeat activity and employment indicators, especially in the United States, and some small but significant relaxing of the mood in European sovereign debt markets. Indices held to this upward course over the first quarter of 2012, with gains near to 7% or higher in all but a few cases. Market volatility reached highs of 50% in advanced economy indices and 20% in emerging equities over the fourth-quarter period, but has since cooled notably to levels nearer 20% and 10% respectively. That said, investors continued to show little appetite for risk (see figure 7).

The euro depreciates sharply in the second half of 2011…

In the foreign exchange market, the euro sank heavily against the dollar and other leading currencies through practically the whole of the second half. The prolongation of the sovereign debt crisis, the area's deteriorating economic prospects, and the liquidity injections of the ECB were the main factors detracting value from Europe's currency. This year to date, the rather more settled climate has allowed a degree of exchange-rate recovery as far as 1.34 dollars and 110 yens at the end of March.

Performance of main stock indices[1] (%)

TABLE 1

	2008	2009	2010	2011	1Q 11	2Q 11	3Q 11	4Q 11	1Q 12 (to 31 March) % prior qt.	% Dec	% y/y[2]
World											
MSCI World	-42.1	27.0	9.6	-7.6	4.3	-0.3	-17.1	7.1	10.9	10.9	-2.2
Euro area											
Euro Stoxx 50	-44.4	21.1	-5.8	-17.1	4.2	-2.1	-23.5	6.3	6.9	6.9	-16.4
Euronext 100	-45.2	25.5	1.0	-14.2	3.2	-1.2	-20.6	6.0	8.3	8.3	-11.3
Dax 30	-40.4	23.8	16.1	-14.7	1.8	4.8	-25.4	7.2	17.8	17.8	-3.2
Cac 40	-42.7	22.3	-3.3	-17.0	4.8	-0.2	-25.1	6.0	8.4	8.4	-15.6
Mib 30	-48.7	20.7	-8.7	-24.0	6.4	-7.1	-23.8	1.0	7.9	7.9	-23.0
Ibex 35	-39.4	29.8	-17.4	-13.1	7.3	-2.0	-17.5	0.2	-6.5	-6.5	-25.4
United Kingdom											
FTSE 100	-31.3	22.1	9.0	-5.6	0.1	0.6	-13.7	8.7	3.5	3.5	-4.0
United States											
Dow Jones	-33.8	18.8	11.0	5.5	6.4	0.8	-12.1	12.0	8.1	8.1	6.7
S&P 500	-38.5	23.5	12.8	0.0	5.4	-0.4	-14.3	11.2	12.0	12.0	5.7
Nasdaq-Cpte	-40.5	43.9	16.9	-1.8	4.8	-0.3	-12.9	7.9	18.7	18.7	10.8
Japan											
Nikkei 225	-42.1	19.0	-3.0	-17.3	-4.6	0.6	-11.4	-2.8	19.3	19.3	3.9
Topix	-41.8	5.6	-1.0	-18.9	-3.3	-2.3	-10.4	-4.3	17.3	17.3	-1.0

Source: Datastream.

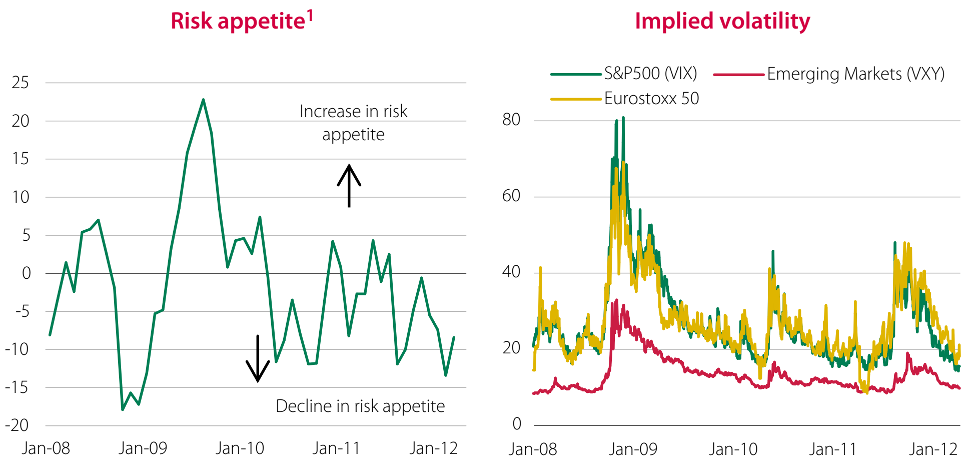
1 In local currency.

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

… while commodity prices tend to remain high.

Commodity prices have remained high since the peak readings of spring 2011, but with gaps opening up between items. Food, materials and, to a lesser extent, metals have become cheaper since the middle of last year, while oil, gold and precious metals have continued on their upward course. Oil price escalation is above all a product of geopolitical tensions in producer countries, while that of gold and precious metals primarily reflects their safe-haven role at times of financial market turmoil.

Financial market indicators FIGURE 7



Source: Thomson Datastream and CNMV.

1 State Street indicator.

2.2 National economic and financial developments

Spain's GDP shrinks by 0.3% in the closing quarter (0.7% in 2011) as domestic demand falters.

According to the latest Quarterly National Accounts data, Spanish GDP contracted three decimal points between September and December 2011, leaving the year-on-year average rate at a meagre 0.7%. The euro area too experienced a fourth-quarter slowdown of 0.3 points, though a more dynamic showing in prior quarters left the average rate at 1.5%. Nationally, the activity stall had its roots in fast fading domestic demand insufficiently countered by a positive input from the net export side. All domestic demand components lost momentum in the fourth-quarter period, from private (-1%) and government (-1.1%) consumption to housing (-2.3%) and equipment investment (-3.9%), while the positive growth contribution of external demand owed to sharply falling imports of goods and services.

On the supply side, all main branches detract from growth in the fourth-quarter of 2011.

From a supply side perspective, the variation in fourth-quarter product was sourced -1.4% from industry (-0.9% in the third quarter), -1.1% from construction (-1.0%) and -0.1% from services (0.9%). Over the full-year period, GDP increased 1.9% in industry and 1.1% in services, and contracted 3.8% in the construction branch.

Spain's inflation rate has been coming down since spring 2011, enlarging its negative differential versus the euro area…

Spanish inflation kept up the moderation initiated in spring 2011. By March 2012, the year-on-year rate was down to 1.8% (2.4% in December 2011) thanks to the slower advance of energy prices and other index components. Core inflation too continued to fall (1.2% in February), while the country's inflation differential versus the euro area closed March at -0.8 points, four decimal points lower than in December last year.

Spain: main macroeconomic variables (annual % change) TABLE 2

	2008	2009	2010	2011	Bank of Spain 2012P	Bank of Spain 2013P
GDP	**0.9**	**-3.7**	**-0.1**	**0.7**	**-1.5**	**0.2**
Private consumption	-0.6	-4.3	0.8	-0.1	-1.2	-0.5
Government consumption	5.9	3.7	0.2	-2.2	-6.3	-3.3
Gross fixed capital formation, of which:	-4.7	-16.6	-6.3	-5.1	-9.2	-2.2
Equipment	-2.9	-22.3	5.1	1.4	-7.0	-0.9
Exports	-1.0	-10.4	13.5	9.0	3.5	5.9
Imports	-5.2	-17.2	8.9	-0.1	-4.8	1.2
Net exports (growth contribution, pp)	1.5	2.8	0.9	2.5	2.5	1.5
Employment (full-time equivalent jobs)	-0.2	-6.5	-2.6	-2.0	-3.0	-0.7
Unemployment rate	11.3	18.0	20.1	21.6	23.4	23.3
Private consumption deflator	3.6	-1.2	2.4	3.2	1.5	1.2
Net lending (+)/borrowing (-) vs. the rest of the world (% GDP)	-9.2	-4.7	-4.0	-3.7	-1.4	0.0
General government surplus (+)/deficit (-) (% GDP)	-4.5	-11.2	-9.3	-8.5	-4.4	-3.0

Source: Bank of Spain and National Statistics Office (INE).

…though job destruction continues to push up unemployment rates.

Labour market figures confirmed the continuing advance of job destruction (2% in 2011) and the unemployment rate, which by end-2011 was up to 22.8% (around 2.3 million jobless). Unit labour costs fell by around 2% with robust gains in productivity (2.8%) more than compensating the annual increase in employee pay (0.8%).

The public deficit closed last year at 8.5% of GDP (9.3% in 2010).

The figures for budgetary execution published at the end of February put the full-year general government deficit at 8.5% of GDP (9.3% in 2010), breaking down 5.1% for central government, 2.9% for the regions and 0.4% for local authorities. The deficit of the social security system stood at 0.1% of GDP. Meantime the public debt ratio scaled up from 61.2% in 2010 to 68.5% in 2011.

Spanish credit institutions are immersed in a restructuring process whose success will arm them to confront future challenges.

Spanish credit institutions pressed on with the restructuring whose goal is to prime them to operate in the new sector landscape and surmount the problems caused by the bad debt leap. For the moment, the funds obtained from the Eurosystem should allow them to cover debt redemptions in the next two years with some room to spare. However, weak domestic activity has continued to weigh on sector earnings at a time when the process of recognising real estate losses is still incomplete.

Bank sector profits sag due to shrinking net interest income and impairment losses on financial and non-financial assets.

The pre-tax losses of Spanish deposit-taking entities stood at 2.82 billion euros compared to 9.84 billion profits in 2010. Leading the decline was net interest income (down by 5 billion approximately to 29.54 billion euros) and steeper impairment losses on financial and non-financial assets (3.29 billion and 4.71 billion respectively). At the net interest income line, growth in interest income (9%) trailed far behind that of interest expense (27.3%). Operating cost containment on a moderate scale (-3.3%) was sourced mainly from personnel costs (-4.3%).

Outstanding loans to businesses and households have receded sharply, in contrast to the advance marked in the euro area.

Lending to non-financial sectors lapsed back after the subdued recovery of April to December 2010. Specifically, outstanding loans to the non-financial private sector (businesses and households) fell by 2.4% year on year to February 2012 (-2.4% to December 2011 and 0.4% to December 2010). Lending to non-financial corporations in Spain shrank by 2.2% contrasting with the 0.7% advance recorded for the euro area, where this financing modality has worked back progressively from the lows of spring 2010. Finally, lending to households also dropped back 2.7% (-2.0% in home loans and -5.2% in consumer loans) against the 1.3% increase of the euro area.

The gross NPL ratio, up to 7.9% in January 2012, has again been heavily conditioned by real estate development and construction activities.

Non-performing loan ratios expanded anew in 2011 on faltering domestic activity and rising unemployment. In January 2012, the average ratio was 7.9% (7.6% in December 2011, 5.8% in December 2010 and 5.1% in December 2009). Most delinquent loans were again linked to real estate development (20.9% in December 2011) and construction (17.7%), while mortgage delinquency rates closed the year at 3%.

Spanish credit institutions increase their reliance on Eurosystem financing in preference to wholesale credit markets…

Spanish credit institutions again struggled to raise funds on wholesale markets, especially in the second half. Escalating funding costs brought issuance to a virtual standstill in certain weeks, not only in Spain but across the European financial industry. Generally, both Spanish and European banks opted to switch into instruments of perceived higher quality, particularly mortgage covered bonds. As we can see from figure 8, much of the issued amounts, and those of asset-backed securities, were retained for use as collateral for Eurosystem credit operations. Indeed the Eurosystem borrowings of Spanish financial institutions built up from 42 billion euros in spring 2011 to 152 billion in February 2012, ahead of the levels observed in May 2010 during the first round of the Greek debt crisis.

… though the first months of 2012 have brought a degree of recovery in fixed-income issuance, prizing instruments with a state guarantee.

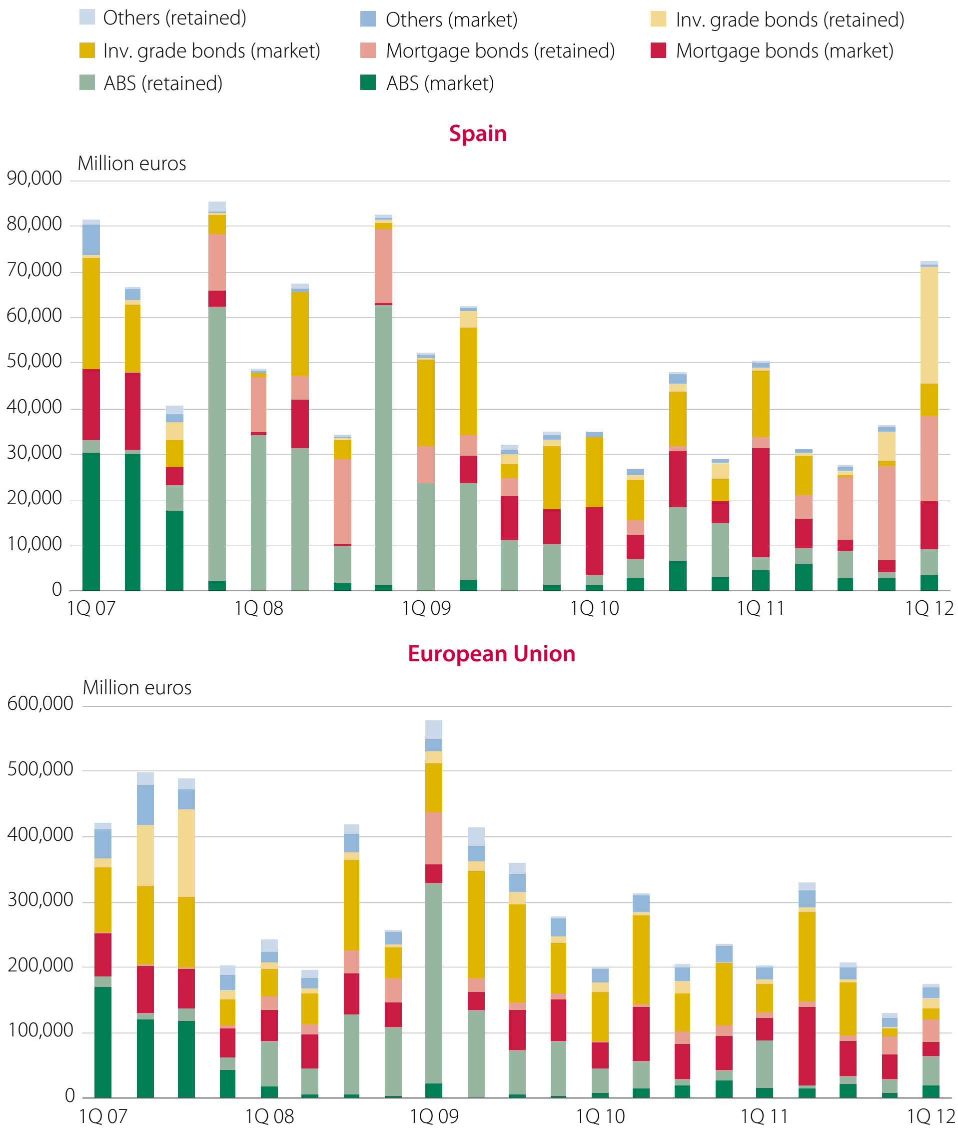
There are signs that debt financing by Spanish credit institutions may be picking up in 2012. First-quarter issuance was largely concentrated in mortgage covered bonds and investment grade instruments. Note however that 87% of the bonds issued carried a state guarantee[1] (27.2 billion euros spread across nine Spanish banks), contrasting with the scant take-up of this facility in 2011 (7.36 billion in the full-year period).

Deposits from non-financial sectors stay more or less flat, contrasting with the large increase in capital and reserve accounts.

As regards other funding sources, we can point to a certain levelling-off in deposits outstanding and a sizeable rise under the capital and reserves heading as banks move to strengthen their capital base (see exhibit 2).

1 Facility extended to 30 June 2012.

Gross medium- and long-term debt issuance by financial institutions FIGURE 8



Source: Dealogic. Data to 31 March.

Exhibit 2: "Exchanging of preference shares"

Preference shares were included, with certain limits, among the instruments qualifying as tier 1 capital under Article 7 of Law 13/1985, of 25 May, on investment ratios, capital adequacy and information requirements for financial intermediaries. However, they were never actually issued or marketed in Spain until midway through the 1990s. Since then, most issues addressing the retail market have been conducted by subsidiaries of financial institutions and marketed among their own clients. Financial institutions have also handled the marketing of preference shares issued by non-financial corporations.

In 2003, the above law was amended to provide a more comprehensive regulatory framework for these products and prevent their issue through Spanish bank subsidiaries domiciled in tax havens. As part of this process they were granted an advantageous tax treatment whereby the interest paid by issuers became a deductable expense.

Until fairly recently, it was common for entities to redeem preference shares before maturity, at which point investors would recoup the whole of their capital plus the accumulated interest. Entities were also usually ready to buy back preference shares at holders' request, without making them wait for a redemption call. The standard practice in such cases was for the issuer to sell the original investor's shares to an interested third client in exchange for their nominal value, which at that time would broadly equate to the market price.

However preference share redemptions basically dried starting in late 2008. And this fact, coupled with the situation of the financial sector, had lowered their market price to well below nominal value. At the same time, the limited liquidity of these products, even under more favourable circumstances, meant holders had little chance of closing positions and recovering their investment without incurring further losses.

In view of the significant changes in market conditions and the practices of preference share issuers, on 23 December 2009 the CNMV issued guidelines on the verification of debt and hybrid security issues addressing retail clients, which reminded issuers of their obligation to engage a liquidity provider for preference shares. On 16 June 2010, the CNMV established as good practice that such liquidity provision should be offered via at least one multilateral trading platform. It would be bad practice, conversely, for liquidity providers to quote prices significantly at odds with the shares' fair value. The CNMV also slated as bad practice the internal matching at other than market price of trades between the issuer and/or distributor's retail clients or between clients and the institution rendering the investment service, since this would harm the interests of the investor acquiring the securities in the event that the transaction went through at above market price.

In recent months, issuers have begun to redeem, convert or exchange preference shares for other products whose regulatory treatment gives a better fit with their new regulatory capital needs. The decision to do so could respond to reputational or business motives or to the fact that the European Banking Authority – presumably thinking ahead to Basel III – omitted them from the list of instruments qualifying as top-notch capital in its end-2011 recommendations to national supervisory authorities to assist in strengthening the capital adequacy of Europe's largest banks.

A number of recent transactions have involved the exchange of preference shares for other financial products. So deep has this process run that of the 22.37 billion euros in bank preference shares in the hands of retail investors, only 8.50 billion have not been the object of an exchange offer. This figure, moreover, is likely to fall shortly, as most issuers who have yet done so have an exchange deal in the offing.

Exchanges are in all cases going through at higher than the market price of the preference shares, and in most cases at 100% of their nominal value.

The main exchange operations conducted to date are detailed below.

Main preference share exchanges

TABLE E1.1

Issuer	Nominal repurchased	Securities delivered	Delivery / nominal value	Cash amount of offer	% Take-up
BBVA	3,475,000,000	Compulsorily convertible subordinated bonds	100%	3,475,000,000	98.71
Banco Santander	1,965,615,725	New shares	100%	1,965,615,725	98.88
Caixabank	4,898,000,000	Basket of securities: 30% subordinated bonds compulsorily convertible in June 2012 and June 2013 and 70% 10-year subordinated debt with 4% coupon	81%-86%		98.41
Banco Sabadell	850,000,000	Treasury shares/new shares[1]	90%-100%	867,000,000	64.57-97.71
BFA / Bankia	1,155,254,329 65% pref. shares 30% subordinated 5% perpetual subordinated	New shares[2]	75%-100%	1,155,254,329	90.7% (between 32% and 99%)
Banco Popular	1,128,227,900	Compulsorily convertible subordinated bonds	100%	1,109,375,800	98.33

1 90% of the offer will be settled immediately, and the other 10% plus a further 2% one year from the initial offer (provided the investor has not disposed of the shares delivered).
2 75% at the time of the offer and the other 25% after 18 months with lock-in.

In progress

Issuer	Nominal repurchased	Securities delivered	Delivery / nominal value
Banesto	497,500,000	Non-convertible 3-year bonds at a fixed annual rate of 3%	94.91%-96.31%

Source: CNMV.

The CNMV takes the view that the instruments delivered in exchange should be less complex and more liquid than the preference shares they are replacing. Particularly, financial institutions should steer clear of delivering perpetual or hybrid instruments or else find themselves at risk of breaching the applicable rules of conduct.

In any event, the CNMV, in its supervisory role, will ensure that exchanges, which are voluntary for both parties, go through under conditions of maximum transparency, respecting the standards in place for the marketing of financial products, so investors can arrive at a fully informed decision.

Profits of non-financial listed companies fell by 32% in 2011, with construction and real estate back into red numbers.

The aggregate profits of non-financial listed companies fell by 32% in 2011 to 21.44 billion euros (see table 3). The worst performing sector was construction and real estate, which returned to losses in 2011 (-53 million euros) after a relatively buoyant 2010. Energy and services, Spain's biggest earning sectors, saw their profits slide by 28.9% and 24.8% respectively to 10.74 and 9.45 billion euros. Lastly, industrial sector companies posted aggregate full-year profits of 948 million, 39.8% less than in 2010.

Earnings by sector[1]: non-financial listed companies TABLE 3

	EBITDA[2]		EBIT[3]		Net profit	
Million euros	2010	2011	2010	2011	2010	2011
Energy	33,299	29,349	22,335	18,400	15,113	10,741
Industry	4,052	3,668	2,465	2,053	1,576	948
Retail and services	34,166	29,569	21,352	15,510	12,579	9,454
Construction and real estate	8,138	5,667	5,670	2,682	2,208	-53
Adjustments	-163	236	-50	345	34	355
AGGREGATE TOTAL	**79,492**	**68,489**	**51,772**	**38,990**	**31,510**	**21,445**

Source: CNMV.

1 Year-to-date.

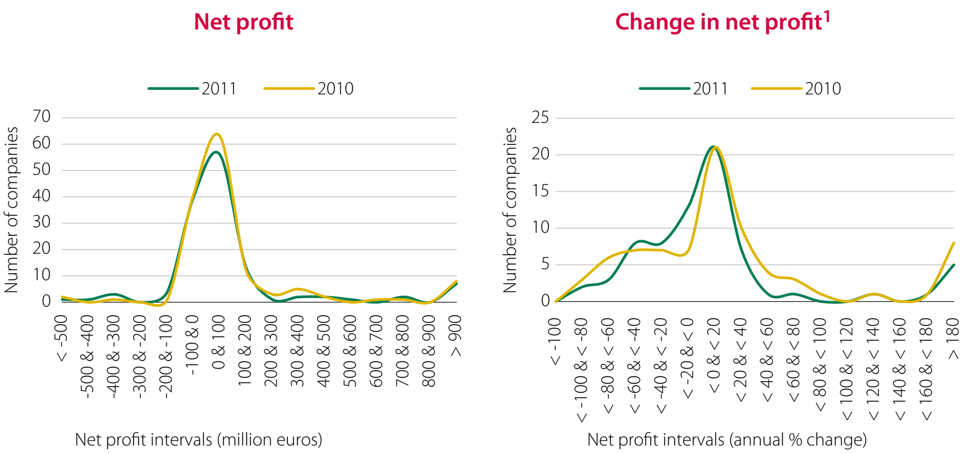
2 Earnings before interest, taxes, depreciation and amortisation.

3 Earnings before interest and taxes.

Fewer companies report profits of less than 100 million euros.

Breaking down non-financial listed companies in terms of their net profit for the year, we find that fewer reported annual profits between 0 and 100 million euros (the dominant interval), while the number reporting losses deeper than 100 million euros moved up from four to nine. Finally, among the listed companies in profit over 2010 and 2011, a large proportion obtained lower profits in the second year, though the margin of difference was not that wide (se figure 9).

Non-financial listed companies by: FIGURE 9



Source: CNMV.

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

Non-financial listed companies paid down their debt by a substantial margin, prolonging the trend of the previous year. Specifically, their combined debt fell by 6.7% to 304.8 billion euros at the 2011 close, in contrast to the strong run-up of 2005-2009, when debt tallies practically doubled. Of the four sectors analysed, three – energy, construction and real estate, and retail and services – cut their debt levels in the year by 2.5%, 16.2% and 5.2% respectively (see table 4). The odd one out was the industrial sector, whose debt swelled by 15% to almost 17.2 billion euros.

Companies managed to reduce their debt by 6.7% in 2011…

Despite this aggregate reduction in indebtedness, financial leverage (the ratio between debt and net equity) ticked up from 1.4 to 1.5 between 2010 and 2011, due to a reduction on the equity side. Construction and real estate, as table 4 shows, was the only sector to reduce its leverage, from 3.4 to 3.

… but declining equity meant this failed to translate as a reduction in financial leverage.

Gross debt by sector: listed companies TABLE 4

Million euros		2007	2008	2009	2010	2011
Energy	Debt	69,172	82,608	100,572	98,283	95,853
	Debt/ equity	0.8	0.9	1.1	0.9	0.9
	Debt/ EBITDA[1]	2.5	2.8	3.5	2.8	3.3
	EBIT[2]/ interest expenses	4.1	3.7	3.4	4.2	3.3
Industry	Debt	13,312	15,645	15,953	14,948	17,191
	Debt/ equity	0.6	0.7	0.7	0.6	0.9
	Debt/ EBITDA	1.8	2.7	3.0	2.1	4.7
	EBIT/ interest expenses	5.9	3.4	3.1	5.0	1.9
Construction and real estate	Debt	138,933	119,788	104,762	99,917	83,715
	Debt/ equity	3.1	3.8	4.1	3.4	3.0
	Debt/ EBITDA	10.8	31.9	22.5	11.2	14.8
	EBIT/ interest expenses	1.2	0.0	0.3	1.0	0.5
Retail and services	Debt	96,941	112,322	108,579	115,413	109,419
	Debt/ equity	1.7	2.1	1.8	1.6	2.0
	Debt/ EBITDA	3.0	3.6	3.7	3.4	3.7
	EBIT/ interest expenses	3.2	2.9	3.3	3.9	2.5
Adjustments[3]	Debt	-17,391,0	-20,802,0	-1,908	-1,792	-1,404
AGGREGATE TOTAL[4]	**Debt**	**300,967**	**309,561**	**327,958**	**326,769**	**304,774**
	Debt/ equity	1.5	1.6	1.6	1.4	1.5
	Debt/ EBITDA	4.0	4.6	4.8	3.8	4.4
	EBIT/ interest expenses	3.0	2.0	2.4	3.1	2.2

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.

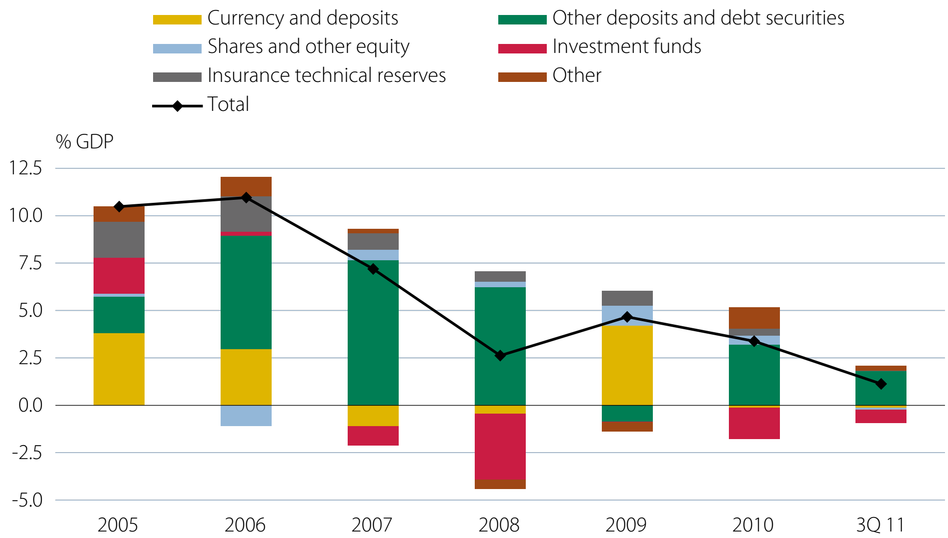
Listed companies' debt and interest coverage ratios worsen in 2011.

Meantime, the debt coverage ratio, measuring the years needed to repay existing debt assuming constant EBITDA, rose from 3.8 in 2010 to 4.4 in 2011, in tune with the stall in corporate earnings. The jump in this ratio was common to all sectors, though construction and real estate companies came off worst (up from 11.2 to 14.8) due to the greater earnings erosion suffered in the year. Companies' interest coverage ratios also deteriorated slightly in aggregate terms, with EBIT/interest expenses down from 3.1 in 2010 to 2.2 at end-2011, zeroing in on the levels of 2009. The industrial sector registered the largest fall (from 5 to 1.9), though all sectors participated in the decline.

Household savings, debt and net wealth continue on a downward course...

Household asset indicators for the third quarter of 2011 reveal further decline in the savings rate as far as 12.1% of disposable income (compared to early-2008 highs ahead of 18%). Household debt also trended lower to just over 120% of gross disposable income (from just under 130% in 2010), while net wealth contracted further on depreciating real estate and financial assets.

Households: financial asset acquisitions FIGURE 10



Source: Bank of Spain, *Cuentas financieras*. Cumulative four-quarter data.

…while what investment there is finds its way to low-risk products such as bank term deposits.

As to investment decisions, households' net financial asset purchases in the year's third quarter[2] dropped to 1.1% of GDP (3.4% in 2010 and 7% on average since the year 2000), reflecting both lower savings and a reduction in liabilities. Investment funds reported recurring net outflows while what little investment there was found its way mainly to bank term deposits (see figure 10). Finally, household liabilities receded 2.3% as a share of GDP as part of the ongoing deleveraging process.

2.3 Outlook

Latest IMF forecasts augur a global growth stall in 2012 that will be most acute in the euro area.

In its latest forecasts, published January 2012, the IMF slashed its global growth forecast for this year to 3.3% (3.8% in 2011). The revise-down (a full -0.7 percentage

2 Cumulative four-quarter data.

points) hit primarily at euro-area growth, for which forecasts were cut by 1.6 points to -0.5%. Forecasts for the emerging economies were revised down 0.7 points to 5.4%, while the United States conserved its previous rate of close to 2%.

The main downside risks lie in resurgent debt market tensions and the fiscal consolidation under way in a large number of economies. However there is also cause to believe that the reality may be less bleak.

This forecast scenario is hedged in by uncertainties. However, some factors suggest that the final growth rate may be higher than projected in the first weeks of the year. These include the brighter prospects coming through for the U.S. labour market, the orderly progress of Greek debt restructuring and the effects of the ECB's extraordinary three-year loans in securing the mid-term financing needs of euro-area banks. The downside risks primarily reside in the need to prolong the current fiscal consolidation drive, in Europe but also in the United States and Japan, through a period of meagre economic growth and weak private demand; the danger of recurring feedback between episodes of turmoil on European debt markets and the funding conditions of the area's financial sector; and the possible escalation of political risk among oil-producing countries. Nor can we rule out the risk that certain emerging economies may decelerate faster than expected.

Spain gets a steeper revise-down than most European economies.

The latest projections for the Spanish economy point to a slowdown ranging from the 1% augured by the European Commission to the 1.7% forecast by the IMF. On this reckoning, the growth lag versus the euro area could be greater than 1.5 points in the current year, easing to around one point in 2013. Spain, along with Italy, has suffered the severest revise-down of all the advanced economies, for reasons not only of the higher relative impact of the European debt crisis, but also certain home-grown issues like the weakness of the labour market, the squeeze effect on growth of the ongoing fiscal adjustment process and the high average indebtedness of Spanish households and businesses. Newly launched reforms on the employment, financial and fiscal fronts should ensure that the national economy returns to the growth path in the mid-term future, though their short-term impact is less predictable.

3 Spanish markets

3.1 Equity markets

Spanish stock markets have been hit hard by the sovereign debt crisis and the worsening prospects for the national economy.

After struggling back from a third-quarter slump, Spanish stock prices have continued to suffer the effects of the European sovereign debt crisis, despite a small decline in risk premiums, and the deteriorating outlook for the national economy. Index losses over the first quarter of the year contrast with the gains marked up in most advanced economy bourses (see table 1).

Performance of Spanish stock market indices and sectors (%)

TABLE 5

Index	2008	2009	2010	2011	3Q 11[1]	4Q 11[1]	1Q 12 (to 31 March) % prior qt.	% Dec	% y/y
Ibex 35	-39.4	29.8	-17.4	-13.1	-17.5	0.2	-6.5	-6.5	-25.4
Madrid	-40.6	27.2	-19.2	-14.6	-17.8	-0.6	-5.9	-5.9	-26.3
Ibex Medium Cap	-46.5	13.8	-5.6	-20.7	-20.6	1.0	8.0	8.0	-20.0
Ibex Small Cap	-57.3	17.6	-18.3	-25.1	-23.3	-9.4	-10.3	-10.3	-43.1
FTSE Latibex All-Share	-51.8	97.2	9.0	-23.3	-18.9	8.6	5.7	5.7	-17.3
FTSE Latibex Top	-44.7	79.3	9.7	-17.1	-15.6	11.2	10.1	10.1	-6.4
Sector[2]									
Oil and gas	-30.8	-20.1	0.3	23.2	-12.4	17.4	-20.7	-20.7	-21.2
Chemicals	-67.8	3.4	-60.0	-15.7	-22.7	-20.9	-31.1	-31.1	-56.2
Basic materials	-45.4	23.1	-5.6	-22.5	-29.6	8.2	2.5	2.5	-27.3
Construction mat. and construction	-51.0	25.5	-14.4	-13.0	-17.3	-2.0	-12.1	-12.1	-33.3
Industrial goods and services	-41.9	29.3	-1.9	-7.6	-15.5	5.9	6.0	6.0	-7.1
Health	-45.0	17.7	-22.2	-0.8	-12.6	-0.8	21.4	21.4	5.7
Utilities	-31.0	-7.8	-14.3	-13.8	-21.8	-3.7	-6.6	-6.6	-28.1
Banks	-47.9	46.3	-32.3	-18.3	-21.9	2.1	-9.0	-9.0	-32.3
Insurance	-25.0	19.8	-26.8	13.8	-12.4	4.0	-0.4	-0.4	-12.3
Real estate	-58.6	-43.8	-53.2	-42.4	-34.0	-11.1	-19.3	-19.3	-62.3
Financial services	-44.3	20.8	12.8	3.5	-11.6	-1.0	0.3	0.3	-16.3
Telecommunications and media	-31.4	23.5	-13.4	-22.7	-15.9	-6.8	-7.5	-7.5	-32.5
Discretionary consumption	-39.2	37.0	20.6	1.4	-4.4	-2.6	12.0	12.0	8.6
Basic consumption	-22.5	-8.4	15.8	-12.1	-17.1	11.2	4.3	4.3	-9.5

Source: Thomson Datastream.

1 Change vs. previous quarter.

2 Classification according to Thomson Datastream.

The Ibex followed up the -13.1% of 2011 with a slide of 6.5% in the first three months of 2012…

The Ibex 35, as we can see, followed up its 0.2% advance in the last quarter of 2011 (-13.1% in the full-year period) with a 6.5% slide in the first quarter of 2012 (see table 5). Smaller cap indices opened the year in unequal form, with the medium cap index posting a first-quarter gain of 8% (-20.7% in 2011) against the -10.3% of its small cap peer (-25.1% in 2011). Meantime, the main indices quoted on the national trading platform for Latin American shares prolonged the strong rally initiated in the fourth quarter of last year after the steep run-down of the three preceding quarters. Thus the FTSE Latibex All-Share and FTSE Latibex Top gained between 6% and 10% in the first quarter of 2012 on the heels of 2011 losses exceeding 17%.

… including steep price falls in chemicals, oil and gas, and real estate.

The worst performing sectors in first-quarter 2012 were chemicals (-31.1%, -15.7% in 2011), oil and gas (-20.7%, 23.2% in 2011) and real estate (-19.3%, -42.4% in 2011). Other sectors got off rather more lightly, including construction and related materials (-12.1%, -13% in 2011), banks (-9.0%, -18.3% in 2011) and telecommunications and media (-7.5%, -22.7% in 2011). At the other extreme, health sector companies managed a creditable advance (21.4%, -0.8% in 2011), followed by discretionary consumption (12%, 1.4% on 2011), while industrial goods and services, basic consumption and basic materials posted more modest advances in the interval of 2.5% to 6%.

Exhibit 3: "CNMV guidelines on the content of quarterly financial reports"

Rules on the filing and disclosure of financial statements stipulate that the issuers of shares admitted to trading on an official secondary market or other regulated market headquartered in the European Union should publish a quarterly interim management report setting out quantitative and/or qualitative information. This interim management report is not required of issuers publishing a quarterly financial report in accordance with International Accounting Standard 34 on Interim Financial Reporting.

Since the entry to force of these quarterly reporting rules in 2008, companies have been diligent in complying with their formal obligations. However the actual information disclosed tends to vary in its scope and nature, making it hard to compare different issuers or, in some cases, the same issuer across different periods. For this reason, the CNMV published a set of voluntary guidelines in January 2012, which companies can apply to their mandatory interim management reports or any financial information they decide to notify as a significant event.[1] Their main points are summarised below:

- Financial variables and notes on the company's performance should refer to consolidated data, unless it only draws up individual financial statements.

- Companies should strive for consistency when preparing financial information for the market, so it is possible to refer back reliably to quantitative data published in the past.

- It is recommended that interim management reports disclosed to the market should include, at least, the following variables:

  a) Net sales (standard model), net interest income (credit institution model) and premiums recognised in the year (insurance undertaking model).

  b) Gross (EBITDA) or net (EBIT) operating profit (standard model) and nearest equivalent caption for credit institutions and insurance undertakings.

  c) Profit before taxes and profit for the year, separating out the amount attributable to the parent company and external partners in the case of consolidated statements.

  d) Other components of global earnings and total global earnings.

  e) Main items of the abridged statement of financial position.

f) Non-performing loan and capital adequacy ratios (for credit institutions), other relevant performance indicators and significant transactions, including main contingent liabilities.

– Entities should ideally define the pro forma measurements appearing in quarterly reports, indicating how they are calculated and reconciled with accounting records.

– Finally, quantitative data for a given period should be accompanied by comparative data from the previous period.

1 These guidelines are available at http://www.cnmv.es/Portal/verDoc.axd?t={f0d534b6-a12a-456b-9b6c-629f4859d3b9}

P/E ratios have been driven higher by the revise-down in corporate earnings.

The price/earnings ratio[3] (P/E) of the Ibex 35, which had been falling since the first quarter of 2011, reversed its decline in the closing months and the opening quarter of 2012, despite cumulative price falls in the period, as earnings contracted sharply under the impact of worsening prospects for domestic and world growth. The P/E of the Spanish stock exchange, meantime, dropped to the bottom end of the international reference table from the midway place occupied at the 2011 close. Specifically, the P/E of the Ibex 35 registered an end-March level of 9.7 times, improving slightly on the 9.2 of December and considerably on the 8.3 of September last (its annual low).

The earnings yield gap has stabilised in the last few months.

The earnings yield gap, which reflects the return premium required to be invested in equity versus long-term government bonds, slowed its rate of decline in 2012 relative to the prior quarter. The fall in this indicator owed mainly to rising P/E ratios and, in smaller measure, the increase in public debt yields. And it was precisely the downturn in yields over the opening months of 2012 that set it moving on a smoother course.

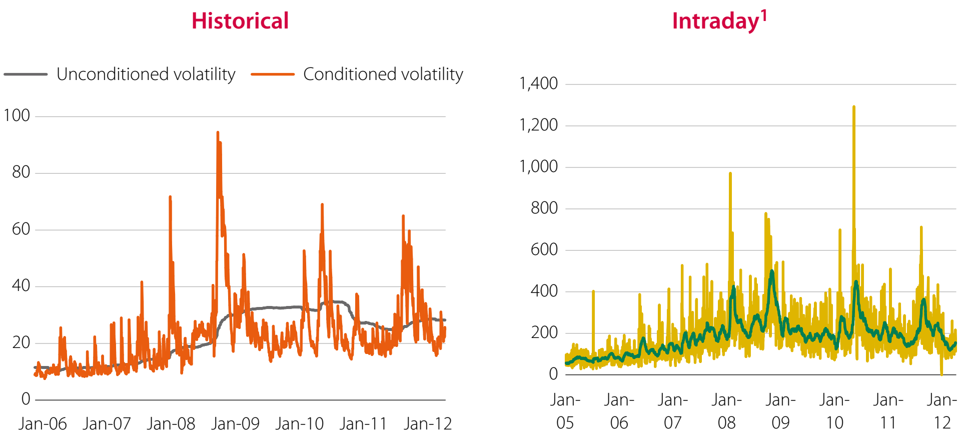
Renewed debt market tensions caused a spike in volatility…

The resurgence of sovereign debt market tensions in summer 2011 carried Ibex 35 volatility readings to an August high of 65% and it was not until the closing weeks of the year that they settled back to a more manageable 20%. At end-March 2012, volatility was running at approximately 25%. Meantime, intraday volatility, taken as the difference between the index's high and low prices in each trading session, closed March at around 150 points, at a distance from its August 2011 peak of 700 points and below the historical average recorded since 2005 (199 points).

3 On one-year forward earnings.

Ibex 35 volatility

FIGURE 11



Source: Thomson Datastream and CNMV. Data to 31 March.

1 Depicting the difference between the daily price highs and lows of the Ibex 35 and the average of the last month.

… and depressed market liquidity conditions, though both variables have been improving in recent weeks.

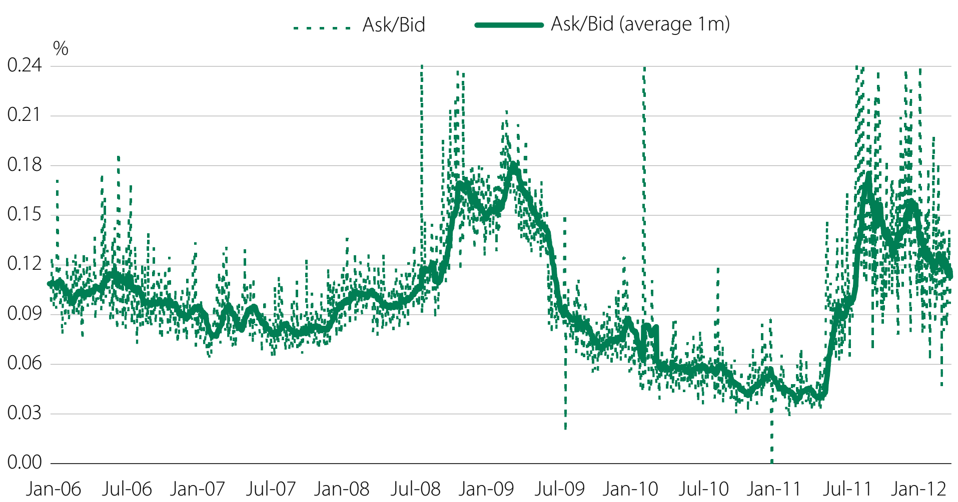
The liquidity conditions of the Ibex 35 (measured through the bid/ask spread) improved in the first quarter of 2012, after the severe deterioration that set in last summer following the flare-up of European sovereign debt tensions and the August ban on the short selling of certain shares. The monthly moving average of this indicator was down to 0.11% at end-March compared to the 0.16% of the 2011 close, but higher than the 0.10% average of the last six years (see figure 12).

Stock market turnover contracts 30% in the first quarter of 2012…

The Spanish stock market had a first-quarter turnover of 173 billion euros, 30% down on the year-ago period (see table 6). Average daily trading stood at 2.66 billion, against the 3.22 billion of the preceding quarter and the 3.62 billion of full-year 2011. At least part of the trading dip in the last fourth months of 2011 and the first weeks of 2012 may owe to restrictions imposed on the short selling of Spanish financial shares. Indeed the lifting of the ban around mid-February triggered a brief surge in trading volumes which had however wound down by the end of March (see figure 13).

Ibex 35 liquidity. Bid-ask spread

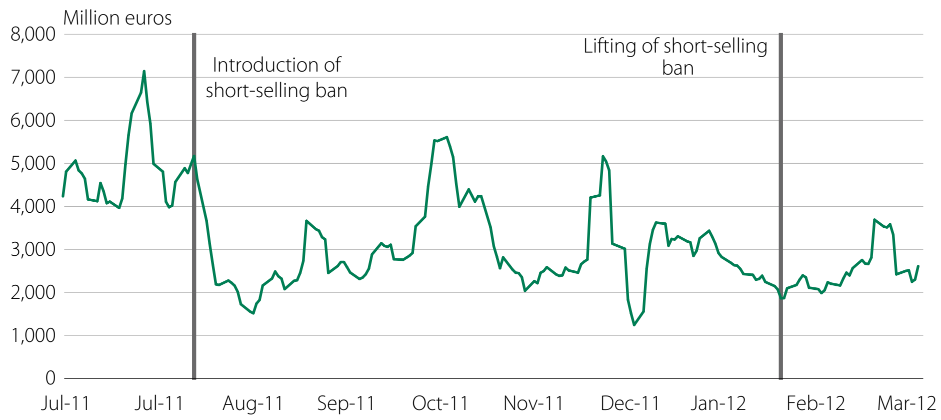
FIGURE 12



Source: Thomson Datastream and CNMV. Data to 31 March.

Daily trading on Spanish stock markets[1]

FIGURE 13



Source: CNMV.

1 Five-day averages.

… while equity issuance is enlivened by capital strengthening processes in the Spanish banking sector.

Equity issuance was enlivened, as it was last year, by the capital strengthening measures taken by Spanish financial institutions. Quarterly issue volumes were concentrated in three bank sector capital increases. Funds raised came to 3.78 billion, 17% more than in the same period last year (see table 7).

Turnover on the Spanish stock market

TABLE 6

Million euros

	2008	2009	2010	2011	3Q 11	4Q 11	1Q 12[1]
All exchanges	**1,243,387**	**886,135**	**1,037,284**	**925,667**	**234,262**	**206,281**	**173,115**
Electronic market	1,235,330	880,544	1,032,447	920,879	233,070	204,922	171,819
Open outcry	207	73	165	48	11	7	17
of which SICAVs[2]	25	20	8	6	1	0	0
MAB[3]	7,060	5,080	4,148	4,380	1,088	1,278	1,207
Second Market	32	3	3	2	0	1	0
Latibex	758	435	521	358	93	73	72
Pro memoria: non resident trading (% all exchanges)							
	66.0	64.6	75.3	n.a.	n.a.	n.a.	n.a.

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

1 Cumulate data from 1 January to 31 March.

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.

Capital increases and public offerings[1]

TABLE 7

	2008	2009	2010	2011	3Q 11	4Q 11	1Q 12[2]
CASH AMOUNTS[3] (million euros)	**16,349**	**11,391**	**16,013**	**17,317**	**6,336**	**2,946**	**3,778.4**
Capital increases	16,340	11,389	15,407	17,221	6,336	2,850	3,778.4
Of which, through POS	292	17	959	6,441	8	2,737	1,284.7
National tranche	292	15	62	6,032	8	2,685	1,284.7
International tranche	0	2	897	410	0	52	0.0
Public offerings	10	2	606	96	0	96	0.0
National tranche	10	2	79	95	0	95	0.0
International tranche	0	0	527	1	0	1	0.0
NUMBER OF FILINGS[4]	**54**	**53**	**69**	**92**	**26**	**26**	**22**
Capital increases	53	53	67	91	26	26	22
Of which, through POS	2	2	12	8	3	2	3
Of which, bonus issues	1	11	15	22	8	7	2
Public offerings	2	1	3	2	0	1	0

Source: CNMV.

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

2 Data available to 31 March 2012. Figures for this quarter include the ceiling amount of a Bankia offer (1.27 billion) to exchange preference shares and subordinated debt. The number of securities and final amount of the transaction will depend on investor take-up.

3 Excluding amounts recorded in respect of cancelled transactions.

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

Exhibit 4: "Electronic trading standards"

Since the enactment of the Market Abuse Directive (MAD) in 2003 and the Directive on Markets in Financial Instruments (MiFID) in 2004, technological advances and the advent of new market structures have counselled the development of guidelines to ensure consistent, efficient and effective supervisory practices among ESMA members with regard to the operation of automated trading environments. Studies undertaken by the Committee of European Securities Regulators (CESR) as input for the review of the MiFID[1] and on the subject of microstructural market issues[2] highlighted the need for a more in-depth analysis of algorithmic trading, with particular reference to high frequency trading and its impact on the markets.

This was the background to the draft guidelines on operational arrangements for trading platforms and investment firms in automated trading environments published as a consultation paper on 20 July 2011. The final report was approved by ESMA's Board of Supervisors on 20 December 2011 with the title *Guidelines on systems and controls in an automated environment for trading platforms, investment firms and competent authorities*[3] whose regime will become effective on 1 May 2012.

The new guidelines are aimed at regulated markets and multilateral trading facilities (MTFs) operating electronic trading systems, and investment firms that execute client orders and/or deal on own account through an electronic trading system and employ algorithmic trading techniques. They also address investment firms rendering direct market access (DMA) and sponsored access (SA) services as part of the order execution packages marketed to clients. It bears mention that these guidelines do not conflict with current regulations; their goal is to set out detailed standards for the period transpiring to the entry to force of the MiFID/MiFIR and MAD/MAR.

The ESMA guidelines are primarily intended to ensure investors adequate protection and to guarantee markets' integrity and orderly functioning in the context of automated trading. To this end, the European securities authority has specified a series of arrangements to be rolled out by regulated markets and MTFs, on the one hand, and investment firms on the other.

Regulated markets and MTFs should have the following arrangements in place, among others: i) adequate pre-trade controls, such as the possibility to limit the number of orders which each member, participant or user with access can send to the trading platform; ii) conformance tests to ensure that members', participants' or users' IT systems are compatible with the trading platforms' electronic trading systems; iii) automatic and discretionary mechanisms to constrain or halt trading in response to significant variations in price to prevent trading becoming disorderly; iv) adequate due diligence of the member, participant or user before accepting their market access, and the ability to check their respective controls and arrangements afterwards; v) clear organisational requirements for members who are not regulated entities; and vi) rules and procedures designed to prevent, identify and report instances of possible market abuse and market manipulation, including ill-designed orders and algorithms, that are proportionate to the nature, size and scale of the business done through the trading platform.

Investment firms, according to the ESMA guidelines, must have arrangements in place that include an appropriate governance process for developing or buying algorithms and ensuring they are used in a cautious fashion, staff with the necessary up-to-date skills and expertise to run and monitor the behaviour of their live algorithms, and pre-trade controls which address erroneous order entry and maintain pre-set risk management thresholds. They also emphasise investment firms' responsibility for all order flow to venues from clients using direct market access or sponsored access, and call for them to conduct adequate due diligence on clients using these services and establish means to immediately halt their trading, if required.

1 Ref: CESR/ 10-802.
2 Ref: CESR/ 10-142.
3 Document available at http://www.esma.europa.eu/system/files/2011-456_0.pdf

3.2 Fixed-income markets

Spanish fixed-income markets endured some tense times in the second half of 2011, following the mid-year flare-up in Europe's ongoing sovereign debt crisis. Government and corporate bond yields and spreads climbed to annual highs in the month of November, while private-sector debt issuance tailed off sharply. The stress weighing on markets was alleviated somewhat in the opening weeks of 2012 on the prospect of a new rescue deal for Greece, the evidence that European governments were committed to deepening the fiscal consolidation process, and the three-year refinancing operations conducted by the ECB (with tranches in December 2011 and February 2012). This encouraged financial institutions to renew their purchasing of public debt, contributing, in turn, to the downtrend in yields that opened 2012. By end-March, however, domestic fixed-income markets were facing a new wave of turmoil.

Domestic fixed-income markets had a tough second half, though conditions have improved slightly in the first months of 2012…

In this context, treasury bill rates dropped faster than their corporate equivalents over the first quarter of 2012. Between January and March, the average monthly rates on three, six and twelve-month bills fell by between 182 and 283 bp to 0.38%, 0.64% and 1.33% respectively, while interest rates on commercial paper dropped by an average of 26 bp (see table 8).

… ushering in a downtrend in rates at the short end…

Short-term interest rates[1] (%) TABLE 8

	Dec 09	Dec 10	Dec 11	Sep 11	Dec 11	Mar 12[3]
Treasury bills						
3 month	0.44	1.63	2.20	1.48	2.20	0.38
6 month	0.61	2.76	3.47	2.41	3.47	0.64
12 month	0.88	3.26	3.27	3.21	3.27	1.33
Commercial paper[2]						
3 month	0.76	1.37	2.74	1.76	2.74	2.49
6 month	1.25	2.52	3.52	3.21	3.52	3.21
12 month	1.63	3.04	3.77	3.52	3.77	3.55

Source: Thomson Datastream and CNMV.

1 Monthly average of daily data.

2 Interest rates at issue.

3 Data to 31 March.

Long government bond yields fell between 33 and 125 bp in the first-quarter period to 2.76%, 3.83% and 5.17% in three, five and ten-year tenors respectively (see table 9). The larger drop in three-year yields can be partly explained by reference to the ECB's recent liquidity operations, which would tend to boost purchases of public debt instruments of similar maturity. Long-term corporate bond yields decreased more sharply than their sovereign equivalents in the first three months of 2012.

… and in longer maturities, for both public and private debt.

Medium and long corporate bond yields[1] (%) TABLE 9

	Dec 09	Dec 10	Dec 11	Sep 11	Dec 11	Mar 12[2]
Government bonds						
3 year	1.95	3.87	4.01	3.76	4.01	2.76
5 year	2.67	4.65	4.65	4.40	4.65	3.83
10 años	3.75	5.38	5.50	5.20	5.50	5.17
Corporate bonds						
3 year	3.14	4.31	5.63	4.98	5.63	3.77
5 year	4.30	5.44	6.35	5.63	6.35	4.86
10 year	4.88	6.42	9.24	7.25	9.24	8.14

Source: Thomson Datastream, Reuters and CNMV.

1 Monthly average of daily data.

2 Data to 31 March.

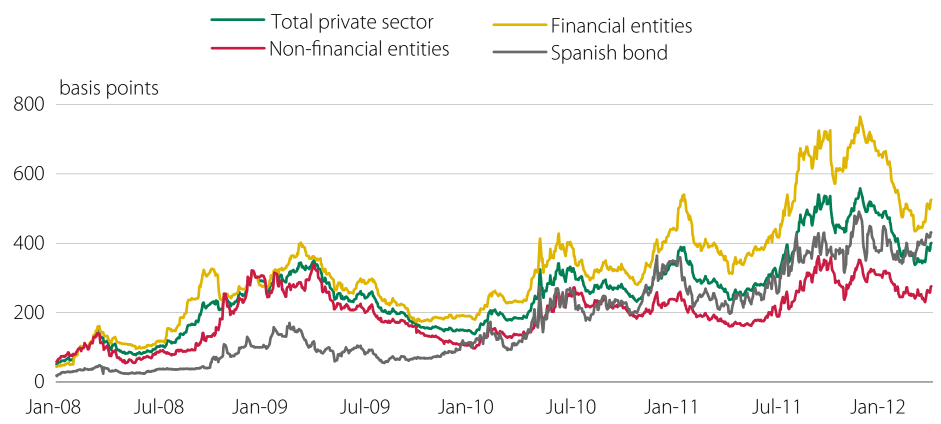
Sovereign risk premiums have pulled back from the highs of November 2011…

Spain's sovereign risk premium, as derived from the bono/Bund spread and CDS premiums, rose once more at the end of the opening quarter after retreating progressively from the peak levels of November 2011. By end-March, Spanish bond spreads were testing 360 bp, while CDS were moving a little above the 430 bp mark. This was some way short of the 480 bp recorded by both indicators in November 2011. Note however that Spain's risk premium has come down more slowly since end-2011 than that of other euro members like Belgium or Italy (see figure 3).

… accompanied by a narrowing movement in corporate spreads, with the banks sector to the fore.

Corporate bond spreads have narrowed considerably since the year's outset, with the banking sector to the fore. As with sovereign risk, a determining factor has been the ECB's extraordinary liquidity lines. As we can see from figure 14, the average spreads of Spanish financial institutions, based on five-year CDS, decreased from last November's peak of 765 bp to 525 bp at end-March 2012, while those of non-financial corporations charted a smoother course to 275 bp approximately on the same date.

Aggregate risk premium[1] based on the five-year CDS of Spanish issuers FIGURE 14



Source: Thomson Datastream and CNMV.

1 Simple average. Data to 31 March.

In this period of respite, the volume of fixed-income issues registered with the CNMV recovered to 119 billion euros, 55% more than in the first quarter of 2011 (see table 10), with financial institutions accounting for 99.3%.

The result has been an upturn in debt issuance…

Though these are early days yet, we can make some preliminary remarks about changes in the issuance mix versus 2011. One observation would be the growing popularity of non-convertible bonds and, to a lesser extent, commercial paper and covered bonds, at the expense primarily of asset-backed securities.

… which to 31 March was 55% higher than in the first quarter of 2011.

Specifically, commercial paper issues summed 48.71 billion, 95% more than in the year-ago period and accounting for 41% of first-quarter issuance. Their steady rise to prominence since the fourth quarter of last year owes to banks' current accent on tapping their retail networks, using these instruments to supplement traditional deposits.

The most popular instruments in the first-quarter mix were commercial paper,…

But pride of place in the first-quarter mix goes to non-convertible bonds, whose issue volume of 31.30 billion euros topped the full-year total for 2011 (20.19 billion euros). Most of the surge was in government-backed bonds, whose 27.20 billion sales accounted for 87% of issuance in this category, compared to 7.36 billion and 36% respectively in full-year 2011.

… non-convertible bonds, 87% of them state-guaranteed,…

Mortgage bond issuance also expanded to 26 billion euros, 35% up on the year-ago figure and equating to 22% of the first-quarter total, while territorial bonds – backed by loans granted to government authorities – came in at 3.20 billion (2.93 billion in the first quarter of 2011). Conversely, sales of asset-backed securities were 65% down on the year-ago total at just 9.19 billion euros, equating to 8% of first-quarter issuance (24% in 2011).

… and mortgage covered bonds,…

Convertible bond issues came to 1.13 billion euros (almost double the total for 2011), while preference shares issues dried up entirely. Banks, indeed, have tended to prioritise higher-quality capital instruments to aid their compliance with national standards and those of the European Banking Authority.

… while preference share issues dried up entirely.

Foreign debt financing, which had fallen 6.3% in 2011 on lower commercial paper issuance, staged something of a come-back in the opening quarter as far as 17 billion euros (13 billion in the year-ago period).

Foreign debt financing also picked up in early 2012.

Gross fixed-income issuance

TABLE 10

filed[1] with the CNMV	2008	2009	2010	2011	2011 3Q	2011 4Q	2012 1Q[2]
NUMBER OF ISSUES	**337**	**512**	**349**	**356**	**58**	**128**	**117**
Mortgage bonds	47	75	88	115	10	44	27
Territorial bonds	8	1	9	42	18	16	8
Non-convertible bonds and debentures	76	244	154	87	14	27	48
Convertible/exchangeable bonds and debentures	1	6	3	9	0	2	1
Asset-backed securities	108	76	36	48	9	20	15
Commercial paper facilities	88	73	59	53	7	19	18
Securitised	2	2	2	2	0	1	0
Other commercial paper	86	71	57	51	7	18	18
Other fixed-income issues	0	0	0	0	0	0	0
Preference shares	9	37	0	2	0	0	0
NOMINAL AMOUNT (million euros)	**476,276**	**387,476**	**226,449**	**288,992**	**38,435**	**113,496**	**119,537**
Mortgage bonds	14,300	35,574	34,378	67,227	5,250	23,743	26,000
Territorial bonds	1,820	500	5,900	22,334	7,437	10,162	3,200
Non-convertible bonds and debentures	10,490	62,249	24,356	20,192	981	13,312	31,305
Convertible/exchangeable bonds and debentures	1,429	3,200	968	7,126	0	4,944	1,128
Asset-backed securities	135,253	81,651	63,261	68,413	10,449	20,210	9,195
Domestic tranche	132,730	77,289	62,743	62,796	10,116	18,844	7,810
International tranche	2,522	4,362	518	5,617	334	1,366	1,385
Commercial paper[3]	311,738	191,342	97,586	103,501	14,317	41,125	48,708
Securitised	2,843	4,758	5,057	2,366	259	648	616
Other commercial paper	308,895	186,583	92,529	101,135	14,058	40,477	48,092
Other fixed-income issues	0	0	0	0	0	0	0
Preference shares	1,246	12,960	0	200	0	0	0
Pro memoria:							
Subordinated issues	12,950	20,989	9,154	29,277	4,664	16,208	2,772
Covered issues	9,170	4,794	299	10	0	0	0

abroad by Spanish issuers	2008	2009	2010	2011	2011 3Q	2011 4Q	2012 1Q[4]
NOMINAL AMOUNT (million euros)	**112,366**	**149,686**	**127,731**	**119,631**	**13,838**	**23,627**	**17,354**
Long-term	39,894	47,230	51,107	51,265	3,597	12,135	0
Preference shares	0	3,765	0	0	0	0	0
Subordinated debt	70	2,061	0	242	0	242	17,354
Bonds and debentures	39,360	41,404	50,807	51,023	3,597	11,892	0
Asset-backed securities	464	0	300	0	0	0	11,144
Short-term	72,472	102,456	76,624	68,366	10,241	11,492	11,144
Commercial paper	72,472	102,456	76,624	68,366	10,241	11,492	0
Securitised	425	108	248	322	36	114	28,498

Source: CNMV y Bank of Spain.

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

2 Data to 31 March.

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

4 Data for the month of February.

4 Market agents

4.1 Investment vehicles

Financial collective investment schemes[4]

Investment fund assets fall back 8% on continuing redemptions …

Investment fund assets dropped by 5.7% in the second half of 2011 (8% in the full-year period) to an end-December total of just over 132 billion euros (see table 12), under the dual pressure of high net redemptions and the depreciation of portfolio instruments, which was most intense in equity securities. On the first score, investment funds endured second-half withdrawals bordering on six billion euros (over 10.80 billion in the full-year period, see table 11). This net outflow extended to most categories, with fixed-income funds the worst affected (2.76 billion euros in the second half and an annual sum of just over 10.40 billion), followed by guaranteed equity, absolute return and balanced fixed income funds with net redemptions in the full-year period of 3.06, 2.34 and 1.92 billion respectively. Only guaranteed fixed-income funds were able to meaningfully buck the trend, taking in the net sum of 7.20 billion euros, 80% of it in the first six months.

Investment fund subscriptions and redemptions (million euros)[1] TABLE 11

	Subscriptions				Redemptions			
Category	**1Q 11**	**2Q 11**	**3Q 11**	**4Q 11**	**1Q 11**	**2Q 11**	**3Q 11**	**4Q 11**
Fixed income[2]	7,888.3	6,478	5,963	6,875	13,297.5	8,737	7,193	8,406
Balanced fixed income[3]	358	518	232	225	1,138	893	553	674
Balanced equity[4]	270	335	45	166	267	435	193	241
Euro equity [5]	575	524	472	514	595	454	419	466
Intern. equity[6]	2,490.5	721	321	304	2,522.1	801	842	489
Fixed-income guaranteed	7,424	2,595	2,203	1,744	2,008	2,224	1,156	1,350
Equity guaranteed[7]	829	622	751	369	1,625	1,717	1,356	934
Global funds	1,534	839	572	317	507	601	631	577
Passively managed[8]	221	149	197	358	237	108	301	553
Absolute return[8]	1,166	382	237	362	1,332	1,290	1,034	829
Hedge funds	30	38	31	–	24	28	17	–
Funds of hedge funds	2	4	2	–	30	28	11	–
Total	**22,756**	**13,164**	**10,993**	**11,336**	**23,529**	**17,259**	**13,677**	**14,620**

Source: CNMV.

1 Estimate only.
2 Includes: Euro and international fixed income and money market funds.
3 Includes: Balanced euro fixed income and balanced international fixed income.
4 Includes: Balanced euro equity and balanced international equity.
5 Includes: Euro equity.
6 Includes: International equity.
7 Includes: Guaranteed and partially guaranteed equity.
8 New categories as of 2Q09. All absolute return funds were previously classed as global funds.

4 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.

Main investment fund variables*

TABLE 12

				2011			
Number	**2009**	**2010**	**2011**	**1Q**	**2Q**	**3Q**	**4Q**
Total investment funds inversión	**2,536**	**2,408**	**2,310**	**2,417**	**2,389**	**2,341**	**2,310**
Fixed income[1]	582	537	508	542	530	520	508
Balanced fixed income[2]	169	160	140	158	152	146	140
Balanced equity[3]	165	138	128	136	132	130	128
Euro equity[4]	182	172	148	171	157	153	148
International equity[5]	242	232	220	223	222	222	220
Fixed income guaranteed	233	276	351	303	324	335	351
Equity guaranteed[6]	561	499	420	485	470	436	420
Global funds	187	192	203	197	203	204	203
Passively managed[7]	69	61	59	61	57	59	59
Absolute return[7]	146	141	133	141	142	136	133
Assets (million euros)							
Total investment funds	**170,547.7**	**143,918.2**	**132,368.6**	**144,428.0**	**140,351.3**	**134,033.7**	**132,368.6**
Fixed income[1]	84,657.2	56,614.6	46,945.5	51,552.7	49,449.9	48,228.6	46,945.5
Balanced fixed income[2]	8,695.5	7,319.0	5,253.6	6,570.0	6,251.9	5,715.8	5,253.6
Balanced equity[3]	3,879.,6	3,470.5	2,906.1	3,484.5	3,345.6	2,897.5	2,906.1
Euro equity[4]	6,321.6	5,356.8	4,829.2	5,656.3	5,687.2	4,610.8	4,829.2
International equity[5]	5,902.4	8,037.3	6,281.2	7,909.0	7,751.6	6,028.4	6,281.2
Fixed income guaranteed	21,033.4	26,180.2	35,058.0	32,084.4	32,742.1	34,241.7	35,058.0
Equity guaranteed[6]	25,665.8	22,046.5	18,014.5	21,181.6	19,827.6	18,699.9	18,014.5
Global funds	3,872.5	4,440.3	5,104.7	5,481.7	5,718.1	5,154.3	5,104.7
Passively managed[7]	3,216.6	2,104.8	1,986.2	2,193.0	2,172.2	2,060.0	1,986.2
Absolute return[7]	7,303.0	8,348.1	5,989.7	8,314.8	7,405.1	6,396.8	5,989.7
Unit-holders							
Total investment funds	**5,475,403**	**5,160,888**	**4,834,062**	**5,160,482**	**5,044,106**	**4,942,074**	**4,834,062**
Fixed income[1]	2,041,487	1,622,664	1,383,813	1,524,438	1,466,938	1,419,006	1,383,813
Balanced fixed income[2]	290,151	270,341	206,938	251,992	238,275	227,046	206,938
Balanced equity[3]	182,542	171,336	145,150	162,861	156,631	151,551	145,150
Euro equity[4]	299,353	266,395	237,815	253,365	248,355	247,166	237,815
International equity[5]	458,097	501,138	448,539	493,906	493,057	465,814	448,539
Fixed income guaranteed	570,963	790,081	1,042,658	967,561	990,997	1,019,905	1,042,658
Equity guaranteed[6]	1,188,304	1,065,426	912,298	1,027,392	981,572	946,448	912,298
Global funds	88,337	105,719	127,336	114,244	124,088	130,519	127,336
Passively managed[7]	85,403	90,343	100,416	85,254	82,371	95,948	100,416
Absolute return[7]	270,766	277,445	229,099	279,469	261,822	238,671	229,099
Return[8] (%)							
Total investment funds	**5.73**	**0.35**	**-0.08**	**0.95**	**0.03**	**-2.37**	**1.35**
Fixed income[1]	1.91	0.11	1.56	0.63	0.33	0.01	0.58
Balanced fixed income[2]	6.85	-0.54	-1.34	0.90	0.09	-3.47	1.20
Balanced equity[3]	16.47	-0.98	-5.64	2.23	-0.31	-10.13	3.02
Euro equity[4]	32.41	-2.94	-11.71	6.11	-0.45	-19.67	4.05
International equity[5]	37.28	14.22	-10.83	-0.49	-1.15	-15.70	7.53
Fixed income guaranteed	3.81	-0.67	3.28	0.89	0.36	1.28	0.71
Equity guaranteed[6]	3.56	-1.79	0.14	0.71	-0.48	-0.76	0.68
Global funds	10.90	3.22	-4.64	0.98	-0.14	-8.10	2.90
Passively managed[7]	–	-2.36	-7.33	3.74	-0.30	-13.94	4.11
Absolute return[7]	–	1.53	-1.87	0.28	-0.35	-2.71	0.93

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.

* Data for funds that have filed financial statements (i.e., not including those in the process of winding-up or liquidation).

1 Includes: Euro and international fixed income and money market funds.
2 Includes: Balanced euro fixed income and balanced international fixed income.
3 Includes: Balanced euro equity and balanced international equity.
4 Includes: Euro equity.
5 Includes: International equity
6 Includes: Guaranteed and partially guaranteed equity.
7 New categories as of 2Q09. All absolute return funds were previously classed as global funds.
8 Annual return for 2008, 2009 and 2010. Quarterly data comprise non-annualised quarterly returns.

As we can see from table 12, investment fund returns declined by 1.1% in the second half of 2011, with fourth-quarter gains (1.35%) failing to offset the losses of the third quarter (-2.37%). Most categories served up a negative performance from July to September. Worst hit were those carrying most exposure to equities, in line with the run-down in stock prices. By the end of the year, funds were running an aggregate annual return of -0.08%, down from the 0.35% of 2010. In pure equity funds, the year-long decline exceeded 10%.

… and, to a lesser degree, dwindling portfolio returns.

Fund numbers headed gradually lower after the mild upturn of the opening quarter. The year closed with 2,310 funds on the official registers, 98 fewer than at end-2010. The decrease, as in previous years, traced mainly to inter-fund mergers. Unit-holder numbers fell from 5.16 million at the 2010 close to 4.8 million one year later. Fixed-income funds bore the brunt of the decline, with 73% of net investor outflows, while growth was confined to guaranteed fixed-income funds, which added 250,000 to their investor roll, and, in smaller measure, global and passively managed categories.

Fund and unit-holder numbers continue in decline.

Preliminary data for January 2012 point to a prolongation of these trends, with fund and unit-holder numbers in decline and fixed-income fund redemptions still running high. Aggregate fund returns, meantime, held in positive territory over the year's first weeks.

Preliminary data for January show a similar picture.

Estimated liquidity of investment fund assets TABLE 13

	Less-liquid investments					
	Million euros			% total portfolio		
Type of asset	**Jun 11**	**Sep 11**	**Dec 11**	**Jun 11**	**Sep 11**	**Dec 11**
Financial fixed income rated AAA/AA	4,391	3,998	2,195	22.8	18.9	23.0
Financial fixed income rated below AAA/AA	2,384	2,055	3,448	20.6	22.9	17.6
Non-financial fixed income	171	150	164	4.2	5.0	5.6
Securitisations	2,246	2,135	1,654	49.7	57.1	52.0
AAA-rated securitisations	609	617	383	49.3	99.0	92.3
Other securitisations	1,636	1,519	1,271	49.8	48.7	45.9
Total	**9,192**	**8,338**	**7,461**	**26.0**	**22.6**	**21.1**
% of investment fund assets	**6.6**	**6.2**	**5.6**			

Source: CNMV.

As table 13 shows, fund liquidity conditions improved in the second-half period as regards private fixed-income investments, with the volume of less-liquid assets down to 7.46 billion in December from the 9.19 billion euros of mid-year. Also, their relative weight in total industry assets fell from 6.6% in June to 5.6% in December 2011, prolonging the trend mapped out since 2009. In straight-number terms, exposure reduced most steeply in financial fixed-income assets of high credit quality (AAA/AA), down from 4.39 to 2.19 billion euros. The proportion of less-liquid assets also decreased (by some 600 million) for asset-backed securities, but increased for medium-to-low rated fixed-income instruments (by more than one billion euros).

The share of less-liquid assets reduced in 2011 to 5.6% of the industry total.

Exhibit 5: "The impact on guaranteed funds of credit institution rating downgrades"

CNMV Circular 6/2010, like the now repealed Circular 3/1998 before it, stipulates that the guarantors of UCITS with a specific objective of optimum returns secured by a third-party guarantee (generally known as "internal guarantee" funds) must meet the same solvency requirements as those regulatorily determined for the counterparties in derivative transactions. This requirement is detailed in provision 20.1 of Circular 6/2010, which states that the guarantor's credit rating as assigned by Standard & Poor's, Moody's or Fitch must be, at least, favourable in both the long and short term, i.e., indicating at least a strong or satisfactory capacity respectively to meet payment commitments in a timely manner.

Cases arose in 2009 where the credit institution extending the guarantee subsequently had its rating revised to below the regulatory cut-off. For this reason, the CNMV issued a communication (published 16/01/2009) urging fund managers operating an internal guarantee mechanism to notify a significant event – for publication by the CNMV and disclosure in the next periodic report – whenever a guarantor lost the required credit rating as a result of post-commitment downgrades.

Although, under current provisions, guaranteed funds whose authorisation predates such a revise-down are free to continue operations, the launch of new internal guarantee funds remains contingent on the guarantor complying with the stipulated rating threshold. This condition stems from the fact that internal guarantee funds are relieved of complying with many of today's legal limits. Specifically, they are exempt from the global limit on exposure to derivative products and the diversification limit on derivative underlyings (points 3 and 4 of Article 39 of Royal Decree 1309/2005), as well as counterparty limits in derivatives trading.

The law is however strict in requiring the guarantors of internal guarantee funds to keep up a minimum credit rating, whether or not they exceed the stated limits. And this could lead to situations of regulatory arbitrage with schemes where the guarantee is extended to unit-holders (commonly known as "external guarantee" funds) and to which such rating conditions do not apply.

In view of this circumstance, the CNMV is thinking of amending its Circular 6/2010 such that the rating requirement will only apply to the guarantors of internal guarantee funds that stand to overshoot the regulatory limits. This would mean fewer schemes would have to opt for the external guarantee format, which not only has tax disadvantages but also pushes up managers' administrative and operating costs in cases where they have to pay unit-holders individually on expiry of the fund guarantee (as opposed to a single payment to the fund itself in the case of an internal guarantee).

Real estate investment schemes

Real estate schemes continued to struggle against the tide, as they have done for the past few years. 2011 closed with six real estate investment funds in operation, one fewer than at end-2010. In September, concretely, one fund transformed itself into a real estate investment company and subsequently a public limited company. Of the six funds still extant, only five can be considered active, with the other subject to a dissolution agreement and poised to enter liquidation.

Fund numbers dropped by one to six, though only five were active at the 2011 close.

In four of the five active funds, the proportion of assets in the hands of investors belonging to the manager's financial group ranged from 47% to 98%. All five offered redemptions at several points in 2011, which in all but one case were met through funds put up by the controlling group. The result was to further swell the percentage of investor assets held by the financial parent of the management company.

And each of these five reported a large proportion of assets in the hands of the manager's financial group.

As we can see from table 14, assets under management in real estate funds decreased by 26.5% in 2011 to 4.49 billion euros (6.12 billion at end-2010), due almost entirely of the aforementioned dissolution. Unit-holder numbers, meantime, slumped by more than 60% to fewer than 30,000. Fund returns remained stuck in negative territory, as they have been since 2009, though with losses a little less deep than in previous years.

Real estate fund assets and unit-holders dropped 26.5% and 60% respectively, though returns held up better than in previous years.

Main real estate scheme variables

TABLE 14

					2011			
	2008	2009	2010	2011	1Q	2Q	3Q	4Q
FUNDS								
Number[1]	9	8	7	6	7	7	6	6
Unit-holders	97,390	83,583	75,280	29,735	33,747	31,963	31,412	29,735
Assets (million euros)	7,407	6,465	6,116	4,495	6,083	5,995	4,597	4,495
Return (%)	0.69	-8.31	-4.74	-3.24	-0.67	-0.65	-1.03	-0.93
COMPANIES								
Number	9	8	8	8	8	8	9	8
Shareholders	937	928	943	943	943	943	944	943
Assets (million euros)	372	309	322	313	320	318	1,663	313

Source: CNMV.

1 Funds filing financial statements.

For real estate investment companies, the picture was broadly the same as in 2010. Both company and shareholder numbers held constant in the year (see table 14), while assets under management fell by 2.8% to 313 million euros.

The business landscape for real estate investment companies remained basically unchanged.

Hedge funds

The hedge fund industry experienced mixed fortunes in 2011, with funds of hedge funds faring worse overall and a degree of advance among pure hedge. This divergent performance has been observable for some years now, reflecting funds of funds greater vulnerability to the economic and financial crisis. Between January and October 2011, specifically, this category of funds saw their unit-holders and

Funds of hedge funds lose further ground in 2011 in terms of both assets and unit-holders…

assets shrink by 2.3% and 3.9% respectively (10.4% and 12.9% between January and October 2010). This, however, pales in comparison to the experience of 2009-2010, when assets under management contracted 32% and unit-holder numbers dropped to almost half (see table 15). Finally, funds of hedge funds reported an aggregate -1.5% return between July and October 2011 (-2.6% year to date), contrasting with the gains of the two preceding years. A total of 27 funds were in operation at the October close, one fewer than at end-2010.

Main hedge fund and fund of hedge fund variables TABLE 15

				2010	2011			
	2008	2009	2010	4Q	1Q	2Q	3Q	4Q[2]
FUNDS OF HEDGE FUNDS								
Number[1]	40	38	28	28	28	27	27	27
Unit-holders	8,151	5,321	4,404	4,404	4,240	4,137	4,046	4,043
Assets (million euros)	1,021.3	810.2	694.9	694.9	667.2	636.1	617.4	611.2
Return (%)	-17.8	7.85	3.15	2.13	-0.01	-1.03	-1.50	-0.03
HEDGE FUNDS								
Number[1]	24	29	33	33	33	36	36	36
Unit-holders	1,589	1,917	1,852	1,852	1,958	2,022	2,057	2,045
Assets (million euros)	539.4	652.0	646.2	646.2	693.5	738.9	703.9	729.8
Return (%)	-4.82	14.94	5.37	3.11	1.79	0.51	-6.81	2.32

Source: CNMV.

1 Schemes that have filed financial statements.

2 Data to October 2011. The return stated corresponds to the month of October.

… while pure hedge funds manage a reasonable advance.

Hedge funds, meantime, managed to grow both assets and investor numbers (by 12.9% and 10.4% respectively), despite the slacker business of the second half. The year closed with 36 funds in operation, three more than in December 2010.

Foreign UCITS marketed in Spain

After two years of strong expansion, investment in foreign UCITS marketed in Spain reduced by around 18% in 2011…

After two years of rapid growth, investment in foreign UCITS marketed in Spain receded 15.8% in the last six months of 2011 (18.3% in the year) as far as 29.97 billion euros. With this, the observed movement out of Spanish into foreign schemes appears to have abated.

… despite an increase in their number.

Investor numbers also fell significantly in the year's second half as far as 761,380 (-11.2%). Conversely, the number of foreign schemes operating in Spain rose from 695 at end-June 2011 to 739 at the annual close, with French UCITS basically accounting for the difference.

Outlook

Industry prospects remain troubled in the face of fierce competition from deposits and other bank savings products.

The outlook for the Spanish collective investment industry remains clouded by uncertainty. Unit-holder redemptions continued to drain funds of their assets, albeit on a smaller scale than in previous years. So much so that industry size has been practically cut in two in terms of assets and investors since the crisis erupted in mid-2007. And competition from high-interest bank deposits is unlikely to go away. Fund managers have responded to the new business framework[5] by rationalising their fund offerings and cutting back operating costs, at the same time as they have been caught up in the broader reorganisation of the Spanish financial system.

Exhibit 6: "ESMA guidelines on ETFs and structured UCITS"

In view of the growing interest in ETFs, and concerns voiced about their impact on financial stability and possibly investor protection, ESMA published a consultation paper in July 2011 touching on certain aspects of ETFs and structured UCITS. Based on the responses to this paper, ESMA drew up a series of draft guidelines on ETFs and other UCITS which track indexes, lend assets or invest in total return swaps or strategy indices. This document too was sent out to public consultation for a two-month period starting in January 2012.

The key points of the ESMA proposal are summarised below:

– All ETFs should be clearly identified as such in their fund rules, prospectus and marketing communications and should bear the identifier "ETF". In the case of ETFs that are actively managed, this characteristic should be clearly stated in the prospectus, which should also indicate the strategy the fund will follow to outperform an index, the main risks entailed by this strategy, and how investors can obtain information on the make-up of its portfolio.

  The ESMA text devotes particular attention to secondary market investors, who do not figure as unit-holders in the records of the fund management company. It recommends that prospectuses and marketing communications should at least inform these shareholders about their status and rights. Specifically, they should be given the right to redeem their units directly from the ETF, at least when market makers are not able to provide liquidity.

– Tougher disclosure requirements should be introduced for index-tracking UCITS, in order to strengthen investor protection. Prospectuses should offer a detailed description of indexes and how they will be tracked. In the case of leveraged products, the prospectus should disclose the leverage policy and associated risks, with particular regard to reverse leverage, as well as specifying how daily calculation of leverage may influence medium- to long-term returns.

– Enhanced transparency is also recommended in the case of UCITS lending portfolio securities or engaging in repo transactions. Prospectuses should include a detailed description of the risks involved in these activities and the fund's policies with regard to collateral and fees received. Collateral arrangements should comply with the criteria set out for OTC derivatives, as stipulated in the level three rules of ESMA's forerunner CESR. ESMA now

5 See article by Cambón, M. I. and Losada, R. (2012). "Development of mutual fund managers and products offered from 1995 to 2010". *CNMV Bulletin*, quarter I.

proposes extending these requirements, and that the diversification rules of the UCITS Directive should apply to both collateral received and the assets in the scheme's portfolio.

– As regards UCITS investing in total return swaps, the UCITS portfolio, the underlying to the swap and any collateral posted must all comply with the Directive's diversification and qualifying asset rules. The text also calls for increased transparency in prospectuses and annual reports. Specifically investors should be informed about the underlying strategy, counterparties and the type and level of collateral required.

– UCITS investing in "strategy indices" should meet a number of conditions over and above those set out in the Directive; namely, to be sufficiently diversified, to be an adequate benchmark for the market to which they refer, to have a rebalancing frequency enabling replication and compliant with the disclosure rules of the Directive and, lastly, to be publicised appropriately.

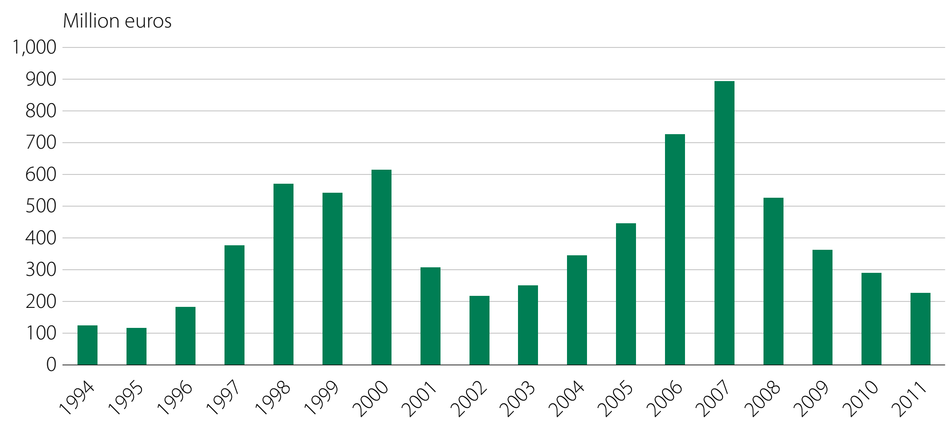
Finally, the text offers a series of reflections on whether synthetic ETFs or structured UCITS are a suitable product for retail investors, given the risks entailed by their mode of operation, while acknowledging that this is a horizontal question best dealt with in the context of the current MiFID review.

4.2 Investment firms

Financial market turmoil again takes its toll of investment firm profits, down by 21.5% in 2011.

Investment firms remained under the influence of financial market turbulence, especially in the second half, and the downturn in collective investment. The sector's aggregate pre-tax profits, at 227 million euros, were 21.5% down on those of the previous year. As figure 15 shows, profits have kept falling year after year since the onset of the crisis, though the rate of decline is apparently slowing. In nominal terms, 2011 profits were close to the levels of 2002, at the height of the previous crisis, and just a quarter of those reported in 2007 up to the outbreak of the present one.

Aggregate investment firm earnings FIGURE 15



Source: CNMV.

Broker-dealers reported pre-tax profits of 217 million over full-year 2011, 22% less than in 2010 (see table 16). The decline, following on from the -20% of the previous year, traced mainly to net fee income, down from 533.8 million in 2010 to 490.5 million at the 2011 close (-8%). Fees from order processing and execution (68% of the total) fell by 4.6%. Among smaller items, fees from UCITS marketing and issue placement and underwriting suffered the biggest slide, while those from investment advice, portfolio management and other services advanced in the period.

Broker-dealer profits drop 22% on lower fee income.

There were mixed fortunes for the remaining captions making up broker-dealer gross income, with a 10% fall in net interest income to 91.5 million euros offset by an almost six-fold surge in gains on financial investments as far as 272 million euros. Similarly, broker-dealers reported 198 million in exchange losses, contrasting with the 48.6 million gains of 2010.

Gross income captions perform unevenly…

Aggregate income statement (2011)

TABLE 16

	Broker-dealers			Brokers			Portfolio managers		
Thousand euros	**Dec 10**	**Dec 11**	**% var.**	**Dec 10**	**Dec 11**	**% var.**	**Dec 10**	**Dec 11**	**% var.**
1. Net interest income	102,054	91,542	-10.3	1,629	2,480	52.2	407	682	67.4
2. Net fee income	533,858	490,517	-8.1	109,165	97,884	-10.3	10,097	7,987	-20.9
2.1. Fee income	798,152	776,641	-2.7	126,055	112,349	-10.9	20,994	18,476	-12.0
2.1.1. Order processing and execution	555,207	529,711	-4.6	38,176	36,354	-4.8	–	–	–
2.1.2. Issue placement and underwriting	8,499	7,446	-12.4	2,748	2,870	4.5	–	–	–
2.1.3. Securities custody and administration	22,367	21,060	-5.9	366	440	20.2	-	–	–
2.1.4. Portfolio management	13,880	16,186	16.6	19,489	12,351	-36.6	18,020	16,582	-8.0
2.1.5. Design and advising	49,433	55,025	11.3	2,790	5,349	91.7	1,160	1,894	63.3
2.1.6. Search and placement	36	484	1,249.6	304	61	-80.0	–	–	–
2.1.7. Margin trading	9	8	-15.0	27	42	55.9	–	–	–
2.1.8. UCITS marketing	65,487	59,588	-9.0	23,946	21,381	-10.7	34	0	-100.0
2.1.9. Others	83,233	87,133	4.7	38,209	33,501	-12.3	1,779	0	-100.0
2.2. Fee expense	264,294	286,124	8.3	16,890	14,465	-14.4	10,897	10,489	-3.7
3. Result of financial investments	48,588	271,955	459.7	456	623	36.8	51	186	265.6
4. Net exchange income	24,445	-198,307	–	-3	78	–	9	30	252.5
5. Other operating income and expense	1,635	3,952	141.6	-1,413	-1,617	-14.5	13	-40	-413.5
GROSS INCOME	**710,580**	**659,659**	**-7.2**	**109,834**	**99,448**	**-9.5**	**10,577**	**8,845**	**-16.4**
6. Operating expenses	415,433	426,672	2.7	97,582	89,736	-8.0	9,305	7,211	-22.5
7. Depreciation and other charges	6,006	21,532	258.5	2,817	1,943	-31.0	118	109	-7.5
8. Impairment losses	12,888	4,076	-68.4	-23	12	–	0	0	–
NET OPERATING INCOME	**276,253**	**207,379**	**-24.9**	**9,457**	**7,757**	**-18.0**	**1,154**	**1,525**	**32.1**
9. Other profit and loss	2,265	9,861	335.3	19	412	2,103.9	38	0	-100.0
PROFITS BEFORE TAXES	**278,519**	**217,240**	**-22.0**	**9,476**	**8,169**	**-13.8**	**1,192**	**1,525**	**27.9**
10. Corporate income tax	81,685	68,687	-15.9	3,024	2,681	-11.3	254	484	90.9
PROFITS FROM ONGOING ACTIVITIES	**196,834**	**148,553**	**-24.5**	**6,452**	**5,488**	**-14.9**	**939**	**1,041**	**10.9**
11. Profits from discontinued activities	0	0	–	0	0	–	0	0	–
NET PROFIT FOR THE YEAR	**196,834**	**148,553**	**-24.5**	**6,452**	**5,488**	**-14.9**	**939**	**1,041**	**10.9**

Source: CNMV.

… while operating costs and provision charges rise.

Finally, broker-dealer gross income closed the year at 659.7 million euros, 7% less than in 2010. Higher operating expenses and provision charges made deeper inroads into the sub-sector's net operating income, which, at 207.4 million, was a full 25% down on the same figure for 2010.

Broker profits also betray the effects of falling net fee income, despite some progress in operating cost containment.

Brokers, meantime, saw their pre-tax profits slide by 14% to 8.2 million euros (9.5 million in 2010). Behind this decline was a 10.3% drop in net fee income from 109.2 to 97.9 million euros. In general, investment service business slowed over 2011, the exception being investment advisory services which earned almost double the amount of the previous year (see table 16). Broker gross income closed at 99.5 million euros, 9.5% less than in 2010, while net operating income fell by 18% to 7.8 million despite operating cost containment (-8%) and lower depreciation and other charges (-31%).

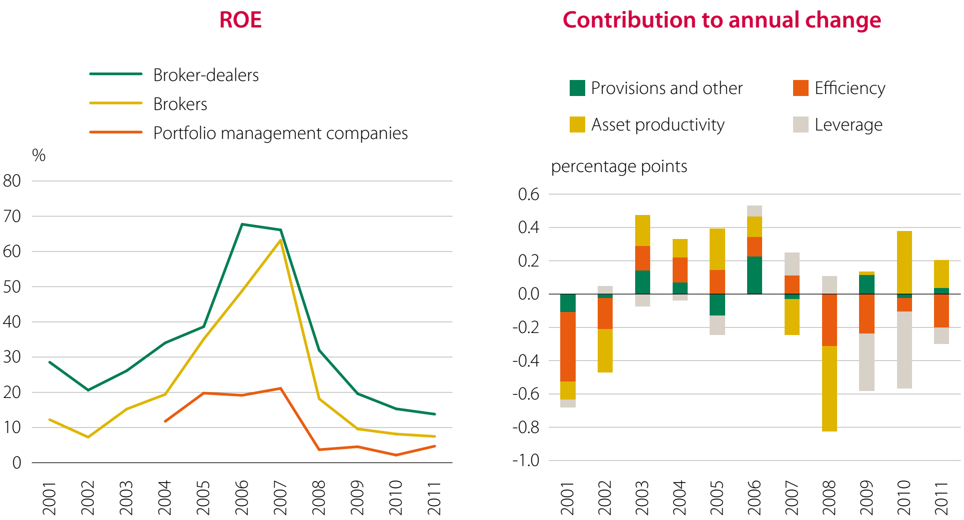
Portfolio managers raise their profits 28% with the help of operating cost containment.

Finally, portfolio management companies grew their aggregate pre-tax profits by 28% as far as 1.5 million at the 2011 close. Despite a 21% slide in net fee income, with falling portfolio management revenues (-8%) contrasting starkly with the advance of investment advisory business (63%), cost-cutting efforts at the operating expenses line (-22.5%) helped lift net operating income to a year-end total of 1.53 million euros (32% more than in 2010).

Investment firm ROE falls from 14.7% in 2010 to 13.2% in 2011, in line with sector earnings…

Sector-wide return on equity (ROE) dropped from 14.7% in 2010 to 13.2% in 2011, in line with the downtrend in investment firm earnings. By type of enterprise, the ROE of broker-dealers shrank from 15.3% to 13.8% and that of brokers from 8.1% to 7.5%. Conversely, the ROE of portfolio management firms strengthened in the year from 2.2% to 4.7%. As figure 16 shows, the decrease in aggregate ROE traced mainly to efficiency losses and, to a smaller extent, a reduction in leverage, while asset productivity again contributed on the upside, as in 2010.[6]

Pres-tax ROE of investment firms FIGURE 16



Source: CNMV.

6 For a fuller description of how to interpret the elements in this equation, see the exhibit "ROE breakdown" in (2008). "Securities markets and their agents: situation and outlook", *CNMV Bulletin*, quarter I.

The number of loss-making entities (before taxes) was 31 at the 2011 close. This was eight more than in 2010, in a break with the downward trend of the two previous years. Of this total, 13 were broker-dealers (10 in 2010), 17 brokers (12 in 2010) and the other one portfolio management company (the same number as in 2010). Losses in the year amounted to 26.3 million euros versus the 16 million of 2010, a difference of 64%. The figure, moreover, equated to around 12% of aggregate sector earnings, double the percentage of one year before.

… while the number of loss-making entities moves up by eight to 31 at the 2011 close.

Investment firms remained comfortably compliant with capital standards, though margins have narrowed by around 30% since the entry of a stricter regulatory framework in June 2009. Between 2010 and 2011, aggregate solvency margins reduced slightly sector-wide. Broker-dealers, concretely, reported an end-2011 equity surplus of 3.5 times (3.6 in 2010) against the 1.9 of brokers (2.0 in 2010) and the 1.1 of portfolio managers (1.2 in 2010).

Sector capital standards hold up reasonably well.

Investment advisory firms (IAFs) have enjoyed a notable expansion since they were authorised in 2009 with the transposing to Spanish law of the MiFID directive. This was equally evident in the numbers of firms in operation (up by 30 to 82), the volume of assets under advice (up 9% to 17.2 billion euros) and the number of advisory contracts outstanding (up 56% to 3,789). Professional clients accounted for 81% of assets advised against the 12% drawn from retail customers. The fees earned by IAFs came to 29.8 million euros, 43.5% more than in 2010, but this was not enough to prevent a 6% decline in earnings to 6.4 million euros at end-2011 (see table 17).

IAF business continues to expand, with assets under advice up by 9% in 2011.

Main investment advisory firm variables TABLE 17

Thousand euros	2009	2010	2011	2011 1H	2011 2H	% semi-annual change	% annual change
NO. OF ENTITIES	**16**	**52**	**82**	**64**	**82**	**28.1**	**57.7**
ASSETS UNDER ADVICE[1]	**1,410,985**	**15,802,743**	**17,206,331**	**16,498,814**	**17,206,331**	**4.3**	**8.9**
Retail customers	364,284	1,715,084	2,168,957	1,895,320	2,168,957	14.4	26.5
Professional customers	1,046,702	13,995,206	13,963,983	14,501,823	13,963,983	-3.7	-0.2
Others	0	92,453	1,073,391	101,671	1,073,391	955.7	1,061.0
NO. OF CONTRACTS	**317**	**2,431**	**3,789**	**3,158**	**3,789**	**20.0**	**55.9**
Retail customers	293	2,345	3,635	3,037	3,635	19.7	55.0
Professional customers	24	79	127	109	127	16.5	60.8
Others	0	7	27	12	27	125.0	285.7
FEE INCOME[2]	**3,183**	**20,745**	**29,778**	**14,116**	**29,778**	**111.0**	**43.5**
Fees received	3,183	20,629	29,586	14,080	29,586	110.1	43.4
From customers	2,776	17,132	24,801	11,720	24,801	111.6	44.8
From other entities	407	3,497	4,773	2,360	4,773	102.2	36.5
Other income	0	116	192	36	192	433.3	65.5
EQUITY	**1,500**	**10,057**	**11,475**	**10,469**	**11,475**	**9.6**	**14.1**
Share capital	1,043	3,014	3,895	3,386	3,895	15.0	29.2
Reserves and retained earnings	36	242	1,186	2,915	1,186	-59.3	390.1
Profit/loss for the year[2]	421	6,801	6,394	4,168	6,394	53.4	-6.0

1 Period-end data at market value.

2 Cumulative data for the period.

Investment firm prospects hang on the eventual stabilisation of financial markets and the knock-on effects of the restructuring process in the Spanish banking sector.

The outlook for the investment services sector will again hang mainly on the performance of financial markets. Traditional revenue streams like secondary market brokerage services or issue placement are thinning out progressively, and investment fund marketing is doing little better. However, some of the slack may be taken up by new business lines like investment advisory services. There is also the prospect of an imminent sector reorganisation, along similar lines to what is happening now with UCITS managers, as part of the broader restructuring of the Spanish financial system. Indeed, in recent years, credit institutions have been taking a growing slice of the investment services market, with many of them opting to wind up subsidiaries and take on the business themselves.

4.3 UCITS management companies

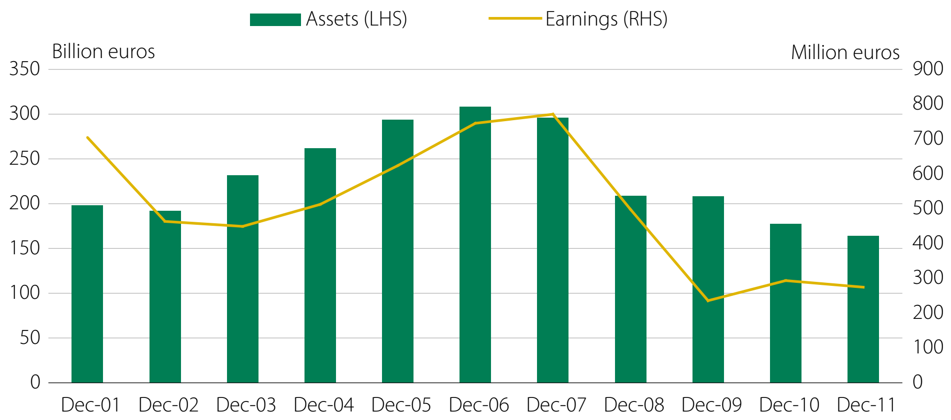
Fund manager assets contract in 2011, albeit less sharply than in previous years.

Assets under management in UCITS management companies (SGIIC) fell by 6.5% in the second half (7.6% in the full-year period) to just over 164 billion euros. The rate of decrease was however less severe than in 2010 (see figure 17 and table 18).

ROE holds at 20%, despite earnings erosion, while the number of loss-making entities falls back slightly.

The decline in managed assets was mirrored by a 6.4% decline in pre-tax profits to 274.6 million euros. Revenues from fund management fees fell by a rather steeper 8.8% to stand at 0.9% of industry assets in December 2011. ROE held flat at around 20%. Despite the profits slide, the number of loss-making entities dropped from 35 in June to 32 in December (34 at end-2010), while their combined losses, at 11.3 million euros, were 44.3% down on the equivalent figure for 2010.

UCITS management companies: assets under management and pre-tax profit FIGURE 17



Source: CNMV.

The restructuring of the Spanish financial sector is changing the face of the fund management industry.

UCITS management companies pressed on throughout the year with the task of streamlining their investment fund offerings by means of multiple inter-product mergers. Financial sector restructuring also generated movements in the sector. In fact of the ten companies that ceased operation in 2011 (five in each semester) half did so as a result of parent group reorganisation.[7]

7 Aside from the ten retirals stated, two companies did not file financial statements at end-2011 due to ongoing merger processes, and have since applied for de-registration.

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

Million euros

	Assets under management	UCITS management fee income	Average UCITS management fee (%)	Fee ratio (%)[1]
2002	192,099	2,259	1.18	72.7
2003	231,458	2,304	1.00	73.8
2004	262,132	2,670	1.02	73.6
2005	293,973	2,976	1.01	72.2
2006	308,476	3,281	1.06	71.5
2007	295,922	3,194	1.08	70.5
2008	209,014	2,302	1.10	70.8
2009	203,379	1,702	0.84	68.6
2010	177,676	1,622	0.91	68.1
2011	164,125	1,479	0.90	66.6

Source: CNMV.

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

4.4 Other intermediaries: venture capital

The number of venture capital entities registered with the CNMV rises slightly to 336.

The number of venture capital entities (VCEs) increased in the year from 333 to 336 (see table 19). Of this total, 143 were venture capital companies (VCCs), 114 venture capital funds (VCF) and 79 VCE management companies. During 2011, 19 entities joined the register (seven VCCs, seven VCFs and five VCE managers) against 16 retirals (14 VCCs, one VCF and one management company). Most retirals were due to general business slackness or else were designed to avoid non-compliance with the compulsory investment ratios introduced by new sector legislation, and in 65% of cases corresponded to entities new to the market (operating for under five years).

New entrants had a number of characteristics worthy of note:

– Most VCEs (70%) opted for the simplified regime, in line with the trend of these past four years.

– New VCEs are gearing investment towards start-ups or growth enterprises, which account for the bulk of their transactions.

– The sectors targeted were basically technology, industry, energy and health, though funds also went into the restructuring of SMEs in financial difficulties.

– New entities tend to concentrate on the domestic market, with some even confining themselves to a single Spanish region (autonomous community). There are also two funds specialising in Latin American and Indian companies respectively.

– Finally, the public sector is present through a series of funds promoted by autonomous communities and other official entities.

Movements in the VCE register in 2011 TABLE 19

	Situation at 31/12/2010	Entries	Retirals	Situation at 31/12/2011
Entities	333	19	16	336
Venture capital funds	108	7	1	114
Venture capital companies	150	7	14	143
Venture capital management companies	75	5	1	79

Source: CNMV.

Venture capital investment in Spain falls by 7% to 3.25 billion euros.

According to preliminary data furnished by the Asociación Española de Entidades de Capital-Riesgo (ASCRI), venture capital investment in Spain receded 7% in 2011 to 3.25 billion euros. Despite the contraction, this was more than double the figure for 2009. Investment activity was at its most intense in the first half of the year, with two-third of all transactions bunched between January and July. International funds were strongly to the fore, accounting for 60% of total investment as well as five of the largest transactions (representing 47%).

83% of capital raised came from international funds. Disposals in 2011 were on a par with the previous year.

Leveraged buyouts accounted for two thirds of the year's investment. New capital raised totalled 3.26 billion euros, 26% less than in 2010, with 17% of this amount captured by Spanish operators and the rest by foreign funds. Finally, disposals summed 1.56 billion euros, similar to the 2010 total, although the number of transactions was significantly higher (556 in 2011 versus 337 in 2010).

For companies facing problems of access to bank lending, internationalisation may offer the best way forward.

The outlook for the venture capital sector is not that bad. And certainly the presence of large international funds suggests that Spain holds out attractive investment opportunities. As in previous years, however, the scale and intensity of sector investment will largely depend on having access to bank finance. Though ASCRI estimates that the sector will not see a full-blown recovery until 2013, companies' best preparation may be internationalisation. In fact, some VCEs are already making prospections in emerging markets, with Latin America as the first port of call.

Exhibit 7: "EC draft regulation on European venture capital funds"

SMEs are of vital importance in the European economy and their current difficulties raising finance are therefore a cause of grave concern. The impact of the crisis on their business and earnings has left many unable to finance themselves out of cashflow, at the same time as borrowings have been constrained by the weakness of bank lending. In fact, Europe's SMEs are heavily reliant on the bank finance channel, while other formulas, like venture capital or capital markets, have made little headway with this type of firm.[1]

Hence the need to open up SME financing channels other than the banking sector. This need is especially patent in early-stage companies with growth potential, whose innovative bent and capacity for job creation makes them strategically important for the economy.[2] In Europe, generally, suppliers of this kind of funding, primarily the organised venture capital sector (venture capital funds and companies), informal sources like business angels, or the securities markets themselves, including the so-called alternative markets, are far smaller and less developed than in the United States.[3]

In December 2011, the European Commission sent the European Parliament and Council the draft of a regulation introducing uniform Europe-wide rules for venture capital funds specialised in the financing of unlisted small and medium-size enterprises, for immediate adoption via the co-decision procedure.[4] The goal of the Commission's proposal is to remove superfluous obstacles in national legislation and promote the cross-border marketing of this kind of fund. Its approval will harmonise aspects of national regulations in countries, like Spain, with an existing regime for venture capital entities, while providing a first-time framework for this activity in other Member States.[5] Its provisions will foreseeably come into force at end-2012.

The proposal reserves the denomination of European Venture Capital Funds (henceforth EVCFs) for those meeting a series of conditions, chiefly: i) they must invest 70% of their aggregate capital contributions and uncalled committed capital in unlisted SMEs, ii) SME investments must take the form of equity or quasi equity instruments (for example, subordinated loans), and iii) they must not use leverage (that is, the fund may invest no more than the amount of capital committed by investors, so borrowing will not be permitted). All funds operating under this denomination must comply with a set of uniform rules and quality criteria (concerning, among others, disclosure to investors and operational requirements) when raising capital on a cross-border basis. This single regulatory code should ensure that investors know exactly what they are getting with an EVCF.

At the same time, the proposal takes a restrictive line regarding the investors eligible to buy into an EVCF. Specifically, qualifying funds can only be marketed to professional investors, as defined by the MiFID, along with others traditionally present in the venture capital market (family offices and business angels), provided they commit a minimum investment of 100,000 euros. The door is left open, however, to a wider participation in future extending to the general public.

The texts grants an EU-wide passport to all venture capital fund managers compliant with the above requirements, enabling them to target eligible investors in any Member State. This is because the smaller size of the kind of SME-oriented venture capital fund addressed by the draft regulation would normally bar them from taking up the passport envisaged in the 2011 Directive on Alternative Investment Fund Managers (AIFMD), which is confined to management companies running a portfolio of over 500 million euros. Also, the legal framework established by the AIFMD is primarily geared to hedge funds and private equity houses, while that of the Commission's proposal is more closely aligned with the size, investment policy and investor target of the standard venture capital fund.

1 See, for example, chapter 2 of the CNMV Annual Report 2010, available at http://www.cnmv.es/DocPortal/Publicaciones/Informes/AnnualReport2010_weben.pdf or the explanatory memorandum for the Proposal for a Regulation of the European Parliament and the Council on European Venture Capital Funds, available at http://ec.europa.eu/internal_market/investment/docs/venture_capital/111207-proposal_en.pdf

2 See, for example, Arce, Ó., López, E. and Sanjuán, L. (2011). *Access of SMEs with growth potential to the capital markets*. CNMV Working Paper No. 52, November 2011, available at http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/N52_Enen.pdf

3 The average capital managed by venture capital funds in Europe is far short of the optimal levels to conduct a diversified investment strategy that injects significant funds into a range of companies and thus has a real impact on the economy. The average venture capital fund in the EU holds around 60 million euros in assets, compared to the 130 million euros of a fund in the United States. Some studies consider that an average size of around 280 million euros is needed to have a decisive influence in investee sectors. See Lerner, J., Pierrakis, Y., Collins, L. and Bravo Biosca, A. (2011). Atlantic Drift - Venture capital performance in the UK and the US. NESTA. Research report.

4 *Proposal for a Regulation of the European Parliament and the Council on European Venture Capital Funds*. Available at http://ec.europa.eu/internal_market/investment/docs/venture_capital/111207-proposal_en.pdf

5 Only nine Member States have a dedicated legal regime for this kind of fund. The rest apply the general provisions of company law.

II Reports and Analyses

Sovereign CDS and bonds markets in the context of the European sovereign debt crisis

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1 Introduction

Since the start of the sovereign debt crisis in various countries of the euro area in the first half of 2010, credit default swaps (CDS) have attracted growing interest from analysts, investors and regulators. Up until only a few years ago, the activity in these derivatives, which offer hedging against the default of fixed income instruments, was usually restricted to the area of corporate debt and, in some cases, public debt issued in emerging economies.[1] However, the recent downgrades in the perception of the fiscal situation of some European countries have led to a significant increase in activity in sovereign CDS markets. At the same time, new questions have arisen with regard to these instruments and their markets, including questions relating to possible sources of systemic risk in CDS markets, their relation with underlying debt markets or the possible use of CDS to distort, or even manipulate, debt markets.[2]

In this context, this article presents the main results obtained in a recent study performed by Arce, Mayordomo and Peña (2012),[3] in which they analyse several issues linked to the relationship between CDS markets and sovereign debt markets in the Economic and Monetary Union (EMU) over recent years. The first of these issues relates to the relationship which should theoretically exist between the premium of the CDS and price of the underlying bond. Specifically, as is the case with the price of any other insurance instrument, the premium of the CDS should be linked directly to the value of the hedging offered which, in this case, is simply the value of the default risk covered by the CDS contract. At the same time, the default risk inherent to the bond can be defined as the spread between the price of the bond in question and that of a bond which is free of risk. Accordingly, in the absence of frictions and imperfections in these markets, the value of the inherent credit risk measured directly – through the spread of the bond – and indirectly – the corresponding CDS

1 In the area of corporate debt, see, for example, Blanco, R., Brennan, S. and Marsh, I. W. (2005). "An empirical analysis of the dynamic relationship between investment grade bonds and credit default swaps". *Journal of Finance*, 60, pp. 2255-2281; and Zhu, H. (2006). "An empirical comparison of credit spreads between the bond market and the credit default swap market". *Journal of Financial Services Research*, 29, pp. 211-235. Ammer, J. and Cai, F. (2007). "Sovereign CDS and bond pricing dynamics in emerging markets: Does the cheapest-to-deliver option matter?". *Journal of International Financial Markets, Institutions and Money*, 21, pp. 369-387; and Bowe, M., Klimaviciene, A. and Taylor, A. P. (2009). *Information transmission and price discovery in emerging sovereign credit risk market*. Working Paper, where they analyse the relationship between sovereign CDS and bond markets in emerging countries.

2 With regard to this last area, see, for example, Duffie, D. (2010). "Is there a case for banning short speculation in sovereign bond markets?". *Banque de France, Financial Stability Review*, 14 (July), pp. 55-59; and Portes, R. (2010). 'Ban Naked CDS'. Unpublished, London Business School.

3 Arce, Ó. Mayordomo, S. and Peña, J. I. (2012). *Credit-risk valuation in the sovereing CDS and bond markets: Evidence from the euro area crisis*. CNMV Working Paper No. 53. Available at http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/Monografia_N53_ENen.PDF.

premium – should match. In other words, the "basis", defined as the difference between the CDS premium and the spread of the underlying bond with regard to a free of risk benchmark, should be zero.

The first result presented in the article is the empirical comparison of this hypothesis. Specifically, the results obtained suggest that the aforementioned balanced relationship in a frictionless context is a good approximation of the period prior to the crisis, but not since the start of the crisis, when persistent deviations began to be seen between sovereign credit risk indicators.

Assuming that these persistent deviations do not reflect the existence of arbitrage opportunities between both markets, but rather the presence of imperfection in the markets, the next natural step lies in exploring the effect of several of these imperfections on the basis. Among the different factors considered, the most significant is counterparty risk, which is understood as a possibility that the entity selling the CDS does not meet its hedging commitment in the event of default. We also analyse funding costs, because of their direct impact on the demand for bonds, the level of liquidity in the CDS market compared with that of the bond market and the level of global risk. In addition, two additional factors are considered which might have a significant effect on these two markets: the purchase of sovereign debt in the secondary market by the European Central Bank (ECB) from May 2010 and the announcement in the summer of 2011 of an agreement to a possible haircut by the main private holders of Greek debt.

We analyse price discovery efficiency in the two markets under consideration, that of CDS and that of bonds, below. Once again, the distinction between the pre-crisis period and the crisis period is crucial. In particular, empirical analysis indicates that before the crisis, CDS markets used to lead the price discovery process to the extent that CDS premiums incorporated new information flows relating to the credit risk of the underlying bond faster than bond prices. However, the intensification of counterparty risk, together with the purchases of public debt by the ECB and the anticipation of a haircut agreed by the main holders of Greek debt seem to have significantly altered the relative level of efficiency of these markets in recent times.

Accordingly, the general conclusion resulting from the analysis presented in this article is that the prices of CDS and sovereign bonds and their discovery process and information content must bear in mind the effects of the different frictions present in these markets. Similarly, the evidence accumulated since the start of the crisis clearly indicates that these effects are changing over time.

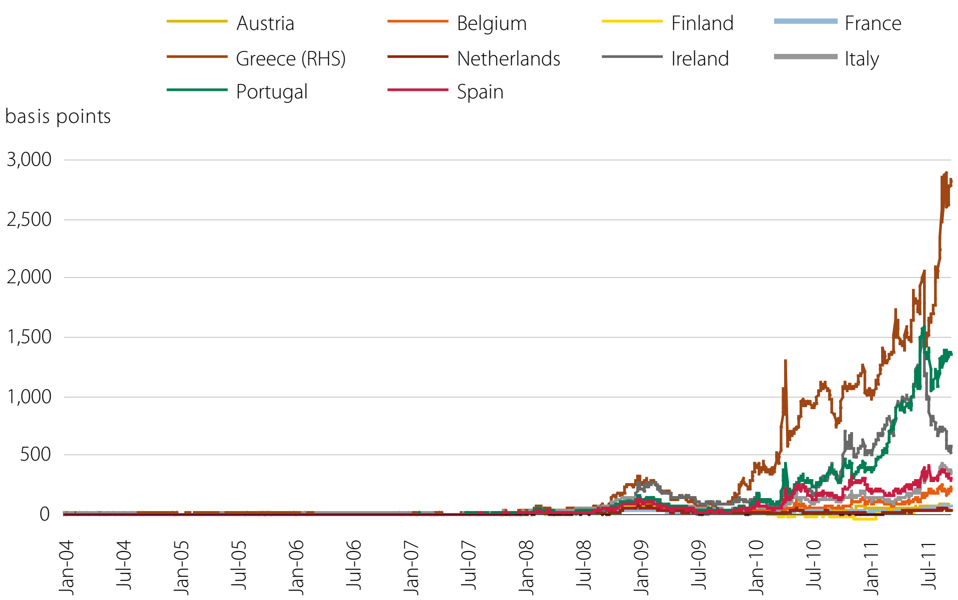
The rest of the article is structured as follows. Section 2 presents the key figures of several sovereign CDS markets in the EMU together with the most recent developments in this area. Section 3 analyses the presence of persistent deviations between CDS premiums and the benchmark sovereign bonds, as well as the determining factors for these deviations. Section 4 continues with the results of the empirical analyses carried out in order to determine the relative level of information efficiency of CDS markets compared with the markets of the benchmark bonds. Section 5 contains the main conclusions of the article.

2 CDS and bond markets in the EMU: main features

Figures 1 and 2 show the development of CDS prices and the spreads of sovereign bonds respectively for 11 countries belonging to the EMU.[4] One of the first things we can see in this series is the notable increase in their volatility as from the end of 2008. Up to that time, both CDS premiums and the spreads of the underlying bonds constantly stood at very low and stable levels, with minimal differences between the different countries studied. However, at the end of 2008 the average levels of both variables increased notably in most countries compared with those recorded previously.

Subsequently, the start of the Greek sovereign debt crisis at the end of 2009, and the spread to other economies of the euro area the following year, led to a segmentation by country of the development of these two sovereign risk indicators. The economies subject to greater uncertainty with regard to the strength of their public finances quickly suffered significant increases in both indicators. This was basically the case of the three countries which required international financial support (Greece, Ireland and Portugal) and, to a lesser extent, Italy, Spain and Belgium. The development of CDS premiums and bond spreads was more moderate in the other countries. Accordingly, at the end of the sample period (the middle of October 2011), Finland and Germany had the lowest CDS premiums, with 73 and 93 basis points respectively, while a few weeks previously they had reached levels close to 7,000 basis points in Greece.

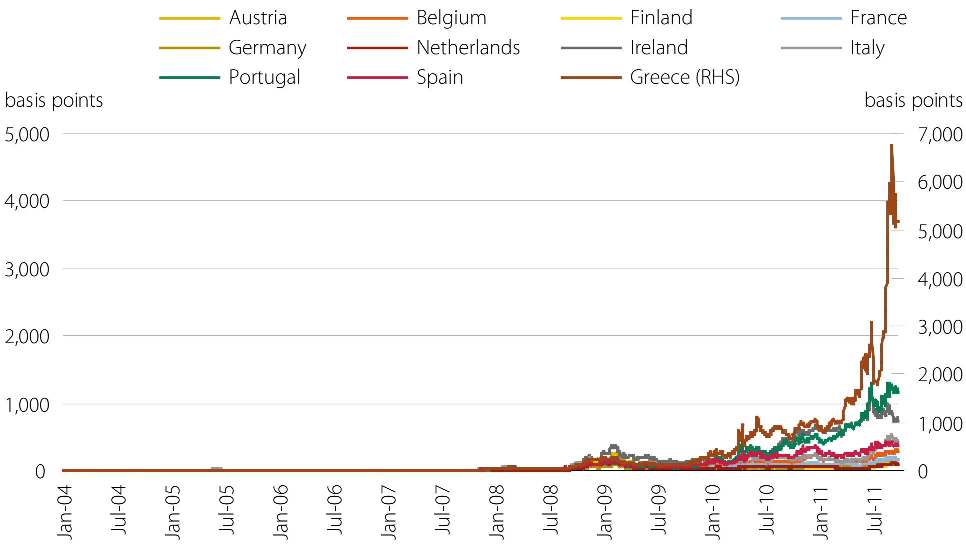
Five-year bond spread (with respect to German bond) FIGURE 1



Source: Datastream.

4 These countries are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal and Spain. The sample period is January 2004-October 2011. In the case of Germany, only the CDS spread is shown as the interest rate of the German five-year bond is used as a benchmark to define the bond spreads.

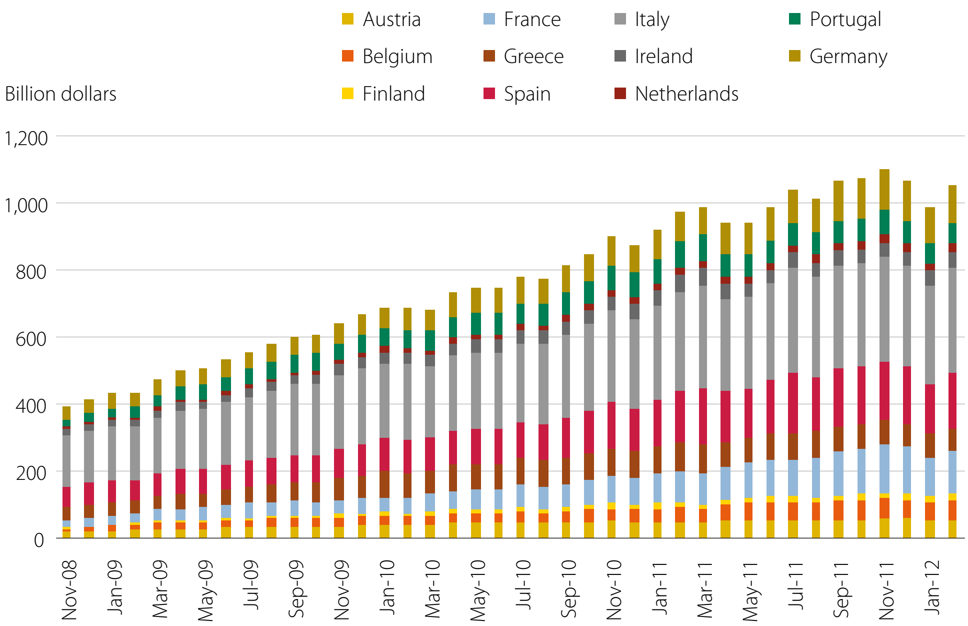
Five-year CDS premium FIGURE 2



Source: Credit Market Analysis (CMA).

There has also been a notable increase in trading activity in European sovereign CDS markets over recent years. Figure 3 contains the gross notional volume of several countries in the euro area and shows the sharp rise recorded in trading of these derivatives over recent years. The volume of outstanding contracts in the 11 countries in the study rose from close to 400 billion dollars at the end of 2008 to more than 1 trillion dollars in February 2012. By country, those with the greatest growth in issuing activity over the recent period are Italy, Spain and France.

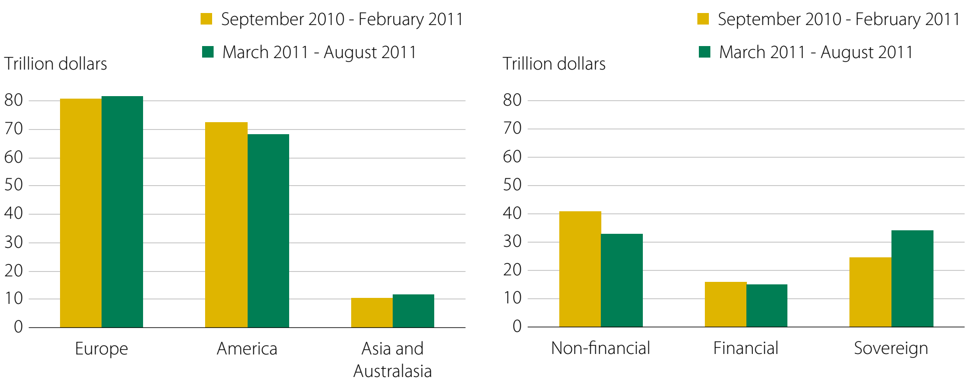
Gross notional volume in CDS FIGURE 3



Source: Reuters.

Figure 4 shows the aggregate value of the gross notional amount of CDS transactions, expressed as the weekly average for the two six-month periods between September 2010 and August 2011, for different regions (left panel) and for different European issuers (right panel).[5] In the second six-month period under consideration, we can see a slight increase in the volume of European CDS transactions (1% up on the previous six-month period) and a sharper fall in CDS demand on the American continent (6%). In the European case, we can see that the increase in activity in these markets was down to the sharp increase in sovereign CDS transactions, which rose by 39% in the period under consideration. The volume of CDS transactions with private underlying financial and non-financial assets fell by 6% and 20% respectively between March 2011 and August 2011 compared with the previous six-month period.

Notional weekly average in CDS FIGURE 4

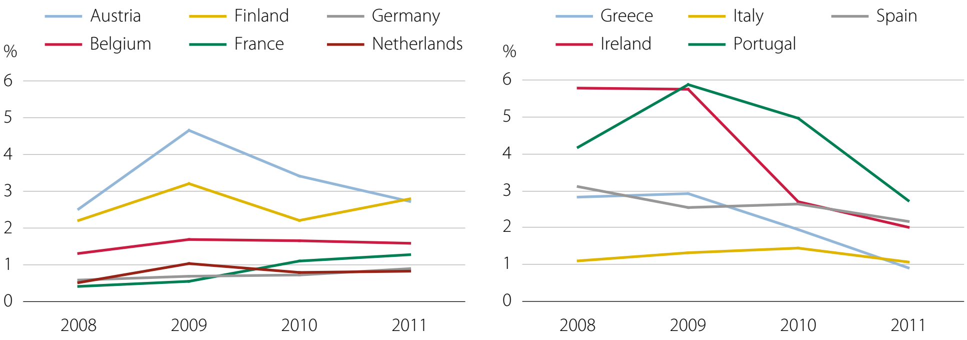


Source: Depository Trust & Clearing Corporation (DTCC).

Despite the increased activity in the European sovereign CDS market, the proportion of the notional amount of these types of derivative over the total amount of the issued underlying asset remains relatively low as shown in Figure 5, which shows the ratio between the net aggregate notional volume of CDS over the gross debt for the different countries in the sample. With information available as of September 2011, this ratio does not exceed 3% in any case after the relative volume of CDS in the countries which have suffered the sovereign debt crisis most severely (Greece, Portugal and Ireland) fell significantly since the highs recorded in 2009.

5 The aggregate value of the gross notional amount represents the value of all the outstanding contracts at a specific moment. Calculation of the aggregate value of the net notional amount does not include contracts which have been offset with other opposing contracts.

Net notional of CDS relative to gross debt FIGURE 5



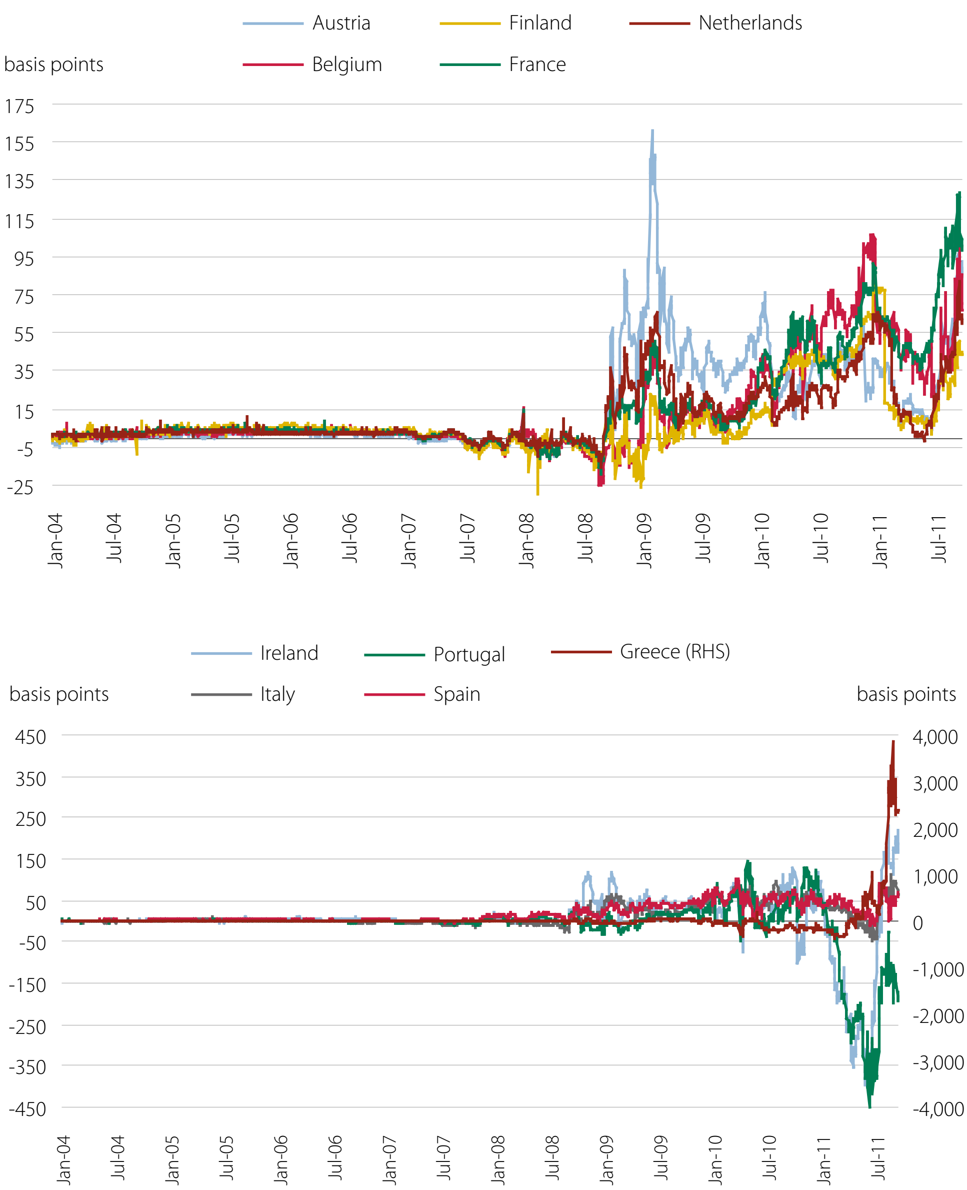
Source: DTCC and IMF.

3 Analysis of the CDS-bond basis and its determinants

In the absence of imperfections in CDS and bond markets, the two following portfolio strategies should be identical with regard to the combination of risk and return which both offer the investor: 1) buying a bond free of the risk of default, and 2) buying a bond with default risk while, at the same time, hedging this risk by buying the corresponding CDS. In both cases, the investor would obtain a net return equal to that offered by the free-of-risk asset. In equivalent terms, the CDS premium should be the same as the spread between the expected yield of the bond with risk and the safe asset. If this was not the case, there would be arbitrage opportunities which would allow the investor to obtain gains by restructuring their portfolio without increasing their risk level. For example, if the CDS premium were lower than the spread of the bond compared with the safe assets, the second strategy described above would clearly be more profitable than the first.

In reality, however, the presence of fictions in markets means that the above theoretical non-arbitrage relationship is not fully met at all times. In fact, as shown in the panels of Figure 6, there have been frequent deviations between both figures over recent years. In particular, it is clear that these deviations were notably more intense as from the end of 2008, coinciding with the worsening of the global financial crisis following the collapse of Lehman Brothers in September of that year. This result can be seen both in the countries which are less affected by the current European sovereign debt crisis (see the top panel of Figure 6), and in those countries subject to greater fiscal vulnerability (see the bottom panel of Figure 6).

CDS-bond basis for central and peripheral countries FIGURE 6



Source: CMA.

Arce, Mayordomo and Peña (2012)[6] formally documented that prior to September 2008 no persistent deviations from zero in the basis were detected in any of the countries in the sample under consideration.[7] As from that month, the statistical methodology used detected persistent deviations between the CDS premium and the bond spread in 6 of the 11 countries. Among the factors which, in principle,

6 Op. cit.

7 The authors use a test based on the methodology developed by Hogan, S., Jarrow, R., Teo, M. and Warachka, M. (2004). "Testing market efficiency using statistical arbitrage with applications to momentum and value trading strategies". *Journal of Financial Economics*, 73, pp. 525-565. Also see Mayordomo, S., Peña, J. I. and Romo, J. (2011b). *A new test of statistical arbitrage with applications to credit derivatives markets*. CNMV Working Paper No. 47, for a recent application of this method to the CDS and corporate bond market.

could lead to the persistent positive or negative basis, the effects of the following have been analysed:[8]

- **Counterparty risk.** A greater risk of non-payment by the seller of a CDS in the event of a default of the benchmark bond would involve a fall in the CDS premium as the perceived value of the protection offered would be lower.

- **Funding costs.** Higher funding costs should have a greater relative effect on the demand for bonds than on the demand for CDS as CDS positions allow greater leverage than bond positions, that is, assuming the same net position in terms of credit risk (for example through a long position in bonds and a short position in CDS) requires a greater initial disbursement in the case of bonds.[9] Therefore, an increase in funding costs would lead to a greater fall in the demand for bonds and, possibly, in their price, leading to an increase in their spread and thus reducing the basis.[10]

- **Liquidity.** Higher liquidity in bond markets compared with the CDS market would imply a higher bond price and, therefore, a lower spread and a higher basis.

- **Global financial risk.** If CDS markets and bond markets share the same information, the effect of the level of risk in global markets on the basis should be zero. On the other hand, a non-zero effect of this variable would indicate an unequal reaction in both markets to changes in perceived levels of global risk, which is estimated using the VIX stock market volatility indicator. For example, a positive sign of this variable would indicate that the CDS market reacts to a greater extent to rises in risks which generally affect the whole financial system. In turn, this circumstance could be explained by the fact that CDS show greater dependence on certain aspects relating to aggregate risks, while the bond market depends to a greater extent on the benchmark risk.[11] There is in fact empirical evidence which documents that in situations of high global risk the CDS market usually suffers a greater impact as a result of, *inter alia*, the high level of concentration of its main participants, which are the major investment banks with global operations.[12]

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8 There are a series of additional factors which may have a significant effect on the basis and which are difficult to measure using the information available. Examples of these factors include: restrictions in taking short positions in bonds with a specific maturity, the level of concentration of participants in the CDS market, which could affect prices in the event of low competition, or low transparency in the CDS market making arbitrage difficult.

9 The effect relating to the use of short positions on the bond is the opposite because an increase in funding costs would increase the cost of taking these positions and would reduce the supply and spread of the bond. However, in practice, it is not always feasible to take short positions in bonds.

10 The connection between the basis and funding costs has recently been analysed by Duffie, D. (2010). "Presidential Address: Asset Price Dynamics with Slow-Moving Capital". *Journal of Finance*, 65, pp. 1237-1266.

11 This argument is in line with the results obtained by Alexopoulou, I., Andersson, M. and Georgescu, O. M. (2009). *An empirical study on the decoupling movements between corporate bond and CDS spreads*. European Central Bank Working Paper No. 1085; or Mayordomo, S. and Peña, J. I. (2011). *An empirical analysis of the dynamic dependencies in the European corporate credit markets*. SSRN Working Paper. Available at http://ssrn.com/abstract=1719287

12 See, for example, Arce, Ó. González, F. J. and Sanjuán, L., (2010). *The credit default swap market: Areas of vulnerability and regulatory responses*. CNMV Working Paper No. 42. Available at http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/DT42_engen.pdf. In order to avoid a possible multi-collinearity

– **Volume of debt purchased by the ECB.** Another factor to bear in mind in an analysis of the sovereign basis is the effect of the volume of debt purchased by the ECB in the secondary market as from May 2010 in the context of the Securities Market Programme. As this is a direct intervention in the bond market, we could expect a greater impact (positive) on prices in this market and, consequently, on the basis.[13]

– **Willingness of private banks to accept voluntary haircuts on their Greek bond portfolios**. The proposal for agreement among banks to accept losses on their holdings of Greek bonds without activating clauses in CDS markets was publicly formalised for the first time in July 2011.[14] The agreement initially involved accepting losses of 21% of the capital invested although later significantly higher percentages have been considered with the final percentage of 53.5% being agreed in March 2012. These previous announcements might have led to investors losing confidence in the CDS market and a worsening perception of the quality of the cover offered by these instruments. This would tend to reduce the price of CDS and, therefore, the basis.

Table 1 contains the results of the empirical estimate of the impact of the above factors on the basis. These estimates reveal that the counterparty risk of the sellers of CDS, measured approximately through the first principle component of the CDS premiums of the 14 main banks which act as dealers in this market, has a significant negative effect on the basis.[15] This effect has been particularly strong since 2008, when some of the most active sellers of protection started to suffer greater financial difficulties.

Determinants of the basis TABLE 1*

	Expected sign	Sign obtained
Counterparty risk	–	–
Liquidity ratio CDS/bond	–	–
Funding costs	–	–
Global financial risk	+/–	+
Bonds bought by ECB	+	+
Haircut agreement on Greek debt (July 11)	–	–
Lagged relative basis	+	+

Source: Arce, Mayordomo and Peña (2012).

* The shaded area indicates that the corresponding variable is significant at a 5% level of confidence.

problem with the counterparty risk indicator used in the regression, the domestic and global risk variables have been made into orthogonal variables.

13 Specifically, it is likely that this type of intervention contributes towards improving, *ceteris paribus*, the liquidity of the sovereign bond market compared with the CDS market. In addition, it cannot be ruled out that the price at which these interventions take place, as a result of the nature of the programme itself, is higher than that dictated by market risk and return criteria.

14 See the document by the Institute of International Finance (2011). *IIF Funding Offer*. Available at http://www.iif.com/press/press+198.php

15 The first principal component should reflect the common probability of default of the 14 banks and, therefore, is an aggregate measure of counterparty risk. The 14 main dealers are: Bank of America, Barclays, BNP Paribas, Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Morgan Stanley, Royal Bank of Scotland, Societé Generale, UBS and Wachovia/Wells Fargo.

The theoretical effect of the funding costs is also revealed in the results of these estimates, which show how these costs have a negative effect on the basis.[16] The study also finds a positive effect on the basis of the relative level of liquidity in the bond market compared with the CDS market, measured through the ratio of the bid-ask spreads of the CDS compared with the corresponding spread of the underlying bond. Changes in the level of global risk have a significant positive effect on the basis.[17] This result indicates that the CDS market reacts to a greater extent to changes in aggregate risk perceived and possibly, to a lesser extent, to changes in domestic credit risk.

The volume of sovereign bonds purchased by the ECB in the secondary market has a positive effect on the basis, in line with the above intuition. The period relating to the voluntary haircuts in Greek debt seems to be having a negative effect on the basis, as could be expected, although this is not statistically significant. This lack of statistical significance, however, might be due to the short time period that passed between the July 2011 announcement by private banks up to the end of the sample under consideration (October 2011). Indeed, as analysed in the following section, this factor seems to have had a very significant negative impact on the information efficiency of the CDS market for Greek sovereign bonds.

In addition, the empirical analysis takes into account the effect of lags in the lagged basis in order to estimate the persistence and speed of adjustment in the basis. It would be expected that the above values of the basis should absorb any past information directly transferred to the current basis. Given the presence of persistent deviations between the spread of the bond and the CDS over the crisis, we can find a positive effect of said lag which reveals a high persistence of a non-zero basis. Therefore, the adjustment towards the equilibrium between the CDS premium and the bond spread is, on average, slow.

4 Development of the information efficiency of sovereign CDS and bond markets and determinants

An efficient price formation process is characterised by a quick adjustment of market prices from one equilibrium to the next as the market receives new information. In the case of CDS and their underlying bonds, in the absence of frictions, both markets should reflect new information in their prices in the same conditions. However, accumulated evidence in this respect suggests that this principle is not generally met in practice.[18] For

16 For the purposes of the estimate of the empirical model, funding costs are approximated using the difference between the 90-day U.S. AA-rated commercial paper interest rates for financial companies and the 90-day U.S. T-bill.

17 The global risk premium is approximated using the implicit volatility of the global market, in this case, the Chicago Board Options Exchange (CBOE).

18 The general results for a series of studies which analysed the period prior to the subprime crisis is that the CDS market reflects information more efficiently than the bond market (see for example, Blanco, Brennan and Marsh, 2005, op. cit; or Zhu, 2006, op. cit., *inter alia*). Mayordomo, S., Peña, J. I. and Romo, J. (2011a). "The Effect of Liquidity on the Price Discovery Process in Credit Derivatives Markets in Times of Financial

example, Longstaff (2010)[19] argues that the nature of the price discovery process in financial markets could vary based on the specific moment and economic scenario of the different markets. In line with this argument, Arce, Mayordomo and Peña (2012)[20] carry out a dynamic price discovery analysis using the above sample of EMU countries. This analysis makes it possible to identify which market most efficiently reflects information at any time and to study the effect that a series of factors has on the price discovery process and the quality of the prices.

The product of this analysis is a quantitative measure of the relative contribution to the price discovery process by both markets, that of bonds and that of CDS, for each day in the sample. Once it has been appropriately normalised, the price discovery measure takes values between zero and one so that values above 0.5 indicate that the market which most contributes to the discovery of the price of the inherent credit risk is the bond market.[21] Symmetrically, values of the indicator below 0.5 imply a greater relative weight of the CDS market in price discovery.

Figure 7 shows the dynamic price discovery metrics for two groups of differentiated countries: "peripheral" (Spain, Greece, Ireland, Italy and Portugal) and "central" (Austria, Belgium, Finland, France and the Netherlands).[22] Firstly, we can clearly see that the price discovery measurements are not static, but rather that both markets alternate in their leadership role in the price formation process over time and following a pattern which, apparently, resembles some of the most significant economic and financial events which occurred in the reference period, as formally documented below.

During the months immediately prior to the turmoil of September 2008, the CDS market seemed to lead the price discovery process most of the time for the two groups of countries. However, the first significant increase in the relative leadership of the bond market took place in the first quarter of 2008, coinciding with the time of the collapse of the U.S. investment bank Bear Stearns in March of that year.[23] Subsequently, following the collapse of Lehman Brothers and AIG, the contribution of the bond market rose significantly and persistently, especially in the group of central countries.

Distress". *European Journal of Finance*, 17, pp. 851-881, show that this result is sensitive to the crisis in such a way that during the crisis the CDS market loses its relative efficiency in favour of the bond and ASP.

19 Longstaff, F. A. (2010). "The subprime credit crisis and contagion in financial markets". *Journal of Financial Economics*, 97, pp. 436-450.

20 Op. cit.

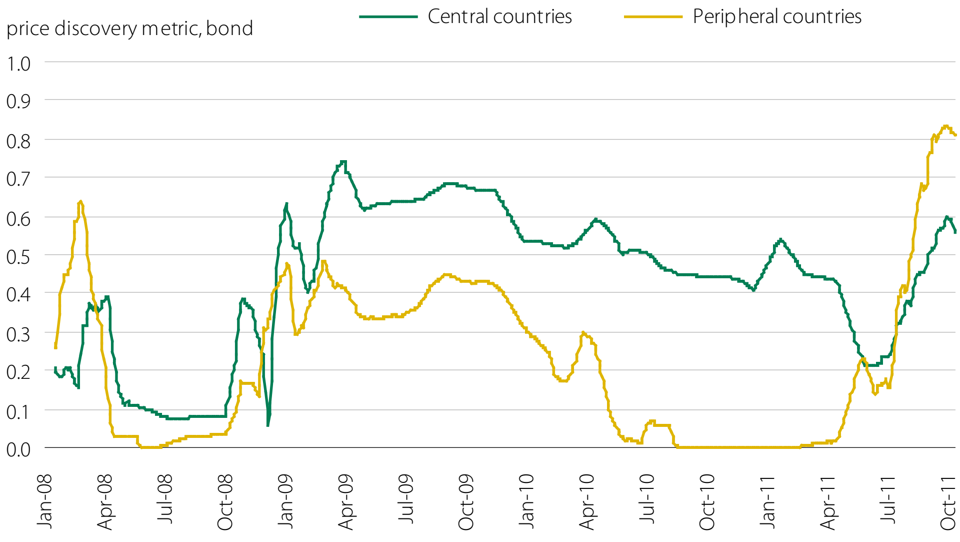
21 This analysis is based on the methodology developed in Gonzalo, J. and Granger, C. (1995). "Estimation of common long-memory components in co-integrated systems". *Journal of Business & Economic Statistics*, 13, pp. 27-35.

22 Each point comprising the series corresponds to the smoothed average (30-day moving average) equally weighted for each one of the two groups of countries of an estimate which uses 1,000 daily observations from each country. Germany is not used for the calculation of the dynamic price discovery measurement as its interest-rate is used as a benchmark for defining the spreads of the bonds of the other countries.

23 Some estimates indicate that Bear Stearns held significant positions in CDS markets at that time. See the article "JP Morgan CDS exposure may top $10trn notional", published in Risk.net, April 2008.

Estimated price discovery metrics

FIGURE 7

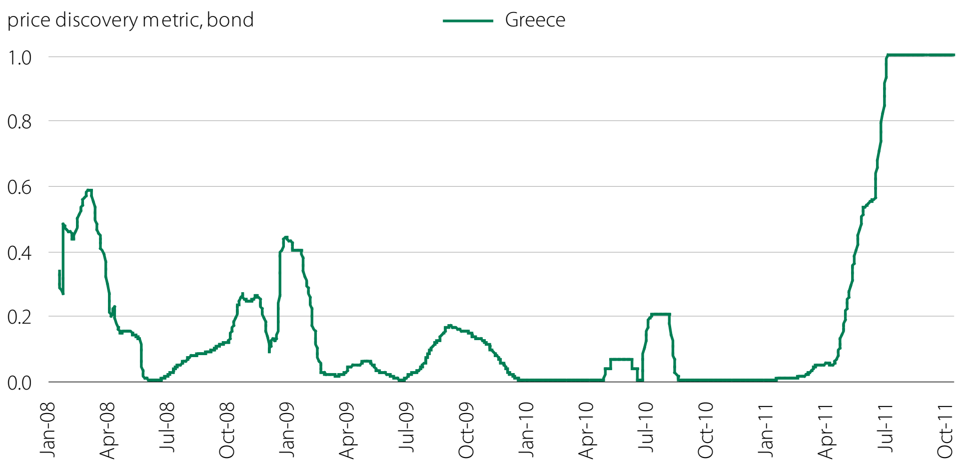


Source: Arce, Mayordomo and Peña (2012).

In the group of peripheral countries, we can see a new significant increase in the level of relative leadership of the bond market around July 2011, when the possibility of a voluntary haircut of the Greek sovereign debt holdings of some private banks started to be discussed. The fact that this haircut could take place without necessarily declaring a default which would trigger the coverage of CDS contracts might have notably reduced the relative efficiency of the Greek CDS market, which seems to be the case if we observe the price discovery indicator corresponding to Greece (see figure 8).

Estimated price discovery metrics for Greece

FIGURE 8



Source: Arce, Mayordomo and Peña (2012).

Figure 7 also shows a clear distancing between the price discovery measurements for the central countries and for the peripheral countries from the end of 2008 up to the middle of 2011. In particular, over this period, the contribution of the CDS market in the peripheral group of countries is significantly higher than in the central countries, in which the bond market led the price discovery process for most of 2009. The difference between the two groups of countries is especially marked in 2010, which might reflect a possible loss of information quality of the price set in the bond market as a result of the ECB's programme for purchasing the debt of peripheral countries in the secondary market which began in May 2010.

Determinants of the estimated price discovery metrics TABLE 2*

	Expected sign	Sign obtained
Counterparty risk	+	+
Liquidity ratio CDS/bond	–	–
Funding costs	–	–
Global financial risk	+/–	+
Bonds bought by ECB	–	–
Haircut agreement on Greek debt (July11)	+	+

Source: Arce, Mayordomo and Peña (2012).

* The shaded area indicates that the corresponding variable is significant at a 5% level of confidence.

Table 2 shows a summary of the results of the empirical analysis carried out to provide a positive estimate of the impact on the price discovery measurements of the above factors and, in addition, of other variables whose effect is also taken into account in the above analysis of the determinants of the basis.[24] The table shows the expected sign, in accordance with the above intuitive reasoning, and the estimated sign of the effect of the factors, as well as the level of significance. Specifically, a positive and significant sign indicates that the corresponding factor negatively affects the capacity of the CDS market to efficiently contribute towards the price discovery process.

In addition to the above-mentioned effects of the sovereign debt purchases by the ECB and the first announcement of the voluntary haircuts on Greek debt, this empirical analysis corroborates the impact which other factors have on the relative leadership of the CDS and bond markets in the price discovery of sovereign risk. In particular, the following estimated effects have a high level of significance:

1. The negative effect which a greater counterparty risk of the offerers of CDS has on the contribution of this market to the price discovery process, which is intuitive if we bear in mind that a lower perceived quality of the coverage may hinder the interpretation of market prices and the information contained therein.

2. The positive effect on said contribution of the level of global risk, measured through the VIX stock market volatility index, possibly due to the fact that, as indicated above, in periods of a high level of aggregate uncertainty, the CDS market better reflects certain systemic aspects due to the high level of concentration of its participants. Clearly, these aspects, which are relevant for the

24 This empirical analysis uses a Logit regression model in which the dependent variable takes the value of zero when the CDS market leads the price discovery process and takes the value of one if the bond market leads the process. The details may be consulted in Arce, Mayordomo and Peña (2012), op. cit.

price discovery of CDS, are not necessarily related to the credit quality of the country in question, and so its presence may hinder the capacity of this market to correctly assess the risk of the reference entity.

3. The negative impact of funding costs on efficiency of the bond market, which seems to bear a relationship with the relatively negative effect which said costs have on the activity of that market and its price, as documented in the above analysis on the determinants of the basis.

5 Conclusions

The sovereign debt crisis which began in several countries of the euro area in 2010, and which, with differing levels of intensity continues to affect some of these markets, has led to growing activity in CDS markets referenced to European public debt. Over this period, several important issues have also arisen relating to the functioning of these markets in the context of the EMU. This article presents the main results of a recent empirical article which particularly focuses on two of these issues.

Firstly, it documents how the relationship of theoretical equivalence which should exist between the prices set in the bond markets and the premiums of the corresponding CDS in a frictionless environment seems to be followed for the period prior to the financial crisis, but not during the financial crisis. Secondly, it analyses the relative contribution of the two markets to the price discovery process of sovereign credit risk and how this contribution develops over time.

The evidence analysed herein suggests that both the deviations between the prices of both assets – CDS and their underlying bonds – and the relative leadership of these two markets in the price discovery process show a dynamic pattern which seems to be systematically influenced by the presence of certain frictions in these markets. These frictions are key to understanding the relationship between the two markets. In particular, the empirical analyses presented in this article show that the counterparty risk of the offerors of CDS, the funding costs and the relative level of liquidity of both markets, *inter alia*, play an important role when responding to the two aforementioned issues. Furthermore, other elements have recently emerged in the EMU, such as the sovereign bond purchase programme implemented in 2010 by the ECB and the announcement by international private banks of their willingness to take on voluntary haircuts in the value of their Greek debt portfolios, made initially in July 2011, seem to be having a determinant effect on the relative levels of CDS premiums and the prices of sovereign bonds and on the information efficiency of both markets.

Development of mutual fund managers and products offered from 1995 to 2010

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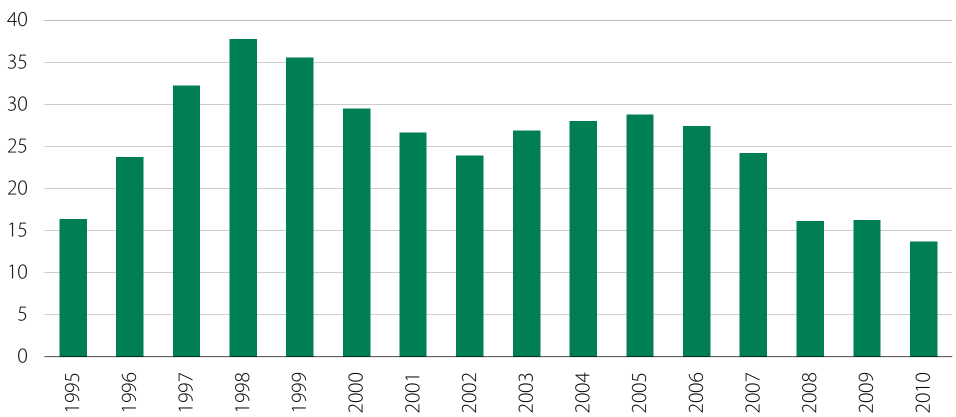
1 Introduction

The collective investment industry, in particular that of mutual funds, is an area of special interest for the CNMV because of the volume of resources which it brings together and the high level of participation of retail investors in this sector. Although the legal framework of this industry dates from 1984,[1] it was not until the middle of the 1990s that the assets of these schemes reached significant levels. The strong growth in this sector over the second half of the 1990s, in which assets rose from 16% of GDP in 1995 to 38% in 1998 (see figure 1), was the result of the appeal of these schemes for investors, and especially for retail investors.

This development was the result of the new investment possibilities offered by these funds, of the access to professional savings management and the relatively low cost, as well as the tax nature of these products.[2] The entities offering mutual funds, mainly credit institutions, saw them as a high-return business area.

Mutual fund assets (% GDP) FIGURE 1



Source: CNMV and Thomson Datastream.

Household investment in mutual funds grew substantially over those years. The relative weight of mutual funds in households' total financial assets reached a high in 1999, with 18.8% of the total household portfolio. In absolute terms, the maximum household share in this type of investment was recorded in 2006, when it

1 Law on Collective Investment Schemes, of 26 December.

2 The tax framework for mutual funds (Personal Income Tax Law of 1992), which favoured medium and long-term investment in these products, has undergone several amendments, of which we can highlight two: the first, in 1999, matched the tax treatment of investment firms to that of bank deposits and the second, in 2003, introduced the possibility of deferring payment upon disposing of a position in a fund when investing in another collective investment scheme (CIS).

reached 205 billion euros, 76% of the total assets of the industry. On average over recent decades, the relative importance of mutual funds in the portfolio of financial assets of Spanish households has been equivalent to that of households in the euro area and the United States.[3]

In the period analysed in this study (1995-2010), the mutual fund industry in Spain has shown two expansive and two recessive cycles. The two expansive cycles took place between 1995 and 1999 and between 2003 and 2007. These were characterised by substantial increases in assets and number of investors. In nominal terms, fund assets reached highs in the middle of 2007 (277 billion euros), but in relative terms the highest level was recorded in 1998, at 38% of GDP. The recessive periods took place between 2000 and 2002 and from the middle of 2007 up to the present moment. In these periods there was a sharp drop in investor confidence, which led to substantial increases in redemptions, falls in the number of investors and a recomposition of the assets of the funds towards more conservative categories.

This paper summarises the main characteristics of this industry between 1995 and 2010. Spanish mutual funds are managed both by collective investment scheme (CIS) management companies belonging to credit institutions (banks, savings banks or credit cooperatives) and by independent entities. This article analyses the products offered by these entities, as well as the characteristics of these fund managers.

The article is organised as follows: section 2 presents the development in the number and size of the funds offered and their focus in terms of the final investor (wholesale or retail) and in terms of their profile (conservative or more risky). The article also analyses the fees applied to the funds by these managers and the returns obtained by their products. Section 3 describes the most significant characteristics of fund managers, including the trend in the number of fund managers, merger and acquisition processes and the differences in terms of size and structure of the income statements, taking into account the competitive conditions in the sector. Section 4 presents the main conclusions of the article.

2 Characteristics of the funds offered by fund managers

As indicated above, fund managers may be independent entities or belong to groups controlled by credit institutions.[4] This section analyses, for each of these two manager groups, the characteristics of the funds which they offer, with special emphasis on the number of funds, their assets and the corresponding management fees. This analysis bears in mind the focus of the funds, given by the most common type of final investor (wholesale or retail) and by their conservative or risky nature.

3 The averages between 1995 and 2010 stood at 12.5% for Spain, 10.3% for the euro area and 10.8% for the United States (data for the euro area are available as from 1999).

4 For the purposes of this article, the fund manager of the insurance company Mapfre has been included in the group of bank fund managers as its structure and the network of its offices and agents mean that it behaves in a manner more similar to that of bank fund managers than that of independent managers.

For the purposes of this article, conservative funds are those which invest in money market assets, fixed-income funds and guaranteed funds, while risky funds are equity funds, global funds and mixed funds. A fund is considered as a wholesale fund when over 50% of its assets have their origin in sufficiently large holdings. Specifically, in this article wholesale funds are those in which the holdings are greater than 180,000 euros for the period 1995-1998, and 150,000 euros as from 2000. This second period includes an exception with money market funds and short-term fixed-income funds, for which a minimum holding of 300,000 euros[5] is considered. The funds which do not meet these requirements are classified as retail funds. No restrictions are established on the type of person, natural or legal, who carries out the investment in the fund, only on the amount of said investment.

Bearing in mind these criteria relating to the type of investor and the risk, mutual funds may be classified into four basic types: wholesale and conservative, wholesale equity and mixed, retail and conservative, and finally, retail equity and mixed.

2.1 Funds offered and focus

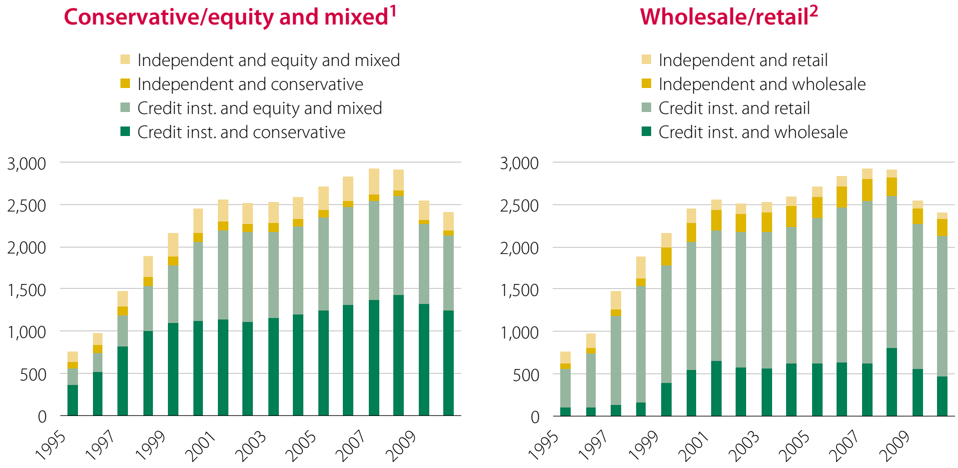
The number of mutual funds in the industry grew significantly over the period under analysis, except in the last three years (2008-2010). In general, the increase in the number of these schemes was more intense in the first few years of the sample, rising from a little over 750 funds to 2,550 funds between 1995 and 2001 as a consequence of the widespread acceptance of this type of financial instrument among the public in that period. Between 2000 and 2002, coinciding with the bursting of the technological bubble and various accounting scandals in Europe and the United States, there was a first period of contraction in the fund industry, but their number remained relatively stable. Between 2003 and 2007, the number of funds began to rise again to close to 3,000, against a new backdrop of expansion in which low interest rates led to the search for alternative investments, including collective investment. Since the start of the economic and financial crisis in the middle of 2007, the mergers between funds have led to a notable fall in the offering of these products, which at the end of 2010 had fallen to 2,400.

By type of fund manager, we can point out that bank fund managers concentrated the greatest proportion of mutual funds. On average, between 1995 and 2010, these fund managers offered 84% of the funds, compared with 16% offered by independent managers, a proportion which also grew over time (from 73% to 88%). As shown in figure 2, in credit institution fund managers, the proportion of conservative mutual funds, which could be associated with products more similar to bank deposits, was greater than that of more risky funds throughout the period under consideration. In fact, as shown subsequently, in terms of assets, the importance of these funds in this group of managers is even greater. On the other hand, independent fund managers essentially manage equity and mixed funds, which average over 70% of their funds in the period (80% in 2010). If we look at the type of investor, bank fund managers marketed mainly retail funds, while independent managers tended to specialise, in relative terms, in wholesale funds.

5 The change in the investment limits in different time periods is related to the modification of the reserved statements for CIS since 2000, which conditions the availability of data for making this type of distinction.

Number of funds by fund manager type and focus of fund

FIGURE 2



Source: CNMV.

1 Conservative funds are money market funds, all fixed income and guaranteed funds. Equity and mixed funds include global funds.

2 See footnote 5.

In the industry as a whole, the proportion of retail funds is much higher than that of wholesale funds. In the case of Spain, where the annual average number of retail funds in the period was three times higher than that of wholesale funds, this trend is more clearly marked. For example, for the U.S. market, Gavazza (2011)[6] indicates that the annual average of retail funds was twice that of wholesale funds.

The funds managed by both groups of fund managers in Spain do not only show significant differences in terms of number and focus, but also in terms of their size. As shown in figure 3, the average size of the funds of fund managers belonging to credit institutions (close to 100 million euros in the period) is much higher than the funds of independent managers (35 million euros) although it fell significantly between 1995 and 2010, from 140 million euros to 60 million euros in 2010.[7] On the other hand, the average size of the funds of independent managers has moved between much more limited values (between 26 and 49 million euros).

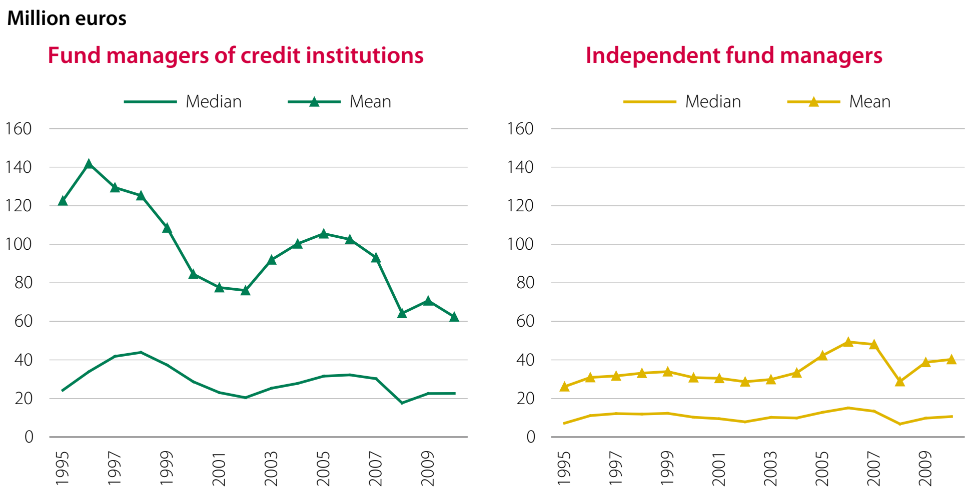
The fall in the number of funds over the last three years has had different characteristics in both groups of managers. In 2008, when the number of funds fell by 14, there was an increase of 61 in the number of funds of bank fund managers and a fall of 75 funds of independent fund managers, largely associated with the increase in the offering of monetary funds and the fall in the offering of equity funds respectively. In 2009, the fall in the number of funds (376) was spread proportionately over the two types of entities. However, in 2010 the fall in the number of funds (128) took place exclusively in bank fund managers as a consequence of the merger between funds, while in independent fund managers the number of funds rose.

6 Gavazza, A. (2011). "Demand spillovers and market outcomes in the mutual fund industry". *RAND Journal of Economics*, vol. 42, pp. 776-804.

7 Note the large difference between the mean and median value of the size of the funds, especially in the case of fund managers of credit institutions, which reveals the presence of a relatively low number of large funds.

In general, the average number of funds offered by credit institution managers is much higher than that of independent managers due to the business model of each of them. In general, while the former tend to cover the whole range of possible products for their clients, the latter maintain a much more specialised business model, as will be discussed in a subsequent section.

Average fund size by type of fund manager FIGURE 3



Source: CNMV.

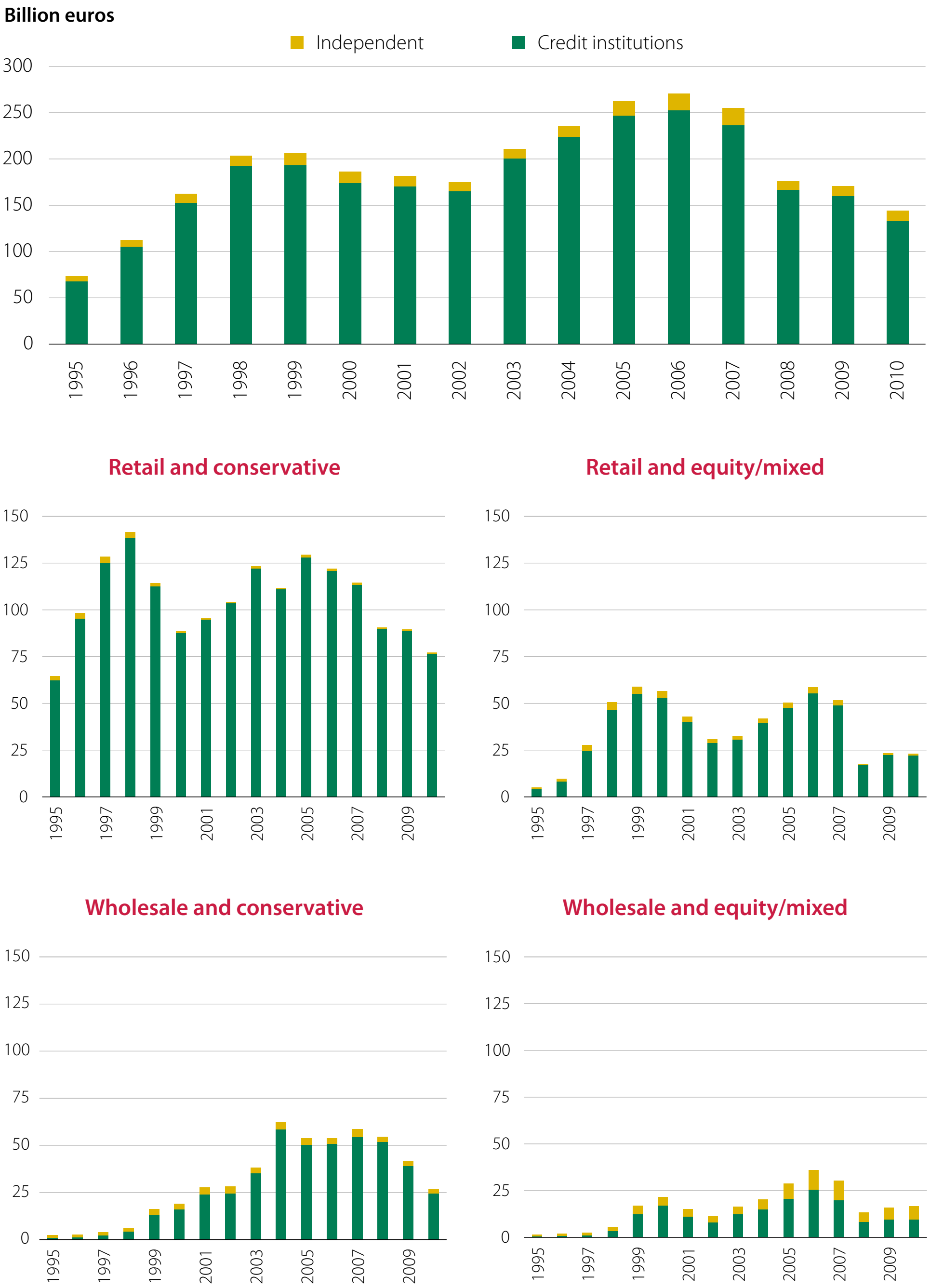
2.2 Assets

The development over time of the assets of mutual funds was similar to that of the number of funds over the reference period. Accordingly, between 1995 and 1999, assets almost trebled from 73 billion euros to 206 billion euros. Assets then fell to 174 billion euros in 2002 but then once again rose until the middle of 2007, when the assets of these schemes exceeded 270 billion euros. Since then, against the backdrop of the financial crisis, fund assets have almost halved, standing at the same levels as at the end of the 1990s, lower than 150 billion euros (see figure 4). The fall in assets, which was especially sharp in 2008, was mainly associated with the increase in redemptions of investors. The loss of value in the portfolio played a less important role.

As indicated above, bank fund managers managed on average 84% of the funds over the period analysed in this article, although their predominance in terms of assets was even greater, accounting for 94% of total assets. These proportions remained relatively stable throughout the study period up to the start of the current crisis, in which the market share of independent fund managers grew to 8% of total assets.

As shown in figure 4, most of the assets in the industry are concentrated in conservative retail funds (on average, close to 60% of the total), which are also mostly managed by credit institution fund managers, followed in importance by the assets in retail equity and mixed funds, which accounted for an average of 18% of total assets in the industry between 1995 and 2010, and the assets of conservative funds aimed at wholesale investors (with 15% of total). These last two groups share the fact that they are also mostly managed by bank fund managers, but differ in their development over time. The assets of higher-risk retail funds grew faster, but they also suffered the effects of the two crisis periods in the industry more severely. This is due to the greater exposure of their portfolio to movements in stock prices during recessive stages. The assets of conservative wholesale funds were not really significant until the middle of the last decade as they showed a relatively more stable behaviour until 2008.

Fund assets by type of fund manager and fund focus FIGURE 4



Source: CNMV.

The fourth segment under consideration, that of wholesale equity and mixed funds, does not stand out for the volume of resources – with 8% of the industry – on average in the period under consideration, but it does stand out for the fact that it is the only segment in which there is a significant presence of independent fund managers. Accordingly, in principle, in this segment there could be greater effective competition between independent fund managers and bank fund managers. The development of the market share of both types of fund manager since 1999, which was the first year in which these funds reached a volume of resources of a certain level, shows a constant increase in the relative weight of independent fund managers compared with bank fund managers. Accordingly, the market share of independent fund managers rose from 20% of the assets of this segment in 2000 to 43% in 2010.

From the start of the current international financial crisis up to the end of 2010, mutual fund assets fell by 47% (annual average of 14%) to 144 billion euros. The fall in assets has been constant in all the years since 2007, but especially intense in 2008 and 2010, when the level of assets fell by close to 80 billion euros and 27 billion euros respectively. In general, this fall in assets was linked to the sharp increase in the volume of redemptions of investors. The loss in the value of the portfolio only played a significant role in 2008, when international stock markets suffered falls of close to 40%.

By fund manager type, there are certain significant differences which are partly explained by their different business models. Since the start of the crisis the assets of bank fund managers have fallen by 47%, while those of independent fund managers have fallen by a little less (37%). The performance over time has been significantly different as while the falls in assets of bank fund managers has remained constant in the four years of the crisis analysed, in independent fund managers the entire fall was concentrated in 2008, with rises in assets of different amounts in 2007, 2009 and 2010. In absolute terms, the segment of wholesale equity funds, in which independent fund managers specialise, has suffered the consequences of the crisis less intensely (19 billion euros in losses). That is why this type of independent fund manager has shown a relatively more stable performance over the crisis. On the other hand, the categories of retail funds, practically dominated by bank fund managers, have suffered asset losses which are much higher both in the more conservative funds (45 billion euros) and in riskier funds (35.5 billion euros).

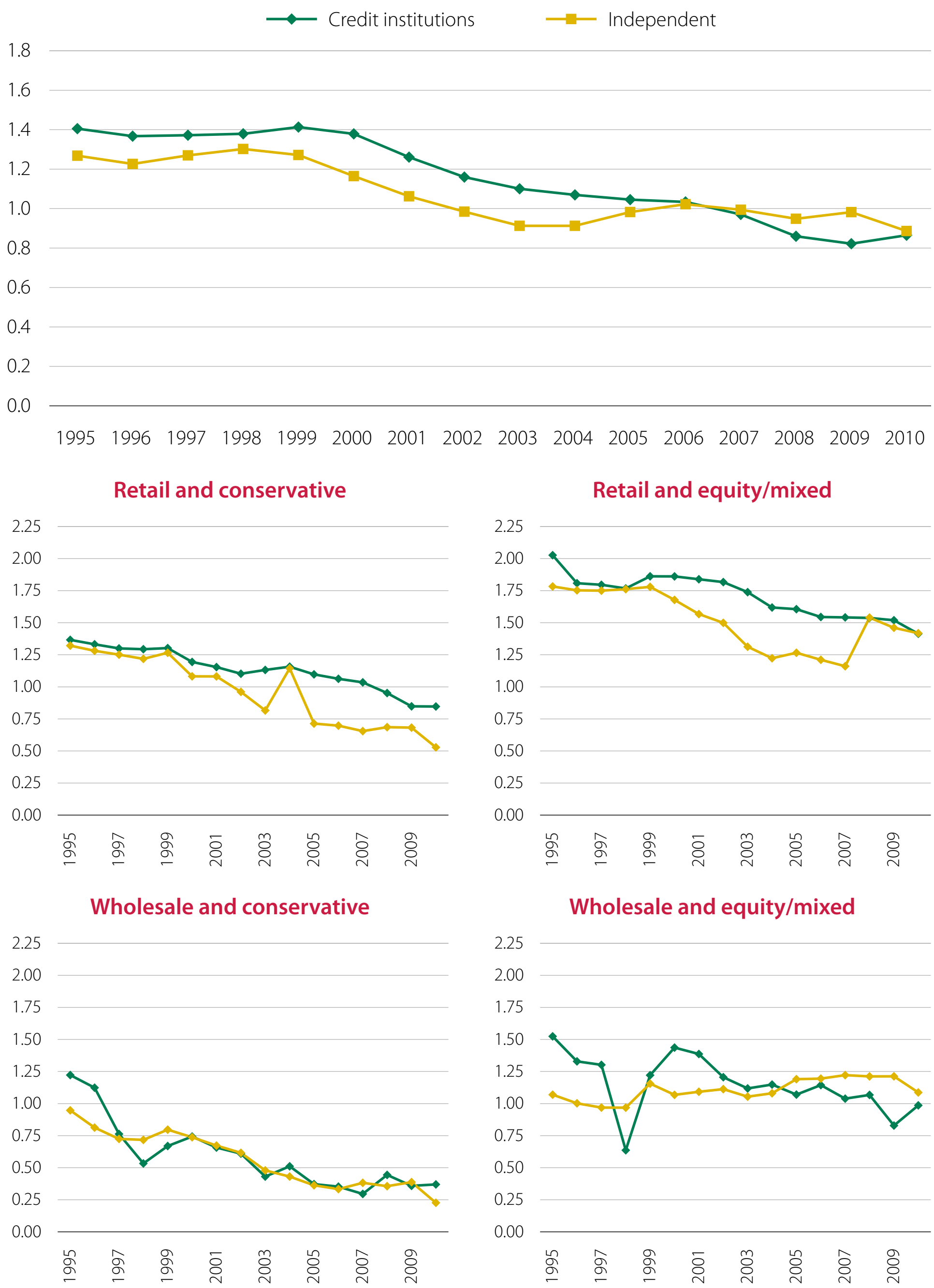
2.3 Management fees

The most important source of revenue for fund managers is that arising from management fees applied to the funds managed. These fees are generally established as a percentage of the fund's assets under management, of its return or both variables (mixed fees), with the first formula being the most common. The maximum percentages which fund managers may apply for this item are set by law.[8]

8 In 2000, there was a fall in the maximum fees which fund managers could apply to funds. In the case of the former FIM – fixed income funds - the maximum management fee fell from 2.5% to 2.25%, while the maximum fee on results fell from 20% to 18%. For FIAMM (Money market funds), the maximum management fee fell from 1.5% to 1%, and the maximum fee on results fell from 15% to 10%. The official classification of FIM-FIAMM no longer exists and the maximum management fees are 2.25% when the fee is established only under fund's assets, 18% if calculated on the results and, in the case of mixed fees, 1.35% on assets and 9% on results. The maximum deposit fees which may be applied are also set by law.

As shown in figure 5, the weighted average by assets of the management fees established in the prospectus of bank fund managers between 1995 and 2010 was 1.16%,[9] which is slightly higher than that obtained by independent fund managers (1.07%). The analysis of their development over time shows that both the fees applied by bank fund managers and those applied by independent managers have fallen slightly since 1999.

Management fees by type of fund manager and fund focus (%, weighted averages by assets) FIGURE 5



Source: CNMV.

9 The calculation does not include the fees on results. In addition, when the fund establishes a maximum and minimum fee, the maximum fee has been used.

The volume of fees received by these entities is directly determined by their business model, in this case by the composition of the managed funds. In general, we can see that fees for retail funds tend to be higher than those for wholesale funds. Similarly, the fees of conservative funds tend to be lower than those of riskier funds (see figure 5). Accordingly, between 1995 and 2010, the average management fee for retail funds was 1.3%, compared with 0.8% for wholesale funds, while the average management fee for conservative funds was 1%, compared with 1.5% for equity and mixed funds.

Therefore, the fact that the fees of bank fund managers were higher than those of independent fund managers is mainly due to the fact that the former concentrate their business in the retail fund segment, which in turn is largely based on the traditional clientele of the banking business. The characteristics of this investor base allow credit institutions to exercise market power and provide higher margins for their fund managers than those obtained by independent fund managers.

Only in the segment of wholesale funds, particularly in riskier funds, are the fees of the two types of managers comparable as it is the only sector in which there is a significant presence of independent fund managers. As shown in figure 5, if we exclude the first few years of the sample, in which the assets of these funds were very low, the average management fee of bank fund managers in wholesale equity and mixed funds was similar to that of independent entities (1.1%), although they developed differently over time. Accordingly, the fees of bank fund managers showed a downward trend which was only broken in the last year of the sample (2010), while the fees of independent fund managers remained relatively stable over the period.

The downward trend seen in management fees as a whole was sharper as from 2000 and was seen to a greater extent in bank fund managers.[10] Among other factors, this trend was caused by the fall in maximum applicable fees, a certain increase in competition in the sector and a macroeconomic environment characterised by substantial falls in interest rates which made it necessary – particularly in the most conservative fund categories – to reduce the fees paid so as to offer a higher return and retain investors. In addition, it is important to point out that over this period there was a notable recomposition of the assets of the funds offered by fund managers in favour of wholesale conservative funds, which are the funds with the lowest associated fees.

International studies on the characteristics of the mutual fund industry reveal that the fees paid for Spanish mutual funds are in line with those seen in Italy, but are higher than those in Germany, France and the United Kingdom, and much higher than those in the United States.[11]

From the start of the crisis, in the middle of 2007, up to the end of 2010, the average fees of bank fund managers and independent fund managers behaved differently. The fees of bank fund managers fell to levels lower than those of independent fund

10 See footnote 9.

11 See, for example, Ferreira, M. A. and Ramos, S. (2009). *Mutual fund industry competition and concentration: International evidence*. SSRN Working paper; and Khorana, A., Servaes, H. and Tufano, P. (2005). "Mutual fund fees around the world". *The Review of Financial Studies*, vol. 22, pp. 1279-1310.

managers, while those of independent fund managers remained relatively stable. The fact that the average fees of the former were lower than those of the latter in recent years – something which had not been seen previously – was due to the extension of the general downward trend of the management fees of banks and the increase in the relative importance of more conservative funds. On the other hand, the fees of independent fund managers showed more downward resistance as a consequence of the stability of average fees in their main business line.

2.4 Return

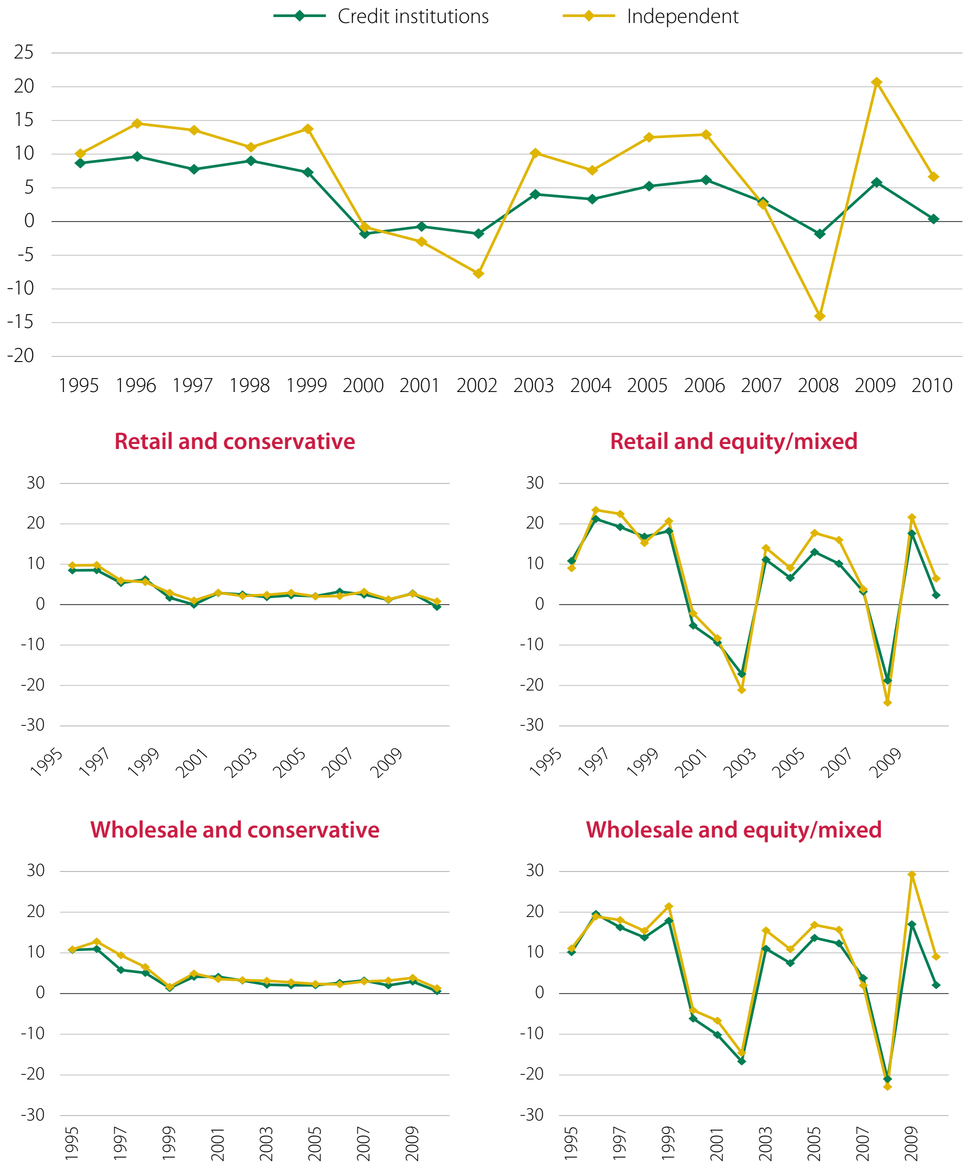
The average net return of the mutual funds in the sample between 1995 and 2010 was 4.2%.[12] Of the 16 years included in the study, four produced negative returns. The greatest returns corresponded to the first few years in the sample (with rates close to 10%), when interest rates made it possible to obtain high returns and equity markets performed favourably. Against this setting, the average return obtained by the funds of credit institution fund managers amounted to 4.0%, while the return of the independent fund managers amounted to 6.9%. As shown in figure 6, the return of the funds of independent managers ranged between more extreme values over the period, from -14% in 2008, when financial markets underwent a sharp fall, to 20% in the subsequent year, when the aforementioned trend was reversed. On the other hand, the yield of the funds of bank fund managers ranged from -1.8% in 2008 to 9.6% in 1996.

The characteristics of the funds offered by both types of fund manager is also a determining factor for the return obtained. Accordingly, independent fund managers, whose funds are riskier and thus include a greater proportion of equity instruments, are capable of significantly beating the industry average when financial markets perform favourably, but fall more sharply in the opposite case. On the other hand, bank fund managers, with a much higher proportion of conservative funds, reflect returns which are much more in line with those obtained by fixed-income and guaranteed funds. Only between 1995 and 1999, with domestic interest rates much higher than those in the following years, could these fund managers achieve average returns close to 10%. In the remaining periods of the sample, the net return of these fund managers ranged between -1.8% and 6.2%.

The analysis of the returns by the fund's focus reveals that in conservative funds the net returns obtained by both types of fund manager are very similar: between 2.5% and 3% in wholesale funds and between 1.9% and 2.2% in retail funds, while in the riskier segments, the funds of independent managers obtained higher returns. If we specifically analyse the wholesale equity segment, independent fund managers obtained an average net return of 6% from 1999, compared with 2.6% for bank fund managers. The fact that the equity funds of independent managers are more profitable is related to their greater volatility: they are riskier funds and, therefore, on average more profitable. In fact, the ratio of return over volatility of these funds since 2003 is very similar for both types of fund manager.

12 The calculations do not consider the returns accrued in periods of less than one year in, for example, the years in which the fund is established or closed.

Net return by type of fund manager and fund focus (%, weighted averages by assets) FIGURE 6



Source: CNMV.

There is extensive empirical literature on the returns of international funds, but beyond the comparison of the returns obtained by mutual funds in the different national industries, the papers available generally aim to explain said returns. In a recent study, Ferreira, Miguel and Ramos (2012) attempt to explain the return of equity mutual funds in 19 countries between 1999 and 2005 based on variables which characterise the fund and the level of economic and financial development of the country and conclude that, for these funds as a whole, their return is not able to systematically beat the market benchmark index.[13] The comparison between the different countries shows that, in relative terms, Spanish equity firms performed

13 Ferreira, M. A., Miguel, A. and Ramos, S. (2012). "The determinants of mutual fund performance: a cross-country study". *Review of Finance*, coming soon.

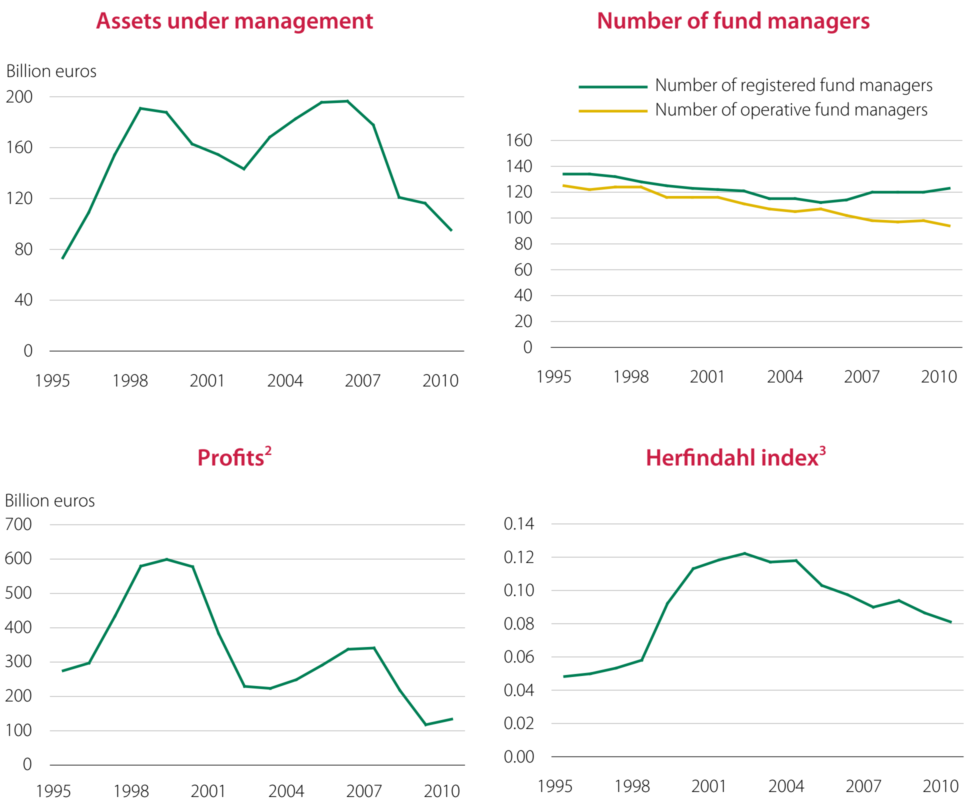
somewhat better than those of France and worse than those of Germany and the United Kingdom. With respect to the United States, the comparison is not conclusive as different results are obtained based on the assessment model used.

3 Development of fund managers

In this section we present the most significant characteristics of fund managers over the period 1995-2010 with the aim of understanding the structure of the industry and contextualising some of the evidence presented in the previous section.

As shown in figure 7, both the total number of fund managers registered with the CNMV and the number of fund managers which effectively manage funds (operative fund managers) fell between 1995 and 2010. Specifically, the total number of fund managers registered fell from 134 to 123 over those years and the number of operative fund managers fell from 125 to 94.

Key highlights of fund managers in the period 1995-2010[1] FIGURE 7



Source: CNMV. Data up to December 2010.

1 The assets managed by fund managers and their profits are expressed in constant euros. 1995 has been taken as the base year.

2 Profit before tax.

3 The Herfindahl index is defined as the sum of the squares of the market shares of each company. This index makes it possible to measure the level of competition existing in the industry. The possible values of this index go from 0, which reflects perfect competition, to 1, which reflects an industry dominated by a monopoly.

As described above, the assets of the funds managed by these entities over the study period underwent two expansion stages, from 1995 to 1999 and from 2003 to 2007, and two recessive stages, from 2000 to 2002 and from 2007 to 2010. These changes in assets were quickly reflected in the income statements of the fund managers. Accordingly, the profits of these companies fell significantly in the crisis periods and then recovered notably in the boom periods. However, as can be seen in figure 7, the profits in real terms in the second expansion period, 2003-2007, were notably lower than those in the period 1995-1999 even though the assets under management were higher. This trend might have been partially related to the reduction in 2000 of the maximum percentage of fees which managers could apply to mutual funds. However, the development of the Herfindahl concentration index during the sample period (figure 7) suggests that competition in the industry rose significantly from 2001. This increase led to a downward trend in the fees charged by fund managers, which was maintained even in the periods in which the assets under management fell notably (see figure 4).

Rising competition in an industry usually leads to a fall in margins and, therefore, the profit obtained by the companies which operate in the industry. In the Spanish mutual fund industry, in which the high number of fund managers would initially suggest a relatively high level of competition, the margins obtained by some entities suggest the existence of certain market power in the hands of some of those entities. In particular, the fund managers belonging to credit institutions enjoyed an average margin of 92% between 1995 and 2010 if we exclude marketing costs, compared with 71% for independent fund managers.[14] The trend in the market share of the four largest fund managers, which ranged from 36.2% in 1995 to 49.2% in 2010, with a high of 57.4% in 2003, confirms a high level of concentration in the industry. Furthermore, as indicated below, there have been few new fund managers entering the Spanish market in the years covered by the study. In all, it should be pointed out that the level of competition in Spain is comparable with that of other similar countries.[15]

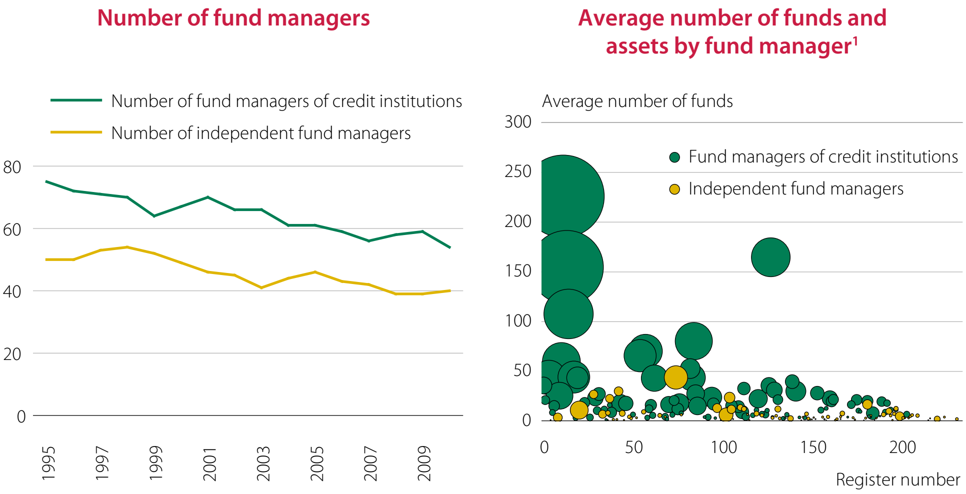
Even though the aggregate data provide significant information about this industry, it is important to bear in mind that there is a wide range of mutual fund managers. It is once again appropriate to segment fund managers into those which belong to credit institution groups and those which work independently. As shown in figure 8, the number of independent fund managers has been constantly lower than credit institution fund managers, although both types of entity have followed a downward trend in the study period. Accordingly, while the number of

14 The margin of fund managers has been calculated in two stages. In the first stage, the revenue of the managers less expenses has been calculated. In the second stage, the above figure has been divided by the fund manager's revenue.

15 The market power enjoyed by fund managers in Spain is not a characteristic only seen in Spanish mutual funds. Gruber, M. J. (1996). "Another puzzle: The growth in actively managed mutual funds". *Journal of Finance*, vol. 64, pp. 2153-2183; and Korkeamaki, T. P. and Smythe, T. I. (2004). "Effects of market segmentation and bank concentration on mutual fund expenses and returns: evidence from Finland". *European Financial Management*, vol. 10, pp. 413-438, found empirical evidence for the industry in the United States and Finland that there are economies of scale which the final investors do not benefit from. Ferreira and Ramos (2009), op. cit., show that in 2006 the Herfindahl index for Spain is 0.1, while the average index for a sample of countries in the euro area is 0.12 (the countries considered in the sample are Austria, Belgium, Finland, France, Germany, Italy, the Netherlands and Portugal).

bank fund managers fell from 71 in 1995 to 55 in 2010, the number of independent fund managers fell from 54 to 39. On average over the period, the latter account for 42% of the total number of fund managers. However, this proportion is much lower in terms of assets under management. Specifically, independent fund managers between 1995 and 2010 managed assets ranging from 5% to 8% of the total assets of mutual funds. These figures reflect the fact that independent fund managers are entities which are notably smaller than fund managers of credit institutions (see figure 8).

Number and assets under management by type of fund manager FIGURE 8



Source: CNMV

1 Each bubble represents a fund manager. The vertical axis shows the average number of funds managed by each company between 1995 and 2010. The horizontal axis shows the number of the fund manager in the CNMV's official register. The size of the bubble represents its average assets under management.

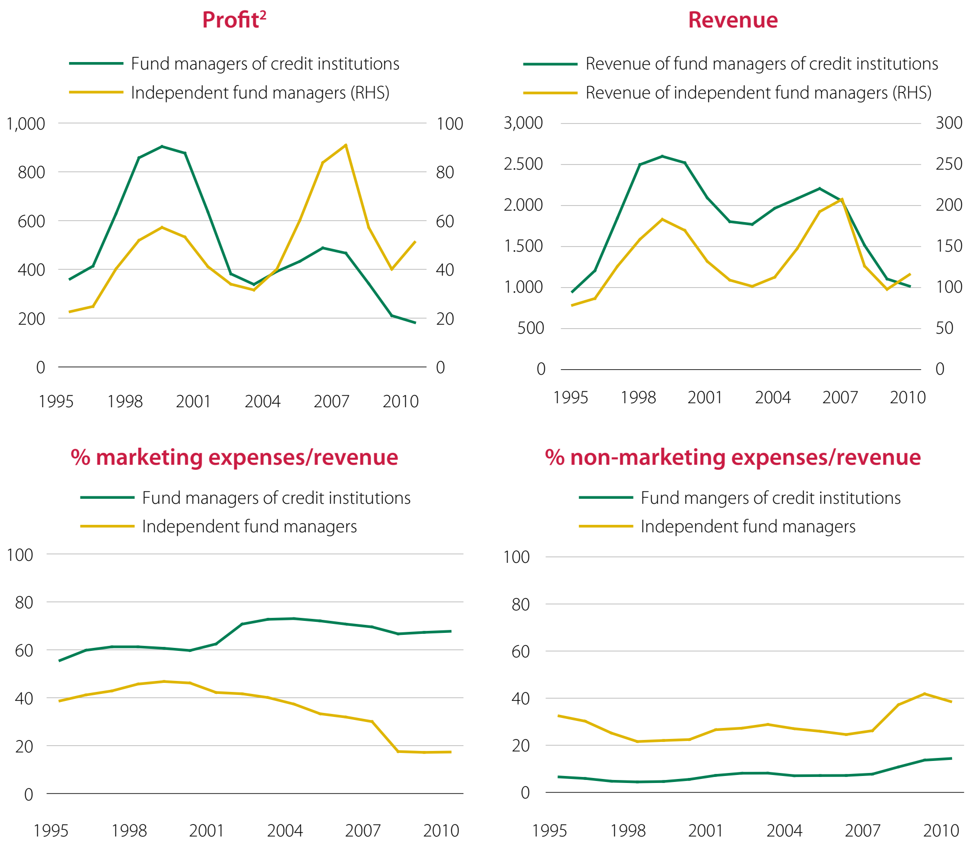
Figure 9 shows the profit of both types of fund managers, which has been divergent over the study period. On the one hand, fund managers of credit institutions obtained significantly lower profit in the second upward cycle (2003-2007) compared with the first in real terms, while the profit of independent fund managers increased significant. Furthermore, in the recessive years, bank fund managers recorded sharper falls in profit.

The differing performance of both types of entity is mainly due to the fact that independent fund managers have reduced their marketing costs from over 40% of revenue to less than 20%. The fact that independent fund managers have specialised over the analysed period in managing funds aimed at wholesale investors has facilitated this fall (see figure 4).

The other characteristic which differentiates independent fund managers is the fact that their costs for managing their funds are notably greater than those for credit institution fund managers. Independent fund managers are specialised in equity funds, which are more expensive to manage, while credit institution fund managers are specialised in conservative funds which are generally larger and which may enjoy certain economies of scale.

Income statement headings[1]

FIGURE 9



Source: CNMV. Data up to December 2010.

1 Data are expressed in constant euros. 1995 has been taken as the base year.

2 Profit before tax.

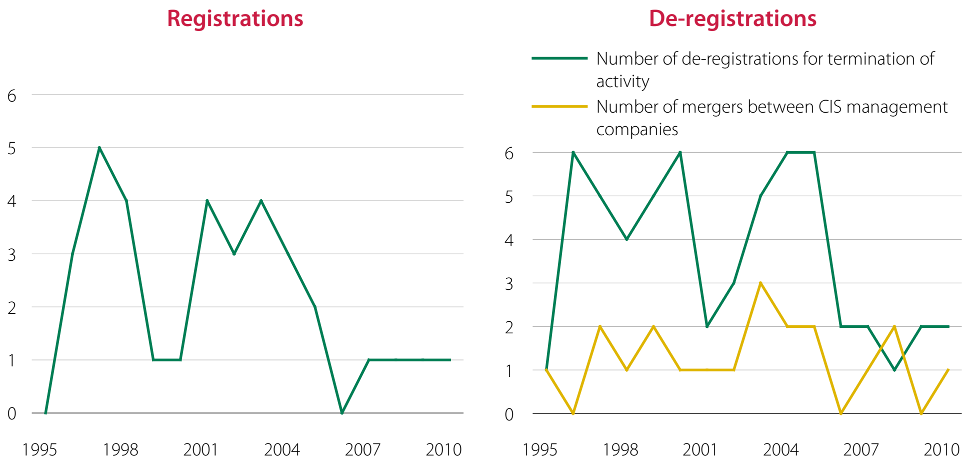
Despite the sharp oscillations in industry assets over time, the number of registrations and de-registrations of management companies has been low. Over the recent crisis, for example, the assets of funds in 2010 fell to 48.5% of the assets in 2006 (at constant prices), but the number of operative fund managers over the period only fell by eight, 7.8% of the total.[16]

The average annual number of fund managers which began to operate in the period 1995-2010 was two, while the number of de-registrations was four. These figures confirm the progressive fall in the number of operative fund managers seen over the period analysed. Once again, the distinction between fund managers belonging to credit institutions and independent fund managers is important when analysing de-registrations from the sector. Accordingly, the de-registrations of independent fund managers usually result from the low profitability of those entities. However, a significant number of withdrawals of credit institution fund managers, normally those which involve a high volume of assets, are the result of mergers and acquisitions between fund managers. It is important to point out that these mergers

16 The total number of fund managers registered in the period 2006-2010 rose by nine, from 114 in 2006 to 123 in 2010. This is due to the fact that in this period several fund managers were created in order to manage hedge funds.

between fund managers of credit institutions are usually the result of merger and acquisition processes between the credit institutions which own the fund managers and not the presence of solvency problems of fund managers or strategic considerations associated exclusively with this industry.

Number of registrations and de-registrations of operative fund managers FIGURE 10



Source: CNMV

Over the 16 years analysed, there were 20 de-registrations of fund managers as a result of mergers and acquisitions and 58 de-registrations of fund managers which ceased to operate. Furthermore, 18 of the 20 mergers took place between fund managers which belong to credit institutions.[17] 27 of the 58 fund managers which ceased to operate corresponded to the closure of independent fund managers, nine were due to the closure of fund managers belonging to foreign credit institutions and the others were fund managers belonging to Spanish credit institutions.

4 Conclusions

Mutual funds are among the most important financial assets in Spanish financial markets, both in terms of the volume of resources and the high number of investors in these products. In Spain, in the period 1995-2010, investment in these instruments on average stood at 25.5% of GDP and accounted for 12.3% of the financial assets held by Spanish households.

In the Spanish mutual fund industry we can see most investors are retail investors, with an average 77.1% of the total assets of mutual funds between 1995 and 2010

17 In the case of the other two mergers and acquisitions, two independent fund managers were acquired by an insurance company and by a securities broker-dealer. In 2011, there were five mergers between fund managers belonging to credit institutions. It is expected that in 2012 a significant number of mergers will take place between this type of fund manager as a result of the restructuring which is taking place in the credit institution sector in Spain.

held by retail investors. Another basic characteristic of the Spanish mutual fund industry is that most funds and their assets are mainly managed by fund managers belonging to credit institutions. Finally, on average over the study period, almost three quarters of the assets are invested in funds with a conservative profile, similar to bank deposits. Therefore, we can conclude that most of the offering of the Spanish mutual fund industry has essentially conservative characteristics, aimed at retail investors and which come from fund managers belonging to credit institutions.

Bearing in mind the average fees charged by fund managers, there seems to be no clear evidence indicating that the fund managers of credit institutions have applied greater fees to their funds than independent fund managers. Up to 2006, the funds managed by fund managers of credit institutions on average recorded fees higher than those of funds managed by independent fund managers, while they were lower as from that year. However, a more exhaustive analysis of the fees which each type of fund manager applied to the funds depending on the fund profile, conservative or riskier, or the target market they were aimed at, wholesale or retail, reveals that the fund managers of credit institutions generally charged higher fees in retail funds, while in wholesale funds average fees were relatively similar between both types of fund manager.

The fact that the fund managers of credit institutions can charge higher fees than independent fund managers for most funds does not in general mean that their funds achieve greater returns systematically. This conclusion is in line with other recent papers which have identified a negative relationship between the management and deposit fees of the funds and the net returns which investors obtain.[18]

The fact that investors mostly decide to acquire mutual funds managed by fund managers of credit institutions may be related to the characteristics of the relational banking model which is dominant in Spain. Accordingly, both retail and wholesale fund investors often appear to be linked to one single fund manager, which normally belongs to a credit institution. Therefore, it cannot be ruled out that the fund managers of credit institutions do not compete for clients only in terms of the fees charged, but also in the variety and quantity of the funds offered. Accordingly, the strong link between most investors in mutual funds and credit institutions means that the competition and entry of new fund managers in this market is clearly limited. This is suggested, for example, by the fact that the four largest fund managers have managed 49.1% of the total assets in mutual funds and offered 28.2% of the number of funds in the market in the period 1995-2010. However, the Spanish fund market is not an exception in this respect and the level of competition present in the Spanish industry is similar to that in other similar countries, such as France, Germany, Italy and the Netherlands.

18 See Cambón, M. I. (2011). *Spanish mutual fund performance: an analysis of the determinants*. CNMV Working Paper No. 48. Gil-Bazo, J. and Ruiz-Verdú, P. (2009). "The relation between price and performance in the mutual fund industry". *Journal of Finance*, vol. 64, pp. 2153-2183, obtain similar results for the equity fund market in the United States.

Annual corporate governance report of listed companies in 2010

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1 Introduction

This article offers an overview of the main trends in the corporate governance practices of Spanish listed companies through an analysis of the information provided by companies in their Annual Corporate Governance Reports (ACGRs) for the financial years from 2004 to 2010.[1]

The article is organised as follows: section 2 analyses the information relating to the ownership structure of listed companies and the level of shareholder participation in general meetings. Section 3 focuses on the functioning and composition of boards of directors, and section 4 focuses specifically on the role and characteristics of independent directors. Section 5 addresses the remuneration of the board and senior management. Section 6 refers to the application of the "comply or explain" principle, reviewing the level to which the recommendations included in the Unified Code[2] are followed and the quality of the explanations companies provide when they deviate from the recommendations. The article ends with a section of conclusions.

2 Ownership structure and participation in the general meeting

One of the main aspects which determine a company's corporate governance practices is its ownership structure. In this regard, the historical data shows that the level of shareholder participation in general meetings is directly linked to the type of shareholder and the concentration of ownership.

Companies must identify in the ACGR those shareholders with an interest equal to or greater than 3% of the company's voting rights and those which, with a percentage lower than 3%, have the possibility of voting on, or have proposed the designation or removal of a member of the board of directors. In the case of directors, this obligation is more demanding and they must indicate any holding which they have in the company's capital.

According to the data provided in the ACGRs, the aggregate share capital of the 153 Spanish listed companies analysed[3] (156 in 2009) amounted to 40,528 million

1 CNMV (2004-2010). *Corporate Governments Reports of entities with securities admitted to trading on official secondary markets*.

2 CNMV (2006). *Unified good governance code of listed companies*.

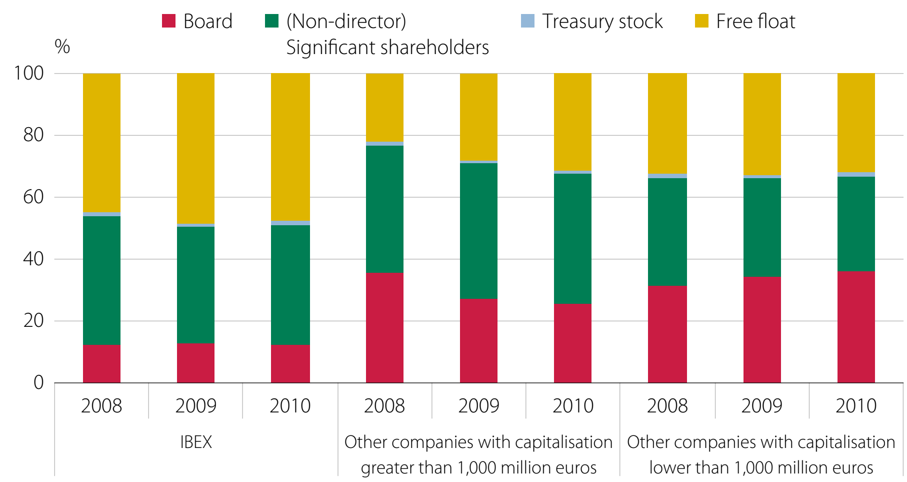
3 The sample of companies analysed referred to in this report comprises all the listed companies as at 31 December 2010 for which Spain is the home Member State and which, therefore, file ACGR, except one company, as it had an irregular financial year, and two companies as they did not file the ACGR.

euros at the end of 2010, an increase of 9.9% on 2009. This increase was due to the fact that 34 companies (ten from the Ibex 35) increased their capital by 4,206 million euros, while ten companies reduced their share capital by a total of 221.8 million euros. At the same time, the stock market capitalisation of listed companies fell by 14.9% compared with the end of the previous year.

On an aggregate level, the average capital distribution by shareholder type remained stable in 2010 compared with 2009. 33.4% of the share capital (34.1% in 2009) was in the hands of non-director significant shareholders, while 29.7% (29% in 2009) belonged to the board of directors, and 1.3% (1.1% in 2009) corresponded to treasury stock. Therefore, the remaining 35.6% (35.8% in 2009) may be considered as approximately the volume of free float.

In 43 companies (28.1% of the total), there was a natural or legal person that held most of the voting rights or that exercised or could exercise control, compared with 49 companies in this situation in 2009 (31.4%).

Percentage distribution of capital by capitalisation FIGURE 1



Source: Company ACGRs and CNMV. Classification corresponds to companies belonging to the Ibex 35, and the last two groups distinguish between companies with capitalisation higher or lower than 1,000 million euros.

Figure 1 shows the capital distribution by stock market capitalisation groups[4] in 2008, 2009 and 2010. An analysis of the information filed by companies reveals the following:

I. Board shareholdings:

– The most significant change in the capital in 2010 took place in companies with a capitalisation lower than 1,000 million euros, whose capital fell on average by 1.8 percentage points over the year.

4 The figures represent the arithmetic mean of the capital distribution of listed companies, taking as the calculation base the corresponding percentages for each company of the different categories included in the figure. The percentage representing non-director significant shareholders has been obtained after deducting the share packages in the hands of members of the board of directors.

– With regard to the distribution of capital by director type, 30% of proprietary directors reported holdings of more than 3% of capital, around 15% of executive directors held equity stakes greater than 10% and greater than 50% in the case of 5% of these directors, and 57% of independent directors reported shareholdings, with 80% of these being less than 0.1%.

II. Non-director significant shareholders:

– The percentage of capital in the hands of non-director significant shareholders (33.4% of capital) was spread as follows: 4.6% corresponded to natural persons resident in Spain (5.1% in 2009), 22.6% corresponded to legal persons resident in Spain (23.7% in 2009), and the remaining 6.2% corresponded to non-resident investors (5.4% in 2009).

– A total of 33 listed companies (35 in 2009) were significant shareholders of 49 listed companies (47 in 2009). A total of five listed banks reported significant interests in 14 companies (15 in 2009), while 19 savings banks (24 in 2009) reported 77 significant or major shareholdings in the capital of 51 companies (54 in 2009).

III. Treasury stock:[5]

– Treasury stock at the end of 2010 rose on average by 0.2 percentage points compared with the previous year. By sector, construction companies and portfolio companies reported the largest increases in treasury stock, of 1 and 0.6 percentage points respectively.

– Compared with the previous year, 64 companies (42 in 2009) increased their treasury stock holdings and 31 companies reduced them (49 in 2009). The treasury stock of 58 companies remained unchanged (23 in 2009).

IV. Free float:

– Free float remained largely unchanged compared with previous years. However, it should be pointed out that the number of companies with a free float greater than 50% fell from 40 in 2009 to 35 in 2010.

The participation of the shareholders of listed companies in general meetings in 2010 fell compared with the previous year by one percentage point, down to 73.9% of the share capital. The three types of attendance at meetings (physical, proxy and remote) fell slightly. However, the number of companies with shareholder participation between 50% and 75% rose by four percentage points, while the number of companies with shareholder participation greater than 75% fell by four percentage points. Table 1 reflects the participation of shareholders in the general meetings of listed companies, grouped by capitalisation.

5 In 2010 the maximum legal limit of treasury stock was amended, rising from 5% to 10% of the subscribed capital (Royal Legislative Decree 1/2010, of 2 July, article 509).

Shareholder participation in general meetings

TABLE 1

	Total				Ibex 35				Over one billion euros				Less than one billion euros			
No. of companies	**2007**	**2008**	**2009**	**2010**	**2007**	**2008**	**2009**	**2010**	**2007**	**2008**	**2009**	**2010**	**2007**	**2008**	**2009**	**2010**
Participation < 50%	19	12	13	12	1	0	0	0	2	0	0	0	16	12	13	12
Participation between 50% and 75%	67	63	57	63	23	18	18	21	13	3	3	3	31	42	36	39
Participation > 75%	87	89	86	79	11	17	16	14	23	12	11	11	53	60	59	53

Source: Company ACGRs and CNMV.

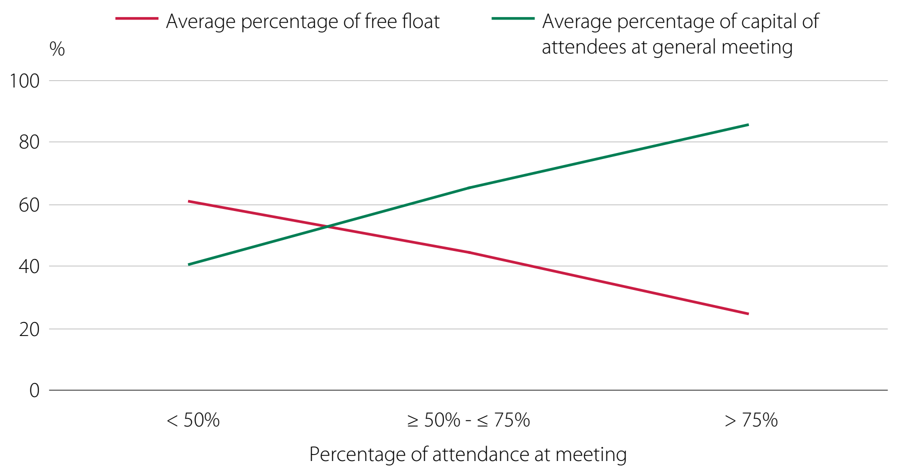
Despite this fall, it is important to highlight that the percentage of companies which facilitated remote voting rose continuously from 12.3% in 2008 to 19.6% at the end of 2010.

It is important to mention that over recent years listed companies have been eliminating limits to voting rights from their articles of association, with nine companies maintaining them in 2010. At the same time, they have adopted measures to favour the participation of minority shareholders in the general meeting. However, as shown in Figure 2, in 2010, as in previous years, the existence of a high percentage of minority shareholders tended to reduce general meeting attendance.

The figures for average attendance data at general shareholders' meetings, as well as the free float of Spanish listed companies, for each one of the participation intervals analysed in the meetings held in 2010, are shown below:

General shareholders' meeting attendance. Percentage represented and free float

FIGURE 2



Source: Company ACGRs and CNMV.

3 Structure and functioning of the company's management

The Unified Code states that the general objectives of the board of directors should be the design of the general strategy, supervision of the activities carried out by the company's executives and communication with shareholders. To this end, the board's size should be aligned to the needs of each company, although the Code recommends that the number of members should be between five and fifteen (Recommendation 9).

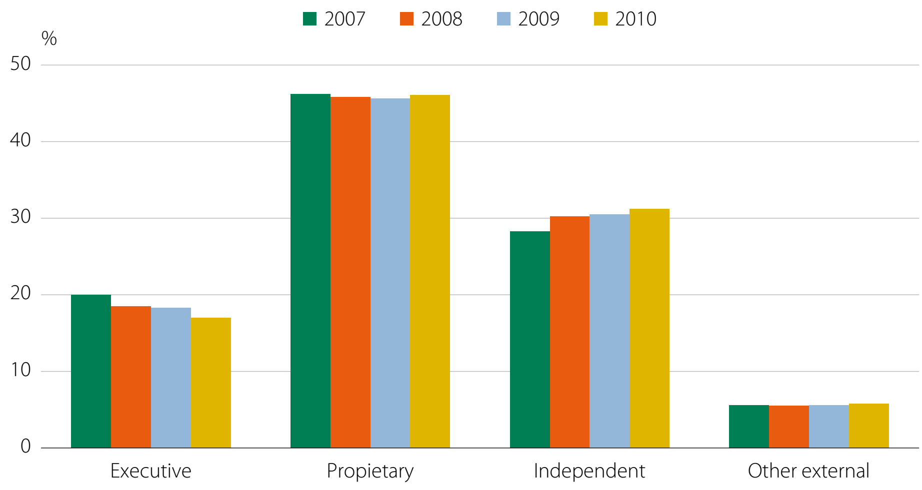
In 2010, 85.6% (85.3% in 2009) of companies complied with the recommendation in the Unified Code. These figures are in line with the growing trend in the numbers of companies following this recommendation, which over recent years has always been greater than 80%. Compliance has risen by 3.5 percentage points since 2007.

The average size of the board in 2010 stood at 10.4 members (14.3 in Ibex 35 companies), ranging from a minimum of three up to a maximum of 23. As in previous years, the boards with over 15 members were mostly concentrated in Ibex 35 companies.

The breakdown by director type was as follows: 17% (18.3% in 2009) were executive directors, 46.1% (45.6% in 2009) were proprietary directors, 31.2% (30.5% in 2009) were independent directors, and 5.8% (5.6% in 2009) were classified as other external directors.

The following figure shows the movements in the type of director between 2007 and 2010.

Composition of the board by type FIGURE 3



Source: Company ACGRs and CNMV.

It is important to highlight that, since 2007, the percentage of executive directors has followed a downward trend (20% in 2007, compared with 17% in 2010). The opposite is the case for independent directors,[6] which have risen from 28.3% in 2007 to 31.2% in 2010. The other two categories remained practically stable.

The figures also reveal that the role of external directors (proprietary, independent and other external directors) has taken on increasing importance. Accordingly, the average percentage of external directors in 2010 amounted to 83.1% (81.7% in 2009). Furthermore, as in 2009, only ten companies – none of which belong to the Ibex 35 – did not have a majority of external directors on their boards.

With regard to the functioning of the board of directors, it is important to mention the board committees. In 2010, all companies had an audit committee, which is the only mandatory committee,[7] and 86.9% of companies had an appointments and remuneration committee (84.6% 2009). 39.2% of companies (38.5% in 2009) had established an executive committee.

Another noteworthy aspect is the low presence of women on company boards. Specifically, the percentage of women on company boards remained stable at 9.9% in 2010 compared with 9.2% in 2009, and standing at 10.6% in Ibex 35 companies (10.2% in 2009). Table 2 shows the development of the percentage of women directors and companies with women on their boards between 2007 and 2010.

Presence of women on boards TABLE 2

	% of women directors				% of companies with women directors			
	2007	2008	2009	2010	2007	2008	2009	2010
Ibex 35	6	8.7	10.2	10.6	60	74.3	79.4	82.9
Companies with capitalisation greater than one billion euros	8	6.6	8.4	10.9	47.4	46.7	42.9	64.3
Companies with capitalisation lower than one billion euros	8.3	7.1	8.8	9.4	49.5	48.2	53.7	57.7
TOTAL	**7.5**	**8.1**	**9.2**	**9.9**	**51.4**	**53.7**	**58.3**	**64.1**

Source: Company ACGRs and CNMV.

The Unified Code considers that achieving gender diversity on the boards of directors is not just an ethical or corporate social responsibility challenge, it is also an efficiency objective which listed companies should work towards. It also recommends that companies with few or no women on their boards should make a specific effort to find possible candidates whenever they need to cover a vacancy (Recommendation 15).

Although the level of compliance with this recommendation rose by 9.4 percentage points over the period 2007-2009, it remains 33 percentage points below the average compliance with the recommendations in the Code as a whole. Specifically,

6 For further details, see section 4 herein.

7 Mandatory requirement pursuant to the additional provision 18 of the Securities Market Act.

32.9% of the companies with few or no women on their boards reported that they have not adopted corrective measures. Improving this situation is one of the main corporate governance challenges for Spanish listed companies.

However, it is important to point out that this situation does not only affect Spanish companies. On a European level, the OECD[8] and the European Commission are working on promoting gender diversity. The Member States of the Corporate Governance Committee of the OECD have responded to a form aimed at discovering, *inter alia*, the national situation of women in listed companies and on their boards. This information will serve as an additional factor in analyses performed by the OECD and will contribute towards the OECD's horizontal gender initiative with regard to women in business.

The European Commission Green Paper states: "More diversity leads to more discussion, more monitoring and more challenges in the boardroom. It potentially results in better decisions but getting to those decisions may take more time".[9] Within the concept of "diversity" on boards, the Green Paper distinguishes between three types of profiles not linked to the classification of director: professional diversity, international diversity and gender diversity. Furthermore, the Green Paper states that "promoting women to boards has one indisputably positive effect: it contributes towards increasing the pool of talent available for a company's highest management oversight functions". Consequently, the European Commission will study over the next five years "specific initiatives to improve the gender balance in decision-making".

4 Independent directors

The role of independent directors and their growing importance both on boards of directors and board committees of Spanish listed companies deserves a specific chapter in this article covering their main features, characteristics and development.

Independent directors are those who are appointed based on their personal and professional characteristics and who may carry out their functions without being tied by their relationship with the company, with significant shareholders or with its management.

As commented above, the percentage of independent directors in 2010 stood at 31.2% (40.2% in Ibex 35 companies), and has grown continuously since 2007 (28.3%). The Unified Code recommends that independent directors should occupy at least one third of board places (Recommendation 13). Therefore, on an aggregate level the proportion of independent directors at the end of 2010 was slightly below the recommended level.

However, it is important to highlight that the average free float in Spain – which, as mentioned above, has remained practically constant – stood at 35.6% in 2010.

8 OCDE (2011- 2012). *Gender Initiative*. Available at www.oecd.org/gender/equality.

9 European Commission (2011). *Green Paper. The EU Corporate Governance Framework*.

Taking this figure into account, the proportion of independent directors was very similar to the proportion of capital in the hands of minority shareholders or directors.

Table 3 shows the percentage of independent directors and the percentage of companies with independent directors occupying at least one third of the board places between 2007 and 2010.

Percentage of independent directors on the board TABLE 3

	% independent directors				% companies with more than 1/3 independent directors			
	2007	2008	2009	2010	2007	2008	2009	2010
TOTAL	28.3	30.2	30.5	31.2	38.2	45.7	44.9	50.3

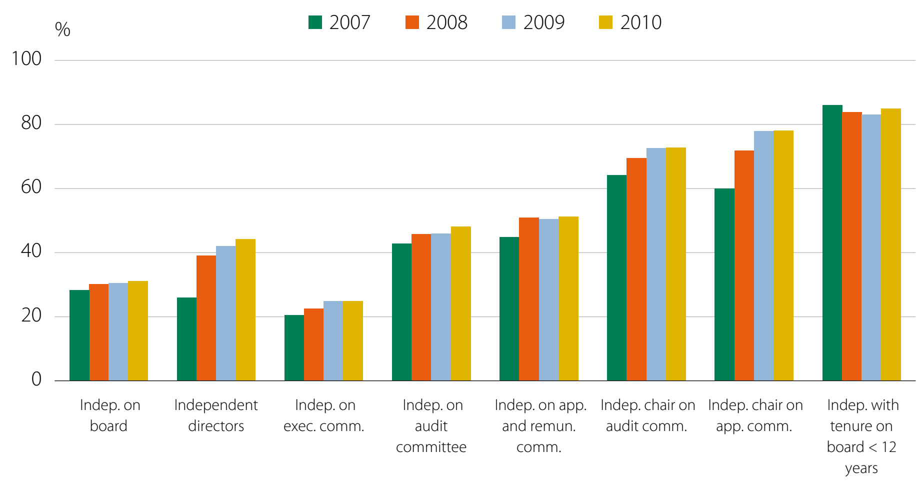
Source: Company ACGRs and CNMV.

If we further analyse the offices held by independent directors, we can see that only 5.2% of board chairs are independent directors (5.8% in 2009). This office was mostly held by executive directors (67.3%). Independent directors occupied 20.6% of vice chairs (20.3% in 2009).

The percentage of companies with an independent chair on the audit committee and on the appointments committee remained constant: 72.8% and 78.1% in 2010 compared with 72.7% and 78% in 2009 respectively.

It should be pointed out that, as in previous years, the presence of independent directors on the audit committee (48.2%) and on the appointments and remuneration committee (51.1%) is higher than on the board (31.2%). However, although the Unified Code recommends that if there is a board committee, it should have relative participation of the different types of directors similar to that of the board itself (Recommendation 42), the presence of independent directors on this committee (24.9%) is lower than on the board (31.2%).

Percentage of independent directors on governing bodies FIGURE 4



Source: Company ACGRs and CNMV

Figure 4 shows the development of the main parameters indicating the presence of independent directors on the governance bodies of listed companies. There has been a continuous rise in the presence of independent directors on audit committees and appointments and remuneration committees throughout the period under consideration.

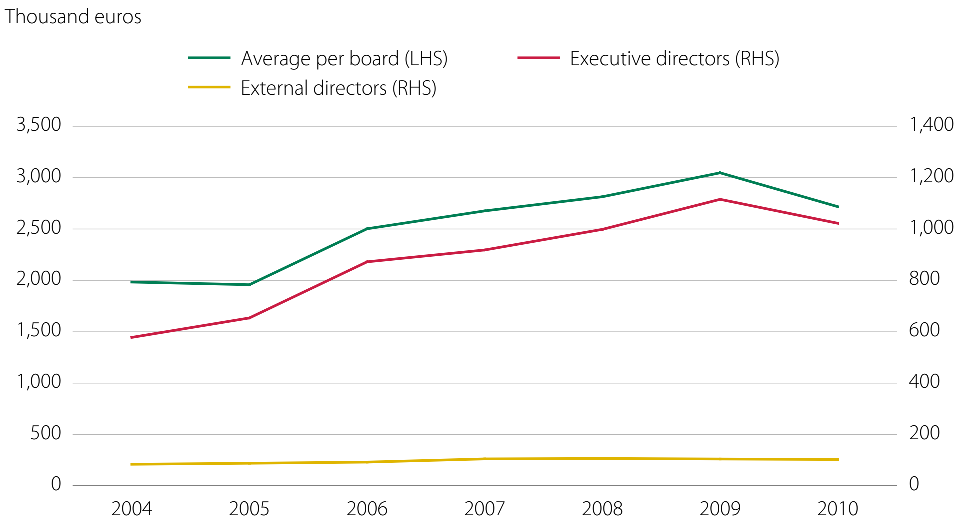
Finally, at the end of 2010 the percentage of independent directors who had served for more than the maximum of 12 years recommended by the Unified Code (Recommendation 29) had risen. 34.4% of companies declared that they had not followed that recommendation. Specifically, 15% of the independent directors had served on the board for more than 12 years.

5 Remuneration of the board and senior management

ACGRs must provide aggregate information on board remuneration.[10] Companies should break down certain items such as fixed remuneration, variable remuneration, expenses, directors' fees, share-based compensation and other social benefits. In addition, ACGRs include the total remuneration paid by type of director in the company and its group. With regard to senior officers, the company must identify those which are not in turn executive directors and indicate their total remuneration over the year.

Figure 5 tracks the average remuneration of listed company boards, executive directors and external directors for the period 2004-2010.

Remuneration FIGURE 5

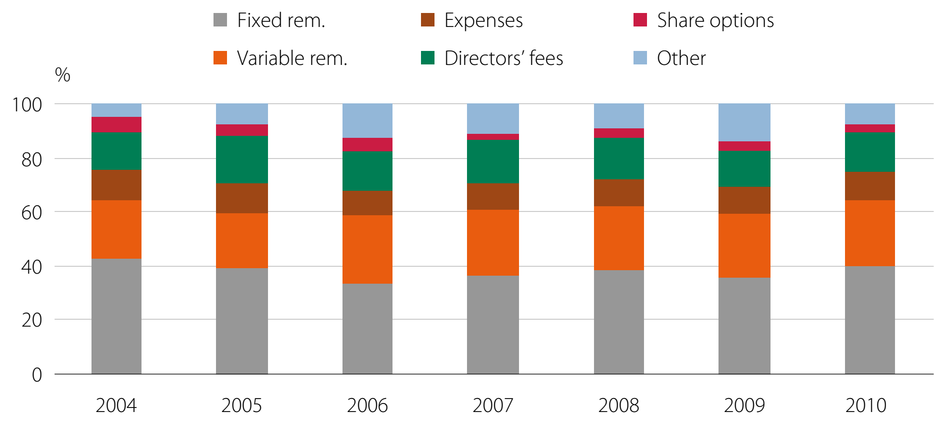


Source: Company ACGRs and CNMV.

10 In addition to the information on remuneration included in the ACGR, the Sustainable Economy Act amended the Securities Market Act 24/1988, of 28 July, introducing a new Section (61 ter), on the obligation to prepare an annual director remuneration report which must be published and put to an advisory vote as a separate item on the agenda of the general shareholders' meeting. This requirement is in force as from the reports relating to 2011, which are filed in 2012.

Average remuneration per board in 2010 stood at 2.7 million euros, 10.8% down on 2009 and 37% up on 2004. This represented a change in the upward trend of the last five years, which was essentially due to the significant fall in severance payments – mainly reflected in the lower weight of "Other remuneration" – as one company paid 29.7 million euros in 2009 for this item. If we exclude the effect of this severance payment, the average fall per board and director compared with the previous year would have stood at around 4.8%.

Board remuneration by item FIGURE 6



Source: Company ACGRs and CNMV.

Figure 6 sets out in aggregate terms the remuneration structure for directors. These figures reveal a change in trend in the relative importance of fixed remuneration in 2010, which rose to 40% for first time since 2004, at the expense of variable remuneration.

In addition, in 2010 the number of senior officers totalled 1,164 (1,264 in 2009) and their average remuneration amounted to 454,713 euros, up 9.1% on the previous year. This increase is largely due to the fact that the senior officers of one Ibex 35 company received, on average, 6.8 million euros in non-recurring remuneration plans in 2010. The remuneration paid by this company accounted for 10% of the aggregate amount paid to senior officers.

In 2010, a total of 86 companies (84 in 2009) reported severances clauses in favour of 453 senior officers (251 of the Ibex 35), a fall of 33 senior officers with these clauses compared with 2009.

In addition to the aforementioned figures relating to director remuneration, the ACGRs also include qualitative information on the degree of compliance with Unified Code recommendations, including those relating to the role of the remuneration committee and to the transparency and setting of remuneration systems. Accordingly, the category of recommendations relating to remuneration underwent the greatest increase in compliance in 2010 (4.5%). Specifically, the most important increase took place in the recommendations relating to the approval and transparency of director remuneration, which stood at 65.3%, compared with 62.9% in 2009. It is true, however, that as in previous years these are the recommendations which are least adhered to.

The only two Code recommendations complied with by less than one third of listed companies in 2010 were those relating to the transparency of director remuneration. In particular, Recommendation 40 – that the board submits a report on the director remuneration policy to the general meeting – and Recommendation 41 – that the report itemise individual remuneration – were adhered to by 27.3% and 31.8% of companies respectively (21.2% and 28.2% in 2009).

Some companies which did not previously comply with these recommendations chose to incorporate these practices in 2010. Consequently, the number of companies which itemised individual director remuneration rose from 33 in 2009 to 42 in 2010. Furthermore, the number of companies which submitted a remuneration policy report to an advisory vote in the general meeting, as a separate item on the agenda, rose from 44 to 49.

6 Application of the "comply or explain" principle: level of compliance with recommendations and quality of explanations

In accordance with the "comply or explain" principle, the ACGRs of listed companies must indicate the level of compliance with the 58 recommendations in the Unified Code, indicating whether they fully or partially comply with them or if they do not follow any of them, and explain, as the case may be, the practices or criteria they use when deviating from the recommendations.

Figure 7 shows listed companies' total average compliance with the recommendations of the Unified Code in each category in the years 2007 to 2010.

Compliance with the recommendations of the Unified Code FIGURE 7

Source: Company ACGRs and CNMV.

The conclusions resulting from the information reported in ACGRs are as follows:

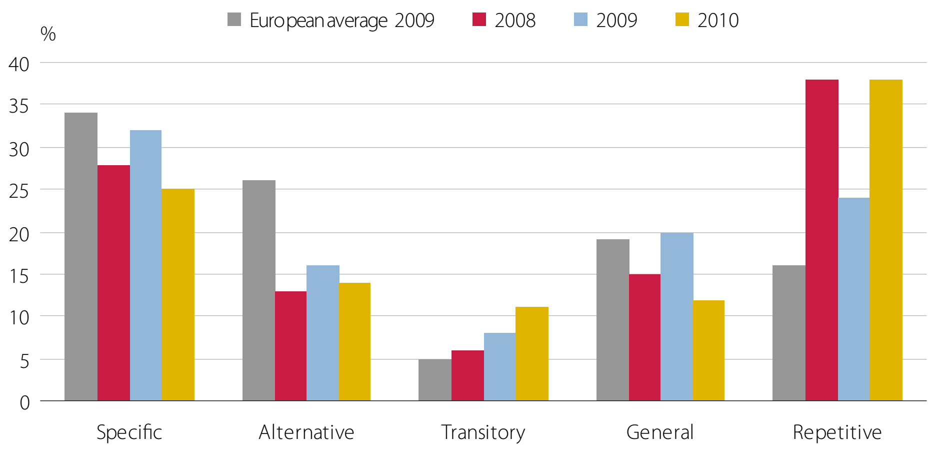
- The level of compliance with the Unified Code recommendations in 2010 was high and rose by almost one percentage point compared with 2009, with average compliance at 78.1% (77.3% in 2009). Partial compliance fell from 9.5% in 2009 to 8.9% in 2010. Therefore on aggregate, 13% of the recommendations were not even partially complied with.

- A total of 33 companies – 21.4% of the total – complied with over 90% of the Unified Code recommendations, with three companies reporting compliance with 100% of the recommendations. However, 7.1% of listed companies reported a level of compliance with recommendations lower than 50%.

- 44.2% of listed companies reported a higher percentage of compliance with the Unified Code than in 2009.

In addition, since the entry into force of the Transparency Act in 2003, the Securities Market Act requires that Spanish listed companies include information in their ACGRs on the level of compliance with corporate governance recommendations or, as the case may be, an explanation of the lack of compliance so that shareholders, investors and the markets in general may assess the reasons behind their procedures when they differ from the recommendations included in the Code.

Classification of explanations, in percentage of sample analysed FIGURE 8



Source: Company ACGRs and CNMV.

In 2010, and for the third consecutive year, the CNMV analysed a sample of the explanations given by Spanish listed companies in their ACGRs. The recommendations selected are the ten with the lowest compliance index,[11] and Figure 8 shows the main results obtained, together with the trend since 2008, set alongside the European average for 2009.[12] The categories into which the analysed responses have

11 Recommendations 12, 13, 15, 29, 36, 40, 41, 47, 48 and 54 of the Unified Code.

12 Risk Metrics Group (2009). *Study on Monitoring and Enforcement Practices in Corporate Governance in the Member States*. Report for the European Commission, available at http://ec.europa.eu/internal_market/company/ecgforum/studies_en.htm

been classified are defined below. Furthermore, so as to clarify these categories, an example of each type is given for Recommendation 9 ("In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than 15 members").

– Repetitive: They repeat the fact of non-compliance or simply indicate the existence of the deviation with regard to the recommendation.

  Example: The board has four members, which is below the range indicated in the recommendation.

– Alternative: They do not explain the reasons for non-compliance, but do include specific additional information about the company's procedures or actions which may be considered as alternatives to the recommendations in the Unified Code as they have the same purpose.

  Example: Although the company has more directors than the number recommended in the Code with the aim of ensuring that the board functions effectively, the board follows a detailed, thorough and specific procedure which all the directors are aware of and put into practice in each one of the board meetings.

– General: Supported by a generic disagreement with the recommendation without developing a specific explanation for that particular company.

  Example: The board has more than 15 members because the company considers that this does not have an impact on the board's functioning.

– Transitional: The company states its commitment to adopting the measures necessary to comply with the recommendation in the future.

  Example: The company has one more board member than the number indicated in this recommendation. With the aim of complying with the recommendation, the vacancies produced by the termination of the tenure of two directors next March (as a result of exceeding the maximum level in the articles of association) will not be filled.

– Specific: They inform about a specific situation in the company and explain the reasons why this circumstance prevents them from complying with the recommendation.

  Example: The number of board members exceeds that set in the recommendation as the company believes that its size, the different areas in which it operates and the numerous different markets in which it is present make a higher number of board members necessary for effective management of the company.

Figure 8 shows that in 2010 the quality of the explanations in the sample analysed fell significantly. This is reflected in the 14 percentage points rise in repetitive responses and the 7 percentage points fall in specific explanations.

7 Conclusions

2010 saw a continuation of the trend which began in 2007 towards a significant improvement in the level of adoption of the Unified Code recommendations by Spanish listed companies. Although in general they were the least complied with, the recommendations relating to director remuneration were those which underwent the greatest increase in the level of compliance (2.4 percentage points from 2009 to 2010).

Although some progress can be seen with regard to previous years on certain corporate governance practices, listed companies need to make greater effort with regard to the quality of the explanations about the lack of compliance with the recommendations. The quality of these explanations fell notably in 2010, breaking the upward trend in recent years. This situation needs to be reversed through companies making a greater effort in preparing better answers which allow shareholders, investors and the market in general to assess the reasons why companies deviate from the Unified Code recommendations.

It is important to highlight the growing importance of the role played by proxy advisors (advisors on exercising voting rights in general meetings), who advise most institutional investors at an international level. As the quality of information improves, knowledge and understanding of the corporate governance practices of each company in its context will improve, thus facilitating voting which the European Commission referred to in its recommendations as "responsible".

Another of the aspects to be improved is the participation of women on the boards of listed companies as the number of women has only increased by 1.8 percentage points in the period 2007-2010. In this regard, the European Commission has undertaken to study, within the next five years, specific initiatives to improve the gender balance in decision-making.[13]

The role of external directors took on greater importance in 2010, with their presence increasing by 1.4 percentage points compared with the previous year. Specifically, the percentage of independent directors rose by 0.7 percentage points in 2010. This figure was in line with the upward trend since 2007, rising from 28.3% to 31.2% in three years. Similarly, the number of independent directors on the audit committees and appointments and remuneration committees also rose.

Finally, in 2010 the average participation in general meetings was higher than 70% although there was an inverse relationship between the company's free float and the participation of shareholders in general meetings. The entry into force of the requirements included in the Capital Companies Act, such as establishing an Electronic Shareholder Forum on the company's website, may lead to substantial changes in these participation figures in future years.

13 European Commission (2011), op. cit.

III Regulatory Novelties

Report on the 2010 audits of collective investment schemes

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1 Introduction

This article covers the most significant aspects of the audit reports on the 2010 annual accounts of collective investment schemes (CIS) registered in Spain, as well as the supervisory actions carried out by the CNMV relating to said accounts. The CNMV publishes an annual report on the supervisory activities relating to the annual accounts of listed companies and, with the same objective of transparency, the CNMV considers it appropriate to publish similar information relating to CIS.

The review of the annual accounts of collective investment schemes is an important supervisory tool which is based around three core aspects. Firstly, it allows the comparison of the information contained in the audited annual accounts with the reserved information statements sent monthly to the CNMV for supervisory purposes. The CNMV uses these statements to supervise the reliability of the information used for calculating the net asset value applied to the subscriptions and redemptions of units and shares issued by these investment vehicles.[1] By analysing the audited annual accounts, the CNMV is able to verify the accuracy and reliability of this reserved information. Secondly, the CNMV examines all the reservations or qualifications expressed in the auditor's opinion, as well as those uncertainties highlighted in the emphasis of matter paragraphs. Finally, the CNMV reviews the contents of the report of those CIS in which there is a circumstance which may have an impact on the scheme's future.

Similarly, the audit reports and annual accounts of CIS are an essential component of the informative documents of these schemes. Together with other documents, they provide up-to-date public information on all the circumstances which may influence the value of the assets and the outlook for the scheme, as well as any risks that may exist. For this purpose, legislation requires that the management company's website publish the latest versions of these documents.

The article is structured as follows. Section 2 analyses the number of CIS audits with a favourable opinion, qualified opinion and emphasis of matter paragraphs over the last five years and describes how the audits are spread among firms in the sector. Section 3 presents the content of the qualifications and the aspects highlighted in the emphasis of matter paragraphs in the 2010 audit reports of CIS. Section 4 lists the supervisory actions carried out by the CNMV with regard to the audit reports. The article closes with section 5, which presents the conclusions and outlook.

1 The net asset value is calculated as the ratio between the value of the fund's net assets and the number of units in circulation. The value of the assets is calculated using the information in the financial statements on the day of reference. In most cases it must be calculated daily. The monthly reserved statements are required to include information on said calculation relating to each one of the days of the month on which the CIS has calculated a net asset value.

2 Development of the opinions of CIS audits

Article 17 of Act 31/2011, of 4 October, which amends the Collective Investment Scheme Act 35/2003, establishes the public reporting requirements of CIS. Pursuant to this Article, CIS must publish an annual, half-yearly and quarterly report providing public up-to-date information on any circumstances which may influence an assessment of the value of the assets and the outlook for the scheme. The annual report comprises the annual accounts, management report and audit report. Management companies of CIS and investment firms must file with the CNMV, within the first four months of each financial year, the annual accounts of the previous year together with their corresponding audit reports, as indicated in Article 31 of the Regulation which implements the Collective Investment Scheme Act.

The audit report on the annual accounts must contain a technical opinion, which will clearly and accurately state the auditor's opinion as to whether the annual accounts offer a true and fair view of the net worth, financial situation and results of the audited entity. When there are no reservations, the auditor's opinion will be favourable or unqualified. On the other hand, when there are reservations, the auditor must declare all of them in the report and the opinion will be qualified, adverse or there will be a disclaimer of opinion. The qualifications may in turn be of two types: exceptions and scope limitations. Exceptions arise as a result of errors or a failure to comply with generally accepted accounting principles and standards, while scope limitations are qualifications due to the auditor being unable to apply the procedures required by Technical Auditing Standards as the auditor does not have sufficient information so as to form an opinion.

In certain circumstances, irrespective of the opinion expressed, the auditor may consider it necessary to include an emphasis of matter paragraph so as to highlight a fact reflected in the annual accounts with regard to which the report contains the necessary information, in accordance with the applicable financial reporting legislation. Including an emphasis of matter paragraph does not affect the auditor's opinion.

Table 1 shows the total number of CIS audits received by the CNMV in each one of the last five years, broken down into those which include a favourable opinion, a qualified opinion, an adverse opinion and a disclaimer of opinion. Finally, the table shows the number of emphasis of matter paragraphs included in the audit reports over the period.

Summary of CIS audits TABLE 1

Number of entities with a certain type of opinion or emphasis of matter paragraphs

Reason	2006	2007	2008	2009	2010
Qualified opinion	22	26	55	52	18
Adverse opinion	0	0	0	0	0
Disclaimer of opinion	0	0	1	2	2
Unqualified opinion	5,965	6,248	6,241	5,757	5,549
Total	5,987	6,274	6,297	5,811	5,569
Unqualified opinion (%)	99.6	99.6	99.1	99.1	99.6
No. of emphasis of matter paragraphs	113	143	420	292	256

Source: CNMV.

As shown in the table above, auditors formed a favourable opinion for over 99% of the CIS audited over the last five years. This percentage remained stable throughout the period.

The table shows that the number of qualified audits and audits with emphasis of matter paragraphs rose notably in 2008, coinciding with the start of the financial crisis, and then fell slightly in 2009, and then fell considerably in 2010. It is important to bear in mind that in 2010, as a consequence of the entry into force of the new Audit Act, uncertainties are no longer considered as qualifications. However, the auditor must include an emphasis of matter paragraph relating to the significant uncertainties regarding the business's continuity. Despite this change, both the number of qualifications and the emphasis of matter paragraphs fell in 2010, with the fall in qualifications being sharper in relative terms. In this regard, we should bear in mind that many of the qualifications and uncertainties arising in 2008, coinciding with the intensification of the financial crisis, have been resolved over time, which explains their falling numbers.

We can divide the CIS categories as follows: mutual funds (MF), open-ended collective investment schemes (SICAV), hedge funds (HF), funds of hedge funds (FHF) and, finally, real estate funds and companies (REF/REC). Table 2 shows the number of qualifications and their type, as well as the number of emphasis of matter paragraphs over the last three years for each one of the aforementioned categories.

Number of qualifications and emphasis of matter paragraphs by CIS category TABLE 2

	2008					2009					2010				
	MF	SICAV	HF	FHF	REF/ REC	MF	SICAV	HF	FHF	REF/ REC	MF	SICAV	HF	FHF	REF/ REC
Qualifications	**10**	**25**	**2**	**19**	**1**	**6**	**26**	**2**	**16**	**1**	**0**	**16**	**0**	**2**	**0**
Exceptions	0	3	0	0	0	1	5	0	0	0	0	9	0	0	0
Limitations	0	7	1	3	0	0	8	1	3	0	0	7	0	2	0
Uncertainties	10	15	1	16	1	5	13	1	13	1	–	–	–	–	–
Adverse	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Disclaimer	0	1	0	0	0	0	2	0	0	0	0	2	0	0	0
Emphasis of matter paragraphs	**277**	**101**	**9**	**26**	**8**	**204**	**53**	**5**	**22**	**8**	**128**	**75**	**17**	**28**	**8**
Total audits	2,912	3,305	24	40	18	2,537	3,194	28	36	16	2,408	3,084	33	28	16

Source: CNMV.

As shown in the above table, of the 18 qualifications included in the 2010 CIS audits, 16 corresponded to SICAVs and two corresponded to FHFs. The other CIS categories did not have any qualifications in the auditor's opinion. In the two previous years, it was also SICAVs and FHFs which had the highest number of qualifications, although there were some qualifications in other CIS, mainly in hedge funds.

The new legislative framework applicable to audits partly explains the fall in audits with qualified opinions in 2010, especially in funds of hedge funds. As indicated above, the new Audit Act 12/2010 and the subsequent amendment of the Technical Standard which implements it, establishes that uncertainties will not be a reason for qualification, although the auditor must mention them in the emphasis of matter paragraphs. In the years prior to 2010, uncertainties on the entity's capacity to continue operating were a reason for a reservation in the auditor's opinion, which constituted a qualification. This legislative change explains why the categories of REF/REC and FHF have seen a fall in the number of qualifications and a simultaneous increase in the emphasis of matter paragraphs. In 2008 and 2009, these schemes were affected by liquidity problems in some of their investments, which led to qualifications expressed as uncertainties. In 2010, these uncertainties were mentioned in an emphasis of matter paragraph, without affecting the auditor's opinion. This has led to a rise in the number of emphasis of matter paragraphs in these categories.

In general, 2010 saw a fall in the number of qualifications and emphasis of matter paragraphs in all CIS categories, except for open-ended schemes (hedge funds/hedge funds in the form of companies and funds of hedge funds). This is as a consequence of the fact that some of the situations which led to an increase in the number of qualifications and emphasis of matter paragraphs at the start of the financial crisis were regularised in 2010, as commented above.

With regard to the distribution among audit firms of the 2010 reports filed with the CNMV, we can see a significant concentration in the four largest international firms, which audit around 85% of the total, as shown in table 3.

CIS Audits. Share of the audit firms TABLE 3

Percentage of the total number of audits in 2010

Auditor	Number of audits (% of the total)
Deloitte & Touche España	40.8
PricewaterhouseCoopers	25.2
KPGM Auditores	12.3
Ernst & Young	6.5
Quorum Auditores	3.7
BDO Auditores	1.9
Mazars Auditores	1.9
Sayma Auditores	1.3
Lasemer Auditores	1.1
Attest Consulting	0.5
Other	4.9
Total	**100.0**

Source: CNMV.

3 Content of the 2010 CIS audit reports

Article 70 of the CIS Act assigns the supervision and inspection of CIS, and their management companies and depositories, to the CNMV. This supervision refers, *inter alia*, to verification of the reliability and accuracy of the information contained in the public reporting of the CIS. The verification of the audited annual accounts carried out by the CNMV consists of three aspects:

1. Analysis of all the reservations made by the auditors in the form of qualifications or disclaimers or adverse opinions, as well as those other facts which the auditor has decided should be highlighted in an emphasis of matter paragraph. This analysis involves reviewing the content of the annual report.

2. Comparison of the quantitative information included under certain headings of the annual accounts with the information included in the reserved information statements.

3. Verification of compliance with certain formal aspects.

Table 4 breaks down by CIS the number of qualified opinions, adverse opinions, disclaimers of opinion and emphasis of matter paragraphs in the 2010 audit reports.

2010 audits. Breakdown by CIS type TABLE 4

Number of entities with a certain type of opinion or with emphasis of matter paragraphs

	MF	SICAV	HF	FHF	REF/REC
Qualified opinion	0	16	0	2	0
Adverse opinion	0	0	0	0	0
Disclaimer of opinion	0	2	0	0	0
Emphasis of matter paragraphs	128	75	17	28	8
Total audits	**2,408**	**3,084**	**33**	**28**	**16**

Source: CNMV.

3.1 Disclaimer of opinion

The auditor did not express an adverse opinion in any of the 5,569 CIS audit reports for 2010. There are, however, two CIS audits with disclaimers of opinion. The auditor provides a disclaimer of opinion when there are scope limitations which are so significant that they prevent the auditor from forming an opinion.

The two disclaimers of opinion relate to SICAVs managed by the same management company, in which there was a dispute between the directors, on the one hand, and the fund manager and depository on the other. The auditors declared that they were not able to express an opinion on the annual accounts as they were unable to evaluate the consequences that the outcome of the disputes in progress might have on the annual accounts. The two SICAVs are currently in the process of liquidation.

3.2 Qualified opinion and emphasis of matter paragraphs

The main reasons for an auditor giving a qualified opinion or including emphasis of matter paragraphs in the audit reports may be grouped into five categories:

– Merger, liquidation or transformation of the CIS.

– Net assets/capital or number of unit-holders/shareholders below legal limits.

– Aspects relating to the investment policy established in the prospectus and the investment ratios required by legislation for each CIS category.

– Issues relating to the liquidity or valuation of the assets in the portfolio, which in turn may be divided into four different situations: 1) investment in other CIS, 2) assets with trading suspended, 3) real estate investments and 4) fixed-income investments.

– Other formal aspects and events highlighted in emphasis of matter paragraphs.

Table 5 shows the number of qualifications and emphasis of matter paragraphs resulting from each one of the above-mentioned reasons. The qualifications are in turn differentiated between those caused by a failure to comply with accounting principles and criteria (exceptions) and those caused by scope limitations of the audit work performed.

2010 audits. Breakdown by reason for qualification and emphasis of matter paragraph TABLE 5

Number of audits

Reason	Qualifications		Emphasis of matter paragraphs
	Exceptions	Limitations	
Merger/liquidation/transformation	1		143
Net assets/unit-holders below legal limits	3	1	69
Investment policy/ratios			13
Valuation and liquidity of different assets in the portfolio:			
Other CIS		2	12
Assets with trading suspended	1		6
Real estate investments			7
Fixed-income investments			2
Others:			
Failure to comply with reporting requirements in Articles 229-231 of Capital Companies Act	4	5	
Accounts not signed by all the directors		1	
Significant shareholdings of the group			3
Pledged shares			1
Total	**9**	**9**	**256**
% audits with emphasis of matter paragraphs			**4.5**

Source: CNMV.

Merger, transformation, dissolution and liquidation

These operations are the leading reason for an auditor including an emphasis of matter paragraph in the audit report (56% of the emphasis of matter paragraphs). The most frequent operation in 2010 was the merger of CIS. These operations are the result of the restructuring of the CIS offered by management companies and the need to rectify insufficiencies in the level of net assets or number of unit-holders. Over 2010, 134 mergers of mutual funds and nine SICAV mergers were registered with the CNMV. These operations involved the takeover and subsequent de-registration of 283 mutual funds and 29 SICAVs.

The auditor included an emphasis of matter paragraph in the audits of acquiring CIS, explaining the merger process which had taken place in the year and the CIS involved in the process. The auditor also included a mention in the audits of those CIS which approved a transformation process into another type of CIS, or their dissolution and the subsequent liquidation of their investments.

In one SICAV in the process of liquidation, the auditor issued a qualified opinion since, on the report issue date, the company did not have a board of directors as the liquidation process was about to be terminated. This SICAV was removed from the CNMV register once said process was complete.

Net assets/capital or number of unit-holders/shareholders below legal limits

This is the second most common reason for an auditor including an emphasis of matter paragraph (28% of the total). The minimum level of net assets of mutual funds is set at three million euros, while for SICAVs it is 2.4 million euros. For all CIS (except hedge funds and hedge funds in the form of companies)[2] the minimum number of unit-holders or shareholders is set at 100.

When the CIS have net assets or unit-holders below the minimum legal requirements, Article 13 of the CIS Act grants them a period of one year so as to re-establish compliance with the legal minimum. In the event that, following this period, the CIS has not reached the legal minimum of net assets or number of unit-holders, the CNMV may resolve to revoke its authorisation.

A total of 23 audits referred to SICAVs failing to comply with the minimum number of shareholders, with 19 of them mentioning the fact that the CNMV had initiated procedures for revoking their authorisation. Finally, the revocation process was concluded in 17 of these 19 SICAVs. Of the two remaining SICAVs, one agreed to initiate a process of dissolution and liquidation, and the other agreed to transform into a limited liability company.

In one SICAV, the auditor included a qualified opinion as the SICAV was in a process of revocation as of 31 December 2010, which required the company to file a complementary Corporate Income Tax return with the Tax Office for financial years

2 Article 43 of Royal Decree 362/2007, which amends the Regulation which implements the CIS Act, establishes that the minimum number of unit-holders of hedge funds will be 25.

2009 and 2010, applying a rate of 30% instead of 1%. The authorisation granted to this SICAV was finally revoked.

In another SICAV, the auditor expressed a scope limitation as the information provided by the depository and the management company relating to the number of shareholders did not match. This SICAV is currently in a process of dissolution and liquidation.

Investment policy or legally required ratios

In 13 CIS, the auditors included an emphasis of matter paragraph highlighting that the investment policy followed did not correspond with that established in the prospectus or that the CIS had not met one or more of the minimum investment ratios or maximum diversification ratios in certain assets as established in CIS legislation.

Article 38.8 of the Regulation of the Collective Investment Scheme Act 35/2003 establishes that CIS which exceed the maximum investment limits in certain assets have a maximum period of three or six months to regularise the situation depending on the size of the excess, providing the excess has taken place subsequent to the date on which they were acquired. The same regularisation period will be applicable to unexpected failure to comply with the investment policy. Unexpected situations are those which arise as a result of market movements or those in which the net assets fall due to redemptions which in turn leads to a rise in the percentages for each one of the investments with regard to the new net assets.

Valuation and liquidity of the assets in which the CIS invest

A significant number of qualifications and emphasis of matter paragraphs referred to the valuation of certain assets in the portfolio or the liquidity of some investments. These may be grouped into four types depending on the affected assets: other CIS (including hedge funds), assets with trading suspended, real estate investments and investments in fixed-income assets.

Investment in other CIS, mainly in hedge funds

The auditors included emphasis of matter paragraphs in the audits of ten funds of hedge funds, mentioning the fact that several of the funds in which these vehicles invested have suffered restrictions to redemptions over recent years mainly due to the establishment of side pockets, gates or due to the start of proceedings for dissolution and liquidation.

A side-pocket (referred to as a "special-purpose CIS" in Spanish legislation) refers to those illiquid assets which are segregated from the original CIS with the aim that they will be sold when allowed by the market situation. The liquidity obtained from the sale of these illiquid assets will be spread among the unit-holders in proportion to their holding in the CIS. Gates are maximum limits to the redeemed amount in each one of the established redemption dates expressed as a percentage of the fund's assets.

In six of the ten above-mentioned funds of hedge funds, the percentage of investment in funds which included restrictions to redemptions was lower than 5%. Of the four remaining funds of hedge funds with liquidity problems, three are in the process of liquidating their investments and are making periodic payments to the unit-holders as they obtain liquidity from the sale of their investments. In the last fund of hedge funds, a credit institution of the management company's group held 82.6% of the fund's assets as of 31 December 2010.

Emphasis of matter paragraphs were also included for the same reason in two SICAVs which held investments in two funds which were in the process of liquidation. As at 31 December 2010, these investments accounted for 1% and 1.9% respectively of the net assets of the SICAV.

Finally, in two of the funds of hedge funds, the auditors issued a qualified opinion due to the existence of scope limitation to their audit work as they did not have access to the audits of several of the hedge funds in which the funds of hedge funds had invested. For this reason, they mentioned that the fair value of several of the CIS which had been invested in had been estimated using information received from the funds' depositories without the management company being able to compare this information with that included in the respective audit reports. It is therefore not possible to know the effect which, as the case may be, the information contained in the aforementioned audit reports would have had on the assets of the funds of hedge funds. These are funds affected by side pockets or other types of redemption restrictions.

Assets with trading suspended

The audit report of five SICAVs and one mutual fund included emphasis of matter paragraphs highlighting the fact that as at 31 December 2010 there were investments in companies which were undergoing bankruptcy proceedings, with their listing suspended, which continued to be valued at their last listed price. The weight of these investments in the assets of the corresponding CIS ranged from 0.6% up to 3.4%.

In another SICAV, the heading "doubtful, non-performing or in dispute investments" at the end of December 2010 included an investment in debentures for which the company itself expressed doubts about recoverability, which accounted for a percentage of less than 5% of the outstanding capital of the SICAV. This fact led the auditor to include a qualification in its opinion. The authorisation of this SICAV was revoked as it failed to comply with the minimum number of shareholders.

Real-estate assets

In three real estate funds and three real estate companies the auditors included an emphasis of matter paragraph highlighting the fact that the fair value of the real estate investments had been based on expected future cash flows or, alternatively, an estimate of the market price of the real estate based on actual transactions carried out or firm offers. The auditors considered that, given the persistence of adverse conditions in the real estate market, the fair value of the real estate assets appearing in the annual accounts may have undergone changes between the date referred to in the annual accounts and the issue date of the audit report.

A similar mention was included in the audit report of a hedge fund the purpose of which was to invest in real estate CIS. This hedge fund also held investments in its portfolio with suspended redemptions over recent years accounting for 11% of the fund's assets. The directors have no doubts with regard to the recoverability of these investments for the amounts which appear in the annual accounts.

Investments in fixed-income assets

The audit reports of two mutual funds included emphasis of matter paragraphs for aspects relating to certain investments in fixed-income assets with a low level of liquidity. In one case, the fund in question had invested in bonds issued by the Greek state. In the other case, the auditors referred to the fund's investment in fixed-income assets with low liquidity. In this regard, in the event of there being no active market, these assets are valued using valuation techniques based on the current situation of interest rates and the credit risk of the issuer and also including assumptions on the occurrence of certain milestones which, if not met, could affect the valuation of the aforementioned assets.

Other events

The other reasons which led to qualifications in the audit report of CIS or mentions in emphasis of matter paragraphs were as follows:

– Reporting requirements relating to SICAV directors. In the audits of nine SICAV, the auditors expressed a qualified opinion as the report did not include sufficient information on possible conflicts of interest which, directly or indirectly, may exist between the directors and the SICAV itself, as well as the holdings of the directors in the capital of other companies with the same or similar activity. The reporting requirements in this regard are included in Articles 229 and 260 of the Capital Companies Act.

– Lack of a signature of a member of the board of directors. One audit included a scope limitation as a result of the lack of a signature of one board member on the annual accounts.

– Other emphasis of matter paragraphs. The other emphasis of matter paragraphs highlighted different situations: in three funds of hedge funds, the auditor mentioned that an entity in the management company's group held a significant holding in its assets. In another SICAV, the auditors mentioned that the shares representing 99.98% of the SICAV were withheld and immobilised by a legal order as at 31 December 2010, although a legal ruling pronounced subsequent to the balance sheet date revoked the immobilisation of the shares. This SICAV was liquidated and removed from the CNMV Register in 2011.

3.3 Analysis of quantitative information and formal aspects

In addition to the analysis carried out on the information included in the auditor's opinion by the corresponding supervision department of the CNMV, a review is performed on the information included in the annual accounts of the CIS. To this end, a random sample of CIS was selected in order to compare the information included under certain headings of the audited annual accounts with that included in the reserved information statements relating to December 2010. As a result of this comparison, 14 schemes were detected with differences in some of the headings analysed, which corresponded to ten management companies. These were mainly discrepancies resulting from reclassifications of items between different accounting headings.

Finally, all the audit reports received are subject to a formal review of compliance with the requirements established by current legislation. As a result of this review, 22 CIS were identified which had formal shortcomings. These included those due to the lack of a signature of one of the directors. The second most common defect was the preparation of the annual accounts in thousands of euros instead of in euros.

4 CNMV actions with regard to the facts highlighted in the audit reports

With regard to the situations highlighted in the exceptions and emphasis of matter paragraphs in the audit report of CIS, the CNMV carried out actions in all cases, except for those CIS in the process of liquidation. These actions have been aimed at ensuring:

– That the reporting deficiencies which led to the scope limitations of the audit work had been rectified. In this regard, all the SICAVs were required to provide the information which is mandatory pursuant to the Capital Companies Act relating to possible direct or indirect holdings of the directors of the SICAV in the capital of companies with the same or a similar activity, as well as that relating to the possible existence of conflicts of interest between the directors and the SICAV itself.

– That the CIS complied with the minimal level of capital and number of shareholders required by law.

– That all the investments in the portfolios of the CIS were valued at fair value as required in Rule 8.1 of CNMV Circular 3/2008 on accounting standards, annual reports and reserved information statements of CIS. This fair value will be calculated based on a reliable market value. For those items for which there is no active market, the fair value will be obtained, as the case may be, by applying the appropriate valuation models and techniques.

– That all the CIS complied with the investment policy declared in the prospectus and with the legally required investment diversification ratios.

– That the report and periodic disclosures sent to investors contained all the information necessary in order to understand the origin, nature and potential effects which the uncertainties expressed by the auditors might have on the financial statements.

- That all the discrepancies existing between the information in the audited annual accounts and that in the reserved information statements had been explained. None of these differences had an impact on the net asset value as they were mostly cases of reclassifying items between different accounting headings. For example, one of the situations arose when the current account overdrafts which have a credit balance are included as negative balances under assets on the balance sheet. The fund managers re-sent the corrected reserved information which then matched that in the audited annual accounts. It is important to bear in mind that the maximum deadline for sending the reserved information statements is one month, while the directors have three months as from the balance sheet date to prepare the annual accounts.

- That all the formal shortcomings detected in the review of the annual accounts had been rectified.

5 Conclusions and outlook

The number of qualifications expressed in the audit report of Spanish CIS is very low. In 2010, only 18 of the 5,569 registered schemes (0.03% of the total) contained any type of qualification in the audit report. Over a wider time period, we can see that over the last five years the percentage of audits with qualified opinions was very low in all years and remained stable with a slight increase in 2008 and 2009, when the number of qualified opinions rose by 0.09%, corresponding with the start of the financial crisis.

In 2010, there was a significant fall, in absolute terms, in the number of qualified opinions given by auditors. This fall is partly explained by the change in the legislative framework which regulates audit reports, as well as by the regularisation of certain situations arising as a result of the financial crisis which had an impact on the investments of CIS. Qualifications were mainly concentrated in SICAVs. Half of the qualifications were due to the fact that the report did not contain sufficient information with regard to the holdings of directors of SICAVs in the capital of other companies with a similar activity, as well as the possible existence of conflicts of interest between the directors and the SICAV itself. The other SICAVs for which qualified opinions were given have been removed from the CNMV register or are currently in the process of liquidation.

In addition, the auditors included some type of emphasis of matter paragraph in the audits of 256 CIS. The most frequent mentions – over half – related to mergers carried out in 2010 as a consequence of the reorganisation processes of the products offered by management companies and the need to reach the minimum levels of net assets and number of unit-holders.

Specifically, the second most common fact, expressed in 28% of the emphasis of matter paragraphs, referred to the existence of capital/net assets or number of unit-holder/shareholders below the minimum legal requirements for different types of CIS. When these levels fall below the minimum limits, the CIS Act grants a period of one year to rebuild the net assets or the number of unit-holders or shareholders up to the minimum levels.

The third most important reason for emphasis of matter paragraphs was related to the investment policy established in the prospectuses and the investment or diversification ratios required by CIS legislation. Finally, several emphasis of matter paragraphs referred to the liquidity of the portfolio investments and their valuation.

The supervision carried out by the CNMV on the annual accounts of CIS was focused on reviewing the content of the opinions expressed in the audit report, as well as comparing the information in the annual accounts with that included in the reserved information statements sent to the CNMV. In 2010, the CNMV carried out actions aimed at clarifying all the existing reporting discrepancies, none of which had an affect on the net asset value of the CIS.

As a consequence of the review of the audit report, the CNMV carried out different actions aimed at ensuring that the CIS: 1) comply with the minimum legally required number of shareholders and minimum capital, 2) comply with the investment policy established in the prospectuses and with the different legal ratios and 3) value all assets at their fair value.

Finally, with regard to the outlook for the future, it is necessary to mention that the CNMV's Plan of Activities for 2012 includes the objective of promoting the sending by electronic means of the audit report and the annual accounts of supervised entities, which include CIS.[3] This improvement will make it possible to publish the audits of these investment vehicles on the CNMV's website (http://www.cnmv.es/), as well as to optimise their administrative processing and to facilitate supervision. In this regard, it important to bear in mind that these documents are the only ones included in the periodic public disclosures of CIS which still do not need to be sent to the CNMV electronically. In short, publishing these documents both on the CNMV's website and on the management company's this website will significantly improve access to information on the CIS by all interested parties.

3 The CNMV's Plan of Activities for 2012 may be downloaded at http://www.cnmv.es/DocPortal/Publicaciones/PlanActividad/PdA2012_ENen.pdf

IV Legislative Annex

– CNMV Circular 6/2011, of 12 December, which amends Circular 9/2008, of 10 December, on accounting standards, reserved and public financial statements and annual accounts of governing companies of official secondary markets, excluding the Bank of Spain, of the governing bodies of multilateral trading facilities, of the *Sociedad de Sistemas*, of central counterparties, of the *Sociedad de Bolsas*, of companies which hold all the shares of governing bodies of official secondary markets and multilateral trading facilities, and of other clearing and settlement systems of markets which are created pursuant to the provisions of the Securities Market Act.

  The Circular is an update of Circular 9/2008, of 10 December, which aims to implement several improvements. Firstly, it includes for the first time the models for public consolidated intermediate financial statements and consolidated annual accounts both for application of international financial reporting standards adopted as a result of European Union Regulations or application of Spanish standards with regards consolidation. It also updates the models for reserved consolidated financial statements (for supervisory purposes).

  Secondly, it introduces several technical improvements in the structure of the data contained in the models of the financial statements and supplementary information, as well as in the procedures, deadlines and formalities for sending and publishing the information. It eliminates various data from the monthly and quarterly statements and simplifies the formalities for certifying approval and publishing public intermediate statements. It also withdraws the requirements to present public individual intermediate statements in those entities forming a group which presents public consolidated intermediate statements and, at the same time, it extends the deadlines for sending all the quarterly financial statements and supplementary information, both reserved and public.

  Thirdly, it restructures the breakdowns of reserved information on revenue, with the most significant changes being the addition of a new segment with regard to clearing and central counterparty activity in anticipation of the incorporation of any central counterparty in Spain in the near future, as well as the reorganisation of the remaining revenue segments and regrouping of some of them with similar segments within one single operating activity.

– CNMV Circular 7/2011, of 12 December, on the fee prospectus and the content of standard contracts.

  This Circular establishes the preparation and electronic sending of prospectuses whenever they refer exclusively to fees applicable to retail customers. In this regard, in order to facilitate the comparison of data received from different entities, the Circular implements Article 2.3 of Order EHA 1665/2010 so as to define the basis for calculation and the concepts of some of the most usual transactions provided to retail customers. For this purpose, the model prospectus proposed consists of a fixed part, which includes the fees applicable to the aforementioned transactions, and the variable part in which each entity will include the fees for other transactions and services which may be provided.

The fees applicable to professional investors, not included under the scope established in Order EHA 1665/2010, will be determined freely between the parties without the need to be subject to the regime regulating fee prospectuses.

When there is no prior control by the CNMV over the content of standard contracts, without prejudice to the power to require their rectification or termination in accordance with Article 8 of Order EHA 1665/2010, the mandatory contents are implemented in the matters established in Article 6 of the aforementioned Order.

With regard to advertising, the Circular establishes the requirement to make both the fee prospectuses and the standard contracts easily accessible to customers and potential customers at all offices attending customers, including external agents, and on their website.

The first additional provision adds a new statement to those provided in CNMV Circular 1/2010, of 28 July, on reserved information of investment service firms, with the aim of disclosing the fees which are actually applied to customers in the most usual transactions. To this end, information is requested on the average and most frequent value of the fees actually charged to customers, as well as the maximums and minimums of the extreme intervals.

Finally, it adds a second additional provision which amends the statements containing the supplementary information necessary to determine the contribution to the FOGAIN (General Investment Guarantee Fund) made by Collective Investment Scheme Management Companies and Investment Services Firms contained in CNMV Circular 7/2008, of 26 November.

– Royal Decree 303/2012, of 3 February, regulating the CNMV Advisory Committee.

Pursuant to the referral to regulatory implementation made in Article 22 of the Securities Market Act 24/1988, of 28 July, as regards the number of members and the manner in which they are designated, this Royal Decree aims to adapt the regulation of the Advisory Committee to the amendments introduced by Law 21/2011, of 26 July.

Specifically, the Royal Decree establishes that in addition to the representatives designated by each one of the autonomous regions with authority in the area of securities markets in which there is an official secondary market, there will be 14 members representing marketing structures, issuers, investors, credit institutions and insurance companies and investment guarantee funds. Furthermore, the number of members is increased from 14 to 17 so as to make room for three representatives from professional groups designated by the CNMV. In addition, with the aim of ensuring the representativeness of the members throughout their mandate, an amendment is introduced to the system for designating members and new grounds for their removal are introduced.

This Royal Decree will be applicable to the procedure for the appointment of the members of the CNMV Advisory Committee planned for 2012.

– Royal Decree-Law 2/2012, of 3 February, on restructuring the financial sector.

Although the main purpose of this Royal Decree-Law is to lay out new requirements for additional provisions and capital for financial institutions, it is important to point out some of the specific aspects relating to securities markets.

Firstly, it regulates the remuneration of directors and senior managers of credit institutions which have required, or which will require, financial support in the future from the FROB (Fund for Orderly Banking Restructuring). Specifically, it provides that they will not receive variable remuneration or pension benefits in 2012, and subsequently any variable remuneration will be deferred for three years while there is financial support from the FROB. It also establishes quantitative limits with regard to fixed remuneration.

In addition, it introduces special and more flexible treatment for those credit institutions which have outstanding preferred shares or mandatory convertible debt instruments issued before the entry into force of this Royal Decree-Law, allowing them to defer the payment of the planned remuneration for a period of up to 12 months, even though, as a consequence of the restructuring carried out in accordance with this Royal Decree-Law, they do not have sufficient distributable profits or reserves or there is a deficit of own funds in the credit institution, and providing the financial situation of the institution improves at the time that the payment of remuneration is made to holders of preferred shares.

Thirdly, it amends the sixth additional provision of Law 13/1994, of 1 June, on the Autonomy of the Bank of Spain, so as to facilitate the management of the financial guarantees which financial institutions grant in favour of the Bank of Spain, the European Central Bank or other national central banks of the European Union. Solely for the purposes of these guarantees directly or indirectly established in benefit of central banks, the Royal Decree-Law introduces the possibility of registering the pledge on marketable securities by means of an accounting transfer of the securities to an account held by the beneficiary of the guarantee, without transferring ownership of the securities. It also regulates the possibility of pledging not only securities, but also securities accounts.

– Royal Decree-Law 3/2012, of 10 February, on urgent measures to reform the employment market.

This legislation supplements the measures limiting fixed and variable remuneration which were already included in the recent Royal Decree-Law 2/2012, of 3 February. It outlines the adoption of a criterion for treatment which is even more rigorous on certain aspects of the remuneration of directors and senior managers in the financial sector by introducing three sections in the seventh additional provision of the aforementioned Royal Decree-Law 3/2012.

The first of these refers to the possibility of paying severance pay. The legislation directly prohibits institutions in which the FROB has been forced to take a majority holding or to provide financial support from paying severance pay exceeding the legally established limits. So as to avoid a generalised treatment which may lead to unfair situations, an exception to severance pay limits is made for those directors and senior managers who have specifically joined to help rescue or strengthen the institution.

Secondly, in the event that the work contract is terminated as a result of the imposition of the sanctions referred to in Article 12.1 of Law 26/1988, of 29 July, on Discipline and Intervention in Credit Institutions, the persons who hold positions as directors or senior managers in a credit institution will not be entitled to any compensation for said termination whatever the amount or form.

The last of the sections includes circumstances for suspending the contract of persons who occupy positions as directors or senior managers in a credit institution.

V Statistics Annex

1 Markets

1.1 Equity

Share issues and public offerings[1]

TABLE 1.1

				2011				2012
	2009	2010	2011	I	II	III	IV	I[2]
CASH VALUE[3] (million euros)								
Total	11,390.7	16,012.7	17,317.5	3,237.0	4,797.6	6,336.5	2,946.5	2,457.9
Capital increases	11,388.7	15,407.0	17,221.5	3,237.0	4,797.6	6,336.5	2,850.5	2,457.9
of those, public rights offerings	17.3	958.7	6,441.3	0.0	3,696.4	8.4	2,736.6	4.3
Spanish tranche	14.9	61.6	6,031.7	0.0	3,338.8	8.4	2,684.6	4.3
International tranche	2.5	897.2	409.6	0.0	357.5	0.0	52.0	0.0
Public share offerings	1.9	605.7	96.0	0.0	0.0	0.0	96.0	0.0
Spanish tranche	1.9	79.1	94.8	0.0	0.0	0.0	94.8	0.0
International tranche	0.0	526.7	1.2	0.0	0.0	0.0	1.2	0.0
NOMINAL AMOUNTS[3] (million euros)								
Total	1,892.1	6,313.4	5,727.1	547.7	1,975.9	2,749.5	453.9	285.0
Capital increases	1,892.0	6,304.4	5,721.1	547.7	1,975.9	2,749.5	447.9	285.0
of those, public rights offerings	0.1	1.9	2,092.9	0.0	1,871.3	0.5	221.0	0.1
Spanish tranche	0.1	1.8	1,910.6	0.0	1,693.4	0.5	216.7	0.0
International tranche	0.0	0.1	182.3	0.0	177.9	0.0	4.4	0.0
Public share offerings	0.0	9.0	6.0	0.0	0.0	0.0	6.0	0.0
Spanish tranche	0.0	8.9	5.9	0.0	0.0	0.0	5.9	0.0
International tranche	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.0
NUMBER OF PROCESSES[4]								
Total	53	69	91	17	23	26	26	15
Capital increases	53	67	8	17	22	26	26	15
of those, public rights offerings	2	12	22	0	3	3	2	1
of those, released	11	15	2	2	5	8	7	2
Public share offerings	1	3	45	0	1	0	1	0
NUMBER OF ISSUERS[4]								
Total	34	46	45	13	16	22	15	10
Capital increases	34	45	45	13	15	22	15	10
of those, public rights offerings	2	12	8	0	3	3	2	1
Public share offerings	1	2	1	0	1	0	1	0

1 Includes registered offerings with issuance prospectuses and listings admitted to trading without issuance prospectuses.
2 Available data: February 2012.
3 Does not include registered amounts of operations which were not carried out.
4 Includes all registered operations, including the issues that were not carried out.

Primary and secondary offerings. Tranches by subscriber

TABLE 1.2

				2011				2012
Million euros	2009	2010	2011	I	II	III	IV	I[1]
PRIMARY OFFERINGS								
Total	17.3	958.7	6,441.3	0.0	3,696.4	8.4	2,736.6	4.3
Spanish market	14.9	61.6	3,335.8	0.0	3,327.4	8.4	0.0	4.3
Retail subscribers	0.0	2.5	2,017.7	0.0	2,015.4	2.3	0.0	0.0
Institutional subscribers	14.9	59.0	1,318.1	0.0	1,312.1	6.0	0.0	4.3
International market	2.5	897.2	357.5	0.0	357.5	0.0	0.0	0.0
Employees	0.0	0.0	11.4	0.0	11.4	0.0	0.0	0.0
Others	0.0	0.0	2,736.6	0.0	0.0	0.0	2,736.6	0.0
SECONDARY OFFERINGS								
Total	1.9	605.7	96.0	0.0	0.0	0.0	96.0	0.0
Spanish market	1.5	79.1	0.0	0.0	0.0	0.0	0.0	0.0
Retail subscribers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutional subscribers	1.5	79.1	0.0	0.0	0.0	0.0	0.0	0.0
International market	0.0	526.7	0.0	0.0	0.0	0.0	0.0	0.0
Employees	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	96.0	0.0	0.0	0.0	96.0	0.0

1 Available data: February 2012.

Companies listed[1]

TABLE 1.3

				2011				2012
	2009	2010	2011	I	II	III	IV	I[2]
Total electronic market[3]	133	129	130	130	130	130	130	129
Without Nuevo Mercado	133	129	130	130	130	130	130	129
Nuevo mercado	0	0	0	0	0	0	0	0
Foreign companies	5	6	7	7	7	7	7	7
Secondary market	7	6	7	6	6	6	7	7
Madrid	2	2	2	2	2	2	2	2
Barcelona	5	4	5	4	4	4	5	5
Bilbao	0	0	0	0	0	0	0	0
Valencia	0	0	0	0	0	0	0	0
Open outcry ex SICAV	29	28	27	28	28	27	27	24
Madrid	13	13	13	13	13	13	13	11
Barcelona	19	18	17	18	18	17	17	14
Bilbao	8	8	8	8	8	8	8	7
Valencia	6	6	6	6	6	6	6	4
Open outcry SICAV	1	1	0	1	1	0	0	0
Alternative stock market (MAB)	3,251	3,144	3,083	3,121	3,091	3,088	3,083	3,064
Latibex	32	29	29	29	29	29	29	28

1 Data at end of period.
2 Available data: February 2012.
3 Does not include ETF (Exchange Traded Funds).

Capitalisation[1]

TABLE 1.4

				2011				2012
Million euros	2009	2010	2011	I	II	III	IV	I[2]
Total electronic market[3]	531,194.2	565,585.2	498,148.1	619,538.0	609,135.8	568,142.8	498,148.1	510,195.2
Without Nuevo Mercado	531,194.2	565,585.2	498,148.1	619,538.0	609,135.8	568,142.8	498,148.1	510,195.2
Nuevo mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign companies[4]	61,317.5	100,249.8	82,471.4	104,571.0	103,403.8	1,357.3	82,471.4	92,615.1
Ibex 35	322,806.6	348,998.9	320,672.5	385,136.5	382,731.8	364,914.0	320,672.5	323,513.0
Secondary market	109.9	74.6	59.7	59.4	57.5	74.9	59.7	58.2
Madrid	22.8	24.7	25.5	25.5	23.6	26.4	25.5	24.0
Barcelona	87.1	49.9	34.2	33.9	33.9	48.5	34.2	34.2
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAV	5,340.7	4,128.2	3,704.9	3,980.3	3,835.4	3,859.2	3,704.9	3,536.7
Madrid	1,454.7	878.8	833.3	873.3	841.7	924.0	833.3	719.9
Barcelona	3,580.2	3,432.2	3,242.3	3,325.1	3,187.2	3,139.2	3,242.3	3,175.4
Bilbao	45.9	362.1	328.8	322.4	321.2	386.9	328.8	324.4
Valencia	760.4	458.7	240.2	426.4	423.6	475.2	240.2	232.8
Open outcry SICAV[5]	126.8	32.6	0.0	33.0	36.1	30.9	0.0	0.0
Alternative stock market (MAB)[5]	24,718.6	26,340.8	23,646.0	26,581.5	26,043.0	23,271.1	23,646.0	24,524.5
Latibex	210,773.5	435,337.8	402,008.5	425,895.7	452,926.3	408,834.8	402,008.5	443,428.5

1 Data at end of period.
2 Available data: February 2012.
3 Does not include ETF (Exchange Traded Funds).
4 The capitalisation of foreign companies is calculated using their entire shares, whether they are deposited in Spain or not.
5 The calculation only includes the outstanding shares of the SICAV, and not Treasury shares, as they only report the share capital at the end of the year.

Trading

TABLE 1.5

Million euros	2009	2010	2011	2011 I	II	III	IV	2012 I[1]
Total electronic market[2]	877,073.5	1,026,478.5	917,383.3	244,908.3	236,325.4	232,254.4	203,895.2	114,509.6
Without Nuevo Mercado	877,073.5	1,026,478.5	917,383.3	244,908.3	236,325.4	232,254.4	203,895.2	114,509.6
Nuevo mercado	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign companies	4,750.4	6,415.3	5,206.3	1,379.9	1,056.0	1,255.1	1,515.3	1,081.0
Secondary market	3.2	3.0	2.3	0.8	0.3	0.3	0.9	0.0
Madrid	2.0	2.8	1.7	0.5	0.1	0.3	0.8	0.0
Barcelona	1.2	0.3	0.5	0.3	0.2	0.0	0.0	0.0
Bilbao	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valencia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Open outcry ex SICAV	52.8	157.2	42.8	18.1	7.5	9.9	7.4	12.9
Madrid	16.5	15.7	16.1	4.5	1.8	7.7	2.1	1.1
Barcelona	29.4	135.7	26.4	13.5	5.6	2.1	5.2	11.2
Bilbao	1.1	3.9	0.1	0.0	0.0	0.0	0.0	0.0
Valencia	5.9	1.9	0.3	0.1	0.1	0.0	0.1	0.5
Open outcry SICAV	19.7	8.1	5.6	1.7	3.0	0.8	0.0	0.0
Alternative stock market (MAB)	5,080.1	4,147.9	4,379.9	879.6	1,134.0	1,088.2	1,278.1	732.6
Latibex	434.7	521.2	357.7	102.3	89.4	93.1	72.9	47.4

1 Available data: February 2012.
2 Does not include ETF (Exchange Traded Funds).

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

TABLE 1.6

Million euros	2009	2010	2011	2011 I	II	III	IV	2012 I[2]
Regular trading	833,854.9	983,584.5	873,485.4	235,958.6	225,422.9	216,374.5	195,729.5	111,060.1
Order-based	499,182.8	541,879.8	505,870.1	153,546.1	119,669.8	134,441.1	98,213.1	66,660.9
Put-throughs	51,335.8	58,678.1	69,410.4	22,522.2	13,555.7	17,797.8	15,534.7	8,129.3
Block trades	283,336.3	383,026.6	298,204.9	59,890.3	92,197.4	64,135.6	81,981.7	36,269.9
Off-hours	5,996.6	17,209.5	9,801.8	2,096.0	2,645.6	3,308.7	1,751.5	555.2
Authorised trades	4,695.6	2,660.5	3,492.6	843.3	676.6	1,212.2	760.5	917.7
Transactions under Securities Market Act (Section 36.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Takeover bids	7,188.9	312.0	4,216.8	0.0	233.8	3,983.1	0.0	0.0
Secondary offerings	1,325.0	1,448.2	3,922.1	0.0	0.0	3,922.1	0.0	0.0
Declared trades	5,202.6	2,273.4	2,212.7	0.0	2,171.6	30.4	10.7	0.0
Exercise of options	11,443.2	11,474.7	11,730.3	3,501.6	2,717.4	1,545.9	3,965.4	408.4
Hedging	7,366.7	7,515.8	8,521.5	2,508.7	2,457.5	1,877.5	1,677.7	1,568.2

1 Does not include ETF (Exchange Traded Funds).
2 Available data: February 2012.

Margin trading

TABLE 1.7

Million euros	2009	2010	2011	2011 I	II	III	IV	2012 I[1]
TRADING								
Securities lending[2]	471,007.1	556,246.7	493,602.4	108,561.1	142,262.8	122,207.6	120,570.9	71,725.8
Margin trading for sales of securities[3]	704.3	598.0	518.3	212.3	112.9	110.0	83.1	48.6
Margin trading for purchases of securities[3]	106.4	65.9	73.0	19.8	11.4	17.2	24.7	10.5
OUTSTANDING BALANCE								
Securities lending[2]	47,322.2	36,195.9	35,626.7	39,779.8	39,553.6	33,213.4	35,626.7	34,401.0
Margin trading for sales of securities[3]	21.1	9.9	7.0	17.6	12.7	10.8	7.0	10.1
Margin trading for purchases of securities[3]	5.6	5.0	3.9	4.5	5.2	3.2	3.9	3.6

1 Available data: February 2011.
2 Regulated by Article 36.7 of the Securities Market Act and Order ECO/764/2004.
3 Transactions performed in accordance with 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

	2009	2010	2011	2011				2012
				I	II	III	IV	I[2]
NUMBER OF ISSUERS								
Total	168	115	101	43	42	28	44	27
Mortgage bonds	27	25	30	14	15	9	16	10
Territorial bonds	1	6	7	2	4	2	5	5
Non-convertible bonds and debentures	50	39	23	10	12	6	9	12
Convertible/exchangeable bonds and debentures	3	2	5	3	1	0	2	0
Asset-backed securities	68	36	34	8	9	9	14	3
Commercial paper	69	58	49	15	12	7	16	8
Securitised	2	2	2	0	1	0	1	0
Other commercial paper	67	56	47	15	11	7	15	8
Other fixed-income issues	0	0	0	0	0	0	0	0
Preferred shares	23	0	1	1	0	0	0	0
NUMBER OF ISSUES								
Total	512	349	356	88	82	58	128	78
Mortgage bonds	75	88	115	32	29	10	44	21
Territorial bonds	1	9	42	4	4	18	16	7
Non-convertible bonds and debentures	244	154	87	19	27	14	27	29
Convertible/exchangeable bonds and debentures	6	3	9	6	1	0	2	0
Asset-backed securities	76	36	48	10	9	9	20	13
Commercial paper	73	59	53	15	12	7	19	8
Securitised	2	2	2	0	1	0	1	0
Other commercial paper	71	57	51	15	11	7	18	8
Other fixed-income issues	0	0	0	0	0	0	0	0
Preferred shares	37	0	2	2	0	0	0	0
FACE VALUE (Million euros)								
Total	387,475.8	226,448.9	289,251.0	77,161.3	59,900.0	38,693.6	113,496.1	81,731.8
Mortgage bonds	35,573.9	34,378.5	67,226.5	19,254.0	18,980.0	5,250.0	23,742.5	19,500.0
Territorial bonds	500.0	5,900.0	22,334.2	2,935.0	1,800.0	7,437.2	10,162.0	2,500.0
Non-convertible bonds and debentures	62,249.0	24,356.0	20,191.7	2,578.1	3,320.2	981.0	13,312.4	24,433.4
Convertible/exchangeable bonds and debentures	3,200.0	968.0	7,125.9	681.6	1,500.0	0.0	4,944.3	0.0
Asset-backed securities	81,651.2	63,260.5	68,412.8	26,585.0	11,168.4	10,449.3	20,210.1	4,803.3
Spanish tranche	77,289.4	62,743.0	62,796.1	23,706.2	10,130.0	10,115.6	18,844.3	3,418.3
International tranche	4,361.9	517.5	5,616.7	2,878.8	1,038.4	333.7	1,365.8	1,385.0
Commercial paper[3]	191,341.7	97,586.0	103,760.0	24,927.6	23,131.3	14,576.1	41,124.9	30,495.2
Securitised	4,758.4	5,057.0	2,366.0	546.0	913.0	259.0	648.0	337.0
Other commercial paper	186,583.3	92,529.0	101,394.0	24,381.6	22,218.3	14,317.1	40,476.9	30,158.2
Other fixed-income issues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Preferred shares	12,960.0	0.0	200.0	200.0	0.0	0.0	0.0	0.0
Pro memoria:								
Subordinated issues	20,988.5	9,154.2	29,277.3	5,407.9	2,997.5	4,664.3	16,207.6	372.0
Covered issues	4,793.8	299.0	10.0	10.0	0.0	0.0	0.0	0.0

1 Included issuance and admission to trading prospectuses.
2 Available data: February 2012.
3 The figures for commercial paper issues correspond to the amounts placed.

Admission to trading on the AIAF market

TABLE 1.9

Nominal amount in million euros	2009	2010	2011	2011				2012
				I	II	III	IV	I[1]
Total	388,455.0	223,404.5	278,594.2	70,790.8	68,289.8	36,499.9	103,013.8	73,634.8
Commercial paper	191,427.7	99,784.4	102,042.0	25,096.2	23,094.5	13,827.9	40,023.5	33,554.3
Bonds and debentures	61,862.5	24,728.6	12,313.7	2,080.6	3,616.9	682.0	5,934.3	13,857.2
Mortgage bonds	35,568.9	32,861.0	68,346.5	17,244.0	21,435.0	6,425.0	23,242.5	19,500.0
Territorial bonds	500.0	5,900.0	20,334.2	2,935.0	300.0	5,543.2	11,556.0	2,000.0
Asset-backed securities	85,542.9	60,030.5	75,357.8	23,235.0	19,843.4	10,021.9	22,257.5	4,723.3
Preferred shares	13,552.9	100.0	200.0	200.0	0.0	0.0	0.0	0.0
Matador bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: February 2012.

AIAF, Issuers, issues and outstanding balance

TABLE 1.10

	2009	2010	2011	2011 I	II	III	IV	2012 I[1]
NUMBER OF ISSUERS								
Total	614	634	613	631	613	608	613	609
Commercial paper	67	60	45	56	46	50	45	49
Bonds and debentures	91	93	91	91	93	93	91	94
Mortgage bonds	29	33	43	35	36	39	43	46
Territorial bonds	11	12	13	12	12	12	13	16
Asset-backed securities	442	459	437	458	441	433	437	428
Preferred shares	60	59	60	60	60	60	60	60
Matador bonds	12	12	12	12	12	12	12	12
NUMBER OF ISSUES								
Total	4,084	3,630	4,382	3,570	3,454	3,536	4,382	4,891
Commercial paper	1,507	958	1,778	911	851	944	1,778	2,326
Bonds and debentures	611	645	624	631	627	630	624	634
Mortgage bonds	202	253	296	267	277	283	296	294
Territorial bonds	25	26	49	28	29	40	49	52
Asset-backed securities	1,629	1,641	1,527	1,625	1,562	1,531	1,527	1,477
Preferred shares	96	93	94	94	94	94	94	94
Matador bonds	14	14	14	14	14	14	14	14
OUTSTANDING BALANCE[2] (million euros)								
Total	870,981.1	850,181.7	882,395.1	854,735.5	849,569.3	844,342.4	882,395.1	883,429.5
Commercial paper	41,647.0	23,233.6	37,549.1	24,274.6	22,123.1	18,813.5	37,549.1	53,124.4
Bonds and debentures	150,886.3	146,077.7	131,756.8	139,744.8	136,241.1	131,918.0	131,756.8	132,617.9
Mortgage bonds	185,343.8	195,734.8	241,149.7	202,528.8	219,313.8	223,913.8	241,149.7	251,602.4
Territorial bonds	16,030.0	18,350.0	31,884.2	20,485.0	20,285.0	24,028.2	31,884.2	31,834.2
Asset-backed securities	442,831.5	434,835.1	407,908.0	435,551.9	419,458.0	413,520.5	407,908.0	393,235.0
Preferred shares	33,183.8	30,891.8	31,088.6	31,091.8	31,089.6	31,089.6	31,088.6	19,956.9
Matador bonds	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8	1,058.8

1 Available data: February 2012.
2 Nominal amounts.

AIAF. Trading

TABLE 1.11

Nominal amount in million euros	2009	2010	2011	2011 I	II	III	IV	2012 I[1]
BY ASSET TYPE								
Total	4,658,633.2	4,383,118.7	7,388,185.7	2,540,940.4	1,618,996.9	1,662,056.5	1,566,191.9	741,670.5
Commercial paper	533,331.0	385,238.9	227,534.5	67,260.3	57,492.7	49,896.0	52,885.6	37,547.6
Bonds and debentures	321,743.0	922,393.1	484,705.8	241,674.3	96,130.6	89,289.3	57,611.6	25,599.5
Mortgage bonds	263,150.0	271,441.8	662,177.0	169,889.3	115,484.5	105,436.4	271,366.9	162,580.2
Territorial bonds	7,209.0	14,458.2	544,780.9	32,764.3	43,117.1	68,254.4	400,645.2	177,384.2
Asset-backed securities	3,527,486.4	2,784,775.4	5,462,806.2	2,028,138.1	1,303,425.0	1,348,043.0	783,200.2	331,353.4
Preferred shares	5,668.5	4,635.7	6,065.0	1,178.3	3,337.6	1,085.5	463.6	7,203.8
Matador bonds	45.2	175.7	116.3	35.9	9.5	51.9	18.9	1.8
BY TRANSACTION TYPE								
Total	4,658,633.2	4,383,118.7	7,388,185.7	2,540,940.4	1,618,996.9	1,662,056.5	1,566,191.9	741,670.5
Outright	378,348.4	288,927.3	343,099.6	100,126.8	78,598.4	60,680.5	103,693.8	96,467.6
Repos	362,068.7	304,493.2	198,514.7	55,980.9	51,485.2	47,765.9	43,282.7	27,423.7
Sell-buybacks/Buy-sellbacks	3,918,216.1	3,789,698.3	6,846,571.5	2,384,832.7	1,488,913.3	1,553,610.1	1,419,215.4	617,779.2

1 Available data: February 2012.

AIAF. Third-party trading by purchaser sector

TABLE 1.12

Nominal amount in million euros	Total	2010	2011	2011 I	II	III	IV	2012 I[1]
Total	681,946.6	553,896.6	487,543.3	136,405.9	120,560.2	99,716.4	130,860.7	102,990.7
Non-financial companies	256,224.6	162,949.5	131,765.2	36,362.7	37,287.8	30,082.8	28,031.9	15,705.8
Financial institutions	298,909.1	289,950.4	256,975.8	67,797.2	55,419.8	52,743.5	81,015.3	66,275.0
Banks	125,547.5	102,372.1	139,538.2	34,359.6	27,624.9	25,982.2	51,571.4	44,167.2
CIS, insurance and pension funds	115,865.3	125,899.4	103,899.9	24,511.6	25,796.8	25,835.3	27,756.3	20,975.4
Other financial institutions	57,496.3	61,678.9	13,537.7	8,926.0	1,998.1	926.0	1,687.6	1,132.4
Public authorities	5,808.5	3,117.7	2,602.7	295.8	392.8	1,336.2	577.9	3,231.7
Households and NPISH[2]	14,647.8	14,244.4	10,230.3	1,866.8	2,817.3	1,846.8	3,699.4	2,095.3
Rest of the world	106,356.6	83,634.6	85,969.3	30,083.5	24,642.5	13,707.1	17,536.3	15,682.9

1 Available data: February 2012.
2 Non-Profit Institutions Serving Households.

Issues admitted to trading on equity markets[1]

TALBE 1.13

	2009	2010	2011	2011 I	II	III	IV	2012 I[2]
NOMINAL AMOUNTS (million euros)								
Total	5,866.8	868.0	2,681.6	500.0	681.6	1,500.0	0.0	4,875.9
Non-convertible bonds and debentures	0.0	400.0	0.0	0.0	0.0	0.0	0.0	0.0
Convertible/exchangeable bonds and debentures	4,510.8	468.0	2,681.6	500.0	681.6	1,500.0	0.0	4,875.9
Asset-backed securities	1,356.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NUMBER OF ISSUES								
Total	10	8	6	1	4	1	0	2
Non-convertible bonds and debentures	0	7	0	0	0	0	0	0
Convertible/exchangeable bonds and debentures	4	1	6	1	4	1	0	2
Asset-backed securities	6	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0

1 Private issuers. Includes issuance and trading prospectuses.
2 Available data: February 2012.

Stock markets. Issuers, issues and outstanding balances

TABLE 1.14

	2009	2010	2011	2011 I	II	III	IV	2012 I[1]
NUMBER OF ISSUERS								
Total	62	60	59	57	59	59	59	57
Private issuers	48	46	46	44	46	46	46	44
Non-financial companies	6	5	4	4	4	4	4	4
Private financial institutions	42	41	42	40	42	42	42	40
Public authorities[2]	14	14	13	13	13	13	13	13
Regional governments	3	3	3	3	3	3	3	3
NUMBER OF ISSUES								
Total	269	247	240	237	245	243	240	233
Private issuers	155	145	133	137	137	134	133	129
Non-financial companies	10	7	6	7	7	7	6	6
Private financial institutions	145	138	127	130	130	127	127	123
Public authorities[2]	114	102	107	100	108	109	107	104
Regional governments	76	64	74	63	72	74	74	72
OUTSTANDING BALANCE[3] (million euros)								
Total	36,299.5	41,091.3	43,817.5	41,497.4	45,280.8	43,183.1	43,817.5	48,170.0
Private issuers	21,600.9	19,261.5	17,759.6	19,301.5	19,017.9	17,524.3	17,759.6	22,075.6
Non-financial companies	1,783.7	376.6	375.4	375.8	375.8	375.8	375.4	375.4
Private financial institutions	19,817.2	18,884.8	17,384.2	18,925.7	18,642.1	17,148.5	17,384.2	21,700.2
Public authorities[2]	14,698.6	21,829.9	26,057.8	22,195.9	26,262.9	25,658.8	26,057.8	26,094.4
Regional governments	12,338.3	19,442.4	24,014.4	19,812.5	23,992.9	23,489.5	24,014.4	24,125.9

1 Available data: February 2012.
2 Does not include book-entry debt.
3 Nominal amounts.

Stock markets. Trading by market

TABLE 1.15

Nominal amount in million euros	2009	2010	2011	2011 I	II	III	IV	2012 I[1]
Electronic market	633.0	504.5	385.4	91.9	85.9	98.8	108.9	72.5
Open outcry	4,008.4	7,525.6	4,942.5	2,398.6	597.7	409.0	1,537.2	1,057.4
Madrid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Barcelona	3,821.1	7,146.7	4,885.4	2,379.4	578.6	398.3	1,529.1	1,056.6
Bilbao	4.6	2.3	0.5	0.2	0.1	0.1	0.1	0.1
Valencia	182.7	376.6	56.6	19.0	18.9	10.7	8.0	0.7
Public book-entry debt	49.1	331.1	883.4	4.4	187.8	471.8	219.4	250.5
Regional government debt	70,065.8	62,029.0	63,443.7	11,816.0	16,846.2	14,624.3	20,157.2	8,798.6

1 Available data: February 2012.

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

TABLE 1.16

Nominal amount in million euros	2009	2010	2011	2011 I	II	III	IV	2012 I[1]
Total	202,120.5	265,966.0	84,090.9	27,593.2	28,318.9	17,039.0	11,139.9	12,477.0
Outright	114,314.0	110,011.0	81,905.0	27,293.0	26,482.0	17,039.0	11,091.0	12,477.0
Sell-buybacks/Buy-sellbacks	86,806.5	155,433.0	2,185.9	300.2	1,836.9	0.0	48.9	0.0
Other transactions	1,000.0	522.0	0.0	0.0	0.0	0.0	0.0	0.0

1 Available data: February 2012.

1.3 Derivatives and other products

1.3.1 Financial derivatives markets: MEFF

Trading on MEFF

TABLE 1.17

Number of contracts	2009	2010	2011	2011 I	II	III	IV	2012 I[1]
Debt products	18	14	18	6	4	4	4	2
Debt futures[2]	18	14	18	6	4	4	4	2
Ibex 35 products[3, 4]	6,187,544	6,946,167	5,822,418	1,715,193	1,404,588	1,635,571	1,067,066	653,902
Ibex 35 plus futures	5,436,989	6,280,999	5,291,956	1,575,272	1,280,699	1,484,184	951,801	601,125
Ibex 35 mini futures	314,829	357,926	307,411	90,048	72,265	91,073	54,025	29,611
Ibex 35 future Impacto Div	–	–	3,154	1,155	1,400	499	100	317
Call mini options	230,349	122,158	86,096	17,606	19,733	25,590	23,167	10,213
Put mini options	205,377	185,083	133,801	31,111	30,491	34,225	37,973	12,636
On shares[5]	80,114,693	57,291,482	55,082,944	16,374,082	12,414,999	11,294,858	14,999,005	7,714,596
Futures	44,586,779	19,684,108	24,758,956	8,006,039	5,337,121	5,510,377	5,905,419	2,769,481
Share dividend futures	–	–	–	–	–	–	–	1,500
Call options	18,864,840	17,186,515	12,050,946	3,761,646	2,618,584	2,365,550	3,305,166	2,119,677
Put options	16,663,074	20,420,859	18,273,042	4,606,397	4,459,294	3,418,931	5,788,420	2,823,938
Pro memoria: MEFF trading on Eurex								
On debt[6]	558,848	373,113	267,713	90,405	75,174	56,239	45,895	25,672
On indices[7]	835,159	604,029	451,016	106,551	96,795	137,083	110,587	44,567

1 Available data: February 2012.
2 Contract size: 100 thousand euros.
3 The number of mini products (multiples of 1 euro) was standardised to the size of the Ibex 35 plus futures (multiples of 10 euros).
4 Contract size: Ibex 35 x 10 euros.
5 Contract size: 100 shares.
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

Issues registered at the CNMV

TABLE 1.18

	2009	2010	2011	2011 I	II	III	IV	2012 I[1]
WARRANTS[2]								
Premium amount (million euros)	5,165.1	4,915.3	5,544.6	1,174.6	891.4	1,491.8	1,986.8	556.4
On shares	2,607.1	2,537.4	3,211.7	666.8	462.2	804.6	1,278.1	272.2
On indexes	2,000.1	1,852.6	1,786.8	387.8	293.9	504.9	600.1	211.7
Other[3]	558.0	525.4	546.0	120.0	135.2	182.2	108.6	72.5
Number of issues	7,342	8,375	9,237	1,946	1,842	2,305	3,144	757
Number of issuers	9	9	9	7	6	6	7	4
OPTION BUYING AND SELLING CONTRACTS								
Nominal amounts (million euros)	35.0	64.0	0.0	0.0	0.0	0.0	0.0	0.0
On shares	25.0	47.0	0.0	0.0	0.0	0.0	0.0	0.0
On indexes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other[3]	10.0	17.0	0.0	0.0	0.0	0.0	0.0	0.0
Number of issues	3	7	0	0	0	0	0	0
Number of issuers	1	1	0	0	0	0	0	0

1 Available data: February 2012.
2 Included issuance and trading prospectuses.
3 Includes the following underlyings: baskets of securities, exchange rates, interest rates and commodities.

Equity markets. Warrants and ETF trading

TABLE 1.19

				2011				2012
	2009	2010	2011	I	II	III	IV	I[1]
WARRANTS								
Trading (million euros)	1,768.4	1,603.2	1,550.2	466.4	286.0	452.9	344.9	165.7
On Spanish shares	809.9	759.8	654.2	212.5	129.8	175.1	136.8	72.0
On foreign shares	97.6	60.7	97.8	23.7	15.3	23.0	35.8	22.6
On indexes	761.2	689.5	518.2	157.1	75.3	149.9	136.0	48.3
Other[2]	99.7	93.2	280.0	73.1	65.6	104.9	36.4	22.8
Number of issues[3]	8,038	7,750	13,165	2,746	3,038	3,940	3,441	2,628
Number of issuers[3]	10	10	9	9	9	9	9	9
CERTIFICATES								
Trading (million euros)	39.2	22.0	92.1	4.1	9.3	56.2	22.5	4.4
Number of issues[3]	22	16	32	11	10	7	4	4
Number of issuers[3]	4	2	2	2	2	2	2	2
ETF								
Trading (million euros)	3,470.6	6,229.7	3,495.4	1,081.7	571.1	815.5	1,027.0	636.0
Number of funds	32	65	75	67	67	67	75	75
Assets[4] (million euros)	1,648.4	827.8	327.2	859.4	867.3	710.2	327.2	n.a.

1 Available data: February 2012.
2 Includes the following underlyings: baskets of securities, exchange rates, interest rates and commodities.
3 Issues or issuers which were traded in each period.
4 Only includes the assets of Spanish ETF because assets of foreign ETF are not available.
n.a: Not available.

1.3.3 Non-financial derivatives

Trading on MFAO[1]

TABLE 1.20

				2011				2012
Number of contracts	2009	2010	2011	I	II	III	IV	I[2]
On olive oil								
Extra-virgin olive oil futures[3]	135,705	165,840	63,173	23,120	16,401	13,951	9,701	6,575

1 Olive Oil Futures Market (MFAO).
2 Available data: February 2012.
3 Nominal contract size: 1,000 kg

2 Investment services

Investment services. Spanish firms, branches and agents

TABLE 2.1

				2011				2012
	2009	2010	2011	I	II	III	IV	I[1]
BROKER-DEALERS								
Spanish firms	50	50	49	50	50	50	49	48
Branches	78	80	78	80	79	79	78	26
Agents	6,102	6,560	6,589	6,560	6,518	6,520	6,589	6,534
BROKERS								
Spanish firms	50	45	45	45	45	45	45	45
Branches	9	13	14	13	13	13	14	12
Agents	638	689	655	689	652	655	655	638
PORTFOLIO MANAGEMENT COMPANIES								
Spanish firms	9	6	6	6	6	6	6	6
Branches	5	5	5	5	5	5	5	5
Agents	5	2	2	2	2	2	2	3
FINANCIAL ADVISORY FIRMS[2]								
Spanish firms	16	58	82	58	64	78	82	85
CREDIT INSTITUTIONS[3]								
Spanish firms	193	186	187	186	189	188	187	190

1 Available data: February 2012.
2 Investment services firm created by Act 47/2007, of 19 December, modifying Securities Market Act 24/1988, of 28 July, and regulated by CNMV Circular 10/2008 of 30 December.
3 Source: Bank of Spain.

Investment services. Foreign firms

TABLE 2.2

				2011				2012
	2009	2010	2011	I	II	III	IV	I[1]
Total	2,346	2,671	2,814	2,671	2,743	2,786	2,814	2,848
European Economic Area investment services firms	1,922	2,238	2,377	2,238	2,303	2,346	2,377	2,406
With a branch	36	40	36	40	40	39	36	36
Free provision of services	1,886	2,198	2,341	2,198	2,263	2,307	2,341	2,370
Credit institutions[2]	424	433	437	433	440	440	437	442
From EU Member States	414	423	429	423	430	430	429	434
Branches	53	55	55	55	56	55	55	55
Free provision of services	360	368	374	368	374	375	374	379
Subsidiaries under free provision of services	1	0	0	0	0	0	0	0
From non-EU states	10	10	8	10	10	10	8	8
With a branch	8	8	7	8	8	8	7	7
Free provision of services	2	2	1	2	2	2	1	1

1 Available data: February 2012.
2 Source: Bank of Spain and CNMV.

Intermediation of spot transactions[1]

TABLE 2.3

	IV 2010				IV 2011			
Million euros	Spanish organised markets	Other Spanish markets	Foreign markets	Total	Spanish organised markets	Other Spanish markets	Foreign markets	Total
FIXED INCOME								
Total	568,494	2,483,646	191,695	3,243,835	894,746	1,963,649	131,870	2,990,265
Broker-dealers	106,320	724,682	134,977	965,979	104,750	557,772	88,465	750,987
Brokers	462,174	1,758,964	56,718	2,277,856	789,996	1,405,877	43,405	2,239,278
EQUITIES								
Total	272,015	1,060	24,879	297,954	187,116	1,051	15,099	203,266
Broker-dealers	265,836	826	23,711	290,373	182,389	931	13,822	197,142
Brokers	6,179	234	1,168	7,581	4,727	120	1,277	6,124

1 Accumulated data for the period. Quarterly.

Intermediation of derivative transactions[1,2]

TABLE 2.4

Million euros	IV 2010 Spanish organised markets	IV 2010 Foreign organised markets	IV 2010 Non-organised markets	IV 2010 Total	IV 2011 Spanish organised markets	IV 2011 Foreign organised markets	IV 2011 Non-organised markets	IV 2011 Total
Total	667,004	2,136,999	269,685	3,073,688	455,161	1,377,814	125,661	1,958,636
Broker-dealers	664,711	1,327,823	168,331	2,160,865	454,034	1,264,793	64,552	1,783,379
Brokers	2,293	809,176	101,354	912,823	1,127	113,021	61,109	175,257

1 The amount of the buy and sell transactions of financial assets, financial futures on securities and interest rates and other transactions on interest rates will be the securities' nominal or notional value or the principal to which the contract applies. The amount of the transactions on options will be the strike price of the underlying asset multiplied by the number of instruments committed.
2 Accumulated data for the period. Quarterly

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

TABLE 2.5

	IV 2010 CIS[2]	IV 2010 Others[3]	IV 2010 Total	IV 2011 CIS[2]	IV 2011 Others[3]	IV 2011 Total
NUMBER OF PORTFOLIOS						
Total	115	13,116	13,231	147	13,262	13,409
Broker-dealers	67	7,463	7,530	89	6,394	6,483
Brokers	43	3,647	3,690	53	3,584	3,637
Portfolio management companies	5	2,006	2,011	5	3,284	3,289
ASSETS UNDER MANAGEMENT (thousands of euros)						
Total	1,798,097	7,549,411	9,347,508	1,924,432	7,630,157	9,554,589
Broker-dealers	838,039	3,240,629	4,078,668	961,931	3,204,236	4,166,167
Brokers	848,597	1,531,418	2,380,015	863,856	1,498,088	2,361,944
Portfolio management companies	111,461	2,777,364	2,888,825	98,645	2,927,833	3,026,478

1 Data at end of period. Quarterly.
2 Includes both direct management and management through agreements delegating management of assets of resident CIS, as well as management of non-resident CIS.
3 Includes other clients, both covered and not covered by the Investment Guarantee Fund as established in Royal Decree 948/2001, of 3 August, on investor compensation systems.

Financial advisory services. Number of contracts and assets under advisory services[1]

TABLE 2.6

	IV 2010 Retail clients	IV 2010 Professional clients	IV 2010 Total[2]	IV 2011 Retail clients	IV 2011 Professional clients	IV 2011 Total[2]
NUMBER OF CONTRACTS						
Total	5,558	78	5,642	7,602	124	7,748
Broker-dealers	1,354	6	1,366	1,492	12	1,509
Brokers	3,311	63	3,374	4,736	102	4,855
Portfolio management companies	893	9	902	1,374	10	1,384
ASSETS UNDER ADVISORY SERVICES (thousands of euros)						
Total	2,433,616	4,611,333	7,480,340	3,333,448	4,466,705	8,156,953
Broker-dealers	557,140	261,782	1,254,313	863,386	61,711	1,213,014
Brokers	1,494,751	938,323	2,433,074	1,875,867	1,018,647	2,963,397
Portfolio management companies	381,725	3,411,229	3,792,953	594,195	3,386,347	3,980,542

1 Data at end of period. Quarterly.
2 Includes retail, professional and other clients.

Income statements. Broker-dealers

TABLE 2.7

Thousand euros[1]	2009	2010	2011	2011 I	II	III	IV	2012 I[2]
I. Interest margin	163,272	102,054	91,542	15,186	52,973	77,901	91,542	2,249
II. Net commissions	562,082	533,858	490,517	157,082	275,520	382,225	490,517	36,785
Commission revenue	782,214	798,152	776,641	231,177	419,375	606,095	776,641	56,750
Order processing and execution	548,362	555,207	529,711	166,934	285,047	417,529	529,711	39,123
Placement and underwriting	26,326	8,499	7,446	1,057	2,830	5,113	7,446	235
Deposit and entry of securities	16,183	22,367	21,060	5,465	10,887	15,821	21,060	1,759
Portfolio management	11,768	13,880	16,186	4,180	7,911	11,867	16,186	1,216
Design and advisory services	60,477	53,722	60,713	16,802	39,550	49,366	60,713	3,996
Stock search and placement	10	36	484	179	184	484	484	0
Market credit transactions	14	9	8	2	4	6	8	2
Marketing CIS	63,341	65,487	59,588	16,053	31,359	45,594	59,588	4,217
Other	55,733	78,944	81,445	20,503	41,601	60,315	81,445	6,202
Commission expenses	220,133	264,294	286,124	74,095	143,855	223,870	286,124	19,965
III. Profit from financial investments	45,266	48,588	271,955	28,085	38,782	150,060	271,955	-52,553
IV. Exchange differences and other operating products and expenses	21,820	26,081	-194,355	2,089	-5,173	-115,556	-194,355	64,659
V. Gross margin	792,440	710,580	659,659	202,442	362,102	494,630	659,659	51,140
VI. Operating profit	339,706	276,253	207,379	88,668	142,774	174,724	207,379	16,767
VII. Profit from continuing operations	250,984	196,834	148,553	73,044	121,402	149,362	148,553	13,712
VIII. Net profit for the year	250,984	196,834	148,553	73,044	121,402	149,362	148,553	13,712

1 Accumulated amounts from the beginning of the year up to the last day of each quarter. Includes the companies removed over the year.
2 Available data: January 2012.

Results of proprietary trading. Broker-dealers

TABLE 2.8

Thousand euros[1]	Interest margin IV 2010	Interest margin IV 2011	Financial investments IV 2010	Financial investments IV 2011	Exchange differences and other items IV 2010	Exchange differences and other items IV 2011	Total IV 2010	Total IV 2011
Total	102,053	91,541	48,588	271,956	30,455	-205,427	181,096	158,070
Money market assets and public debt	5,787	2,327	11,749	14,131	–	–	17,536	16,458
Other fixed-income securities	21,773	20,241	45,781	58,800	–	–	67,554	79,041
Domestic portfolio	20,174	17,903	35,160	49,149	–	–	55,334	67,052
Foreign portfolio	1,599	2,338	10,621	9,651	–	–	12,220	11,989
Equity	76,685	54,249	208,097	-460,991	–	–	284,782	-406,742
Domestic portfolio	57,237	36,991	-66,514	-26,610	–	–	-9,277	10,381
Foreign portfolio	19,448	17,258	274,611	-434,381	–	–	294,059	-417,123
Derivatives	–	–	-229,222	669,747	–	–	-229,222	669,747
Assignments and temporary acquisitions of assets	-2,166	785	–	–	–	–	-2,166	785
Market credit transactions	0	0	–	–	–	–	0	0
Deposits and other transactions with financial intermediaries	-359	16,668	–	–	–	–	-359	16,668
Net exchange differences	–	–	–	–	24,445	-198,307	24,445	-198,307
Other products and operating charges	–	–	–	–	1,635	3,952	1,635	3,952
Other transactions	333	-2,729	12,183	-9,731	4,375	-11,072	16,891	-23,532

1 Accumulated amounts from the beginning of the year up to the last day of each quarter. Includes the companies removed over the year.

Income statement. Brokers

TABLE 2.9

Thousand euros[1]	2009	2010	2011	2011 I	II	III	IV	2012 I[2]
I. Interest margin	2,652	1,629	2,480	351	1,144	1,761	2,480	134
II. Net commissions	127,410	109,165	97,884	26,048	50,423	73,058	97,884	7,830
Commission revenue	144,373	126,055	112,349	29,798	57,899	84,174	112,349	9,016
Order processing and execution	53,988	38,176	36,354	10,080	19,345	27,974	36,354	3,037
Placement and underwriting	2,989	2,748	2,870	350	1,181	2,289	2,870	14
Deposit and entry of securities	509	366	440	97	191	288	440	64
Portfolio management	19,633	19,489	12,351	3,818	6,760	9,572	12,351	989
Design and advisory services	2,806	3,618	5,349	1,147	2,634	4,007	5,349	414
Stock search and placement	0	304	61	174	538	61	61	0
Market credit transactions	28	27	42	10	13	24	42	2
Marketing CIS	23,966	23,946	21,381	5,828	11,097	16,514	21,381	1,649
Other	40,453	37,381	33,501	8,294	16,141	23,445	33,501	2,847
Commission expenses	16,963	16,890	14,465	3,750	7,476	11,116	14,465	1,186
III. Profit from financial investments	1,709	456	623	151	-54	-293	623	174
IV. Exchange differences and other operating products and expenses	-1,111	-1,416	-1,539	-455	-1,306	-1,446	-1,539	-148
V. Gross margin	130,661	109,834	99,448	26,095	50,207	73,080	99,448	7,990
VI. Operating profit	9,090	9,457	7,757	3,444	5,568	6,168	7,757	442
VII. Profit from continuing operations	4,862	6,452	5,488	3,298	5,289	6,232	5,488	322
VIII. Net profit for the year	4,862	6,452	5,488	3,298	5,289	6,232	5,488	322

1 Accumulated amounts from the beginning of the year up to the last day of each quarter. Includes the companies removed over the year.
2 Available data: January 2012.

Income statement. Portfolio management companies

TABLE 2.10

Thousand euros[1]	2009	2010	2011	2011 I	II	III	IV	2012 I[2]
I. Interest margin	341	407	682	154	293	485	682	69
II. Net commissions	10,734	10,097	7,987	1,897	3,840	5,698	7,987	647
Commission revenue	21,750	20,994	18,476	4,531	9,123	13,568	18,476	1,487
Portfolio management	18,463	18,020	16,582	4,224	8,323	12,367	16,582	1,343
Design and advisory services	2,698	1,160	1,894	307	800	1,201	1,894	144
Marketing CIS	18	34	0	0	0	0	0	0
Other	571	1,779	0	0	0	0	0	0
Commission expenses	11,016	10,897	10,489	2,634	5,283	7,870	10,489	840
III. Profit from financial investments	92	51	186	243	233	192	186	-3
IV. Exchange differences and other operating products and expenses	-383	21	-10	13	-19	-41	-10	-5
V. Gross margin	10,784	10,577	8,845	2,307	4,347	6,334	8,845	708
VI. Operating profit	1,296	1,154	1,525	415	677	886	1,525	128
VII. Profit from continuing operations	889	939	1,041	304	490	627	1,041	85
VIII. Net profit for the year	889	939	1,041	304	490	627	1,041	85

1 Accumulated amounts from the beginning of the year up to the last day of each quarter. Includes the companies removed over the year.
2 Available data: January 2012.

Surplus equity over capital adequacy requirements[1]

TALBE 2.11

Thousand euros	Surplus Total amount	%[2]	Number of firms according to surplus percentage < 50	< 100	< 150	< 200	< 300	< 400	< 500	< 750	< 1000	> 1000
Total	1,219,553	321.37	13	23	8	6	9	10	9	11	4	7
Broker-dealers	1,134,406	345.52	3	9	1	2	7	8	5	7	2	5
Brokers	68,007	189.22	10	11	7	3	2	1	4	4	2	1
Portfolio management companies	17,140	112.61	0	3	0	1	0	1	0	0	0	1

1 Available data: December 2011.
2 Average percentage is weighted by the required equity of each company. It is an indicator of the number of times, in percentage terms, that the surplus contains the required equity in an average company.

Return on equity (ROE) before tax[1,2]

TABLE 2.12

	Average[3]	Number of companies according to their annualised return Losses	0-5%	6-15%	16-30%	31-45%	46-60%	61-75%	76-100%	>100%
Total	13.22	32	21	23	11	3	4	1	2	3
Broker-dealers	13.79	13	12	12	5	2	2	0	0	3
Brokers	7.46	18	8	8	5	1	2	1	2	0
Portfolio management companies	4.70	1	1	3	1	0	0	0	0	0

1 ROE has been calculated as:

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

Equity = Share capital + paid-in surplus + Reserves - Treasury stock + Previous years' profits and retained earnings – Dividends and remuneration.
2 Available data: December 2011.
3 Average weighted by equity, in %.

Financial advisory companies. Key highlights

TABLE 2.13

Thousand euros	2008	2009	2010	2010 I	2010 II	2011 I	2011 II
ASSETS UNDER ADVISORY SERVICES[1]							
Total	1,410,985	15,802,743	17,206,331	11,929,643	15,802,743	16,498,814	17,206,331
Retail clients	364,284	1,715,084	2,168,957	1,164,130	1,715,084	1,895,320	2,168,957
Professional clients	1,046,702	13,995,206	13,963,983	10,746,313	13,995,206	14,501,823	13,963,983
Others	0	92,453	1,073,391	19,200	92,453	101,671	1,073,391
COMMISSION REVENUE[2]							
Total	3,183	20,745	29,778	7,783	20,745	14,116	29,778
Commission revenue	3,183	20,629	29,586	7,726	20,629	14,080	29,586
Other revenue	0	116	192	57	116	36	192
SHAREHOLDERS' EQUITY							
Total	1,500	10,057	11,475	9,312	10,057	10,469	11,475
Share capital	1,043	3,014	3,895	2,379	3,014	3,386	3,895
Reserves and retained earnings	36	242	1,186	3,333	242	2,915	1,186
Profit for the year[2]	421	6,801	6,394	3,600	6,801	4,168	6,394

1 Data at end of period. Half-yearly.
2 Accumulated amounts from the start of the year up to the last day of each half-year.

3 Collective investment schemes[a]

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

TABLE 3.1

				2011				2012
	2009	2010	2011	I	II	III	IV	I[1]
Total financial CIS	5,892	5,627	5,460	5,603	5,551	5,491	5,460	5,422
Mutual funds	2,593	2,429	2,341	2,436	2,410	2,356	2,341	2,317
Investment companies	3,232	3,133	3,056	3,105	3,077	3,070	3,056	3,041
Funds of hedge funds	38	32	27	29	28	28	27	27
Hedge funds	29	33	36	33	36	37	36	37
Total real estate CIS	16	16	14	16	16	15	14	14
Real estate mutual funds	8	8	6	8	8	6	6	6
Real estate investment companies	8	8	8	8	8	9	8	8
Foreign CIS marketed in Spain	582	660	739	669	695	695	739	748
Foreign funds marketed in Spain	324	379	426	383	395	395	426	428
Foreign companies marketed in Spain	258	281	313	286	300	300	313	320
CIS management companies	120	123	114	120	118	117	114	113
CIS depositories	124	114	97	113	107	101	97	92

1 Available data: February 2012.

Number of unit-holders and shareholders of collective investment schemes

TABLE 3.2

				2011				2012
	2009	2010	2011[1]	I	II	III	IV[1]	I[2]
Total financial CIS	5,895,009	5,578,524	5,248,683	5,575,863	5,460,738	5,358,838	5,248,683	5,226,290
Mutual funds	5,475,403	5,160,889	4,834,061	5,160,482	5,044,106	4,942,074	4,834,061	4,813,046
Investment companies	419,606	417,635	414,622	415,381	416,632	416,764	414,622	413,244
Total real estate CIS	84,511	76,223	30,678	34,690	32,906	32,356	30,678	30,721
Real estate mutual funds	83,583	75,280	29,735	33,747	31,963	31,412	29,735	29,778
Real estate investment companies	928	943	943	943	943	944	943	943
Foreign CIS marketed in Spain[3]	685,094	865,767	761,380	855,929	856,882	803,801	761,380	–
Foreign funds marketed in Spain	139,102	193,233	177,832	197,965	195,525	185,665	177,832	–
Foreign companies marketed in Spain	545,992	666,534	583,548	657,964	661,357	618,136	583,548	–

1 Provisional data for foreign CIS marketed in Spain.
2 Data available: January 2012. This data is sent quarterly by foreign CIS and so the months which do not coincide with the end of the quarter have no available data.
3 Does not include data of ETF.

Assets of collective investment schemes

TABLE 3.3

				2011				2012
Million euros	2009	2010	2011[1]	I	II	III	IV[1]	I[2]
Total financial CIS	196,472.5	170,073.1	155,982.8	170,919.4	166,446.6	157,942.6	155,982.8	156,212.9
Mutual funds[3]	170,547.7	143,918.2	132,368.6	144,428.0	140,351.3	134,033.7	132,368.6	132,075.7
Investment companies	25,924.8	26,155.0	23,614.2	26,491.4	26,095.4	23,908.9	23,614.2	24,137.2
Total real estate CIS	6,773.7	6,437.5	4,807.1	6,403.6	6,313.7	6,260.8	4,807.1	4,797.0
Real estate mutual funds	6,465.1	6,115.6	4,494.6	6,083.3	5,995.5	4,597.3	4,494.6	4,483.7
Real estate investment companies	308.6	321.9	312.5	320.3	318.2	1,663.4	312.5	313.3
Total foreign CIS marketed in Spain[4]	25,207.2	36,692.9	29,969.5	37,639.1	35,582.2	30,967.3	29,969.5	–
Foreign funds marketed in Spain	5,215.1	8,535.9	6,382.9	8,092.4	7,303.2	6,446.0	6,382.9	–
Foreign companies marketed in Spain	19,992.0	28,156.9	23,586.6	29,546.6	28,279.0	24,521.3	23,586.6	–

1 Provisional data for foreign CIS marketed in Spain.
2 Data available: January 2012. This data is sent quarterly by foreign CIS and so the months which do not coincide with the end of the quarter have no available data.
3 The assets of mutual funds invested in other financial mutual funds of the same management company were around 5,882 million euros at December 2011.
4 Does not include data of ETF.

a The references to "Mutual funds" throughout the chapter do not include hedge funds or funds of hedge funds.

Mutual fund asset breakdown[1]

TABLE 3.4

Million euros	2009	2010	2011[2]	2010 IV	2011 I	II	III	IV[2]
Assets	170,547.7	143,918.1	132,368.6	143,918.2	144,428.0	140,351.3	134,033.7	132,368.6
Financial investment portfolio	163,165.5	137,295.4	126,369.9	137,296.1	137,441.4	133,666.7	127,577.1	126,369.9
Domestic portfolio	100,642.6	89,630.2	90,395.3	89,632.4	92,205.9	91,324.1	90,914.4	90,395.3
Debt securities	74,628.9	68,575.1	72,076.1	68,574.5	71,784.6	70,905.2	72,151.4	72,076.1
Equity instruments	4,741.0	3,829.2	3,087.0	3,829.2	3,990.4	3,944.8	3,179.1	3,087.0
CIS	9,041.5	7,338.6	6,038.5	7,338.6	6,338.4	6,387.3	6,192.3	6,038.5
Deposits in credit institutions	11,552.2	9,460.8	8,961.2	9,460.8	9,635.7	9,665.8	9,208.1	8,961.2
Derivatives	679.0	426.2	232.5	429.0	456.5	420.9	183.4	232.5
Others	0.0	0.4	0.0	0.4	0.3	0.0	0.0	0.0
Foreign portfolio	62,487.1	47,626.5	35,967.0	47,625.1	45,198.1	42,330.3	36,656.4	35,967.0
Debt securities	48,435.3	30,337.4	22,713.6	30,337.4	26,875.7	24,576.1	23,293.2	22,713.6
Equity instruments	7,783.2	8,385.8	7,037.3	8,386.4	8,604.6	8,758.1	6,694.9	7,037.3
CIS	5,666.4	8,404.7	6,061.5	8,404.7	9,252.4	8,548.4	6,581.2	6,061.5
Deposits in credit institutions	82.4	108.0	23.0	108.0	85.6	61.2	53.7	23.0
Derivatives	518.7	387.1	130.6	385.1	376.5	384.2	31.4	130.6
Others	1.1	3.6	1.1	3.6	3.3	2.4	2.0	1.1
Doubtful, delinquent or in litigation investments	35.8	38.6	7.5	38.6	37.4	12.2	6.3	7.5
Intangible fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash	7,267.7	6,531.4	5,837.7	6,531.3	6,876.8	6,459.0	6,000.3	5,837.7
Net balance (debtors/creditors)	114.5	91.4	161.0	90.7	109.8	225.5	456.3	161.0

1 Does not include information on hedge funds and funds of hedge funds as Circular 3/2008 establishes different deadlines in reporting accounting information to CNMV.
2 Provisional data.

Investment company asset allocation

TABLE 3.5

Million euros	2009	2010	2011[1]	2010 IV	2011 I	II	III	IV[1]
Assets	25,924.8	26,155.0	23,614.2	26,155.0	26,491.4	26,095.4	23,908.9	23,614.2
Financial investment portfolio	24,813.5	25,187.3	22,522.1	25,187.1	25,262.0	24,915.3	22,592.7	22,522.1
Domestic portfolio	13,514.3	12,881.4	12,385.2	12,880.2	12,863.2	12,848.1	12,405.1	12,385.2
Debt securities	7,400.5	5,435.9	7,460.8	5,435.9	5,870.6	6,628.9	7,021.7	7,460.8
Equity instruments	3,376.3	2,988.6	2,508.5	2,989.5	3,033.8	2,993.4	2,663.5	2,508.5
CIS	1,091.1	758.7	667.4	756.5	800.9	815.7	741.8	667.4
Deposits in credit institutions	1,631.5	3,675.2	1,721.7	3,675.2	3,133.2	2,381.5	1,963.5	1,721.7
Derivatives	-6.6	-5.9	-5.4	-5.9	-4.9	-2.1	-17.0	-5.4
Others	21.7	29.0	32.4	29.0	29.6	30.6	31.6	32.4
Foreign portfolio	11,294.2	12,298.1	10,131.3	12,300.0	12,391.9	12,061.0	10,181.8	10,131.3
Debt securities	4,606.6	3,606.8	3,070.6	3,606.8	3,407.6	3,241.5	2,948.1	3,070.6
Equity instruments	3,559.3	4,166.0	3,384.3	4,166.0	4,381.9	4,264.5	3,432.9	3,384.3
CIS	2,987.4	4,390.5	3,516.3	4,392.6	4,416.0	4,349.3	3,670.2	3,516.3
Deposits in credit institutions	26.3	12.1	10.8	12.1	47.1	45.4	13.4	10.8
Derivatives	113.0	119.9	145.4	119.7	135.1	157.8	113.7	145.4
Others	1.6	2.8	3.9	2.8	4.2	2.4	3.5	3.9
Doubtful, delinquent or in litigation investments	4.9	7.9	5.5	6.9	6.9	6.3	5.9	5.5
Intangible fixed assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Property, plant and equipment	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1
Cash	976.4	832.0	854.6	832.1	1,014.6	946.9	951.4	854.6
Net balance (debtors/creditors)	134.8	135.5	237.4	135.6	214.6	233.0	364.6	237.4

1 Provisional data.

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

TABLE 3.6

	2009	2010	2011	2011 I	II	III	IV	2012 I[2]
NUMBER OF FUNDS								
Total mutual funds	2,536	2,408	2,310	2,417	2,389	2,341	2,310	2,298
Fixed income[3]	582	537	508	542	530	520	508	497
Mixed fixed income[4]	169	160	140	158	152	146	140	139
Mixed equity[5]	165	138	128	136	132	130	128	128
Euro equity[6]	182	172	148	171	157	153	148	145
Foreign equity[7]	242	232	220	223	222	222	220	220
Guaranteed fixed income	233	276	351	303	324	335	351	360
Guaranteed equity[8]	561	499	420	485	470	436	420	416
Global funds	187	192	203	197	203	204	203	200
Passive management[9]	69	61	59	61	57	59	59	60
Absolute return[9]	146	141	133	141	142	136	133	133
UNIT HOLDERS								
Total mutual funds	5,475,403	5,160,889	4,834,061	5,160,482	5,044,106	4,942,074	4,834,061	4,813,046
Fixed income[3]	2,041,487	1,622,664	1,383,812	1,524,438	1,466,938	1,419,006	1,383,812	1,371,781
Mixed fixed income4	290,151	270,341	206,938	251,992	238,275	227,046	206,938	202,953
Mixed equity[5]	182,542	171,336	145,150	162,861	156,631	151,551	145,150	143,240
Euro equity[6]	299,353	266,395	237,815	253,365	248,355	247,166	237,815	232,869
Foreign equity[7]	458,097	501,138	448,539	493,906	493,057	465,814	448,539	452,101
Guaranteed fixed income	570,963	790,081	1,042,658	967,561	990,997	1,019,905	1,042,658	1,047,443
Guaranteed equity[8]	1,188,304	1,065,426	912,298	1,027,392	981,572	946,448	912,298	911,988
Global funds	88,337	105,720	127,336	114,244	124,088	130,519	127,336	126,478
Passive management[9]	85,403	90,343	100,416	85,254	82,371	95,948	100,416	99,219
Absolute return[9]	270,766	277,445	229,099	279,469	261,822	238,671	229,099	224,974
ASSETS (million euros)								
Total mutual funds	170,547.7	143,918.2	132,368.6	144,428.0	140,351.3	134,033.7	132,368.6	132,075.7
Fixed income[3]	84,657.2	56,614.6	46,945.5	51,552.7	49,449.9	48,228.6	46,945.5	45,047.6
Mixed fixed income[4]	8,695.5	7,319.0	5,253.6	6,570.0	6,251.9	5,715.8	5,253.6	5,246.0
Mixed equity[5]	3,879.6	3,470.5	2,906.1	3,484.5	3,345.6	2,897.5	2,906.1	2,941.7
Euro equity[6]	6,321.6	5,356.8	4,829.2	5,656.3	5,687.2	4,610.8	4,829.2	4,933.6
Foreign equity[7]	5,902.4	8,037.3	6,281.2	7,909.0	7,751.6	6,028.4	6,281.2	6,648.2
Guaranteed fixed income	21,033.4	26,180.2	35,058.0	32,084.4	32,742.1	34,241.7	35,058.0	35,857.1
Guaranteed equity[8]	25,665.8	22,046.5	18,014.5	21,181.6	19,827.6	18,699.9	18,014.5	18,202.8
Global funds	3,872.5	4,440.3	5,104.7	5,481.7	5,718.1	5,154.3	5,104.7	5,202.9
Passive management[9]	3,216.6	2,104.8	1,986.2	2,193.0	2,172.2	2,060.0	1,986.2	2,020.3
Absolute return[9]	7,303.0	8,348.1	5,989.7	8,314.8	7,405.1	6,396.8	5,989.7	5,975.5

1 Funds which have sent reserved statements, does not include funds in process of dissolution or liquidation.
2 Available data: January 2012.
3 Until 1Q09 includes: Short-term fixed income, Long-term fixed income, Foreign fixed income and Monetary market funds. From 2Q09 on includes: Fixed-income euro, Foreign fixed income and Monetary market funds. From 3Q11 includes: Fixed-income euro, Foreign fixed income, Monetary market funds and Short-term monetary market funds. To December 2006 included: FIAMM (Mutual funds in monetary market assets).
4 Until 1Q09 includes: Mixed fixed income and Foreign mixed fixed income. From 2Q09 includes: Euro mixed fixed income and Foreign mixed fixed income.
5 Until 1Q09 includes: Mixed equity and Foreign mixed equity. From 2Q09 includes: Euro mixed equity and Foreign mixed equity.
6 Until 1Q09 includes: Spanish equity and Euro equity. From 2Q09 includes Euro equity (which now includes Spanish equity).
7 Until 1Q09 includes: Foreign equity Europe, Foreign equity Japan, Foreign equity USA, Foreign equity emerging countries and Other foreign equity. From 2Q09 on includes: Foreign equity.
8 Until 1Q09 includes: Guaranteed equity. From 2Q09 includes: Guaranteed equity and Partial Guarantee.
9 New categories from 2Q09. All absolute return funds were previously classified as Global Funds.

Financial mutual funds: breakdown of unit-holder and assets by type of unit-holder

TABLE 3.7

				2011				2012
	2009	2010	2011	I	II	III	IV	I[1]
UNIT HOLDERS								
Total mutual funds	5,475,403	5,160,889	4,834,061	5,160,482	5,044,106	4,942,074	4,834,061	4,813,045
Natural persons	5,322,214	5,019,902	4,705,092	5,020,705	4,907,283	4,808,616	4,705,092	4,685,198
Residents	5,252,126	4,954,891	4,644,332	4,955,440	4,843,565	4,746,165	4,644,332	4,624,671
Non-residents	70,088	65,011	60,760	65,265	63,718	62,451	60,760	60,527
Legal persons	153,189	140,987	128,969	139,777	136,823	133,458	128,969	127,847
Banks	674	524	490	500	491	507	490	483
Other resident agents	151,479	139,550	127,734	138,402	135,505	132,160	127,734	126,627
Non-resident institutions	1,036	913	745	875	827	791	745	737
ASSETS (million euros)								
Total mutual funds	170,547.7	143,918.1	132,368.6	144,428.0	140,351.3	134,033.7	132,368.6	132,075.7
Natural persons	132,860.5	113,660.6	106,561.9	115,233.0	111,732.9	108,000.6	106,561.9	107,760.4
Residents	130,954.4	111,900.1	105,023.5	113,442.6	110,123.1	106,440.9	105,023.5	106,197.3
Non-residents	1,906.0	1,760.5	1,538.5	1,790.3	1,609.9	1,559.7	1,538.5	1,563.1
Legal persons	37,687.2	30,257.5	25,806.7	29,195.0	28,618.3	26,033.1	25,806.7	24,315.3
Banks	2,572.0	1,926.1	1,446.7	1,869.9	1,854.3	1,477.0	1,446.7	1,462.9
Other resident agents	34,065.1	27,644.6	23,946.3	26,666.9	26,205.8	24,107.8	23,946.3	22,432.9
Non-resident institutions	1,050.1	686.9	413.7	658.2	558.3	448.3	413.7	419.5

1 Available data: January 2012.

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

TABLE 3.8

				2010	2011			
Million euros	2009[2]	2010	2011	IV	I	II	III	IV
SUBSCRIPTIONS								
Total mutual funds	109,915.2	78,805.2	58,145.0	16,011.4	22,756.0	13,163.9	10,993.2	11,231.9
Fixed income	73,718.8	41,656.1	27,206.2	6,603.3	7,890.1	6,478.3	5,962.8	6,875.0
Mixed fixed income (RFM)	5,267.6	3,538.8	1,332.4	641.4	358.0	517.7	232.0	224.7
Mixed equity (RVM)	1,135.4	1,221.7	815.7	254.6	270.4	334.7	44.6	166.0
Euro equity (RVE)	2,183.8	1,673.0	2,085.0	335.4	575.2	524.1	472.1	513.6
Foreign equity	2,929.5	4,455.2	3,835.1	1,227.3	2,488.7	721.4	321.2	303.8
Guaranteed fixed income	11,755.4	11,513.4	13,965.7	2,505.8	7,424.2	2,595.3	2,202.5	1,743.7
Guaranteed equity (GRV)	5,589.1	5,120.1	2,570.7	1,246.5	828.6	622.0	751.4	368.7
Global funds	2,754.4	3,018.1	3,261.6	1,767.1	1,534.3	838.6	572.2	316.5
Passive management	535.5	683.8	924.7	96.4	220.5	149.2	197.1	357.9
Absolute return	4,045.7	5,924.8	2,147.7	1,333.6	1,165.9	382.4	237.4	362.0
REDEMPTIONS								
Total mutual funds	122,617.5	104,385.6	68,983.6	24,577.5	23,528.9	17,258.8	13,676.7	14,519.2
Fixed income	81,197.6	68,806.1	37,633.9	13,908.1	13,298.5	8,737.2	7,192.5	8,405.7
Mixed fixed income (RFM)	2,724.4	4,955.7	3,258.1	1,383.5	1,138.4	892.5	552.8	674.4
Mixed equity (RVM)	1,596.5	1,311.8	1,136.2	316.9	267.4	435.3	192.7	240.8
Euro equity (RVE)	2,457.8	2,369.9	1,933.0	534.0	594.8	453.7	418.8	465.7
Foreign equity	2,165.3	3,303.3	4,652.7	981.8	2,521.1	800.6	841.9	489.1
Guaranteed fixed income	15,004.5	6,797.4	6,737.4	1,718.5	2,007.8	2,223.6	1,155.6	1,350.4
Guaranteed equity (GRV)	10,990.8	7,620.2	5,632.3	2,550.0	1,624.7	1,717.3	1,356.3	934.0
Global funds	2,548.6	2,694.4	2,316.3	1,581.1	507.0	601.0	631.4	576.9
Passive management	708.0	1,474.1	1,199.2	254.2	236.7	108.3	301.1	553.1
Absolute return	3,224.0	5,053.0	4,484.7	1,349.5	1,332.4	1,289.5	1,033.6	829.2

1 Estimated data.
2 The data for passive management and absolute return funds refers to the last three quarters of the year.

Change in assets of financial mutual funds by category: Net subscription/redemptions and yields

TABLE 3.9

				2010	2011			
Million euros	2009[1]	2010	2011	IV	I	II	III	IV
NET SUBSCRIPTION/REDEMPTIONS								
Total mutual funds	-12,702.3	-25,580.6	-10,853.1	-8,607.1	-765.2	-4,121.9	-2,683.0	-3,283.0
Fixed income	-7,478.8	-27,149.9	-10,423.6	-7,266.9	-5,392.3	-2,280.5	-1,211.6	-1,539.2
Mixed fixed income (RFM)	2,543.2	-1,417.0	-1,980.4	-746.8	-814.4	-323.8	-320.6	-521.6
Mixed equity (RVM)	-461.1	-90.0	-375.5	-75.8	-61.2	-128.4	-112.0	-73.9
Euro equity (RVE)	-274.0	-696.9	142.0	-206.2	-19.6	59.0	52.9	49.7
Foreign equity	764.2	1,152.1	-796.0	255.5	-48.8	-45.7	-516.4	-185.1
Guaranteed fixed income	-3,249.1	4,716.0	7,809.3	712.1	5,631.1	531.1	1,077.6	569.5
Guaranteed equity (GRV)	-5,401.7	-2,500.1	-4,053.9	-1,238.0	-1,016.9	-1,288.1	-963.7	-785.2
Global funds	205.8	323.6	972.2	266.4	997.6	247.1	-84.7	-187.8
Passive management	-172.5	-790.3	60.8	-219.6	11.9	-10.8	206.6	-146.9
Absolute return	821.7	871.7	-2,207.9	-87.7	-52.6	-881.9	-810.9	-462.5
NET YIELDS								
Total mutual funds	8,389.8	135.7	-673.3	-115.4	1,280.8	47.2	-3,623.9	1,622.6
Fixed income	1,535.3	64.5	744.9	-218.4	330.6	164.9	-9.4	258.8
Mixed fixed income (RFM)	507.9	-56.4	-85.1	-44.2	65.4	5.6	-215.5	59.4
Mixed equity (RVM)	529.9	-53.4	-189.0	29.1	75.2	-10.5	-336.2	82.5
Euro equity (RVE)	1,477.1	-254.1	-666.9	59.6	319.2	-26.9	-1,129.3	170.1
Foreign equity	1,309.0	877.4	-947.2	578.2	-79.5	-98.8	-1,206.8	437.9
Guaranteed fixed income	830.5	-170.4	1,070.4	-327.4	273	127.2	422.7	247.5
Guaranteed equity (GRV)	1,024.0	-392.8	21.8	-315.5	151.9	-65.8	-164.0	99.7
Global funds	272.2	123.1	-307.8	80.0	43.8	-10.7	-479.1	138.2
Passive management	657.8	-109.7	-163.9	3.5	81.9	-9.9	-309.0	73.1
Absolute return	246.4	107.7	-150.5	42.6	19.3	-27.9	-197.3	55.4

1 The data for passive management and absolute return funds relates to the last three quarters of the year.

Breakdown of the net yields of financial mutual funds by category

TABLE 3.10

As % of average daily assets	2009[1]	2010	2011	2010 IV	2011 I	II	III	IV
MANAGEMENT YIELDS								
Total mutual funds	6.13	1.09	0.45	0.17	1.13	0.27	-2.45	1.47
Fixed income	2.69	0.78	2.28	-0.18	0.80	0.51	0.14	0.74
Mixed fixed income (RFM)	9.34	0.61	-0.15	-0.25	1.25	0.41	-3.33	1.41
Mixed equity (RVM)	16.44	0.11	-4.30	1.19	2.59	0.16	-10.57	3.28
Euro equity (RVE)	31.02	-3.05	-10.77	1.62	6.24	0.15	-22.4	4.07
Foreign equity	33.16	14.8	-11.05	8.11	-0.48	-0.68	-17.26	7.55
Guaranteed fixed income	4.10	-0.11	3.77	-1.18	1.01	0.44	1.44	0.85
Guaranteed equity (GRV)	5.08	-0.46	1.29	-1.07	1.02	0.01	-0.54	0.87
Global funds	10.82	4.15	-4.55	2.17	1.20	0.13	-8.51	2.97
Passive management	–	-2.50	-6.27	0.41	3.96	-0.21	-13.81	3.98
Absolute return	–	2.49	-0.90	0.8	0.54	-0.07	-2.60	1.20
EXPENSES. MANAGEMENT FEES								
Total mutual funds	0.87	0.91	0.93	0.24	0.23	0.23	0.23	0.24
Fixed income	0.63	0.65	0.64	0.16	0.16	0.16	0.16	0.16
Mixed fixed income (RFM)	1.14	1.20	1.17	0.30	0.29	0.29	0.28	0.30
Mixed equity (RVM)	1.58	1.65	1.59	0.41	0.40	0.39	0.39	0.40
Euro equity (RVE)	1.75	1.78	1.80	0.45	0.44	0.44	0.46	0.45
Foreign equity	1.79	1.84	1.77	0.50	0.44	0.43	0.44	0.45
Guaranteed fixed income	0.65	0.62	0.72	0.17	0.16	0.18	0.19	0.19
Guaranteed equity (GRV)	1.26	1.24	1.24	0.31	0.30	0.30	0.32	0.31
Global funds	1.08	1.06	1.11	0.30	0.29	0.27	0.27	0.28
Passive management	–	0.72	0.75	0.19	0.19	0.18	0.17	0.21
Absolute return	–	1.06	1.08	0.28	0.29	0.26	0.25	0.28
EXPENSES. DEPOSITARY FEE								
Total 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 (RFM)	0.09	0.10	0.12	0.03	0.03	0.03	0.03	0.03
Mixed equity (RVM)	0.10	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Euro equity (RVE)	0.10	0.11	0.12	0.03	0.03	0.03	0.03	0.03
Foreign equity	0.12	0.12	0.12	0.03	0.03	0.03	0.03	0.03
Guaranteed fixed income	0.08	0.07	0.08	0.02	0.02	0.02	0.02	0.02
Guaranteed equity (GRV)	0.11	0.10	0.08	0.03	0.02	0.02	0.02	0.02
Global funds	0.08	0.09	0.08	0.02	0.02	0.02	0.02	0.02
Passive management	–	0.07	0.08	0.02	0.02	0.02	0.02	0.02
Absolute return	–	0.08	0.08	0.02	0.02	0.02	0.02	0.02

1 Does not include the annual yield of passive management and absolute return funds as these categories entered into force with Circular 1/2009 from the second quarter of 2009.

Mutual fund returns: breakdown by category

TABLE 3.11

As %	2009[1]	2010	2011	2010 IV	2011 I	II	III	IV
Total mutual funds	5.73	0.35	-0.08	-0.04	0.95	0.03	-2.37	1.35
Fixed income	1.91	0.11	1.56	-0.35	0.63	0.33	0.01	0.58
Mixed fixed income (RFM)	6.85	-0.54	-1.34	-0.56	0.9	0.09	-3.47	1.20
Mixed equity (RVM)	16.47	-0.98	-5.64	0.78	2.23	-0.31	-10.13	3.02
Euro equity (RVE)	32.41	-2.94	-11.71	1.27	6.11	-0.45	-19.67	4.05
Foreign equity	37.28	14.22	-10.83	8.01	-0.49	-1.15	-15.70	7.53
Guaranteed fixed income	3.81	-0.67	3.28	-1.28	0.89	0.36	1.28	0.71
Guaranteed equity (GRV)	3.56	-1.79	0.14	-1.45	0.71	-0.48	-0.76	0.68
Global funds	10.90	3.22	-4.64	1.87	0.98	-0.14	-8.10	2.90
Passive management	–	-2.36	-7.33	0.31	3.74	-0.30	-13.94	4.11
Absolute return	–	1.53	-1.87	0.58	0.28	-0.35	-2.71	0.93

1 Does not include the annual yield of passive management and absolute return funds as these categories entered into force with Circular 1/2009 from the second quarter of 2009.

Hedge funds and funds of hedge funds

TABLE 3.12

				2010	2011			
	2008	2009	2010	IV	I	II	III	IV[1]
Hedge funds								
Unit-holders	1,589	1,917	1,852	1,852	1,958	2,022	2,057	2,036
Net assets (million euros)	539.4	652.0	646.2	646.2	693.5	738.9	703.9	718.0
Subscriptions (million euros)	390.4	248.7	236.6	31.0	56.0	58.5	36.1	20.3
Redemptions (million euros)	258.3	198.3	268.6	42.6	20.2	16.0	17.3	8.5
Net subscriptions/redemptions (million euros)	132.7	50.4	-32.0	-11.6	35.8	42.5	18.8	5.6
Net yields (million euros)	-39.1	62.2	26.3	18.4	11.5	3.0	-53.8	8.5
Return (%)	-4.82	14.94	5.37	3.11	1.79	0.51	-6.81	1.30
Management yields (%)[2]	-2.51	13.76	6.33	3.45	2.38	0.92	-7.04	1.40
Management fees (%)[2]	2.50	2.55	1.91	0.49	0.48	0.41	0.38	0.26
Financing expenses (%)[2]	0.16	0.11	0.07	0.02	0.02	0.02	0.01	0.01
FUNDS OF HEDGE FUNDS								
Unit-holders	8,516	5,321	4,404	4,404	4,240	4,137	4,046	4,020
Net assets (million euros)	1,021.3	810.2	694.9	694.9	667.2	636.1	617.4	609.2
Subscriptions (million euros)	967.3	302.4	47.9	10.4	2.3	4.2	1.9	–
Redemptions (million euros)	700.9	585.4	184.8	57.2	29.9	28.4	10.7	–
Net subscriptions/redemptions (million euros)	266.4	-283.0	-136.9	-46.8	-27.6	-24.3	-8.8	–
Net yields (million euros)	-245.7	71.9	21.7	14.9	-0.14	-6.8	-9.9	–
Return (%)	-17.80	7.85	3.15	2.13	-0.01	-1.03	-1.50	0.31
Management yields (%)[3]	-17.84	11.54	4.38	2.46	0.36	-0.69	-1.21	–
Management fees (%)[3]	1.63	1.34	1.25	0.32	0.31	0.32	0.30	–
Depositary fee (%)[3]	0.11	0.11	0.08	0.02	0.02	0.02	0.02	–

1 Available data: November 2011. Return refers to the period September-November.
2 Percentage of average monthly assets.
3 Percentage of average daily assets.

Management companies: Number of portfolios and assets under management[1]

TABLE 3.13

				2011				2012
	2009	2010	2011	I	II	III	IV	I[2]
NUMBER OF PORTFOLIOS								
Mutual funds	2,593	2,429	2,341	2,436	2,410	2,356	2,341	2,236
Investment companies	3,135	3,068	3,002	3,059	3,024	3,015	3,002	2,992
Funds of hedge funds	38	32	27	29	28	28	27	27
Hedge funds	28	31	35	32	35	36	35	35
Real estate mutual funds	8	8	6	8	8	6	6	6
Real estate investment companies	8	8	8	8	8	9	8	8
ASSETS UNDER MANAGEMENT (million euros)								
Mutual funds	170,547.7	143,918.2	132,368.6	144,428.0	140,351.3	134,033.7	132,368.6	132,075.7
Investment companies	24,952.8	25,361.3	23,037.8	25,835.9	25,399.1	23,321.3	23,037.8	23,547.1
Funds of hedge funds[3]	810.2	694.9	609.2	667.2	636.1	617.4	609.2	–
Hedge funds[3]	652.0	643.5	685.6	666.3	710.4	673.0	685.6	–
Real estate mutual funds	6,465.1	6,115.6	4,494.6	6,083.3	5,995.5	4,597.3	4,494.6	4,483.7
Real estate investment companies	308.5	321.9	312.5	320.3	318.2	1,663.4	312.5	313.3

1 As from the second quarter of 2009, 100% of the assets of SICAV (investment companies) managed by CIS management companies and other different companies are considered as assets under management by CIS management companies.
2 Available data: January 2012.
3 Data available for the fourth quarter of 2011: November 2011.

Foreign CIS marketed in Spain[1]

TABLE 3.14

	2009	2010	2011[2]	2010 IV	2011 I	II	III	IV[2]
INVESTMENT VOLUME[3] (million euros)								
Total	25,207.2	36,692.9	29,969.5	36,692.9	37,639.1	35,582.2	30,967.3	29,969.5
Funds	5,215.1	8,535.9	6,382.9	8,535.9	8,092.4	7,303.2	6,446.0	6,382.9
Companies	19,992.0	28,156.9	23,586.6	28,156.9	29,546.6	28,279.0	24,521.3	23,586.6
NUMBER OF INVESTORS								
Total	685,094	865,767	761,380	865,767	855,929	856,882	803,801	761,380
Funds	139,102	193,233	177,832	193,233	197,965	195,525	185,665	177,832
Companies	545,992	666,534	583,548	666,534	657,964	661,357	618,136	583,548
NUMBER OF SCHEMES								
Total	582	660	739	660	669	695	695	739
Funds	324	379	426	379	383	395	395	426
Companies	258	281	313	281	286	300	300	313
HOME COUNTRY								
Luxembourg	275	290	297	290	292	298	298	297
France	178	225	284	225	229	239	241	284
Ireland	64	75	87	75	77	84	82	87
Germany	17	20	20	20	20	21	21	20
United Kingdom	14	16	19	16	17	19	19	19
Netherlands	1	1	1	1	1	1	1	1
Austria	27	27	25	27	27	27	27	25
Belgium	5	5	5	5	5	5	5	5
Malta	1	1	1	1	1	1	1	1

1 Does not include the investment volume and number of investors of ETF.
2 Provisional data.
3 Investment volume: calculated by multiplying the number of shares or units held by investors at the end of the period by their value in Euros on said date.

Key figures of real estate CIS[1]

TABLE 3.15

	2009	2010	2011	2011 I	II	III	IV	2012 I[2]
FUNDS								
Average	8	7	6	7	7	6	6	6
Unit-holders	83,583	75,280	29,735	33,747	31,963	31,412	29,735	29,778
Net assets (million euros)	6,465.1	6,115.6	4,494.6	6,083.3	5,995.5	4,597.3	4,494.6	4,483.7
Yield (%)	-8.31	-4.74	-3.23	-0.66	-0.65	-1.03	-0.93	-0.24
COMPANIES								
Average	8	8	8	8	8	9	8	8
Shareholders	928	943	943	943	943	944	943	943
Net assets (million euros)	308.6	321.9	312.5	320.3	318.2	1,663.4	312.5	313.3

1 CIS which have sent reserved statements, does not include funds in process of dissolution or liquidation.
2 Available data: January 2012. In this case, the return is monthly.