CNMV
Comisión Nacional del Mercado de Valores

Annual report regarding its actions and the securities markets **2010**

CNMV Annual Report regarding its actions and the securities markets 2010

Comisión Nacional del Mercado de Valores
Serrano, 47
28001 Madrid

Passeig de Gràcia, 19
08007 Barcelona

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

ISSN (Printed edition): 1889-5174
ISSN (Digital edition): 1989-5674
Depósito Legal: M-4662-2007
Layout: Composiciones Rali, S.A.
Printing: Artegraf, S.A.
Translation: Eagle Language Service, S.L.

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
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)
ESFS	European System of Financial Supervisors
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 Organization of Securities Commissions
ISIN	International Securities Identification Number
LATIBEX	Market in Latin American securities, based in Madrid
MAB	Mercado Alternativo Bursátil (alternative stock market)
MEFF	Spanish financial futures and options market
MFAO	Mercado de Futuros del Aceite de Oliva (olive oil futures market)
MIBEL	Mercado Ibérico de Electricidad (Iberian electricity market)

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

General table of contents

Index of exhibits

Index of tables

Index of figures

Index of annexes

Legislative annexes 283

CNMV organisation 299

I Economic and financial framework

1 Economic and financial situation

In 2010, the world economy followed the path of recovery which began in the middle of 2009 as a result of the dynamism of the main emerging economies within a context in which the most important industrialised economies performed unevenly. The sharp rise in prices of raw materials and some non-prepared foodstuffs, which began in the second half of 2010, led to a substantial increase in inflation rates worldwide. This rise in inflation has brought forward expectations of a rise in interest rates by the main central banks. In the case of the Eurozone, the rise in inflation expectations has already led to the first rise in official interest rates since July 2008.[1]

The development of international financial markets over 2010, particularly European markets, was conditioned by the successive periods of instability in the sovereign debt markets of various Eurozone economies. The European countries with the most vulnerable fiscal situations saw significant increases in sovereign risk indicators, which reached their highest levels in May, coinciding with the worst moments of the Greek crisis, and in December, as a result of the situation in Ireland. At the same time, increasing uncertainty as a result of these episodes of instability significantly intensified the "refuge asset" role of German and US public debt and, to a lesser extent, British public debt.

In the private fixed income segment, these episodes of instability in public debt markets led to a substantial reduction in issues, particularly by European financial institutions. For their part, international equity markets performed unevenly over the year, which closed with rises in US, German and British stock markets and falls in markets of the most vulnerable European countries, and also in Japan.

In this setting, the Spanish economy technically came out of recession in the first quarter of 2010, which did not stop GDP falling slightly (-0.1%) in 2010 as a whole. This figure is in contrast to the sharp fall in 2009 (-3.7%), but demonstrates a relatively poor performance compared with other comparable economies. The Eurozone grew by 1.7% as a whole, the USA by 2.9% and the United Kingdom by 1.4%. The start of the recovery in domestic activity was not enough to allow improvements in labour market figures and the unemployment rate reached 20.3% at the end of the year. The measures to contain public spending led to a notable reduction in the deficit, although Government funding needs remained high. For the public authorities as a whole, the year ended with a deficit of 9.2% and an accumulated debt of 60%, both in terms of GDP.

In the financial area, the successive periods of instability in sovereign debt markets had a substantial impact on both domestic equity and fixed income markets. In eq-

1 On 7 April, the ECB decided to increase the interest rate applicable to the main funding operations of the Eurosystem by 25 basis points up to 1.25% (for transactions settled as from 13 April 2011).

uity markets, the Ibex 35 fell by 17.4% in 2010, one of the worst falls in European stock markets, while its volatility reached highs in May of close to 70%, greater than those of other indexes but below the highs seen following the collapse of Lehman Brothers. In contrast, market liquidity conditions improved over the year in a context of a sharp rise in trading. In the public debt market, sovereign risk indicators reached highs in November, in line with those seen in other peripheral European economies. At the same time, the volume of private debt issues fell substantially, especially in the case of financial institutions.

The first few weeks of 2011 saw a marked fall in aggregate uncertainty as a result of expectations with regard to the strengthening of the financial support mechanism implemented by the European Union and the publication of several indicators suggesting that the global recovery would continue. In this context, since the start of this year sovereign risk indicators in Europe have performed unevenly among the countries most affected by the debt crisis. While risk levels remain high for Greece, Ireland and Portugal, indicators suggested that the risk for Spain and Italy had eased. This divergence began to be seen weeks before Portugal requested financial support from the European Union.[2]

1.1 International economic and financial situation

1.1.1 The world economy

Economic recovery continued although at different speeds

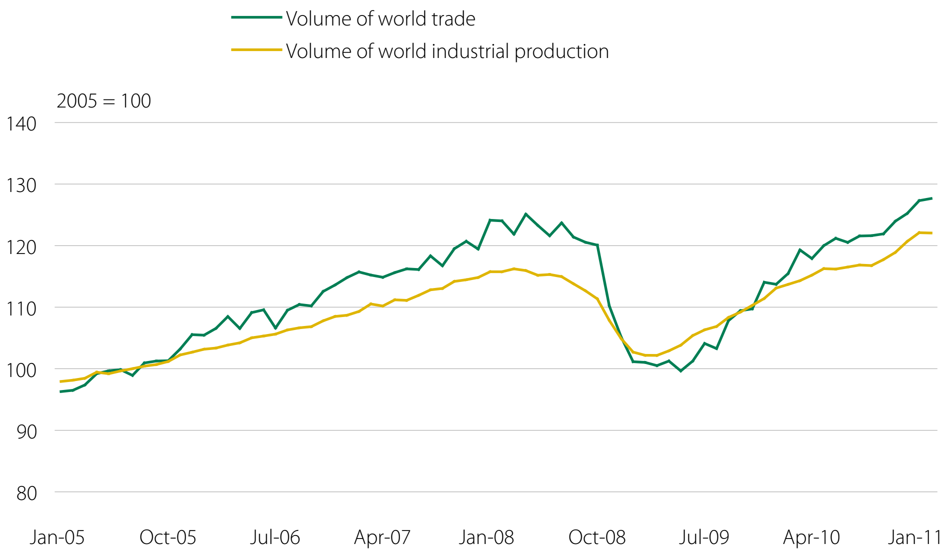
In 2010, the world economy continued along the path of recovery which began in the middle of 2009. However, a dual effect could be seen, with greater dynamism in emerging economies compared with industrialised economies, which, as a whole, continued suffering the after-effects of the financial crisis more severely. Growth in the global economy in 2010 amounted to 5% (-0.6% in 2008), as a result of the advances of emerging economies (7.1%) and, to a lesser extent, developed economies (3%). This recovery in the world economy was reflected in the fast recovery in international trade over the last year and a half (see figure 1.1).

The rate of recovery varied greatly among industrialised economies as a whole. This was particularly noticeable in Europe, where growth in 2010 was led by the German economy, which grew by 3.6%, while the other countries grew at rates closer on average to 1.5%, or even fell. Outside Europe, there was notable growth in the Japanese economy (3.9%) and in the US economy (2.9%).

2 6 April.

World trade and industrial production

FIGURE 1.1

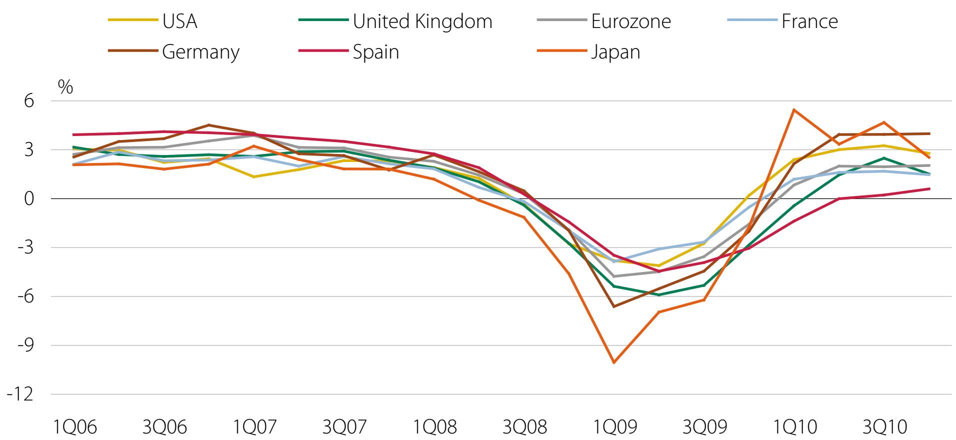


Source: CPB Netherlands Bureau for Economic Policy Analysis.

The dynamism of the emerging economies, in many cases sustained by demand for exports but also increasingly by the growth in domestic demand, continued to be particularly high in emerging Asian economies, led by China, which grew by 10.3% (9.2% in 2009), and in India, which grew by 9.7% (5.7% in 2009). There was also a marked recovery in emerging Latin American economies, led by Brazil and Mexico, which, having fallen as a whole by a little under 2% in 2009, grew at rates close to 6% in 2010.

GDP: annual variations

FIGURE 1.2



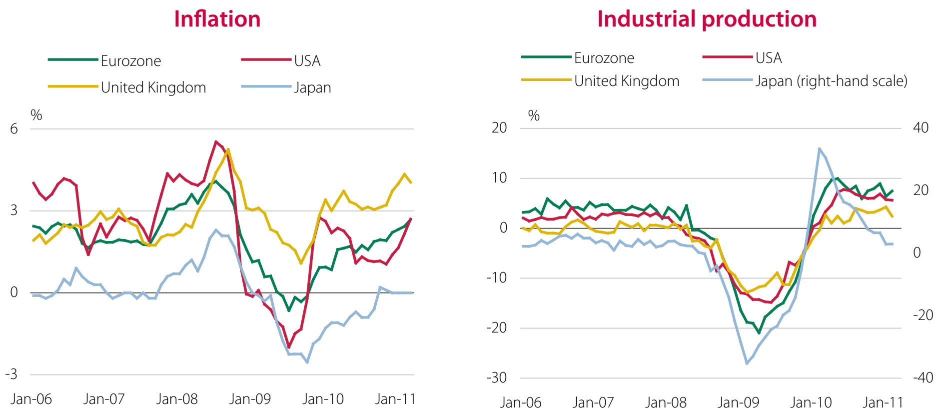
Source: Thomson Datastream.

The recovery in economic activity in industrialised economies has not so far been intense enough so as to allow considerable improvement in the labour market. Unemployment rates in the main economies remained relatively stable over 2010, at around 10% both in the Eurozone and in the USA, in the context of net job creation rates which were practically zero.[3]

Inflation rates rise as a result of increases in raw material costs

The rise in inflation rate seen in industrialised economies in 2010 mainly reflected the rise in energy prices and non-energy raw materials. The underlying rates remained relatively stable in the context of high levels of idle production capacity and high unemployment rates (see figure 1.3). Inflation forecasts for the main developed economies - except for Japan which recorded deflation - remained fixed at moderate levels in the first half of 2010. Consequently, there were no changes in official interest rates.

Inflation and industrial production (annual change) FIGURE 1.3



Source: Thomson Datastream.

However, there has recently been a relatively generalised rise in inflation expectations mainly as a result of geopolitical tensions in several oil exporting countries. The rise in inflation expectations has led to increased expectations of rises in official interest rates in the main industrialised economies. In fact, the ECB, which had maintained interest rates unchanged since May 2009, at the start of April 2011 decided to increase the interest rate applicable to the main funding operations of the Eurosystem by 25 basis points, up to 1.25%[4] (see figure 1.4).

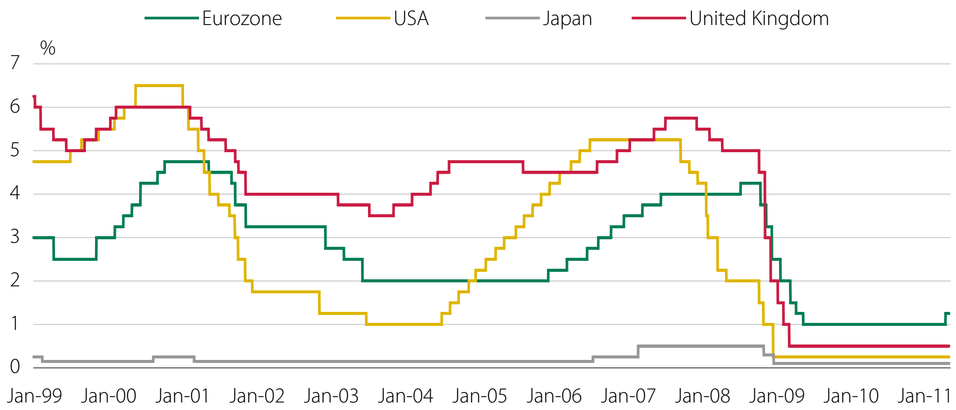
With regard to emerging economies, several countries tightened their monetary policy in 2010 in the context of growing inflationary pressures resulting from strong exports and domestic demand. These countries included India, China and South Korea in Asia, and Chile and Brazil in Latin America. In addition, some countries introduced various capital control measures as a result of notable pressure on their currencies and volatility, at some times, of capital flows.

3 The year-on-year rate of change is around zero in the most important economies (USA, Japan, Eurozone and the United Kingdom).

4 The report date is 30 April. The figures in this chapter include the information available up to the report date.

Base rates

FIGURE 1.4



Source: Thomson Datastream.

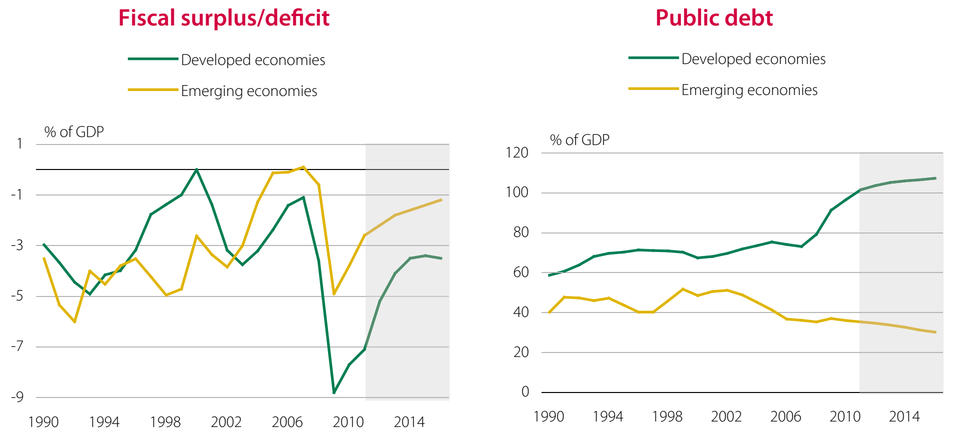
Ensuring the sustainability of public finances remains a priority

Following the sharp rise in the public deficit and debt in 2009, mainly in industrialised economies, 2010 saw some correction in the deficit, which, however, was not enough to detain the upward trend of debt. In this context, ensuring the sustainability of public finances remains a significant challenge for most economies, above all for industrialised economies, which start from notably higher levels of public deficit and debt.

For developed economies as a whole, fiscal policy, with few exceptions, remained expansive in 2010 (particularly in the USA and Japan). Accordingly, despite the recovery in activity in these countries, the public deficit has only fallen by one percentage point of GDP, from 8.8% in 2009 to 7.9% in 2010, while public debt rose from 91.4% of GDP up to 96.5% of GDP (see figure 1.5). For emerging economies as a whole, the public deficit fell from 4.8% of GDP in 2009 to 4.1% in 2010 as a result of the recovery in the economy and a slight tightening of their fiscal policy. Public debt fell from 37.2% of GDP in 2009 to 36.9% in 2010. As shown in figure 1.5, the IMF forecasts that fiscal deficits and debt will continue over the coming years, above all in developed countries.

Public fiscal surpluses/deficits in public debt

FIGURE1.5

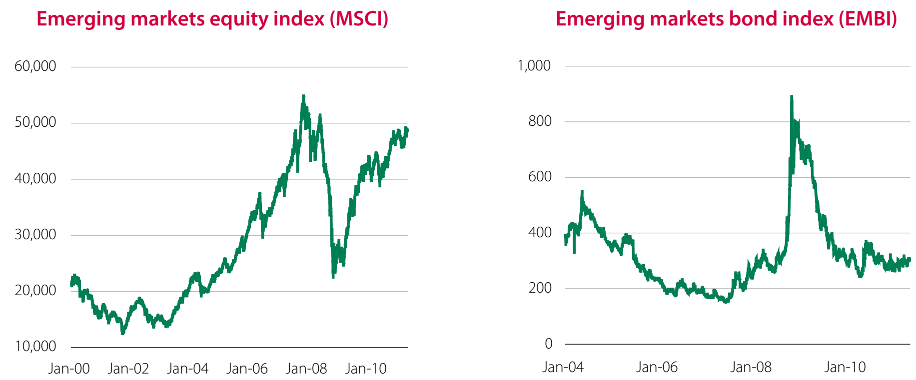


Source: IMF, Fiscal Monitor (April 2011).

Notable rise in capital flows towards some emerging economies

In line with a greater spread between interest rates in most emerging economies and those of the main central banks, and with greater growth forecasts in emerging economies, capital inflows have grown sharply in some emerging economies since 2009, both in direct investment and through portfolio investments. In some cases, the high inflows of foreign capital could be contributing to the accumulation of certain macro-financial imbalances, such as possible overvaluation in certain asset markets in these countries, and the increase in the level of these countries' vulnerability to a sudden change in the availability of foreign funds.

The development of financial markets in emerging economies FIGURE 1.6



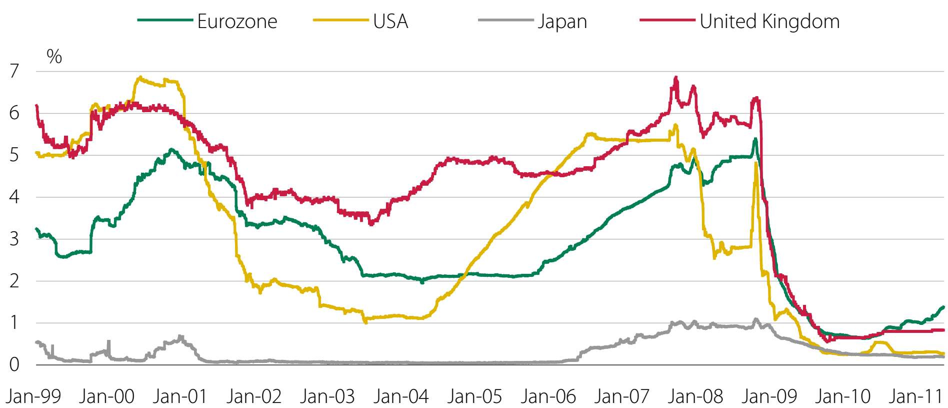
Source: Thomson Datastream and Bloomberg.

1.1.2 The international financial markets

Short-term interest rates remain at historic lows

In a context of low official interest rates, inter-bank market rates at different terms remained at historic lows in 2010. Only in the Eurozone was there a slight rise in interest rates in the second half of the year, initially due to turmoil in the sovereign debt market, which led to an increase in counterparty risk between financial institutions which use public debt securities as collateral in funding operations and, more recently, due to the change in inflation expectations (see figure 1.7).

Short-term interest rates[1] (3 months) FIGURE 1.7

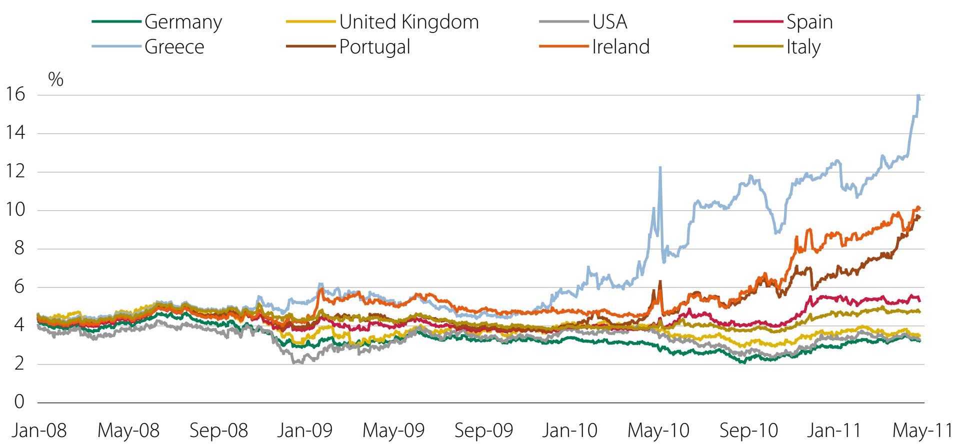


Source: Thomson Datastream. (1) 3-month Libor.

The episodes of turmoil in European sovereign debt set the trend for international fixed-income markets

In 2010, rising aggregate uncertainty generated by successive crises in European sovereign debt significantly intensified the "refuge asset" role of German and US public debt and, to a lesser extent, British public debt. As shown in figure 1.8, the periods of greatest turmoil were accompanied by falls in debt yields of these countries and increases in debt yields of countries with greater fragility.

Yields on 10-year public debt FIGURE 1.8



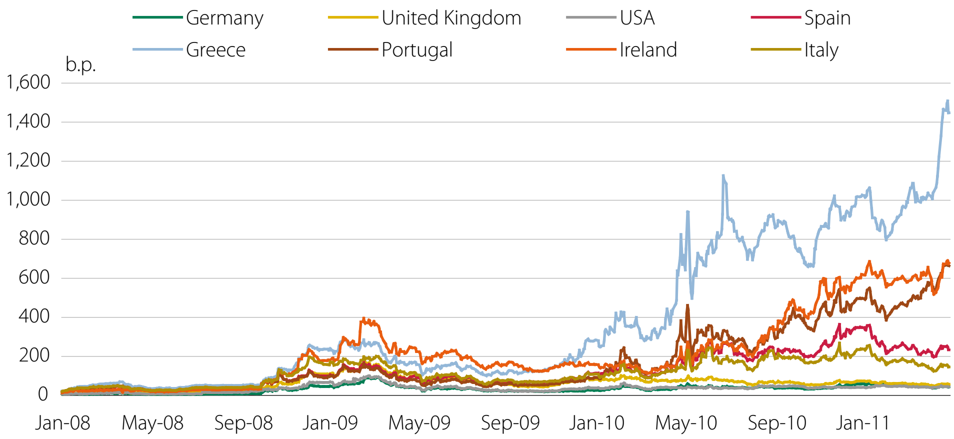
Source: Thomson Datastream.

The start of the Greek sovereign debt crisis led to a generalised increase in premiums of the CDS of the most vulnerable European economies, which reached very high levels in May (see figure 1.9). Subsequently, the approval of a financial support mechanism within the framework of the European Union, the adoption of various fiscal adjustment plans and structural reforms in several European economies and the implementation by the ECB of various measures to promote liquidity in some public and private debt markets made it possible to contain the upward trend in risk premiums.

Over the last few months of the year, CDS prices once again began to rise, this time driven by weaknesses in the financial system and public finances in Ireland. Following the rescue package for the Irish economy agreed by the EU on 28 November,[5] the sovereign CDS of the most affected economies followed a slight downward trend, which continued until the start of February 2011. Since then, sovereign risk indicators have remained at historically high levels. However, indicators in Greece, Ireland and Portugal, which have risen again with certain intensity, have performed differently from indicators in Spain and Italy, which have since stabilised.

5 The Irish rescue package was agreed on 28 November between the Irish authorities, on the one hand, and the EU, the IMF and the ECB on the other. It was formally approved by the ECOFIN in its meeting on 7 December 2010. In total, the support package included 85 billion euros, mostly in the form of guarantees.

Credit risk premiums of sovereign CDS bonds FIGURE 1.9



Source: Thomson Datastream.

The relation between *credit default swaps* (CDS) and bond spreads

EXHIBIT 1.1

Before the collapse of Lehman Brothers, activity in CDS markets on sovereign bonds was limited and the corresponding risk premiums were very low for almost all important economies. Subsequently, and in particular following the successive crisis periods of European sovereign debt, activity in sovereign CDS markets grew substantially, at the same time as the risk premiums of public debt from peripheral European economies rose significantly. In this context, the relation between sovereign bond markets and CDS markets generated growing interest in 2010 from analysts, investors and even supervisory and regulatory authorities.[1]

In a recent study, Arce, Mayordomo, and Peña[2] (2011) analysed the relation between CDS markets and bond markets over recent years, with special emphasis on the following issues: 1) the existence of persistent deviations between CDS spreads and bond spreads, 2) the determining factors for the differences between both risk indicators and 3) the level of price formation efficiency in both markets, which is understood as the speed with which prices include the arrival of new information in the market.

1) **Persistent deviations between CDS spreads and bond spreads**. According to the theoretical non-arbitrage relation which should exist between these two financial instruments,[3] in the absence of friction in both markets, the "base" defined as the difference between the two spreads should not be different from zero on a consistent basis. According to this hypothesis, the available evidence does not allow us to conclude that there are *persistently* positive or negative bases in the period prior to the crisis, although bases other than zero have been detected at *specific times*. In contrast, during the crisis persistent deviations have been detected between both risk measurements for some of the countries analysed, which are normally negative (that is, the bond spread is persistently higher than the CDS spread). The factors leading to these deviations include the presence

of several frictions in these markets, such as restrictions on short positions, financing costs, differences in liquidity between both assets and the counterparty risk present in CDS markets (i.e. the possibility that the provider of these derivatives does not meet its commitments in the event of a default in the bond).

2) **Determining factors of the temporary deviations between CDS spreads and bond spreads**. Variables which may potentially explain the behaviour of the base over time include the specific factors of the market in question and factors indicating the level of aggregate risk. The results obtained from this analysis indicate the following:

   – Aggregate risk factors, both those referring to global risk and to country risk, are not especially significant. This reflects the absence of significant differences in the way in which sovereign credit risk markets assess macro-economic risk.

   – With regard to market factors, counterparty risk has a clearly significant negative effect on the base, in line with economic intuition, which has also become particularly strong as from 2008, coinciding with the problems demonstrated by some of the main US investment banks most active in these markets. Furthermore, financing costs have a negative effect on the base, to the extent that they affect the demand for bonds more than for CDS. This is because the former has higher financing needs as it allows lower leverage ratios.

   – Estimates reveal that the base shows a high level of persistence, that is, it responds relatively slowly towards the long term equivalent relation between bond spreads and CDS spreads.

3) **Identifying the relative level of price formation efficiency in each market**. The results of this analysis indicate that, before the collapse of Lehman Brothers, the CDS market was clearly ahead of the bond market in the price formation process, in line with other previous analyses based on information on CDS and corporate bonds for periods prior to the crisis.[4] However, since the start of the crisis, the CDS market has not always been ahead of the bond market and, indeed, the relative efficiency of price formation in the bond market has increased considerably as from 2008. Specifically, the gains in relative efficiency in the sovereign bond market are usually linked to specific episodes which bring an increase in aggregate uncertainty, such as the rescues of Bear Stearns, in March 2008, and of AIG, in September 2008, and the collapse of Lehman Brothers, also in September, and the sovereign debt crisis in Greece in May 2010. As from May 2010, the CDS market began to reflect information comparatively more efficiently, although in some countries, such as Austria, Belgium, Finland and Italy, the bond market continued to be ahead, on average, in the price formation process. Finally, the analysis detects that an increase in financing costs favours the leadership of the CDS market. This is due to the greater relative effect that these costs have on the demand for bonds, and that a greater level of counterparty risk leads to a reduction in the efficiency of the CDS market. For its part, the changes in liquidity condi-

tions of the markets appear to be a significant factor to the extent that an increase in the level of liquidity in one market compared with the other tends to strengthen its leadership position in price formation.

Based on the above results, we can expect that the current trend of regulation, which focuses on the use of central counterparties in derivative contracts, such as CDS, which can be standardised, leads to a systematic reduction in counterparty risk in these markets. In turn, the positive effects of greater standardisation on the liquidity of these markets, together with the regulatory effort to increase their level of transparency, may contribute to a substantial increase in the level of efficiency in CDS markets.[5]

1 See Ó. Arce, J. González Pueyo and L. Sanjuán (2010), *El mercado de credit default swaps: Áreas de vulnerabilidad y respuestas regulatorias* '(The credit default swaps market: areas of vulnerability and regulatory responses'), CNMV Working Paper No. 42.

2 Ó. Arce, S. Mayordomo and J.I. Peña (2011), *Is Sovereign Credit Risk Determined by the Same Information in Credit Default Swap and Bond Markets,* soon to be published as part of the CNMV's Working Papers series.

3 Arce *et al*. (2011) consider the bond spread as the difference between the yield of the bond of the country and the yield of the German bond adjusted by the premium of the German CDS, both with maturity at five years. The resulting spread is compared with the spread of the CDS of the country in question at five years. Eleven countries from the European Monetary Union are taken into consideration (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal and Spain) from January 2004 to September 2010.

4 See, for example, R. Blanco, S. Brennan and I.W. Marsh (2005), "An Empirical Analysis of the Dynamic Relation between Investment-Grade Bonds and Credit Defaults Swaps", in *Journal of Finance*, Vol. 60, pp. 2,255 – 2,281.

5 For a review of the main regulatory initiatives in this area, both worldwide and in the European Union, see Committee on Payment and Settlement Systems (CPSS) and Technical Committee of IOSCO (2010), *Considerations for trade repositories in OTC derivatives markets*; Financial Stability Board (2010), *Implementing OTC Derivatives Market Reforms*; and European Commission (2010), *Proposal for a regulation of the European Parliament and the Council on OTC derivatives, central counterparties and trade depositories*.

In periods of turmoil in financial markets, such as those analysed herein, in the context of the sovereign debt of some European countries, it is common for shocks in certain assets, markets or countries to spread to other assets, markets or countries. The contagious nature of these *shocks* is important given that they provide information about the part of the change in asset prices which does not respond to changes in the fundamentals of the asset in question, but which are in response to external shocks. Accordingly, contagion indicators provide information about the origin of systemic risk present in a market, sector or geographical area. Exhibit R1.2 presents the results of an analysis to identify this type of contagion effect in the framework of the current financial crisis.

Contagion indicators of credit risk

EXHIBIT 1.2

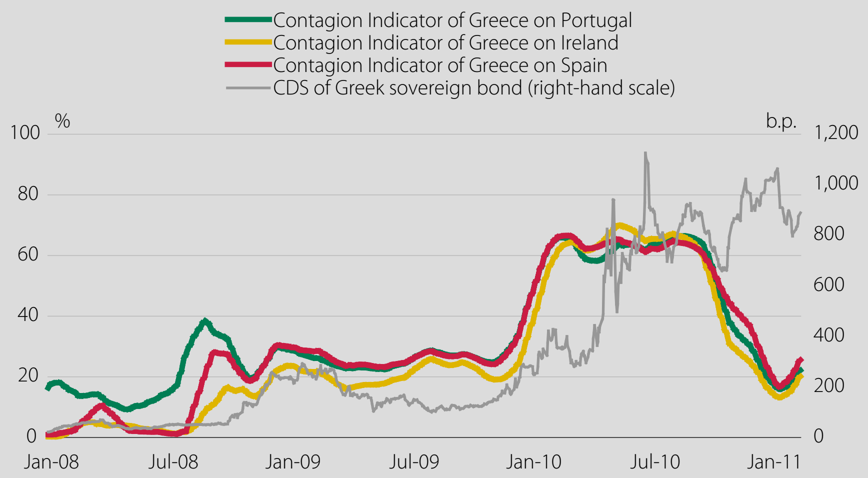
This exhibit covers the main results of an analysis to identify the contagion effect of credit risk so as to analyse, firstly, the role of the Spanish economy as issuer and recipient of sovereign credit risk and, secondly, the process of credit risk transmission between the Spanish public sector and the financial sector.[1]

Contagion effect in public debt markets

The Greek debt crisis, which began at the end of 2009, caused a substantial contagion effect from the first moments of the crisis, which was particularly intense in the peripheral European economies. As shown in figure E2.1, at the most intense moments of this period, close to 70% of the change in the prices of CDS on sovereign bonds of Portugal, Spain and Ireland due to new information were caused by changes recorded in the credit risk of Greek bonds. The effect of these shocks was substantial if we consider the level of credit risk reached by Greek sovereign debt.[2]

The contagion of the Greek crisis on peripheral European economies[1]

FIGURE E2.1



Source: CNMV. (1) The contagion indicator shows that the percentage of the variation of the premiums of CDS on bonds from Portugal, Ireland and Spain which is not due to the historic information of the premiums of the CDS of these three countries and of Greece, but which is due to contemporary shocks of the credit risk of Greece. This indicator takes higher values as the intensity of the effect produced by the specific shocks of Greek sovereign debt increase. The extreme case in which the contagion index takes a value of 100 would indicate that these shocks from the credit risk of Greece explain all the change of the part of the credit risk due to all the contemporary shocks which affect the premiums of the CDS of Spain, Greece, Ireland and Portugal. A value of zero would indicate that the shocks of Greece's credit risk had no contemporary influence on the credit risk of the other countries.

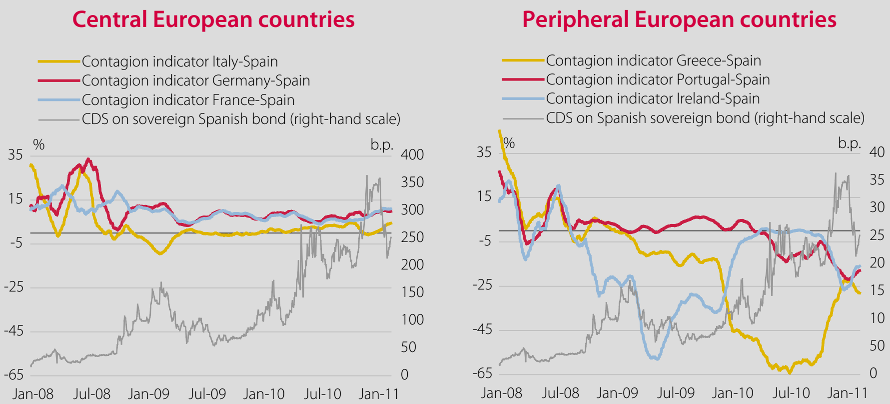
As from May 2010, the combination of stabilising factors, including the approval of the financial support package by the European Union in that month and the publication of the stress tests on European banks at the end of July, made it possible to contain the dependence on Greek sovereign risk. The effectiveness of the measures adopted also led to a fall in the premiums of the

CDS of the other peripheral European economies, driven by a contagion effect which, in this stage, contributed to the fall. As from the second half of the year, the contagion effect from Greece fell appreciably.[3]

The contagion effect on the Spanish economy in net terms i.e. taking into account the possibility of emitting and receiving simultaneous sovereign risk shocks, differs considerably depending on the European economy considered. As shown in the left panel of figure E2.2, the Spanish economy is an issuer (in net terms) of credit risk shocks on several central European economies, specifically Germany and France and, to a lesser extent, Italy. This contagion effect, which was stronger at the start of 2008, became weaker as other shock issuers (Greece and Ireland) took on greater importance. At any event, it should be pointed out that the contagion from Spanish public debt on the debt of other countries over the period examined has generally been modest.

In contrast, with regard to the peripheral economies (right panel of figure E2.2), the Spanish economy has normally been a recipient (in net terms) of sovereign risk shocks, except in the first half of 2008, when the level of Spanish sovereign risk was low. We can infer from these contagion indicators that the Greek debt crisis had an impact on the apparent risk of Spanish debt which was notably higher than the subsequent effect of the Irish and Portuguese markets.

Indicators of net contagion between Spain and other economies[1] FIGURE E2.2

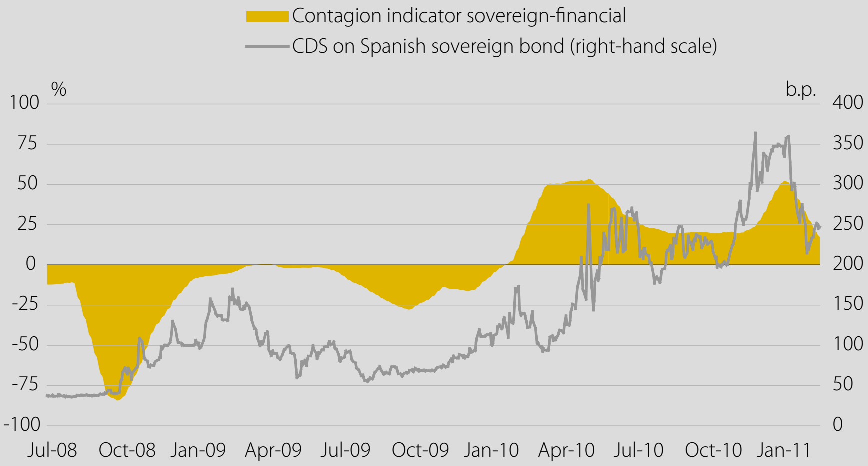


Source: CNMV. (1) This figure shows the percentage of the net variation of the premiums of CDS referenced to 6 European countries which is not due to the historic information of the premiums of the CDS or the information relating to Spanish CDS, but to contemporary shocks in the credit risk of Spain. When the contagion indicator takes positive values, this means that Spain behaves as a shock issuer (in net terms) with regard to the other country. When it takes negative values, it becomes a shock recipient (in net terms) from that economy.

The transmission of credit risk between the sovereign sector and the financial sector

Figure E2.3, which shows the results of a dynamic estimate of the level of credit risk transmission between the financial sector and the public sector in Spain, allows us to identify two clearly differentiated stages since the start of the crisis. In the first stage, which continued until the end of 2009, in accordance with these estimates, credit risk was generally transferred from the financial sector to the sovereign debt sector. In the second stage, from the start of 2010, coinciding with the start of the Greek debt crisis, we can see that the source of contagion was predominantly the public sector.

Spain: net contagion[1] between the financial sector[2] and the sovereign sector FIGURE E2.3



Source: CNMV. (1) This contagion indicator shows the percentage of the net variation of the CDS indexes corresponding to the Spanish bank and saving bank sector and of the CDS on the Spanish bond which is not due to the historic information of these indexes, but to the contemporary shocks in sovereign financial credit risks. The contagion indicator takes positive values when the effect of the shocks on the level of sovereign credit risk over the measure of financial risk is greater than the effect of the specific shocks which directly affect banking credit risk. (2) The financial CDS index is obtained from the average of the main banks and savings banks.

1 The estimate of the contagion effects presented below has been built on a vector auto-regressive model which makes it possible to estimate the spillovers of one financial asset to another, following the specification used by F.X. Diebold and K. Yilmaz (2009), "Measuring Financial Asset Return and Volatility Spillovers, with Application to Global Equity Markets", in *The Economic Journal*, 119, pp. 158–171. This has been done by using daily data of the spreads of the CDS of Germany, Spain, France, Greece, Ireland, Italy and Portugal, with information from January 2007 to February 2011. At any event, it is necessary to bear in mind that the estimate of the contagion effect may be exposed to errors in the model's specification and, therefore, the results presented herein need to be interpreted with the necessary caution.

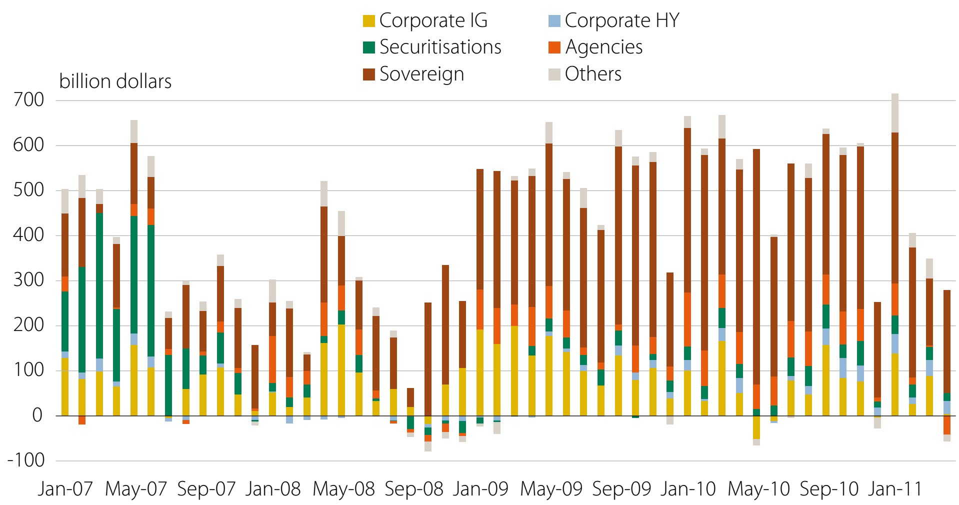
2 The final impact of the contagion effect depends positively on two elements: the level of the contagion indicator and the level of credit risk of the shock issuing country. Accordingly, in a situation in which, for example, the level of the contagion indicator is high, but the level of credit risk of the shock-issuing country is low, the final contagion effect will be modest.

3 The contagion series show a certain level of persistence due to the methodology used in their calculation. The value of the contagion on a given day is estimated using the information available over the 100 days prior to the current date and, in addition, the series is filtered by means of 30-day moving averages.

The sovereign debt crisis considerably reduces private debt issues

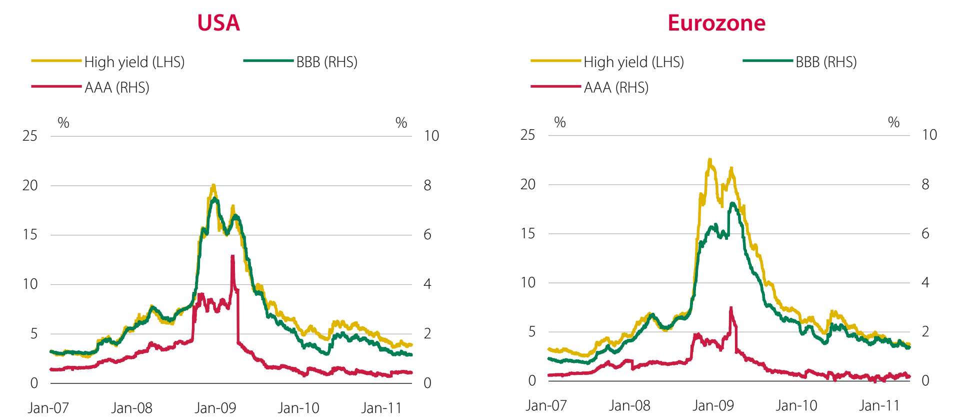
In 2010, the volume of debt issues worldwide (in net terms) was slightly higher than in 2009 (6.6 billion dollars compared with 6.3 billion), although the composition of the instruments issued and the type of issuer changed significantly. As shown in figure 1.10, sovereign debt issues continued to account for most of the total amount of issues and even increased their relative weight from 59% of the total in 2009 to 64% in 2010. At the same time there was a marked recovery in net issues of securitisations and of high yield debt. In contrast, there was a notable fall in investment grade issues, whose weight fell from 24% of the total in 2009 to 12% in 2010. Over the year, corporate risk premiums, both in the USA and in Europe, followed a downward trend, although with some ups and downs, and ended with levels that were even lower than those seen before 2008 (see figure 1.11).

Issues of international fixed income by type of financial instrument FIGURE 1.10



Source: Dealogic.

Credit risk premiums for corporate debt[1] FIGURE 1.11



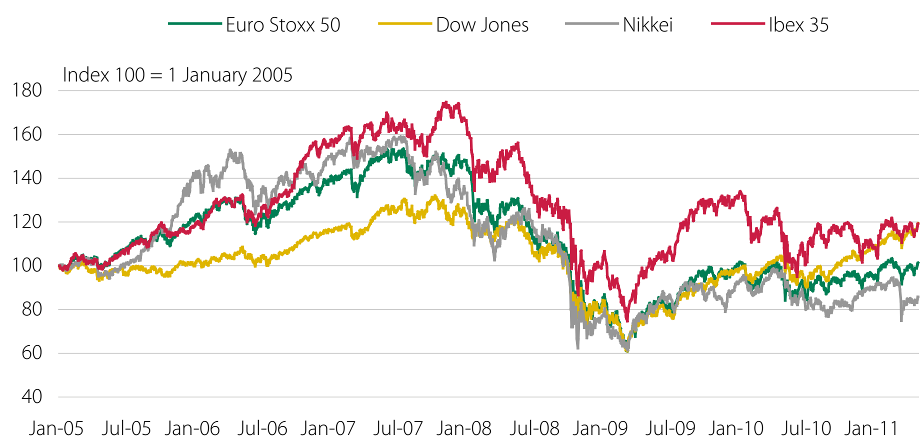
Source: Thomson Datastream (Merrill Lynch and IBOXX indexes). (1) Expressed as the difference between the IRR of the set of bonds belonging to a determined maturity and credit rating index and that of ten-year government bonds (a synthetic bond is used in the case of the Eurozone).

With regard to the issuing region, 2010 saw a sharp fall in issues in Europe (over 32% on 2009), which was particularly intense in the case of financial institutions.

Uneven performance of equity markets

In 2010, the main international equity indexes recorded, in general terms, falls in the first half of the year and rises in the second half of the year (see figure 1.12). In the final weeks of the year, the turmoil originating in Ireland did not prevent a good number of stock markets recording considerable rises over the year as a whole. Noteworthy were the rises in the indexes in the USA (between 11% and 16.9%), in Germany (16.1%) and in the UK (9%). Japanese stock markets recorded small falls, while the other European stock markets performed unevenly as they were each affected differently by the turmoil in sovereign debt markets. The stock market indexes of the main emerging economies also recorded significant rises in 2010, except in China, where the benchmark market fell by 14.3%, after recording a rise of 80% the previous year (see table 1.1). The indexes of the main stock markets began 2011 with noticeable rises, which were hardly affected by the earthquake in Japan. Only the Japanese indexes recorded falls from the start of the year up to the report date.[6]

Performance by the world's main stock indexes FIGURE 1.12



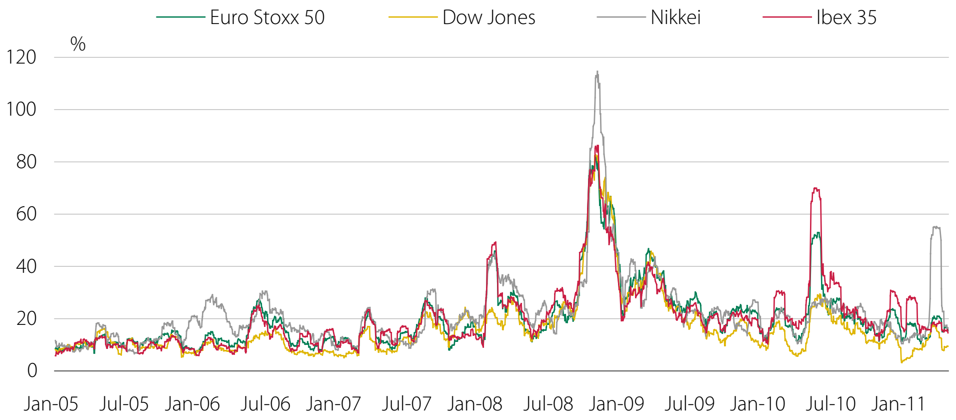
Source: Thomson Datastream.

Volatility indicators in these markets rose in May 2010, with greater intensity in the case of European markets, coinciding with the moments of highest tension in the Greek debt crisis. Subsequently, they returned to levels similar to those in periods without turmoil, and were hardly affected by the resurgence of uncertainty associated with the Irish crisis or by the subsequent events in Japan, except, logically, in the case of Japanese indexes, which, for the Topix and the Nikkei 225, exceeded 50% in the middle of March 2011 (see figure 1.13).

Stock market trading worldwide exceeded 63 billion dollars in 2010, a rise of close to 2%, in contrast with the sharp fall in 2009 (-30%). There was a marked recovery in trading on European stock markets compared with 2009 (4%).

6 See footnote number 4.

Historic volatility[1] in the main stock indexes FIGURE 1.13



Source: Thomson Datastream. (1) The index's historic volatility on day t is calculated as the typical deviation from the index's daily yields of the 20 sessions prior to t.

Equity markets: yield TABLE 1.1

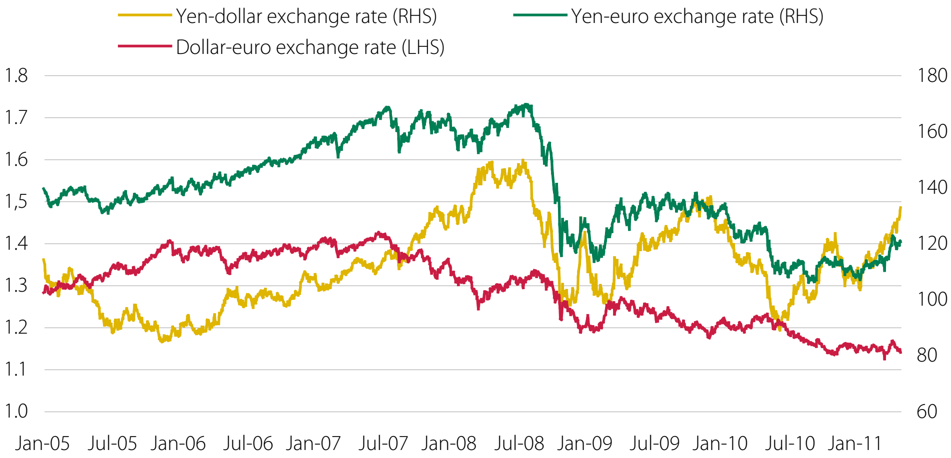
Stock market	Index	Change[1] (%)				
Developed countries		**2006**	**2007**	**2008**	**2009**	**2010**
USA	Dow Jones Ind. A.	16.3	6.4	-33.8	18.8	11.0
USA	Nasdaq Composite	9.5	9.8	-40.5	43.9	16.9
Japan	Nikkei	6.9	-11.1	-42.1	19.0	-3.0
UK	FTSE 100	10.7	3.8	-31.3	22.1	9.0
Eurozone	Euro Stoxx 50	15.1	6.8	-44.4	21.1	-5.8
Euronext	Euronext 100	18.8	3.4	-45.2	25.5	1.0
Germany	DAX 30	22.0	22.3	-40.4	23.8	16.1
Italy	MIB 30	19.0	-8.0	-48.7	20.7	-8.7
Spain	Ibex 35	31.8	7.3	-39.4	29.8	-17.4
Latin America & Asia						
Argentina	Merval	35.5	2.9	-49.8	115.0	51.8
Brazil	Bovespa	32.9	43.7	-41.2	82.7	1.0
Chile	IGPA	34.4	13.8	-19.6	46.9	38.2
Mexico	CPI	48.6	11.7	-24.2	43.5	20.0
Peru	IGBL	168.3	36.0	-59.8	99.2	66.4
South Korea	Korea Cmp Ex	4.0	32.3	-40.7	49.7	21.9
Hong Kong	Hang Seng	34.2	39.3	-48.3	52.0	5.3
China	Shanghai Composite	130.4	96.7	-65.4	80.0	-14.3

Source: Thomson Datastream. (1) In local currency.

Depreciation of the euro during the sovereign debt turmoil

Following the sharp depreciation suffered by the euro against the dollar over the first half of 2010, the euro tended to rise in subsequent months, partially driven by the US Federal Reserve's decision to resume this quantitative easing policy. This trend, temporarily interrupted at the end of 2010 as a result of the instability in the Irish sovereign debt market, extended until the first few months of 2011 (see figure 1.14). Against the yen, the euro appreciated by more than 18% in 2010, although the exchange rate remained relatively stable at around ¥110 per euro as of the end of May. Japanese currency tended to rise substantially following the earthquake, especially against the dollar, as a result of the expectations of capital repatriations towards the Japanese economy, and subsequently stabilised due to the intervention of the central banks of the G-7.

Euro exchange rate vs. the dollar and yen FIGURE 1.14



Source: Thomson Datastream.

1.2 The economic and financial situation in Spain

Stabilisation of the Spanish economy

The Spanish economy technically came out of recession in the first quarter of 2010 and continued advancing over the year, although with some ups and downs as some extraordinary support measures ended and as a result of the rise in VAT in July. For the year as a whole, GDP fell by 0.1%, a considerable slowdown in the fall in GDP seen in the previous year (-3.7%), although its performance was worse than in other comparable economies (see figure 1.2). As shown in table 1.2, the incipient recovery of the economy was based on the rise in private consumer spending (which went from -4.3% in 2009 to 1.2% in 2010), investment in capital goods (from -24.8% to 1.8%) and the positive contribution from foreign trade, driven by the rise in exports (which increased by 10.3% over the year).

The rate of change in the CPI rose by 2 percentage points in 2010, from 1% in January up to 3% in December, as a result of the rise in raw material prices, mainly energy, and the increase in indirect taxes (3.8% in April). Underlying inflation rose over the year from 0.1% in January up to 1.5% in December (1.7% in March 2011). The inflation spread with the Eurozone, which had remained negative in 2009, grew progressively in 2010 from 0.1 percentage points in January up to 0.7 percentage points in December.

Spain's economic indicators TABLE 1.2

	2006	2007	2008	2009	2010
GDP	4.0	3.6	0.9	-3.7	-0.1
Private consumer spending	3.8	3.7	-0.6	-4.3	1.2
Government spending	4.6	5.5	5.5	3.2	-0.7
Gross fixed capital formation, of which:	7.2	4.6	-4.4	-16.0	-7.6
Capital goods	9.9	9.0	-1.8	-24.8	1.8
Exports	6.7	6.6	-1.0	-11.6	10.3
Imports	10.2	8.0	-4.9	-17.8	5.4
External demand (contribution to growth, pp)	-1.4	-0.9	1.4	2.7	1.1
Employment growth	4.1	3.1	-0.5	-6.8	-2.3
Unemployment rate	8.5	8.3	11.3	18.0	20.1
Harmonised CPI	3.6	2.8	4.1	-0.2	1.8
Current-account balance (% GDP)	-9.0	-10.0	-9.7	-5.5	-4.5
Government lending/borrowing (% GDP)	2.0	1.9	-4.2	-11.1	-9.2

Source: Ministry of Economy and Finance and INE (National Statistics Institute).

The start of the recovery in the domestic economy has not yet led to an improvement in labour market figures. In 2010, the fall in the number of employed people continued, although at a lower rate than that in 2009 (2.3% in 2010 compared with 6.8% in 2009), and the unemployment rate remained at around 20% of the active population over the year, two points higher than in 2009.

The public deficit, which had grown in 2009 from 4.2% of GDP to 11.1%, fell by close to 2 percentage points of GDP in 2010, mainly as a consequence of the cuts in public spending implemented by the Government. According to IMF estimates,[7] Spanish fiscal policy in 2010 was one of the most restrictive in industrialised economies.[8] Government borrowing as a percentage of GDP grew for the third consecutive year, from 53.2% in 2009 to 60% in 2010, although at a more moderate rate than in 2009 (when it rose by more than 13 percentage points of GDP).

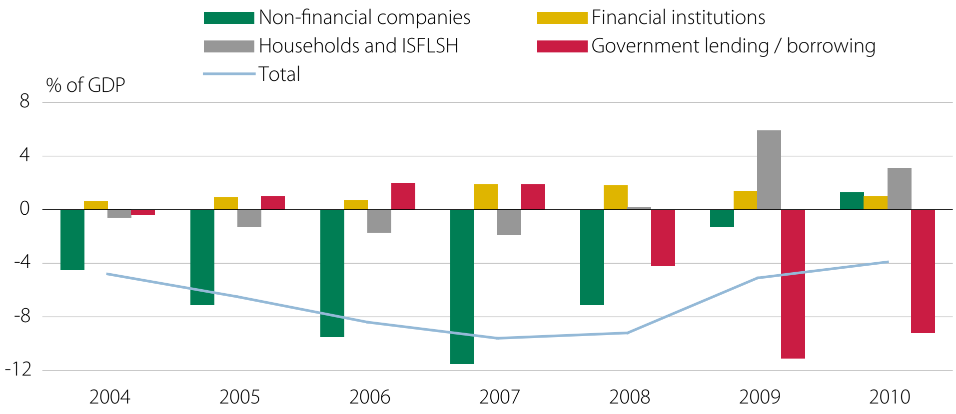
The Spanish economy's need for external funding fell once again

The Spanish economy's need for external funding once again fell in 2010, from 5.1% of GDP to 3.9%, although at a notably lower rate than in the previous year, when it fell by more than four percentage points of GDP. As shown in figure 1.15, by sector, 2010 saw similar patterns to those observed in the previous year i.e. government borrowing continued to account for most of the economy's funding needs, while private sectors showed a net positive funding capacity. Noteworthy in this regard was the capacity of household funding, greater than 3% of GDP, notably lower than in 2009 (5.9%) as a consequence of a moderation in their savings rates, and that of non-financial companies, which in 2010 broke a historic pattern characterised by net funding needs.[9]

7 IMF, Fiscal Monitor (April 2011).
8 The structural deficit estimated for the Spanish economy would have fallen from 9.7% of GDP in 2009 to 7.5% in 2010, compared with an increase from 5.5% to 5.7% for developed economies as a whole.
9 From 2000 to 2010, the funding needs of financial companies were on average slightly above 5% of GDP.

Surplus (+)/borrowing (-) by the Spanish economy

FIGURE 1.15



Source: Bank of Spain.

Fall in household savings rate, following the highs of 2009

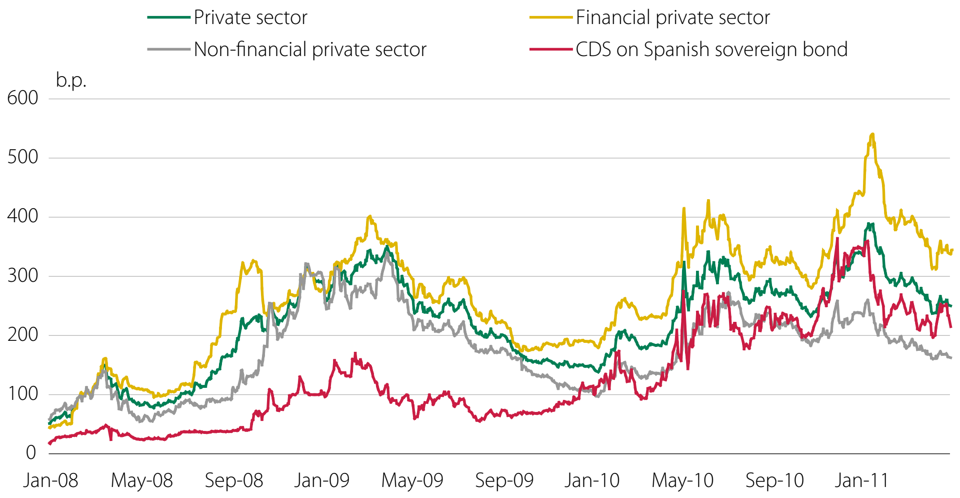
Household wealth indicators for the fourth quarter of 2010 indicate that the household savings rate continued to fall to levels of around 13% of available income, following the sharp increases in 2008 and 2009, when the rate reached 18%. This fall in the savings rate was the combined result of a fall in the available income of households and a moderate increase in final consumer spending. The household indebtedness ratio has remained stable for several quarters at around 125% of gross available income, while net wealth, after falling notably in 2008 in the first half of 2009, has tended to remain stable as a result of a certain increase in the financial assets of households, which has offset the fall, less intense in 2010 than in the two previous years, in the value of real estate assets.

The European sovereign debt crisis considerably raises sovereign risk, while the public sector's funding needs fall slightly

Gross government debt issues fell in 2010 by 2.5%, down to 241,718 million euros as a result of an easing of public sector funding needs arising from the budget consolidation process.

As indicated above, the different periods of turmoil in debt markets had a notable effect on perceived levels of sovereign risk of various European economies, including the Spanish economy. Both the interest-rate spread with regard to German debt and the premium of the CDS on Spanish sovereign bonds (see figure 1.16) reached highs in May 2010. They fell slightly in subsequent months and returned to new highs at the end of the year, coinciding with the Irish debt crisis. Over the first few months of 2011 perception of the risk associated with Spanish public debt has eased, although the different risk indicators remain high.

Risk premium of Spanish issuers[1] FIGURE 1.16



Source: Thomson Datastream. (1) Credit derivatives market. 5-year maturity. Simple average, except for Spanish bond CDS.

Sharp increase in risk premiums of the private sector and sluggishness in the issues market

Private sector issues, where financial institutions take a major role, fell considerably in 2010 (see chapter 4.3.1). In net terms, issues by financial institutions were negative i.e. the volume of debt maturities was greater than the gross issue volume, and issues by non-financial companies barely reached one billion euros. By type of instrument, there were falls in all asset categories, except in territorial bonds and mortgage-backed bonds.

The credit risk premium of Spanish private debt, measured by means of the spreads of the CDS of Spanish issuers, showed the same profile as for public debt, although the average level of risk premiums of financial institutions was substantially greater than that of non-financial companies (see figure 1.16). As in the case of sovereign debt, in the first few months of 2011, the risk premium of private issuers has fallen, although it remains at high levels in historic terms, especially in the financial sector.

Sluggishness in the domestic economy and difficulties in accessing wholesale funding affect the business of financial institutions

Spanish credit institutions continued operating in an extremely complex environment. The start of the recovery in the domestic economy was not enough to prevent a new fall in aggregate profits of credit institutions as a whole (-26% in 2010), dragged down by the tightening of the interest margin and the increase in provisions. The default rate of institutions grew for the third consecutive year, although at a lower rate than in 2008 and 2009, ending 2010 at 5.8% (5.1% in 2009) in aggregate terms.

The annual change in the outstanding balance of lending to companies and families increased slightly over the second half of 2010, after the low reached in April (-1.5%). In December, this balance rose by 0.7%, as a result of the growth in lending to companies (1%) and, to a lesser extent, to households (0.2%). The growth of business lending in the Eurozone over 2010 was more moderate (-0.2% in December), while lending to families grew at rates close to 3% Subsequently, the data corresponding to February 2011 showed a fall in the growth of lending in Spain (to 0.4%), with a fall in the heading corresponding to households (-0.5%) and a slight rise, up to 1.1%, for companies. In contrast, in the Eurozone lending to the resident non-financial sector continued rising, particularly in the corporate sector (0.6%).

One of the main areas of vulnerability for this sector over 2010 was that relating to the funding conditions of a large number of institutions, which were particularly restrictive in wholesale markets for smaller institutions, coinciding with the periods of greatest tension in the sovereign debt crisis. In 2010, there was a slight fall in issues guaranteed by the State and, especially in the second half of the year, in Spanish credit institutions resorting to funding from the Eurosystem.

The fall in profits of listed non-financial companies eases

Aggregate profits of listed non-financial companies totalled 33,595 million euros in 2010, 40.1% up on 2009. Profits increased across the board, although the profits of energy companies (15,761 million euros) stand out in absolute terms. In relative terms, the sector which underwent the highest growth was the manufacturing sector, with profit of 140 million euros in 2009 and 1,607 million euros in 2010. Aggregate profits of companies in the retail and services sector rose by 27.4%, up to 14,350 million euros.

Results by sector:[1] listed non-financial companies TABLE 1.3

	EBITDA[2]		EBIT[3]		Profit/loss year	
Million euro	2009	2010	2009	2010	2009	2010
Energy	28,486	34,974	18,034	23,315	11,472	15,761
Manufacturing	2,712	4,087	1,181	2,453	140	1,607
Retail and services	29,780	34,197	17,933	21,863	11,268	14,356
Construction and real estate	4,644	8,936	1,596	5,658	1,084	1,855
Adjustments[4]	-279	-178	-106	-38	15	16
Aggregate total	**65,343**	**82,016**	**38,638**	**53,251**	**23,979**	**33,595**

Source: CNMV. (1) Accumulated profit/loss in the year. (2) Gross operating profit/loss. (3) Profit/loss before interest and tax. (4) Includes eliminations corresponding to subsidiaries whose parent company belongs to another sector.

Total indebtedness of listed companies fell by 0.5% in 2010, down to 326 billion euros. This allowed a small fall in the gearing ratio (measured as the ratio between debt and equity) from 1.6 in 2009 to 1.5 in 2010.[10] The debt/EBITDA ratio, which measures the number of years necessary to pay the debt if EBITDA remains constant, fell from 4.8 in 2009 TO 4 in 2010, mainly as a result of the growth in profit. The debt service coverage ratio for listed non-financial companies as a whole improved slightly (the EBIT/interest cost ratio increased from 2.4 in 2009 up to 3 in 2010) as a result of the growth in profit before interest and tax.

10 For an analysis of the speed of the adjustment in the gearing ratio of listed companies in the Spanish market, see exhibit 2.1, in chapter 2 of this report.

Fall in stock market prices following the pattern of the sovereign debt crisis

The tensions recorded over the year in public debt had a substantial impact on the main Spanish equity indexes, leading to falls which were sharper than in other benchmark indexes, and sharp increases in volatility indicators. As shown in table 1.1, the Ibex 35 fell by 17.4% in 2010, one of the sharpest falls in the main benchmark economies.

The indexes representing listed companies with small (Ibex Small Cap) and medium (Ibex Medium) capitalisation fell by 18.3% and 5.6% respectively in 2010. The sectors with the largest falls were the chemical sector (-60%), the real estate sector (-53.2%), the banking sector (-32.3%) and the insurance sector (-26.8%). In contrast, the sectors associated with staple and discretional consumer goods rose significantly (see table 1.4). The Spanish market for Latin American securities (Latibex) also recorded considerable gains of close to 10%.

In the first few months of 2011, the main Spanish stock markets rose notably. As of the report date, the Ibex 35 grew by 10.3%, following falls in prices in March as a result of the events in Japan.

The volatility of contracts in the Ibex 35 traded on MEFF set two highs in 2010, one in May, 70%, and another in December, 40%, (see figure 1.17). The size of the increases in volatility at these times was greater than that for other benchmark stock markets. Even so, they did not reach the highs of the end of 2008 following the collapse of Lehman Brothers. Liquidity conditions in the Spanish equity market improved slightly over the year. The average bid-ask spread of the Ibex 35 ended 2010 at slightly under 0.06%, lower than the historic average of recent years.

Trading on Spanish stock markets in 2010 rose sharply (17% up on 2009), following the significant falls recorded in the two previous years, of 29% to 25% respectively (see chapter 3). The increase in the total amount traded took place in the context of falling prices, which implies a substantial increase in the number of securities exchanged. Despite the positive expectations at the end of 2009 for funding through corporate stock market operations, the uncertainty generated in the period of turmoil meant that the total amount of capital increases and public offerings grew from 11,390 million euros in 2009 up to 16,108 million euros in 2010. These figures remain far from those recorded in the years prior to the crisis.

Yields of the Spanish market's equity indices and sectors (%)

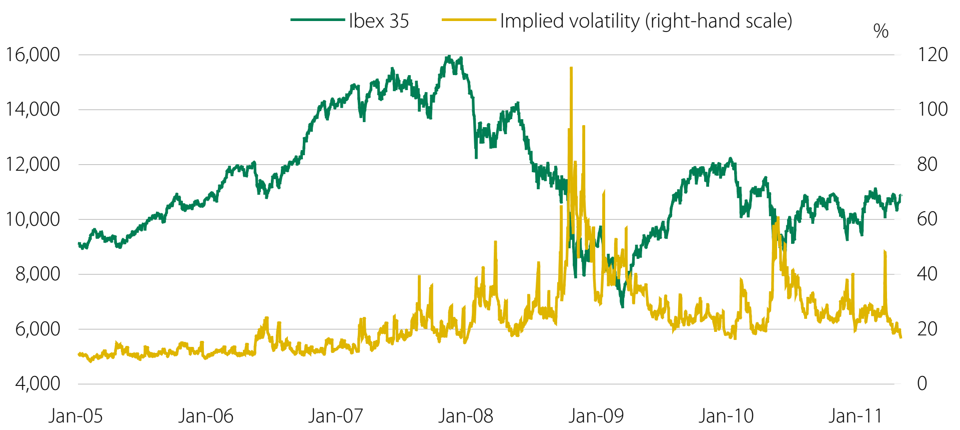
TABLE 1.4

Indexes	2005	2006	2007	2008	2009	2010
Ibex 35	18.2	31.8	7.3	-39.4	29.8	-17.4
Madrid	20.6	34.5	5.6	-40.6	27.2	-19.2
Ibex Medium Cap	37.1	42.1	-10.4	-46.5	13.8	-5.6
Ibex Small Cap	42.5	54.4	-5.4	-57.3	17.6	-18.3
FTSE Latibex All-share	83.9	23.8	57.8	-51.8	97.2	9.0
FTSE Latibex Top	77.9	18.2	33.7	-44.7	79.3	9.7
Sectors[1]						
Oil and gas	29.1	18.3	1.8	-30.8	-20.1	0.3
Chemical	176.1	-20.4	-58.4	-67.8	3.4	-60.0
Basic materials	20.0	69.3	-17.2	-45.4	23.1	-5.6
Construction and construction materials	50.4	61.6	-12.0	-51.0	25.5	-14.4
Industrial goods and services	18.4	28.4	6.9	-41.9	29.3	-1.9
Healthcare	19.0	40.7	19.2	-45.0	17.7	-22.2
Utilities	27.2	42.0	18.5	-31.0	-7.8	-14.3
Banking	19.2	27.6	-4.5	-47.9	46.3	-32.3
Insurance	39.9	44.7	-13.3	-25.0	19.8	-26.8
Real estate	58.9	100.4	-42.6	-58.6	-43.8	-53.2
Financial services	58.6	91.1	-35.6	-44.3	20.8	12.8
Telecommunications and media	-0.7	29.4	26.3	-31.4	23.5	-13.4
Consumer discretionary	24.8	21.2	-7.7	-39.2	37.0	20.6
Consumer staples	19.0	12.9	6.9	-22.5	-8.4	15.8

Source: Thomson Datastream. (1) Thomson Datastream classification.

Ibex 35 performance and implied volatility[1]

FIGURE 1.17



Source: Thomson Datastream and MEFF. (1) Implied volatility published by MEFF for the derivative with closest maturity date.

1.3 Economic and financial outlook

The most recent IMF forecasts[11] indicate that world growth in 2011 and 2012 will remain at rates close to 4.5%, slightly below the figure estimated for 2010[12] (5%). According to these forecasts, the strong upsurge in emerging economies will remain over the short term, particularly for Asian economies, with an aggregate growth forecast of 6.5% in 2011, while industrialised economies will grow at rates of 2.5%. The US economy is expected to grow by 2.8% and the German economy by 2.5%.

The earthquake in Japan on 11 March 2011 has not so far had extremely significant consequences on the performance of international financial markets except, logically, in Japanese markets, or on forecasts of world growth, which the IMF has kept unchanged. In general, the most significant risks for the recovery in the world economy are those related to rises in raw material prices, which have led to increases in inflation in the main industrialised economies within the context of growth which is still weak. There is also a certain level of uncertainty associated with the need to ensure the sustainability of public finances and to complete the reorganisation and restructuring of the financial system in the context of growing volumes of short and medium-term debt maturities, both of the public sector and of the private sector, and particularly of the financial sector. Finally, there is a significant risk associated with the possibility that certain micro-financial imbalances are accumulating in some emerging economies.

With regard to the Spanish economy, the main agencies forecast lower growth in 2011 than for the other main developed economies. According to estimates from the main international agencies, Spanish GDP will grow between 0.8% and 0.9%, compared with 1.6% in the Eurozone and 2.8% in the USA. 2012 is expected to see a certain convergence between Spanish growth and that in the Eurozone, with rates slightly over 1.5%.

In the short term, the most significant risks which may affect the above scenario of progressive recovery are related to the increase in domestic inflation because of its effects on the competitiveness of the economy, possible additional rises in interest rates and uncertainty relating to the restructuring process of the financial system. Unfavourable development of these risk factors could lead to new obstacles for the necessary normalisation of funding conditions both for the public sector and the private sector and, in general, for guaranteeing the incipient recovery.

The effort made in fiscal policy and the progress made in some structural reforms, such as that of the labour market, the pension system and the reorganisation and restructuring plan for the financial system, may continue contributing to the progressive reduction in macro-economic uncertainty. The positive effects of these measures will in turn be strengthened if some of the reforms which are not yet complete, such as those related to collective bargaining, are completed satisfactorily.

11 World Economic Outlook (April 2011).

12 The latest forecast by the IMF in April, which includes the effects of the earthquake in Japan, maintains the forecast for world growth, while the forecast for growth in the Japanese economy in 2011 is downgraded by 0.2%, to 1.4%.

2 Business funding in Spain: future trends and challenges

The current crisis is having a strong effect on funding for both public and private agents in the Spanish economy. Because of its importance for the future growth of the Spanish economy, this chapter focuses on funding in the domestic non-financial business sector with a twofold aim.

Firstly, following an analysis of the development of business funding over the last two decades and, in particular, by comparing the current crisis with the recession which began in 1993, we highlight various recurring trends and observations which might help us to understand at what stage of the business and financial cycle the Spanish corporate sector is currently at, and the most likely developments in the near future. Secondly, we identify some of the most significant financial challenges that Spanish companies will face in the economic recovery stage and the post-crisis scenario, with special emphasis on the relatively more adverse conditions for small companies. One of the extra objectives of this analysis is to present the main aspects of the current debate relating to how to facilitate the access of small and medium-sized companies to capital markets.

With these aims, the chapter begins with a study of the main trends of the structure of business funding since the 1990s, as well as some of the most important determining factors. In particular, the chapter highlights the low relative weight of business funding channelled through financial markets, as opposed to bank loans, when compared with other comparable countries. In fact, funding provided directly to Spanish companies through financial markets has fallen considerably, in relative terms, over the last decade. This trend has been marked by an environment in which there have been dramatic falls in real interest rates, a considerable increase in the weight of the real estate sector, which has an especially intensive use of credit, and a high level of competition in the banking sector, which, in the years preceding the current crisis, also contributed to the growth of business credit.

The high level of bancarization which in general characterises the Spanish productive sector has not, however, prevented funding from issues to the market contributing to mitigating the sharp fall in the flow of bank credit since the start of the crisis. In fact, the role of the market as mitigator of the falls in credit in recessions has been a recurring event in different crisis periods in many countries. However, access to this type of funding by Spanish companies is almost exclusively limited to large companies, as is the case in other comparable economies. The counterpart to this situation is the greater relative weight of bank credit in the total funding of SMEs compared with the largest companies.

Consequently, smaller companies now face particularly demanding challenges with regard to the possibilities and conditions of future funding. In particular, the likely persistence of the limited flow of banking credit which began with the crisis, together with the progressive implementation of a stricter prudential framework, will most likely lead to a fall in the intermediation capacity of the banking sector, which might be sharper in the case of funding for SMEs.

The above circumstances, which are particularly important in the case of the Spanish economy, with a greater proportion of smaller companies than other comparable economies, highlight the importance of reflecting on what steps can be taken to facilitate funding for these companies. The last part of the chapter analyses the level of development in Spain of the main alternatives to bank funding available for smaller companies and indicates some possible routes to strengthen markets as a suitable channel of funding for these companies.

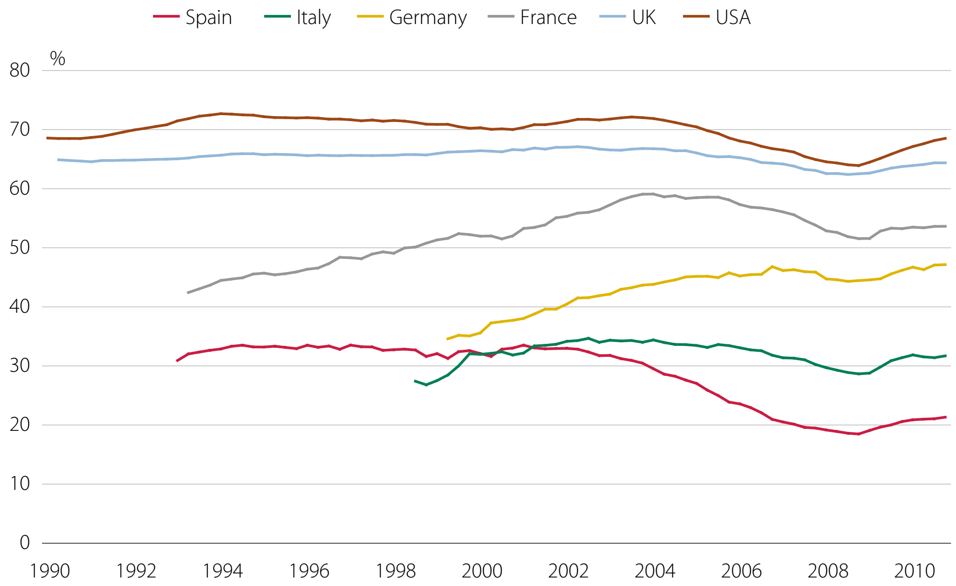
2.1 Funding of Spanish companies in the period 1990-2010: trends and determining factors

The funding needs of Spanish companies have increased substantially over recent years and, particularly, from the end of the 1990s as a result of the growth in investment which accompanied the last stage of the expansion of the Spanish economy. The annual flow of funding obtained by Spanish non-financial companies rose from 15% of GDP at the start of the 1990s to reach levels close to 35% of GDP prior to the current crisis, much higher than the levels recorded in comparable economies.[1]

The increase in the funding needs of Spanish companies over the last two decades has taken place in a context in which financial markets have maintained a secondary role compared with the banking system as a mechanism for channelling savings towards business investment. While the relative weight of business funding obtained through fixed-income and equity issues accounted for a little over 30% of business funding obtained through markets and the banking system at the start of the 1990s, this proportion had fallen to around 20% in 2010 (see figure 2.1). Although the time profile of the relative weight of markets in Spain is not very different to that of other comparable countries, especially those which have also had a significant credit expansion over the last decade, the importance of business funding based on markets in Spain is still lower than in other comparable economies, including not only those with a greater tradition of resorting to markets, such as the UK and the US, but also other countries belonging to continental Europe, such as France, Germany and Italy.

1 For example, in the US, the maximum annual increase in liabilities of non-financial companies over this period was 15% of GDP, while in the Eurozone as a whole the level stood at 20% (in both cases, these highs took place in 2000). For a more detailed analysis of the structure, size and activity of financial markets and their participants in an international context, see F. Restoy and R. Sánchez de la Peña (2011), "Los mercados de valores en España: evolución reciente y retos principales" (Securities markets in Spain: recent developments and main challenges), in *Un siglo de historia del sistema financiero español* (A century of history of the Spanish financial system), Bank of Spain (editor), in print.

The relative weight of market funding compared with bank credit[1] FIGURE 2.1



Source: Central banks and Dealogic. (1) This ratio is defined as the percentage between the outstanding balance of market funding over the sum of market funding and funding provided by credit institutions. Market funding is obtained as the sum of the outstanding balances of fixed income and equity listed in an initial period (1990) for all countries plus the accumulation of subsequent net domestic and international issues. Consequently, changes in the prices of listed securities from that year are not taken into account. Funding from credit institutions corresponds to the outstanding balances of the loans granted by both Spanish and foreign credit institutions.

The fall in the relative weight of the markets compared with the banking sector over this period was in turn accompanied by three clearly defined trends in the structure of business funding: i) the significant increase in the absolute and relative weight of bank funding; ii) the fall in the relative importance of equity as a stable source of funding; and iii) an increase in funding from abroad. These three trends are analysed below, together with some factors which might have more directly contributed towards their consolidation.

Trends in the recent aggregate evolution in the structure of business funding

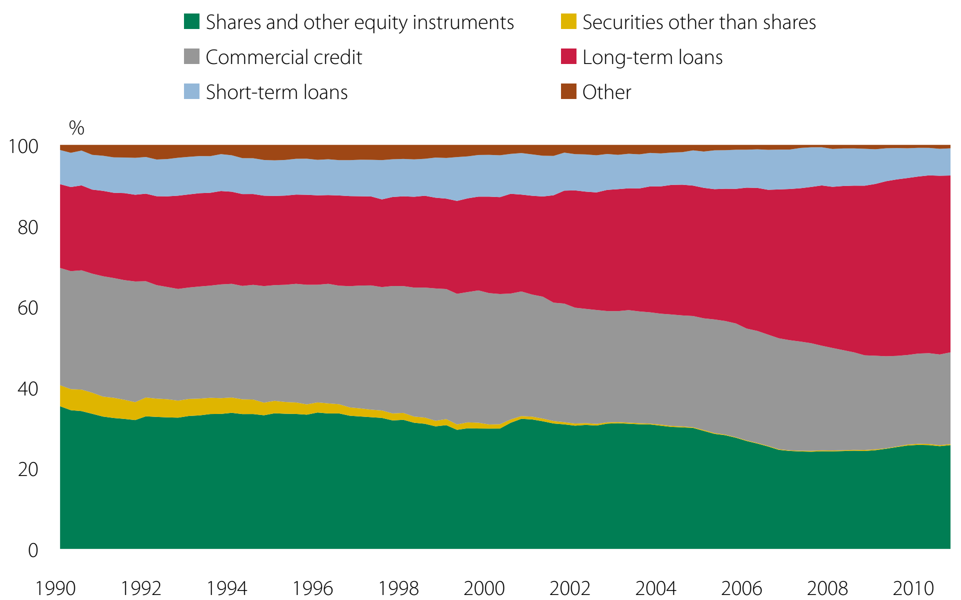
Firstly, it should be pointed out that the increase in funding needs of the Spanish productive sector over the last 20 years has mainly been met through a significant increase in the flow of bank credit. Loans granted to the sector, most of which are bank loans,[2] went from around 30% of total funding of non-financial companies at the start of 1990 to 50% at the end of 2010. Over the same period, funding through securities issued directly by these companies fell from close to 40% to 26%, taking into account both equity and fixed-income securities (see figure 2.2). In fact, the weight of debt through the issue of fixed-income securities, which accounted for 5% of total funding of the sector in 1990, was practically zero at the end of 2010 (0.2% of total), and is currently a source of funding which is only used by a small number of large companies.

Secondly, the analysis of changes in the composition of the liabilities of non-financial companies reveals that over the last two decades the sector has considerably

2 See Bank of Spain (2010), *Financial Accounts of the Spanish Economy*, methodological notes.

increased its use of debt, thus reducing the rate of equity accumulation (see figure 2.2). Specifically, the relative weight of equity instruments in the total funding of the sector fell by 10 percentage points over the reference period, following a virtually uniform fall from 35% of total funding in 1990 to 26% in 2010. The significant increase in the use of long-term loans over this period, which went from 20% of total funding for the sector in 1990 to a little over 40% in 2010, was the main reason for the replacement of equity as the main source of stable funding over this time.

Composition of the liabilities of non-financial companies (net of revaluations)[1] FIGURE 2.2



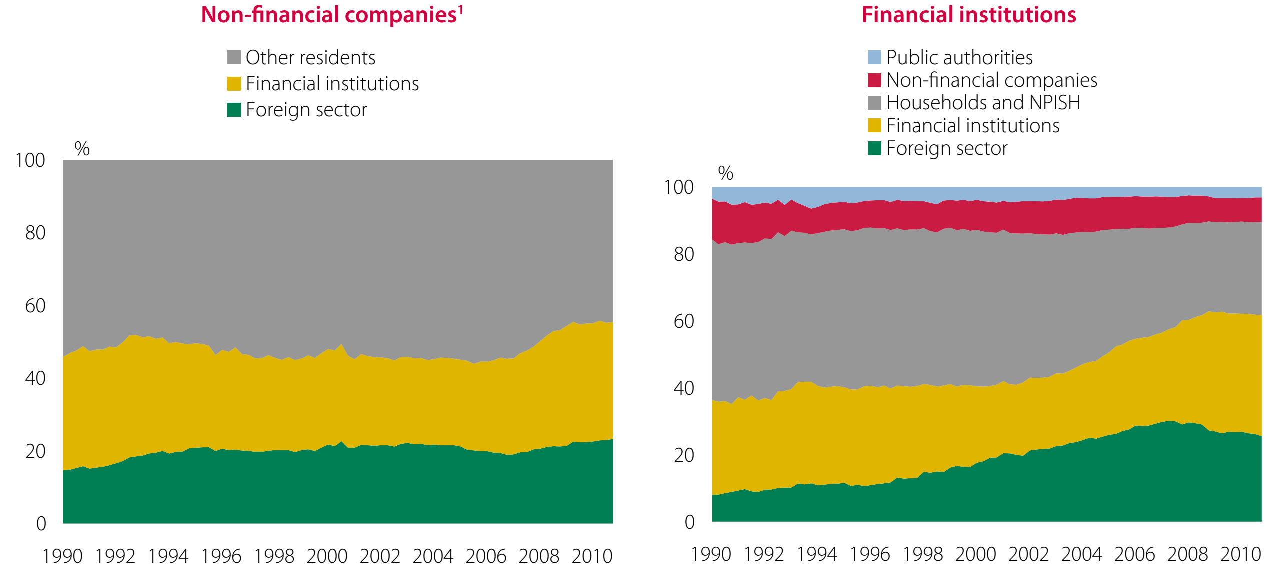
Source: Bank of Spain. Data up to fourth quarter 2010. (1) In order to eliminate the effect of changes in the prices of the different instruments which have already been issued, which for some headings and periods may be significant, the outstanding balance net of revaluations in a specific period is calculated as the sum of the outstanding balance of each item at the start of 1990 and the accumulation at current prices of the net liabilities taken on up to that period.

These two developments (the increase in the use of bank credit and the loss of the relative weight of equity instruments) were accompanied over those years by a progressive increase in the use of funding from abroad, which went from 15% of the total liabilities of Spanish non-financial companies in 1990 to 23% in 2010 (see the left-hand panel of figure 2.3).

The increase in funding from abroad was channelled both directly, through the subscription of securities issued by companies, and, above all, indirectly through bank credit. The outstanding balance of fixed income issued by subsidiaries of non-financial companies resident abroad, as a percentage of the total balance of fixed income, rose from practically zero at the start of 1990 to close to 70% at the end of 2010. In turn, the greater need for bank credit was met by Spanish financial institutions acquiring funds in international wholesale markets. In particular, the weight of funding obtained abroad by the Spanish financial system rose over the period 1990-2010 from 10% of their total liabilities to over 25% (see right-hand panel of figure 2.3).

Breakdown of the liabilities of non-financial companies and financial institutions by counterparty sector

FIGURE 2.3



Source: Bank of Spain. Data up to fourth quarter 2010. (1) The category "other residents" includes non-financial companies, households and NPISH, and resident public authorities.

Determining factors for the changes in the structure of business funding

One of the developments with the greatest influence in the evolution of business funding, especially from the end of the 1990s, was the entry of Spain in the Economic and Monetary Union of the European Union (EMU). Joining the single currency facilitated easy financial conditions for the Spanish economy as a whole, which continued practically until the start of the current crisis. One of the most visible aspects of this process was the significant fall in real interest rates of fixed-income instruments and of the different types of loans. As shown in figure 2.4, the cost of business funding (in real terms), fell sharply over most of the analysed period, although this fall was especially intense after Spain joined the EMU. Consequently, the cost of debt fell from between 6% and 10% at the beginning of the 1990s, depending on the productive sector) to around 1% just before the start of the current crisis.

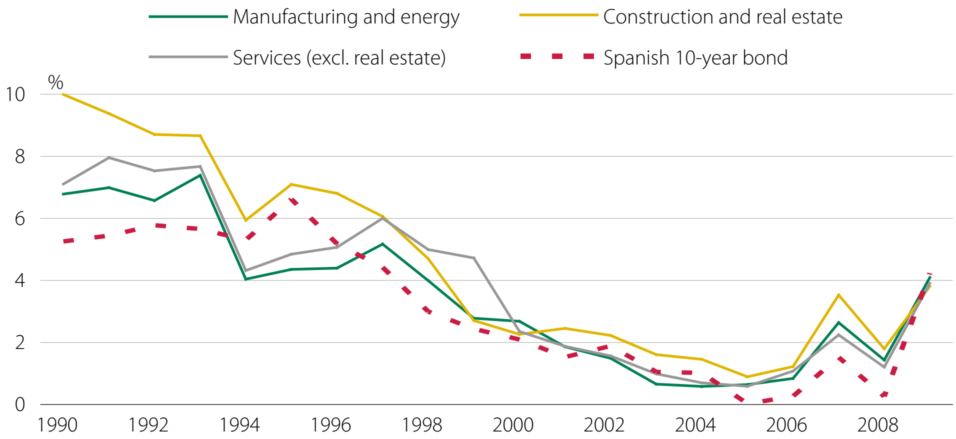
Such a dramatic fall in the cost associated with debt for non-financial companies over this period favoured the second of the trends mentioned above (reduction in the weight of funding through equity). In turn, the process of convergence of interest rates with those in the other EMU economies led to a more marked response of the demand for business funding in Spain compared with that seen in most other countries in the EMU. This would help to explain the increase in the use of debt from abroad recorded over the last two decades.[3]

Another of the factors which has decisively influenced the growth of business debt and the change in its composition over recent years is the extraordinary growth shown by some sectors which normally have higher rates of debt. This was particularly true in the case of construction and real estate services, which increased their

3 In fact, at the same time as the process of convergence of nominal interest rates between the different countries in the EMU, the Spanish inflation rate was persistently higher than that recorded in the area as a whole, which meant that real interest rates in Spain fell below those in the main comparable economies.

joint weight in the Spanish economy from slightly over 10% of total gross added value at the end of the 20th century to close to 15% in the years prior to the crisis. These are both activities with an intense use of debt and, particularly, bank credit.

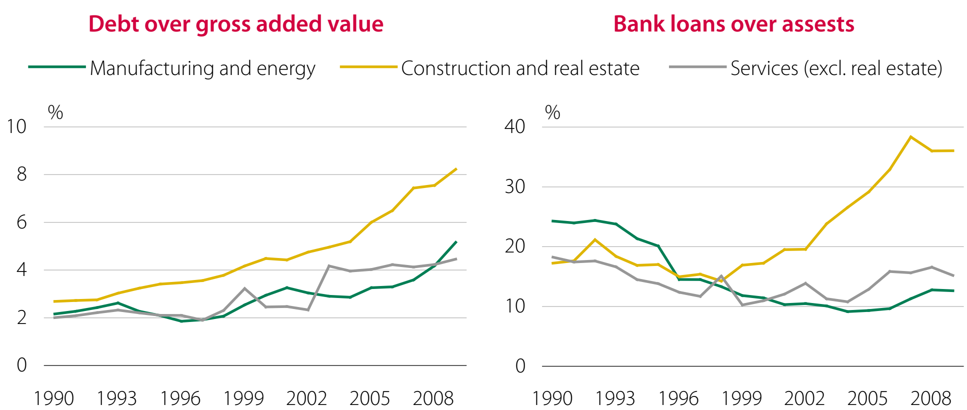
Cost of debt by sector (in real terms)[1] FIGURE 2.4



Source: Bank of Spain (Central Balance Sheet Data Office). Data up to 2009. (1) The cost of funding is estimated through the ratio between debt interest in the income statement in a given period and the received funding at cost recorded on the balance sheet in the preceding period. In order to find the cost of funding in real terms, the nominal cost indicators are deflated by the average annual rate of change of the CPI.

As shown in the left-hand panel of figure 2.5, at the end of the previous expansive cycle, the volume of debt per unit of added value in the construction and real estate services sectors, considered together, was almost double that seen in manufacturing or services. Furthermore, the relative importance of bank loans on the balance sheet of construction and real estate companies rose significantly, coinciding with the boom in the housing market, reaching a markedly higher weight than that seen in other sectors (see right-hand panel of figure 2.5). Specifically, aggregate bank credit of real estate and construction companies accounted for over 35% of their joint assets in 2009, compared with values which ranged between 10% and 15% for companies belonging to the manufacturing and services sectors.[4]

Debt and bank credit by production sector FIGURE 2.5



Source: Bank of Spain (Central Balance Sheet Data Office). Data up to 2009.

4 Ó. Arce, J. M. Campa and A. Gavilán (2008), *Asymmetric collateral requirements and output composition,* Bank of Spain, Working Paper No. 837, analyse the macro-economic effects of asymmetries in the funding structure of the construction sector compared with other production sectors.

The above differences in the funding structure of companies in the real estate sector compared with companies in the manufacturing and services sectors is reflected in the development of gearing ratios in the different sectors, as analysed in exhibit 2.1.

The gearing of listed companies in Spain

EXHIBIT 2.1

This exhibit presents the main results of a quantitative estimate of the impact that various macro-economic and sectoral factors have had on the evolution of the average gearing ratio of Spanish listed non-financial companies over the last two decades. The methodology proposed in Flannery and Rangan (2006) and González-Aguado (2011)[1] has been followed.

As a step prior to identifying the determining factors of a company's *real* or *observed level* of gearing, it is necessary to analyse the factors which set the *optimal* or *target level* of gearing for a company. This is understood as the optimal capital structure which the company would choose in the absence of restrictions which prevent it from adjusting its structure immediately. In order to do this, a "partial adjustment model" is estimated in which the level of business gearing is expressed as a combination, on the one hand, of past observations of this variable and, on the other hand, of a latent variable, which cannot be observed, through which an attempt is made to approximate the optimal capital structure. The level of this latent variable is in turn approximated using a simple model which establishes an optimal level of gearing as a function of a relatively low number of observable variables.

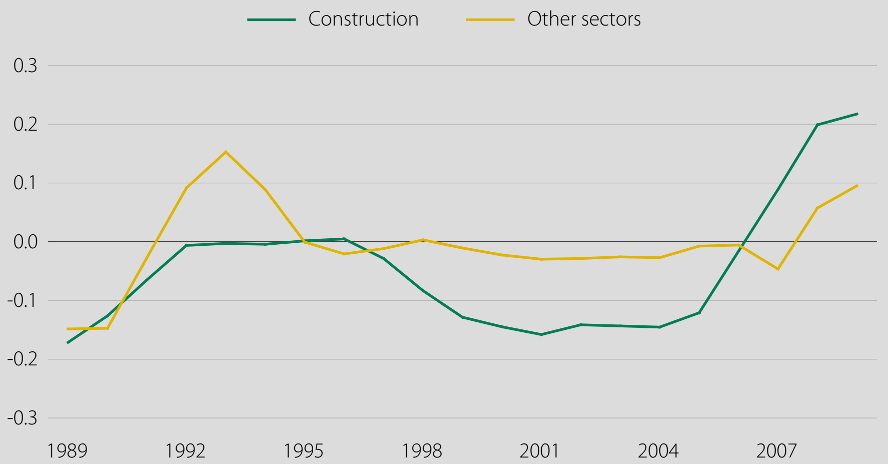
By applying this methodology to the set of listed companies in the Spanish market, differentiating by sector and using data from the period 1989-2009, we can find evidence that the four most significant determining factors for the optimal gearing ratio are as follows: the proportion of tangible assets on the company's balance sheet, the size of the company, the volume of aggregate activity and the company's profits. The first three have a positive effect on the gearing ratio, while the last has a negative effect.

Firstly, a higher relative volume of tangible assets, expressed as a proportion of fixed assets over total assets, provides the company with more collateral with which to support its debts. This normally tends to reduce the cost of its liabilities and to relieve the pressure of possible quantitative restrictions on debt. For similar reasons, relating to the capacity of the indebted company to offer collateral which can be made liquid in the case of default, the size of the company also positively influences the relative level of debt. The positive effect on gearing of variables related with the level of activity (whether for the economy as a whole or the sector) is largely due to the high correlation between these variables and funding needs, which are, in turn, influenced by greater investment opportunities during stages of economic growth. Consequently, to the extent in which after a certain volume the elasticity of sources of debt is greater than that of equity, the increase in investment over an expansive stage normally leads to a greater use of debt. Finally, the different measures indicating the volume of profits have a negative influence on the rate of gearing, given that a greater flow of profits, *ceteris paribus*, extends the possibilities for internal funding.

The methodology used in this analysis also makes it possible to extract information about two variables which are especially significant for analysing the evolution of the level of gearing. The first is the optimal capital structure (the estimate of which is used as an ingredient in the above analysis of the determining factors) and, secondly, the adjustment speed of the capital structure towards its optimal level.

With regard to the first of the above variables, figure E1.1 shows how the distance between the estimated target of gearing levels and the value actually observed has evolved over the sample period, distinguishing between the construction sector and other sectors in the economy. Specifically, positive values in this series indicate situations of over-indebtedness for the corresponding sector as a whole, in the sense that actual gearing in this sector is above the target level. The analysis of these estimates leads to two clear conclusions. Firstly, it is clearly noticeable that periods of crisis usually coincide with sub-optimal periods of over-indebtedness. Secondly, while in the crisis of the 1990s, the construction sector hardly had any problem with over-indebtedness, in accordance with these estimates, in the current crisis this problem is specifically more intense in this sector than in other sectors. This observation seems to be directly related to the fairly stable level of credit for real estate activities during the period prior to the crisis which began in 1993, compared with the sharp growth of credit in the years prior to the current crisis. Similarly, it is noteworthy that, according to these calculations, the problem of over-indebtedness of the other productive sectors in the context of the current crisis is no worse than in the previous period.

Average distance between observed and target gearing FIGURE E1.1

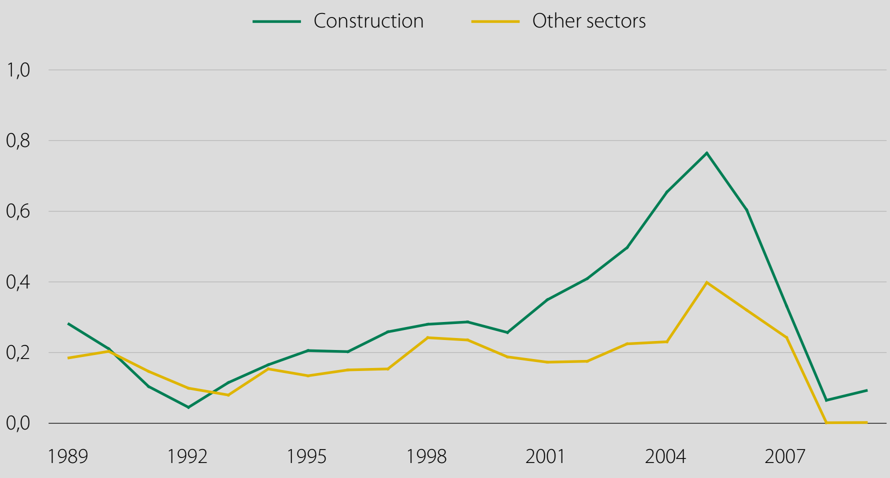


Source: CNMV.

Figure E1.2 shows the estimated series of the adjustment speed (normalised between zero - absence of adjustment - and one - instant adjustment), which in this context is interpreted as the reduction in the distance between the actual and the target gearing ratio in each period. This estimate highlights the marked pro-cyclical nature of the adjustment speed of business indebtedness. Over the period of expansion, companies which wish to adjust their debt upwards seem to be able to do so quickly, highlighting in this regard the high speed with which companies in the real estate sector were able to increase their level of indebtedness over the last expansive cycle of the Spanish economy. In contrast, in periods of recession, in which the optimal level of leverage falls, companies are only able to reduce their indebtedness much more slowly. This asymmetry in the adjustment speed, which has received very little attention in previous studies on the issue, could be the natural consequence of some frictions present in capital markets.[2]

At any event, the analysis of the asymmetries in the behaviour of the business gearing ratio performed herein highlights that the apparent persistence in said ratio which has been observed over the current crisis in a large part of the Spanish corporate sector, and also that of other comparable economies, is not a specific phenomenon of this period, as indicated in the main text for the case of the 1993 crisis. Similarly, this analysis highlights that the extended time taken for the process of business de-gearing does not necessarily have to be interpreted as the result of sub-optimal decisions defer the adjustment necessary in companies' capital structure, but rather as a consequence of the existence of frictions in capital markets which limit the capacity to carry out said adjustment quickly.

Speed of adjustment towards target leverage FIGURE E1.2



Source: CNMV.

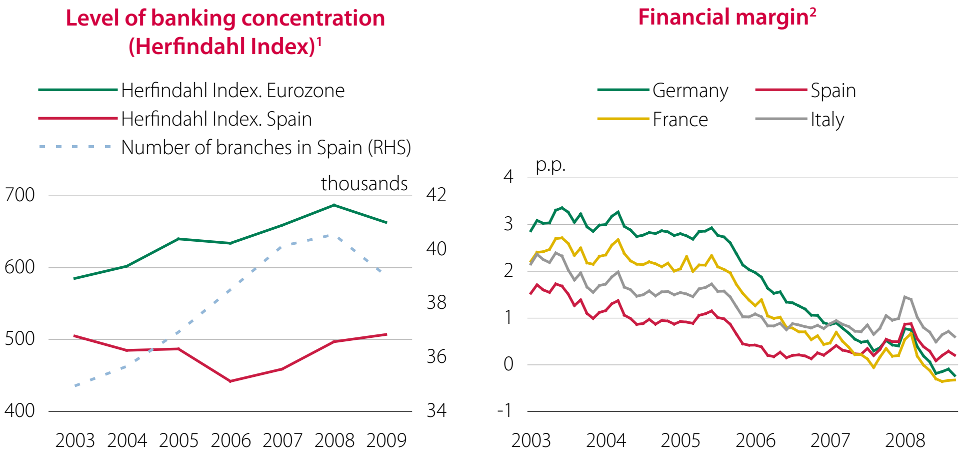
1 M. Flannery and K. Rangan (2006), "Partial Adjustment toward Target Capital Structures", *Journal of Financial Economics*, vol. 79(3) and C. González-Aguado (2011), *New Evidence on the Dynamic Trade-Off Theory of Capital Structure*, soon to be published in the CNMV's series of Working Papers.

2 C. González-Aguado and J. Suárez (2011), *Interest Rate Shocks and Credit Risk*, mimeo CNMV, proposes a model in which the combination of the problems of moral risk and limited external funding alternatives creates asymmetries in the speed in which companies adjust their indebtedness following changes in interest rates.

Finally, another factor which, like the previous one, could help to explain the dramatic expansion in bank credit over the analysed period is the high level of competition in the Spanish credit institution sector over recent years, the most tangible aspect of which has been the rapid growth in the number of bank branches over this period, as shown in the left-hand panel of figure 2.6. That panel also shows the recent evolution of the Herfindahl index for Spain and for the Eurozone. This index is an indicator of the level of banking concentration which is used as an approximate measure of the level of competition. According to this indicator, the average level of banking competition in Spain over recent years has been clearly higher than that of the EMU average.

At the same time, it is reasonable to assume that the greater level of banking competition is related to the fact that the spreads between the interest rates which institutions charge on business loans and the reference rates in money markets for Spanish institutions were, until the start of the crisis, lower than the spreads observed in other comparable countries in the EMU (see the right-hand panel of figure 2.6).

Banking competition and financial margin FIGURE 2.6



Source: ECB. (1) This index is defined as the sum of the squares of the market shares of the firms which belong to an industry or sector. A lower value of the index is associated with a greater number of firms with low market shares and, therefore, with a sector where there is, in theory, greater competition. (2) The financial margin indicator is calculated as the difference between the interest rate applicable to long-term loans granted to companies and the one-year Euribor.

Accordingly, the high level of competition between Spanish credit institutions might have also played an important role in the evolution of business funding, to the extent that competition leads to a relatively low cost of bank funding compared with other alternative sources of funding.[5] Among these alternative sources of funding, it is important to point out that, in general, Spanish financial markets do not

5 Although for the purposes of clarity, the three factors analysed herein - falling interest rates, surge in the real estate sector and high level of banking competition - have been addressed independently, the reality is that there may be causal relationships between some of these factors. J. Andrés and Ó. Arce (2011), *Banking competition, housing prices and macroeconomic stability*, mimeo CNMV, addresses the relations which may exist between these three factors in the context of a macro-economic model, and Ó. Arce and D. López-Salido (2011), "Housing bubbles", *American Economic Journal: Macroeconomics*, 3 (1), p. 212-41, analyse the possibility that speculation may take place in the housing market following a significant fall in interest rates.

seem to have recorded competitive pressure as high as that seen in the banking sector over recent years.[6]

2.2 Business funding, economic cycle and crisis

Crises, especially those with a financial origin, usually have significant effects on business funding which are shown in the form of changes in the volume and composition of the productive sector's liabilities. In this section, we analyse several aspects relating to the evolution of the funding of Spanish non-financial companies around the two last crises. The aim is to identify some common aspects, and some differences, between both periods, so as to analyse various trends of special interest in this area. With this aim, the analysis presented below is structured around the following issues: i) the evolution of business liabilities over the economic cycle and, ii) the behaviour of bank and market funding in the different stages of the cycle.

The evolution of business liabilities over the economic cycle

As shown in the two panels of figure 2.7, which contain the changes in aggregate liabilities of non-financial companies around the two last crises of the Spanish economy, a major effect which is clear from the first stages of these crises is the fall in the accumulation of liabilities. This effect has been particularly marked in the most recent period as it has been accompanied by a contraction in the total volume of liabilities of the corporate sector, a situation which did not happen in the previous crisis. Apart from this difference in the size of the adjustment in business funding, a more detailed analysis by instrument type reveals certain interesting similarities between both crisis periods, which are analysed below.

Trade credit. In both crises, trade credit, which on average accounted for 28% of total funding for the Spanish productive sector over the last 20 years, is especially volatile around both recessions. Specifically, this is the first source of business funding which suffers at the start of the crises and which, generally, recovers faster in the early stages of recovery. This dynamic pattern is partly due to the fact that this is normally a type of funding in which the companies involved have a high level of information about the financial situation of the counterparties and of the market in which they operate as it is typically funding granted in the context of customer-supplier relations. This, in turn, allows creditors to respond reasonably fast to changes in these conditions.[7]

Equity. Both in the crisis which began in the first quarter of 1993, and in the current crisis, within the main sources of funding, the heading corresponding to "shares and other equity instruments" shows greatest stability over the cycle and, in particular, a greater level of resistance during recessions. In fact, this is the only heading

6 For analysis of the recent evolution of the level of competition among regulated markets and multilateral trading systems in the European Union, see Cecilio Gil and María Victoria Villanueva, "Competition between regulated markets and multilateral trading systems within the framework of the MiFID", in the CNMV Bulletin for the first quarter of 2011.

7 These relations have been studied in detail by B. Biais and C. Gollier (1997), "Trade Credit and Credit Rationing", *Review of Financial Studies*, vol. 10(4).

which has not suffered a net fall in either of the two crises considered. In the first crisis the rate of accumulation of equity hardly changed at all over the crisis.

Bank loans. In this heading it is important to distinguish between short-term and long-term loans. With regard to short-term loans, which on average accounted for 9% of the funding of non-financial companies over the period 1990-2010, the upper panel of figure 2.7 reveals that over the previous crisis the fall in this heading was very persistent, as it extended for several years after consolidation of the economic recovery. Specifically, this heading did not recover the level of contribution to growth in total funding of the sector which it had achieved just before the crisis, at the start of 1993, until the end of 1997. Similarly, long-term bank loans showed a high level of inertia over that period and their pre-crisis level, in terms of contribution to the total change in liabilities, did not recover until practically a decade later (specifically, until the second quarter of 2002).

Although it is still early to establish a comparison with the movement of these headings in the current crisis, the data available to date allows us to see certain similarities and differences between both periods. Firstly, as in the 1990s, the persistence in the fall of short-term bank loans in the current crisis seems to be notably higher than that seen in the case of trade credit, which also normally has a short-term maturity. Secondly, we can highlight the seemingly more dynamic performance of long-term bank loans recorded in 2010 compared with the first stages of the recovery in the previous crisis, when this heading accounted for a much lower proportion of the new flows of business funding.

The possible factors which may explain the high persistence shown by bank credit following the crisis which began in 1993, in addition to investor aversion during the crisis itself, include two factors linked to credit supply. Firstly, in the context of a financial crisis, the recovery in the solvency and funding conditions of credit institutions normally requires a certain amount of time, which in turn determines the rate of recovery in the capacity of these institutions to resume more expansive loan policies.[8] Another factor which tends to add certain persistence to the fall in bank credit, and which may be especially important in a model of relationship banking, is the breaking of links between credit institutions and companies which usually occurs more frequently during crises. Although the existence of this type of relationship is beneficial for both parties in most possible scenarios, to the extent that reestablishing links broken in a crisis requires a reasonably long time period, the flow of new business credit will tend to be negatively affected in the short term.[9]

---

8 See S. Claessens, M. A. Kose and M. E. Terrones (2008), *What Happens During Recessions, Crunches and Busts?* IMF Working Paper WP/08/274.

9 See, for example, J. Houston and C. James (2001), "Do Relationships Have Limits? Banking Relationships, Financial Constraints, and Investment", *Journal of Business,* 74(3), pp. 347-74.

Breakdown by instrument of the year-on-year change in the liabilities of non-financial companies FIGURE 2.7

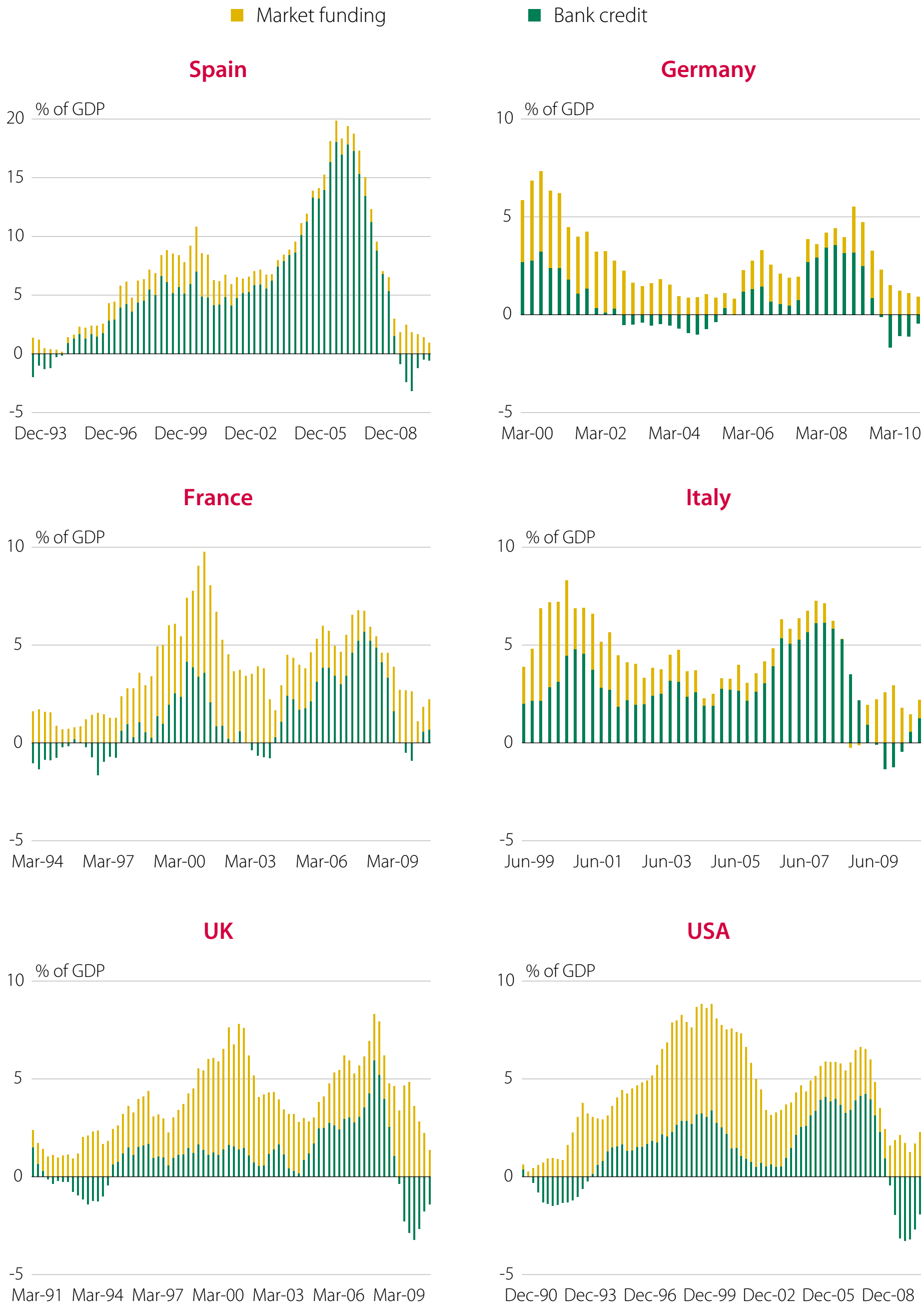
Source: Bank of Spain.

Bank funding and markets in the economic cycle

The differences in the behaviour of bank credit and the accumulation of equity by Spanish non-financial companies analysed above suggests that financial markets might play an important role in mitigating the falls in bank credit during recessions. Accordingly, to the extent in which the funding capacity of agents which mainly channel their funds towards investing companies through markets is less affected than that of the banking sector during a recessive stage, it is to be expected that a fall in the flow of credit from this sector may be largely offset by greater activity in financial markets.

Although a formal contrast of the above hypothesis exceeds the scope and objective of this chapter, the evidence available for several comparable countries indeed indicates that the flow of net business funding from issues in markets tends to show a clearly counter-cyclical pattern during crises. Figure 2.8 shows this pattern. For the six countries considered, net funding which the productive sector has obtained from markets since the start of the current crisis has not only not fallen, as has been happening with bank credit in practically all cases, but it has in fact increased compared with the period prior to the crisis and, in some countries, it has increased dramatically.[10] Accordingly, funding which came directly from markets has recently offset, at least partially, the fall in bank lending.

Changes in market funding[1] and bank credit[2] of non-financial companies FIGURE 2.8



Source: National Central Banks, Dealogic and IMF. Accumulated data from four quarters up to the last quarter of 2010. (1) Net issues of listed fixed income and equity. (2) Changes in the outstanding balance of loans of resident and non-resident credit institutions.

10 These cyclical trends were maintained, in general terms, in the crisis which took place in the 1990s for those countries for which data are available corresponding to that period.

Similarly, in those countries of the sample for which there are sufficiently long series of data available (Spain, France, UK and USA), this same offsetting effect took place in the recession in the 1990s.

2.3 Capital structure and company size

As has been shown in the analysis on gearing in exhibit 2.1, company size has an influence on capital structure. This section analyses several aspects which have been addressed from an aggregate perspective in the above sections, such as capital structure and its evolution over the economic cycle, using data broken down by company size. Following a description of the distribution of employment and total added value of the Spanish economy between small and medium-sized enterprises (SMEs) and large companies, we review the differences in capital structure according to company size so as to subsequently analyse how the current crisis is affecting the different funding channels depending on the size of the company.

The role of SMEs in the productive structure

In most industrialised economies, the non-financial business sector is generally characterised by the large presence of small companies, which generate a substantial proportion of production and employment in the economy. According to estimates from the European Commission, in 2008 there were 20.7 million companies in the European Union in 2008, of which 99.8% were SMEs[11] (see table 2.1). These companies accounted for 67% of total employment in the EU and generated 58% of total gross added value.

In Spain, out of a total of 2.7 million companies, 99.9% are SMEs and 0.1% are large companies, a spread which is similar to the average spread seen in the EU. However, the importance of Spanish SMEs both in terms of generating employment (78%) and added value (68%) is higher than the EU average.[12] In addition, in Spain there is a greater percentage of micro-enterprises (see the definition given in table 2.1), which generate 37.7% of employment and 26,5% of added value (compared with 30% and 21% respectively in the EU).

11 See the definition provided in table 2.1.

12 In particular, the economic weight of these companies is greater in Spain than in the main European economies, with the exception of Italy. French SMEs account for 62% of employment and 55% of added value, while in Germany these percentages stand at 60% and 53%, and in the UK at 55% and 51%. In Italy, SMEs account for 81% of employment and 72% of added value of non-financial companies. In all the aforementioned countries, the percentage of SMEs over the total number of companies stands at around 99%.

Non-financial companies in the European Union: number, employment and added value. Estimates for 2008 TABLE 2.1

	SMEs[1]					
	Micro	Small	Medium	Total	Large companies	Total
Spain						
Number						
Thousands of companies	2,488	184	22	2,694	3	2,697
%	92.2	6.8	0.8	99.9	0.1	100
Employment						
Thousands of persons	5,377	3,636	2,109	11,123	3,131	14,254
%	37.7	25.5	14.8	78.0	22.0	100
Added value						
Billion euros	159	144	104	406	192	598
%	26.5	24.1	17.3	67.9	32.1	100
European Union						
Number						
Thousands of companies	19,058	1,424	226	20,709	43	20,752
%	91.8	6.9	1.1	99.8	0.2	100
Employment						
Thousands of persons	39,630	27,652	22,665	89,947	43,414	133,362
%	29.7	20.7	17.0	67.4	32.6	100
Added value						
Billion euros	1,287	1,158	1,101	3,547	2,579	6,126
%	21.0	18.9	18.0	57.9	42.1	100

Source: EIM Business & Policy Research. (1) According to the criteria used by the European Commission, micro-enterprises have less than 10 employees, with a turnover or balance sheet no greater than two million euros, small enterprises have less than 50 employees and a turnover or balance sheet no greater than ten million euros, medium-sized enterprises are defined between the limits set by small companies and those set for SMEs as a whole.

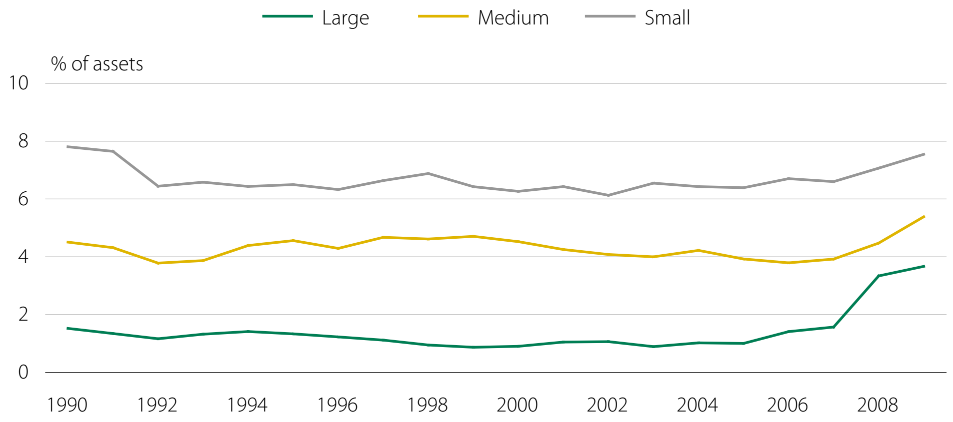
Capital structure according to company size

The European data which is available relating to capital structure according to company size reveals that the relative importance of equity in firms' total liabilities is relatively similar between large companies and SMEs.[13] There are, however, significant differences in the composition of debt depending on the size of the firm. In particular, in Spanish SMEs the use of bank funding over the period 2000-2009 was an average 1.8 times higher than that of large companies. This pattern of capital structures based on a relatively greater importance of bank funding in smaller companies is also seen in the other most important European economies. For example, the above ratio between the weight of bank funding in SMEs over the weight of bank funding in large companies is 1.7 times in France, 1.8 times in Italy and 3.7 times in Germany.

13 Data from the BACH database.

Furthermore, the capital structure of the company affects and, in turn, is conditioned by, the composition of its assets. Smaller enterprises, which are normally subject to a greater level of uncertainty in the generation of recurring cash flows and whose assets are generally less liquid, tend to maintain a greater proportion of their assets in more liquid instruments (cash, sight bank deposits, etc.). This observation, which has been extensively documented in many economies,[14] is notably strong in the case of Spanish companies, as shown in figure 2.9. In fact, in the most recent period, following the start of the financial crisis, there has been a rise in the relative weight of the most liquid assets, which could be due to the reaction of companies to the generalised tightening of conditions for access to funding, which was less noticeable in the previous crisis.

Most liquid assets (cash and similar items) FIGURE 2.9



Source: Bank of Spain (Central Balance Sheet Data Office). Data up to 2009.

The effects of the crisis in funding according to firm size

Bank funding

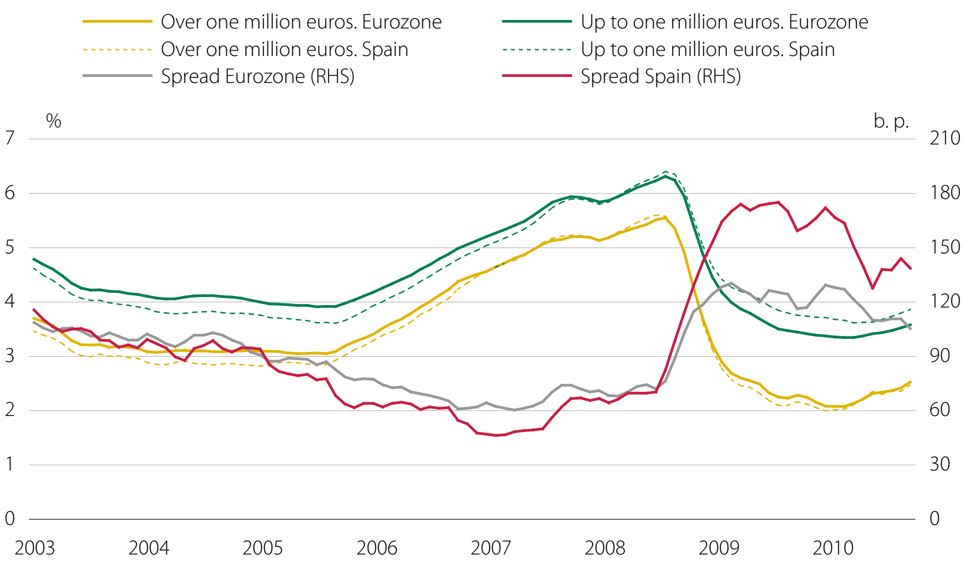
Funding difficulties which credit institutions suffered at the start of the current financial crisis, following the serious problems in the interbank market and other wholesale markets, together with the worsening perspectives relating to the asset strength of the business sector as a whole, led to significant tightening of the criteria for granting credit both in Spain and in the Eurozone. Since then, the adoption of various extraordinary measures supporting the financial sector by the ECB and different national authorities has partially offset this trend. Even so, according to the available evidence, both regarding Spain and the Eurozone, the criteria for granting business credit are still noticeably stricter than before the crisis, especially, in the case of smaller firms.[15]

14 See, for example, A. Alti (2003), "How sensitive is investment to cash flow when financing is frictionless?", *Journal of Finance*, no. 58, pp 707-722, H. Almeida, M. Campello and M. Weisbach (2004), "The cash flow sensitivity of cash", Journal of Finance, no. 59, pp. 1777-1804 and C. Martínez-Carrascal (2010), *Cash Holdings, Firm Size, and Access to External Finance, Evidence for the Euro Area*, Working Paper No. 1034, Bank of Spain.

15 See ECB (2011), *The Euro Area Bank Lending Survey*, available at http://www.ecb.int/stats/pdf/blssurvey_201101.pdf?df63bb21fb7cf7e27dff53ae18641c55.]

As shown in figure 2.10, the different extraordinary measures adopted in the first stages of the crisis led to an across-the-board fall in interest rates for business credit in the Eurozone. However, the spread between the interest rates applied to lending under one million euros and lending greater than one million euros grew significantly following the collapse of Lehman Brothers, and since then has remained at levels much higher than those recorded before the crisis. Consequently, to the extent that it can be expected that the average size of loans is directly related to firm size, the above observations suggest that the higher cost of credit for smaller firms following the start of the crisis has been comparatively greater than for large firms. According to this interpretation, it should be pointed out that the higher relative cost of credit for smaller firms would have been considerably more noticeable in Spain than in the Eurozone average.

Interest-rate of loans granted to non-financial companies: Eurozone and Spain (new operations) FIGURE 2.10

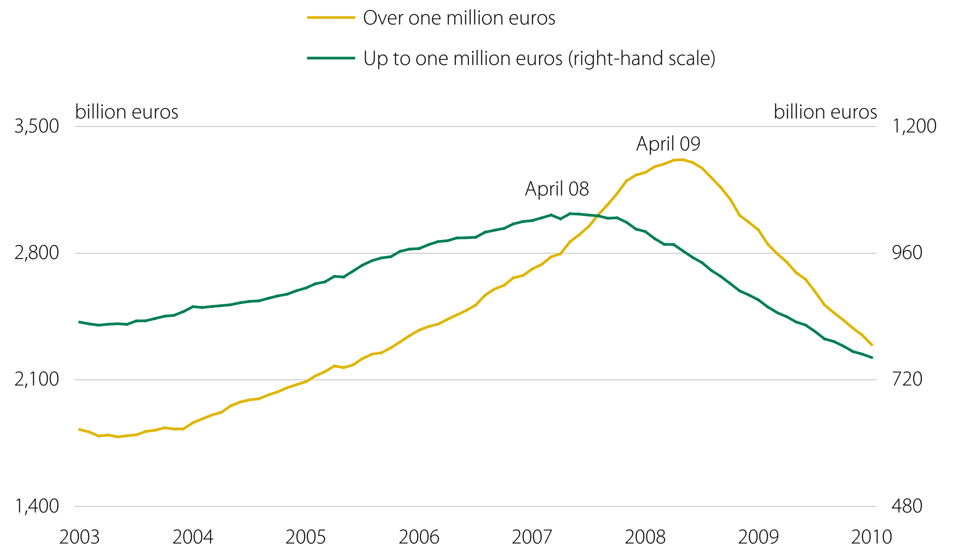


Source: ECB. Moving quarterly averages up to December 2010

The asymmetric impact of the financial crisis on the cost of credit according to the size of the loan has been reflected in the evolution of lending. The differences in the time pattern of lending based on the size of the loan suggest that SMEs began to suffer the fall in bank funding earlier (close to one year) than larger firms (see figure 2.11). With regard to the intensity of these adjustments, it should be pointed out that the outstanding balance of smaller loans at the end of 2010 was around 17% below the average for the period 2004-2009, compared with a 7% fall in the case of larger loans.

Outstanding balance of loans granted to non-financial companies in the Eurozone (new operations)

FIGURE 2.11



Source: ECB. Moving 12-month average. Data up to December 2010.

Funding through the market

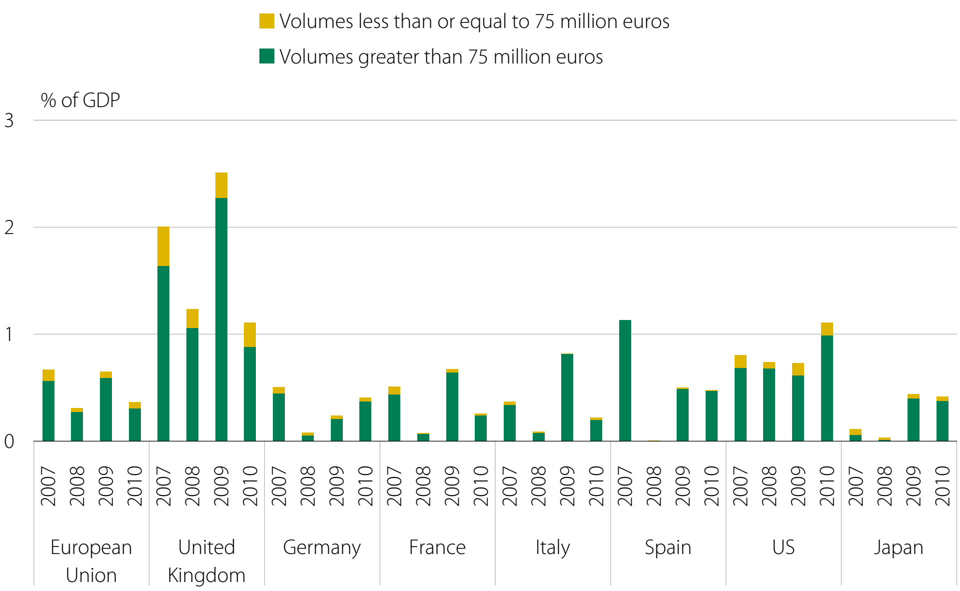
The differences in capital structure relating to the size of the companies analysed above can also be extended, and even to a greater extent, to financial markets. In the framework of the current financial crisis, with an across-the-board fall in issues by non-financial companies in all comparable economies, the access of smaller firms to this channel of funding has been very limited.

As can be seen from the data relating to IPOs and capital increases in recent years, operations of low amounts, which are normally attributable to smaller firms, only account for a very low proportion of these operations (see figure 2.12). With the exception of the United Kingdom and, to a lesser extent, the US, the presence of low volume operations is in general very modest. This observation is even clearer in the case of fixed-income issues, where operations of lower amounts accounted for only a marginal proportion of total issues (see figure 2.13).

We can therefore conclude that in the main industrialised economies direct issues in markets have hardly been used at all by SMEs to substitute the loss of access to bank lending which they may be suffering during the current financial crisis. In the case of the Spanish economy, this last comment is especially relevant, to the extent that the weight of SMEs in the productive structure is greater than in other comparable countries. Indeed, with regard to the larger operations, especially equity operations, Spanish companies over recent years have shown a level of activity equal to, and even greater than in some cases, that observed in the main economies of continental Europe.

Equity issues[1] by size of operation

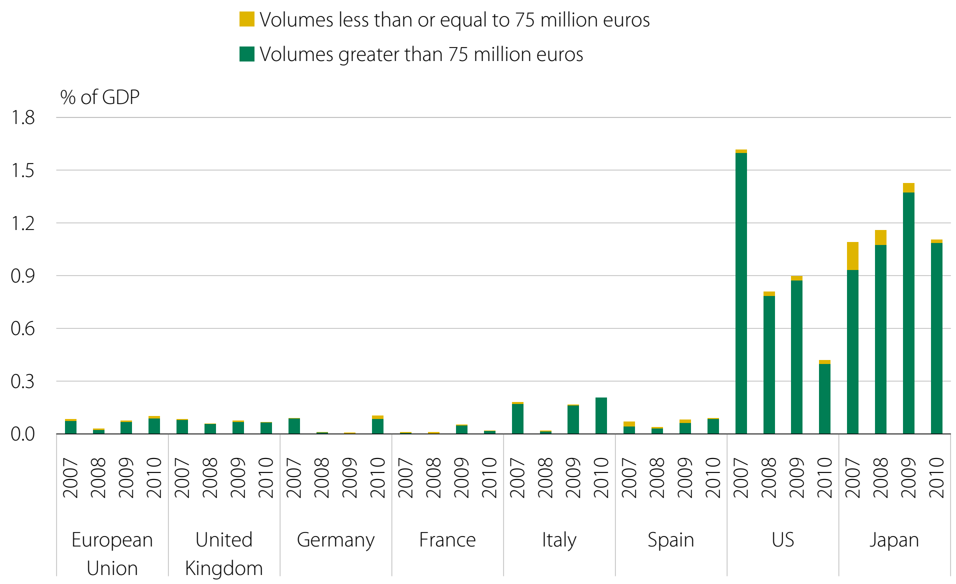
FIGURE 2.12



Source: Dealogic. (1) Increases and IPOs.

Gross domestic fixed-income issues[1] by size of operation

FIGURE 2.13



Source: Dealogic. (1) Does not include commercial paper.

Finally, it should be pointed out that some of the sources of funding other than bank credit which are often used by smaller companies, such as venture capital, also suffered a sharp fall during the current crisis. Specifically, according to data from the European Private Equity and Venture Capital Association (EVCA), for European countries as a whole, venture capital investment focused on the first stages of company development (start-up and seed) went from 0.6% of GDP in 2007 to 0.2% of GDP in 2009. In Spain, these figures were 0.3% and 0.1% of GDP respectively.

2.4 Challenges for SME funding in the post-crisis scenario

The evidence presented in the above section shows that funding conditions have worsened more for SMEs than for larger firms during the current crisis. SMEs, which are more dependent on bank credit, generally suffer a contraction in bank lending more intensely. Furthermore, their limited access to markets restricts their possibilities for using direct issues to offset the fall in bank lending.

The extensive use of bank credit by SMEs means that the current process of reorganisation and restructuring of the Spanish credit institution sector is of understandable concern to SMEs in terms of access to funding. At the same time, it cannot be ruled out that some of the aspects of the new prudential regulation may amplify the comparative disadvantage of SMEs compared with larger companies in terms of obtaining funding.

It should be pointed out that Basel III, as the new international framework for banking regulations is known, will generally establish capital requirements for credit institutions which are stricter than those in force to date. Specifically, the new requirements raise not only the level of capital which these institutions must hold, but they will also set more restrictive conditions with regard to their composition by reducing the set of instruments which can be considered as top quality capital. At the same time, the new regulation will establish more severe penalties for high-risk activities in terms of capital as well as mandatory capital reserves or "buffers" in boom times. Furthermore, as new items in the framework of the Basel Committee on Banking Supervision, liquidity requirements and gearing ratios will be introduced so as to discourage, respectively, imbalances in the maturity profile of assets and liabilities, and excessive indebtedness of banking institutions.

Accordingly, the strengthening of the prudential framework, which the crisis has shown to be absolutely necessary, may lead to a reduction in the intermediation capacity of the banking system as a whole. Although at this time it does not seem feasible to provide an accurate estimate of the effect of these measures on the flow of business credit, it does seem reasonable to anticipate that smaller companies, whose investment projects typically involve greater risk and whose bank financial liabilities tend to be less liquid, will be more directly affected by tighter conditions for bank lending.

In this scenario, it is essential to reflect on the role which may be played by other funding mechanisms to re-establish stable conditions which are more favourable for the funding of smaller companies. With this aim, below we present some basic aspects of venture capital and securities markets, as the main alternatives to bank lending for SMEs, as well as the main issues in the current debate about how to strengthen the role of securities markets to favour the funding of these firms.

Funding alternatives for growing companies: venture capital and markets

The challenges faced by SMEs from the future development of bank lending should encourage the search for alternatives, which is especially important in Spain, where these companies account for a greater proportion of the economy and where other sources of funding are less developed than in other countries, as has been shown in the above sections.

One of the alternatives to external funding which is essential to develop, especially in the case of newly-created companies, is funding through equity, that is, the entry of new shareholders in the firm. Markets have already generated some specialised formulas for funding SMEs through equity although their use in Spain, as shown below, has been limited. In their initial stages, new companies may request the participation of individual investors in their capital, the so-called business angels, which generally make low-scale contributions. In more advanced stages or when greater investment is required, formal venture capital may be used (investment funds and companies). Venture capital forms part of a more extensive investment sector, that of private equity, which also offers other alternative funding for companies in relatively mature stages.

However, venture capital activities specialised in the first stages of the life of companies are still undeveloped in Europe compared with the United States, and only account for a small part of total private equity investment (around 5% in 2009). In Europe, there is a greater development of venture capital in the United Kingdom, France and some Scandinavian countries, but in general, including in Spain, there is limited venture capital activity, and even less so as a result of the economic crisis.

Alternatively, SMEs also have the possibility to obtain funding by issuing equity in securities markets. In fact, being listed on a market of this type may not only be useful to obtain funding but may also add value in other significant aspects. For example, having a secondary market which provides a certain level of liquidity to a company's shares may facilitate any divestments by financial shareholders (such as venture capital), which favours the initial investment. Furthermore, the prices of the shares in the market may provide a benchmark for assessing the quality of management. Similarly, one of the advantages most quoted by small and medium-sized firms which decided to be listed in the market is the gain in terms of visibility and reputation with regard to their customers, suppliers and potential funders, associated with the reputation arising from compliance with the transparency and conduct requirements necessary to become listed.

Although SMEs may become listed on the so-called first markets, for example, in the markets regulated under the European Directive on Markets in Financial Instruments (MiFID), the operators of stock markets and other promoters of trading infrastructures have developed specific platforms for smaller firms, such as European alternative markets. In comparison with the first markets, alternative markets establish requirements for admission and permanence on the market which are more adapted to the characteristics of these firms. In particular, they are more flexible with regard to reporting to the market, they establish minimum permanence clauses for the main shareholders following admission to trading and they provide for mandatory hiring of certain services by the issuer (registered advisers, introducers and sponsors, liquidity providers, etc.) so as to ensure compliance with market rules and provide the security with a certain level of liquidity.

The largest European alternative market is the Alternative Investment Market (AIM), on which over 1,200 companies were listed at the end of 2010. This market, created in 1995, has benefited from the advantages of London as a financial centre, attracting a significant number of companies from other countries. Compared with other European countries, it has also benefited from the greater development of venture capital in the United Kingdom, an activity which generates a breeding ground for companies which may be listed on the market through the divestment processes mentioned above. Due to its success, the AIM has become a basic benchmark in the subsequent design of most European alternative markets. Those with the greatest activity are Alternext (170 companies), Entry Standard (130) and First North (130), linked to NYSE Euronext, Deutsche Börse and Scandinavian stock markets, respectively.

Spain also has a market of these characteristics, the segment for expanding companies of the Mercado Alternativo Bursátil - alternative stock market - (MAB), which began operating in July 2009. At the end of February 2011, this market had 13 listed companies. From its creation up to December 2010, the companies listed on this market raised a total of 63 million euros, with the highest amount raised by one company being twelve million. The capitalisation of the market stood at around 321 million euros, of which 43 million corresponded to the company with the greatest capitalisation.

Towards a greater role for markets in funding SMEs

The evolution of European stock markets over the last 25 years highlights that, in general, it is not easy to attract new companies with growth potential to these markets. The aim is now to attract these companies to alternative markets. There are at least two precedents in this area: the so-called second markets and the new markets, established in various European countries in the second-half of the 1980s and 1990s respectively. Introduction of these markets coincided with an expansive period of the economic cycle and upward movements in stock markets, but with a few exceptions, which include the British AIM, their activity began to languish soon after their launch.

The difficulties for smaller firms to obtain funding as a result of the crisis, however, has led to a debate about how to strengthen the role of these markets and, in particular, about the possibilities for regulation and economic policy which may favour their consolidation. An important part of this debate has focused on the following three areas: promoting the participation of companies in the market, extending the investor base and the design of the market.

Promoting the participation of companies in the market

In many European countries, including Spain, there is already a certain tradition of public policies supporting SMEs, some of which are specifically aimed at certain types of newly-created companies with high growth potential. Support has recently been provided aimed at facilitating the access of SMEs to capital markets. In Spain, this support is aimed at partial funding, by means of loans or subsidies, of some of the costs associated with the process of becoming listed on the alternative stock market or the prior viability studies, as well as the provision of technical support.[16]

This support is justified by the cost and complexity of the process of going public and to the extent that these obstacles may discourage small firms. For example, Kaserer and Schiereck (2008) analyse these costs in different national markets and estimate that the median direct costs were on average for the period 1999-2008 be-

16 This support is currently given by the public company ENISA (National Innovation Company), affiliated to the Ministry of Industry, which may grant two-year loans, of up to 1.5 million euros, without interest or commissions, and some autonomous Regions, specifically Madrid, Galicia and Murcia.

tween 7.6% and 20% of the total of the operation, depending on the alternative market in question.[17] In contrast, for larger securities, the median stood at between 5.5% and 8.1%.

Extending the investor base

Extending the investor base is an essential requirement in strengthening the role of markets in funding SMEs. Tax incentives have today been the core aspect of policies aimed at this objective and some of the most dynamic European alternative markets, such as the British AIM and the French Alternext benefit from the existence of tax incentives for investors. In both cases, the legislation directs the benefits to the final investors which participate in certain collective investment undertakings or, as in the British case, in other schemes orientated towards venture capital activities.

The measures provided in these two countries include deductions from the base for income tax for subscribing new shares or units in these vehicles, credits in the gains and exemption from inheritance tax (in the United Kingdom). It is important to point out the favourable tax treatment received by investors in Venture Capital Trusts (VCT), collective investment undertakings listed on the London Stock Exchange which are obliged to hold 70% of their portfolio in shares of unlisted small companies or small companies listed on unregulated markets, such as the AIM.

In Spain, several autonomous regions, specifically Catalonia, Madrid, Galicia and Aragon, have established credits for investing in companies listed on the alternative stock market and registered in the respective region. In this case, the credits do not involve specialised investment vehicles, but are aimed at taxpayers which directly invest in the companies' securities.

Although it is still early to draw firm conclusions about which of the alternatives described herein is more effective for encouraging the development of alternative markets, in general it is necessary for any action in this area to be subject to criteria with regard to the efficient use of public resources. This requires a prior analysis which identifies market defects (information asymmetries, financial restrictions, externalities, etc.) and how these defects may lead to a gap between private benefit, for the business person, arising from the company in question accessing capital markets, and the social benefit, which is what would justify an incentive measure of this type. Although an exhaustive cost-benefit analysis would go beyond the aim of this chapter, it seems clear that aid to cover the cost of accessing the market is more easily reconciled with the general efficiency criteria presented above than subsidies to investors, especially when these subsidies may lead to distortions in the level of market liquidity, encourage the allocation of investment based on regions as opposed to economic efficiency or have a permanent nature.

Market design

With regard to market design, one of the key problems of alternative markets and even for the securities of medium-sized capitalisation listed on regulated markets is

17 See C. Kaserer and D. Schiereck (2008), *Primary Market Activity and the Cost of Going and Being Public,* mimeo European Business School.

their reduced visibility for investors. One of the main causes is the limited attention which analysts pay to these markets or securities compared with the markets and securities of greater capitalisation. In this regard, it should be asked whether the relatively reduced size of many of those markets, set up on a national level, is adequate to attract the attention of analysts and intermediaries, which is essential for ensuring the growth of the market. If this is not the case, a market which does not reach sufficient critical mass in terms of the number of listed companies may generate a negative perception among investors about its aggregate liquidity, especially when the listed securities have limited liquidity, as often occurs with issues by smaller firms.

The limitations of the national framework in the design of securities markets have generated, at different times and contexts, proposals to create transnational trading platforms. In fact, the mergers and acquisitions in the area of trading platforms which have taken place in European markets over recent years suggest the existence of notable economies of scale which may materialise through integration processes.

In the case of alternative markets for new companies with growth potential, the possibility of consolidating in an exclusively national framework is strongly conditioned by the capacity of the economy to generate companies with this profile, which in turn depends on factors which slowly change over time, such as the size of the economy, the level of entrepreneurial spirit, the education level of the population, the investment in R&D+I, etc. It is not surprising therefore that some experts have recently proposed establishing pan-European trading platforms for small and medium capitalisation securities. Specifically, Demarigny (2010) suggest a single European platform for this type of security in the context of the MiFID regulated markets, although his arguments may also be applied to alternative markets.[18]

The regulation of the market is also a key factor for ensuring its viability in the context of adequate investor protection. In particular, one of the main points of friction which must be resolved by the markets which wish to attract newly-created companies or, in general, small and medium-sized companies, is that relating to the adjustment of the market reporting requirements for these companies (content, periodicity, presentation deadlines, etc.) so as to guarantee adequate level of transparency without the costs of complying with these requirements being too high.

As has been indicated, compared with regulated markets, alternative markets offer SMEs less stringent transparency requirements, which involve lower costs. There is currently a debate in Europe about the advantages of also introducing less strict requirements for small and medium capitalisation companies on regulated markets so as to favour their access to these markets and reduce the cost of remaining in those markets. However, any measure which may involve a review of transparency requirements must take into account the need to suitably indicate the quality of the information provided to the market, given that the absence of adequate indications in the framework of a regulated market may generate confusion among investors and negatively affect the reputation of the market as a whole.

18 F. Demarigny (2010), *An EU-Listing Small Business Act,* Mazars Group, March 2010. Available at http://www.mazars.com/Home/News/Latest-news2/Report-calling-for-an-EU-listing-SBA .

II Markets and issuers

3 Equity markets

3.1 General overview

As indicated in chapter 1, in 2010 the Spanish equity market was significantly affected by the successive crises in European sovereign debt, with falls in the benchmark indexes and in most sectors (see table 1.4). In particular, the Ibex 35 fell by 17.4% last year, and some sectors (real estate, insurance, banking and chemicals) fell by over 25%. The main exceptions to the overriding negative trend in Spanish stock markets were seen in sectors relating to consumer goods and services.

For its part, volatility in markets of options on the Ibex 35 underwent notable increases in the moments of greatest aggregate instability, especially in May and December. The rising volatility was reflected in the wide range of variation in the index over 2010, greater than 3,300 points, with a high of 12,250 points on 6 January and a low of 8,669 points on 8 June, coinciding with the turmoil prior to the rescue package for Ireland. Accordingly, the average volatility over the year was close to 30%, clearly above historic averages.

However, it is important to point out a positive aspect which was the high level of market liquidity, which at year end was once again over 1 billion euros in trading with a historic record in terms of the number of shares traded (over 40 million). It should also be pointed out that three Spanish shares (Santander, Telefónica and BBVA) were once again among the four most traded shares on the Eurostoxx 50 index.

3.2 Market size

3.2.1 Market capitalisation

The market value of companies listed on Spanish stock markets stood at 470,998 million euros at the end of 2010, down 16.6% on 2009, a similar fall to that seen in benchmark international indexes. Furthermore, the concentration of capitalisation of preceding years was maintained with 14 companies accounting for 75% of overall stock market capitalisation, while the companies included in the Ibex 35 accounted for 87.5% of total market capitalisation. The value of Ibex 35 companies at year-end 2010 stood at 412,399 million euros, 15.2% down on 2009.

Market capitalisation in Spanish stock markets[1]

TABLE 3.1

Million euro

	2007	2008	2009	2010	% change 10/09
All markets	**764,751.6**	**476,031.7**	**545,479.3**	**470,998.6**	**-13.7**
Electronic market	756,786.3	470,426.1	541,140.6	466,762.5	-13.7
Spanish	755,285.4	469,876.7	539,816.2	465,335.6	-13.8
Foreign[2]	1,501.0	549.4	1,324.5	1,426.9	7.7
Open outcry[3]	7,678.4	5,495.7	4,257.7	4,161.6	-2.3
of which SICAVs[4]	245.4	155.0	31.2	33.4	6.9
Madrid	2,008.1	1,554.4	997.3	878.8	-11.9
Barcelona	4,657.8	3,609.8	3,431.9	3,465.6	1.0
Bilbao	108.2	45.9	435.4	362.1	-16.9
Valencia	1,229.3	786.1	559.2	458.7	-18.0
Second market	286.8	109.9	80.9	74.6	-7.8

Source: CNMV. (1) MiFID regulated market. (2) The capitalisation of foreign companies listed on Spanish exchanges is based on the number of shares registered by Iberclear. (3) The market capitalisations of companies traded by open outcry in more than one market have been included in the figures for each market at the price for that market. In the 'open outcry' total they have been included only once. (4) Only includes investment companies registered as listed UCITS.

Number of listed companies and capitalisation by sector[1]

TABLE 3.2

Million euro

Sector	2009	2010	2009	2010	% change 10/09
Oil	2	2	28,685.8	30,346.3	5.8
Energy & water	9	9	100,575.5	82,453.0	-18.0
Mining & base metals	9	9	6,119.7	5,916.3	-3.3
Cement and construction materials	5	5	2,644.0	2,272.0	-14.1
Chemicals	6	6	3,559.3	2,606.2	-26.8
Textiles and paper	20	18	32,149.4	39,467.0	22.8
Metal-mechanical	17	15	12,964.2	11,122.4	-14.2
Food	13	12	6,826.5	7,569.5	10.9
Construction	7	8	25,393.4	26,490.4	4.3
Real estate	27	27	6,254.5	5,130.3	-18.0
Transport and communications	5	4	108,365.8	90,708.1	-16.3
Other non-financial	24	25	18,936.4	24,598.6	29.9
Total non-financial sector	**144**	**140**	**352,474.5**	**328,679.8**	**-6.8**
Banks	10	9	168,489.8	118,155.7	-29.9
Insurance	2	2	10,440.0	7,804.9	-25.2
Portfolio companies	11	11	14,020.3	16,309.5	16.3
SICAVs[2]	2	2	54.7	48.7	-10.9
Finance houses	0	0	0	0	–
Total financial sector	**25**	**24**	**193,004.8**	**142,318.8**	**-26.3**
Total	**169**	**164**	**545,479.3**	**470,998.6**	**-13.7**

Source: CNMV. (1) MiFID regulated market. Includes only capitalisation of companies that were traded at some time during the year. (2) Only includes investment companies registered as listed UCITS.

As shown in table 3.2, the financial sector recorded a greater fall in capitalisation than the other sectors, dragged by the fall in bank share prices. It was precisely the banking sector which had the greatest weight in the capitalisation of the Spanish market, with 25% of the total, followed by the transport and telecommunications sector (19.2%) and the energy sector (17.5%).

The Spanish stock market is still one of the largest with respect to the size of the economy, in terms of capitalization and trading volume as a percentage of GDP (see table 3.3). In fact, in terms of the ratio between stock market trading and GDP, the Spanish market was only exceeded by the New York Stock Exchange, while in terms of capitalisation, the corresponding ratio was affected by the negative development of prices in the Spanish market.

Market capitalisation and trading as a percentage of GDP TABLE 3.3

%

	Market capitalisation		Trading volume	
	2009	2010	2009	2010
USA[1]	104.4	118.2	212.3	208.2
New York	82.0	91.5	123.1	121.6
Tokyo	67.3	71.0	81.2	70.2
London[2]	104.3	84.1	126.9	63.8
Euronext[3]	63.9	75.0	43.9	50.3
Germany	35.1	43.2	61.0	49.2
Spain	52.3	44.5	83.4	97.0

Source: World Federation of Exchanges, International Monetary Fund and CNMV. (1) The numerator is the combined total of the NYSE and Nasdaq. The market capitalisation figures for each market correspond to the last working session in the month of December. (2) The London data from 2010 includes data from the Borsa Italiana, integrated in the London SE Group, and the GDP of both countries. (3) The denominator is the sum of the nominal GDP of France, the Netherlands, Belgium and Portugal.

3.2.2 Listed companies

Excluding SICAVs, at the end of 2010 there were a total of 163 companies listed on Spanish stock markets, five fewer than in 2009. The electronic market had 129 companies, three fewer than at the end of the previous year. Two companies registered on this market, while five companies were de-listed. One company was de-listed from the open outcry market (see table 3.4).

Number of companies listed on the Spanish stock markets[1] TABLE 3.4

	Total all Markets	Electronic market Total	Spanish	Foreign	Open outcry	Second market
Listed at 31/12/09	169	132	127	5	30	7
Listed at 31/12/10	164	129	123	6	29	6
New listings in 2010	**2**	**2**	**1**	**1**	**–**	**–**
New listings	2	1	1	1	–	–
Listed due to merger	–	–	–	–	–	–
Change of market	–	–	–	–	–	–
De-listings in 2010	7	5	5	–	1	1
De-listings	7	5	5	–	1	1
De-listed due to merger	**–**	**-**	**–**	**–**	**–**	**–**
Change of market	–	-	–	–	–	–
Net change in 2010	**-5**	**-4**	**-4**	**1**	**-1**	**-1**

Source: CNMV. (1) MiFID regulated market.

3.3 Listings, issues and public offerings

Despite the positive expectations at the end of 2009 with regard to capital increases and new issues, uncertainty about the financial system prevented a large part of the planned operations from taking place. However, 2010 saw significant placements by Amadeus and Enel Green Power, a company which will also be simultaneously listed on the Borsa Italiana. Ten new companies joined the growth stocks of the Alternative Stock Market (MAB).

Primary and secondary public offerings[1] TABLE 3.5

Cash amount in million euro

	2007	2008	2009	2010	% change 10/09
Capital increases	**67,887.0**	**16,339.7**	**11,388.7**	**15,407.0**	**35.3**
Of which primary offerings[2]	8,502.7	292.0	17.4	958.7	5,414.6
With Spanish tranche	4,821.3	292.0	14.9	61.6	312.2
With international tranche	3,681.4	0.0	2.5	897.2	–
Secondary offerings	**2,068.5**	**9.5**	**1.9**	**605.7**	**31,131.5**
Spanish tranche	1,517.1	9.5	1.9	79.1	3,977.4
International tranche	551.4	0.0	0.0	526.7	–
Total	**69,955.5**	**16,349.2**	**11,390.7**	**16,012.7**	**40.6**
Pro memoria: IPOs					
Primary or secondary offerings[2]	10,571.2	301.5	19.3	1,564.5	7,995.7
Others[3]	74,207.1	–	879.2	8,000.0	810.0

Source: CNMV. (1) Only includes transactions that took place, excluding those that were not completed. (2) Public offering of warrants after shareholders waived their preferential subscription rights. (3) In 2007, this includes the new listings of ArcelorMittal (formerly Arcelor), Reyal Urbis, Martinsa-Fadesa and Vértice 360. In 2009, the new listing of all the share capital of Grupo Empresarial San José, following the merger by takeover of Parquesol Inmuebles y Proyectos and other companies of the Udra group. In 2010, it includes the first admission to trading following the public offering of the Enel Green Power group.

Over 15 billion euros were raised through capital increases. A noteworthy new aspect was the renewed activity in international tranche public offerings following two years with no activity. With regard to the most significant operations, we should point out that the BBVA carried out the second largest increase in the history of the Spanish market, raising over five billions of euros.

3.4 Trading

3.4.1 Spot trading

Trading exceeded one billion euros in 2010, up by 17% on the previous year. Trading in Ibex 35 companies rose by 21.3%. The increase in the traded amount took place in a context of falling prices, with an increase in the number of shares exchanged, which reached an historic high of more than 40 million shares. The Spanish regulated market has the fifth highest level of trading in Europe after the London Stock Exchange, the Chi-X multilateral trading facility, NYSE Euronext and the German Stock exchange, and the tenth highest level in global terms.

Furthermore, the trend which began in 2007 of falling average cash per transaction, common to other international regulated markets, continued in 2010. In 2010, the average cash per transaction in Spain stood at 26 thousand euros, 46% down on 2007, the year in which the financial crisis began. The increase in the number of orders and transactions, together with the sharp fall in the average cash value, seems to be at least partly linked to the increase in high frequency trading.

Equity trading in Spanish stock markets[1] TABLE 3.6

Cash amount in million euro

	2006	2007	2008	2009	2010	% change 10/09
All markets	**1,149,930.3**	**1,654,702.1**	**1,228,631.5**	**877,149.3**	**1,026,646.8**	**17.0**
Electronic market	**1,144,562.9**	**1,653,354.8**	**1,228,392.4**	**877,073.6**	**1,026,478.4**	**17.0**
Spanish	1,133,012.6	1,645,855.5	1,226,985.3	872,323.1	1,020,063.2	16.9
Foreign	11,550.3	7,499.3	1,407.1	4,750.4	6,415.2	35
Open outcry	**5,318.1**	**1,154.4**	**207.5**	**72.6**	**165.3**	**127.8**
Madrid	3,231.5	515.5	94.4	31.4	15.7	-49.8
Bilbao	403.1	5.2	0.1	1.1	3.8	252.0
Barcelona	1,192.3	444.4	107,0	32.3	143.8	345.3
Valencia	491.3	189.3	6.0	7.8	1.9	-75.4
Second market	**49.3**	**192.9**	**31.7**	**3.2**	**3.0**	**-4.0**
Pro memoria						
ETFs	1,827.1	4,664.5	6,938.1	3,470.6	5,968.2	71.96
Alternative stock market	1,814.2	6,985.2	7,060.3	5,080.1	4,147.9	-18.35
Latibex	723.3	868.2	757.8	434.7	521	19.9

Source: CNMV. (1) MiFID regulated market.

As shown in table 3.6, almost all share trading (99.9%), was carried out on the electronic market. In this market, most trading took place in the regular session, essentially through order-based trades and block trading. Block trading rose by 35% compared with the previous year and accounted for close to 40% of the traded volume. As shown in table 3.7, off-hour trading, which accounts for a low percentage of the total, underwent the greatest growth in relative terms, reaching levels similar to those in the period from 2006 to 2008.

Trading on the electronic market by type[1] TABLE 3.7

Cash amount in million euro

	2006	2007	2008	2009	2010	% change 10/09
Regular trading	1,080,120.5	1,577,249.5	1,180,835.9	833,854.9	983,584.4	17.9
Order-based	658,891.1	985,087.6	774,718.1	499,182.8	541,879.8	8.5
Put-throughs	105,899.4	155,085.1	105,673.9	51,335.8	58,678.1	14.3
Block trades	315,330.1	437,076.8	300,443.9	283,336.3	383,026.5	35.1
Off-hours	11,648.8	18,301.5	10,175.2	5,996.6	17,209.5	186.9
Other types	52,793.6	57,803.9	37,381.4	37,222.1	25,684.4	-30.9

Source: CNMV. (1) MiFID regulated market.

Concentration of trading on the electronic market remains high. In 2010, as in the previous year, the five most liquid securities on the market accounted for 75% of trading.

3.4.2 Margin trading and securities lending

Spanish legislation allows margin trading (*crédito* system) and provides two different systems for securities lending (*crédito* and *préstamo*). The *crédito* system (for margin trading and securities borrowing) is commonly used by retail investors dealing in Ibex 35 stocks. The *préstamo* system is more commonly used by institutional investors and covers a broader range of securities, including shares traded on Latibex and ETFs.

Purchases using the *crédito* margin trading system once again shrank in 2010, for the fourth consecutive year. As shown in table 3.8, the amount of trading using this system during the year (65.9 million euros) was slightly above 16% of the amount traded in 2007.

Margin trading[1] TABLE 3.8

Cash amount in million euro

	Outstanding balance	Trading volume
2006	70.1	511.9
2007	59.4	411.3
2008	7.0	154.7
2009	5.6	106.4
2010	5.0	65.9

Source: CNMV. (1)Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.

Margin trading using the *préstamo* system, the most important method for short selling on the spot market, stood at 556 billions of euros, 18.1% up on 2009, reflecting the existence of interesting opportunities for this type of transaction over the year in a general context of growing stock market trading. Sales under margin trading, much less important in terms of size, fell by 15.1%.

Securities lending (*crédito* and *préstamo* systems) TABLE 3.9

Cash amount in million euro

	Sale of securities (*crédito* system)[1]		Securities lending (*préstamo* system)[2]	
	Outstanding balance	Trading volume	Outstanding balance [3]	Trading volume
2006	73.6	379.9	62,058.2	550,850.4
2007	112.4	555.4	79,532.9	835,326.9
2008	20.7	624.9	43,647.8	583,950.8
2009	21.1	704.3	47,322.2	471,007.1
2010	9.9	598.0	36,195.9	556,246.7

Source: CNMV. (1)Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions. (2) Regulated by Section 36.7 of the Securities Market Act and Order ECO/764/2004. (3) Total balance less amount of re-lending.

3.5 Takeover bids (opas)

Four takeover bids were processed in 2010, with a potential amount of 1,127 million euros, the lowest figure recorded in the last 10 years. The amount carried out was somewhat lower (1,040 million euros), as shown in table 3.10.

Two bids, those presented by Sociedad General de Aguas de Barcelona (Agbar) and Banco Sabadell were voluntary and aimed to take control of the listed companies Companyia d'Aigües de Sabadell (Cassa) and Banco Guipuzcoano, respectively. The other two were exclusion bids made by Agbar and Mecalux on their own shares (see annex I.9 for further information about the takeover bids presented in 2010). The considerations offered all met the fair price rules defined in regulations.

In the case of the bid for Banco Guipuzcoano, a swap was offered of ordinary shares and subordinated debentures necessarily convertible into shares of Banco Sabadell. The equivalent cash amount of the swap offered amounted to 749 million euros. The acquisitions of the other three bids were made in cash.

Completion of the two voluntary bids was dependent on a minimum acceptance. The takeover bid for Cassa did not reach the established minimum but the offeror waived the condition and acquired all the securities offered. In the bid for Banco Guipuzcoano the minimum acceptance required by the offeror was widely exceeded and the other bid conditions were also met. These included approval by the General Shareholders' Meeting of Banco Sabadell for the issue of the securities necessary to meet the consideration offered and a modification in the Articles of Association of Banco Guipuzcoano, removing the limit to voting rights, which was approved by the General Shareholders' Meeting.

The other two exclusion bids involved a particular characteristic of agreements between the main shareholders which involve changes in the control structure and which regulated their relations as shareholders following exclusion from the stock market.

The bid for Banco Guipuzcoano was also accompanied by some agreements through which various shareholders and directors previously agreed with the offeror to accept the bid under the same conditions as the other shareholders.

In addition to the two companies which were removed from the stock market through the exclusion bids made with this purpose, the shares of Banco Guipuzcoano were also excluded, in this case, as a result of the squeeze-out once the bid was finalised. These squeeze-outs are the first carried out by means of a securities swap: previous squeeze-outs in other takeover bids were made through cash payments.

Takeover bids TABLE 3.10

Cash amount in million euro

	2006	2007	2008	2009	2010
Authorised[1]					
Number	21	16	6	5	4
Potential amount	62,615	48,939	3,658	9,952	1,127
Potential amount plus agreements prior to acquisition[2]	–	49,215	3,781	18,516	1,127
Carried out[3]					
Number	16	16	6	5	4
Amount	18,997	43,179	3,319	7,201	1,040
Amount plus agreements prior to acquisition[2]	–	43,455	3,442	17,605	1,040

Source: CNMV. (1) Authorised during the year. (2) Potential amount of takeover bids plus cash volume of acquisitions agreed prior to each bid. Until 2006, both figures were the same because a takeover bid had to be presented before attaining a controlling stake. (3) All bids authorised during the year, even if completed in the following year, except where the bid was unsuccessful or was withdrawn.

3.6 Multilateral trading facilities

3.6.1 Latibex

Prices on Latibex, where Latin American shares are traded in euros, continued their upward trend in 2010. The Latibex All Share index rose by 15.39% in the year, which in general terms reflected the favourable development of Latin American economies.

Trading rose by 19.9% and totalled 521 million euros and, as in previous years, the shares of Brazilian companies accounted for most of the total trading, in this case 77%. At the end of the year, Latibex had 31 listed companies, one fewer than in the previous year following the de-listing of the only Puerto Rican company listed up to that time. Total capitalisation, calculated with the shares deposited in Iberclear, totalled 278 million euros at 31 December 2010, 26% down on the previous year. Brazilian companies accounted for 75% of total capitalisation.

Companies listed on Latibex, by country TABLE 3.11

Cash amount in million euro

	No. of companies		Market capitalisation			Trading volume		
Country	**2009**	**2010**	**2009**	**2010**	**% change**	**2009**	**2010**	**% change 10/09**
Argentina	2	2	5.0	8.2	63.2	0.5	2.1	289.9
Brazil	13	13	276.0	208.2	-24.6	315.5	404.2	28.1
Chile	3	3	21.1	16.6	-21.4	26.8	20.1	-25.1
Mexico	12	12	68.0	41.7	-38.7	82.5	85.3	3.4
Peru	1	1	3.8	3.5	-8.8	4.1	6.3	54.3
Puerto Rico	1	0	3.3	0.0	-100.0	5.3	3.2	-38.5
Total	**32**	**31**	**377.3**	**278.1**	**-26.3**	**434.7**	**521.2**	**19.9**

Source: CNMV.

3.6.2 The Alternative Stock Market (MAB)

In 2010, the total trading volume on the Alternative Stock Market totalled 4,147 million euros, 18.3% down on the previous year, which also saw a fall in trading. The SICAV segment accounted for almost all trading on the MAB. These companies had a total market value of 26,282 million euros at year-end, 6.8% up on 2008.

At the end of 2010, ten companies were included in the growth stocks segment, including two belonging to the biotechnology sector, which had not previously been present on the Spanish regulated market. The Regional Governments of Catalonia and Madrid now have tax incentives for investing in shares listed on the MAB and other regional governments, such as Aragon and Galicia, approved tax incentives at the end of 2010. The Regional Government of Valencia is currently studying similar measures.

3.7 Exchange-traded funds (ETFs)

During 2010 there was a significant increase both in the number of transactions and the assets managed by exchange-traded funds. The factors leading to the high level of activity in these products include the regulatory modifications carried out in the middle of the year. These include the creation of the index listed SICAVs, as well as the introduction of the possibility of using any underlying asset previously authorised by the CNMV, in addition to fixed income and equity.

There were a total of 65 listed ETFs at the end of 2010, double the figure for the previous year with the inclusion of 33 new funds. Accordingly, 2010 ended with a historic high in cash trades and the number of transactions, caused by the increase in the number of new underlying assets, including commodities and sector indexes, both of the Eurozone and worldwide.

4 Fixed income markets

4.1 General overview

Activity in fixed income markets in 2010 was once again significantly affected by the economic and financial crisis. Private sector issues, where financial institutions play a major role, declined significantly, as seen in table 4.1. Compared with the previous year, there were falls in all types of assets issued by Spanish institutions, except in territorial bonds. Specifically, issued volumes of securitisation bonds, simple bonds and commercial paper fell significantly. Mortgage-backed bonds maintained a volume similar to that seen in 2009.

Public debt issues, both in gross terms and, above all, net terms, also fell in 2010. Specifically, net issues fell 40.1%. This fall was due to the smaller rise in funding needs following the budget consolidation process carried out by the Government (see chapter 1).

Gross issues and outstanding balances: breakdown by issuer[1] TABLE 4.1

Nominal amount in million euro

	Amount[2]		% change		Pro memoria: Eurozone	
	2009	2010	09/08	10/09	2010	% change 10/09
Gross issues[3]	**785,765**	**595,947**	**10.2**	**-24.2**	**12,072,971**	**-10.7**
Public Authorities	248,016	241,718	99.2	-2.5	2,806,717	-3.8
Financial institutions	526,635	349,324	-9.1	-33.7	8,408,017	-12.0
Non-financial companies	11,114	4,906	16.8	-55.9	858,237	-17.3
Net issues[3]	**193,871**	**74,308**	**48.0**	**-60.8**	**558,257**	**-46.6**
Public Authorities	127,753	76,461	147.7	-40.1	439,163	-25.4
Financial institutions	65,390	-3,125	-15.7	–	54,895	-84.5
Non-financial companies	728	971	-61.0	41.9	64,198	-37.0
Outstanding balances[4]	**1,615,164**	**1,692,079**	**13.7**	**5.0**	**15,872,645**	**3.9**
Public Authorities	517,650	595,152	32.7	15.0	6,476,358	10.1
Financial institutions	1,081,325	1,079,774	6.5	0.2	8,538,813	-0.6
Non-financial companies	16,189	17,154	4.7	6.2	857,474	6.6

Source: Bank of Spain, CNMV and ECB. (1) Outstanding balances cannot be adjusted with net issues because of the use of different exchange rates for currency issues. (2) Includes issues in Spain and abroad. (3) For currency issues of Public Authorities, the exchange value in euros is used, applying the average exchange rate for the month published by the ECB. For currency issues of financial institutions and non-financial companies, the exchange value in euros is used, applying the average exchange rate for the month published by the ECB. (4) For currency issues, the exchange value in euros is used, applying the exchange rate of the ECB at the end of the period.

As for secondary markets, the public debt book-entry market continued to be the largest in terms of trading volume. Within that market, the short-term segment (*Letras del Tesoro*) registered growth in both outright trades and sell-buybacks/buy-sellbacks, evidencing investors' preference for liquid assets. In contrast, trading in the long-term segment (State *bonos* and *obligaciones*) remained at levels similar to those of the previous year.

Secondary markets of private fixed income saw a significant volume of trading in sell-buybacks/buy-sellbacks in the AIAF market, largely linked to transactions in the asset-backed security segment performed by the Treasury. In contrast, trading in the other two types of transactions, outright and repos, continued the downward trend of recent years. The trading volume on AIAF exceeded that on stock markets (where the bulk of trading was concentrated in Barcelona, specifically in bonds issued by the Regional Government of Catalonia).

4.2 Public debt

4.2.1 Primary market

Gross issues by public authorities amounted to 241,718 million euros in 2010, 2.5% down on the previous year (see table 4.1). The bulk of these issues came from the Spanish Central Government, which issued 210,808 million euros. Although their importance in absolute terms is lower, it should be pointed out that gross issues by the Autonomous Regions increased considerably (57.5%) up to 30,910 million euros.

As indicated in chapter 1, public authorities incurred a deficit equivalent to 9.2% of GDP in 2010. This deficit led to a net issue of 76,461 million euros, 5% in short-term issues and the remaining 95% in long-term issues. Within public authorities, the Spanish Central Government issued 82.7% of the total (for further details, see annexes I.11 and I.12).

4.2.2 Secondary market

The Public Debt Book-Entry Market continued to be Spain's largest organised fixed-income securities market in terms of trading volume. As shown in table 4.2, total trading on the public debt book-entry market in 2010 recorded a small fall of 0.8% compared with 2009. In this context, short-term issues (*letras del Tesoro*) and long-term issues (*bonos* and *obligaciones*) showed opposing trends. While trading in the first type rose by 7.1%, trading in the other type fell by 2.4%.

Trading on the Debt Book-Entry Market

TABLE 4.2

Million euro

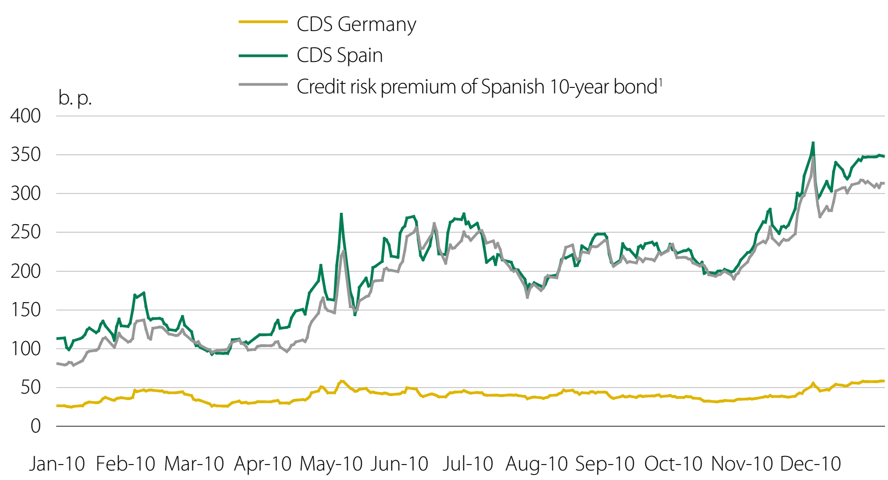
	2006	2007	2008	2009	2010	% change 10/09
Letras	**1,695,552**	**1,594,556**	**2,222,278**	**3,091,844**	**3,310,253**	**7.1**
Outright	93,332	57,925	115,312	202,589	429,019	111.8
Spot	92,831	57,363	114,611	197,502	419,846	112.6
Maturity	501	561	701	5,087	9,173	80.3
Repos	1,185,339	1,230,166	1,635,437	2,107,507	1,594,756	-24.3
Sell-buybacks/Buy-sellbacks	416,881	306,466	471,529	781,748	1,286,478	64.6
Bonds and debentures	**20,919,806**	**21,069,771**	**17,722,218**	**15,430,615**	**15,062,770**	**-2.4**
Outright	3,137,244	3,413,112	2,351,993	2,417,266	4,348,972	79.9
Spot	2,810,314	3,120,022	2,087,519	2,272,782	4,210,985	85.3
Maturity	326,931	293,090	264,474	144,484	137,988	-4.5
Repos	9,850,419	9,741,672	8,474,523	6,537,836	4,181,103	-36.0
Sell-buybacks/Buy-sellbacks	7,932,144	7,914,986	6,895,703	6,475,513	6,532,695	0.9
Total	**22,615,358**	**22,664,327**	**19,944,496**	**18,522,459**	**18,373,024**	**-0.8**

Source: Bank of Spain.

The increase in trading in short-term issues is mainly explained by investors' greater preference for very liquid assets in a context in which trading in long-term issues was affected by the increased perception of sovereign risk both in CDS markets and in sovereign debt markets (see figure 4.1).

5Y CDS premiums of sovereign debt

FIGURE 4.1



Source: Markit and Thomson Datastream. (1) The risk premium for Spanish bonds has been obtained by adding the spread of Spanish bonds and German bonds plus the 10-year CDS on sovereign German debt.

Annexes I.13 and I.14 provide more detail on trading in the Public Debt Book-Entry Market.

4.3 Private fixed income

4.3.1 Primary market

In 2010, Spanish issuers were affected by the uncertainty related to sovereign debt. Difficulties in accessing wholesale markets at certain times of the year slowed the issues of financial institutions and forced them to find liquidity in other sources, such as private savers or funding offered by the Eurosystem.[1] Private Spanish companies as a whole, including the financial sector, issued 354,270 million euros (see table 4.1), down 34% on the previous year. Issues by Spanish companies abroad fell by close to 15%, although their weighting in the total increased from 28% in 2009 to 36% in 2010. As is usual, most issues (98%) were made by financial institutions.

As shown in table 4.3, which breaks down the issues registered at the CNMV, all types of securities, except territorial bonds, suffered falls. A large part of the fall in the volume of issues was due to the 60% fall in issues of non-convertible bonds and debentures, despite the successive extensions of the State guarantee scheme up to 31 December 2010.[2] This fall was also partly due to the fact that no placement of preferred shares took place, coinciding with the introduction of new requirements for financial institutions introduced by Basel III. It is also important to mention, within the section on bonds and debentures, the greater presence of structured products customised by financial institutions for institutional clients.[3]

Gross issues registered at the CNMV: breakdown by instrument TABLE 4.3

Nominal amount in million euro

	2006	2007	2008	2009	2010
Long term	**188,674**	**206,323**	**164,537**	**196,134**	**128,863**
Non-convertible bonds and debentures	46,688	27,416	10,490	62,249	24,356
subordinated debt	6,555	2,381	1,545	5,831	4,540
Convertible bonds and debentures	68	0	1,429	3,200	968
Mortgage bonds	44,250	24,696	14,300	35,574	34,378
Territorial bonds	5,150	5,060	1,820	500	5,900
Securitisation bonds	91,608	141,627	135,253	81,651	63,261
asset-backed (ABS)	87,308	136,887	134,453	80,835	63,261
mortgage-backed (MBS)	4,300	4,740	800	817	0
Preferred shares	911	225	1,246	12,960	0
Other issues	0	7,300	0	0	0
Short term[1]	**334,457**	**442,434**	**311,738**	**191,342**	**97,586**
Commercial paper	334,457	442,434	311,738	191,342	97,586
asset-backed	1,993	465	2,843	4,758	5,057
Total	**523,131**	**648,757**	**476,276**	**387,476**	**226,449**

Source: CNMV. (1) The figures for commercial paper issues correspond to the amounts placed.

1 Funding from the Eurosystem for Spanish credit institutions increased by 60% between June and August 2010 compared with the preceding months, to decrease later. In the first months of 2011, resort to this funding was around 60% of that of the previous year.
2 Over 2010, securities with a nominal value of 10,352 million euros were issued with a State guarantee.
3 In 2010, 66 admissions to trading of structured securities were registered, compared with 36 in 2009.

Securitisation bonds were once again the securities with greatest relative weight in the set of long-term fixed income issues, with 49% of total issues in 2010, although their volume fell by 23% compared with the previous year. Mortgage-backed suffered to a lesser extent, with a 3% fall, and accounted for 27% of total long-term issues.

Short-term funding from the issue of commercial paper fell significantly (-49%), to levels lower than those recorded in 2004. The reasons for this fall were, on the one hand, lower levels of economic activity and, on the other hand, lower levels of liquidity of the usual investors in this type of issue: non-financial companies, UCITS and insurance companies.

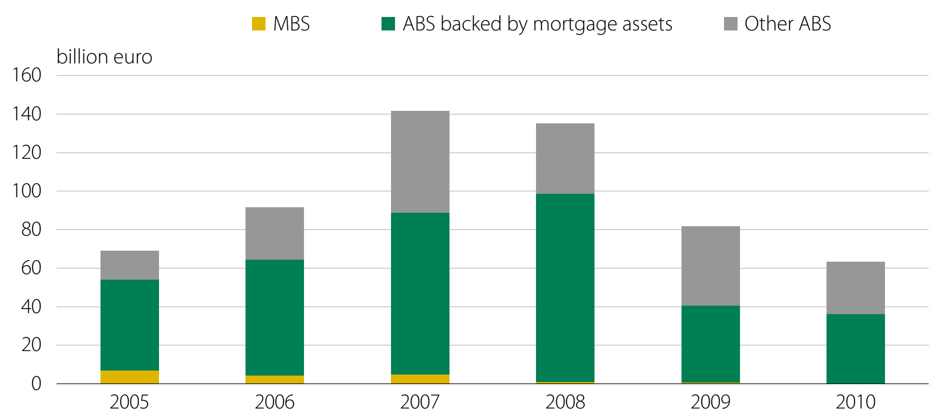
Annexes I.16, I.17 and I.18 provide greater detail about private fixed income issues registered at the CNMV.

Asset- and mortgage-backed securities

Securitisation bond issues maintained a trend similar to that of 2008 and 2009. Issues carried out in 2010 were almost all acquired by the originating financial institutions for use as collateral in funding operations with the Eurosystem.

Issues of securitisation bonds totalled 63,261 million euros, a fall of 23% compared with 2009. This fall was largely due to the substitution of securitisation issues for issues of other types of securities with greater acceptance in the market, such as mortgage-backed securities and, to a lesser extent, simple bonds with a State guarantee. In addition, the progressive tightening of the requirements established by the ECB for the type of eligible assets in open market transactions may have also contributed to this decline.[4]

Asset- and mortgage-backed securities registered at the CNMV FIGURE 4.2



Source: CNMV.
MBS: Bonds issued by funds of collaterised mortgage obligations.
ABS: Bonds issued by funds of mortgage loans.
Other ABS: Bonds issued by funds of other types of loans: business, consumer, car etc.

4 In March 2010, a new requirement began to be applied through which asset-backed securities had to have a rating from at least two rating agencies when issued. From March 2011, this requirement has been extended to all asset backed securities, irrespective of when they were issued. During the course of 2010, the European Central Bank took new decisions which directly affected the treatment of these types of assets as acceptable collateral with the framework of the Eurosystem's funding operations, such as the increase in the applicable discounts, from 12% to 16%, from 1 January 2011 and the requirement to disclose individualised information on the underlying assets.

Issues of mortgage-backed securities were once again the most important, accounting for 57% of issued volume in 2010. Other types of credit rights, such as business and consumer loans, accounted for a much lower proportion, 15% and 2% respectively, of the total volume of issues (see figure 4.2). Annexes I.19 and I.20 provide additional information on securitisation bond issues registered at the CNMV.

A noteworthy event in 2010 was the registration at the CNMV of the Securitisation Fund of the Electricity System Shortfall, which takes the form of a programme for issuing securitisation bonds with a State guarantee. The programme allows issues of bonds for a maximum outstanding balance of 13.5 billion euros, which can be increased up to 25 billion euros. The Fund will be able to buy collection rights of the tariff shortfall for five years and will issue bonds that will be placed among institutional investors. The first issue under the programme took place in January 2011 for a nominal amount of 2 billion euros.

Issues in foreign markets

Fixed-income issues abroad by Spanish institutions fell by 14.7% compared with the previous year. The fall was concentrated in the short-term segment, as shown in table 4.4. In fact, long-term issues rose by 8.2%, and were concentrated mainly in bonds and debentures.

Gross private fixed income issued by Spanish issuers in foreign markets TABLE 4.4

Nominal amount in million euro

	2006	2007	2008	2009	2010	% change 10/09
Long term	**73,257**	**65,629**	**39,894**	**47,230**	**51,107**	**8.2**
Preferred shares	1,504	2,581	0	3,765	0	–
Subordinated debt	5,758	8,984	70	2,061	0	–
Bonds and debentures	64,292	53,327	39,360	41,404	50,807	22.7
Securitisation bonds	1,703	736	464	0	300	–
Short term	**25,718**	**38,003**	**72,472**	**102,456**	**76,624**	**-25.2**
Commercial paper	25,718	38,003	72,472	102,456	76,624	-25.2
asset-backed	16,517	12,119	425	108	248	129.0
Total	**98,975**	**103,631**	**112,366**	**149,686**	**127,731**	**-14.7**

Source: Bank of Spain.

Financial institutions accounted for 91% of gross issues in other countries. Specifically, subsidiaries of Banco Santander accounted for 44% of gross issues. The non-financial companies with most issues were Telefónica, Gas Natural and Iberdrola, which issued 4.3%, 1.7% and 1.1% of the total respectively.

4.3.2 Secondary market

Spain has two official secondary markets in private fixed-income securities: AIAF and the stock markets. At year-end 2010, the outstanding balance of fixed income securities admitted to trading on Spanish markets totalled 891 billion euros, 1.8%

down on the previous year. The AIAF market accounted for around 95% of the total amount. The breakdown and trend in the number of issuers, the number of issues and the outstanding balance listed on both markets are shown in tables 4.5 and 4.6, respectively.

The fall in the outstanding balance on the AIAF market was due to fewer issues by institutions in products such as commercial paper and securitisation bonds. Issues of these types of instruments fell by 44.2% and 1.8% respectively. Despite the fall in the outstanding balance, securitisation bonds remained the security with the greatest specific weighting in the AIAF market, with 51% of the total amount admitted to trading. On the other hand, the volume of fixed income admitted to trading on stock markets rose by 13%, mainly due to the increase in the negotiated debt of the Autonomous Regions of Catalonia, Valencia and the Basque Country, as shown in table 4.6. The outstanding balance of private debt, however, fell by 9.7%.

Issuers, issues and outstanding balances of fixed income on AIAF

TABLE 4.5

Nominal amount in million euro

	No. of issuers		No. of issues		Outstanding balance		
	2009	2010	2009	2010	2009	2010	% change 10/09
Commercial paper	67	60	1,507	958	41,647	23,234	-44.2
Bonds and debentures	581	599	2,336	2,379	626,902	611,805	-2.4
securitisation bonds	442	459	1,629	1,641	442,831	434,835	-1.8
Mortgage bonds	29	33	202	253	185,344	195,735	5.6
Territorial bonds	11	12	25	26	16,030	18,350	14.5
Matador bonds	12	12	14	14	1,059	1,059	0
Total	**612**	**631**	**4,084**	**3,631**	**870,981**	**850,182**	**-2.4**

Source: AIAF and CNMV

Issuers, issues and outstanding balances of fixed income on markets

TABLE 4.6

Nominal amount in million euro

	No. of issuers		No. of issues		Outstanding balance		
	2009	2010	2009	2010	2009	2010	% change 10/09
Regional government debt	3	3	76	63	12,338	19,395	57.2
Other	59	58	193	186	23,961	21,649	-9.7
Barcelona Stock Exchange	52	52	216	204	30,942	33,079	6.9
Bilbao Stock Exchange	32	31	65	69	9,570	11,864	24.0
Madrid Stock Exchange	27	28	56	57	13,056	12,506	-4.2
Valencia Stock Exchange	32	32	100	84	10,400	13,257	27.5
Total[1]	**62**	**61**	**269**	**249**	**36,300**	**41,043**	**13.1**

Source: Stock markets and CNMV. (1) Does not include book-entry debt.

Fixed-income trading on the AIAF and stock markets totalled 4.5 billion euros in 2010, 6% down on 2009. The AIAF market accounted for 98.4% of the total. For the first time in 10 years, 2010 saw a fall (6%) in the amount traded on the AIAF market.

Own account trading by AIAF market members continued to rise as a percentage of total trades, to 87% from 85% in the previous year, despite falling by 3.7%. Following the trend which began two years ago, sell-buybacks/buy-sellbacks were the most common form of trades, accounting for 86.5% of the total, although they fell by 3.3% compared with 2009 to 3.8 billion euros. The dominant position of these types of transaction was again due to the use of instruments listed on AIAF as collateral in auctions of the ECB and, mostly, to the activity carried out by the Directorate-General of the Treasury. The Treasury intervened as counterparty in 77% of the total amount traded in sell-buybacks/buy-sellbacks, with transactions for an amount of 3.4 billion euros. Securitisation bonds were once again the assets most used in trading and accounted for 70.6% of the total amount traded, despite falling by 21.1% compared with the volume traded the previous year.

Total trading on AIAF

TABLE 4.7

Nominal amount in million euro

	2006	2007	2008	2009	2010	% change 10/09
By type of asset						
Commercial paper	489,069	568,010	591,944	533,331	385,239	-27.8
Bonds and debentures	344,698	469,533	1,788,946	3,854,897	3,711,804	-3.7
securitisation bonds	257,629	378,005	1,704,342	3,527,486	2,784,775	-21.1
Mortgage bonds	70,113	80,811	129,995	263,150	271,442	3.2
Territorial bonds	3,659	7,750	10,142	7,209	14,458	100.6
Matador bonds	2,954	1,374	13	45	176	288.4
By type of transaction						
Outright	386,369	416,478	387,897	378,347	288,927	-23.6
Repos	330,840	441,363	381,505	362,069	304,493	-15.9
Sell-buybacks/Buy-sellbacks	193,285	269,637	1,751,638	3,918,216	3,789,698	-3.3
Total	**910,494**	**1,127,478**	**2,521,040**	**4,658,632**	**4,383,119**	**-5.9**

Source: AIAF and CNMV

Trading with third parties once again fell and only accounted for 13% of total market activity. One of the main transactions in this area was the trading of commercial paper, which once again fell by 29% compared with the previous year.

A noteworthy event within the AIAF market was the start-up of the new electronic platform for retail fixed income trading, known as *Sistema Electrónico de Negociación de Deuda* - electronic debt trading system - (SEND). This platform aims to increase market transparency and improve the information available to retail investors.

With regard to the volume of activities on stock markets, trading in private fixed income fell for the third consecutive year in 2010. Specifically, trades were 9.9% down on 2009, as shown in table 4.8. Debt issued by the Regional Government of Catalonia was once again the most traded debt, accounting for 96% of total volume.

Fixed income trading on the stock markets

TABLE 4.8

Nominal amount in million euro

	2006	2007	2008	2009	2010	% change 10/09
Regional government debt[1]	84,444	83,734	70,075	65,121	56,919	-12.6
Other	6,584	7,837	10,117	9,586	10,135	5.7
Public debt book-entry securities	36	34	331	49	331	573.9
Total	**91,063**	**91,605**	**80,523**	**74,756**	**67,384**	**-9.9**

Source: Stock markets and CNMV. (1) The Regional Governments of Catalonia, Valencia and the Basque Country. Does not include: Instituto Catalán de Finanzas (Catalan Finance Institute), Diputación Foral de Vizcaya (Provincial Council of Biscay) or Consorcio de Transportes de Vizcaya (Biscay Transport Consortium)

5 Registry, counterparties, clearing and settlement

5.1 Iberclear

Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal, whose trade name is Iberclear, is in charge of registering, clearing and settling securities in Spain. Iberclear is 100% owned by the holding company Bolsas y Mercados Españoles (BME) and it mainly deals with securities traded on the stock markets, public debt markets and AIAF.

At year-end 2010, Iberclear had 197 participating entities, eight fewer than at the end of 2009 (see table 5.1). The number of participants in public debt settlement activities fell by seven, the number in Latibex fell by five and the number in stock markets by three. However, the number of participants in settlement of trades on AIAF rose by two.

Iberclear members TABLE 5.1

	2009	2010
Total Iberclear[1]	**205**	**197**
Members of		
Stock markets	91	88
Latibex	80	75
AIAF	79	81
Public debt	161	154

Source: Iberclear. (1) The total is lower than the sum of the number of clearing members in the various markets since many firms are members of more than one market.

5.1.1 Iberclear–CADE

In 2010, 4,023 issues were registered on this platform, with a nominal amount of 1.4 billion euros (see table 5.2). 91% of issues corresponded to the AIAF market and the rest to the public debt market. 60% of the nominal amount was from issues listed on AIAF and 40% from the public debt market.

Iberclear–CADE. Registry

TABLE 5.2

Million euro

	Public debt		AIAF		Total		
Registered securities	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**% change 10/09**
Number of issues	318	343	4,165	3,680	4,483	4,023	-10.26
Nominal amount	511,212	580,687	879,613	858,863	1,390,825	1,439,550	3.50

Source: Iberclear.

The AIAF market saw a 12% reduction in the number of issues compared with the previous year, and a 2% fall in the nominal issued amount. The number of issues in the debt market rose by 8% and the nominal issued amount rose by 14%, as a result of increased issues by the Treasury.

With regard to settlement, the AIAF market saw a 31% fall in outright trades, the main segment in terms of number of transactions, and a 24% fall in the nominal amount. The most significant settlement figures are shown in tables 5.3 and 5.4. It should also be pointed out that there was a 35% fall in this market in the nominal volume of transfers for collateral, closely linked to the institutions' funding operations with the European Central Bank. One of the reasons for this fall is the substitution of private debt for public debt as collateral in these types of transaction and the extension of the periods granted by the ECB in 2010, which led to a fall in the need for renewals. With regard to the public debt market, transfers for collateral increased by 15% over the year. Within this context, it is also important to point out the sharp increase in transfers to maturity, both in number and in amount, as well as the increase in outright trades. However, the nominal amount of transactions with repos and sell-buyback/buy-sellbacks, together with temporary transfers, fell by 17% and 40% respectively.

Iberclear–CADE. Number of trades settled

TABLE 5.3

	Public debt		AIAF		Total		
Type of transaction	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**% change 10/09**
Outright trades	212,635	359,162	1,410,616	977,641	1,623,251	1,336,803	-17.65
Repos and sell/buybacks and buy/sellbacks	4,607,955	3,805,081	145,077	131,337	4,753,032	3,936,418	-17.18
Outright transfers (between accounts of the same owner)	148,029	296,600	189,347	189,808	337,376	486,408	44.17
Temporary transfers (between accounts of the same owner)	63,196	42,898	51	60	63,247	42,958	-32.08
Transfers of held-to-maturity securities	366,453	543,822	67,894	62,707	434,347	606,529	39.64
Transfers for collateral (to a different owner)	2,194	2,023	16,428	11,749	18,622	13,772	-26.04
Total	**5,400,462**	**5,049,586**	**1,829,413**	**1,373,302**	**7,229,875**	**6,422,888**	**-11.16**

Source: Iberclear.

Iberclear–CADE. Amount of the settled trades[1] TABLE 5.4

Million euro

	Public debt		AIAF		Total		
Type of transaction	2009	2010	2009	2010	2009	2010	% change 10/09
Outright trades	2,925,513	5,210,532	420,906	321,889	3,346,419	5,532,421	65.32
Repos and sell/buybacks and buy/sellbacks[2]	40,551,622	33,166,450	6,690,594	6,864,032	47,242,216	40,030,482	-15.27
Outright transfers (between accounts of the same owner)	2,021,763	5,397,178	1,941,148	1,601,777	3,962,911	6,998,955	76.61
Temporary transfers (between accounts of the same owner)	477,264	285,554	816	174	478,080	285,728	-40.23
Transfers of held-to-maturity securities	8,112,439	11,914,308	812,499	627,580	8,924,938	12,541,888	40.53
Transfers for collateral (to a different owner)	71,598	82,338	432,952	283,501	504,550	365,839	-27.49
Total	**54,160,199**	**56,056,360**	**10,298,916**	**9,698,953**	**64,459,115**	**65,755,313**	**2.01**

Source: Iberclear. (1) Effective amount, in the case of outright trades, repos and sell-buybacks/buy-sellbacks; nominal amount, in the case of temporary and held-to-maturity transfers. (2) For sell/buybacks and buy/sellbacks both the amount of the purchase and of the sale are recorded

5.1.2 Iberclear – SCLV

In 2010, the increase in stock market trading volume led to an increase in settlement volumes on the SCLV platform (securities clearing and settlement service), as shown in table 5.5. The effective volume of purchases and sales and the number of transactions increased by 18% and 24% respectively compared with the previous year.

By the end of the year, Iberclear had registered 5,820 issues, with a nominal value of 113,597 million euros. Compared with the previous year, the number of registered issues increased notably (10.3%) and the registered nominal amount rose slightly (3.2%).

Iberclear-SCLV. Registry TABLE 5.5

Million euro

	Stock market			Latibex		
Registered securities	2009	2010	% change	2009	2010	% change 10/09
Number of issues	5,281	5,820	10.3	37	33	-10.8
Registered amount[1]	110,118	113,597	3.2	377	279	-25.9

Source: CNMV. (1) Nominal amount, in the case of the stock market; effective amount, in the case of Latibex.

Considering the stock markets and Latibex together, almost 33 million transactions were settled in 2010, with an effective value of 2.6 billion euros. These figures represent increases of 35% and 24% respectively compared with the previous year. In the case of Latibex, the effective volume rose by 22% and the number of transactions fell by 12%.

In addition to settling purchase and sale trades, the platform settles transfers of securities from one holder between different custodians, which may be free of payment or against payment. In 2010, the number of free of payment transfers in stock markets rose by 18% while the number of transfers against payment rose by 8%

Iberclear SCLV. Trades settled TABLE 5.6

Million euro

	Stock market				Latibex			
	No. of trades		Amount		No. of trades		Amount	
Trades	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**
Purchases and sales	23,236,231	31,623,799	1,764,150	2,080,138	60,097	52,413	873	1,035
Failed settlements	21,528	39,110	2,610	4,500	1,664	1,585	28	27
Buy-ins	192	138	7	12	30	18	0	0
Transfers f.o.p.	185,284	218,001	0	0	1,655	1,615	0	0
Transfers a.p.	995,382	1,071,930	356,728	545,110	1,594	1,926	33	68
Total	**24,416,897**	**32,913,730**	**2,120,878**	**2,625,248**	**63,346**	**55,954**	**906**	**1,102**

Source: CNMV. Transfers f.o.p. = transfers free of payment. Transfers a.p. = transfers against payment.

(their effective amount rose by 53%). In the case of Latibex, the number of free of payment transfers fell slightly, while transfers against payment rose considerably (see table 5.6).

With regard to settlement efficiency, in 2010 there was a slight rise in failed settlements, from 0.3% of the total settled amount in 2009 to 0.44% in 2010. The number of non-settled trades on the D+3 was 0.2% of total trades, the same as in the previous year.

Reform project of the Spanish securities clearing and settlement system EXHIBIT 5.1

The reform project of the Spanish securities clearing, settlement and registration system began in February 2010 with the first public consultation by the CNMV, which collected the opinion of participants in the market on a series of possible modifications put forward by the CNMV in collaboration with other institutions.

Following this public consultation, a steering committee for the project was set up, chaired by the Vice-chairman of the CNMV and made up of the Bank of Spain, the Spanish Banking Association, the Spanish Confederation of Savings Banks, the General Investment Guarantee Fund and Bolsas y Mercados Españoles. This committee established two working groups which together focused their analysis on the following two areas: setting up at least one central counterparty and managing its risks, on the one hand, and ensuring transaction finality and registration, on the other.

The work of these two groups over 2010 led to a second, more detailed, document being published. This document was presented for public consultation in January 2011. The most important proposals of this new consultation are based around four major pillars:

1 Promoting, together with other European systems, the creation of at least one central counterparty to act as counterparty in all settlement transactions.

2 Replacing the current verification process prior to settlement linked to the registration or de-registration of the corresponding registry references (known as RR) for a control system for securities balances. In addition, it aims to introduce modifications to the registration system which will provide features similar to those of the RR in terms of security and supervision.

3 Reviewing the current principle for ensuring delivery and shifting the finality of transactions from the trade to the time of settlement.

4 Establishing a penalty system for non-compliance, the main aims of which are: discouraging failures in the delivery of securities and cash, compensating the damage caused to the affected party and covering or reducing the costs incurred for resolving them. In addition, it will provide a last resort mechanism for cancelling transactions which cannot be settled within the deadline established by legislation.

After analysing the responses received in the public consultation, the CNMV has submitted proposals for legislative modification relating to this reform to the Ministry of Economy and Finance. It is also important to bear in mind the legislative initiatives which are being addressed in the European Union on the rights of book-entry securities and central securities depositories, and the proposal for EU regulation on central counterparties.

The changes to be undertaken are expected to be implemented no later than the entry into operation of the Target2 Securities (T2S) system, planned for September 2014.

5.1.3 Modification of Iberclear's Regulations

On 29 July 2010, Order EHA/2054/2010, of 26 May, which approved the modification to the Regulation of the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores (Iberclear) was published in the official state gazette (BOE). This modification is especially important because it establishes two new procedures. One of them relates to settlement and registration of non-stock market transactions. The second extends Iberclear's activities through links with other central securities depositories. Approval of the first procedure, included in Title V of the Regulations, allows transactions on securities admitted to trading on stock markets to be settled directly with Iberclear, without the need to previously formalise them as trading on stock markets. This means that securities listed on Spanish stock markets may be traded outside these markets, both in organised markets (regulated markets or multilateral trading facilities) and on OTC markets.

In order to provide the new settlement and registration system, the Board of Directors of Iberclear approved circulars 5/2010 and 6/2010. The first establishes the rules which regulate the regime and procedure for affiliation of those participants in Iberclear which wish to apply to provide these new settlement and registration services.

For its part, Circular 6/2010 sets the rules which will regulate the procedures for communicating, settling and registering trades of securities admitted to trading on stock markets which are carried out outside said stock markets and which are reported to Iberclear. This Circular is implemented through two operating instructions which provide, respectively, a general settlement procedure and a specific procedure for settling balances which result from netting, through a central counterparty of crossed transactions on a multilateral trading platform. With regard to the second procedure, the new Title VI of its Regulation allows Iberclear to extend the offer of services through links with entities which perform similar functions. The new services include settlement of transactions under delivery against payment and auxiliary activities of maintaining accounts and exercising voting and economic rights. Title VI is implemented, in turn, through Circular 3/2010 ("Opening accounts for other entities which perform similar activities to Iberclear") and Circular 4/2010 ("Opening Iberclear accounts in another central securities depository").

5.1.4 European integration initiatives

In 2010, further progress was made on the different initiatives relating to post-trading in Europe. The most noteworthy aspects are described below.

Target2-Securities (T2S)

With regard to this project, significant progress has been made in the Framework Agreement between the central securities depositories and the Eurosystem and in the functional specifications for users, once the final version of the user requirements was approved in February 2010.

In July 2010, a draft of the Framework Agreement was sent to securities regulators for their opinion. In its formal response, ESMA expressed its support to T2S and provided an assessment on some issues which are currently under discussion. In line with the commentaries of CESR, the Programme Board of T2S is currently continuing negotiations with central securities depositories in order to finalise the Framework Agreement, including its technical annexes. The agreement is expected to be signed in autumn 2011. At the same time, discussions are in progress relating to the framework agreement with central banks which do not belong to the Eurozone and which have shown an interest in settling transactions in their currencies through T2S.

The User Detailed Functional Specifications (UDFS) are contained in a technical document which was drawn up in 2010. This document provides information to the central securities depositories, central banks and other parties directly connected with the project. This will allow the information systems required for interacting with T2S to be developed and built. The document has been presented for public consultation from 23 March to 27 May 2011.

Situation of future European legislation on central securities depositories

In 2010, the European Commission implemented a legislative initiative with regard to central securities depositories and harmonising certain aspects of security settlement in the European Union. This initiative is framed within the aim of the European Commission to develop a common European legislative framework for the main infrastructures related to trading and post-trading (trading platforms, central counterparties, Trade registration storage and central securities depositories).[1]

European equity markets do not currently settle transactions within periods of the same duration (settlement cycle). That is to say, the time from which a transaction is traded on a regulated market up to the time when it is settled may range between two and three days following the trade date (D+2 or D+3). The initiative aims to harmonise settlement cycles. It also proposes other measures, such as provisions for improving settlement discipline.

Furthermore, the legislation is expected to include a definition of the functions or services which central securities depositories offer and to establish a regulatory framework for the free provision of services by these infrastructures within the European Union.

5.2 MEFFCLEAR

The difficulties which some Spanish institutions found in obtaining liquidity through loans from foreign institutions last year favoured greater use of MEFFCLEAR (the clearing central counterparty for repos managed by MEFF RF) as from May 2010. The nominal volume registered in 2010 (274,892 million euros) was the highest figure since the central counterparty was set up, with an increase of 220% compared with 2009, and a daily average of 1,073 million euros.

This increase took the form both of an increase in the activity of the SENAF platform, especially between May and October, and in the central counterparty register, as from July, of bilateral trades between entities. These types of transaction, which had not been registered in MEFFCLEAR since October 2005, accounted for 43% of the nominal volume registered in 2010 and over 90% of the total registered in the months of November and December. In addition to the increase in nominal amounts, the number of transactions registered increased sharply (259%) in 2010. Furthermore, the average period of these transactions increased from 7.9 days in 2009 to 11.1 days in 2010, although there were cases of various operations at nine and twelve months.

In addition, it should be pointed out that during 2010, MEFFCLEAR modified the parameters used for calculating margins, which had remained unchanged since 2003, four times. These changes, mainly caused by the increase in the volatility of public debt prices, affected all tranches, with rises which ranged from 10 bp to 130 bp (with an average of 56%), with the most significant being those of the shortest terms, especially in the tranche of 0.5 to 1.5 years.

Table 5.7 shows that ten new members joined in 2010, leading to the current total of 24 members, 21 of which performed some type of activity.

1 See exhibits 11.1 11.3, which refer to another two initiatives associated with this aim: the reform of the MiFID and the development of a European regulation for market infrastructures respectively.

Activity on MEFFCLEAR

TABLE 5.7

Million euro

	2009	2010
Nominal volume registered on the SENAF platform	85,952	155,380
Nominal volume in bilateral transactions	–	119,512
Total	**85,952**	**274,892**
Number of transactions on SENAF	531	1,188
Number of bilateral transactions	–	717
Total	**531**	**1,905**
Number of members	**14**	**24**

Source: MeffClear/CNMV.

6 Derivatives markets

6.1 General overview

As in previous years, in 2010 most trading on MEFF was concentrated on contracts with underlying equity assets (Ibex 35 and individual shares). It is important to point out that the significant increase in equity trading registered last year on the spot market was not spread evenly over trading in the different MEFF segments. While the number of futures and options on the Ibex 35 increased in line with the development of the spot market, the number of futures and options on individual shares fell significantly, due to the sharp fall in futures trading, as shown in table 6.1. In terms of notional value, trading of equity derivatives on MEFF rose almost 13% compared with 2009 due to the increase in large-size contracts (futures on Ibex 35 Plus). There was also a sharp increase, for the second consecutive year, in trading in the Olive Oil Futures Market, which grew by 50.3% compared with 2009.

Trading on Spain's financial derivatives markets[1] TABLE 6.1

Number of contracts

	2007	2008	2009	2010	% change 10/09
MEFF FI	**13**	**12**	**18**	**14**	**-22.2**
Debt futures	13	12	18	14	-22.2
Debt options	–	–	–	–	–
Mibor futures and options	–	–	–	–	–
Euribor futures	–	–	–	–	–
MEFF Equity	**44,176,717**	**72,988,780**	**86,302,237**	**64,237,649**	**-25.6**
Ibex 35 futures	8,721,832	7,605,341	5,751,818	6,638,925	15.4
Ibex 35 Plus	8,435,258	7,275,299	5,436,989	6,280,999	15.5
Ibex 35 Mini[2]	286,574	330,042	314,829	357,926	13.7
Ibex 35 options	567,077	828,622	435,726	307,242	-29.5
Stock futures	21,294,315	46,237,568	44,586,779	19,684,108	-55.9
Stock options	13,593,493	18,317,249	35,527,914	37,607,374	5.9
Total MEFF	**44,176,730**	**72,988,792**	**86,302,255**	**64,237,663**	**-25.6**
Electronic market	**5,085,503**	**2,872,261**	**1,730,694**	**1,543,241**	**-10.8**
Warrants[3]	5,085,503	2,872,261	1,730,694	1,543,241	-10.8
Pro memoria:					–
Total EuroMEFF	**2,430,363**	**2,038,164**	**1,394,007**	**977,142**	**-29.9**
European debt futures	1,059,113	869,105	558,848	373,113	-33.2
European index contracts	1,371,250	1,169,059	835,159	604,029	-27.7

Source: CNMV. (1) Trading volume on MEFF and EuroMEFF is expressed in number of contracts. Differences in the value of the underlying instruments prevent direct comparisons between products, but year-on-year comparisons are meaningful. (2) The number of Ibex 35 Mini futures (multiples of 1 euro) was standardised to the size of the Ibex 35 Plus futures (multiples of 10 euros). (3) Premiums traded, in thousands of euros, on the electronic market.

Last year saw the introduction of new regulatory legislation for official markets for futures, options and other financial instruments, Royal Decree 1282/2010, which brings a major modification in the model for Spanish regulation for these types of markets. The importance of this new legislation lies in the fact that it allows Spanish futures and options markets to adapt their structures and services to the standards of international markets, allowing them to compete more effectively. MEFF has already adopted its market regulations so as to take advantages of the possibilities offered by the new legislation.

6.2 MEFF

Last year saw a reverse in the upward trend in the number of contracts traded on MEFF over recent years, with a fall of 25.6% compared with 2009. This fall contrasted with the increase in activity on the main European markets, as shown in table 6.2.

Trading on Europe's financial derivatives markets TABLE 6.2

Thousands of contracts

	2007	2008	2009	2010	% change 10/09
Eurex	1,899,812	2,165,043	1,687,159	1,897,403	12.5
NYSE Euronext Liffe	949,022	1,049,730	1,056,012	1,222,556	15.7
Nasdaq OMX	164,155	166,481	102,129	108,611	6.3
MEFF	44,177	72,989	86,302	64,237	-25.6
IDEM/MIF	37,125	35,929	42,583	44,183	3.7

Source: Borsa Italiana, Eurex, Nasdaq OMX, NYSE Euronext and CNMV.

Trading of Ibex 35 options and futures rose by 12.3%, due to the increase in the trading of futures (see table 6.1). There was a noteworthy rise in trading of Ibex 35 Plus futures, with almost 6.3 million contracts traded, 15.5% up on 2009. As indicated above, these contracts are the largest contracts on MEFF.

The behaviour of options on individual Spanish shares was different from that of futures. Trading in equity options rose by 5.9% and these products became the most traded products on MEFF in terms of number of contracts, substituting equity futures. Trading in equity futures fell by 55.9%. This sharp fall was at least partly due to the fall in the number of large volume transactions, which for some years now has occurred on dates close to the payment of dividends on the spot market.

The most liquid and largest-cap underlying assets in the spot market once again accounted for the bulk of trading. In particular, equity options on Banco Santander, BBVA, Telefónica and Iberdrola accounted for 90.2% of the total, and equity futures on the same companies accounted for 82.1% of the total. These percentages are in line with the percentages seen on the spot market for these shares.

The number of MEFF members remained unchanged in 2010, both on MEFF Equity and on MEFF Fixed Income (see table 6.3). However, there were modifications in the number of members of some categories of MEFF Equity. The number of settling custodians fell by two and the number of proprietary trading members fell by one. The number of trading members rose by three.

MEFF membership figures TABLE 6.3

	2009	2010
MEFF Equity	**94**	**94**
Settling custodian members	26	24
Settling members	26	26
Trading members	23	26
Proprietary trading members	19	18
MEFF Fixed Income	**37**	**37**
Settling custodian members	24	24
Settling members	7	7
Trading members	6	6

Source: MEFF and CNMV.

6.2.1 New developments on MEFF

The most important new development in 2010 relating to MEFF's organisation and functioning was the adaptation of its Regulation to Royal Decree 1282/2010, of 15 October, which regulates official secondary markets for futures, options and other derivative instruments, replacing Royal Decree 1814/1991, which is repealed. The main new developments introduced by the new legislation include the following:

– It extends the possibility of carrying out trading, clearing and registration functions (or any one of these functions) for financial instruments with a non-financial underlying asset. This means that governing councils may, if they wish, also offer central counterparty services on OTC derivatives.

– It creates the possibility of trading or registering any type of derivative instrument provided in section 2 of the Securities Market Act, which opens the door to trading contracts with non-financial underlying assets on these markets.

– It establishes a possible double step book register regime made up of the central registry, controlled by the governing council (current system), and possible breakdown registers, controlled by members authorised by the governing council. The first records the balances of proprietary trading by member, the aggregate balance of third-party accounts of registered members and the individual accounts of clients who request it. In the second type of register, the recorders enter the position of their clients, and must ensure that the aggregate balance of these accounts and those held by the recorder in the central registry match. It also provides the possibility of maintaining aggregate accounts (not segregated by final beneficiary) in the breakdown registers for certain counterparties.

– It updates and improves the rules and procedures on margins and reporting and management of defaults, clearly assigning responsibility to whomever carries the risk.

– As in the main international derivatives markets, it introduces a default fund or clearing fund with joint and several liability covered by contributions, for each segment or group of contracts, by all settling members. This guarantee will coexist with that offered by the governing council itself, which will be used once all the resources and guarantees provided by the defaulting member have been used, and at any event prior to the default fund.

– It is now mandatory for governing councils to present a risk report which contains the procedures for identifying, quantifying and reducing risk. The report must allow the CNMV to verify whether the risk management is suitable and if the own funds for meeting possible defaults are sufficient.

6.3 Warrants and certificates

6.3.1 New developments in the segment of warrants, certificates and other items

There were no new developments in 2010 regarding admitted instruments, although two new issuers joined this segment: Barclays Bank PLC and Prisa. The former issued three structured bonds which were incorporated on 20 January, with Renta 4 being the specialist of said bonds. The latter issued warrants on its own shares, which were incorporated to the SIBE on 8 December, with the specialist being Santander Investment Bolsa.

The other new development was the approval through three operating instructions of new progressive dynamic ranges for each warrant according to the size of the premium or the product type. Ranges of 500%, 50% and 15% are established for warrants based on whether their price is lower than 0.10 euros, between 0.10 euros and one euro, or above one euro, respectively. For turbowarrants, inline warrants and other products a range of 500% is set, while for structured certificates and bonds a range of 15% is established. Establishment of dynamic ranges was already provided in Circular 1/2009 of the Sociedad de Bolsas relating to operation of the segment.

6.3.2 Issues

The nine entities active as warrant issuers in 2009 also remained active in 2010. There were 8,375 issues, up 14% on the previous year, while premiums fell by 4.8% to 4.9 billion euros. Currency issues were the only issues in which there was an increase in premiums compared with 2009. This was due, *inter alia*, to the increase in the volatility of the Forex market (see table 6.4). With regard to certificates, one commodity issue was registered, confirming the fall in issues which began in 2009 (see table 6.5).

Warrant issues registered with the CNMV TABLE 6.4

In thousand euro

	Number		Amount of premium				
	Issuers	Issues	Shares	Indexes[1]	Currencies	Commodities	Total
2007	7	7,005	6,215,075	2,313,222	163,201	228,772	8,920,269
2008	8	9,790	6,914,044	4,552,107	425,336	342,850	12,234,336
2009	9	7,342	2,607,091	2,000,077	328,862	229,099	5,165,129
2010	9	8,375	2,537,377	1,852,552	371,084	154,285	4,915,297

Source: CNMV. (1) Includes baskets of securities and of indexes.

Certificate issues registered with the CNMV

TABLE 6.5

In thousand euro

	Number		Amount of premium				
	Issuers	Issues	Shares	Indexes[1]	Currencies	Commodities	Total
2007	2	8	0	385,000	0	33,390	418,390
2008	1	10	31,583	88,500	0	0	120,083
2009	0	0	0	0	0	0	0
2010	1	1	0	0	0	10,136	10,136

Source: CNMV. (1) Includes baskets of securities and of indexes.

6.3.3 Trading

Trading on the secondary market in warrants fell for the fourth consecutive year, with total premiums traded of 1.6 billion euros, 9.3% down on 2009. With the exception of warrants on commodities, which increased by 58.9%, trading fell compared with the previous year, especially in contracts on currencies (-46.1%), as shown in table 6.6. This greater interest in warrants on commodities, especially contracts on oil, coincides with the increase in trading of certificates on the same underlying assets.

Trading in warrants on the electronic market[1]

TABLE 6.6

Premiums traded, in thousand euro

		Premiums traded, by type of underlying				
	No. of issues	Indexes[2]	Shares	Currencies[3]	Commodities	Total
2007	7,837	1,378,286	3,674,848	32,369	44,123	5,129,626
2008	9,770	1,066,510	1,727,644	78,107	71,467	2,943,728
2009	8,038	761,610	907,527	61,557	37,749	1,768,443
2010	7,750	689,565	820,500	33,176	59,970	1,603,211

Source: CNMV. (1) The number records issues which registered trades in each period. (2) Includes baskets of securities and of indexes. (3) Includes fixed-income warrants in the years in which these were traded.

Trading in certificates fell (see table 6.7), especially in contracts on indexes. However, premiums traded of certificates on commodities practically doubled in volume in 2010 and became the second most traded underlying asset, very close to indexes.

Trading in certificates on the electronic market by type[1]

TABLE 6.7

Premiums traded, in thousand euro

		Premiums traded, by type of underlying asset				
	No. of issues	Indexes[2]	Shares	Currencies	Commodities	Total
2007	18	48,494.6	1,299.0	0	0.1	49,793.7
2008	26	13,673.4	1,617.3	0	1,513.8	16,804.5
2009	22	33,087.2	978.1	0	5,095.0	39,160.3
2010	16	10,563.2	1,541.6	0	9,909.7	22,014.5

Source: CNMV. (1) The number records issues which registered trades in each period. (2) Includes baskets of securities and of indexes.

6.4 Other financial contracts

The registration of option contracts with the CNMV rose by 82.8% in 2010, after two consecutive years of falls (see table 6.8). The nominal amount issued was 64 million euros, of which 47 million corresponded to share options and 17 million corresponded to options on baskets of shares. As has been the case since 2007, only one issuer registered this type of contract.

Issues of call and put option contracts registered with the CNMV1 TABLE 6.8

In thousand euro

			Amount of premium				
	Issues	Issuers	Shares	Indexes[1]	Commodities	Exchange rates	Total
2007	3	9	145,000	6,000	0	0	151,000
2008	1	4	77,000	0	0	0	77,000
2009	1	3	25,000	10,000	0	0	35,000
2010	1	7	47,000	17,000	0	0	64,000

Source: CNMV. (1) Includes baskets of securities and of indexes.

6.5 Olive Oil Futures Market

Trading on the Olive Oil Futures Market[1] (MFAO) increased dramatically in 2010. Specifically, a total of 203,935 contracts were traded,[2] an increase of 50.3% compared with 2009, when growth exceeded 128%. This increase was mainly due to applications with a volume of 102,755 contracts, which accounted for 50% of total market trading. Market transactions also increased, although to a lesser extent, amounting to 67,760 contracts, 40.9% up on 2009. In line with the increase in the number of contracts, the average of open positions at the end of 2010 totalled 12,860 contracts. Another noteworthy aspect is that this position was spread among five different maturities, thus allowing the futures market to generate a forward curve of the olive oil market. At the close of 2010, the prices of futures with a later maturity were higher than those with a closer maturity. This is to be expected as they incorporate financial costs and olive oil storage costs, which is known as 'contango'.

The increase in trading on MFAO in 2010 indicates that this market continues with a trend which began last year and is becoming a necessary benchmark for the olive oil sector, as highlighted by the increase in trades performed by industrial members of the market which, until now, held their positions until maturity.

The number of MFAO members rose in 2010 as one new industrial member belonging to the olive oil sector joined (see table 6.9). The other financial members remained unchanged with regard to 2009.

1 The Olive Oil Futures Market (MFAO) began operating on 6 February 2004. It was the first market in the world on which olive oil derivatives are traded.

2 Each olive oil future contract represents one tonne.

MFAO membership figures

TABLE 6.9

	2009	2010
Settling custodian members	5	5
Settling members	5	5
Trading members	2	2
Industrial members	6	7
Total	**18**	**19**

Source: MFAO and CNMV.

III Financial institutions and investment services

7 Collective investment (UCITS)

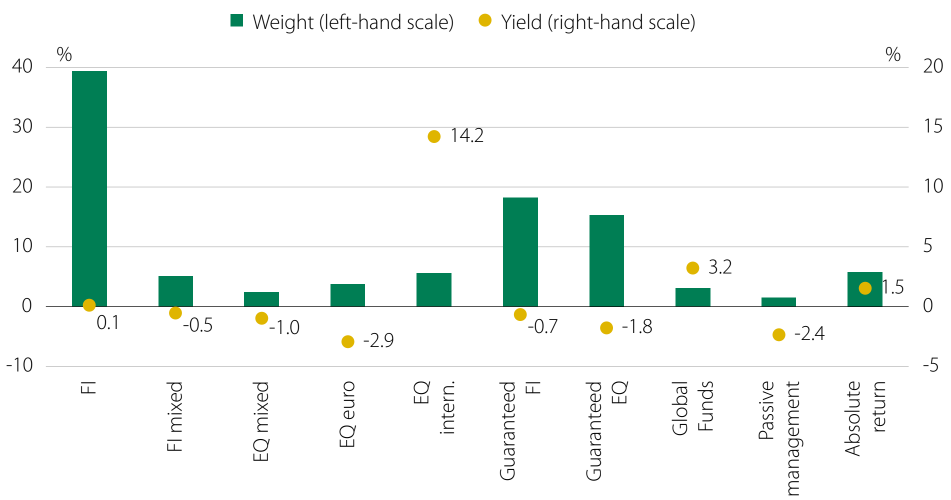
7.1 Mutual funds

Assets managed by mutual funds fell by 15.6% in 2010 to 144 billion euros. This fall was exclusively due to the sharp increase in net redemptions carried out by unit holders, which totalled 25.6 billion euros, twice the figure recorded in 2009, as portfolios produced positive, although limited, gains (see annex II.1).

Aggregate development of the sector was severely affected by the fall in fixed income funds, whose assets fell by close to 30% over the year. The sharp outflow of funds from this category was partially influenced by deposit institutions offering term deposits with high returns. There was also a significant transfer of resources from euro equity funds to international equity funds (see annex II.1). As a result of these changes, the relative importance of the assets of fixed income funds fell by 10% to around 40% of total mutual fund assets at year-end 2010. This category, together with guaranteed fixed income and equity funds accounted for 73% of total mutual fund assets, reflecting the predominantly conservative profile of fund investors (see figure 7.1).

Although yields for mutual funds as a whole were slightly positive in 2010 (0.3%), in most categories yields were negative (see figure 7.1 and annex II.4). International equity funds were clearly the most profitable due to rises in stock markets in the US and in emerging countries (see chapter 1). The other three types of profile with positive yields were fixed income funds, global funds and absolute return funds.

Mutual funds: breakdown of assets and yields by profile FIGURE 7.1



Source: CNMV.

2010 saw a slight increase in the weight of the domestic portfolio, especially debt securities *vis-à-vis* the foreign portfolio, which demonstrated divestment in fixed income securities (see table 7.1). 2009 saw the opposite movement in investments, from the domestic portfolio to the foreign portfolio, although of a similar size to that recorded in 2010. The relative weight of the cash heading continued increasing in 2010, up to 4.5% of assets, a level which is clearly higher than that seen in years prior to the crisis and, at any event, the minimum required by regulation (3%).

Mutual fund asset breakdown[1] TABLE 7.1

Million euros

	2009	%	2010	%	% change 10/09
Assets	**170,547.7**	**100.0**	**143,918.2**	**100.0**	**-15.6**
Financial investment portfolio	**163,165.5**	**95.7**	**137,295.4**	**95.4**	**-15.9**
Spanish securities	100,642.7	59.0	89,630.2	62.3	-10.9
Debt securities	74,629.0	43.8	68,575.1	47.6	-8.1
Equity instruments	4,741.0	2.8	3,829.2	2.7	-19.2
UCITS	9,041.5	5.3	7,338.6	5.1	-18.8
Deposits in credit institutions	11,552.2	6.8	9,460.8	6.6	-18.1
Derivatives	679.0	0.4	426.2	0.3	-37.2
Other	0.0	0.0	0.4	0.0	1,447.8
Foreign securities	62,487.0	36.6	47,626.5	33.1	-23.8
Debt securities	48,435.2	28.4	30,337.4	21.1	-37.4
Equity instruments	7,784.3	4.6	8,385.8	5.8	7.7
UCITS	5,665.4	3.3	8,404.7	5.8	48.4
Deposits in credit institutions	82.4	0.1	108.0	0.1	31.1
Derivatives	518.7	0.3	387.1	0.3	-25.4
Other	1.1	0.0	3.6	0.0	229.6
Doubtful, delinquent or in litigation investments	35.8	0.0	38.6	0.0	8.0
Cash	**7,268.2**	**4.3**	**6,531.4**	**4.5**	**-10.1**
Net balance (debtors/creditors)	**114.1**	**0.1**	**91.4**	**0.1**	**-19.9**

Source: CNMV. (1) Excluding hedge funds and funds of hedge funds.

Management companies continue rationalising the offer of UCITS by means of mergers between funds due to the need to reorganise the excessive supply and to rectify insufficiencies in assets or minimum numbers of unit-holders. Accordingly, of the 283 mutual funds withdrawn from the CNMV registries in 2010, 269 were absorbed by another mutual fund. Furthermore, as in 2009, management companies registered a relatively low number of funds. Almost half of the new funds registered corresponded to the category of guaranteed funds, especially fixed income funds. There was also a significant increase in the registration of funds with greater added value for unit-holders, such as global funds and absolute return funds. Consequently, at the end of 2010, 2,429 mutual funds were registered, 164 fewer than in the previous year (see table 7.2). The average assets per fund fell from 66 million euros in 2009 to 59 million euros in 2010.

Registrations and de-registrations TABLE 7.2

Type of firm	UCITS registered at 31/12/09	Registrations	De-registrations	UCITS registered at 31/12/10
Total financial UCITS	**5,892**	**162**	**427**	**5,627**
Mutual funds	2,593	119	283	2,429
Investment companies	3,232	36	135	3,133
Funds of hedge funds	38	0	6	32
Hedge funds	29	7	3	33
Total real estate UCITS	**16**	**0**	**0**	**16**
Real estate mutual funds	8	0	0	8
Real estate investment companies	8	0	0	8
Foreign UCITS marketed in Spain	**582**	**116**	**38**	**660**
Foreign funds	324	75	20	379
Foreign companies	258	41	18	281
UCITS operators	**120**	**6**	**3**	**123**
Depositories	**124**	**7**	**17**	**114**

Source: CNMV.

The number of unit-holders fell by 6% in 2010 to a little over 5.2 million at the end of the year. Most of the reduction in unit-holders was from fixed income funds, with a fall of 20%. Profiles which recorded an increase in the number of unit-holders included international equity funds and guaranteed fixed income funds (see annex II.1 for further details). Resident natural persons made up 96% of mutual fund investors and accounted for 78% of total assets, similar to the percentages in the previous two years. Average assets per unit-holder totalled 27,900 euros at the end of 2010, 10% down on 2009.

7.2 Investment companies (SICAVs)

There were 3,133 SICAVs registered with the CNMV at the end of 2010, 3.1% down on 2009 (see table 7.2), after 135 entities were de-registered, of which 29 were absorbed by other investment companies. Almost all SICAVs were listed on the Alternative Stock Market. The number of shareholders also fell, as can be seen in table 7.3.

Despite the fall in the number of companies and shareholders, and unlike the development of mutual funds, the assets held by SICAVs increased by 0.9% (see table 7.3), and totalled 26.2 billion euros at the end of the year. This increase was due to the sharp increase in the value of the portfolio, as these UCITS also recorded significant net redemptions. Both the average assets per SICAV and the average assets per shareholder increased slightly in 2010, up to 8.3 million euros and 63,000 euros respectively.

Changes in the composition of the portfolio of SICAVs were notably different to those seen in mutual funds as a whole. The relative weight of the domestic portfolio fell, especially in debt securities, in favour of the foreign portfolio, mainly due to investments in other UCITS. Within the domestic portfolio, the amount invested in deposits in credit institutions doubled in 2010. Furthermore, the relative weighting of the cash heading fell by six percentage points to 3.2% of total assets at the end of 2010.

Investment company asset breakdown TABLE 7.3

Million euros

	2009	%	2010	%	% change 10/09
Assets	**25,924.8**	**100.0**	**26,155.0**	**100.0**	**0.9**
Financial investment portfolio	**24,813.5**	**95.7**	**25,187.3**	**96.3**	**1.5**
Spanish securities	13,514.3	52.1	12,881.4	49.3	-4.7
Debt securities	7,400.5	28.5	5,435.9	20.8	-26.5
Equity instruments	3,376.3	13.0	2,988.6	11.4	-11.5
UCITS	1,091.1	4.2	758.7	2.9	-30.5
Deposits in credit institutions	1,631.5	6.3	3,675.2	14.1	125.3
Derivatives	-6.6	0.0	-5.9	0.0	-10.9
Other	21.7	0.1	29.0	0.1	33.8
Foreign securities	11,294.2	43.6	12,298.1	47.0	8.9
Debt securities	4,606.6	17.8	3,606.8	13.8	-21.7
Equity instruments	3,559.3	13.7	4,166.0	15.9	17.0
UCITS	2,987.4	11.5	4,390.5	16.8	47.0
Deposits in credit institutions	26.3	0.1	12.1	0.0	-54.0
Derivatives	113.0	0.4	119.9	0.5	6.0
Other	1.6	0.0	2.8	0.0	74.2
Doubtful, delinquent or in litigation investments	4.9	0.0	7.9	0.0	61.6
Intangible fixed assets	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Property, plant and equipment	**0.2**	**0.0**	**0.2**	**0.0**	**27.7**
Cash	**976.4**	**3.8**	**832.0**	**3.2**	**-14.8**
Net balance (debtors/creditors)	**134.8**	**0.5**	**135.5**	**0.5**	**0.5**
Pro memoria: No. of shareholders	**419,999**		**417,635**		**-0.6**

Source: CNMV.

7.3 Hedge funds

Hedge funds were only recently introduced in Spain and, although their weight has risen over recent years, they are still small compared with UCITS as a whole, accounting for less than 1% of total assets. At the end of 2010, their assets stood at 1,341 million euros, following falls over two consecutive years. The falls took place both in hedge funds and in funds of hedge funds, although less so in the former. The assets of the former fell by 0.9% in 2010, while the assets of the latter fell by 14.2% over the same period (see annexes II.1 and II.4).

The reason for this reduction in assets was the negative development of net subscriptions, as for both types redemptions exceeded subscriptions, specifically, by 31.5 million euros in the case of hedge funds and 118.3 million euros in the case of funds of hedge funds. Both types of vehicle obtained positive yields in 2010: 5.8% for hedge funds and 3.2% for funds of hedge funds. However, these were notably lower than those obtained in 2009 (15% and 8% respectively) and, at any event, insufficient to offset the negative impact of net redemptions on assets held.

The number of unit-holders developed in a similar way to the amount of assets. Accordingly, the number of unit-holders in hedge funds fell by 3.4%, and the number of unit-holders in funds of hedge funds fell by 17.2%. The average assets per unit-holder remained at a similar level to that of 2009, around 340 thousand euros for hedge funds and 150 thousand euros for funds of hedge funds.

For the first time since they were introduced into the Spanish market in 2006, the total number of hedge funds fell, from 67 in 2009 to 65 in 2010. However, the fall was uneven between the two types of funds. The number of hedge funds increased by four (seven registrations and three de-registrations) to 33. In general, the funds registered in 2010 tended to adopt less complex investment policies than those followed initially by these types of vehicles. In contrast, the number of funds of hedge funds fell to 32, after six de-registrations over 2010. It is also important to point out that 13 of these vehicles were in the process of liquidation at the end of the year.

7.4 Real estate UCITS

Real estate UCITS assets fell in 2010 for the third consecutive year, by 5% to 6,437 million euros. However, the fall in assets was lower than that of the previous two years. Real estate funds, which account for 95% of the total assets of this UCITS segment, underwent net redemptions of 34.6 million euros. The yields obtained in 2010 by real estate funds were also negative (-4.7%), although higher than that of 2009 (-8.3%). Annex II.4 shows the development of yields and net subscriptions of these vehicles over recent years. Unlike real estate funds, the asses of real estate companies rose by 4.3% to 322 million euros.

The number of unit-holders in real estate UCITS fell by 9.8% in 2010, which meant a reduction to approximately half the number of the record reached in 2006. This fall is exclusively due to real estate funds, whose unit-holders fell by 9.9% to a little over 75,000 at the end of the year, as real estate investment companies increased their number of unit-holders by 1.6% up to 943. At the end of 2010, there were 16 entities registered (eight real estate funds and eight real estate companies), the same as in 2009. However, it should be mentioned that in 2010 one real estate fund, which remained registered with the CNMV, concluded the liquidation process started at the end of 2008, and therefore its assets at the end of the year were zero.

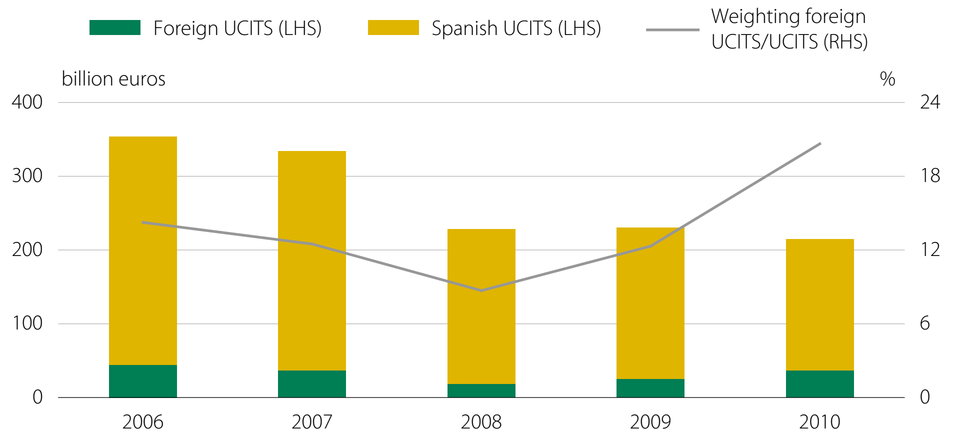
Three real estate funds began the year with suspended or deferred redemptions, one since the end of 2008 and the other two since the beginning of 2009. Of these, in the third quarter one fund carried out a partial split by transferring a part of its assets to a newly-created mutual fund. This new fund grouped together the unit-holders which remained in the real estate fund after extraordinary sales, except for the parent company of the group which the management company belongs to, which remained as the sole unit-holder in the real estate fund. The two other funds remained in the same situation at the end of 2010. One of them announced that they probably would not be able to meet the requested redemptions when the suspension period ends (April 2011), in which case it will be dissolved and liquidated. The other fund lifted the suspension in February 2011, guaranteed for two years, through the sponsoring group, of both redemptions and fund liquidity.

7.5 Foreign UCITS marketed in Spain

The volume on investments of foreign UCITS marketed in Spain once again rose sharply in 2010, up to 36.7 billion euros, 46% more than in 2009, and double the figure in 2008, although still far from the historic high of June 2007 (50 billion euros). At the end of 2010, the assets of foreign UCITS were equivalent to 20% of the assets of Spanish UCITS, compared with 12% in 2009, which demonstrates their better relative performance.

At the close of the year, a total of 660 foreign UCITS were registered with the CNMV, of which 379 were funds and the rest were companies (see table 7.2). There were 116 registrations and 38 de-registrations during the year. Most of the registered institutions are from Luxembourg, followed by France and, at a greater distance, Ireland (see annex II.5).

Assets of foreign UCITS marketed in Spain FIGURE 7.2



Source: CNMV.

7.6 UCITS management companies

In December 2010, there were a total of 123 UCITS management companies registered with the CNMV, three more than at the end of 2009, as there were six new registrations and three de-registrations (see annex II.6). The number of managed UCITS continued falling significantly due to the high number of mergers between funds, as mentioned above. At the end of the year, the assets managed by UCITS management companies fell by 13.1% to 177.1 billion euros, mainly due to the fall in the assets of mutual funds, which are all managed by this type of institution. As in the preceding years, the managed assets were extremely concentrated. Accordingly, at the end of the year, three UCITS management companies accounted for 39.1% of the managed assets, while the top ten management companies by assets managed accounted for 61.6% of the total.

UCITS management commissions, which make up the bulk of the commissions received by UCITS management companies (see table 7.4) fell by 4.2% compared with 2009. This fall was much smaller than that seen in 2009 (over 25%). As a whole, management commissions received accounted for 1% of the assets in 2010, 0.1% greater than the percentage recorded in 2009.

The aggregate gross margin obtained by UCITS management companies rose by 4.4% in 2010 to 634 million euros due to the fall in marketing commissions paid to other entities, which offset the fall in commissions received by the UCITS management companies, and the improvement in proprietary trading. The fall in operating expenses and, to a greater degree, the sharp reduction in impairment losses led to an increase of more than 23% in the net operating profits of management companies. Finally, aggregate profit before tax of UCITS management companies rose by 24.5% to 293.6 million euros, in contrast to the fall of more than 50% recorded in 2009.

Income statements of UCITS management companies

TABLE 7.4

In thousand euro

	2009	2010	% change 10/09
Interest margin	**18,530**	**17,223**	**-7.1**
Net commissions	611,905	617,622	0.9
Commission revenues	1,814,822	1,753,370	-3.4
UCITS management	1,717,148	1,644,818	-4.2
Front-end and back-end fees	41,843	34,124	-18.4
Other	55,831	74,427	33.3
Commission expenses	1,202,917	1,135,748	-5.6
Profit from net financial investments	-9,248	1,610	–
Earnings on capital instruments	2,221	1,026	-53.8
Net exchange differences	-355	-120	-66.3
Other products and net operating charges	-12,312	555	–
Gross profit	**610,742**	**637,917**	**4.4**
Operating expenses	329,680	324,221	-1.7
Personnel costs	199,622	195,697	-2.0
General expenses	130,057	128,523	-1.2
Depreciation, amortisation and other provisions	13,452	14,105	4.9
Impairment losses on financial assets	24,526	82	-99.7
Net operating profit	**243,085**	**299,509**	**23.2**
Other gains/losses	-7,228	-5,964	-17.5
Profit before tax	**235,857**	**293,545**	**24.5**
Corporate Income tax	78,272	86,067	10.0
Profit from continuing operations	**157,585**	**207,478**	**31.7**
Profit from discontinued operations	0	0	0.0
Profit for the year	**157,585**	**207,478**	**31.7**

Source: CNMV.

At the end of the year, the number of loss-making companies amounted to 34, three more than in 2009. However, aggregate losses totalled 20.2 million euros, a little less than half those recorded in 2009, when losses from one entity accounted for half of the losses for the sector[1] (see table 7.5).

1 This entity de-registered as a UCITS management company in July 2010, remaining as a public limited company.

Profit before tax, and the No. of loss-making firms and amount of loss TABLE 7.5

In thousand euro

	Profit before taxes	No. of loss-making firms	Amount of loss
2006	745,188	12	4,507
2007	771,149	19	5,273
2008	497,830	34	19,725
2009	235,857	31	41,379
2010	293,545	34	20,235

Source: CNMV.

7.7 UCITS depositories

At the end of 2010, a total of 114 entities were registered as depositories, 10 fewer than in 2009, due to 17 de-registrations and seven new registrations (see table 7.2). These changes were mainly the result of restructuring of savings banks through mergers of different types. This process will continue through 2011 and may continue affecting the organisation of the sector.

By type of depository, the data corresponding to December 2010 reflects a fall in the market share of banks (from 65.3% to 63.8% of total assets under custody) and of broker-dealers and dealers (from 3.4% to 3.3%). In contrast, savings banks continued gaining market share (from 28.4% to 30.9%), while credit cooperatives maintained their share (1.9%). This trend is similar to that seen over recent years.

8 Provision of investment services

8.1 Credit institutions[1]

At the end of 2010, a total of 189 Spanish credit institutions (banks, savings banks and credit cooperatives) were registered with the CNMV to provide investment services, four fewer than in 2009. In addition, six new foreign credit institutions authorised to provide investment services in Spain registered in 2010, bringing their total to 428, almost all of which were from other Member States of the European Union (418 institutions, five more than in 2009). 367 of the registered foreign credit institutions operated under the free provision of services regime and 61 through branches.

After having fallen by 43% between 2007 and 2009, credit institution revenue for providing services in securities and marketing mutual funds rose by 6.6% in 2010 (see table 8.1). The weighting of these two types of revenue in total credit institution revenue for commissions rose by 0.3% to 17.9%, still well below the 29.5% recorded in 2007.

Credit institution revenue from the provision of securities services and marketing of non-bank financial products TABLE 8.1

Million euro

	2007	2008	2009	2010	% of CIs' total commissions
Securities services	**1,751**	**1,286**	**1,178**	**1,288**	**8.9**
Placement and underwriting	340	124	163	267	1.8
Securities trading	608	467	400	407	2.8
Administration and custody	675	601	533	524	3.6
Asset management	128	94	81	89	0.6
Marketing of non-bank financial products	**4,237**	**3,661**	**3,003**	**3,104**	**21.5**
Mutual funds	2,530	1,801	1,248	1,297	9.0
Pension funds	483	482	446	470	3.2
Insurance	1,131	1,291	1,204	1,242	8.6
Other	93	87	104	95	0.7
Pro memoria:					
Total revenue from commissions	14.534	16.242	14.677	14.466	100.0

Source: Bank of Spain.

1 Credit institutions are allowed to provide investment services provided that the legal regime under which they operate, their articles of association and specific authorisation allow them to do so. The CNMV supervises their activities in this area.

Credit institutions play a central role in providing investment services. As shown in table 8.2, in 2010 credit institutions accounted for almost all the commissions for marketing mutual funds, for administration and custody and for placement and underwriting. However, broker-dealers and brokers held a leading position in securities trading, accounting for 60% of commissions received.

Commissions received for investment services TABLE 8.2

Million euro

	Broker-dealers and brokers	Portfolio management companies	Credit institutions (CI)	Total	% CI/total
Total investment services	**749**	**18**	**2,584**	**3,351**	**77.1**
Placement and underwriting	11	–	267	278	96.0
Securities trading	593	–	407	1,000	40.7
Asset management	33	18	89	140	63.6
Administration and custody	23	–	524	547	95.8
Mutual fund marketing	89	0	1,297	1,386	93.6

Source: CNMV and Bank of Spain.

8.2 Investment services firms[2]

8.2.1 Broker-dealers and brokers

Authorisation and registration

At the end of 2010, a total of 95 broker-dealers and brokers were registered with the CNMV, five fewer than in 2009 (see table 8.3). In 2010, eight firms registered and thirteen firms de-registered, most of which were brokers. Two of the registrations took place as a result of the transformation of a broker into a broker-dealer and four corresponded to independent institutions. With regard to de-registrations, five corresponded to independent institutions, four to institutions belonging to Spanish financial groups and the other four to institutions belonging to foreign financial groups (see annex II.8).

In 2010, there were several significant changes in the controlling interests of broker-dealers and brokers. Specifically, there were seven changes of control, of which three affected broker-dealers and four affected brokers. In six cases, the buyer was a Spanish financial institution (see annex II.11).

Very few broker-dealers and brokers registered in Spain made use of the community passport to operate in other European Union countries. At the end of 2010, only three institutions had branches in other countries (United Kingdom, Italy and Sweden), the same number as in 2009. Under the free provision of services regime, there were 37 institutions authorised at the end of 2010, one more than in 2009. However, there was a significant increase in the countries in which these institu-

2 In accordance with section 64 of the Securities Markets Act, investment services firms cover broker-dealers, brokers, portfolio management companies and financial advisory firms.

tions provide services (as one entity may provide services in one or several States), mainly as a result of two institutions which began to operate in 11 new countries, all in Eastern Europe (see annex II.10).

Registrations and de-registrations TABLE 8.3

Type of firm	Firms at 31/12/2009	Registrations	De-registrations	Firms at 31/12/10
Spanish firms	**100**	**8**	**13**	**95**
Broker-dealers	50	2	2	50
Stock market members	37	1	2	36
Non-members	13	1	0	14
Brokers	50	6	11	45
Stock market members	7	1	2	6
Non-members	43	5	9	39
Foreign firms	**1,940**	**294**	**58**	**2,176**
With a branch	36	9	4	41
Free provision of services	1,904	285	54	2,135
Pro memoria:				
Representatives	6,740	1,030	573	7,197

Source: CNMV.

As shown in table 8.3, in 2010 many institutions authorised in other Member States informed the CNMV of their intention to begin providing investment services in Spain. The increase was mainly concentrated in institutions under the free provision of services regime. The number of these firms increased from 1,904 to 2,135, with the most significant increase being in the number of foreign institutions with a branch (from 36 to 41). Most of the new registered institutions are from the United Kingdom (see annex II.10).

Profitability and solvency

In 2010, the sector once again saw a fall in profits before tax, although less than in previous years. Considering broker-dealers and brokers together, aggregate profit before tax totalled 285.7 million euros, a fall of 20% on the previous year. In relative terms, and unlike the previous year, the fall was greater in broker-dealers (20.4%) than in brokers (6.4%) and, in both cases, lower than that recorded in 2009 (28.6% for the former and 53% for the latter). The number of institutions which improved their results increased compared with previous years, totalling practically half of all broker-dealers and brokers operating at the end of the year. Broker-dealers generated 96.7% of the profit before tax for the sector in 2010.

As shown in table 8.4, the fall in profits of broker-dealers was mainly the result of proprietary trading and, specifically, the fall in the interest margin, which went from 163.3 million euros in December 2009 to 102 million euros in December 2010. This fall was mainly concentrated in interest received for financial assets, which fell by 56.9%. One of the causes of this fall was the recomposition of the aggregate securities portfolio, which changed substantially in 2010. Debt securities went from 22.3% of the total to 16%, while the relative weight of shares went from 36.9% of the total portfolio in 2009 to 67.8% in 2010.

Income statement for broker-dealers[1] TABLE 8.4

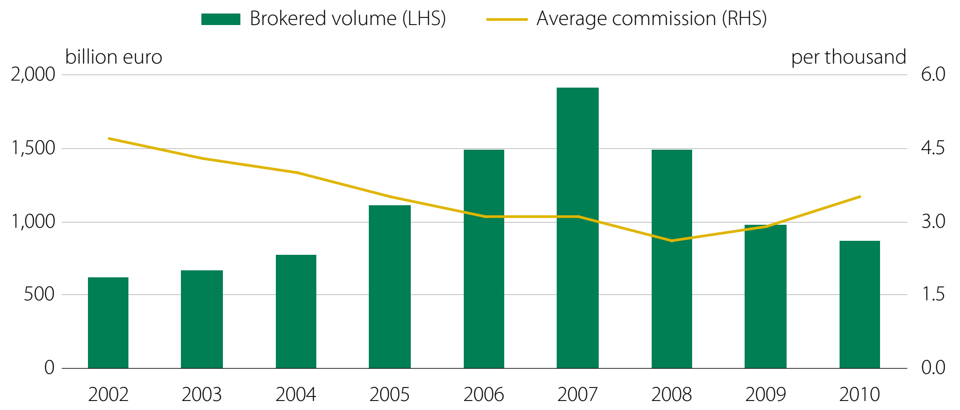
Thousand euro

	2009	2010	% change 10/09
Interest margin	**163,272**	**102,054**	**-37.5**
Net commissions	**562,082**	**533,858**	**-5.0**
Commission revenues	782,214	798,152	2.0
Order processing and execution	548,362	555,207	1.3
Placement and underwriting	26,326	8,499	-67.7
Deposit and entry of securities	16,183	22,367	38.2
Marketing UCITS	63,341	65,487	3.4
Portfolio management	11,768	13,880	18.0
Investment advisory services	57,051	49,433	-13.4
Other	59,183	83,278	40.7
Commission expenses	220,133	264,294	20.1
Profit from financial investments	**45,266**	**48,588**	**7.3**
Net exchange differences	22,582	24,445	8.3
Other products and operating charges	-762	1,635	–
Gross profit	**792,440**	**710,580**	**-10.3**
Operating expenses	412,998	415,433	0.6
Staff costs	275,453	270,465	-1.8
General expenses	137,546	144,968	5.4
Depreciation, amortisation and other provisions	-48,401	6,006	–
Impairment losses on financial assets	88,137	12,888	-85.4
Net operating profit	**339,706**	**276,253**	**-18.7**
Other gains/losses	10,256	2,265	-77.9
Profit before tax	**349,962**	**278,519**	**-20.4**
Corporation tax	98,977	81,685	-17.5
Profit from continuing operations	**250,984**	**196,834**	**-21.6**
Profit from discontinued operations	0	0	–
Profit for the year	**250,984**	**196,834**	**-21.6**

Source: CNMV. (1) Includes information from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

Providing services to third parties, which is the main source of revenue as it provides, in net terms, 75% of their gross margin, fell by 5%. This fall was lower than that seen in the previous year (21.4%). Most of the commissions received by broker-dealers still come from order processing and execution, which rose slightly in 2010 and totalled 555.2 million euros. This is mainly due to the increase, for the second consecutive year, of the average effective commission applied in Spanish equity markets (see figure 8.1). With regard to commissions received, there was a significant fall in commissions for issue placement and underwriting, which totalled 8.5 million euros compared with 26.3 million euros in 2009, which is in line with the low level of activity in primary markets.

Broker-dealers which are stock market members: brokered volume and average effective commission in Spanish equity FIGURE 8.1



Source: CNMV.

Gross profit, which measures the net revenue generated by the ordinary activities of broker-dealers, fell by 10.3% compared with 2009. Operating expenses rose slightly after falling by more than 7% in 2009. There was a significant fall in net impairment losses on financial assets, which was partially offset by the heading of depreciation, amortisation and other provisions. Accordingly, the net operating profit fell by 18.7% to 276.3 million euros.

As has increasingly been the case in recent years, a small number of firms generated most of the profits of this sub-sector. Specifically, five broker-dealers with the highest profits accounted for 60.1% of the total. Despite the overall fall in profits, profits increased around 45% for broker-dealers. Furthermore, although the number of loss-making broker-dealers remained at ten, as in 2009, the total amount of losses before tax totalled 10.7 million euros, approximately half that of the previous year. Nine of the ten loss-making broker-dealers were independent firms.

Unlike broker-dealers, brokers may not invest on their own account. Therefore, their revenue almost exclusively comes from providing services to third parties. Brokers which are stock market members obtain most of their revenue from processing and executing orders, while most non-member brokers, which make up the majority, have tended to specialise in certain services. Most brokers are independent firms (35 out of a total of 45), whereas broker-dealers are mostly controlled by a financial group (38 out of 49).

As shown in table 8.5, in 2010 the aggregate profit before tax of brokers fell by 6.4% to 9.5 million euros. The main source of revenue for brokers, which are commissions received for providing business services, totalled 126.1 million euros, 12.7% down on the previous year. The fall in revenue was generalised in all types of commissions, except those from providing investment advice, which increased slightly. Particularly noteworthy, because of their relative weighting, were the commissions for processing and executing orders,[3] which were those which fell most (29.1%). The commissions for marketing UCITS, second in importance, remained stable at around 24 million euros. As a consequence of the above, the aggregate gross margin

3 Commissions for processing and executing orders accounted for over 78% of commission revenues for brokers which are members of the stock market and 21.7% for non-members.

of these firms fell by 15.9%. However, net operating profit rose by 8.6%, thanks to an 18.2% reduction in operating expenses.

Income statement for dealers[1] TABLE 8.5

Thousand euro

	2009	2010	% change 10/09
Interest margin	**2,654**	**1,629**	**-38.6**
Net commissions	**127,457**	**109,165**	**-14.4**
Commission revenues	144,351	126,055	-12.7
Order processing and execution	53,855	38,176	-29.1
Placement and underwriting	2,950	2,748	-6.9
Deposit and entry of securities	509	366	-28.1
Marketing UCITS	23,968	23,946	-0.1
Portfolio management	19,584	19,489	-0.5
Investment advisory services	2,750	2,790	1.5
Other	40,735	38,540	-5.4
Commission expenses	16,894	16,890	0.0
Profit from financial investments	**1,866**	**456**	**-75.6**
Net exchange differences	-296	-3	99.1
Other products and operating charges	-1,042	-1,413	-35.6
Gross profit	**130,640**	**109,834**	**-15.9**
Operating expenses	119,224	97,582	-18.2
Staff costs	72,206	58,886	-18.5
General expenses	47,018	38,697	-17.7
Depreciation, amortisation and other provisions	2,651	2,817	6.3
Impairment losses on financial assets	55	-23	–
Net operating profit	**8,709**	**9,457**	**8.6**
Other gains/losses	1,412	19	-98.7
Profit before tax	**10,121**	**9,476**	**-6.4**
Corporation tax	5,747	3,024	-47.4
Profit from continuing operations	**4,374**	**6,452**	**47.5**
Profit from discontinued operations	0	0	–
Profit for the year	**4,374**	**6,452**	**47.5**

Source: CNMV. (1) Includes information from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

The individual performance of brokers was not evenly spread. Practically half of these firms which were registered both at the end of 2009 and at the end of 2010 (41 in total) improved their profit/loss before tax. The number of loss-making firms fell from 15 to 12, of which five had already suffered losses in the previous year. In addition, the amount of the aggregate losses before tax fell substantially to a little over five billion euros, compared with almost 8.8 billion euros in 2009 (see table 8.6).

Profit before tax, and the No. of loss-making firms and amount of the losses before tax

TABLE 8.6

Thousand euro

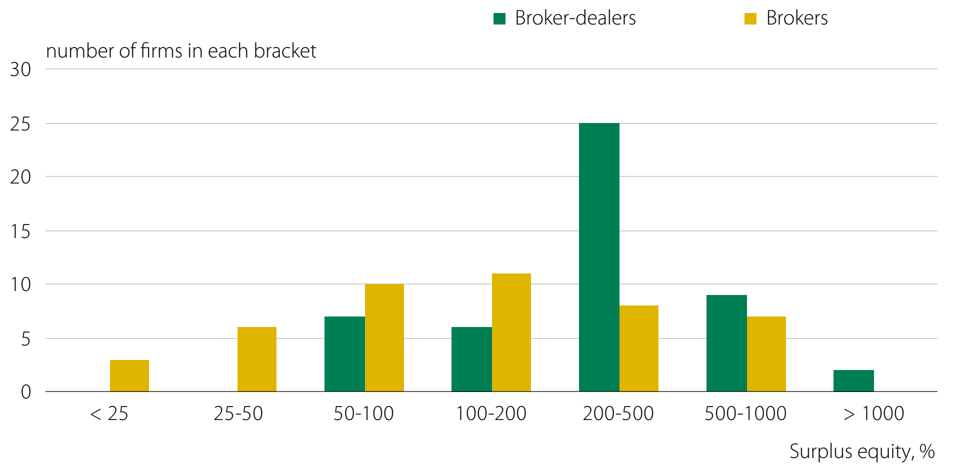
	Profits before tax[1]	No. of loss-making firms	Amount of the losses before tax
Broker-dealers			
2007	769,116	2	-14,437
2008	502,893	8	-13,356
2009	349,962	10	-21,832
2010	278,691	10	-10,682
Brokers			
2007	117,234	7	-3,261
2008	22,408	17	-9,911
2009	10,121	15	-8,792
2010	9,476	12	-5,057

Source: CNMV. (1) Includes results from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

The solvency of the sector as a whole still remains high, although aggregate surplus equity has fallen slightly since new legislation, which requires greater own funds, entered into force in 2009.[4] At the end of 2010, the equity surplus for the sector was 3.2 times higher than the capital requirements, compared with 3.4 times in 2009. These margins are, in general, much greater in broker-dealers than in brokers. While the equity surplus ratio for broker-dealers was 3.3, for brokers it was 1.9. With regard to the distribution of this ratio, figure 8.2 shows that most broker-dealers at the end of 2010 had surplus equity greater than 200%. In contrast, two thirds of brokers were below that threshold. It should be pointed out that, unlike the previous year, no institution had an equity deficit in 2010. Of the six institutions which reported an equity deficit at the end of 2009, four de-registered and two recovered, once again reaching an equity surplus.

Surplus equity over minimum requirements for broker-dealers and brokers

FIGURE 8.2



Source: CNMV.

4 CNMV Circular 12/2008 on the solvency of investment firms and their consolidatable groups.

8.2.2 Portfolio management companies

In 2010, three portfolio management companies de-registered,[5] bringing the number of companies registered with the CNMV to six at the end of the year. Two of the three de-registered companies were converted into another type of firm so as to be able to offer their clients a wider catalogue of investment services (see annexes II.6 and II.8).

At the end of 2010, assets managed by portfolio management companies totalled 2,889 million euros, 2.9% down on 2009. The main revenue heading - portfolio management commissions - fell by 2.4%. The fall in gross margin and the increase in operating expenses, both below 2%, led to an 11% fall in net operating profit (see table 8.7). Aggregate profit before tax totalled 1.2 million euros, 7% down on the previous year. One firm recorded losses for the third consecutive year.

Income statements of portfolio management companies[1] TABLE 8.7

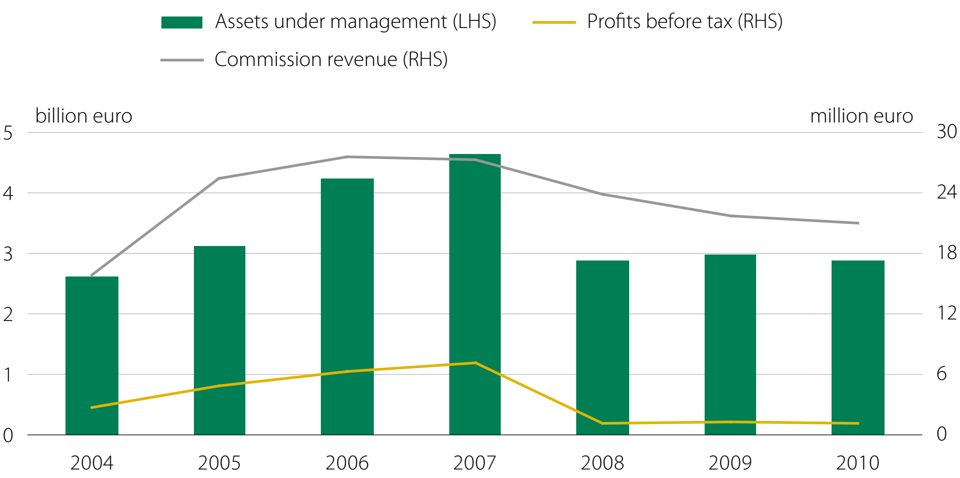
Thousand euro

	2009	2010	% change 10/09
Interest margin	**341**	**407**	**19.4**
Net commissions	**10,734**	**10,097**	**-5.9**
Commission revenues	21,750	20,994	-3.5
Marketing UCITS	18	34	88.9
Portfolio management	18,463	18,020	-2.4
Investment advisory services	2,698	1,160	-57.0
Other	571	1,779	211.6
Commission expenses	11,016	10,897	-1.1
Profit from financial investments	**92**	**51**	**-44.6**
Net exchange differences	5	9	80.0
Other products and operating charges	-389	13	–
Gross profit	**10,784**	**10,577**	**-1.9**
Operating expenses	9,144	9,305	1.8
Staff costs	4,946	4,959	0.3
General expenses	4,199	4,346	3.5
Depreciation, amortisation and other provisions	208	118	-43.3
Impairment losses on financial assets	135	0	-100.0
Net operating profit	**1,296**	**1,154**	**-11.0**
Other gains/losses	-15	38	–
Profit before tax	**1,281**	**1,192**	**-7.0**
Corporation tax	392	254	-35.2
Profit from continuing operations	**889**	**939**	**5.6**
Profit from discontinued operations	0	0	–
Profit for the year	**889**	**939**	**5.6**

Source: CNMV. (1) Includes information from all firms which were included in the CNMV registries at any time during the year, and not only at year-end.

5 One of the three portfolio management companies was converted into a UCITS management company, another into a broker and the third discontinued its activity as an investment services firm and became a public limited company under the standard regime.

Assets under management, commission revenues and profits before tax of portfolio management companies FIGURE 8.3



Source: CNMV.

In 2010, all portfolio management companies continued to amply exceed minimum equity requirements. At the end of 2010, portfolio management companies had an overall equity surplus amounting to 119%.

8.2.3 Financial advisory firms

Financial advisory firms are a type of investment services firm which began operating in 2009 under Spanish legislation which transposed the Directive on Markets in Financial Instruments (MiFID). Financial advisory firms exclusively make personalised recommendations for their clients about their transactions with financial instruments.

At the end of 2010, 52 financial advisory firms were registered with the CNMV. None of these firms belong to financial groups. Total assets under advisory services amount to 15,853 million euros. Although almost all the advisory service contracts signed corresponded to retail clients (97% of the 2,423 contracts), these contracts only accounted for 11% of the assets under advisory services.

9 Venture capital firms

9.1 Venture capital firms registered with the CNMV

2010 saw a slight increase in the number of venture capital firms. At the end of the year 333 firms were registered, of which 150 were venture capital funds, 108 venture capital companies and the rest were management companies. In total, there were 22 registrations and 17 de-registrations (see table 9.1).

There were more 13 de-registrations in 2010 than in 2009. As in 2009, a large part of the de-registrations were the result of problems in implementing new projects. 11 venture capital companies de-registered, one more than in 2009, mostly companies which on average had been registered for less than five years. There were two more de-registrations of venture capital funds than in 2009. Three management companies de-registered, one more than in 2009, as they did not reach the volume of assets managed set as a target for their investment vehicles.

Registrations and de-registrations TABLE 9.1

Type of firm	Firms registered at 31/12/09	Registrations	De-registrations	Firms registered at 31/12/10
Venture capital management companies	74	4	3	75
Venture capital companies	153	8	11	150
Venture capital funds	101	10	3	108
Total VCF	**328**	**22**	**17**	**333**

Source: CNMV.

The main characteristics of the new firms registered in 2010 are as follows:

– As in the last three years, most new firms (venture capital funds and companies) adopted the simplified system (94%).

– The new venture capital firms mostly invested in small and medium-sized companies in their early growth stages. In particular, it is worth noting the registration of funds aimed at entrepreneurs focusing on small companies in the technological sector.

– There is a clear diversity in the target sectors for investment. From the second half of 2010, there were no longer registrations of projects focused on the photovoltaic solar energy sector, which had taken on major importance in previous years. There were also some registrations of new firms for carrying out leveraged transactions, which had not taken place since the first half of 2008.

– With regard to the geographical location of investments, the new vehicles mostly focused on Spain, although in some cases activity focused on geographic regions or districts.

On 29 October 2010, the official state gazette (BOE) published CNMV Circular 3/2010, of 14 October, on administrative procedures for the authorisation of venture capital firms and their management companies, for the authorisation of amendments to their regulations and articles and for disclosing changes of directors and executives. This Circular has four aims. The first is to establish the presentation and minimum content of the documentation which must accompany the application for prior authorisation of venture capital firms and their management companies. Similarly, with the aim of simplifying the administrative process, the CNMV is empowered to provide the promoters of these firms with permanent standard forms updated in its virtual office. The second aim is to establish the procedures and documents for prior authorisation, when necessary, of the articles of association of venture capital companies and the management regulations of venture capital funds, as well as the articles of association of venture capital management companies. The third aim is to implement a general resolution classifying certain modifications to the articles of association of venture capital companies and management regulations of venture capital funds as of limited importance. The final aim is to establish the procedures, documents and deadlines for disclosing changes in directors and executives of venture capital companies and management companies.

9.2 Sector data

According to primary data from the ASCRI (Spanish Venture Capital Association), investment in venture capital in Spain totalled 3,435 million euros in 2010. This represents an increase of 106% compared with 2009, which was due to the performance of major leveraged deals, all of which were greater than 100 million euros. In contrast, only one deal greater than this amount was registered in 2009.

The leverage of deals closed in 2010 was slightly lower than that in the period prior to the financial crisis, particularly in 2006 and 2007. Accordingly, in 2010, investors contributed a greater proportion of own funds which, in no case, were lower than 50% of the capital invested. The total number of deals fell in 2010 compared with 2009, with a total of 823 deals compared with 923 in the previous year. However, there was an increase in the average volume per deal due to, as mentioned above, six deals for more than 100 million euros.

There was considerable growth in funds raised compared with the previous year, amounting to 3,070 million euros, an increase of 161.5%. A large part of these funds corresponded to Europe-wide operators. Furthermore, it is important to highlight that two venture capital funds registered with the CNMV with committed amounts greater than 100 million euros, and that an additional contribution of 300 million euros was made to one venture capital fund, the Fondo de Economía Sostenible (sustainable economy fund) of the Government of Spain.

According to data from ASCRI, divestments rose by 61% compared with 2009.[1] However, the selling funds are currently finding it difficult to divest in markets by means of public offerings. These difficulties led to some planned deals not being completed over recent months.

1 Almost all divestments were carried out through sales to other financial investors or industrial groups.

IV The regulation and supervision of securities markets

10 Issuers' financial and corporate governance disclosures

10.1 Financial disclosures

10.1.1 Auditors' reports and financial statements[1]

Issuers of securities listed on an official secondary market or on any other regulated market domiciled in the European Union, when Spain is the Member State of origin, are obliged to send to the CNMV the auditors' report accompanied by the annual financial statements, the management report and the statements of responsibility for their content, with the exceptions provided for in the rules.[2]

Main characteristics of the information presented

The number of auditors' reports on annual financial statements for 2009 received by the CNMV during 2010 totalled 965, 5.5% more than the previous year, which is explained by the 14.9% increase in the number of reports corresponding to securitisation trusts. However, the number of reports corresponding to issuers with listed shares fell by 3.3%, due to the delistings and mergers which took place during the year. The CNMV also received a total of 54 special auditors' reports.

The auditors' reports corresponding to the annual financial statements of 2009 show a slight increase in the number of qualified reports, amounting to 6.1% of the total (see table 10.1). If we exclude securitisation trusts, all but one of whose auditors' reports were unqualified, the increase in the percentage of reports with qualifications is even greater, rising to 12.7% of the total (versus 11.6% in 2008 and 6.9% in 2007). The auditor issued a denial of opinion in two companies which are currently in the process of being wound up and whose shares are suspended from trading.

With regard to the reason for the qualifications, the most common reason was that the auditors' reports had some type of uncertainty, with 57 reports in this situation (52 in 2008 and 28 in 2007). However, while in 2008 the increase was mainly due to the increase in the number of companies facing a material risk of being unable to continue to trade, in 2009 there was growth in the number of uncertainties associated with asset recovery.

1 This information is available on the CNMV website at www.cnmv.es in the section "Audited annual accounts", under the headings "Registration Files", "Issuers Filings: Information under regulation and other", and "Annual Accounts".

2 See Article 35 of the Securities Market Act 24/1988. Entities exempt from this obligation are "[...] Member States of the European Union, Autonomous Regions, local authorities and other similar entities […], international public organisations of which at least one Member State of the European Union is a member, the European Central Bank, and the national central banks of Member States […]; and issuers which only have outstanding issues of debt securities listed on an official secondary market […] whose par unit value is at least €50,000 [...]".

Scope limitation opinions are especially worrying qualifications because they mean that the auditor did not have enough information to form a proper opinion on the accounts. Initially there were nine auditors' reports on the accounts for 2009 with scope limitations, corresponding to six securities issuers, in response to deficiency letters issued by the CNMV. Once the procedures set out in the Technical Auditing Standards were applied, the auditors removed the limitations in five of these reports, corresponding to three entities. In one of the cases the situation which gave rise to the scope limitation resulted in one qualification due to non-compliance with generally accepted accounting principles and one uncertainty.

The number of auditors' reports with errors or non-compliance with generally accepted accounting principles and standards (opinion with exceptions) remained the same as the previous year.

Summary of the audits of issuers received by the CNMV

TABLE 10.1

	2007		2008		2009	
	Number	%	Number	%	Number	%
Audits received by the CNMV	**875**	**100**	**915**	**100**	**965**	**100**
Separate accounts	671	76.7	721	78.8	776	80.4
Consolidated accounts	204	23.3	194	21.2	189	19.6
Special reports under Ministerial Order 30/9/92	34		56		54	
Auditing opinion						
Unqualified opinion	840	96.0	860	94.0	906	93.9
Opinion with uniformity exception	0	0.0	0	0.0	0	0.0
Opinion with other qualifications	35	4.0	55	6.0	59	6.1
Types of qualification, excluding uniformity exceptions						
Audits with exceptions	11	1.3	6	0.7	6	0.6
Audits with uncertainties and other	28	3.2	52	5.7	57	5.9
Audits with scope limitation opinions	3	0.3	6	0.7	4	0.4
Effects of the exceptions						
Effects of exceptions on earnings						
Audits with positive effects	2	0.2	2	0.2	0	0.0
Audits with negative effects	7	0.8	0	0.0	4	0.4
Effects of exceptions on equity						
Audits with positive effects	0	0.0	0	0.0	2	0.2
Audits with negative effects	1	0.1	2	0.2	0	0.0
Nature of the uncertainties, etc.						
Going concern	12	1.4	35	3.8	34	3.5
Tax contingencies	1	0.1	3	0.3	2	0.2
Asset recovery	8	0.9	19	2.1	25	2.6
Litigation	5	0.6	5	0.5	1	0.1
Other uncertainties	4	0.5	9	1.0	17	1.8
Denial of opinion or adverse opinion	5	0.6	3	0.3	2	0.2

Source: CNMV.

Actions of the CNMV

The Securities Market Act entrusts the CNMV with the task of checking that the periodic public information included in annual financial statements is prepared in accordance with applicable standards. In order to perform this duty, the CNMV is empowered to require listed companies to publish additional information, reconciliations, corrections or, if necessary, reformulations of the published financial information.

In this process it is normal for the CNMV to write to issuers, asking them for further information on particular issues. In 2010, a total of 96 issuers were sent such deficiency letters, either due to audit qualifications or to request further information concerning the annual financial statements for 2009.

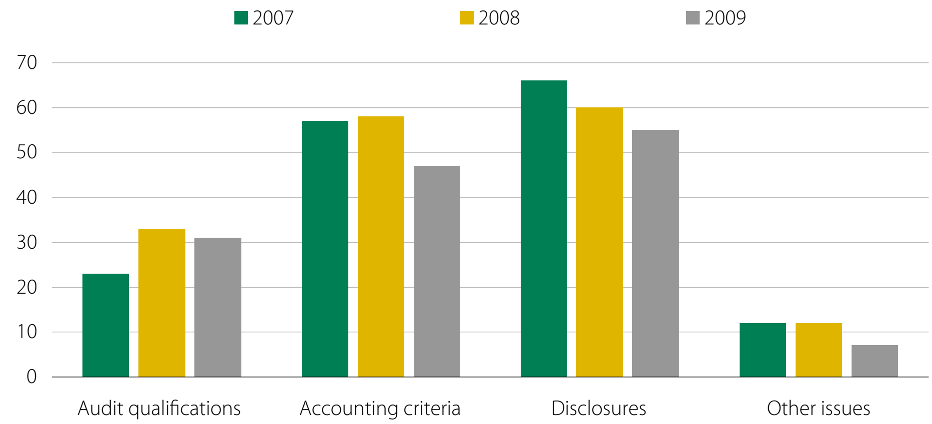
For their supervision of annual financial statements, the CNMV establishes two levels of review. Firstly, all reports received by the CNMV are submitted to a formal review, which in the case of the annual financial statements and management reports for 2009 was focused on the following, but not only aspects: i) statements of responsibility for the content of the annual financial statements; (ii) the inclusion in the management report of an Annual Corporate Governance Report; (iii) detailed capital management information; (iv) the follow-up of issues detected in previous reviews; (v) the impairment of available for sale assets held by credit institutions; and (vi) the differences between the annual financial statements and the financial reporting of the second half-year submitted previously.

In certain cases the extent of formal reviews has increased this year. In fact, 26 of the 37 companies which were sent deficiency letters at this level of review were asked to provide further information on issues relating to accounting policies and breakdowns.

The CNMV also performs a substantive review on a certain number of annual audited financial statements. Entities are chosen to be the subject of this substantive review on the basis of a mixed selection technique based on risk and random rotation, in conformity with the principles set out in standard number 1 of the Committee of European Securities Regulators (CESR) on financial information.

The substantive review of the annual financial statements and management reports of issuing companies has resulted in 59 entities being sent deficiency letters in connection with audit qualifications, omissions of information, clarifications of accounting criteria and valuation methods applied, the distribution and 3-year trend of which are shown in figure 10.1 below.

Substantive reviews: number of deficiency letters, broken down by reason FIGURE 10.1



Source: CNMV.

It should be noted that the annual report on the supervision of the annual financial statements for 2008 contained a breakdown of the areas on which the review of the annual financial statements for 2009 was going to focus. Table 10.2 lists the number of deficiency letters sent with regard to each area.

Information required concerning accounting policies and information breakdowns TABLE 10.2

No. of deficiency letters	Accounting criteria	Information breakdowns
Valuation criteria applied to financial instruments and main risks and uncertainties (IFRS-7, IAS-32, IAS-39)	34	39
Business combinations and consolidation (IFRS-3, IAS-27, IAS-28, IAS-31)	18	19
Valuation of inventory and property investments (IAS-2, IAS-40)	3	13
Corporate income tax (IAS-12)	7	25
Revenue recognition criteria and percentage of completion (IAS-18, IAS-11)	7	3
Related party transactions (IAS-24)	–	3
Accounting for asset impairment (IAS-36)	20	30

Source: CNMV.

In addition, 36 deficiency letters were sent in connection with the 508 reports from securitisation trusts received for 2009.

During its review of annual financial statements, the CNMV held work meetings with 55 listed entities, with each of the four major auditing firms, and with the seven securitisation trust management companies registered with the CNMV.

For the purpose of facilitating the dissemination of financial information, the CNMV publishes on its website (www.cnmv.es) the full text of annual financial statements, management reports, and the auditors' report on the issuing companies, both separate and consolidated, together with a summary of audit qualifications, responses to deficiency letters issued, and special auditors' reports

In accordance with CESR recommendations, the CNMV also publishes an annual report on the supervision of the annual financial statements received by the CNMV, which describes the main incidents detected in the review of annual and interim financial statements, and identifies areas of the financial statements which will be subject to closer scrutiny in the review of the annual financial statements for the following year.

The CNMV required one issuer to restate their consolidated financial statements for 2009, and to rectify their consolidated public disclosures for that year, after having detected breaches of the recognition and valuation principles set forth in current regulations with a significant material impact. In the case of another five issuers, breaches of recognition and valuation principles were detected which, due to their relative immateriality, did not require the restatement of the annual financial statements, but needed to be rectified in the annual financial statements for 2010 with the presentation of the corresponding comparative information with the previous year.

10.1.2 Half-yearly and quarterly reporting

Issuers of securities listed on an official secondary market or on any other regulated market domiciled in the European Union, when Spain is the Member State of origin, are obliged to send financial information to the CNMV on a quarterly or half-yearly basis.[3]

The CNMV constantly monitors these interim financial disclosures to detect any issues that might raise doubts as to the proper application of accounting standards. The scope of review of this information is narrower than that of the annual financial statements and is performed during the month following its receipt by the CNMV. The review work required phone calls to 47 entities to ask for clarifications or to correct errors in the financial statements for the second half-year of 2009, and to 29 companies on the financial reporting of the first half-year of 2010. A total of 15 deficiency letters were also sent to request the completion or correction of the information published.

It should be noted that 33.7% of all issuers, as opposed to 35.1% the previous year, subjected their abridged annual financial statements for the first half-year of 2010 to a full audit or limited review by their auditors. This percentage rises to 82.3% (76.5% in 2009) if only entities forming part of the Ibex 35 are considered. Of the entities which submitted their financial statements to some type of review by auditors, only six contained qualifications in their reports. These qualifications had already been included in the auditors' reports of the annual financial statements for 2009.

10.1.3 New regulatory developments

Circular 2/2009, published in March 2009 on accounting standards, annual accounts, public financial statements, and confidential statistical returns of securitisation trusts, contained a general framework for the impairment of financial assets similar

3 Article 35 of the Securities Market Act 24/1988.

to the one provided for by the Spanish General Chart of Accounts, which did not include specific default provision schedules. On 1 March 2010, Law 2/2010 was promulgated, amending article 12 of the consolidated text of the Corporate Income Tax Act, with the effect of validating for asset securitisation trusts (Spanish acronym: FTA) the impairment regime which already existed for credit institutions. In October 2010, the CNMV approved Circular 4/2010, which did include the aforementioned impairment regime, with the qualifications and exceptions that the nature of securitisation trusts demand.

With regard to internal control, in June 2010 the CNMV released the document "Internal Control over Financial Reporting in Listed Companies", the outcome of a CNMV initiative involving the creation of a group of external experts (a GTCI or Inter-Institutional Technical Coordination Group) which had the support of the Commission's services. Among the legislative initiatives necessary for the implementation of the proposals made by the aforementioned group was the inclusion in the Annual Corporate Governance Report (hereinafter ACGR) of a section to report on the Internal Control over Financial Reporting in Listed Companies (ICFR). Thus Law 2/2011, of 4 March, on Sustainable Economy, expands on the minimum content of the ACGR which, as from 1 January 2011, requires a description of the main characteristics of the internal control and risk management systems in connection with the process of issuing financial reporting.

Once the law is enacted, this change in the regulations will mean that the CNMV will have to start taking the necessary measures to change the current model of the ACGR by issuing the corresponding circular, and to incorporate, among other aspects, the working group's recommendations regarding the ICFR.

The expert group recommended that the external auditor should become involved through a limited scope review of the description of the ICFR, assuming that the entities should report the reasons for not performing such a review. Professional associations of auditors are currently preparing a practical guide which, once finished, will be published on the CNMV's website.

Meanwhile, Law 12/2010 of 30 June, amending the Audit Act, provides for the audit committees of listed companies to have new competencies, among which is the oversight of the effectiveness of internal control and risk management systems. The expert group's document includes voluntary guidelines for performing the duties of the Audit Committee as an ICFR supervisor.

10.2 Information relating to significant shareholders, directors, executives and own shares

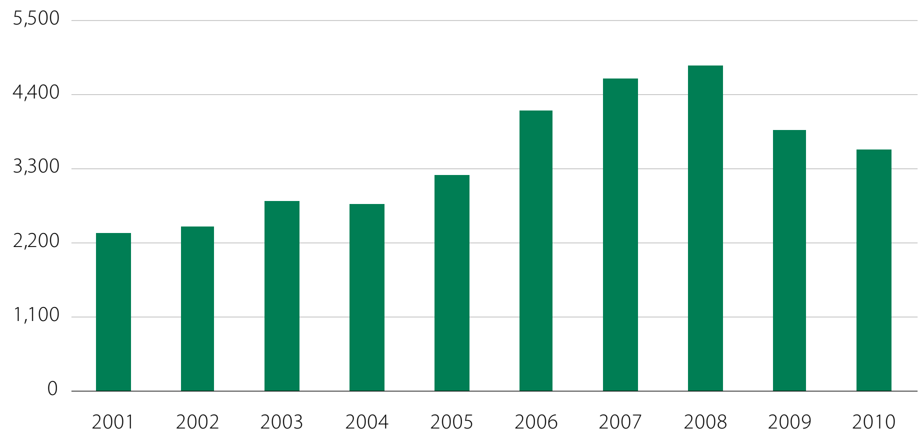
The information to which this section refers is regulated by Royal Decree 1362/2007 of 19 October, implementing the Securities Market Act 24/1988 of 28 July, concerning transparency requirements relating to information about issuers whose securities are listed on an official secondary market or on another regulated market of the European Union (Royal Decree on Transparency), and by Royal Decree 1333/2005 of 11 November, implementing the Securities Market Act 24/1988 of 28 July, on matters of market abuse (Royal Decree on Market Abuse).

During 2010, a total of 3,575 notifications were validated, 8.1% fewer than in 2009 (see figure 10.2). The gradual decline in the number of notifications received is partly due to the trend in the number of listed companies, which has fallen between 2008 and 2010.

Validated notifications represent 87% of all those sent (4,111); the remainder were either cancelled or replaced by new notifications, as the case may be. The number of notifications cancelled due to errors fell by 28.3% over 2009.

With regard to the breakdown of the notifications registered, 68% corresponded to directors (71% in 2009), 16% to non-director significant shareholders (14% in 2009), and 11% corresponded to executives, a similar percentage to 2009. And, as in 2009, the remaining 5% corresponded to own share transactions.

Number of notifications recorded FIGURE 10.2

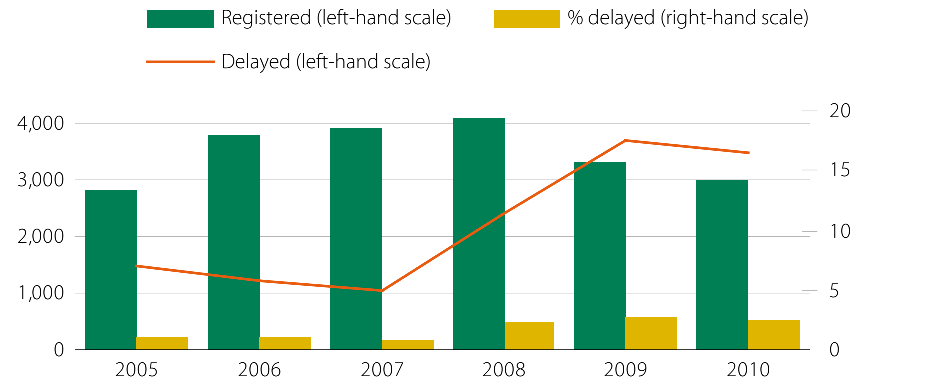


Source: CNMV.

The number of notifications received after the deadline during 2010 amounted to 561 (17% of the total), of which 89% corresponded to notifications submitted in respect of directors and significant shareholders. As can be seen in figure 10.3, the delays in these notifications increased significantly during the last two years, but stabilised in 2010. Last year the CNMV sent letters to a total of 121 obligated parties, requesting explanations for the delay. According to the answers received, 74% blamed the delay on errors in interpretation of the rules, mainly related to the reduction in the submission period or administrative or internal control failures.[4] The remainder alleged various other reasons.

4 The royal decrees on Transparency and Market Abuse reduced the notification period for significant shareholders and board members to four and five days respectively, as opposed to the seven business days allowed under the previous rules.

Director and significant shareholder notifications submitted late FIGURE 10.3



Source: CNMV.

Notifications relating to non-director significant shareholders

According to the Royal Decree on Transparency, the first notification threshold for significant shareholders is 3% of the voting rights. If the shareholder is resident in a tax haven, this notification threshold drops to 1% and its respective multiples. In 2010, 564 notifications of this type were submitted, affecting 98 listed companies and corresponding to 216 different shareholders. Table 10.3 shows the breakdown of the notifications received, grouped by levels of voting rights and the market cap of the companies involved.

Number of notifications regarding voting rights corresponding to significant shareholders TABLE 10.3

	Voting rights			
	Less than 5%	Between 5% and 30%	Between 30% and 50%	Over 50%
Ibex 35	215	30	1	4
Over 1 billion euros	27	37	2	3
Under 1 billion euros	124	105	1	7
Excluded	7	–	–	1
Total	**373**	**172**	**4**	**15**
% of total	66	30	1	3

Source: CNMV.

Shareholders are also obliged to notify the CNMV of the acquisition or transfer of financial instruments which entitle the holder to acquire a significant shareholding in terms of voting rights. In 2010, fifteen notifications of this type were received (compared with ten in 2009), submitted by six shareholders and involving eight listed companies. In five cases, the financial instruments corresponded to call options unexercised at year end 2010. The rest of the instruments notified during the year are no longer active.

Notifications relating to directors

The Royal Decree on Market Abuse obliges directors of listed companies to notify all transactions involving shares or financial instruments whose underlying is shares of the listed company on whose board the member sits. Also, the Royal Decree on Transparency obliges directors to disclose the final holding of voting rights or financial instruments.

As can be seen in table 10.4, the number of notifications referring to voting rights corresponding to directors (2,182) fell by 17% over the previous year, as did the number of companies (136) and the number of directors involved (766).

Number of notifications regarding voting rights corresponding to directors TABLE 10.4

	Issuers			Notifications			Directors		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Ibex 35	33	34	34	743	865	823	294	286	255
Over 1 billion euros	15	14	14	341	219	277	122	96	105
Under 1 billion euros	106	90	85	1,632	1,259	1,064	540	485	391
Excluded / Other	9	3	3	138	22	18	43	15	15
Total	**163**	**141**	**136**	**2,854**	**2,365**	**2,182**	**999**	**882**	**766**

Source: CNMV.

Notifications regarding financial instruments also fell by 4%. In total, 242 notifications of this type were received involving 29 listed companies, 15 of which belonged to the Ibex 35.

The Royal Decree on Transparency also makes it mandatory to disclose the delegation of voting rights received or granted in general meetings of shareholders. In 2010, 28 notifications of this type were received (25 in 2009), corresponding to eleven companies (nine in 2010).

Notifications relating to executives

The Royal Decree on Market Abuse obliges executives of listed companies to disclose all acquisitions or transfers, whether direct or indirect through closely related third parties, of financial instruments whose underlying is made up of shares of the listed company in which the executive holds office. Executives are not obliged to disclose their final position. In 2010, 392 notifications from executives were received, involving 48 companies, figures which are practically the same as those of the previous year (390 notifications and 48 companies).

Disclosure of own shares

According to the Royal Decree on Transparency, issuers of securities listed on an official secondary market or on any other regulated market domiciled in the European Union, when Spain is the Member State of origin, must notify the CNMV of the proportion of voting rights that remain in their possession when they make acquisitions which amount to or exceed 1% of the total voting rights. It should be noted that, since April 2009, the maximum limit of own shares permitted under the Public Limited Companies Act for listed companies has increased from 5% to 10%.

During 2010, a total of 180 notifications of transactions involving own shares were validated (212 in 2009) involving 61 issuers (70 in 2009), representing a 15% decrease on 2009. Table 10.5 shows the breakdown of notifications grouped by market cap and percentage of final holdings of own shares.

Number of notifications of own shares by final position TABLE 10.5

	Total notifications	Less than 1%	Between 1 and 2%	Between 2 and 3%	Between 3 and 4%	Between 4 and 5%	Over 5%
Ibex 35	88	44	24	10	3	2	5
Over 1 billion euros	14	7	2	3	2	–	–
Under 1 billion euros	77	31	13	8	6	8	11
Excluded	1	–	1	–	–	–	–
Total	**180**	**82**	**40**	**21**	**11**	**10**	**16**

Source: CNMV.

Shareholder agreements

The Transparency Act requires disclosure of any shareholder agreements affecting listed companies or their controlling entities. Notifications are registered as significant events. Such agreements may regulate the exercise of voting rights or restrict the free transfer of shares. In the first case, the CNMV analyses its effect on notifications of significant shareholdings.

During 2010, a total of eleven notifications regarding shareholder agreements were received (22 in 2009), affecting the same number of listed companies (15 in 2009). Two reported the end of previous agreements, another two referred to the amendment of pre-existing agreements, and another notified of the start of proceedings before a chamber of arbitration due to a conflict between the parties. The remaining six notifications referred to new agreements between shareholders involving six listed companies.

10.3 Corporate governance

In 2010, 156 listed public limited companies, 43 savings banks, and another 23 fixed income issuers filed their Annual Corporate Governance Report (ACGR) for 2009. In general, there were no incidents affecting the online transmission and receipt of the reports, although six companies were sent deficiency letters for having filed their reports late or for not including it in the management report.

Based on the ACGRs received, the CNMV prepares and publishes an annual report in which it analyses, in aggregate terms, the issuers' main corporate governance practices and a wide range of individual statistical data for each entity. The CNMV is a pioneer among other international securities supervisors in publishing this type of report.

10.3.1 Most significant aspects of listed companies' governance practices

The most significant aspects of listed companies' corporate governance practices are as follows.

Observance of the recommendations of the Unified Code of Good Governance

At an aggregate level, statements in companies' ACGR regarding the level of observance of the recommendations of the Unified Code in 2009 reveal the following:

(i) On average, listed companies fully comply with 77% of the recommendations of the Code (the same percentage as in 2008) and partially comply with another 10%, the same percentage as in 2008. Therefore, at an aggregate level, 13% of the applicable recommendations that applied to the companies were not complied with, not even partially. The percentage of non-compliance for Ibex companies was, on average, less than half that of the rest of the companies.

(ii) As in previous years, the least observed recommendations were those relating to the approval and transparency of director remuneration. The level of observance of this category was 63%, as in 2008, but 14 percentage points less than the Unified Code average.

Only two of the Code's recommendations, both relating to the transparency of director remuneration, were observed by less than a third of the listed companies. These were recommendation 40, according to which the Board must submit a report to the General Meeting of Shareholders on director remuneration policy, and recommendation 41, which establishes that details of individual remunerations be published in the report, whose level of observance was 21% (as in 2008) and 28% (31% in 2008), respectively. In accordance with the Sustainable Economy Act, these two recommendations will become mandatory as of 2012.

Board of directors and its directors

The size of the board of directors ranged between three and 24 members. As in 2008, the average stood at 10.4 members, within the range recommended by the Unified Code.

Over the last four years we have been seeing a slight increase in the number of external directors and a corresponding decrease in the number of executive directors. Taken as a whole, the proportion of independent directors was below the minimum of one third recommended by the Unified Code. The percentage of independent directors on boards of directors remained unchanged, at around 30.5% since 2005, while, in line with previous years, the percentage of independent directors with fewer than twelve years on the board decreased.

Meanwhile, the percentage representation of female independent directors on boards was 13% in 2009, compared with 12% in 2008. The percentage of independent chairs of audit committees and appointments committees also increased, by three and six percentage points, respectively.

During 2009 there was an increase in the number of female directors on the boards of listed companies, to slightly over 9% of the total number of directors, versus 8% in 2008. At year end, 42% of the listed companies had no female director on their board of directors, as opposed to 46% in 2008.

The percentage of women on the boards of Ibex companies amounted to 10%, slightly below the average for major companies in Europe (11%) and 1.5 percentage points higher than the figure posted the previous year. In the ranking of female presence on the boards of major listed companies in the European Union, Spain is now in 21st place (out of 27).

The percentage of female executives continues to be below the average percentage of women on boards of directors. In 2009, the figure was close to 4%, practically unchanged from the previous year.

The average length of time served by board members remained largely unchanged in 2009. The executive directors are the ones who have served the longest. To be precise, the difference between the time served on the board by executive directors and the average for all members of the board of directors increased to 2.5 years (2.1 in 2008).

The position of chair of the boards of directors of listed companies was mostly held by executive directors (71% in 2009 versus 68% in 2008). In 91 companies (28 Ibex companies), three fewer than last year, the position of chair of the board and CEO was held by the same person.

In 2009, the average number of meetings held by the board of directors in the year was close to ten, a very slight increase compared with 2008. For Ibex companies the average was close to eleven meetings, compared with a little over ten in 2008.

Board committees

In 2009, a total of 60 companies (66 in 2008) had an executive committee reporting to the board. The number of executive members is higher on the executive committee than on the board of directors and the percentage difference has remained constant in recent years.

The average size of audit committees is 34% of the average size of the board of directors. Compared with 2008, the percentage of companies whose committees were chaired by independent directors and in which all their members were external directors has increased.

Meanwhile, the number of companies which have an appointments and remuneration committee rose slightly (132 companies, nearly 85% of the total). On average, this committee is formed by 3.6 members, the same number as in 2008, which represents in the region of 29% of the members of the board of directors.

Remuneration of the board of directors and senior management

The average remuneration received by the board of directors rose to 3.1 million euros, 8.3% more than in 2008. The average per member stood at 291,725 euros a year, an increase of 7%.

These increases were largely due to severance payments made for dismissal during 2009. In particular, one company paid out 29.7 million euros in severance pay and on the early retirement of three of its board members. If we exclude this amount, the average increase of the cost of remunerating the board of directors would have been 1.5%, and the average per director, 0.3%.

The average remuneration of representative directors increased by 11.7% (1.7% excluding the effect of severance pay) and amounted to 1.1 million euros in 2009.

The average remuneration of external directors was 104,365 euros, a year-on-year decrease of 2.1%. This reduction did not affect all types of board members in the same way. Thus, representative and other external directors suffered year-on-year decreases of 5.7% and 13.6% respectively, while the remuneration of independent directors went up by an average of 6.5%. This increase was due to the greater presence of independent directors on board committees, especially in Ibex companies.

In 2009, the average fixed remuneration per board of directors continued to rise, albeit at a slower rate than in previous years. The average rate of change was 0.8%, compared with 6.5% the previous year.

A total of 84 companies (91 in 2008) reported variable remuneration payments in 2009. The average remuneration per board of directors was 1.3 million euros, 9.1% up over the same figure for the previous year (1.2 million euros).

In 2009, the number of executive members was 1,216 (1,226 in 2008) and their average remuneration was 416,590 euros, an increase of 1.3% over the previous year.

General meeting of shareholders

The average percentage of attendance to general shareholder meetings in 2009 was 74.9% of the shareholder equity (74.3% in 2008). There was a decline in the percentage of physical participation and an increase in participation by proxy or remote voting.

A total of 14 companies, the same number as in 2008, limited the exercise of voting rights in general meetings of shareholders in their articles of association. Half of these companies set the limit at 10%.

56% of the listed companies (57% in 2008) required shareholders to hold a minimum number of shares to be able to attend the general meetings of shareholders.

Application of the comply or explain principle

After the review of the criteria used by listed companies to report in the ACGR on the degree of compliance of Unified Code recommendations or to explain, as the case may be, the reasons why the recommendations were not observed, 24 companies (34 in 2009) were sent letters. As in the previous year, these letters requested further information or clarification regarding 28 of the 58 recommendations of the Unified Code. The recommendations with the highest percentage of incidents were practically the same as the previous year (see table 10.6)

Deficiency letters sent by the CNMV concerning UCGG recommendations TABLE 10.6

	No. of companies	
Area to which the recommendation refers	**2009**	**2010**
Articles of association and general meeting of shareholders	6	6
Board of directors	41	36
Directors	15	19
Remuneration	18	13
Committees	20	18

Source: CNMV.

In 29% of the cases, companies were requested to elaborate on the explanations given in order to improve the quality of the information on the lack of observance of Unified Code recommendations. 21% of the deficiency letters called for clarification on the level of observance of some recommendations and 50% included requests for information about both the recommendations observed by the companies and the explanations of the recommendations not observed.

A total of nine companies amended the information in the ACGR on the level of observance of the recommendations as indicated by the CNMV or included explanations as to why the recommendations were not observed by sending a new ACGR.

The rest of the companies to which deficiency letters were sent chose to send a document amending or elaborating on the information already sent, which was published on the CNMV as supplementary information to their ACGR, following a procedure similar to that used for the annual financial statements.

In general, 2009 saw a certain improvement in the quality of the information provided by the companies on the least observed recommendations of the Unified Code, since the percentage of explanations that were either too generic or redundant fell from 53% in 2008 to 44% in 2009.

Classification of the members of the board of directors

As in previous years, ever since the Unified Code was applied, compliance with the binding definitions of the various types of directors was analysed, particularly that of the independent director. The review of 263 (309 in 2009) directors classified as independent, in a sample of 60 companies, brought to light a number of situations which could raise doubts as to the classification of directors (25 in 2009). This gave rise to the sending of deficiency letters to four companies (15 in 2008), requesting further information, clarifications or, as the case may be, the publication of a document with a different classification. Table 10.7 shows a statistical summary of the conditions not met by independent directors who have been the subject of a deficiency letter, together with the number of companies sent deficiency letters for each of the conditions and the total number of directors involved.

Deficiency letters from the CNMV in respect of the binding definition of an independent director in the UCGG TABLE 10.7

Description of the condition not met	No. companies sent deficiency letters 2009	No. companies sent deficiency letters 2010	No. directors involved 2009	No. directors involved 2010
They have been proposed, either for appointment or reappointment, by the Appointments Committee	–	3	–	6
They do not have or have not had during the last year a significant business relationship with a significant shareholder or their group, whether on their own behalf or as a significant shareholder, director, or senior executive of the related company	–	7	–	10
They do not have or have not had during the last year a significant business relationship with the company or its group, whether on their own behalf or as a significant shareholder, director, or senior executive of the related company	2	–	2	–
They are executive directors or senior executives of another company in which an executive director or senior executive of the company is an external director	–	1	–	1
They have been employees or executive directors of companies of the group, unless it was over three or five years ago	2	3	2	6
They are executive directors of a subsidiary of a significant shareholder, unless five years have passed since that relationship existed.	–	1	–	1
Directors representing significant shareholders will be considered to be representative directors. It is assumed that a director represents a significant shareholder when he or she sits on the board of that shareholder	1	1	1	1

Source: CNMV.

In none of the cases which gave rise to the sending of a deficiency letter was it necessary to publish additional information, as it was demonstrated that the directors' business relationships did not raise doubts as to their eligibility to be classified as independent board members.

Transparency of the operations with related parties

Transactions with related parties made by listed companies during the first half-year of 2010 amounted to 259,101 million euros, an increase of 0.7% compared with the same period of the previous year. 54% (49% in the first half-year of 2009) of these transactions were made with significant shareholders; 34% (36% in the first half-year of 2009) with persons, companies or entities of the group; 1% (as in the first half-year of 2009) with directors and executives; and the rest with other related parties. Table 10.8 shows the different types of transaction made by listed companies in the first half-year of 2010, broken down by item and the nature of the related party.

Transactions with related parties. First half-year 2010

TABLE 10.8

Millions of euros

	Significant shareholders		Directors and executives		Persons, companies or entities of the group		Other related parties	
	Amount	% H1 10/09	Amount	% H1 10/09	Amount	% H1 10/09	Amount	% H1 10/09
Financial expenses	652	-30.0	12	5.0	102	-58.4	198	-41.1
Leases	46	-0.9	0		5	-14.5	6	19.8
Receipt of services	242	-39.6	42	101.5	904	26.9	122	52.9
Purchase of goods (finished or in progress)	1,955	2.1	16	121.7	3,384	29.7	32	-5.1
Other expenses[1]	420	18.9	70	119.2	98	-5.4	84	-6.0
Total expenses	**3,314**	**-9**	**140**	**94**	**4,492**	**22**	**442**	**-19**
Financial income	779	-16.9	6	-49.1	827	-17.5	351	-3.0
Dividends received	123	99.1	14	-7.3	286	15.6	135	-29.0
Provision of services	1,119	-3.1	11	125.0	719	63.8	258	268.6
Sale of goods (finished or in progress)	1,009	-5.7	5	55.7	1,863	35.2	24	-70.2
Other income[2]	1,113	730.9	0	-96.2	183	-10.2	56	-94.4
Total income	**4,144**	**23**	**36**	**-5**	**3,878**	**19**	**824**	**-52**
Credits and capital contributions	32,673	24.6	238	-62.4	14,612	-2.0	9,317	21.8
Loans and capital contributions	44,441	18.1	862	4.0	3,972	11.2	13,587	-7.3
Guarantees and sureties granted	5,540	155.6	333	62.3	1,841	-23.5	1,514	-54.3
Guarantees and sureties received	15,753	14.7	276	-3.9	6,021	-20.9	19	-78.6
Commitments acquired	10,000	76.2	18	7.5	42,703	-8.9	93	-95.2
Dividends and other benefits	1,589	-80.3	19	-58.2	12	-0.3	108	8.5
Other transactions[3]	21,419	-18.7	107	-86.3	10,543	13.2	4,218	-29.2
Total other transactions	**131,415**	**10**	**1,853**	**-34**	**79,704**	**-6**	**28,857**	**-14**
Total	**138,874**	**9.5**	**2,029**	**-30.2**	**88,075**	**-3.9**	**30,124**	**-16.3**
% of total	**53.6**		**0.8**		**34.0**		**11.6**	

Source: PPI of listed companies (1st half-year). (1) Comprising management contracts, R&D transfers, value correction for uncollectable debts, losses on derecognition, and other expenses. (2) Comprising management contracts, R&D transfers, leases, gains on derecognition or disposal of assets, and other income. (3) Comprising the purchase of assets, leases, repayment of credits, sale of tangible assets, depreciation, commitments, and other transactions.

46% (41% in the first half-year of 2009) of related party transactions arose from financing agreements (22% from credits and 24% from loans).

Most changes compared with the first half-year of the previous year correspond to the headings of provision of services and purchase of goods. With regard to negative changes, the most significant were the losses recorded under dividends and financial expenses.

In terms of the number of companies reporting related party transactions in their periodic financial reporting, 124 companies reported 506 transactions with significant shareholders, 95 companies declared 279 transactions with directors and executives, 102 declared 482 transactions with persons or entities belonging to the group, and 96 made 346 transactions with other related parties

10.3.2 Constitution and composition of the audit committees

Since the Eighteenth Additional Provision of the Securities Market Act (2003) came into force, the constitution and composition of the audit committees of all listed companies are reviewed on an annual basis. The requirements verified and the results obtained were as follows:

(a) Members of the Audit committee: the vast majority of listed companies complied with the legal requirements regarding the composition of the audit committee. Of the eight companies which have issues in this respect yet to be resolved, in one company most of the members of the audit committee were executive board members while in the other seven cases the committee was made up of fewer than three members.

(b) Chair of the audit committee: all the companies who should have renewed or replaced their chairperson during 2010 reported the new appointments by means of a significant event or a written communication to the CNMV. One company still has to appoint a new chair after the previous chair was removed due to the legal deadline for renewal having expired.

10.4 Significant events received by the CNMV

The number of disclosures of significant events made to the CNMV in 2010 amounted to 11,033, 15% fewer than in 2009. Table 10.9 shows a breakdown by types of disclosure received.

Disclosures made regarding "financial instruments" were the most numerous, accounting for over 60% of all notifications in 2010, followed by those referring to "business and financial position", which accounted for over 20% of the total.

In growth terms, disclosures relating to "corporate transactions" increased significantly (41% up on 2009) as did those relating to "business and financial position" (up by 10%). However, disclosures of "financial instruments" and "corporate governance and official notices" were down by 26% and 4% respectively.

Under the "financial instruments" heading there were greater than 20% increases in disclosures of "capital increases and reductions" and in the "notification of short positions", and over a 75% reduction in "trading halts and resumptions".

The most significant changes were under the heading of "business and financial position". In particular, disclosures under the heading of "insolvency proceedings" fell by over 90%, while those corresponding to "others concerning business and financial position" increased almost sevenfold. Under this same heading, disclosures regarding "strategic agreements with third parties" grew by a factor of three.

Significant events received by the CNMV

TABLE 10.9

Type	2009	2010	% var. 10/09
Financial instruments			
Capital increases and reductions	149	181	21.48
Rights offerings and public share offerings	230	146	-36.52
Information about dividends	161	170	5.59
Notification of short positions	173	209	20.81
Trading halts and resumptions	322	60	-81.37
Credit ratings	129	111	-13.95
Securitisation trusts	5,986	4,880	-18.48
Other	1,932	983	-49.12
Business and financial position			
Interim financial reporting	1,401	849	-39.40
Insolvency proceedings	418	26	-93.78
Other	203	1,358	568.97
Corporate transactions			
Transformations, mergers, spin-offs and liquidations	61	86	40.98
Strategic agreements with third parties	77	244	216.88
Transfers and acquisitions of shareholdings	210	205	-2.38
Other	149	165	10.74
Corporate governance and official notices			
Notices and resolutions of general meetings and assemblies	550	649	18.00
Composition of the board of directors	213	198	-7.04
Annual corporate governance report	233	231	-0.86
Other	415	282	-32.05
Total	**13,012**	**11,033**	**-15.21**

Source: CNMV.

11 Supervision of the markets

11.1 Significant activities of the CNMV in the various markets

The CNMV is responsible for the supervision of secondary securities and derivatives markets and the post-trade process, in order to ensure that they operate correctly and to detect and pursue market abuse practices.

In 2010, the number of equity income transactions rose by 28% over 2009, due to the recovery of stock market activity and a fall in the average size of transactions, which reflects a trend also seen in other European countries. There was also a significant increase (15.7%) in the number of derivative transactions, while fixed income transactions fell by nearly 32%. Overall, the number of transactions in the markets supervised by the CNMV rose by 26%, with a consequent increase in the supervisory workload.

As can be seen in table 11.1, the equity income market accounted for the majority of the deficiency letters sent by the CNMV in the exercise of its supervisory duties of the securities markets. In 2010, there was a 75% reduction (over 2009) in the number of deficiency letters sent to credit institutions and investment service companies to request further information regarding their transactions. The decrease is attributable to the positive effect of these entities' obligations regarding the daily disclosure of transactions provided for in article 59 bis of the Securities Market Act, which includes the requirement to identify the beneficial owners. This information is very important for the purpose of supervision.

Summary of market supervision activities in 2010 TABLE 11.1

	Equity income	Fixed income	Derivatives	Settlement	Total
No. of transactions	40,465,782	642,124	6,019,955	36,949,433	85,180,356
Deficiency letters	115	17	29	6	167
Supervisory reports	12	1	15	0	28
Reports sent to other bodies and agencies	4	68	9	0	81
Periodic reports	53	12	12	24	101

Source: CNMV.

Of the regulatory developments seen in 2010, perhaps the most important in terms of its impact on the CNMV's supervisory activity is the entry into force, on 10 June 2010, of the new resolution of the Executive Committee of the CNMV on the reporting of short positions, which replaces this Committee's resolution of 22 September 2008. The new resolution is based on the reporting model recommended by CESR to European institutions on March 2010. Its main features are commented on later in this chapter.

The CNMV stepped up its supervision of clearing and settlement activities, carrying out a daily check on past due sales and pursuing naked short selling. The CNMV's supervisory activity was stepped up in a context of considerable growth in the number of transactions made on the settlement platform.

During 2010 there were signs of further improvement in the level of compliance with the obligation set forth in article 83 quater of the Securities Market Act, concerning the reporting of suspicious transactions involving financial instruments carried out by investment service companies and credit institutions. As we will see in greater detail later, in 2010 this type of reporting once again saw significant growth over the previous year. Nevertheless, the number of disclosures made is still considered to be insufficient in comparison with other neighbouring countries.

The following points provide a breakdown of the most significant supervisory activities conducted in the various areas.

11.1.1 Equity income

Trading halts due to disclosure of information

In 2010, the number of issuers which were the subject of trading halts fell slightly, and the number of securities suspended from trading was practically the same as in 2009, as can be seen in table 11.2.

Temporary trading halts TABLE 11.2

	2009	2010
Number of issuers suspended	29	27
Number of halts	39	40
Due to disclosure of material information	34	29
Due to expiry of acceptance period for delisting offers	2	5
Other	3	6

Source: CNMV.

As in previous years, the main reason for trading halts was the lack of disclosure of material information; it was the reason for 72% of the total number of halts called, although this figure is 15% down on 2009's total. One noteworthy feature of the trading halts made in 2010 was that the companies affected were spread over a wide range of sectors. Thus, the 27 issuers suspended belonged to 12 different sectors, the real estate sector being the one which accounted for most suspended securities. Four of the trading halts were called by the Generalitat de Catalunya (the Regional Government of Catalonia), as the securities affected traded solely on the Barcelona Stock Exchange.

Accelerated book building for large packages of shares

On 19 December 2007, the Board of the CNMV passed a number of criteria with the purpose of regulating a common practice in securities markets whereby a financial intermediary executes, outside the stock exchange, the purchase or sale of a package of shares to a limited number of investors after having previously sounded them out as to their interest in the transaction. These criteria are particularly applicable to transactions characterised by the existence of a bookbuild offering and which are executed without providing investors with any information other than the pre-existing public information.

Due to the special nature of this type of transactions, particularly their high volume, customary discounts on the placement price, and the existence of a prior sounding out phase among institutional and professional investors, inadequate disclosure of the characteristics of the transaction could have a significant impact on the trading price. For this reason the CNMV pays special attention to any possible leaks of insider information and keeps in constant communication with the dealers in order to closely monitor the state of the transaction, oversee that the offering is announced, save for under exceptional circumstances, when the market is closed, and try to ensure that investors have pertinent information regarding the transaction in progress and the outcome of the bookbuilding process. When a transaction is not completed prior to the start of a session, the CNMV may agree to call a temporary trading halt.

During 2010 the number of bookbuilds of this type was similar to the previous year. To be precise, eight transactions were carried out involving percentages ranging between 1.7% and the 10.2% of the share capital and the discount on the trading price ranged between 2.7% and 7.5%. Three of these transactions resulted in a suspension of the trading before the start of a session.

Monitoring of mechanisms to provide liquidity to the market

During 2010 the CNMV continued to analyse liquidity supply mechanisms in order to evaluate their impact on the price formation of securities which make use of this service. In most cases, liquidity supply is based on a contract entered into by the issuer and the dealer, under the provisions of Circular 3/2007, of 19 December, on liquidity contracts for the purposes of their acceptance as a market practice. The evaluation of financial intermediaries' compliance with the obligations and the limits set in the Circular was, on the whole, satisfactory.

In addition, the CNMV carried out an in-depth examination of own share transactions to detect any breaches of the provisions of Circular 3/2007 and to propose, when appropriate, the initiation of the corresponding sanction proceedings. With the same purpose in mind, the CNMV also monitored share buy-back programmes arranged by issuers under the provisions of Regulation 2273/2003/EC.

Study of additions and deletions of securities in the Ibex 35 index

In 2010, as in previous years, the CNMV carried out an exhaustive analysis of the additions and deletions of securities as a result of the various reviews of the Ibex 35 which took place during the course of the year. The attention paid to this matter is justified by the importance of this selective index, which covers the most important companies listed on the Spanish stock market, and by the impact it has on the companies which comprise it. The study focuses on checking whether the trading of included and excluded securities, and candidates for inclusion or exclusion, proceeded in an ordered and proper manner, without any artificial activity aimed at ensuring that a share remained in or entered the index to the detriment of other candidates.

Disclosure of short positions

As mentioned earlier, on 10 June 2010, a new resolution of the Executive Committee of the CNMV entered into force concerning the disclosure of short positions. The basic changes to the previous state of affairs are as follows: (i) the obligation of disclosure is extended to all equity income securities (previously only financial securities were affected), except for those trading on the MAB alternative market or the Latibex; (ii) the setting of two new thresholds (0.2% of equity capital for disclosure to the CNMV, and 0.5% of equity capital for market disclosure), as opposed to the previous single threshold of 0.25%; and (iii) the establishment of some discrete intervals for disclosing changes, consisting of multiples of 0.1% of the equity capital (previously any change in the position was reported once the threshold of 0.25% of equity capital had been exceeded).

Since the entry into force of the new resolution of the Executive Committee, a total of 116 entities have sent individual disclosures of short positions. Of these, three are Spanish entities and the rest are hedge funds, mainly American or British. In the year as a whole, a total of 1,048 disclosures were received, involving a total of 49 issuers.

It should be noted that, subsequent to the resolution of the Executive Committee of the CNMV, two European regulators, the Portuguese Securities Market Commission and the French Financial Markets Authority, decided to adopt the short positions disclosure model proposed by CESR. Also, on 15 September 2010 the European Commission presented a legislative proposal concerning short selling in shares, sovereign bonds, and credit default swaps (CDS). The proposal, which is still in the discussion stage, empowers national and European authorities to restrict or prohibit transactions in exceptional circumstances, and includes a transparency regime for short positions in shares, which is also based on CESR recommendations.

European Commission public consultation on the amendment of the MiFID: trading infrastructures

EXHIBIT 11.1

Late in 2010, the European Commission launched a public consultation on the review of Directive 39/2004/EC, concerning the Markets in Financial Instruments Directive (MiFID), scheduled for 2011. Its most important proposals regarding secondary markets are set out below, while those related to the codes of conduct for suppliers of investment services are covered in exhibit 12.2.

One of the most important amendments under consideration is to extend the regulation of the Directive to organised trading platforms which do not currently fall under its purview, among which are internal crossing systems. The European Commission is also considering clarifying the rules regarding systematic internalisers and the application of a special treatment which will facilitate the listing of small and medium-sized companies on regulated markets and in multilateral trading facilities (MTFs). In line with G-20 recommendations, it is also proposed to allow all standardised derivative contracts to be traded on organised markets; that is, derivative products which are sufficiently liquid and eligible for mandatory clearing through central counterparties.

Major changes in matters of transparency are also in the pipeline. For equity transactions there is a proposal to modify certain exceptions to the obligations of pre-transparency and reduce the time for publication of post-transparency information. To ensure the consistency and comparability of the transaction data of equity instruments, studies are being carried out into the possibility of introducing authorised agencies for the publication of transactions (Approved Publication Arrangements, APA) and the establishment of a consolidated system for post-trading data (consolidated tape system).

With regard to other financial instruments, for those traded on regulated markets, MTFs, and other organised trading systems, the introduction of the kind of transparency requirements ("pre-" and "post-") currently being applied to equity transactions, graduated according to certain criteria, is being studied. Proposals are also being considered with a view to increasing the transparency and improving the price formation process when such instruments are traded on OTC markets. With regard to commodities derivatives, there is a proposal to delimit the exceptions in article 2 of the Directive and it is suggested to set up a mandatory reporting system, applicable to regulated markets, MTFs, and other organised trading systems.

11.1.2 Fixed income

During 2010, the CNMV paid special attention to compliance with market disclosure obligations in respect of the restructuring process of the savings banks, entities which play an important role as issuers of fixed income in the Spanish market.

The CNMV also closely monitored repurchase and exchange transactions on preferred shares and subordinated debt by financial institutions. In some cases, this type of transaction had the effect of improving retail investors' return on the preferred shares they already had. In others, the transactions consisted of exchanging the old securities for other, newly issued ones with better conditions and, occasionally, with longer maturities. The repurchase of issues usually involved institutional investors, at premiums on the trading price generally much lower than the issue premium.

Also worthy of mention is the supervisory effort required by the start-up of the Electronic Debt Trading System (Spanish acronym: SEND) on the AIAF Fixed Income Market, in May 2010. SEND is an electronic trading platform for private fixed income aimed at retail investors. At year end, this platform had 16 members and 53 issues listed, of which 26 were preferred shares and 25 simple debentures. The volume traded in its first year of operation was 27.7 million euros spread over 826 transactions. The launch of this platform required the CNMV to step up their analytical and supervisory work on compliance with liquidity supply commitments acquired by the entities in their prospectuses in respect of fixed income issues targeting retail investors.

Reform of the Prospectus Directive

EXHIBIT 11.2

This exhibit sets out the most important new developments enshrined in Directive 2010/73/EU of the European Parliament and Council, of 24 of November 2010, amending Directive 2003/71/EC, on the prospectus to be published when securities are offered to the public or admitted to trading (Prospectus Directive). The reform of this Directive is not a regulatory response to the financial crisis which started in 2007, but rather the result of the customary review mechanism applied to all rules after they have been in force for a certain period of time.

A study of the Directive prompted the European Commission to propose a number of changes with the purpose of reducing the administrative load on issuers and intermediaries. In the Directive's discussion stage with EC co-legislators, the European Parliament and Council introduced some additional measures aimed at strengthening the protection of the investor and improving the effectiveness of this rule. More specifically, the most significant new provisions of the rule are as follows:

- Minimum par value and minimum subscription amount: The minimum par value of a security (or the maximum amount an investor should pay for it) to obviate the need for a public offering to have a prospectus has increased from 50 thousand to 100 thousand euros.

- Qualified investors: The concept of a qualified investor is unified with the concept of a professional investor as defined by the MiFID.

- Limited scope offerings: The thresholds for small scale public offerings have increased (from 2.5 to 5 million euros) and for offerings aimed at a small number of investors (between 100 and 150), both exempt from the requirement to publish a prospectus.

- Prospectus exemption on plain vanilla securities from credit institutions: The threshold for small scale offerings of this type of securities which do not require a prospectus has increased (from 50 to 75 million euros).

- Prospectus exemption on offerings aimed at employees (and exemption from the corresponding securities listing prospectus): The obligation to produce a prospectus for any securities offering aimed at employees issued by companies resident in the European Union is removed, regardless of whether or not the securities are listed on a regulated market.

- Simplified prospectus model for certain transactions: The information required for certain types of transactions (capital increases of companies with securities listed on regulated and organised markets, provided that the preferential subscription right is not excluded, and fund-raisings and listings of small- and medium-sized companies and small-cap companies) has been reduced.

- Prospectus summary and final terms and conditions: Harmonised models for the prospectus summary and also for the final terms and conditions are to be provided to complement the basic prospectuses, in order to facilitate comparability between issuers and the ability of the information to be understood.

– Securities placement process: Financial intermediaries are permitted to make successive public share offerings of a security previously placed on the primary market without the need for a new prospectus, provided that the issuer consents to their prospectus being used for that purpose.

– Supplements to the prospectus and right of revocation of the purchase or subscription order: It is made clear that, in the event of the publication of supplement to the prospectus, the right of revocation of a subscription order expires once the subscription period is over.

The Directive entrusts the implementation of many of these measures to the European Commission, through the publication of delegated legislation. In January 2011, ESMA, the new European Securities and Markets Authority, received a mandate from the European Commission to provide technical assistance in relation to this delegated legislation. For its part, the CNMV is actively cooperating with ESMA in this technical assistance work.

Member States must transpose the review of the Prospectus Directive before July 1, 2012. The CNMV is cooperating with the Directorate-General of the Treasury and Financial Policy to help achieve a swift transposition of the Directive.

11.1.3 Derivative products

MEFF Renta Variable

Supervisory activities in this area during 2010 were focused on the monitoring of the trend in positions opened on the days immediately prior to the maturity dates of futures and options contracts, due to their possible impact on the spot markets of the underlying assets. In particular, the Commission continued with its analysis of spot trading carried out in the period for calculating the settlement price at maturity, by comparing the final beneficial owners of the spot trades with the beneficial owners of the open positions in derivatives on the Ibex in the sessions prior to maturity date.

Special attention was also paid to the analysis of the possible use of insider information through derivatives whose underlying assets had been affected by the publication of significant events.

As usual, compliance with the rules governing margins posted by market members was verified. It should be noted that in the course of last year, MEFF drafted seven circulars concerning the parameters to be used when calculating daily margins, of which four entered into force between 23 April and 18 May.

Olive oil futures market (MFAO)

In this market, special attention was paid to the applications registered, which increased significantly during 2010 to 1.5 times the volume of trading through the system. The trend in positions opened on the days immediately prior to maturity dates were also monitored closely.

Warrants, certificates and other products

In 2010, supervisory activity concerning warrants continued to pay special attention to transactions with indications of the use of insider information, joint transactions involving derivatives and their underlyings, especially those involving illiquid underlyings, and transactions which seem to contradict market logic. As an example of the latter, trades which repeatedly made a loss for the beneficial owner making them were examined.

In depth analysis was also carried out on the price formation for bid-only issues, since the absence of any sale price quoted by the specialist may give rise to misleading trading signals in the market. Monitoring also continued of corporate transactions which give rise to warrant adjustments, by checking in each case that there is adequate disclosure to the market regarding the adjustments made. Finally, we should also note the attention paid to the monitoring of the obligation to disclose to the market, by means of a significant event, when a barrier is hit which triggers the early redemption or the first listing of some warrants.

MEFFCLEAR

Tensions in debt markets, which gave rise to sharp rises in volatility during 2010, obliged MEFFCLEAR to make a number of upward adjustments to the parameters applied to margins. For this reason, and due to the increase in the volume of trading, vigilance of clearing house risk and of requests for additional margins made by the participants was stepped up.

11.1.4 Registration, counterparty, clearing and settlement

Iberclear-SCLV

In 2010, the CNMV continued to control and supervise settlement processes for equity securities. Settlement delays were monitored on a daily basis during the three cycles of the multilateral settlement account (at 9:00h, at 13:00h, and at 15:00h). A daily control was maintained of past due sales on their settlement deadline date (D+3) and, in particular, of trades that could potentially be intended for repurchase and could therefore distort trading prices due to their size. Meanwhile, the CNMV continued with its work aimed at detecting naked short selling practices. With regard to settlement efficiency, past due sales increased slightly during the year, although their impact on settlement continues to be very limited (see chapter 5).

It should be noted that the examination of settlement incidents affecting participants' securities accounts on the fixed income settlement platform was stepped up when a sharp increase in the number of settlement shortfalls was detected, mostly resolved by the provision of securities through a forced sell/buy back transaction.

European Market Infrastructure Regulation (EMIR)

EXHIBIT 11.3

On 25 September 2009, the G-20 leaders agreed at their Pittsburgh Summit (USA) that all standardised OTC derivatives contracts must be traded on electronic markets or trading platforms whenever appropriate, and be cleared by central counterparties (CCP) by the end of 2012. It was also agreed that OTC derivatives contracts must be reported to trade repositories. In response to this call, in 2010 and early 2011, various European institutions worked on the drafting of a European Parliament and Council Regulation on market infrastructure, to be known by the acronym EMIR (European Market Infrastructure Regulation). There are also plans to implement the future regulation via the corresponding technical legislation.

The main objective of the future regulation is to reduce systemic risk by increasing the security and efficiency of OTC derivatives markets. The work in progress basically consists of four lines of action:

– To ensure that all derivatives eligible for registration with a CCP are cleared through a properly authorised entity. The clearing of a contract in an entity of this type will require, as it has up to now, prior authorisation from the corresponding national authority, but it is expected that the future regulation will empower ESMA to require that a contract be cleared in this way whenever it deems it necessary.

– To ensure that there is sufficient transparency in the market by establishing the obligation to report all transactions to a register or database (trade repository), while regulating the access to the information contained therein. The aim is to ensure that the information contained in these repositories is reliable, secure, and protected. This will be achieved by establishing special requirements that all repositories must meet.

– To ensure the soundness of the CCPs, regardless of the type of contracts they work with. Given that certain OTC derivatives are obliged to offset risks through CCPs, there is a provision that central counterparties must meet a number of prudential requirements guaranteeing their security. Among other measures, they will be obliged to have a risk committee to deal with conflicts of interest in an appropriate manner, to establish rules governing the segregation and transfer of positions and margins (portability), to guarantee sufficient capital and financial resources to withstand the bankruptcy of the two largest participants, and to manage liquidity in an appropriate manner.

– To eliminate the rigidities which hinder the establishment of interconnections between the various infrastructures, ensuring the appropriate management of the risks arising from these agreements. Interoperability may be a practical tool to facilitate the integration of post-trade activities in Europe. However, it may also expose the CCPs participating in these agreements to various kinds of risks. For this reason, counterparty clearing houses will have to evaluate and manage the additional risks associated with these interconnections and demonstrate, through a verification process implemented by the authorities, the soundness of the adopted systems and procedures. However, given the complexity of the interoperability agreements, binding provisions will only be established for the clearing of spot trades.

11.1.5 Reporting of suspicious transactions

Over a hundred reports of this type were received in 2010, which shows the effort made by participants to improve the detection and reporting of suspicious transactions. This effort could also be seen in the quality of the reporting. Two reports were sent by another regulator and nine were sent on to other authorities as they referred to non-Spanish securities. Unlike 2009, in 2010 there was an increase in the number of reports on the use of insider information, which amounted to 75% of the total. The reports referred to financial instruments, although 80% of them concerned shares quoted on the stock market.

11.2 Supervision of takeover bids

Voluntary bids and fair price

In voluntary takeover bids it is necessary to check whether the bidder has previously acquired a controlling interest in the target company by means of share purchases, shareholder agreements or other mechanisms whereby it can take control indirectly or subsequently, (i.e., 30% or more of the voting rights or a smaller percentage with the appointment of over half the board members in the following 24 months). If the foregoing is the case, the takeover bid should be considered to be mandatory. This aspect is important because only in the case of voluntary bids can a consideration be set in the form of a securities swap without the bidder being obliged to offer an alternative price in cash, save in certain exceptional circumstances. Furthermore, the effectiveness of a voluntary takeover bid may be subject to compliance with certain conditions which are not permitted in a mandatory bid.

Also, in voluntary bids a fair price is not a requirement, but it should be borne in mind that when control is acquired after a voluntary takeover bid for all the shares at a fair price, a subsequent mandatory takeover bid is not required.

Thus, Banco Sabadell's takeover bid for Banco Guipuzcoano last year was deemed to be voluntary since the bidder had no stake in the target company nor did it have directors sitting on its board or committees and, under applicable rules, the prior agreements reached with a number of shareholders of Banco Guipuzcoano did not allow their voting rights to be passed on to the bidder until the bid had been completed.

For the consideration offered to be considered as fair, it is not necessary for the price to be offered in cash. In the aforesaid takeover bid, it was understood that the share swap offered constituted a fair price because, in the absence of share purchases by the bidder during the twelve-month period prior to the announcement of the bid, the consideration offered matched what had been agreed in that period with a number of shareholders for the purchase of their shares in the bid, and there was no evidence of any of the circumstances which would have required the price to be altered to allow it to be considered fair. Neither could an alternative price in cash be required because a) the bidder had not acquired any shares of the target company in the twelve-month period prior to the announcement of the bid, b) its capital was listed on the stock market, c) it had agreed to apply for the new securities delivered in exchange to be listed, and d) it could be considered that these securities would have sufficient market liquidity to meet the provisions of Spanish market rules.

Defensive measures

For the first time since the current takeover bid rules came into force, the board of directors of the target company of a takeover bid, specifically the bid on the company CASSA, approved a series of actions aimed at preventing the success of the takeover bid. The measures consisted of the distribution of extraordinary dividends and the cancellation of a service contract.

The CNMV's supervision focused on ensuring that CASSA's board of directors and management complied with the constraints imposed by current rules whereby any action which might prevent the success of a takeover bid, with the exception of the search for other bids, must be authorised by the general meeting of shareholders. As stipulated by the rules, the defensive measures were put to a general meeting of CASSA shareholders, which approved them by a majority.

It was also ensured that the company made available to the shareholders all the necessary information through its register of significant events, including any clarifications it was asked to make and the directors' report which the rules require to be available when the general meeting of shareholders is called. This report explains the reasoning behind any measures taken and the way each director has cast his or her vote.

In response to the resolutions adopted by the general meeting of CASSA shareholders, the bidder decided not to withdraw its voluntary bid and requested the necessary authorisation to adjust the price, maintaining the financial equivalence between the initial price and the new price, which was reduced in the amount corresponding to the dividends distributed prior to the publication of the outcome of the bid.

Information prospectuses

Takeover bid prospectuses must contain the information necessary for its recipients to form an informed opinion on the proposed transaction. To this end, the explanations regarding the acceptance procedure (characteristics and conditions of the bid, price, guarantees and settlement) and the information regarding the purpose of the acquisition and the bidder's strategic plans and intentions for the target company are equally important. If an exchange of shares, either already issued or to be issued, is offered, the prospectus must include information on the shares equivalent to those that would be required in the case of a public share offering or an initial public offering, or include as a reference an authorised and current prospectus in accordance with the specific regulations governing such transactions.

In the case of Banco Sabadell's takeover bid for Banco Guipuzcoano, the prospectus contained both the information relevant to the takeover bid and the information corresponding to a public share or initial public offering, all subject to CNMV supervision, and included specific data regarding the offered swap, including the proportions of the securities to be exchanged, differentiating between the two types of shares (ordinary and preferred) involved in the bid. The prospectus also contained the supervised equivalent cash prices resulting from the swap equations, based on the trading price of the shares to be delivered and the value given to the (necessarily) convertible subordinated notes which also formed part of the swap.

Delistings without a takeover bid

When a listed company decides to apply for the delisting of its shares, it is obliged to launch a takeover bid for all the securities to be delisted, unless an equivalent procedure to the public takeover bid is agreed upon and approved by the CNMV. The cases for which a delisting offer is not required are set out in the applicable rules.

In 2010, the CNMV authorised the delisting requested by Exide Technologies, with a takeover bid exemption, by means of an equivalent procedure which ensured that the legitimate interests of the beneficial owners of the securities affected by the exclusion were protected. The procedure started with the adoption of the necessary resolutions by the company's general meeting of shareholders. The general meeting of shareholders approved the purchase of all the shares with the exception of those which, having voted in favour, were blocked until the end of the procedure. The purchase was carried out by the controlling shareholder by means of an order maintained for the period of one month. The established price was justified by means of an independent expert report in which the same valuation rules were applied as those established for setting the price of a delisting offer.

Before the purchase order was set in motion, the CNMV agreed to open a month long submissions period, aimed at all the shareholders of Exide Technologies, so that they had a specific period during which they could gather information and make any relevant observations.

A delisting offer was not required in the case of Iberia either in the merger operation with British Airways, whereby the two companies were absorbed by International Consolidated Airlines Group (IAG) and the shares of the latter were listed on the Spanish stock exchanges and the London stock exchange. It was a corporate transaction whereby the shareholders of one listed company became shareholders of another, also listed, company and therefore the companies were exempt from the requirement to make a delisting offer, as provided for in applicable legislation.

11.3 The Market Monitoring Unit

As part of the CNMV's supervisory duties, the Market Monitoring Unit (Spanish acronym: UVM) is responsible for undertaking investigations to detect and pursue activities that endanger the integrity of the market. In most of its investigations, the UVM examines situations which may be related to the improper use of insider information or market manipulation, while checking compliance with the preventive rules governing this matter (maintenance of insider registers and the list of securities on which those on the register have information, establishment of separate areas to prevent the flow of insider information, reporting of suspicious transactions to the CNMV, etc.).

Once the UVM's investigations are completed, the Executive Committee of the CNMV may decide to take subsequent action. Decisions of this nature taken in 2010 were as follows:

1. To bring before the Public Prosecutor three investigations conducted by the UVM for the use of insider information, since it was considered that there were circumstances that could be construed as a market-related criminal offence. These investigations may be summed up as follows:

- During the period between the signing of a sale-purchase contract for a significant shareholding in a listed company by members of its board of directors and its market disclosure, bilateral agreements were entered into in favour of several companies for the acquisition of shares from the issuer, at prices lower than the price that the share would subsequently reach once the sale-purchase contract for a significant shareholding was announced. The companies which acted as purchasers in the bilateral agreements had as a beneficiary one of the purchasers of the significant shareholding. The profit obtained as a result of these agreements was in excess of 600 thousand euros, the threshold above which this conduct may be considered to be a criminal offence.

- During the process of acquisition of a company by an issuer, with a positive impact for the latter, a company sitting on the issuer's board of directors sold a bilateral option whose underlying was shares of the issuer. The profit obtained was equivalent to the premium received by the sale of this option and exceeded the above mentioned threshold of 600 thousand euros.

- In the period prior to a transaction involving the sale of assets, which after being disclosed to the market had a very negative impact on the trading price of the shares of an issuing company, a company resident outside Spain proceeded to sell shares of the former before the announcement of the sale of assets, thereby avoiding a loss which was also very much higher than the threshold above which this conduct may be considered to be a criminal offence. This company had another entity as its main and practically sole shareholder, also resident outside Spain, which identified a director of the issuing company as the ultimate beneficiary, who was aware of the insider information when he ordered the sale of the shares.

2. To open five sanction proceedings, brought against eleven persons or entities, mainly for the possible use of insider information or for market manipulation. In one investigation into possible market manipulation it became apparent that an investment services company had carried out transactions on the own shares of a listed company that could be construed as market manipulation due, among other reasons, to the high percentage of total trading that those transactions represented, without a suspicious transaction report having been sent to the CNMV. For this reason, the Executive Committee of the CNMV initiated sanction proceedings against the issuer for possible market manipulation, and against the investment services company for not sending the corresponding suspicious transaction report to the CNMV.

With regard to the investigations made by the UVM subsequently brought before the Public Prosecutor, it should be noted that this Unit collaborates with the judicial authorities, making available whatever information and documentation it may have gathered in its investigations or may be requested from them during the judicial proceedings. It should be noted that during 2010 the court was given a report on the possible benefit or harm resulting from a practice considered to be market information manipulation under the new wording of article 284 of the Criminal Code introduced by Organic Law 5/2010 on the offence of market information manipulation.[1]

1 The new wording of article 284 of the Criminal Code concerning the manipulation of market information states that a prison sentence of six months to two years or a fine equivalent to twelve to twenty-four

The criterion followed in the report is that market information manipulation is capable of interfering with the free formation of prices of all securities traded on the market, but may be measured with greater accuracy for a security directly affected by the manipulation, insofar as its trading price shows a direct effect, particularly compared with indexes or companies in its sector. From this comparison, made during the sessions in which the effect of the manipulation is most readily apparent, we can deduce the effect on the transactions made, and thereby determine the harm or the benefit generated.

Finally, the UVM frequently approaches foreign supervisors and regulators to ask for their collaboration in its investigations. During 2010, the UK supervisor was the main recipient of requests for international collaboration made by the UVM, but many requests were also made to the supervisory authorities of Belgium, Ireland and Switzerland.

months will be imposed on any person found guilty of disseminating "... news or rumours, either directly or via a communication media, concerning persons or companies, in the knowledge that the economic information given was wholly or partially false, for the purpose of altering or maintaining the trading price of a financial security or instrument, thereby obtaining for him or herself a monetary profit in excess of 300,000 euros or causing damage of an identical amount".

12 Supervision of entities

12.1 Supervision of codes of conduct and organisational requirements in the provision of investment services

Supervisory activity in 2010 in respect of firms providing investment services paid special attention to aspects concerning improvements in transparency and supervision of the information provided to retail investors. Other supervisory activity included the review of compliance with organisational requirements in matters of conflicts of interest, and the review of reports on the protection of assets held in safekeeping. With regard to solvency issues, in the case of investment services companies (hereinafter, investment firms), the CNMV reviewed reports on capital self-assessment and the control of transparency obligations regarding solvency.

As a result of supervisory activities, in the course of the year a total of 1,061 deficiency letters were sent to supervised investment firms, of which 837 were prompted by off-site inspections and the rest by on-site inspections. As can be seen in table 12.1, most of the deficiency letters were sent as a result of information filed late. Numerous deficiency letters were also sent due to a larger number of solvency problems (real or potential) suffered by certain entities as a result of the impact of the crisis on their activity, and due to the qualifications and incidents detected in the various reports submitted by the entities.

Supervision of investment services firms: deficiency letters sent by the CNMV in 2010 TABLE 12.1

Type of deficiency letter	Off-site	On-site	Total
For late filing of information	417	N/A.	417
Requests for information	146	184	330
Corrective measures or recommendations	254	27	281
Other notifications	20	13	33
Total	**837**	**224**	**1,061**

Source: CNMV.

12.1.1 Conduct of business rules

The CNMV supervises conduct of business rules for the provision of investment services by credit institutions and investment firms.

In 2010, alongside the customary areas of supervisory interest, such as prior disclosure obligations, client categorisation, suitability and appropriateness assessments, or the action of entities in especially sensitive areas (advisory services, receipt and transmission of orders, portfolio management, etc.), the CNMV also paid special attention to the review of firms' trading practices on the secondary market, particularly in respect of fixed income issues and hybrid instruments made by the entities themselves and placed, at least in part, among retail investors.

With regard to these practices, in June 2010 the CNMV issued a release in which it updated the verification requirements for such issues and identified the bad practices detected in connection with their sale on the secondary market.[1] Continuing with this task, the CNMV will supervise the matching of transactions to verify the level of observance of the provisions of the legislation and to detect bad practices in the intermediation process, as the case may be.

In compliance with the commitment acquired in the 2010 Activities Plan, last year the CNMV published "Guide to appropriateness and suitability testing" and "Guide to the provision of investment advisory services". In these documents, the content of which is not of a mandatory nature, the aim is to provide the sector with a set of guidelines which the CNMV considers to be appropriate to ensure better compliance with current regulations (see exhibit 12.1). A large proportion of these criteria and recommendations refer to issues that were the subject of a significant supervisory effort during the year.

Guide to appropriateness and suitability testing and to the provision of investment advisory services EXHIBIT 12.1

In June 2010, the CNMV published its "Guide to appropriateness and suitability testing", aimed at facilitating compliance by entities with the various provisions of the regulation on this subject. In December 2010, the CNMV also published its "Guide to the provision of investment advisory services". These guidelines, which are based on the CESR document "Questions and Answers. Understanding the definition of advice under MiFID" (ref. CESR/10-293), transposes the guidelines that the CNMV considers to be best practices in the provision of advisory services, and pays special attention to clarifying when it should be considered that an entity provides such services and not merely intermediation services.

The former of the guides mentioned reviews the concept of "initiative" in the scope of appropriateness assessments, a concept which is key to establishing when such assessments are necessary in the case of non-complex products. The guide also contains certain guidelines to determine whether or not a certain product is appropriate, based on past experience. The guide also establishes certain safeguards regarding the assessment of the general level of training, professional experience, and the client's degree of familiarity with the different types of financial instrument. When producing and evaluating the questionnaire, entities should avoid inconsistencies and biases which distort the analysis and should always be in a position to certify that they have carried out the assessment. Any warnings to the client arising from the as-

1 Letter sent to the presidents of AEB, CECA, UNACC, ASNEF, Emisores Españoles and Asociación Hipotecaria on the updating of requirements for fixed income issues aimed at retail investors, available at www.cnmv.es.

sessment should be written in a concise and understandable manner, and the entity must be able to certify that it has done so.

It should be noted that the guide considers that an entity is not acting in its client's best interests when it contacts the client to offer a complex financial instrument if it has prior information concerning the assessment of appropriateness which is not thought to be out of date and which allows it reasonably to presume that the instrument in question is not appropriate to the client, regardless of whether or not a corresponding warning has been given.

Looking now at suitability assessments, the guide helps differentiate between various contexts in which investment advisory services may be provided for the purpose of graduating regulatory demands and the implications of the duty to always act in the client's best interest. The guide reminds that recommendations and investment decisions regarding the portfolio managed must be aligned with the client's investment objectives. When the client appears to be prepared to take on risk levels which are deemed to be inappropriate, or if it is thought that the client does not have a sufficiently good understanding of the nature and scope of the risk, the entities must take this into account in its recommendations for portfolio management. The need to establish variables or parameters to define the risk in a manner understandable to clients is also stressed, as is the need to consider the risk of the portfolio as a whole and not just the risks of the instruments taken one by one.

As in the appropriateness test, the guide establishes that firms must be able to substantiate that the suitability assessment has been carried out and provides similar guidelines regarding the production and evaluation of the questionnaires. Finally, the guide requires firms to have procedures in place to ensure the availability of timely information about their clients to assess their suitability, and that any changes, updates or reviews to that information are duly documented.

With regard to the guide concerning investment advice, two basic concurrent requirements are established to determine whether this type of service is provided: 1) that a recommendation, whether explicit or implicit, is made regarding specific financial instruments and 2) that the recommendation is personalised; that is, it is presented as suitable for the investor based on his personal circumstances. In any event, the issue of a recommendation requires the introduction of a subjective element; a value judgement or opinion aimed at helping the investor make an investment decision.

As a rule it can be decided whether or not to provide investment advisory services depending on which commercial segment the client belongs to, for example private or personal banking, but this does not preclude this service being also provided in other segments. In particular, the guide calls financial institutions' attention to the high risk of their commercial network inadvertently providing advisory services to their commercial banking clients in the mass distribution campaigns of complex products. The guide also calls on financial institutions to take into consideration and, when necessary, apply the appropriate corrective measures in other situations, in particular when their clients have a general perception that they are receiving personalised recommendations.

The guide stresses that products which are unsuitable for clients may not be recommended, and that, prior to the issue of a recommendation, an assessment must be made of the suitability of the product. The guide also makes it clear that while a written contract between entity and client is not necessary for formalising investment advisory services, the entity is always obliged to communicate recommendations to the investor in a demonstrable manner and keep a record of those recommendations.

12.1.2 Organisational requirements

As announced in the CNMV's Plan of Activities for 2010, in that year the review of compliance with organisational requirements regarding conflicts of interest was added to the CNMV's supervisory activities. The main incidents detected in this respect were due to the fact that entities' provisions concerning conflicts of interest and their handling are very generic, since in most cases they are limited to a transcription of the content of the rule. A greater degree of specification is therefore required regarding the identification of the circumstances which give rise to conflicts of interest and regarding the manner in which they are handled.

With regard to the internal audit function of investment firms, the outcome of inspections pointed to the fact that, in some cases, it was advisable for this function to be performed by a properly empowered independent body engaged exclusively in auditing.

Deficiencies were also detected in the upkeep of mandatory records. In particular, it was seen that certain firms did not keep a record of investment advice in which recommendations made were documented. Also, several firms did not have a unified orders file for storing the minimum mandatory information on orders in a manner allowing the CNMV to access it.

The CNMV's supervisory activity placed special emphasis on the review of the reports on protection of clients' assets regulated in Circular 5/2009, produced by the investment firms' external auditors. In total, 270 reports were received and reviewed. In general, the analysis of the first year of application of the above mentioned Circular was positive. The review revealed no significant incidents which might indicate the existence of mismatches in the assets owned by clients. The outcome of the review revealed that the work of the auditors helped the entities introduce major improvements in the design of their procedures and strengthen the controls set up in the area of safekeeping in general, with a greater involvement of the management of the entities, all of which results in a higher level of protection for clients' assets.

With regard to the protection of clients' assets, it should also be noted that the auditors and various representative bodies in the sector received from the CNMV a set of proposals concerning the possible amendment of the "Guidelines for the performance of audit fieldwork". These proposals were made on the basis of the auditors' annual reports on the protection of clients' assets.

With regard to other supervisory work, for a representative sample of investment firms, credit institutions and their branches, the CNMV reviewed the 2009 reports on regulatory compliance sent to senior management, as per article 31 of Royal Decree 217/2008, on the legal framework for investment service companies. The purpose of the review was to assess the quality of the reports in terms of their scope and content and to check that any incidents or non-compliances were identified for the various areas of control. Also checked were the measures proposed to rectify such incidents and the observance of the recommendations and suggestions proposed by previous CNMV inspections.

The review of regulatory compliance reports carried out by the CNMV revealed that, as a result of its various supervisory activities, the CNMV had been aware of all the incidents of any significance mentioned in the reports included in the sample. Consequently, the CNMV put in place a series of measures designed to bring about a general improvement in the content of these reports, and the possibility was raised of producing a guide to help the supervised entities produce the report.

12.1.3 Regulatory changes

During 2010, the CNMV published Circular 1/2010 of 28 July on the confidential information of entities providing investment services. This Circular identifies the confidential information that entities have to send to the CNMV periodically on certain aspects mainly related to the securities market code of conduct. The purpose of this information is twofold: to facilitate the production of a risk map to improve the efficiency of CNMV's supervision, and to have sufficient quantitative and qualitative information to conduct off-site inspections.

With regard to European affairs, we should mention the public consultation of the European Commission, made in late 2010, on possible amendments to the MiFID directive. Exhibit 12.2 summarises the details of that consultation as it affects investment services.

Public consultation of the European Commission on the review of the MiFID: investment services EXHIBIT 12.2

As indicated in exhibit 11.1, late in 2010 the European Commission launched a public consultation on the reform of the MiFID. The most significant aspects of the proposed amendments to this directive as it affects investment services are as follows:

(1) Scope of application:

It is proposed to limit the present exemption provided for by article 3 of the Directive (article 62.3.g of the Securities Market Act) for persons who provide investment advice in the exercise of another professional activity. It is also proposed to extend the application of conduct of business and conflict of interest rules to the sale of structured deposits (simple deposits would not be included) by credit institutions.

(2) Conduct of business rules:

A number of amendments of particular importance are proposed. Regarding the execution-only regime, two options are considered: to eliminate it or to include clarifications and specifications in the present regime regarding the sale of packaged products and services.

On the subject of advice, it is proposed to oblige intermediaries to report on whether the advice provided is based on independent and impartial analysis. If this is not the case, firms wishing to provide this service would be obliged to evaluate a large number of financial instruments of various types, coming from different suppliers, without receiving payment or profit from those suppliers. The possibility of requiring the recommendations given to be followed up is also under proposal.

The prohibition of inducements is also being considered in the case of discretional portfolio management. There is a proposal to remove the possibility of ex-ante reporting, in a summarised and vague manner, of inducements, and to establish the obligation to provide ex-post information.

With regard to the obligations of disclosure to the client, the European Commission considers it advisable to enhance the information provided to retail and professional clients in transactions involving OTC derivative products and other complex products.

(3) Authorisation and organisational requirements:

It is proposed to address a number of shortcomings detected in the application of current provisions. Thus, with regard to the criteria of integrity and experience, there is a call for all these criteria to be required from all members of the board of directors, whether executive or non-executive members. Compliance with the criteria should be appraised not only at the time of granting authorisation but also on an ongoing basis.

In order to increase the involvement of members of the board of directors in the internal functions of regulatory compliance, risk management and auditing, it is proposed that these three areas report directly to the board and that the compliance function include a summary in its periodic report of the complaints received from clients and how they were handled, and any corrective measures proposed.

With regard to the design and launch of products, transactions and services, it is proposed (i) to assess their compatibility with the characteristics and needs of target clients, (ii) that the compliance function ensures compliance with obligations concerning disclosure, suitability and appropriateness, inducements, and management of conflicts of interest, and (iii) to check that the entity's staff has the experience and know-how required to understand the nature and the risk of the products and services they are offering, and that they receive appropriate training in any new products.

12.2 Prudential supervision of investment firms

The prudential supervision of investment firms is conducted from two viewpoints: on the one hand, the entity's economic-financial position and viability is examined and, on the other hand, the risks associated with the activity are analysed. Much of the supervision is based on information submitted periodically to the CNMV, which is complemented with on-site inspections.

In addition to the regular supervisory examinations, in 2010 the capital self-assessment reports sent by the investment firms to the CNMV for the first time were reviewed. The purpose of these reports is to oblige entities to know, measure, manage and control the risks to which they are or may potentially be exposed, as provided for under Circular 12/2008. The CNMV also supervised, again for the first time, the report on solvency which the entities are obliged to publish, which is based on the content of the circular which transposes to Spanish law the obligation to disclose to the general public information concerning risk and capital adequacy.

The review of the capital self-assessment report submitted by the entities concluded that no entity uses internal models to quantify capital adequacy requirements by risks different from those considered by the rules. The review was able to confirm that capital adequacy of the sector was comfortably above the regulatory requirement, barring some exceptional cases. With regard to the review of the reports on solvency, it was verified that all entities subject to the obligation to publish such reports did so in a timely and proper manner. No significant incidents came to light as a result of the examination of the reports' content.

Regulatory changes concerning solvency

During 2010, the CNMV was working on amendments to Circular 12/2008, on the solvency of investment firms and their consolidation groups, which was published in January 2011 (CNMV Circular 1/2011). This amendment transposes Directives 2009/27 and 2009/83, which modify Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions, and Directive 2006/48, on the taking up and pursuit of the business of credit institutions, in several aspects concerning the capital adequacy of investment firms. The transposition of the provisions of Directive 2009/111 was postponed, and will be applicable as from 31 December 2010, until the corresponding higher level regulation is in force.

Circular 1/2011 specifies and clarifies a number of concepts relating to the position risk and counterparty credit risk of certain credit derivatives, and others concerning credit risk reduction techniques and changes relating to transactional risk and disclosure obligations. There have also been changes or improvements which are not related to the transposition of the above mentioned directives, but rather correspond to amendments prompted by the experience acquired during the application of Circular 12/2008.

While it does not refer directly to solvency standards, another important amendment included in Circular 1/2011 is that contained in its first additional provision. Under this provision, financial advice companies (classified as EAFIs under Spanish legislation) which are natural persons must, in the four months following year end, submit a report produced by an independent expert expressing an opinion on the truthfulness and reliability of the information contained in the SEAFI1 statement provided for by Circular 7/2008, on accounting standards, annual accounts, and other confidential returns of investment firms. This requirement covers the existing regulatory gap for this type of EAFI in terms of their obligation to have their annual accounts audited. EAFIs which are legal persons are already obliged to have their annual accounts audited; their audited accounts for 2009 were submitted and supervised by the CNMV for the first time in 2010.

12.3 Supervision of UCITS

Supervision of UCITS in 2010 took place in a context still marked by the difficulties posed by the financial crisis. During the year, UCITS management companies implemented the changes introduced by Circular 6/2009 on internal control. This Circular systemises and details the general obligations of capital adequacy, means, and procedures of UCITS management companies provided for under the UCITS Act and its implementing regulation.

In 2010, the CNMV sent a total of 2,196 communications to the supervised entities in the exercise of its supervisory activity. Of this total, 989 corresponded to deficiency letters due to the late filing of information. The largest number of deficiency letters for this reason derived from a failure to send UCITS and venture-capital audits and the confidential returns pertaining to those audits. It should be noted that 313 communications were sent requesting information necessary for the CNMV's supervisory activities (other than that made available normally) and another 672 letters were sent requesting entities to adopt measures to rectify the incidents detected (see table 12.2).

Supervision of UCITS: deficiency letters sent by the CNMV in 2010 TABLE 12.2

Type of deficiency letter	Off-site	On-site	Total
For late filing of information	986	3	989
Requests for information	233	80	313
Corrective measures or recommendations	550	112	672
Other notifications	185	37	222
Total	**1,954**	**242**	**2,196**

Source: CNMV.

12.3.1 Supervision of prudential requirements and conduct of business rules

In 2010, the CNMV's main supervisory target in the UCITS area was the verification of compliance with the key requirements of the regulation: sufficiency of means, adequacy of the entities' internal controls, prevention of conflicts of interest, compliance with legal ratios, and investment suitability. The CNMV channels its supervisory activities through periodic controls and spot or special checks.

The most important of the periodic controls are those focusing on legality and those based on the analysis of the returns from UCITS funds. Of the former type, especially important last year were those aimed at verifying compliance with the various limits and ratios affecting these entities. In particular, the CNMV analysed compliance with overall diversification ratios, which limit UCITS' exposure to counterparty risk and to the market risk of an economic group in its various investment products (fixed income, equity income, cash and derivatives). The controls aimed at verifying compliance with derivative trading restrictions were perhaps the most important in this respect. Given the special nature of this type of trading and the existence of special obligations of disclosure to the CNMV, analysis was focused on the entities' performance, for the purpose of detecting situations which might suggest weaknesses in their derivative trading control systems. Also noteworthy were the controls aimed at UCITS holding securities affected by rating downgrades in their portfolio, so as to ensure that these entities had plans to rectify any prospectus non-compliances arising from this circumstance.

The CNMV's analyses of returns-based controls detected weaknesses in the internal procedures and controls of management companies, and regulatory breaches regarding the suitability of the institution's assets or fulfilment of its investment policy.

With regard to non-periodic controls, perhaps the most noteworthy of those carried out in 2010, some of which had already been implemented in 2008 and 2009, were related to the impact of the financial crisis. In particular, we should note the controls aimed at analysing the valuation and management of the liquidity of fixed income investments held by UCITS, in order to identify management companies which had a significant percentage of the portfolios under their management invested in fixed income securities considered to be illiquid, and entities which may be applying valuation procedures which do not take into account current market conditions. Another example of this type of control are those aimed at evaluating exposure to the Madoff case (during the year the management companies were also sent a catalogue of best practices in respect of cases like the Madoff one) and the analysis of monetary funds, aimed at identifying cases in which management companies could be investing in assets with a legal maturity in excess of what is permitted.

Other non-periodic controls carried out during the year which are worth mentioning include the review of the procedures for the application or trading of assets between UCITS, with the purpose of verifying compliance with the rule on related-party transactions, the examination of charges and fees payable in UCITS, and controls of the funds they invest in deposits, so as to study the conditions of remuneration, among other aspects, and detect possible conflicts of interest.

12.3.2 Information for investors

UCITS regulations call for auditors' reports and the annual accounts to be sent to the CNMV. This information must also be delivered to investors as part of the annual report and is complemented by the recommendations made by the auditors. All these documents are essential to the performance of the CNMV's supervisory work and, therefore, in 2009 special attention was paid to reviewing its form and content and to checking whether the submission deadlines were met In the review of the auditors' reports for 2009 (presented in 2010) special attention was paid to qualifications and emphasis paragraphs, the number of which rose due to the consequences of the financial crisis.

Another important aspect worth mentioning with regard to information for investors was the analysis of the quantitative information included in the public information released by UCITS, for the purpose of ensuring their accuracy. This analysis was aided enormously by the new XBRL format used in these reports. Specifically, the data regarding returns, volatility, expenses and asset groups, among others, included in public information was analysed. This analysis was complemented by an analysis of the telematic availability of the public information released by UCITS, which must be available on the web page of the management company or of its group.

12.3.3 Supervision of HF and FoHF management companies

In 2010, the supervision of hedge funds paid special attention to two issues. The first is in regard to the suspension of underlying funds in the UCITS' portfolio. As a result of the numerous redemption suspensions and liquidations of hedge funds in Spanish UCITS' portfolios, the CNMV examined the level of observance of the recommendations issued in 2008 in respect of the way to respond to these circumstances. The Commission also studied how to detect funds with a high percentage of their portfolio invested in hedge funds affected by illiquidity issues.

The second issue concerns hedge fund UCITS in the process of liquidation. The CNMV monitored the liquidations which a large number of FoHF have been forced into due to problems with the underlying hedge funds. This analysis was completed with a review of the returns of these institutions, in order to verify their reasonableness.

12.3.4 Supervision of UCITS depositaries

During 2010 several supervisory activities were conducted, both on- and off-site, referring to the work of UCITS depositaries. In the case of on-site supervision, the analyses carried out arose from scheduled inspections not only of depositaries but also of UCITS management companies in which incidents were detected which could affect depositaries' ability to perform their duties properly. In the case of off-site supervision, the CNMV began to analyse the half-yearly reports on the function of supervision and monitoring of the depositaries. These reports, which were first sent in 2010 by telematic means, make it possible on the one hand to analyse how the depositaries are carrying out the function of monitoring the work of management companies and, on the other hand, to detect incidents affecting deposited funds in respect of their valuation, reconciliation, or of any other nature.

12.3.5 Supervision of real estate UCITS

During 2010, as part of the supervision of real estate UCITS, special attention was paid to the monitoring of the ordered process of sale of the properties in two real estate investment funds which were obliged to suspend redemptions for two years starting from early 2009, one of them being the largest real estate UCITS by assets held.

As for the other real estate funds, their situation continued to be monitored. In this respect, there was an ongoing analysis of the performance of these funds in terms of liquidity, especially in the months prior to the liquidity windows. Returns on and valuations of the properties in portfolio were examined and it was checked whether the periodic public information provided by these funds on the situation of the real estate market was appropriate.

Circular 6/2010 on transactions with derivative instruments involving UCITS

EXHIBIT 12.3

This Circular was approved on 21 December 2010. Its purpose is to implement the content of Order EHA/888/2008, of 27 March, on transactions in derivatives by UCITS of a financial nature. The Circular takes into account the regulatory developments recently passed at a European level, in particular Directive 2010/43/EU on organisational requirements, conflicts of interest, conduct of business rules, risk management, and the content of the management company-depositary agreement, and CESR guidelines on risk measurement and the calculation of global exposure and counterparty risk for UCITS (CESR/10-788).

The Circular implements the methodologies applicable to the measurement of the exposure to derivative instruments which, according to article 39.3 of Royal Decree 1309/2005, may not exceed the net asset value of the UCITS. In particular, it provides for the use of two methodologies, the commitment approach or the value at risk (VaR) method. The management company must apply the one most appropriate to its investment and risk policy set out in the entity's information prospectus, and to the complexity of its investments and management strategies.

The purpose of the commitment approach, similar to the method set out in the repealed CNMV Circular 3/1998 (previously called "standard methodology"), is to limit the maximum leverage of UCITS. To do this, it establishes a number of rules and criteria for calculating derivative instruments and equivalent spot positions. The VaR method determines the maximum likely losses a UCITS might suffer during a particular time horizon. This methodology also provides for the possibility of choosing between a relative VaR limit (whereby the VaR of the UCITS may not exceed two times the VaR of a benchmark portfolio) or an absolute VaR limit (whereby a maximum risk of 20% of the UCITS' net asset value is set, calculated with a confidence level of 99% and a time horizon of one month). The Circular sets forth the qualitative and quantitative conditions required for VaR methodology to be applied, and other tests and measurements of risk which must be implemented to complement that methodology (stress testing, back testing, monitoring of the UCITS' leverage and, when appropriate, calculations of conditional VaR).

The Circular also sets out another series of standards applicable to UCITS. To be precise, it establishes measures concerning the calculation of limits to counterparty risk and investment diversification and concerning the framework applicable to UCITS with a specific yield, and criteria for the valuation of derivative instruments and their underlyings.

Finally, the Circular contains a number of additional provisions which amend certain models of confidential information which UCITS and management companies must send to the CNMV.

12.4 Supervision of venture capital firms

During 2010, the on-site supervision of venture capital management firms was included as part of the CNMV's supervision programme for the first time. The process of offering shares and participations for the capture of clients was reviewed and the existence of appropriate procedures in the investment of the committed equity was verified. The CNMV also reviewed the due diligence procedures applied to potential and committed investments, and verified compliance with the obligations of disclosure to the stakeholders.

In the course of the year the receipt of the information from the statements of firms improved considerably. The number of venture capital firms registered with the CNMV increased slightly (see Chapter 9). However, the new asset value of venture capital firms as a whole fell for the second year running, by nearly 2%. This decrease in total net equity was mainly due to the increase in the amount of losses posted in the year.

Meanwhile, as a result of the larger number of firms which posted losses at the end of the year, the asset equilibrium situation was affected, prompting the adoption of supervisory measures so that the firms could return to the equilibrium situation required by law. Similar action was taken in the case of firms which found it difficult to comply with the required investment ratio of 60% of admitted assets.

12.5 Supervision of securitisation fund management companies

With regard to the supervision of securitisation fund management companies, the aim of the actions carried out in 2010 were fundamentally to confirm, after a prudential interval, that the incidents detected had been corrected.

12.6 Collaboration in the prevention of money laundering

Within the framework of collaboration between the CNMV and SEPBLAC (Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences) a review was made of the degree of compliance with money laundering prevention obligations in those entities previously agreed with SEPBLAC. The latter organisation was sent a report with the conclusions reached concerning the degree of compliance with money laundering prevention obligations.

13 Investor assistance

13.1 Complaints management

The CNMV handles the complaints filed by investors in connection with the activities it supervises. These complaints should be resolved, in the first instance, by the same entities to which they refer and therefore the investor should address their complaints to the entity's client care service and/or client ombudsman. If the entity does not answer within two months of filing the complaint, or if the reply is not satisfactory, investors may file their complaint with the CNMV through the Investor Assistance Office (*Oficina de Atención al Inversor*, OAI). The CNMV's resolution of the complaints filed is not binding for the entities, although, in some cases, it may help the investor to redress or obtain compensation for the harm done.

In 2010, a total of 2,296 complaints were filed with the CNMV, 6.6% more than in 2009. Although this increase is moderate compared with the previous year's rise (over 100%), the number of complaints continues to be appreciably higher than the pre-2008 figure, which suggests that the financial and economic crisis has also had a certain specific effect on this matter. As shown in table 13.1, in 2010 a total of 2,087 complaints were handled, an 84% increase on the previous year. At year end, there were a total of 1,619 complaints pending resolution.

Complaints processed broken down by type of resolution TABLE 13.1

	2008		2009		2010		%
	Number	% of total	Number	% of total	Number	% of total	change 10/09
Resolved	**722**	**80**	**823**	**72**	**1,774**	**85**	**116**
Report favourable to claimant	226	25	292	26	807	39	176
Report unfavourable to claimant	365	41	255	22	534	26	111
Report without decision	10	1	57	5	154	7	170
Resolved by mutual agreement	112	13	198	17	241	12	63
Complaint withdrawn	9	1	21	2	32	2	52
Unresolved	**177**	**20**	**314**	**28**	**313**	**15**	**0**
Competence of other authorities	41	5	86	8	128	6	49
Not accepted	136	15	228	20	185	9	-19
Total complaints handled	**899**	**100**	**1,137**	**100**	**2,087**	**100**	**84**
Pro memoria							
Total filed	**1,058**		**2,154**		**2,296**		**7**

Source: CNMV.

85% of the total number of complaints were resolved by the issue of reports, by mutual agreement, or by the complaint being withdrawn. There was a significant increase of complaints resolved with a favourable report to the claimants, which rose from 26% of all complaints processed in 2009 to 39% in 2010. Taken together, complaints resolved with a favourable report or with a mutual agreement between entities and clients accounted for over half the total. There was also a significant increase once again in the number of complaints not resolved due to their being the competence of other authorities, which evidences the growing use by the public of the "one-stop window" (these complaints are passed on automatically to the competent authority). Finally there was a decrease in the number of complaints not accepted due to failure to comply with formal requirements.

The entities against which most complaints were filed were credit institutions, which is basically a reflection of the importance of such institutions as commercial distributors of financial products and services. Four credit institutions accounted for more than 40% of the reports issued with a resolution favourable to the claimant.

With regard to the reasons behind the complaints, in 2010 there was a significant increase in the number of resolved complaints related to the provision of investment services and, within this group, complaints regarding the receipt, transmission and execution of orders and the information provided to the client, as can be seen in table 13.2. More specifically, over 50% of the resolved complaints referring to orders brought to light shortcomings in the evaluation of the appropriateness or suitability of financial products before they were offered to investors. The most frequently affected products were interest rate swap contracts and, to a lesser extent, contracts on inflation and on certain commodities. With regard to complaints concerning orders we should also note those relating to difficulties experienced by investors to sell the preferential shares in their portfolio. In terms of complaints regarding information deficiencies, as in 2009, most of them referred to the trading of structured notes and other products issued by Lehman Brothers and by Icelandic banks. Finally, complaints concerning UCITS have also experienced an appreciable, albeit lesser, increase, of which complaints related to deficiencies in the information provided and incidents affecting redemption were the most common.

Complaints resolved. Breakdown by subject TABLE 13.2

	2008		2009		2010		%
	Number	% of total	Number	% of total	Number	% of total	change 10/09
Provision of investment services	**388**	**54**	**525**	**64**	**1,349**	**76**	**157**
Receipt, transmission and execution of orders	200	28	256	31	690	39	170
Information provided to the client	112	16	188	23	491	28	161
Fees and charges	59	8,	63	8	92	5	46
Other	17	2	18	2	76	4	322
Investment funds and other UCITS	**334**	**46**	**298**	**36**	**425**	**24**	**43**
Information provided to the client	95	13	108	13	181	10	68
Subscriptions/redemptions	103	14	92	11	152	9	65
Transfers	88	12	61	7	61	3	0
Fees and charges	48	7	37	5	31	2	-16
Total complaints resolved	**722**	**100**	**823**	**100**	**1,774**	**100**	**116**

Source: CNMV.

Monitoring of rectifications by entities

An improper action is deemed to have been rectified when the entity provides evidence that it has dealt with the subject of the complaint, either by offering monetary compensation to the claimant (under no circumstances does the CNMV pass judgement on the amount of the compensation) or by accepting the criteria set out by the CNMV in its report and taking measures to avoid a repetition of the improper action in the future. The CNMV therefore monitors rectifications to prevent the repetition of bad practices and improper actions and to encourage the adoption of corrective measures. This monitoring also enables the CNMV to assess the effectiveness of the complaints management system and the entities' level of adaptation to the criteria and recommendations arising from the analysis of the complaints

Of the 807 complaints resolved with a favourable report to the claimant in 2010, in 13.4% of the cases the entities rectified their action according to the criteria described above. This percentage is lower than in 2009 (18.2%), a year in which there had already been a significant decline over the previous year (34.1%). In 2010, there was also an increase in the number of entities which did not rectify and/or disagreed with the CNMV's criteria (15% in comparison with 7.2% the previous year). The firms which did not answer and are therefore considered not to have rectified accounted for 71.4% of that total.

Especially significant complaints

As has been mentioned, in 2010 the CNMV handled a large number of complaints related to the contracting of financial swaps. On 20 April 2010, the CNMV and the Bank of Spain published a joint release delimiting their competences in respect of the supervision and resolution of complaints concerning financial hedge instruments or products. According to this release, all contracts for which there is no evidence of any link to any banking product (such as a loan or a financing contract at a variable interest rate) arranged with the entity subject of the complaint will fall under the supervisory scope of the CNMV.[1] In this type of complaint, the CNMV examines whether their marketing complies with conduct of business rules, both in respect of the prior assessment of the appropriateness of the contract, and in respect of the information provided on the characteristics and risks of the contract, including the risk of incurring losses under certain circumstances, and the possibility of the client requesting the early redemption of the contract and the criteria used for calculating the subsequent settlement.

In this type of complaint, the most important incident detected during the pre-MiFID period was the lack of evidence provided by the entities that they had enough information on the claimant to assess the appropriateness of the product to their investor profile, in the terms provided for by the legislation previously in force.

In the case of investments made subsequent to the transposition of MiFID, while entities are able to provide more evidence of having assessed the appropriateness of the product to be contracted (investment record of claimants, their personal and

1 See the CNMV release "Delimitation of the competences of the CNMV and the Bank of Spain with regard to the supervision and resolution of complaints affecting financial hedge instruments or products", available at http://www.cnmv.es/Portal/AlDia/Comunicaciones.aspx?lang=es.

professional qualifications, level of education and –in the case of trading companies– level of business, etc.), in a fair number of cases the conclusion reached was that, on the basis of the answers provided by the claimants in the appropriateness questionnaires, it was questionable that the entity could reasonably conclude that the product was appropriate.

With regard to preferential shares, the information provided prior to their acquisition and the processing of sale orders were the two outstanding causes for complaint. In the first case, in 2010 most complaints were concerned with the investment's inappropriateness to the conditions or profile of the claimants, and the absence of comprehensive information on the characteristics and risks of the securities prior to their acquisition. On some occasions the claimants complained that they had received inadequate verbal information regarding the characteristics and risks of the securities, and yet the complaint filed included a signed subscription order certifying that the information prospectus had been delivered to the claimant prior to the acquisition of the preferential shares.

In the case of sale orders, there were also an abundance of complaints concerning the failure to execute those sales on the secondary market, in this case the AIAF fixed income market. In some cases it was proven that, during the time in which the orders were in force, the entity subject to the complaint intermediated in market transactions of a similar nature to those ordered by the investor, without informing the claimants of the preferential treatment given to those executed orders over the claimants' unexecuted orders. In other cases, there was even evidence that the entity had intermediated in transactions on the market at lower prices than the ones the claimants put in their sale orders, thereby contravening their best execution policy. It is especially significant that, in most of the cases examined, the liquidity providers were not exempt from their obligations in this matter and that, nevertheless, the entity subject to the complaint did not even get in touch with them to try to provide a solution to their clients through this channel.

With regard to complaints regarding UCITS, complaints continued to be received in which there was no evidence that the investment marketing firms had complied with their obligation to deliver an information prospectus and other legal documentation prior to selling investors participations in investment funds. There also continued to be incidents relating to fund transfer orders involving both the recipient entities (rejection of the request due to doubts regarding the ordering party's ownership of the funds, lack of information given to the clients regarding the obligation to make a currency trade in transfers between UCITS denominated in currencies, lack of information to the claimant regarding the existence of minimum investment requirements in the recipient UCITS, among others), and the originating entities (lack of diligence when replying to the recipient entity about the circumstances which had caused the transfer to be rejected). Similarly, with regard to the subscription and redemption of participations in funds, complaints continued to be received concerning the net asset value applied, which are in conflict with the rules set out in the funds' information prospectuses and marketing reports.

Finally we should mention complaints concerning inheritance procedures. In this matter, entities continued to make frequent errors when executing the deceased's inheritance and distributing it among the heirs, although once the error was detected the most normal thing was for the entity subject to the complaint to remedy it. In some cases there was also an unwarranted delay between the firm having all the documentation relating to the inheritance in its possession and the moment when the securities were recorded in favour of the new rightful owners, thereby delaying the change of ownership.

13.2 Information provided to investors

The year 2010 was characterised by a lower volume of queries compared with previous years and a greater diversity of the issues queried. In the course of the year 10,613 queries were handled, 25.5% less than the previous year, which is due, first and foremost, to the fact that there were fewer queries regarding the situation of entities affected by the financial crisis, regarding the marketing of new products, and regarding instruments issued under the provisions of new legislation of which the investors are unaware.[2] The decline in the number of queries was also due to more firms presenting requests online, after the introduction of a form on the CNMV's website (available via the Investor Portal) which requires the claimant to specify the reason for their query in greater detail, as opposed to the previous system whereby e-mails were sent with no pre-established format (see table 13.3). The new electronic form has appreciably simplified the processing of queries and shortened the response time. It should also be noted that the large number of queries that the CNMV handles directly in the investment fairs in which it takes part (Bolsalia and Borsadiner) are no longer taken into account in the reckoning.

As can be seen in table 13.3, the phone continues to be the most commonly used medium for making queries, followed by the web form and written communication. Use of the latter decreased appreciably in comparison with 2009, after an exceptional increase that year due to the large number of requests for information relating to the suspension of redemptions by Santander Banif Inmobiliario, FII. With regard to telephone queries, only 7% required specialised attention from CNMV technical staff, while the rest were attended through a call centre.

Breakdown of queries by channel TABLE 13.3

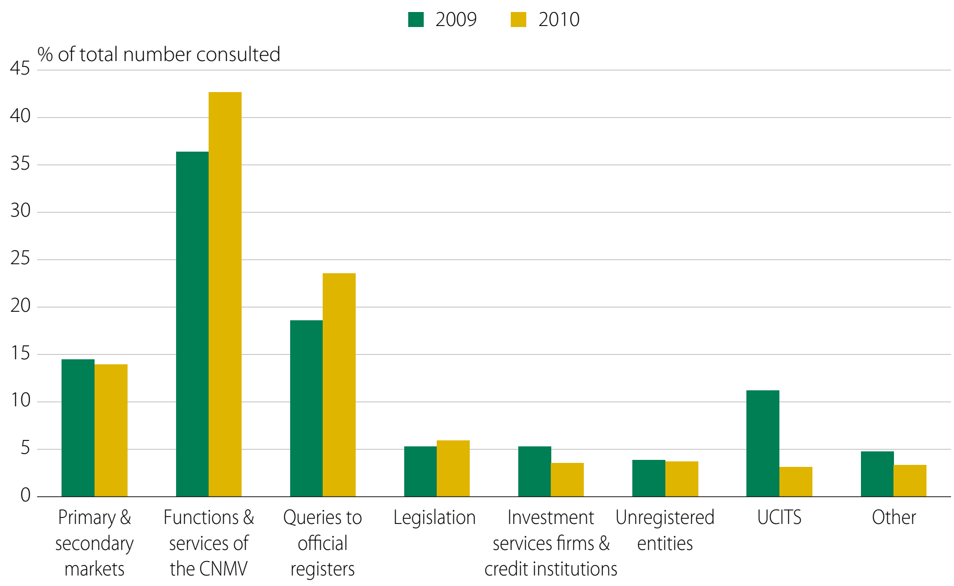
	2009		2010		% change
	Number	% of total	Number	% of total	10/09
Telephone	9,556	67	8,219	77	-14
E-mail[1]	2,944	21	29	0	-99
Postal mail	1,136	8	278	3	-76
In person[1]	574	4	0	0	-100
Form[2]	38	0	2,087	20	5,392
Total	**14,248**	**100**	**10,613**	**100**	**-26**

Source: CNMV. (1) In 2010 the queries attended at the investment fairs in which the CNMV participated were not included in the total. (2) At the end of 2009, e-mail was replaced by the query form.

As can be seen in figure 13.1, most of the queries requested information contained in official registers (registry data of entities or contracts and fees for investment services or significant events, among other content freely available to the public) or concerning CNMV services (complaints under investigation, investor guides and factsheets, CNMV releases, statistics, publications, etc.).

2 See the Annual Report of the CNMV and the report Attention to the Complaints and Enquiries of Investors for 2009.

Queries by topic FIGURE 13.1



Source: CNMV.

13.3 Investment Guarantee Fund (FOGAIN)

At year end 2010, the number of entities affiliated to the Investment Guarantee Fund (hereinafter FOGAIN) stood at 146, four fewer than in 2009. To be precise, in the course of the year twelve new firms were affiliated (six brokers and six UCITS management companies) and 16 dropped out (11 brokers, three portfolio management companies and two UCITS management companies). The breakdown of all affiliated firms is as follows: 50 brokers, 45 dealers, 6 portfolio management companies, 44 UCITS management companies and one branch of a foreign investment services firm. As has been the case in recent years, since the rule was amended to allow UCITS management companies to provide certain investment services (Law 35/2003, on UCITS, and its corresponding regulation, approved by Royal Decree 1309/2005), this latter group is the only one to have more FOGAIN members.

Trend in number of member entities TABLE 13.4

Type of entity	2006	2007	2008	2009	2010
Brokers / dealers	101	99	101	100	95
Portfolio management companies	17	11	10	9	6
UCITS management companies	2	25	34	40	44
Foreign investment services firms (branches)	1	1	1	1	1
Total	**121**	**136**	**146**	**150**	**146**

Source: CNMV.

Sebroker Bolsa, A.V., S.A.'s filing for insolvency proceedings in March 2010 required the intervention of FOGAIN. By the end of the year, the guarantee fund had compensated 214 clients of that firm, for a total amount of 734 thousand euros. This represents a little over 83% of the total estimated compensation according to the data in possession of the guarantee fund.

The FOGAIN also continued to process requests for compensation for cases of insolvency which occurred in previous years although, since most of these have already been paid out, this activity is increasingly less significant. Specifically, in 2010 these compensation payments involved only a small number of clients of AVA Asesores de Valores, A.V., S.A. It should be remembered that the current regulation establishes a maximum period of fifteen years in which compensation can be applied for, which means that the FOGAIN must be in a position to pay clients with a right to such compensation during that period.

Meanwhile, the FOGAIN continued to act in various judicial and out-of-court proceedings in order to recover the amounts paid out as compensation. Thus, at year end, the recovery proceedings concerning AVA, Asesores of Valores, S.A. and Gescartera Dinero, A.V., S.A. were well advanced.

It should be noted that for the first time FOGAIN's budget for 2010 was prepared on the basis of data provided by the CNMV, which in turn was based on the confidential statements submitted by the entities belonging to the fund and which disbursed the budgeted contributions in their entirety.

13.4 Investor training

13.4.1 Financial Education Plan

In May 2010, one of the most representative projects of the Financial Education Plan, developed jointly by the CNMV and the Bank of Spain, came to fruition with the launch of the portal www.finanzasparatodos.es, which provides practical advice, tools and calculators for personal saving and economy planning. Among others, the portal contains a section of latest developments in which users can find information on various of the plan's development initiatives, either of a general scope or aimed at specific groups, together with alerts concerning current issues relating to the management of domestic finances. During the first seven months of its existence, the portal received around 200 thousand visits.

A noteworthy outcome of the collaboration agreement entered into with the Ministry of Education was the start up of a pilot financial education programme in the third year of Compulsory Secondary Education (ESO), in which nearly three thousand pupils of 32 schools belonging to 14 autonomous communities, Ceuta and Melilla took part. The programme is being implemented in the current academic year 2010/11 and consists of a minimum of ten hours tuition on the basic concepts of personal finance such as saving, payment methods, responsible consumption, etc. In order to provide young people with a more practical and entertaining approach to these subjects, and to give learners additional help in their studies, a portal has been developed with various games, tools and interactive resources (www.gepeese.es).

Since the main goal of the Financial Education Plan is to improve the financial culture of the nation as a whole, the widespread dissemination of these portals and of the other initiatives undertaken, such as the collection of factsheets "Basic advice on family economics", is vital. Some of the actions arising from agreements with public and private entities and agencies are framed with this purpose in mind. In the course of 2010, a number of savings banks which are collaborative members of the agreement entered into between the CNMV, the Bank of Spain and the Spanish

Confederation of Savings banks included a link to www.finanzasparatodos.es on their corporate websites. Other entities assumed the task of printing and disseminating the collection of factsheets by means of inserts in the press or by making them available to the public at municipal consumer information offices.

Also in 2010, the CNMV continued to reach numerous collaboration agreements with public and private entities with the aim of putting financial education within the reach of the largest possible number of people. One such agreement involves the delivery of several courses for the "training of trainers" aimed at consumer professionals, within the framework of a collaboration agreement with the National Institute of Consumption (INC).

13.4.2 CNMV training activities

Publications and resources for investors

During 2010, the CNMV continued to produce new publications for investors and to update those already available (see table 13.5). It should be remembered that investors can subscribe to these publications and receive them free of charge. The 14 thousand subscribers that this service boasts will receive these publications free of charge in 2011.

Factsheets and investor guides TABLE 13.5

	Investor factsheets	Investor guides
Titles	Tri-fold leaflet "Investor Assistance Office"	The questions every investor must ask about a listed company
	What investment funds can you find on the market?	
	How to interpret financial advertising	
	Preferential subscription rights	
	Investment Guarantee Fund (FOGAIN)	
	Transfers between mutual funds	
	Investment service fees and charges	
	Takeover bids. What they are and how to proceed	
Updates and forthcoming releases	Preferred shares	Securities orders
	Know your investor profile	Decision making
	How risk and return relate	
	Overview of investment products	
Other titles in the collection	Contracts for difference (CFD)	Your rights as an investor: discover the protection MiFID gives you
	Guaranteed investment funds	Fly-by-night operations
	New kinds of mutual funds	Investor protection: making a complaint
	How to make a complaint concerning financial services	Mutual funds and collective investment
	Warrants and turbo warrants	Futures and options
	Exchange trade funds (ETFs)	Fixed income products
	Public share offerings / right offerings	Investment service companies

Source: CNMV.

With regard to online resources, the CNMV has made two new virtual, free of charge and open-access courses available to the public on the Investor Portal: the "Course on investment decisions" and the "Course on securities orders". Both are designed with a format of interactive tutorials and aim to disseminate essential knowledge for people wishing to participate in the markets.

Conferences and seminars

As in previous years, the CNMV took an active part in various forums aimed at raising the awareness and skills of financial consumers, as well as in summer courses organised by the UNED distance university, and the stock exchange and financial market fairs Bolsalia (Madrid) and Borsadiner (Barcelona). In these forums educational meetings and conferences were held, with the aim of publicising the services provided by the CNMV.

International forums on financial education

Among the activities of this type carried out during 2010, perhaps the most important was the CNMV's participation in the meetings of the International Network on Financial Education (INFE), organised by the OECD. This network, made up of public bodies and advised by experts, has set up a number of working groups to analyse issues considered to be priority in the field of financial education.

With the purpose of taking on a more active role in this forum, the CNMV is participating in a programme to assess the usefulness of guidelines for evaluating financial education programmes prepared by experts of the INFE. Participation in this project involves the exhaustive definition of the characteristics, goals and resources of the programmes which are being implemented and the choice of the most suitable system for assessing their effectiveness. In order to make the necessary adjustments to meet future demands and to ensure the optimum allocation of resources, it is essential to identify to what extent the quantitative or qualitative goals set for each programme have been achieved.

Specifically, the CNMV is applying the OECD guidelines to three of the programmes of the Financial Education Plan: the pilot programme in the third year of ESO, the "training of trainers" programme, in collaboration with the INC, and the dissemination programme for the portal www.finanzasparatodos.es.

14 Disciplinary action

14.1 Disciplinary proceedings

14.1.1 Description of proceedings

In 2010, the CNMV Executive Committee initiated 27 new disciplinary proceedings, investigating a total of 48 possible breaches (see tables 14.1 and 14.2)

Most of the breaches analysed (14 in total), identified in nine disciplinary proceedings, related to conduct connected to non-compliance with legal requirements for reporting and disclosing significant holdings in listed companies. Ten proceedings related to breaches for market abuse (market manipulation and use of insider information) and the rest related to breaches of different types (for delays and other irregularities in issuing companies reporting regulated financial information to the CNMV and to the market, provision of misleading information in takeover bids, failure to comply with legal requirements for own shares and breaches of general regulations for investment services firms and UCITS).

Proceedings initiated and concluded TABLE 14.1

	2009	2010
Number of proceedings initiated	**21**	**27**
Number of proceedings concluded	**9**	**24**
Of which:		
Initiated in 2008	9	2
Initiated in 2009	–	16
Initiated in 2010	–	6

Source: CNMV.

In three of the disciplinary proceedings brought for improper use of insider information, at the same time as the CNMV initiated proceedings, it also reported the events to the Public Prosecutor's Office as it considered that the detected conduct could breach Article 285 of the Criminal Code. In all three cases, the Public Prosecutor's Office took legal action against the alleged offenders. Consequently, the CNMV suspended its proceedings until a final court decision in the criminal process.

Similarly, the CNMV reported to the legal authorities that it had initiated two disciplinary proceedings both brought against listed companies and their directors in the knowledge that criminal proceedings were also being conducted for the same or inseparable events as those referred to in said proceedings. This led to the actions carried out being transferred to the legal authorities and the administrative proceedings were suspended until a final court decision.

Breaches addressed in disciplinary proceedings

TABLE 14.2

		Initiated		Closed	
		2009	2010	2009	2010
Very serious breaches		**19**	**35**	**12**	**22**
I.	Failure to disclose/incorrect disclosure of significant holdings	1	14	4	6
II.	Market manipulation	1	1	–	–
III.	Breach of ratios	–	–	1	–
IV.	Failure to disclose significant events/provision of misleading, incorrect or materially incomplete information	1	2	–	1
V.	Breach of issuer's periodic disclosure requirements	4	4	2	3
VI.	Breach of rules on takeover bids	6	4	2	9
VII.	Breach of general investment firm regulations	2	2	–	1
VIII.	Breach of general UCITS regulations	–	1	2	–
IX.	Insider dealing	4	7	1	2
X.	Obstruction of inspection	–	–	–	–
Serious breaches		**13**	**9**	**5**	**13**
I.	Corporate governance breaches			1	2
II.	Market abuse breaches			1	1
III.	Breach of general venture capital firm regulations	8	–	–	8
IV.	Breach of general investment firm regulations	–	1	–	–
V.	Breach of rules of conduct	2	–	1	1
VI.	Insider dealing	2	1	–	–
VII.	Failure to draft/publish/file mandatory reports within the deadlines	–	4	1	3
VIII.	Failure to respond to CNMV requests	–	–	1	1
Minor breaches		–	**1**	–	**1**
Breaches of Article 89 of Securities Market Act		–	**3**	–	**1**

Source: CNMV.

Over the year, the CNMV concluded 24 proceedings which included a total of 36 breaches of securities markets regulations (22 very serious, 13 serious and one minor) plus one breach of Article 89 of the consolidated text of the Public Limited Companies Act. Two of the concluded proceedings were initiated in 2008, 16 in 2009 and six in 2010. Table 14.2 shows the nature of the breaches addressed in the different disciplinary proceedings concluded in 2010 and annex IV.2 shows a summary of the decisions adopted by the CNMV. As shown in table 14.3, 60 fines were imposed for a total amount of 2,345,500 euros and one disqualification from holding office for a period of five years.

Penalties imposed

TABLE 14.3

	2009			2010		
	Number	Amount[1]	Period[2]	Number	Amount[1]	Period[2]
Fine	29	498.1	–	60	2,345.5	–
Removal/general disqualification	2	–	6	1	–	60
Public reprimand	1	–	–	–	–	–

Source: CNMV. (1) Thousand euro (2) Months.

14.1.2 Public register of penalties for serious and very serious breaches

The following penalties for serious and very serious breaches were incorporated into the public register of penalties in 2010:

- CNMV decision dated 4 February 2010 announcing the penalty for a serious breach imposed on

- CNMV decision dated 4 February 2010 announcing penalties for a very serious breach imposed on

- CNMV decision dated 22 April 2010 announcing the penalty for a very serious breach imposed on

- CNMV decision dated 29 April 2010 announcing the penalty for a very serious breach imposed on

- CNMV decision dated 29 April 2010 announcing penalties for a very serious breach imposed on and the members of its Board of Directors.

- CNMV decision dated 29 April 2010 announcing penalties for serious breaches imposed on and the members of its Board of Directors.

- CNMV decision dated 2 June 2010 announcing the penalty for a serious breach imposed on

- CNMV decision dated 7 October 2010 announcing the penalties for very serious breaches imposed on

- CNMV decision dated 4 November 2010 announcing penalties for a very serious breach imposed on its chairman and its managing director.

- CNMV decision dated 4 November 2010 announcing penalties for a very serious breach imposed on

- CNMV decision dated 4 November 2010 announcing penalties for a serious breach imposed on its chairman and its managing director.

- CNMV decision dated 23 de December 2010 announcing the penalty for a very serious breach imposed on

14.1.3 Criteria of interest

Reporting transactions suspected of market abuse

Article 83 quater of the Securities Market Act requires investment services firms and credit institutions to report to the CNMV, as soon as possible, when they consider that there are reasonable indications to suspect that a transaction uses insider information or constitutes a practice which distorts free price formation. This requirement is also included in European Union legislation through the Market Abuse Directive. For its part, CESR established a series of guidelines and a standard form for reporting suspicious transactions so as to guarantee that the established requirement to report said transactions be applied proportionately and effectively.[1]

For this purpose, CESR provided a list of "indications of possible suspicious transactions" to be used by financial intermediaries as proof in detecting said transactions so as to thus facilitate their notification. These indications basically correspond to the indications for identifying market manipulation which appear in Royal Decree 1333/2005, of 11 November, implementing the Securities Market Act with regard to market abuse.

The aim of the requirement to report suspicious transactions of market abuse is preventative and represents an effective tool for the CNMV's supervisory tasks. Article 100 x bis) of the Securities Market Act defines failing to comply with the requirement to report these types of transactions to the CNMV as a serious breach.

In 2010, the CNMV agreed to bring two disciplinary proceedings against investment services firms for failure to communicate transactions suspected of constituting market manipulation.

Disclosure to journalists of significant information without simultaneous disclosure to the CNMV

In 2010, the CNMV opened two disciplinary proceedings against securities issuers and their directors for disclosing significant information through journalists and the media for its public and general dissemination without simultaneously notifying the CNMV.

The legal regime with regard to the requirement for listed companies to disclose and report significant information is essentially covered in Article 82 of the Securities Market Act, which is complemented by Royal Decree 1333/2005, of 11 November, implementing the Securities Market Act with regard to market abuse and Ministerial Order EHA/1421/2009, of 1 June, implementing Article 82 of the Securities Market Act, with regard to significant information.

Pursuant to this regulation, listed companies are required to immediately disclose all significant information to the market and simultaneously report to the CNMV so it may be entered into a public register.

It is difficult to objectively define what information may have a notable influence on the listed price of securities and which therefore should be classified as significant. Accordingly, all the legislation which has implemented this issue has resorted to defining it in terms of "reasonableness". According to these criteria, information is significant if its knowledge is thought to affect the decision of a "reasonable inves-

1 *Market Abuse Directive. Level 3 - first set of CESR guidance and information on the common operation of the Directive,* ref. CESR 04/505b.

tor" to buy or sell the shares issued by a company and, consequently, the price of the shares in the market.

Consequently, every event, decision, agreement or contract which affects the company and which may modify or which has modified its profitability or solvency, or that of its securities, or the perception which the market has of the company based on the previously disclosed available information, may affect the decision to invest or divest and may produce a change in the price of the outstanding and traded securities and, therefore, may be considered as significant information.

The aforementioned Ministerial Order EHA/1421/2009 incorporates parameters for companies to identify significant information (*ex* Article 2) which must be reported or, if preferred, to make a reasonable opinion based on the premise that the listed companies are in the best position to assess whether the information which affects them is significant or not. With regard to the cases subject to disciplinary proceedings, it is considered that the "projections, forecasts or estimates of accounting financial operational figures" are susceptible to being "considered as significant information" (*ex* Article 5). Finally, it is considered at any event that a securities issuer fails to comply with Article 82 of the Securities Market Act when it discloses significant information through journalists and, in general, media professionals, without simultaneously notifying the CNMV.

With regard to the level of the breach, Article 99 ñ) of the Securities Market Act considers serious breaches as, *inter alia*, "the failure of securities issuers to comply with the requirements established in Article 82 where that is seriously prejudicial to the market (...)".

Financial assistance for the acquisition of own shares

Finally, it is interesting to note a third case which corresponds to the imposition of fines on the directors of a listed company for providing financial assistance for the acquisition of own shares.

The legislation with regard to trading of own shares of public limited companies is included in Article 4 of Chapter IV of the consolidated text of the Public Limited Companies Act,[2] which aims to protect the interests of members and third parties with regard to the establishment of the public limited company as well as maintenance of, and modifications to, capital. Article 81 of the Act, which regulates the financial assistance provided by a public limited company to third parties to acquire its own shares, provides that the company may not advance funds, grant loans, provide guarantees or facilitate any type of financial assistance for the acquisition of its shares or the shares of its parent company by a third party.

Legal doctrine generally maintains that the ban on financial assistance has several fundamental aims:

a) From a financial or personal perspective, it is argued that the ban on assistance, like similar legislation on treasury shares, aims to defend the integrity

2 Currently in Chapter VI of Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Capital Companies Act.

of the capital and solvency of the company's assets against uses of the corporate assets connected with the capital itself. From this perspective, the scope of protection offered by the ban can be extended to the interests of shareholders and creditors against anomalous uses of the business assets relating to movements of own shares by third parties not connected to the execution of the company purpose. Therefore, the aim is to prevent or stop the company taking on financial and asset risks as a result of providing financial assistance which would divert resources which should be applied to carry on the corporate purpose.

b) From an organisational perspective, the ban on financial assistance also aims to prevent abuses which the managers and directors of the company could commit in order to alter or strengthen their decision-making power within the company. Indeed, the rule in Article 81.1 of the consolidated text of the Public Limited Companies Act prohibits directors and managers from using their decision-making power on the company's assets to provide financial assistance to third parties to acquire shares so as to strengthen their power in the company by means of the support of the funded third parties in the company's governance bodies, in particular, in the General Meeting. In short, the aim is to prevent directors and managers from altering, by abusing the company's assets, the composition of the company's shareholders so as to favour their own interests.

c) In addition, from the perspective of the securities markets and with regard to listed companies, it is argued that the ban on financial assistance prevents that assistance being used for speculation, artificially stimulating the demand for shares so as to raise the share price. A variation of this argument attributes to the ban the quality of preventing financial assistance for the acquisition of own shares being used as a measure against takeover bids, either by stimulating artificial rises in the share price which discourages shareholders from accepting the takeover bid, or facilitating the acquisition of shares by a trusted or convenient third party which prevents the takeover bid being successful. Ultimately, in accordance with this argument, the ban would contribute towards guaranteeing equality of treatment for the shareholders of the listed company.

With regard to the scope of the ban on financial assistance, the ban covers any legal act or business, irrespective of its legal classification, carried out by the company which enables a third party to obtain the resources necessary to acquire the company's shares and which involves any real or potential cost to the company.

Furthermore, the time at which the financing is provided is not relevant for the purposes of the ban. Indeed, the most characteristic cases of financial assistance are those which are carried out subsequent to the acquisition of shares, once control of the company has been acquired and, therefore, the financial resources can be obtained from the company with which to enable their acquisition, either by directly obtaining monetary resources from the company or by encumbering or disposing of its assets, or by using its financial capacity to obtain sufficient economic funds from a third party (a bank) to finance the acquisition.

It is also not necessary for the transaction to reach any specific material results, whether the insolvency of the company or any other damages to its assets. It is therefore not necessary for the financial assistance to be disadvantageous for the company or for there to be an effective asset reduction or economic loss.

Therefore, the aim of the law banning financial assistance for the acquisition of own shares is preventative. It aims to avoid the abstract risk that the financial assistance involves for the interests protected by legislation, preventing harmful situations which could arise from excessive debt and the use of the company's assets for businesses other than the performance of the corporate purpose or their abusive use by directors so as to enhance their decision-making power. The Law configures assistance as illegal conduct of an abstract danger, understood as a dangerous action which does not need to be so in any specific situation, which translates into an assumption *iuris et de iure* of illegal conduct.

Article 89 of the same legal text, relating to the sanctioning regime, classifies a breach of the aforementioned ban as an offence.

14.2 Litigation department: judicial review of disciplinary proceedings and other actions

In 2010, a total of 12 appeals were brought against decisions of the Ministry of Economy and Finance or the CNMV. Seven appeals were brought against decisions of the Ministry of Economy and Finance (three appeals to a higher instance and four motions for reconsideration), five of which were ruled on in the same year. For its part, the CNMV ruled on five motions for reconsideration formulated against different acts and rulings of the Commission (see table 14.4). In all cases the appealed disciplinary decisions were upheld, the appeals were not admitted or were rejected.

Eighteen appeals were filed with the administrative courts, five of them against penalty decisions, five related to claims presented to the CNMV, four were brought against different acts connected with the process which ended with the revocation of the authorisation of a securities broker, one against the rejection of authorisation of a financial advisory firm and three against other CNMV decisions.

Similarly, the courts handed down 15 rulings, of which nine were handed down by the National High Court [*Audiencia Nacional*] and six by the Supreme Court [*Tribunal Supremo*]. Eight of these rulings related to disciplinary proceedings. The National High Court in one case also ruled that the proceedings be filed for abandonment by the appellant (see table 14.4 and annex III.3). Of the five rulings handed down by the National High Court which referred to disciplinary proceedings, two fully upheld the appeal decision, two reduced the penalties and another cancelled the penalty imposed. However, two of these last rulings have been appealed against. For its part, the Supreme Court handed down two rulings which upheld the disciplinary decisions and dismissed a cassation appeal in the interest of the law brought by the CNMV. With regard to the appeals against non-sanctioning decisions, all the decisions were upheld, including the three rulings of the Supreme Court which declared that the CNMV was not liable for its actions relating to two securities brokers.

Similarly, and in compliance with the general principle to provide collaboration to the legal authorities, in 2010, the CNMV continued to provide support to judges and courts in the exercise of their functions, particularly for criminal cases, mainly relating to fraud, embezzlement or insider dealing. Within the context of this collaboration, the total number of requests handled in 2010 stood at 134. As shown in table 14.4, the bulk of the requests, a total of 76, were from the civil courts. These requests basically related to notices of attachment (which are the competency of governing councils), on the identification of securities owned by people or companies (knowledge of which lies with the securities depositories) and attainment of evidence in proceedings of various types brought before different courts, with a request for data or documentation.

Cases in which the CNMV participated in 2010 TABLE 14.4

	Presented	Decided
Administrative appeals	**12**	**10**
Appeals to a higher instance	3	2
Appeals for reconsideration	9	8
Appeals to the courts against administrative decisions	**18**	**16**
		Requests received for assistance
Assistance to courts		**134**

Source: CNMV.

14.3 Claims

In 2010, a total of 13 claims were presented in the CNMV. The bulk of the claims were against banks or savings banks in the provision of services and actions relating to the securities market. The rest of the claims were against broker-dealers and brokers, listed issuers or companies, UCITS management companies or other types of institutions.

Claims made in 2010 TABLE 14.5

Type of entity claim brought against	
Banks and savings banks	5
Broker-dealers and brokers	1
Securities issuers/listed companies	1
UCITS management companies	3
Other	3
Total	**13**
Content of claims	
Market transactions	2
UCITS	2
Rules of conduct	6
Unauthorised provision of services	1
Market abuse	2
Total	**13**
Situation of claims at 31-12-2010	
In process	7
Decided	6
Total	**13**

Source: CNMV.

The claims referred to alleged breaches of obligations in market transactions which affected retail investors (transactions with treasury shares, financial assistance), aspects relating to UCITS (failure to comply with investment ratios, failure to present financial and accounting information) and rules of conduct and market abuse (irregularities in advisory services and asset management, investment in unsuitable products in accordance with the risk profile, and alleged use of insider information, possible manipulation of share prices and inadequate disclosure of significant information).

As of 31 December 2010, and following the appropriate action in each case carried out by the competent services in the CNMV, six of the 13 claims were resolved. In only one case did the claim lead to the opening of disciplinary proceedings. In the other cases the proceedings were filed, irrespective of the specific supervision carried out as a result of the claims.

14.4 International Support Unit

The CNMV's Litigation Service and Penalty Regime Department channels investigation co-operation with other supervisors. In 2010, the aforementioned department handled 22 collaboration requests to foreign regulators (23 in 2009) and, in turn, handled 39 requests made to the CNMV (27 in 2009).

Approximately two thirds of the collaboration requests corresponded to issues relating to the investigation of market abuse practices, while the other third related to investigations about unauthorised activities in the securities market. Approximately half of the collaboration requests made to foreign supervisors corresponded to issues related to the investigation of market abuse practices, and the other half to investigations on unauthorised entities.

14.5 Warnings about unregistered firms

Through its website, the CNMV issues warning to investors about unauthorised firms that have been detected by it or by other supervisors.

The following warnings were issued in 2010 (see annex III.4):

– Ten warnings were issued under Article 13 of the Securities Market Act, which entrusts the CNMV with protecting investors by disseminating any information necessary to that end.

– 325 notifications were received from European and other countries in connection with unauthorised firms, and 16 were included under the heading "Other warnings", with warnings relating to improper conduct or actions.

In 2010, IOSCO began to operate an alert service through its website about unauthorised firms which includes warnings issued by members of this organisation. Given that not all the warnings issued by IOSCO members are in turn reported to the CNMV, the CNMV recommends visiting the following IOSCO website to obtain further information on these types of companies: http://www.iosco.org/investor_alerts/.

15 International activities

In 2010, the CNMV stepped up its participation in the international bodies to which it belongs, in particular in CESR and IOSCO, as well as in other forums to which it also actively contributes, such as the Ibero-American Institute of Securities Markets, the Mediterranean Partnership of Securities Regulators, and the Joint Forum. The CNMV's international activities in these forums have been guided by the aims of the institution; that is, investor protection, market transparency, and proper price formation.

The CNMV's growing involvement in international securities regulation authorities has recently been corroborated by its participation, since January 2011, on the Board of Directors of the new European Securities and Markets Authority (ESMA) and the CNMV's assumption of the Vice-Presidency of the Technical Committee of the IOSCO, as from April 2011.

This year, activities related to financial regulation reform at both a global and a European level have been taking up more of the CNMV's resources. The CNMV has played an increasingly major role in connection with initiatives undertaken by the G-20 and the Financial Stability Board (FSB) on a global level, in close collaboration with other Spanish sectoral regulators, the Bank of Spain and the Directorate General of Insurance and Pension Funds, and with the Ministry of Economy and Finance. On this same subject, mention should be made of the CNMV's participation in initiatives regarding credit rating agencies and OTC derivative products, and in the evaluation of the Spanish financial sector carried out by the FSB.

On the European front, Spain's assumption of the Presidency of the European Union in the first half-year of 2010, the far-reaching reform of financial regulation, and the design of a new financial supervision scheme have also resulted in the CNMV collaborating closely with the Ministry of Economy and Finance. On this subject we should highlight the advice provided by the CNMV during the production of the regulation relating to the new supervisory authorities, OTC derivative products, post-trading infrastructures, short selling, credit rating agencies, and alternative investment funds.

Described below are the most important initiatives undertaken by organisations in which the CNMV participates as a full member and to which it has actively contributed.

15.1 Committee of European Securities Regulators (CESR)

On 1 January 2011, CESR officially became the European Securities and Markets Authority (ESMA), as part of the reform of the European supervision system approved by the European Parliament and the Council, which involves the replacement of the three sectoral committees of regulators (banking, insurance and securities) which sat under the previous regime by three new authorities (see exhibit 15.1).

In its last year of existence, a substantial percentage of CESR's day-to-day activity was once again marked by the global regulatory agenda set in motion by the financial crisis in areas such as market infrastructures, CDS and other OTC derivatives, alternative investment funds, etc., as described below.

The European Securities and Markets Authority (ESMA) EXHIBIT 15.1

The EU's new supervisory architecture is formed by the European System of Financial Supervision (ESFS), which comprises the European Securities and Markets Authority (ESMA), the European Systemic Risk Board (ESRB), the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA) and the Joint Committee, made up of the three sectoral authorities and the competent supervisory authorities of the Member States.

The purpose of ESMA, created by Regulation 1095/2010 of the European Parliament and the Council, is to contribute to the stability and good functioning of the European Union's financial system by means of a sound, effective and consistent level of regulation and supervision in securities markets.

One of its most important functions is to ensure the consistent application of European legislation and to propitiate the convergence of supervisory practices. To this end, ESMA will prepare the draft technical standards which, once approved by the European Commission in the form of regulations or decisions, will implement or facilitate the application of the directives and regulations contained in the basic legislation governing securities markets. The new authority will also issue guidelines and recommendations to ensure that supervisory practices are consistent and effective, ensuring a standardised application of EC legislation. Compliance with ESMA guidelines will not be mandatory for the competent national authorities, but if they do not comply they must explain why not. Participants in the markets may also be required to report on compliance with the guidelines issued by ESMA.

ESMA has certain powers of direct supervision, which makes it all the more necessary to advance towards supervisory convergence, for example by creating and maintaining databases, controlling new and existing financial activities, issuing warnings in the case of a severe threat, setting up a committee on innovation in financial matters, and temporarily prohibiting or restricting certain activities in emergency situations. Legislation governing credit rating agencies also invests ESMA with powers of direct supervision and registration over these agencies. ESMA is invested with other powers, such as the performance of peer reviews, the mediation and resolution of controversies in emergency situations, and cooperation with ESRB in the determination and measurement of systemic risk.

Financial reporting (CESR-Fin)

In 2010, CESR, through CESR-Fin, its committee specialising in financial reporting, helped prepare several proposals for reform of international financial reporting standards (IFRS) produced by IASB (International Accounting Standards Board) and made a report for the European Commission on the equivalence to IFRS of the accounting standards used in third countries.

In October, CESR-Fin published a report on the level of compliance of the breakdowns on valuation and risk required by IFRS 7 in the financial statements of one hundred European financial firms. In comparison with the first report of this type, published in 2009, there was evidence of greater compliance in 2010, although there was still ample room for improvement.

Also, at the request of the European Commission, CESR-Fin prepared a report in which it proposed the gradual development of the present database of regulated information regarding securities listed on regulated European markets. The aim is to achieve greater comparability of disclosed information, regardless of issuer and country, and to facilitate access to the database.

Credit rating agencies

In this area, CESR's main efforts were aimed at implementing the provisions of Regulation 1060/2009 of the European Parliament and the Council, in particular those obliging credit rating agencies operating in the European Union to register as a prerequisite for them to issue credit ratings intended to be used for regulatory purposes. Of particular interest is the establishment of colleges of supervisors and the issue of guidelines and guides on the registration and functioning of rating agencies, on mediation mechanisms, and on the information required for certification purposes and for the assessment of credit rating agencies as to their systemic importance.

The CESR also provided technical advice to the European Commission regarding the equivalence between the regulatory framework of the supervision of rating agencies in Japan and in Europe, and continued to evaluate the current framework in the United States with a view to providing future advisory services. Also in accordance with EC regulations, last year CESR developed guidelines for the implementation of a central ratings repository.

In accordance with the provisions of article 8.3 of Regulation 1060/2009, CESR issued certain guidelines on the information that the regulatory authorities should receive from the rating agencies to assess the methodologies they use to issue credit ratings. According to these guidelines, agencies should use rating methodologies that are rigorous, systematic, continuous and subject to validation by historical experience and back-testing.

Finally, it should be noted that Regulation 1060/2009 was amended, among other reasons, in order to assign to ESMA the direct supervision of credit rating agencies' activities within the European Union.

Review of Markets in Financial Instruments Directive (MiFID)

At the end of 2010, the European Commission submitted a document on the review of the MiFID to public consultation with the intention of presenting a legislative proposal in May or June 2011, once the opinions of the interested parties were known. Exhibits 11.1 and 12.2 of this report summarise the content of this consultation.

Through its permanent secondary and intermediate markets groups, CESR provided information and advice to the European Commission with regard to the future review of the MiFID. In particular, CESR's activities were focused on the following areas:

a) Equity markets: pre- and post-trading transparency requirements, data consolidation, definition and obligation regarding the treatment of systematic internalisers and new methods of trading linked to technological platforms (high frequency traders, dark pools and crossing networks).

b) Non-equity market transparency: pre- and post-trading transparency requirements in corporate bonds, government debt, structured financial products, sovereign credit default swaps (CDS) and CDS and other types of derivative products indexes.

c) Improvement in the functioning of securities markets, strengthening of investor protection, and client categorisation.

d) Standardisation and organised OTC derivatives trading platforms.

Additionally, CESR produced a protocol operating the MiFID database which allows the harmonised calculation of what may be considered, among other points, to be liquid shares.

Post-trading

In 2010, CESR, through its permanent working group, provided ongoing advisory services to the European Commission in connection with the production of the future European Market Infrastructure Regulation (see exhibit 11.3). In the field of post-trading, we should also mention CESR's contribution to the joint work of the Committee of Payment and Settlement Systems (CPSS) and IOSCO on principles relating to central counterparty clearing houses, and the advisory services CESR provided to the T2-S project driven by the European System of Central Banks (see point 5.1.4 for greater detail).

Market integrity (CESR-Pol)

CESR, through its specialised committee, CESR-Pol, continued to coordinate the activities of supervision, inspection and sanction among European Union Member States. Among other important initiatives in this area, there was the recommendation to set up a system of information and publicity on short selling at a European level, the main details of which are set out in chapter 11 of this report. In the same area we should also mention some proposals within the framework of the technical advice provided to the European Commission with regard to the future review of the MiFID in matters concerning the integrity of financial markets, such as the extension of disclosure obligations to transactions on OTC derivatives or the improvements to the communication system for transactions on securities which facilitate the identification of the client for supervisory purposes.

Review of the application of EC rules and standards and CESR guidelines

Through a panel of experts (Review Panel), CESR continued to assess the application of European financial regulation. In particular, in 2010 the Review Panel reviewed (i) the implementation of CESR guidelines to simplify UCITS notification procedures within the European Union; (ii) the use by Member States of the options and discretions provided for in the MiFID and in the Market Abuse Directive, where there was evidence of great diversity in the application of the 40 discretions allowed in the MiFID and the nearly 20 provided for in the Market Abuse Directive; (iii) compliance with the guidelines arising from the Prospectus Directive, where this year there was a very high level of compliance and harmonisation; and (iv) measures of a regulatory nature or of another type laid down by the competent authorities to address urgent or contingent situations, measures which showed little evidence of uniformity or harmonisation among them.

UCITS

Among CESR's actions in the area of collective investment the most outstanding were the publication of guidelines to help establish a harmonised definition of money market funds in Europe, and several actions in connection with the key investor information document (KIID), including methodologies for calculating synthetic risk and the risk return indicator, guidelines for the transition of the simplified prospectus to the KIID, language to use, and selection and presentation of scenarios in the case of structured UCITS. Mention should also be made of the start of the advisory work for the European Commission on level 2 implementing measures related to the application of the Alternative Investment Funds Directive.

CEBS-CEIOPS-CESR (3L3) Coordinating Committee

The Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) and the Committee of European Securities Regulators (CESR) have been coordinating with each other through this joint committee, known as 3L3. Highlights of its activity in 2010 includes the production of a report on the packaging of financial products aimed at retail investors, which suggests that a detailed breakdown of the important information is required prior to the client entering into the contract as well as the harmonisation of the practices involved in selling these products.

The new European financial supervision framework substantially enhances the coordinating role of this committee, now called the Joint Committee, with regard to the growing activity of the new authorities of an intersectoral nature.

15.2 International Organization of Securities Commissions (IOSCO)

In 2010, IOSCO celebrated the tenth anniversary of the move of its general secretariat to Madrid. During this period, IOSCO has consolidated its position as a benchmark organisation for the setting of international standards in the field of financial instruments markets. At all times the organisation has had the support of the Spanish authorities, exemplified by the attendance of the Second Vice-President of the Government and Minister of Economy and Finance and other authorities at the act commemorating the above mentioned move of the general secretariat.

As in the case of CESR, a significant part of IOSCO's activity last year was in connection with the development of the global financial reform driven by the G-20 and coordinated by the Financial Stability Board (FSB). In addition to these tasks and IOSCO's routine activities, mention should also be made of the partial approval of the organisation's strategic plan for the period 2010-2015.

IOSCO Strategic Plan 2010-2015

In 2010, IOSCO approved the first phase of this plan, which called for: (i) the modification of the strategy and aims of the organisation, which include as a priority the analysis and reduction of systemic risk; (ii) membership of the Multilateral MOU on Cooperation and Information Sharing of the IOSCO members who have yet to sign; and (iii) updating of the IOSCO Principles, which will be complemented by the updating of the methodology to be adopted next year. The updating of principles extends the scope of securities regulation to include alternative investment funds and credit risk rating agencies, and enhances the effectiveness of the regulation in potential crisis situations.

There are already some proposals for the second phase of the plan which will, if successful, be approved in 2012. These proposals call for changes to the criteria for determining members' monetary contributions, and changes to the structure of the organs of governance.

Activities directly related to the development of the global financial reform

As has been mentioned, IOSCO has taken on the analysis and monitoring of systemic risk as a priority task, in line with G-20 and FSB guidelines. In order to drive this task, a new permanent group has been set up, backed up by an analysis unit set up at the General Secretariat.

Highlights of the results of the most important activities carried out by IOSCO in 2010 in connection with the global financial reform are: (i) the establishment of general principles which should be considered when setting up bilateral cooperation agreements regarding the supervision of entities providing cross-border financial services; (ii) the analysis of aspects related to the transfer of the trading of OTC derivatives to organised trading platforms; and (iii) the presentation of recommendations to the G-20 concerning commodities futures and, in particular, the need to improve transparency regarding OTC trades and to strengthen the supervision of these markets and cooperation between authorities.

Other standout activities regarding G-20 recommendations regarding the strengthening and soundness of OTC markets included the presentation last year of a number of considerations with the purpose of improving the transparency of derivative products traded on OTC markets by setting up trade repositories, as a result of the joint work of the group set up in 2009 by IOSCO and CPSS. These two institutions are also conducting a review and update of all the recommendations concerning clearing, settlement and payment systems, with a view to integrating them in a single document due to be completed in 2012.

Finally, IOSCO continued to work in other areas related to FSB projects, in particular, those to do with rating agencies, hedge funds and non-cooperative jurisdictions, as will be described later on in this chapter.

Accounting, auditing and disclosure

Looking first at accounting, mention should be made of the publication of the final reports of two projects started in 2008. The first establishes a set of principles governing the periodic financial reporting of companies listed on regulated markets in which retail investors participate. The second deals with the information to be provided when issuing and listing securitised financial products.

Moving on to auditing, IOSCO continued to work on three projects also started in 2008. The first looks at whether persons who are not auditing professionals should be able to be partners of auditing firms, the second examines possible improvements to the information provided by auditors, while the third looks into whether greater transparency in the activity of auditing firms might have a positive effect on the quality of their work. In 2010, the contributions to the public consultations made in 2009 on these projects were analysed and a summary of those contributions and the corresponding comments was published, while further opinions continued to be received, especially from retail investors.

Secondary markets

In this area two reports stand out. The first refers to the transparency of structured financial products and presents to the regulators a set of factors to be considered for increasing the post-transparency of these instruments. The second refers to direct electronic access to the markets and establishes a number of principles for this purpose under the premise that markets, intermediaries and regulators must help manage the risks associated with direct electronic access.

Intermediaries

With regard to intermediaries, two projects were completed early in 2011. The first reviews intermediaries' internal controls associated with the verification of the prices of structured products and the management of liquidity risk, and identifies possible vulnerabilities. The second makes recommendations based on the analysis of comments sent in by the industry on the information to be provided to clients in the marketing of UCITS and other similar products (point of sale disclosure).

Cooperation and information sharing

Highlights in this area include the start of a two-year action plan with the aim of persuading all the members who are not yet signatories of the Multilateral MOU on Consultation, Cooperation and Information Sharing to apply for membership prior to 1 January 2013. With regard to the work in progress on non-cooperating jurisdictions, the results are very positive and the jurisdictions falling within the framework of this project are making some very important legislative changes. A decisive factor in this change of attitude is the FSB's recognition that compliance with the requirements of the IOSCO Multilateral MOU means adopting an international standard and the positive impact that that has on the assessments of the International Monetary Fund and the World Bank.

Investment management firms

In this area mention should be made of the work carried out on venture capital and hedge funds. With regard to venture capital, a report was published with recommendations concerning the treatment of conflicts of interest within these firms, in order to prevent their impacting negatively on investors and the functioning of the market. With regard to hedge funds, last year IOSCO published a data capture model for capturing the information that these firms have to send to the regulators so that they, the regulators, can properly monitor the systemic risk associated with this activity. IOSCO is expected to publish aggregate data on the sector by the end of the first quarter of 2011.

Risk rating agencies

In 2010, IOSCO monitored the various regulatory initiatives developed by its members in this area and submitted to public consultation a document to analyse the degree of convergence of the approaches adopted (the final report will be published in 2011). IOSCO also continued to promote dialogue between the securities regulators and this sector regarding the implementation of a code of conduct for rating agencies. IOSCO also continued to work on two projects on internal controls in rating agencies to ensure the integrity of the rating processes and to manage conflicts of interest in an appropriate manner.

15.3 International intersectoral forums

In this section one of the most important activities is that of the Joint Forum (JF), which brings together banking, securities and insurance regulators and in which the CNMV plays an active role, as do the Bank of Spain and the Directorate General of Insurance and Pension Funds.

In 2010, the consequences of the credit crisis and the subsequent reform of international financial regulation continued to influence the activities of the JF, among which the projects framed within the proposals for action from the G-20 and the FSB are especially important. Of particular importance was the publication, at the request of the G-20, of a document analysing the differentiated nature and scope of the regulation in the different sectors, which contains a number of recommendations for the FSB, the domestic supervisors, and the issuers of standards, such as

IOSCO. These recommendations have already been assessed and in some cases implemented. The JF will follow up this implementation in 2011.

It is also important to mention the start of three projects which are expected to be completed in 2011: incentives for asset securitisation and recommendations for the orderly reestablishment of the securitisation market, intra-group support in the crisis management of complex financial entities, and the review and updating of the principles of supervision of financial conglomerates.

15.4 Other forums and activities

Iberian Electricity Market (MIBEL)

Among the issues addressed in 2010 by the MIBEL Council of Regulators, on which the energy and securities regulators of Spain and Portugal sit, perhaps the most important was the conduct and analysis of a study on the functioning of this market, on the basis of which various recommendations for improvement were put before the Governments of Spain and Portugal. Mention should also be made of the harmonised proposal, for consideration by the above mentioned governments, to interconnect the Spanish and Portuguese systems.

Finally the Council of Regulators started to work on the production of a multilateral memorandum of understanding between the four authorities for information sharing and cooperation. This MOU is expected to be signed in the first half-year of 2011, when the CNMV will have assumed the rotating presidency of the Council of Regulators.

Organisation for Economic Cooperation and Development (OECD)

As in previous years, the CNMV has been collaborating with the Directorate-General of the Treasury and Financial Policy in the committees and working groups of the OECD entrusted with the review, development and implementation of the principles of corporate governance. In particular, the CNMV actively collaborated in the setting up and running of a round table on corporate governance in Latin-America which involved the participation not only of the OECD but also the International Financial Corporation and the Global Corporate Governance Forum. The CNMV forms part of the OECD's Corporate Governance Committee Bureau.

Finally, it should be noted that, on the basis of a mandate from the G-20, the OECD is working with IOSCO on the future development of a regulation which will enhance the protection of financial investors in the post-crisis scenario.

Ibero-American Institute of Securities Markets (IIMV)

The IIMV is an institution with legal personality and full operational independence. The CNMV collaborates closely with the IIMV in the task of promoting the securities markets in Latin America, jointly developing training and cooperation programmes.

In the course of 2010, the IIMV carried out 17 training and cooperation activities on key subjects for the development of securities markets in Latin America. Courses were held on complex financial instruments, trustee and investment structures in Latin American securities markets, risk rating agencies, securities clearing and settlement systems, and inspection and oversight in markets and entities. Also, as in previous years, the IIMV continued to deliver on-line courses, one of the most important of which was the third course on international financial reporting standards (IFRS/IAS), in on-line and on-site formats. With regard to cooperation activities, mention should be made of the study of accounting and financial aspects of complex instruments, the forum and on-line article on trusts and Latin American securities markets, the survey on the transparency of issuers in Latin America, and the updating of the comparative study of collective investment in Latin America. Conferences were also held on securities markets and financial stability and on the regulation and supervision of risk rating agencies.

Finally, the annual meeting of the authorities of the board of the IIMV was held, as were the 12th Meeting of Heads of Information Systems and the 2nd Meeting of the Ibero-American Cooperation Network for Accounting Experts.

Mediterranean Partnership of Securities Regulators[1]

The main aim of this association, which was set up in March 2009, is to achieve convergence of the member states' regulations with European regulations (directives, standards and guidelines) and with the IOSCO Principles.

During 2010, the Association's work focused on the areas of financial reporting, market abuse and UCITS. Questionnaires were prepared for each of the three topics in order to analyse the state of member states' legislation in these areas. Special interest was paid to periodic financial reporting, with the aim of studying the necessary requirements for the mutual recognition of the information prospectuses provided for in the Prospectus Directive.

Due to the regulatory differences between the European members and the rest of the members, progress in each of the areas mentioned requires time. For this reason, medium and long term action plans have been drawn up for each area, to be presented and approved at the meeting of presidents scheduled for 2012.

1 The Association is currently made up of Algeria (COSOB), Egypt (EFSA), Spain (CNMV), France (AMF), Italy (CONSOB), Morocco (CDVM), Portugal (CMVM), Tunisia (CMF) and Greece (HCMC). Membership is open to any securities regulator or supervisor of the Barcelona Process signatory countries.

V CNMV: organisational, financial and institutional aspects

16 Organisation

16.1 Human resources and organisation

Changes in workforce and staff selection processes

At the end of 2010, the CNMV had 411 employees, five more than in 2009 (up 1.2%). This net growth in the workforce was the result of 20 new hires and 15 departures.

CNMV staff: composition by professional category TABLE 16.1

Number of employees at 31 December 2010

	2009			2010		
	Total	Men	Women	Total	Men	Women
Services	9	8	1	9	8	1
Clerical/computer operators	71	16	55	67	13	54
Technical	303	145	158	312	149	163
Management	23	16	7	23	16	7
Total	**406**	**185**	**221**	**411**	**186**	**225**

Source: CNMV.

Breakdown of staff by department TABLE 16.2

Number of employees at 31 December 2010

	2009			2010		
	Total	Men	Women	Total	Men	Women
Directorates-General	263	115	148	279	117	162
Entities	127	52	75	126	50	76
Markets	103	50	53	101	46	55
Legal Service	33	14	19	52	21	31
Departments	126	67	59	115	65	50
Board	17	3	14	17	4	13
Total	**406**	**185**	**221**	**411**	**186**	**225**

Source: CNMV.

In 2010, all the selection processes for covering the 11 positions corresponding to the 2009 Public Sector Hiring Process were completed. The new employees will have all joined the CNMV by the end of the first quarter of 2011.

In the second half of the year, a selection process was carried out to cover 10 new positions in the Graduate Development Programme. These new employees joined the CNMV in July. Given the positive results of the process, a third hiring process will be launched in the first quarter of 2011. The Programme began to be announced through the *Guía de las empresas que ofrecen empleo* ('guide of companies offering employment'), published by the Fundación Universidad-Empresa (university-business foundation) in November 2010.

Initiatives and new aspects relating to human resources management

Within the framework of its training programme, the CNMV implemented various initiatives in 2010, including the following:

- Internal collective actions: courses and seminars given by CNMV employees aimed at sharing and disseminating existing knowledge in the organisation. 31% of the workforce participated in these activities.

- External collective actions: courses and seminars organised with specialised training centres. Over six thousand training hours were invested in these courses, in which 67% of the workforce participated.

- Individual training actions: for those contents not covered by the collective actions. 17% of the workforce participated.

- International training actions: training planned by the former European regulatory committees in the area of securities, banking and insurance: CESR, CEBS and CEIOPS, respectively.[1]

As a result of the programme, a total of 9,462 training hours were given in 2010, an average of 24 hours per employee. 81% of the workforce participated in at least one of the planned training actions.

As in previous years, a new edition of the Language Program was implemented, with participation of 44% of the workforce. The participants received a total of 10,491 training hours, an average of 58 hours per student. As a supplement to this programme, with the aim of perfecting English in a native environment, the possibility of attending a summer course abroad was offered for the second consecutive year. Furthermore, the 2010 programme included the possibility of carrying out intensive English courses in Spain over the summer for the first time. Participation in both types of supplementary courses together covered 6% of the workforce, with an average of 41 hours per student.

It should also be pointed out that a specific two-year training programme has been designed, which is mandatory for those employees which form part of the Graduate Development Programme. The aim is for all graduates to participate in a set of common training actions, irrespective of their different assignments to different departments.

---

1 In October, as part of the training programme promoted by the Committee of European Securities Regulators (CESR), the CNMV organised the seminar 'Implementation of the Key Investor Information Document', which brought together speakers from different European regulatory bodies and in which 22 employees from different national European regulatory authorities participated.

Finally, as result of the Internal Mobility Programme, implemented at the end of 2009 with the aim of promoting horizontal movement of employees across the CNMV, facilitating their professional development and increasing their motivation, the five employees selected in the programme joined their new departments in May 2010.

With regard to other new aspects in human resources management, it is important to point out that in December 2010 the first CNMV Joint Collective Agreement was signed with the Works Committee, and the Joint Collective Agreement Monitoring, Interpretation and Study Committee was established.

In addition, in March the first edition of the internal magazine "Entre Nosotr@s" was launched. Its aim is to improve the organisation's internal communication, facilitating the dissemination among employees of the initiatives in progress and other information of interest in the daily management of human resources. Three editions of this magazine were published in 2010.

Organisational changes

Various organisational changes took place in 2010. January saw the creation of the Assessment Unit within the Research, Statistics and Publications Department. This unit aims to centralise supervision with regard to assessing complex financial products.

In addition, various changes took place in July involving the following restructuring of functions and reassignment of units:

– The central and sole mission of the Investor Department is now to service and process claims and enquiries from investors and now forms part of the Directorate General of Legal Affairs.

– The tasks related to financial education were assigned to the Research, Statistics and Publications Department.

– The departments attached to the President and the Vice-President were reassigned. In addition to the Assistant to the President's Department, the Information Systems Department and the General Secretariat now report to the President. Under the supervision of the President, the following departments will report to the Vice-President: the International Relations Department and the Research, Statistics and Publications Department. Changes were also introduced in the functions of some of the aforementioned departments.

– The cabinets of the President and the Vice-President were merged into one single cabinet. This cabinet is now also responsible for relations with the media and the cabinet is now assigned the category of Department and its head is now classified as a director.

– The name of the Financial and Accounting Reports Department was changed to the Financial and Corporate Reports Department. This name is more in line with its current functions, which include not only audits of regulated financial information, but also supervision of corporate governance reports.

– Amendments were introduced to articles 32 and 41 of the Internal Regime Regulations in order to define the functions of the Assistant to the President's Department and the Internal Control Department, as in practice both carry on, to a different extent, activities relating to the risks which may affect the CNMV.

16.2 Information systems

The CNMV had three goals for its IT systems in 2010: 1) strengthening technical infrastructures with the substitution of physical and logical equipment through technological renewal, 2) developing applications to support the new rules which entered into force over the year and to renew those which had become technologically obsolete, and 3) promoting development of the virtual office and electronic registration which provides greater coverage to the procedures performed with the CNMV.

Noteworthy among the new applications is that relating to the receipt of auditors' reports on asset protection of investment services firms, asset securitisation reports, the procedures for processing UCITS articles and regulations through CIFRADOC/CNMV, the new registry of venture capital firms, the receipt of half-yearly reports from depositories and the receipt of the new reserved statements of investment services firms.

With regard to the development of new applications, modifications were introduced into some of the market supervision tools and other new tools were implemented. In addition, new processes were implemented under the transaction reporting of the MiFID. New statistical series on investment services firms and UCITS were also incorporated.

With regard to strengthening electronic administration, three new processes were incorporated into the CIFRADOC/CNMV service. In addition, a new procedure for electronic notification was introduced for users of the service in the area of the Entity Authorisation and Registration Department. In 2010, 115,846 documents were received by the virtual office (72%), compared with 45,099 (28%) received on paper.

The adaptation of all the sections on accessibility and usability rules was completed in the CNMV website.

Finally, work has continued on implementing the new comprehensive management system for image-based documents in different departments.

CNMV Plan of Activities 2011: revised and updated

EXHIBIT 16.1

In February, the CNMV presented its Plan of Activities for 2011, continuing with the public commitment which began in October 2007 of improving transparency and accountability. The Plan, which was previously presented to the CNMV's Advisory Committee, details the objectives set up to the first quarter of 2012 and includes a review of the level of compliance with the commitments taken on in the 2010 Plan.

In 2010, the CNMV completed most of the planned objectives within an environment conditioned by the development of the international financial crisis. Among other aspects, the CNMV intensified the resources aimed at supervising areas such as the provision of investment services, the financial information of listed companies or compliance with transparency rules by securities issuers. Similarly, the enquiries and claims presented by retail investors rose significantly. Finally, the intensification of the international debate both in Europe and worldwide in response to the extensive regulatory agenda resulting from the crisis led to an increase in the CNMV's participation in international forums.

Specifically, 75% of the 82 objectives included in the 2010 Plan were met by the end of the year. In addition, 60% of the 55 completed objectives were carried out in the established period. If we exclude those objectives which do not depend solely on the CNMV from the incomplete objectives, only five, 7% of the total, could not be carried out in the initially set terms. This gives a level of compliance with the Plan similar to that of previous years.

The Plan of Activities for 2011 was prepared taking into account the persistence of the effects of the financial crisis and the regulatory reforms in progress aimed at perfecting transparency and rules of conduct in securities markets. These include the review of the MiFID Directive and the implementation of new regulatory requirements on OTC markets and rating agencies. Furthermore, the CNMV must adapt to the new European supervisory system, which began to operate on 1 January with the creation of three new supervisory authorities (ESMA for the securities market, EBA for banking and EIOPA for insurance) and a European Systemic Risk Board (ESRB).

In this context, as in previous years, the Plan is based on strategic lines in accordance with the functions which the Securities Market Act entrusts to the CNMV. In the area of legislation, in addition to the adjustments necessary to adapt to the European supervisory reform, new circulars are expected to be approved in the area of UCITS and corporate governance. Similarly, based on the supervisory experience of previous years, legislative changes will be proposed to the government in areas such as securities clearing, settlement and registration systems, thus completing the project which began in 2010. Secondly, improving the functioning of markets will continue to be a priority for the CNMV, which will intensify supervision of marketing practices for sophisticated products to retail investors, with special attention to those arising from the restructuring process of the financial system. It will analyse possible improvements to facilitate access of SMEs to funding from securities markets and it will collaborate closely with ESMA in the functions of registering and supervising rating agencies. Thirdly, actions will be promoted to strengthen transparency and information disclosure through the publication of guides and criteria for supervisory bodies and investors and the organisation of various public information sessions. In the specific area of retail investor protection, the CNMV will continue developing the Financial Education Plan, which is currently in the evaluation and review stage, so as to put into practice the continuity program for the coming years. Finally, the Plan for 2011 specifies a series of objectives aimed at implementing technological improvements, promoting the use of the Cifradoc and reviewing procedures for improving the efficiency and functioning of the CNMV.

17 Finances

17.1 Revenues and expenses

In 2010, the CNMV obtained 53.6 million euros in revenues and incurred 44.1 million euros in expenses. Therefore, the surplus for the year amounted to 9.5 million euros.

The bulk of revenues were from fees, which totalled 50.9 million euros, 0.4% down on 2009. The other revenues were mainly from interest and, to a lesser extent, from the sale of publications and other sources (professional information disseminators, recovery of expenses for invitations to tenders, etc).

Total expenses increased by 2.1% on the previous year. Staff costs, which account for 59.9% of total expenses, rose by 1.3%, with a 3.3% increase in the average headcount. Other expenses increased by 3.4%, with this increase mainly being under the headings of depreciation and amortisation and extraordinary losses and expenses.

Depreciation and amortisation rose by 19.6% over 2010 as a result of the computer applications which were developed and activated during the course of 2009 and 2010. The heading of "other management expenses" rose by 0.3% on 2009 and was 9.4% lower than the budgeted figure as a result of various measures adopted by the CNMV in order to reduce current expenses for the period 2010-2013, in accordance with the Austerity Plan for the General State Administration.

On 21 December 2010, the CNMV Board made its proposal to the Government to allocate the surplus for 2009 to the CNMV reserves.

17.2 Fee structure

As shown in table 17.1, revenue for fees fell by 0.4% in 2010 compared with the previous year. This fall is mainly explained by the fall in fees collected for registering issue prospectuses (-33.5%) and the fees for the vetting of AIAF listing requirements (-47%). This fall was largely offset by an increase in fees collected for supervising stock-market members (28%) and the fees for supervising firms attached to the Sociedad de Sistemas (5%).

CNMV fee revenues

TABLE 17.1

Thousand euro

Activity or service	2009	2010	% change 10/09
Registration of prospectuses and market participants	**10,651.2**	**7,086.3**	**-33.5**
Prospectus registration	10,114.8	6,534.8	-35.4
Issue prospectuses	7,475.9	4,973.2	-33.5
Listing prospectuses	666.0	515.2	-22.6
Vetting of AIAF listing requirements	1,972.9	1,046.3	-47.0
Registration of market participants	346.3	396.8	14.6
Authorisation of takeover bids	190.1	154.7	-18.6
Market supervision	**31,037.1**	**34,469.1**	**11.1**
AIAF members	273.1	202.2	-26.0
Sociedad de Sistemas members	21,090.8	22,148.8	5.0
Stock market members	9,231.8	11,820.6	28.0
MEFF Fixed Income members	1.6	1.7	9.4
MEFF Equity members	438.6	294.5	-32.9
MFAO members	1.3	1.3	-0.1
Market participant supervision	**9,398.1**	**9,349.0**	**-0.5**
UCITS Supervision	8,144.4	7,835.6	-3.8
Mutual funds	6,853.4	6,510.8	-5.0
Investment companies	1,002.5	1,056.3	5.4
Real estate mutual funds	272.0	253.1	-7.0
Real estate investment companies	16.5	15.4	-6.6
Supervision of UCITS and securitisation fund management companies	255.0	268.5	5.3
UCITS management companies	238.4	248.7	4.3
Securitisation fund management companies	16.6	19.7	18.8
Supervision of investment services firms	998.6	1,245.0	24.7
Portfolio management companies	11.2	11.1	-1.0
Broker-dealers and brokers	987.3	1,233.9	25.0
Issuance of certificates	**4.4**	**3.2**	**-27.3**
Total	**51,090.8**	**50,907.7**	**-0.4**

Source: CNMV.

18 National Securities Numbering Agency

The CNMV discharges the functions of the Spanish National Securities Numbering Agency (Spanish acronym: ANCV), whose main goal is to assign and administer International Securities Identification Numbers (ISIN, ISO standard 6166) and Classification of Financial Instruments (CFI, ISO standard 10962) codes to facilitate their dissemination and use among users. It is also responsible for assigning the Financial Instrument Short Name (FISN) in accordance with ISO standard 18774. In Spain, the ISIN code is used as the primary identifier in securities trading, clearing and settlement. The CNMV is a founder and full member of the Association of National Numbering Agencies (ANNA), which at 2010 year-end had a total of 82 full member countries and 30 associates representing another 40 countries.

As part of its international activity, the ANCV is an active member of various Working Groups and in 2010 it was appointed as coordinator of ANNA Working Group 2. This group, which is made up of representatives from various national numbering agencies, is responsible for preparing and maintaining the ISIN numbering guidelines to be applied worldwide.

Several new aspects have been introduced in Spain with regard to securities numbering and associated information. In October 2010, a new circular[1] and a new technical standard[2] on securities numbering entered into force. Both legal provisions aimed to include the amendments in ISO standard 6166 on the ISIN code and international numbering criteria and, secondly, to include the new financial instruments developed in securities markets. The aim of this update is to increase clarity, simplicity and understanding.

Furthermore, in 2010 the ANCV began to offer applicants of ISIN codes the possibility of delaying publication of the codes until certain administrative procedures are completed and providing a series of set requirements are met. The aim is to prevent early disclosure of the ISIN code leading to unnecessary damages for issuers when it has been verified that disclosure does not bring any benefit in terms of information for investors.

Other noteworthy changes include the modifications carried out over 2010 in the section of the CNMV's website dedicated to the ANCV. The restructuring has led to new sections, such as that dedicated to the procedure for applying for an ISIN code or information on the ISO standards applied by the ANCV. In addition, the "website derivatives service" utility has been implemented. This allows users to access the

1 Circular 2/2010, of 28 July, of the CNMV, on securities and other instruments of a financial nature that may be numbered and the procedures for numbering.

2 Technical standard 1/2010, of 28 July, of the CNMV, in connection with its functions of numbering tradeable instruments and other financial instruments, regarding the structure of codes.

specifications of derivative contracts listed in Spain by means of an application for consulting the ANCV's databases.

Finally, as from 2010 the ANCV's weekly publication, which was previously published on a CD, is available on the website. This publication contains the list of ISIN codes of securities and financial instruments admitted for trading on official Spanish markets and those of mutual funds.

With regard to the key figures of the ANCV, the securities and financial instruments with an ISIN in 2010 totalled 14,587 (97.8% of these were listed), a fall of 2.7% on 2009 (see table 18.1). This fall was mainly due to the reduction in the number of private fixed-income issues. In this regard, there were falls in commercial paper, simple bonds and securitisation bonds. However, there was a significant increase in the issue of structured products and, above all, those of public debt. The number of equity issues increased. The number of preferred shares was very low. The derivatives market showed a contrasting performance. While the number of options contracts with ISIN increased by 12.6%, the number of futures contracts with ISIN fell slightly.

Number of securities and other financial instruments with ISIN in 2009 and 2010 TABLE 18.1

	Listed		%	Total		%
	2009	2010	change	2009	2010	change
Equity	**67**	**44**	**-34.3**	**281**	**335**	**19.2**
Shares	8	13	62.5	88	109	23.9
UCITS and venture capital funds	35	31	-11.4	167	224	34.1
Preferred shares	24	0	-100.0	26	2	-92.3
Fixed income	**4,534**	**3,189**	**-29.7**	**4,581**	**3,206**	**-30.0**
Public debt	68	97	42.6	68	97	42.6
Treasury bills and commercial paper	12	15	25.0	12	15	25.0
Bonds and debentures	56	82	46.4	56	82	46.4
Private fixed income	4,466	3,092	-30.8	4,513	3,109	-31.1
Commercial paper	3,948	2,865	-27.4	3,948	2,865	-27.4
Bonds	189	67	-64.6	198	74	-62.6
Debentures	33	8	-75.8	35	9	-74.3
Covered bonds	62	78	25.8	75	82	9.3
Securitisation bonds	234	74	-68.4	257	79	-69.3
Structured products	**41**	**57**	**39.0**	**42**	**62**	**47.6**
Rights	**27**	**27**	**0.0**	**28**	**27**	**-3.6**
Warrants and certificates	**2,599**	**2,603**	**0.2**	**2,603**	**2,609**	**0.2**
Options	**7,196**	**8,106**	**12.6**	**7,196**	**8,106**	**12.6**
Futures	**257**	**242**	**-5.8**	**257**	**242**	**-5.8**
Total	**14,721**	**14,268**	**-3.1**	**14,988**	**14,587**	**-2.7**

Source: CNMV.

At the end of the year, the number of active securities and other financial instruments with ISIN in the ANCV database totalled 21,990. Listed securities and financial instruments accounted for 56% of the total

The number of queries to the ANCV increased by 6.2% on the previous year, with a total of 953. Queries regarding Spanish codes, which accounted for 76% of the total, rose by 20.4% on the previous year. Queries about foreign codes fell by 22.8%.

Queries handled directly by the ANCV TABLE 18.2

	2009	2010	% change
Spanish codes	603	726	20.4
Foreign codes	294	227	-22.8
Total	**897**	**953**	**6.2**

Source: CNMV.

19 CNMV Advisory Committee

Pursuant to Article 22 of the Securities Market Act, the CNMV Advisory Committee, chaired by the CNMV's Vice-Chairman, is the body which provides advice to the Board. The Act also indicates that the Advisory Committee will have representatives from the official secondary markets, issuers, investors and each one of the autonomous regions with authority with regard to securities markets and in which there is an official secondary market.

In accordance with Article 23 of the Securities Market Act, the Advisory Committee shall issue a mandatory report in the following cases: i) approval of CNMV circulars; ii) imposition of penalties for very serious breaches;[1] iii) authorisation, revocation, mergers and takeovers of investment services firms, and iv) authorisation, revocation and mergers and takeovers of the branches of investment services firms from non-EU countries.[2]

In addition to its consultative role to the board, the Advisory Committee provides advice on draft regulations relating generally to the securities market which are referred to it by the Government or the Ministry of Economy and Finance. It thus adheres to the principle of consulting the affected sectors when new regulations are being drafted.

In addition, in 2004 CNMV agreed to enhance the consultative role of the Advisory Committee by extending its goal to international issues related to securities markets. As a result, the Committee's agenda regularly includes issues referred to it voluntarily (not by legal mandate) that relate to consultation from international bodies, such as IOSCO and CESR/ESMA, as well as initiatives of the CNMV or the Committee itself. This allows greater participation of the sector in line with international recommendations on analysing the impact of regulations.

The Committee must meet at least once every three months in accordance with legislation (Royal Decree 504/2003), but in practice it normally holds a meeting every month.

1 This item (letter c) of Article 23 of the Securities Market Act was cancelled by the final fifth provision of Act 2/2011, of 4 March, on Sustainable Economy, withdrawing the involvement of the Committee in disciplinary proceedings for very serious breaches brought subsequent to the entry into force of the aforementioned Act 2/2011.

2 However, since 2008 no proceedings have been processed for authorisations, revocations or mergers and takeovers of investment services firms as a consequence of the approval of Royal Decree 217/2008, of 15 February, on the legal regime of investment services firms, which does not provide for the involvement of the Advisory Committee in these types of proceedings. The Securities Market Act establishes that the Advisory Committee report shall be mandatory in authorisations, revocations and mergers and takeovers of Investment Services Firms when established by legislation. Approval of Royal Decree 217/2008 led to the repeal of Royal Decree 867/2001, which did contain this provision.

Table 19.1 provides a statistical summary of the issues addressed by the Advisory Committee in 2010. Compared with 2009, there was an increase in mandatory reports on standards as a result of the greater regulatory activity arising from the transposition and implementation of European legislation. In contrast, the number of voluntary consultations fell. This was linked to a fall in the number of new regulatory projects of the European Union in response to the financial crisis, which had been the reason for a large part of the issues analysed in 2009. The Committee examined twelve disciplinary proceedings for very serious breaches, four more than in the previous year.

Types of issues referred to the Advisory Committee TABLE 19.1

	Number of issues	
	2009	**2010**
Mandatory reports on standards	10	16
Proposals for very serious penalties	8	12
Voluntary consultations (IOSCO, CESR and others)	18	11
Total	**36**	**39**

Source: CNMV.

Table 19.2 provides a breakdown of the issues addressed within the three categories considered above.

List of CNMV Advisory Committee actions in 2010

TABLE 19.2

Mandatory reports on standards

- Draft CNMV Circular on derivative transactions carried out by UCITS (25/01/2010).
- Proposal to update the Unified Code of Good Governance of Listed Companies (25/01/2010).
- Draft Ministerial Order which implements Royal Decree 217/2008, of 15 February, on the legal regime of investment services firms, with regard to fees and standard contracts (22/02/2010).
- Draft Royal Decree which modifies the Royal Decree on deposit guarantee funds in credit institutions and the Royal Decree on investor compensation systems (22/03/2010).
- Draft Ministerial Order on regulation and control of advertising of bank services (22/03/2010).
- Draft CNMV Circular, which modifies Circular 2/2009, on accounting standards, annual accounts, public financial statements and reserved statements of statistical information on securitisation funds (26/04/2010).
- Draft CNMV Circular on administrative procedures for authorisation of venture capital firms (24/05/2010).
- Draft Act which modifies Act 41/1999, of 12 November, on payment and security settlement systems and Royal Decree-Law 5/2005, of 11 March, or urgent reforms to boost productivity and improve public procurement (24/05/2010).
- Draft Royal Decree which regulates official futures and options markets (28/06/2010).
- Draft CNMV Circular on reserved information of investment services firms (28/06/2010).
- Draft Act which amends Act 13/1985, of 25 May, on equity and investment ratios and reporting requirements of financial intermediaries, Act 24/1988, of 28 July, on the Securities Market and Royal Legislative Decree 1298/1986, of 28 June, on adaptation of current law on credit institutions to European Union legislation (19/07/2010).
- Draft CNMV Circular on securities and other instruments of a financial nature that may be num-bered and the procedures for numbering and CNMV Technical Standard on its functions of num-bering tradable securities and other financial instruments, regarding the structure of codes (19/07/2010).
- Draft Bill which amends certain financial standards for applying Regulation (EC) No 1060/2009, of 16 September, on credit rating agencies (13/09/2010).
- Draft Ministerial Order on commercial agreements of asset securitisation funds in order to favour business funding (13/09/2010).
- Draft CNMV Circular on information which a potential acquirer must provide for the Prudential assessment of acquisitions and increases in shareholdings of investment services firms and UCITS management companies (13/09/2010).
- Draft CNMV Circular which modifies CNMV Circular 12/2008, of 30 December, on the solvency of investment firms and their consolidatable groups (25/10/2010).

Proposals for very serious penalties

- One proposal for failure to comply with legislation on takeover bids (25/01/2010).
- One proposal for a breach of the requirement to apply for prior authorisation and to report to the CNMV an increase and reduction in a significant holding respectively (26/04/2010).
- Three proposals for late filing of the Annual Financial Report (24/05/2010 and 28/06/2010).
- Five proposals for failure to comply with requirements to report significant shareholdings to the CNMV (28/06/2010 and 13/12/2010).
- One proposal for deficiencies in administrative and accounting organisation and internal control procedures, including those relating to risk management, endangering the entity's solvency and viability (13/09/2010).
- One proposal for lack of sufficient technical and human resources in relation with the nature and characteristics of some of the financial instruments acquired by their portfolios managed for clients (25/10/2010).

Voluntary consultations (IOSCO, CESR and others)

- Proposal by CESR to extend the notifications of significant shareholdings to instruments with economic effects similar to those of shares and to instruments which give the right to buy shares (22/02/2010).
- Consultation by CESR on transparency in equity markets (24/05/2010).
- Consultation by CESR on transparency in markets other than equity markets (24/05/2010).
- Consultation by CESR on investor and intermediary protection (24/05/20).
- Consultation by CESR on transaction information (24/05/2010).
- CNMV guideline for analysing appropriateness and suitability (24/05/2010).
- Proposal to amend the Internal Regime Rules of the Advisory Committee (24/05/2010).
- Consultation by the European Commission on short selling (28/06/2010).
- Standard liquidity contract for admission to the AIAf Market (13/09/2010).
- CNMV Plan of Activities 2011 (13/12/2010).
- CNMV guide on providing investment advisory services (13/12/2010).

Source: CNMV.

VI Report by the Internal Control Body

AUDIT REPORT PURSUANT TO ACT 44/2002, ON REFORM MEASURES FOR THE FINANCIAL SYSTEM-2010

CNMV
Comisión Nacional del Mercado de Valores

1.- Introducción

The CNMV's Internal Control Department has performed the audit relating to adaptation of the decisions adopted by the governing bodies to the procedural regulations applicable in each case, in implementation of the Audit Plan and Internal Control Actions approved by the Commission's Board in its session of 21 December 2010, thus complying with the Second Additional Provision of Act 44/2002, of 22 November, on Reform Measures for the Financial System (Official State Gazette of 23 November).

The work has been adapted to the International Standards for the Professional Practice of Internal Auditing of the IIA (the Institute of Internal Auditors), pursuant to the Internal Audit Rules for the CNMV approved by a Resolution of the Board on 21 January 2009.

2.- Aims and scope

The aim of the work is to verify adaptation to the procedural legislation applicable in adopting supervision decisions by the CNMV's governing bodies in 2010.

The basic legislation applicable to CNMV procedures is as follows:

- Securities Market Act (24/1998, of 28 July).
- Legal Regime of Public Administrations and Common Administrative Procedure Act (30/1992, of 26 November).
- The CNMV's Internal Regime Regulations.

It has also taken into account Resolutions about the delegation of powers to the Chairman, the Vice-Chairman and the Executive Committee of the CNMV, of 4 November 2009 and 28 July 2010.

There have been no limits placed on the scope in the performance of the work.

CNMV
Comisión Nacional del Mercado de Valores

3.- Opinion.

In our opinion, having completed the audit work, it can be concluded that in 2010 the CNMV's governing bodies have met the requirements established in current legislation relating to the procedure and authority applicable in each case within the scope of the supervision entrusted to it by the Securities Market Act and other legislation.

Madrid, 16 March 2011

Director of the Internal Control Department

Signed: Margarita García Muñoz

VII Financial statements of the CNMV

Summary of financial statements 2010

1 Balance sheet

Account no.	Assets	Current year	Previous year
	A) FIXED ASSETS	**35,053,113.0**	**35,005,662.6**
	II. Intangible assets	4,698,965.2	4,024,432.6
215	3. Computer software	8,961,634.2	7,345,763.4
281	7. Amortisation	-4,262,669.0	-3,321,330.8
	III. Property, plant and equipment	30,352,912.0	30,979,994.2
220, 221	1. Land and structures	28,773,979.0	28,773,979.0
226	3. Tools and furniture	2,878,100.5	3,092,176.5
227, 228	4. Other fixed assets	6,136,628.7	5,973,292.7
282	5. Depreciation	-7,435,796.2	-6,859,454.0
	V. Permanent financial assets	1,235.9	1,235.9
250	1. Long-term securities portfolio	935.4	935.4
265	3. Long-term deposits and guarantees provided	300.5	300.5
	C) CURRENT ASSETS	**129,436,250.8**	**120,738,736.2**
	II. Accounts receivable	7,685,353.8	7,560,954.6
460, 469	1. Sundry accounts receivable	7,668,148.4	7,506,428.7
471	3. Public authorities	337.7	337.7
555, 558	4. Other accounts receivable	50,992.3	90,012.7
490	5. Provisions	-34,124.6	-35,824.5
	III. Short-term financial assets	115,542,220.8	109,179,383.7
541, 546	1. Short-term securities portfolio	115,504,435.3	109,152,504.0
544	2. Other short-term assets and receivables	37,785.5	26,879.6
57	IV. Cash	5,923,636.6	3,748,232.2
480	V. Accruals	285,039.6	250,165.7
	GRAND TOTAL (A+B+C)	**164,489,363.8**	**155,744,398.8**

1 Balance sheet *(continuation)*

Account no.	Equity and Liabilities		Current year	Previous year
	A)	**EQUITY**	**160,052,179.7**	**150,582,448.6**
	I.	Own funds	5,176,689.1	5,175,293.9
100		1. Own equity	4,204,102.7	4,204,102.7
101		2. Equity received in assignment	1,181,768.6	1,181,768.6
108		6. Equity delivered in assignment	-209,182.2	-210,577.4
117, 113	II.	Reserves	134,982,950.8	115,544,040.1
	III.	Retained earnings / losses	10,424,203.8	19,438,910.8
120		1. Retained earnings	10,424,203.8	19,438,910.8
129	IV.	Surplus for the year	9,468,336.0	10,424,203.8
142	**B)**	**PROVISIONS FOR CONTINGENCIES AND EXPENSES**	**1,166,838.7**	**1,507,336.5**
	D)	**CURRENT LIABILITIES**	**3,270,345.3**	**3,654,613.7**
	III.	Accounts Payable	3,270,345.3	3,654,613.7
420, 429		1. Sundry accounts payable	2,126,491.7	2,260,354.0
475, 476		3. Public authorities	1,084,497.6	1,154,237.8
554,523		4. Other accounts payable	59,356.1	240,022.0
	GRAND TOTAL (A+B+C+D)		**164,489,363.8**	**155,744,398.8**

2 Income statement

Debit	Current year	Previous year
A) EXPENSES	**44,129,032.6**	**43,215,518.5**
3. Service operating expenses and social benefits	43,342,571.8	42,697,788.2
a) Personnel expenses:	26,455,047.7	26,117,912.1
a.1) Wages, salaries and similar	21,154,770.7	21,034,231.5
a.2) Employee welfare expenses	5,300,277.0	5,083,680.7
c) Period depreciation and amortisation charge	1,785,711.2	1,492,848.1
d) Change in operating provisions	5,889.2	7,693.5
d.2) Change in provisions for, and losses on, bad debts	5,889.2	7,693.5
e) Other operating expenses	15,095,191.4	15,047,086.8
e.1) Outside services	15,033,664.9	14,950,669.7
e.2) Taxes	51,866.3	92,993.3
e.3) Other current operating expenses	9,660.2	3,423.8
f) Financial and similar expenses	506.3	31,797.3
f.1) On debts	506.3	31,797.3
h) Exchange losses	226.0	450.5
4. Transfers and subsidies	446,849.7	436,856.7
b) Current subsidies	446,849.7	436,856.7
5. Extraordinary losses and expenses	339,611.1	80,873.6
a) Losses on fixed assets	77,737.3	9,130.9
d) Expenses and losses from other years	261,873.8	71,742.7
SURPLUS	**9,468,336.0**	**10,424,203.8**

2 Income statement *(continuation)*

Credit	Current year	Previous year
B) REVENUES	**53,597,368.6**	**53,639,722.3**
3. Ordinary revenues	50,907,674.6	51,090,790.2
a) Tax revenues	50,907,674.6	51,090,790.2
a1) Fees for the provision of services or the performance of activities	50,907,674.6	51,090,790.2
4. Other ordinary revenues	2,368,833.0	2,543,949.7
b) In-house work	862,188.8	1,268,006.5
c) Other ordinary revenues	666,552.2	152,837.2
c.1) Ancillary and other ordinary revenues	251,125.9	152,837.2
c.2) Excess from risk and expense provisions	415,426.4	0.0
e) Revenues from other transferable securities and fixed asset loans	783,849.0	1,029,485.1
f) Other interest and similar revenues	56,241.8	93,615.4
f.1) Other interest	56,241.8	93,615.4
g) Exchange gains	1.1	5.6
6. Extraordinary gains and revenues	320,861.0	4,982.4
a) Gains on fixed assets	3,327.9	0.0
c) Extraordinary revenues	9,250.0	528.0
d) Revenues and income from other years	308,283.1	4,454.4

3 Cash flow statement. Source and application of funds

Funds applied	Current year	Previous year
1. Funds applied in operations	41,947,392.7	41,603,166.0
c) Outside services	15,033,664.9	14,950,363.5
d) Taxes	51,866.3	92,993.3
e) Personnel expenses	26,233,374.8	26,007,844.8
g) Transfers and subsidies	446,849.7	436,856.7
h) Financial expenses	732.3	32,247.7
i) Other current losses and extraordinary expenses	175,015.5	75,166.5
j) Provision for current assets	5,889.2	7,693.5
4. Fixed asset acquisitions and other additions	1,793,751.9	2,545,903.7
b) I. Intangible assets	1,605,971.6	2,146,372.7
c) I. Property, plant and equipment	187,780.3	399,530.9
5. Direct decrease in equity	525.8	0.0
b) assignments	525.8	0.0
7. Provisions for contingencies and expenses	146,744.3	200,581.2
TOTAL FUNDS APPLIED	**43,888,414.6**	**44,349,650.8**
FUNDS OBTAINED IN EXCESS OF FUNDS APPLIED (INCREASE IN WORKING CAPITAL)	**9,081,783.0**	**9,290,071.5**

Funds obtained	Current year	Previous year
1. Funds from operations	52,964,423.0	53,639,722.3
e) Fees, charges and special levies	50,907,674.6	51,090,790.2
g) Financial revenues	840,091.9	1,123,106.1
h) Other current revenues and extraordinary expenses	1,216,656.5	1,425,826.1
3. Direct increase in equity	1,921.0	0.0
b) Assignments	1,921.0	0.0
5. Fixed asset disposals and other retirements	3,853.7	0.0
c) I. Property, plant and equipment	3,853.7	0.0
TOTAL FUNDS OBTAINED	**52,970,197.6**	**53,639,722.3**
FUNDS APPLIED IN EXCESS OF FUNDS OBTAINED (DECREASE IN WORKING CAPITAL)	**0.0**	**0.0**

4 Cash flow statement. Change in working capital

	Current year		Previous year	
Change in working capital (Summary)	**Increase**	**Decrease**	**Increase**	**Decrease**
2. Accounts Receivable	163,419.6	0.0	1,986,224.6	0.0
a) Operational accounts receivable	163,419.6	0.0	1,986,224.6	0.0
3. Accounts payable	416,786.9	0.0	23,025,632.3	235,442.8
a) Operational accounts payable	133,862.3	0.0	0.0	235,442.8
b) Other accounts payable	282,924.7	0.0	23,025,632.3	0.0
4. Short-term financial assets	6,362,837.2	0.0	0.0	12,668,941.4
6. Other non-bank accounts	0.0	71,539.0	33,915.3	0.0
7. Cash	2,175,567.1	162.8	3,364.4	2,879,382.6
a) Cash on hand	0.0	162.8	3,364.4	0.0
c) Cash at banks and other credit institutions	2,175,567.1	0.0	0.0	2,879,382.6
8. Accruals	34,873.9	0.0	24,701.7	0.0
TOTAL	**9,153,484.7**	**71,701.7**	**25,073,838.3**	**15,783,766.8**
CHANGE IN WORKING CAPITAL	**9,081,783.0**	**0.0**	**9,290,071.5**	**0.0**

Annexes

Statistical annexes I: markets and issuers

Capital increases and public offerings[1]

I.1

Million euro

	Number of issuers		Number of issuers		Cash amount		
	2009	2010	2009	2010	2009	2010	% change 10/09
Capital increases	**24**	**32**	**42**	**52**	**11,388.7**	**15,412.3**	**35.3**
Which are subscription offerings[2]	2	12	2	12	17.4	964.0	5,445.2
With domestic tranches	2	12	2	12	14.9	66.9	347.9
With international tranches	0	4	0	4	2.5	897.2	–
Public offerings (IPO)	1	2	1	3	1.9	605.7	31,131.5
Of domestic tranches	1	2	1	3	1.9	79.1	3,977.4
Of international tranches	0	1	0	2	0.0	526.7	–
Total	**24**	**33**	**43**	**55**	**11,390.7**	**16,018.0**	**40.6**
Note: stock exchange listings							
By means of IPO or subscription offering[2]	2	13	3	15	19.3	1,569.8	8,023.2
Others	1	1	1	1	879.2	8,000.0	810.0

Source: CNMV. (1) Only effective and completed operations are included. (2) Public offering of rights subscription, with the prior waiver of the shareholders to their pre-emptive subscription rights.

Capital increases and public offerings: cash amount

Million euro

Issuer	Cash amount[1]	Type of transaction	Date registered with the CNMV
European Aeronautic Defence and Space Company Eads	14.6	Capital increase without trading warrants	12-Jan-10
Urbas Guadahermosa, S.A.	37.0	Capital increase by conversion	19-Jan-10
Inmobiliaria Colonial, S.A.	0.2	Capital increase by conversion	21-Jan-10
Service Point Solutions, S.A.	0.0	Bonus issue	09-Feb-10
Jazztel, Plc	3.1	Capital increase without trading warrants	11-Feb-10
General de Alquiler de Maquinaria, S.A.	39.6	Capital increase with pre-emptive subscription rights	18-Feb-10
Grupo Empresarial ENCE, S.A.	130.1	Capital increase with pre-emptive subscription rights	04-Mar-10
Grupo Ezentis, S.A.	2.0	Capital increase without trading warrants	04-Mar-10
Inmobiliaria Colonial, S.A.	0.1	Capital increase by conversion	30-Mar-10
Inmobiliaria Colonial, S.A.	1,413.7	Capital increase by conversion	30-Mar-10
Jazztel, S.A.	0.0	Capital increase without trading warrants	06-Apr-10
Banco Pastor, S.A.	0.0	Bonus issue	04-May-10
Faes Farma, S.A.	0.0	Bonus issue	07-May-10
Fergo AISA, S.A.	71.1	Capital increase without trading warrants	20-May-10
MAPFRE, S.A.	189.3	Capital increase with pre-emptive subscription rights	25-May-10
Fergo AISA, S.A.	25.0	Capital increase with pre-emptive subscription rights	27-May-10
Jazztel, Plc.	0,7	Capital increase without trading warrants	27-May-10
Inmobiliaria Colonial, S.A.	1,954.3	Capital increase with pre-emptive subscription rights	01-Jun-10
Banco de Valencia, S.A.	0.0	Bonus issue	15-Jun-10
Grupo Ezentis, S.A.	2.9	Capital increase without trading warrants	15-Jun-10
Abertis Infraestructura, S.A.	0.0	Bonus issue	22-Jun-10
Urbas Guadahermosa, S.A.	0.4	Capital increase by conversion	01-Jul-10
Iberdrola, S.A.	0.0	Bonus issue	02-Jul-10
Inmobiliaria Colonial, S.A.	1,804.4	Capital increase without trading warrants	09-Jul-10
La Seda de Barcelona, S.A.	300.0	Capital increase with pre-emptive subscription rights	15-Jul-10
Gamesa Corporación Tecnológica, S.A.	0.0	Bonus issue	22-Jul-10
SOS Corporación Alimentaria, S.A.	149.2	Capital increase without trading warrants	23-Jul-10
SOS Corporación Alimentaria, S.A.	60.8	Capital increase without trading warrants	27-Jul-10
Zardoya Otis, S.A.	0.0	Bonus issue	05-Aug-10
Nyesa Valores Corporación, S.A.	1.8	Capital increase without trading warrants	11-Aug-10
Inmobiliaria Colonial, S.A.	0.2	Capital increase by conversion	19-Aug-10
Jazztel, Plc	0.3	Capital increase without trading warrants	06-Oct-10
Banco Santander, S.A.	167.7	Capital increase by conversion	13-Oct-10
Duro Felguera, S.A.	0,0	Bonus issue	19-Oct-10
Inmobiliaria Colonial, S.A.	0,0	Capital increase by conversion	28-Oct-10
Banco Bilbao Vizcaya Argentaria, S.A.	5,014.8	Capital increase with pre-emptive subscription rights	02-Nov-10
Banco Santander, S.A.	0.0	Bonus issue	05-Nov-10
Banco de Sabadell, S.A.	196.6	Capital increase for non-monetary consideration	18-Nov-10
Banco Popular Español, S.A.	6.2	Capital increase by conversion	18-Nov-10
Banco Popular Español, S.A.	178.9	Capital increase without trading warrants	18-Nov-10

Capital increases and public offerings: cash amount *(continuation)*

I.2

Million euro

Issuer	Cash amount[1]	Type of transaction	Date registered with the CNMV
Gestevisión Telecinco, S.A.	499.2	Capital increase with pre-emptive subscription rights	18-Nov-10
Nyesa Valores Corporación, S.A.	2.5	Capital increase without trading warrants	18-Nov-10
SOS Corporación Alimentaria, S.A.	185.2	Capital increase without trading warrants	18-Nov-10
SOS Corporación Alimentaria, S.A.	200.1	Capital increase with pre-emptive subscription rights	18-Nov-10
Liwe Española, S.A.	0.0	Bonus issue	23-Nov-10
Promotora de Informaciones, S.A.	482.1	Capital increase with pre-emptive subscription rights	01-Dec-10
Promotora de Informaciones, S.A.	321,5	Capital increase for non-monetary consideration	01-Dec-10
Promotora de Informaciones, S.A.	576,3	Capital increase for non-monetary consideration	01-Dec-10
Vidrala, S.A.	0,0	Bonus issue	02-Dec-10
Sacyr Vallehermoso, S.A.	401,3	Capital increase with pre-emptive subscription rights	07-Dec-10
Compañía Levantina de Edificación y Obras Públicas, S.A.	0,0	Bonus issue	09-Dec-10
Nyesa Valores Corporación, S.A.	6,5	Capital increase without trading warrants	21-Dec-10
Amper, S.A.	0,0	Bonus issue	23-Dec-10
Iberdrola, S.A.	0,0	Bonus issue	23-Dec-10
Vértice Trescientos Sesenta Grados, S.A.	8,5	Capital increase for non-monetary consideration	23-Dec-10

Source: CNMV. (1) Issues of new shares not paid for in cash have been valued at market prices.

Delistings in 2010[1]

I.3

Company	Market	Reason. Procedure	Date
Federico Paternina, S.A.	SIBE	Delisting takeover bid made by Inversora Mer, S.L.	08/01/2010
LEFA, S.A.	2nd market	Delisted from the Barcelona Stock Exchange by Regional Government of Catalonia	16/02/2010
Industrias del Acetato de Celulosa, S.A.	Open outcry	Delisted from the Barcelona Stock Exchange by Regional Government of Catalonia	27/04/2010
Sociedad General de Aguas de Barcelona, S.A.	SIBE	Delisting takeover bid made by the company itself	01/06/2010
MECALUX, S.A.	SIBE	Delisting takeover bid made by the company itself	08/07/2010
Exide Technologies, S.A.	SIBE	Delisting as a result of purchase made by the company's majority shareholder	05/08/2010
Banco Guipuzcoano, S.A.	SIBE	Settlement of takeover bid made and squeeze-out by Banco de Sabadell	26/11/2010

Source: CNMV. (1) Does not include delistings as a result of a change of market.

Sector indices in the Madrid and Barcelona stock exchanges

Yield in the period

					2010			
	2007	2008	2009	2010	1Q	2Q	3Q	4Q
Madrid Stock Exchange								
Oil and energy	13.0	-33.3	-2.7	-8.6	-5.5	-19.3	14.4	4.8
Commodities, industry and construction	-32	-50.5	22.5	-15.2	-4.4	-20.6	11.4	0.3
Consumer goods	6.1	-25.7	26.3	17.0	7.3	-6.1	18.8	-2.2
Consumer services	-8.0	-45.1	32.3	-0.1	0.6	-17.3	17.1	2.6
Financial and real estate services	-5.5	-49.2	47.3	-31.7	-14.2	-13.0	8.8	-15.9
Banking	-3.6	-49.0	50.0	-33.1	-15.0	-13.0	8.8	-16.8
Real estate and others	-40.6	-68.0	-31.8	-53.3	-2.3	-21.7	-13.0	-29.8
Technology and telecommunications	34.3	-2.8	22.8	-12.8	-9.9	-13.1	18.2	-5.8
Madrid Stock Exchange General Index	**5.6**	**-40.6**	**27.2**	**-19.2**	**-9.6**	**-14.5**	**12.9**	**-7.5**
Barcelona Stock Exchange								
Electricity	12.3	-26.2	-9.1	-8.3	-5.8	-23.2	21.2	4.6
Banks	-0.8	-49.6	58.1	-32.1	-14.9	-12.7	8.4	-15.7
Chemicals	-10.4	-41.5	21.5	2.6	-6.3	-9.9	14.1	6.5
Cement, construction and real estate	-32.0	-61.5	20.2	-17.5	-6.6	-21.2	13.8	-1.4
Metallurgy	8.0	-47.9	6.1	-31.1	-6.6	-25.0	-8.4	7.5
Food, agriculture and forestry	-14.0	-23.1	2.2	15.6	3.7	-5.2	1.3	16.1
Textiles and paper	-8.5	-30.2	38.1	28.0	12.2	-3.7	22.9	-3.6
Trade and finance	-9.6	-37.7	21.0	-2.3	2.7	-12.8	9.3	-0.2
Sundry services	23.3	-32.6	23.5	-11.6	-7.7	-14.2	15.9	-3.7
BCN Global 100	**5.2**	**-41.8**	**34.7**	**-19.7**	**-10.2**	**-14.6**	**12.6**	**-7.0**

Source: Bolsas y Mercados Españoles.

Concentration of capitalisation by sector

I.5

Sector	2009 25%	2009 50%	2009 75%	2009 100%	2010 25%	2010 50%	2010 75%	2010 100%
Oil	1	1	1	2	1	1	1	2
Energy & water	1	2	4	9	1	2	3	9
Mining & base metals	1	1	3	8	1	1	1	8
Cement and construction materials	1	2	3	4	1	2	3	4
Chemicals	1	2	3	6	1	2	3	6
Textiles and paper	1	1	1	19	1	1	1	17
Metal-mechanical	1	2	4	17	1	2	4	15
Food	1	2	4	13	1	2	4	12
Construction	1	2	3	7	1	2	4	8
Real estate	2	5	9	26	2	4	8	22
Transport and communications	1	1	1	5	1	1	1	4
Other non-financial	2	4	7	24	1	3	7	25
Banks	1	1	2	10	1	1	2	9
Insurance	1	1	1	2	1	1	1	2
Portfolio companies	1	1	1	10	1	1	1	8
SICAVs	1	1	2	2	1	1	2	2
Finance houses	0	0	0	0	0	0	0	0

Source: CNMV.

Concentration of variable yield stock market trading

I.6

No. of companies required in order to achieve a specific percentage

	2009 25%	2009 50%	2009 75%	2009 100%	2010 25%	2010 50%	2010 75%	2010 100%
All Stock Exchanges	**1**	**3**	**5**	**169**	**1**	**2**	**5**	**157**
Continuous market	1	3	5	135	1	2	5	131
Domestic	1	3	5	130	1	2	5	125
Foreign	1	1	2	5	1	1	1	6
Open outcry	2	3	6	29	1	1	1	21
Second market	1	1	2	5	1	1	1	5
ETFs	2	4	7	32	2	4	6	65
MAB	16	90	305	3,267	20	93	275	3,185
Latibex	2	5	11	33	6	9	15	32

Source: CNMV.

Percentage of capitalisation by sector and the largest companies within each sector with respect to the overall market[1]

I.7

Sector	% sector/market[2]	Companies with the largest capitalisation in the sector	% company/market[3]
Oil	6.4	Repsol YPF	5.4
		Compañía Española de Petróleos, CEPSA	1.0
Energy & water	17.5	Iberdrola	6.7
		Endesa	4.3
		Iberdrola Renovables, S.A.	2.4
Mining & base metals	1.3	Acerinox	0.7
		Grupo Duro Felguera	0.2
		Cie. Automotive	0.1
Cement and construction materials	0.5	Uralita	0.1
		Cementos Molins	0.1
		Vidrala	0.1
Chemicals	0.6	Almirall, S.A.	0.2
		Zeltia	0.1
		Faes Farma	0.1
Textiles and paper	8.4	Industria de Diseño Textil, Inditex	7.4
		Grifols	0.5
		Grupo Empresarial ENCE	0.1
Metal-mechanical	2.4	Zardoya Otis	0.8
		Técnicas Reunidas	0.6
		Abengoa	0.4
Food	1.6	Ebro Foods, S.A.	0.5
		Sociedad Anónima DAMM	0.4
		Viscofan	0.3
Construction	5.6	ACS, Actividades de Construcción y Servicios	2.3
		Ferrovial, S.A.	1.2
		Acciona	0.7
Real estate	1.1	Grupo Inmocaral	0.3
		Testa Inmuebles en Renta, S.A.	0.1
		Fomento Balear de Inversiones	0.1
Transport and communications	19.3	Telefónica	16.4
		Abertis Infraestructuras	2.1
		Iberia Líneas Aéreas de España	0.6
Other non-financial	5.2	Amadeus IT Holding	1.5
		Gestevisión Telecinco	0.6
		Prosegur Compañía de Seguridad	0.6
Banks	25.1	Banco Santander Central Hispano	14.0
		Banco Bilbao Vizcaya Argentaria	7.2
		Banco Popular Español	1.1
Insurance	1.7	Mapfre, S.A.	1.3
		Grupo Catalana Occidente	0.3
Portfolio companies	3.5	Criteria Caixacorp, S.A.	2.8
		Corporación Financiera Alba	0.5
		Unión Europea de Inversiones	0.0
SICAV	0.0	CAT Patrimonis	0.0
		Compañía General de Inversiones	0.0

Source: CNMV. (1) Capitalisation at year-end. (2) Capitalisation of the sector as a percentage of the overall market. (3) Capitalisation of the companies listed as a percentage of the overall market.

Capitalisation and trading volume of Ibex 35 companies[1]

I.8

Million euro

	Market capitalisation[2]			Trading volume		
Company	2009	2010	%[3]	2009	2010	%[3]
Telefónica	89,089.2	77,428.2	16.4	206,244.9	252,393.4	24.6
Banco Santander Central Hispano	95,042.9	66,033.3	14	220,367.3	267,713.1	26.1
Inditex	27,046.3	34,925.2	7.4	16,886.4	31,699.3	3.1
Banco Bilbao Vizcaya Argentaria	47,711.6	33,951.3	7.2	124,946.7	169,246.5	16.5
Iberdrola	35,033.0	31,630.8	6.7	70,646.5	63,290.7	6.2
Repsol YPF	22,860.7	25,455.0	5.4	50,792.8	52,261.9	5.1
Endesa	25,351.8	20,428.6	4.3	4,519.6	3,078.8	0.3
Criteria Caixacorp	11,080.7	13,391.0	2.8	2,517.5	4,436.3	0.4
Iberdrola Renovables	14,023.9	11,219.1	2.4	7,410.8	5,800.1	0.6
ACS	10,953.5	11,036.9	2.3	8,015.7	8,776.2	0.9
Gas Natural	13,904.7	10,591.0	2.2	10,216.2	13,258.2	1.3
Abertis Infraestructuras	11,064.5	9,943.8	2.1	6,812.9	12,855.2	1.3
Corporación Mapfre	8,554.8	6,259.3	1.3	4,245.9	4,784.5	0.5
Ferrovial	6,033.1	5,453.6	1.2	3,803.1	8,585.3	0.8
Banco Popular Español	6,839.1	5,281.1	1.1	15,774.2	15,229.2	1.5
Red Eléctrica de España	5,251.2	4,761.5	1	6,443.7	7,668.4	0.7
Banesto	5,884.0	4,261.8	0.9	1,026.7	951.4	0.1
Banco de Sabadell	4,650.0	3,727.7	0.8	3,577.2	5,727.8	0.6
Enagás	3,682.5	3,560.7	0.8	5,976.8	6,730.0	0.7
Acciona	5,789.4	3,368.2	0.7	6,093.1	5,955.6	0.6
Acerinox	3,622.4	3,272.1	0.7	3,324.6	4,281.5	0.4
Iberia Líneas Aéreas de España	1,809.9	3,045.2	0.6	3,377.8	4,007.6	0.4
Gestevisión Telecinco	2,508.3	2,744.4	0.6	2,531.4	5,360.6	0.5
Técnicas Reunidas	2,243.1	2,661.5	0.6	3,307.0	4,582.4	0.4
FCC	3,749.1	2,502.8	0.5	3,180.0	3,468.9	0.3
Obrascón Huarte Lain	1,884.1	2,261.6	0.5	2,537.7	4,114.4	0.4
Grifols	2,600.5	2,173.3	0.5	6,041.0	4,849.1	0.5
Indra Sistemas	2,701.6	2,098.4	0.4	4,288.9	4,352.6	0.4
Bankinter	3,385.2	1,967.6	0.4	3,066.4	3,410.6	0.3
Abengoa	2,044.6	1,662.4	0.4	1,488.2	2,746.7	0.3
BME	1,881.4	1,490.9	0.3	3,852.1	2,597.8	0.3
Sacyr Vallehermoso	2,439.7	1,448.6	0.3	1,428.0	2,207.4	0.2
Gamesa Corporación Tecnológica	2,867.3	1,403.5	0.3	8,911.7	7,359.9	0.7
Ebro Foods	2,235.7	479.7	0.1	1,134.8	5,313.6	0.5
ArcelorMittal	560.3	479.7	0.1	3,270.6	5,313.6	0.5

Source: CNMV. (1) Ibex 35 companies as at 30 December 2009. (2) Capitalisation on the last day of the year. (3) With respect to the market total.

Takeover bids authorised in 2010

I.9

Million euro

Company	Offeror	Purpose	% capital addressed by the bid	Cash amount paid	Result (%)[1]
Sociedad de Aguas de Barcelona, S.A.	Sociedad de Aguas de Barcelona, S.A.	Obligatory takeover bid for delisting	10.0	273.1	9.1
Mecalux, S.A.	Mecalux, S.A.	Obligatory takeover bid for delisting	7.4	38.8	7
Companyia d'Aigües de Sabadell, S.A.	Sociedad de Aguas de Barcelona, S.A.	Voluntary takeover bid for acquisition of control	88.8	0.9	2.1
Banco Guipuzcoano, S.A.	Banco de Sabadell, S.A.	Obligatory takeover bid for acquisition of control	100.0	726.8	97
Total				**1,039.60**	

Source: CNMV. (1) Percentage of capital. In the event of pro-rating, the coefficient is indicated.

Companies listed on Latibex, by sector

I.10

Million euro

	No. of companies		Market capitalisation			Trading volume		
Sector	**2009**	**2010**	**2009**	**2010**	**% chg.**	**2009**	**2010**	**% chg.**
Oil	2	2	144,947.7	115,346.3	-20.4	81.3	87.6	7.7
Energy & water	4	4	38,860.2	36,829.7	-5.2	40.1	43.7	9
Mining & base metals	5	5	117,152.3	154,156.4	31.6	141.7	216.7	53
Chemicals	1	1	1,903.4	3,242.3	70.3	3.7	4.9	31.6
Textiles and paper	1	1	0	0	–	3.8	0	-100
Metal-mechanical	1	1	2,443.3	4,068.9	66.5	10.2	10.7	5.1
Food	1	1	2,493.3	2,862.2	14.8	26.2	10.8	-58.9
Real estate	2	2	1,102.6	1,551.7	40.7	1.7	1.8	4.9
Transport and communications	5	5	51,052.6	58,147.2	13.9	56.3	56.4	0.3
Other non-financial	1	1	829.4	1,121.7	35.2	1.5	0.9	-36.5
Banks	7	6	37,924.1	50,444.3	33	40	57.7	44.2
Portfolio companies	1	1	5,185.9	6,766.5	30.5	15.4	22.3	44.8
Finance houses	1	1	8,734.2	7,766.4	-11.1	12.8	7.6	-40.5
Total	**32**	**31**	**412,628.9**	**442,303.5**	**7.2**	**434.7**	**521.2**	**19.9**

Source: CNMV.

Gross issues by the public authorities

I.11

Nominal amount in million euro

	Amount				% year-on-year change		
	2007	2008	2009	2010	08/07	09/08	10/09
Central Government	**52,091**	**115,181**	**228,341**	**210,808**	**121.1**	**98.2**	**-7.7**
Short term	26,971	52,657	109,999	114,660	95.2	108.9	4.2
Long term	25,120	62,523	118,342	96,147	148.9	89.3	-18.8
Autonomous Regions	**7,553**	**9,087**	**19,623**	**30,910**	**20.3**	**115.9**	**57.5**
Short term	4,004	5,054	7,109	8,547	26.2	40.7	20.2
Long term	3,548	4,033	12,514	22,363	13.7	210.3	78.7
Local government	**496**	**208**	**51**	**0**	**-58.1**	**-75.3**	**–**
Short term	–	–	–	–	–	–	–
Long term	496	208	51	0	-58.1	-75.3	–
Total	**60,139**	**124,475**	**248,016**	**241,718**	**107**	**99.2**	**-2.5**

Source: Bank of Spain and CNMV.

Net issues by the public authorities

I.12

Nominal amount in million euro

	Amount				% year-on-year change		
	2007	2008	2009	2010	08/07	09/08	10/09
Central Government	**-4,716**	**50,208**	**119,397**	**63,228**	**–**	**137.8**	**-47**
Short term	1,144	19,630	33,439	4,244	1,616.60	70.3	-87.3
Long term	-5,860	30,578	85,958	58,985	–	181.1	-31.4
Autonomous Regions	**223**	**1,386**	**8,496**	**13,347**	**520.8**	**512.9**	**57.1**
Short term	283	430	-168	-914	51.8	–	-444.16
Long term	-60	956	8,664	14,262	–	805.8	64.6
Local government	**131**	**-14**	**-139**	**-114**	**–**	**-878.3**	**18.1**
Short term	0	0	0	0	–	–	–
Long term	131	-14	-139	-114	–	-878.3	18.1
Total	**-4,362**	**51,580**	**127,753**	**76,461**	**–**	**147.7**	**-40.1**

Source: Bank of Spain and CNMV.

Public debt trading between account holders. Outright transactions, repos and sell-buybacks/buy-sellbacks

I.13

Nominal amount in million euro

	Amount						% year-on-year change	
	2005	2006	2007	2008	2009	2010	09/08	10/09
Treasury Bills	**484,161**	**480,711**	**339,956**	**534,919**	**862,448**	**1,353,969**	**61.2**	**57**
Outright	82,515	64,164	35,894	63,959	83,501	88,029	30.6	5.4
Spot	82,389	63,694	35,868	63,915	81,441	87,984	27.4	8
Maturity	126	470	27	44	2,060	45	4,571.20	-97.8
Repos	411	0	0	0	0	0	–	–
Sell-buybacks/Buy-sellbacks	401,234	416,547	304,062	470,959	778,947	1,265,940	65.4	62.5
Bonds and Debentures	**7,260,528**	**7,062,437**	**7,142,097**	**6,459,838**	**6,519,727**	**6,917,190**	**0.9**	**6.1**
Outright	491,550	447,211	418,761	362,239	557,039	883,437	53.8	58.6
Spot	481,854	444,083	417,749	359,638	551,874	875,290	53.5	58.6
Maturity	9,696	3,128	1,012	2,602	5,165	8,146	98.5	57.7
Repos	69,327	96	0	0	0	0	–	–
Sell-buybacks/Buy-sellbacks	6,699,650	6,615,129	6,723,337	6,097,598	5,962,688	6,033,754	-2.2	1.2
Total	**7,744,688**	**7,543,148**	**7,482,053**	**6,994,757**	**7,382,175**	**8,271,159**	**5.5**	**12**

Source: Bank of Spain and CNMV.

Public debt trading by account holders and third parties. Outright transactions, repos and sell/buybacks and buy/sellbacks

I.14

Nominal amount in million euro

	Amount						% year-on-year change	
	2005	2006	2007	2008	2009	2010	09/08	10/09
Treasury Bills	**1,746,209**	**1,214,841**	**1,254,600**	**1,687,359**	**2,229,395**	**1,956,284**	**32.1**	**-12.3**
Outright	33,963	29,168	22,030	51,352	119,088	340,990	131.9	186.3
Spot	33,698	29,137	21,496	50,695	116,061	331,862	128.9	185.9
Maturity	265	31	534	657	3,027	9,128	360.8	201.6
Repos	1,709,341	1,185,339	1,230,166	1,635,437	2,107,507	1,594,756	28.9	-24.3
Sell-buybacks/Buy-sellbacks	2,905	334	2,404	570	2,800	20,538	391.3	633.4
Bonds and Debentures	**12,729,047**	**13,857,369**	**13,927,674**	**11,262,380**	**8,910,888**	**8,145,580**	**-20.9**	**-8.6**
Outright	2,040,064	2,690,033	2,994,352	1,989,753	1,860,227	3,465,536	-6.5	86.3
Spot	1,740,267	2,366,230	2,702,273	1,727,881	1,720,908	3,335,695	-0.4	93.8
Maturity	299,797	323,803	292,079	261,872	139,320	129,841	-46.8	-6.8
Repos	9,631,174	9,850,322	9,741,672	8,474,523	6,537,836	4,181,103	-22.9	-36
Sell-buybacks/Buy-sellbacks	1,057,808	1,317,014	1,191,650	798,104	512,825	498,941	-35.7	-2.7
Total	**14,475,256**	**15,072,210**	**15,182,274**	**12,949,739**	**11,140,284**	**10,101,864**	**-14**	**-9.3**

Source: Bank of Spain and CNMV.

Number of issuers and issues filed with the CNMV: detail by instrument

I.15

	Number of issuers[1]		Number of issues	
	2009	2010	2009	2010
Long term	**142**	**85**	**439**	**290**
Non-convertible bonds and debentures	50	39	244	154
of which, subordinated debt	19	5	23	8
Convertible bonds and debentures	3	2	6	3
Mortgage covered bonds	27	25	75	88
Territorial covered bonds	1	6	1	9
Securitisation bonds	68	36	76	36
asset-backed (ABS)	66	36	74	36
mortgage-backed (MBS)	2	0	2	0
Preference shares	23	0	37	0
Other	0	0	0	0
Short term[2]	**69**	**58**	**73**	**59**
Commercial paper	69	58	73	59
of which, asset-backed	2	2	2	2
Total	**168**	**115**	**512**	**349**

Source: CNMV. (1) In the case of the issuers, the totals do not necessarily coincide with the sum, given that the same issuer may issue various types of instruments. (2) Shelf registrations.

Main fixed-income issuers[1] registered with the CNMV in 2010

I.16

Nominal amount in million euro

	Nominal amount issued		
Name of issuing company	**Total**	**Short term[2]**	**Long term**
Caja de Ahorros y Pensiones de Barcelona	20,595	12,000	8,595
ICO Mediación II AyT, Fondo de Titulización de Activos	14,865	0	14,865
Banco Popular Español, S.A.	14,438	9,900	4,538
Caja de Ahorros y Monte de Piedad de Madrid	13,832	4,000	9,832
Bankinter, S.A.	10,656	7,000	3,656
BBVA Banco de Financiación, S.A.	10,000	10,000	0
Santander Consumer Finance, S.A.	10,000	10,000	0
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	9,772	6,000	3,772
Banco Bilbao Vizcaya Argentaria, S.A.	9,055	0	9,055
Banco de Sabadell, S.A.	8,950	5,000	3,950
Banesto Banco de Emisiones, S.A.	6,500	6,500	0
Foncaixa Hipotecario 11, Fondo de Titulización de Activos	6,500	0	6,500
Fondo de Titulización de Activos, Santander 2	6,000	6,000	0
Bankinter Sociedad de Financiación, S.A.	5,000	5,000	0
Banco Pastor, S.A.	4,940	3,000	1,940
Cédulas TDA 19, Fondo de Titulización de Activos	4,500	0	4,500
Cédulas TDA 20, Fondo de Titulización de Activos	4,100	0	4,100
Banca Cívica, S.A.	4,000	4,000	0
AyT Goya Hipotecario III, Fondo de Titulización de Activos	4,000	0	4,000

Source: CNMV. (1) Issuers that registered issues exceeding 4 billion euros in 2010. (2) Shelf registrations.

Main fixed-income issuers[1] registered with the CNMV in 2010. Detail by instrument

I.17

Million euro

Type of asset[2]	Issuer	Amount
Non-convertible bonds and debentures	Caja de Ahorros y Monte de Piedad de Madrid	6,533
	Caja de Ahorros y Pensiones de Barcelona	4,328
Mortgage covered bonds	Banco Bilbao Vizcaya Argentaria, S.A.	6,800
	Banco Popular Español, S.A.	4,538
	Caja de Ahorros y Pensiones de Barcelona	3,267
	Caja de Ahorros y Monte de Piedad de Madrid	2,724
	Banco de Sabadell, S.A.	2,650
	Bankinter, S.A.	2,350
	Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	2,350
	Banco Santander, S.A.	2,100
	Banco Pastor, S.A.	1,840
Territorial bonds	Banco Bilbao Vizcaya Argentaria, S.A.	2,000
	Dexia Sabadell, S.A.	1,700
Commercial paper[3]	Caja de Ahorros y Pensiones de Barcelona	12,000
	BBVA Banco de Financiación, S.A.	10,000
	Santander Consumer Finance, S.A.	10,000
	Banco Popular Español, S.A.	9,900
	Bankinter, S.A.	7,000
	Banesto Banco de Emisiones, S.A.	6,500
	Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	6,000
	Banco de Sabadell, S.A.	5,000
	Bankinter Sociedad de Financiación, S.A.	5,000
	Caja de Ahorros y Monte de Piedad de Madrid	4,000
	Banca Cívica, S.A.	4,000
	Banco Pastor, S.A.	3,000
	BBK Empréstitos, S.A.U.	3,000
	Iberdrola Financiación, S.A.	3,000
	Caixa d'Estalvis de Catalunya, Tarragona i Manresa	3,000
	Caja de Ahorros de Murcia	2,500
	Caja de Ahorros de Salamanca y Soria	2,250
	Caixa d'Estalvis de Catalunya	2,100
	Endesa Capital, S.A.	2,000
	Caixa de Aforros de Vigo, Ourense e Pontevedra, Caixanova	2,000
	Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén, Unicaja	2,000
	Caja de Ahorros y Monte de Piedad de Gipúzcoa y San Sebastián, Kutxa	1,500
	Caja de Ahorros y Monte de Piedad de Zaragoza, Aragón y La Rioja, Ibercaja	1,500
ABCP[3]	Fondo de Titulización de Activos, Santander 2	6,000

Source: CNMV. (1) Issuers which issued more than 1.5 billion euros in 2010 in the corresponding financial instrument. (2) Territorial covered bonds do not appear as no issuer issued more than 1.5 billion euros in these instruments. (3) Amount of shelf registrations.

Commercial paper issuers: largest outstanding balances[1] at 31 December 2010 I.18

Million euro

Issuer	Amount	% of total	% accum.
Banesto Banco de Emisiones, S.A.	4,789	19.3	19.3
Caja de Ahorros y Pensiones de Barcelona	3,014	12.2	31.5
Fondo de Titulización de Activos Santander 2	2,680	10.8	42.3
Bankinter Sociedad de Financiación, S.A.	2,200	8.9	51.2
Santander Consumer Finance, S.A.	1,769	7.1	58.4
Banco Sabadell, S.A.	1,237	5	63.3
Banco Popular Español, S.A.	996	4	67.4
Banco Pastor, S.A.	928	3.7	71.1
Bankinter, S.A.	732	3	74.1
BBK Empréstitos, S.A.U.	657	2.7	76.7
Banco Guipuzcoano, S.A.	539	2.2	78.9
Caixa d'Estalvis de Catalunya, Tarragona i Manresa	507	2	81

Source: CNMV. (1) Issuers with an outstanding balance greater than 500 million euros.

Main securitisation bond issuers[1] in 2010 I.19

Million euro

Issuer	Amount	Assets securitised
ICO Mediación II	14,865	Others
Foncaixa Hipotecario 11	6,500	Mortgage loans
Cédulas TDA 19	4,500	Mortgage covered bonds
Cédulas TDA 20	4,100	Mortgage covered bonds
AYT Goya Hipotecario III	4,000	Mortgage loans
Cédulas TDA 21	3,450	Mortgage covered bonds
Foncaixa Empresas 2	1,850	Corporate loans
Cédulas TDA 18	1,770	Mortgage covered bonds
BBVA Empresas 4	1,700	Corporate loans
Bankinter 20	1,650	Mortgage loans
Empresas Banesto 5	1,600	Corporate loans
IM Cédulas 15	1,600	Mortgage covered bonds

Source: CNMV. (1) Issuers with CNMV-registered issues of more than 1.5 billion euros in 2010.

Securitisation bonds, by type of asset securitised

I.20

Nominal amount in million euro

	2005	2006	2007	2008	2009	2010
Mortgage-backed securities (FTH)	**6,850**	**4,300**	**4,740**	**800**	**817**	**0**
Asset-backed securities (FTA)	**62,194**	**87,308**	**136,887**	**134,453**	**80,835**	**63,262**
Mortgage-backed FTA	**47,325**	**60,333**	**84,205**	**98,015**	**39,784**	**36,035**
Mortgage loans	22,314	34,663	57,550	63,615	24,706	18,425
Mortgage covered bonds	24,280	25,670	26,655	34,400	15,078	17,610
Real estate developer loans	730	0	0	0	0	0
FTA companies	**10,027**	**18,331**	**32,730**	**27,279**	**31,886**	**10,298**
SMEs[1]	1,250	2,979	2,485	1,350	1,010	990
FTPYME[1]	2,944	7,956	6,474	7,276	0	3,210
FTGENCAT[1]	2,177	1,860	2,020	3,391	1,356	0
Loans to companies[2]	3,100	5,536	19,250	10,500	25,762	5,350
Corporate loans[3]	556	0	0	1,682	2,158	748
Financial leases	0	0	2,500	3,080	1,600	0
FTA others	**4,843**	**8,643**	**19,953**	**9,159**	**9,165**	**16,929**
Subordinated debt	0	298	0	0	0	0
Treasury bonds	1,180	1,450	0	765	2,559	0
Government loans	0	0	0	0	0	0
Territorial covered bonds	665	0	0	450	965	0
Consumer loans	0	5,527	3,592	6,459	3,725	1,375
Auto loans	1,000	1,360	2,840	1,485	1,916	689
Accounts receivable	0	0	0	0	0	0
Rights to future loans	0	0	0	0	0	0
Asset-backed bonds	1,598	0	0	0	0	0
Other loans	400	8	13,521	0	0	14,865
Total asset-backed bonds	**69,044**	**91,608**	**141,627**	**135,253**	**81,651**	**63,262**
Total asset-backed commercial paper[4]	**2,767**	**1,993**	**465**	**2,843**	**4,758**	**5,057**
Total bonds and commercial paper	**71,811**	**93,600**	**142,092**	**138,096**	**86,410**	**68,319**
Note						
Mortgage subtotal	54,175	64,633	88,945	98,815	40,601	36,035

Source: CNMV. (1) Includes funds whose pools include almost all loans to SMEs. (2) Includes funds whose pools include loans to any type of business: self-employed, micro-enterprises, SMEs, and larger companies. (3) Includes funds whose pools are comprised only of loans to large companies. (4) Gross issues of asset-backed commercial paper programmes registered by the FTAs.

Proprietary trading on AIAF

I.21

Nominal amount in million euro

	2005	2006	2007	2008	2009	2010	% change 10/09
Commercial paper	28,474	41,916	41,243	84,841	129,828	98,683	-24
Bonds and debentures	249,375	155,960	231,942	1,606,100	3,635,802	3,519,895	-3.2
of which, asset-backed securities	219,722	130,624	205,044	1,570,686	3,426,089	2,702,632	-21.1
Mortgage covered bonds	5,651	7,071	14,572	84,033	210,273	205,835	-2.1
Territorial covered bonds	111	23	1,050	1,413	767	4,809	527.2
Matador bonds	2,363	2,915	1,363	0	16	0	-100
Total	**285,975**	**207,885**	**290,169**	**1,776,388**	**3,976,687**	**3,829,222**	**-3.7**

Source: CNMV.

Numbers, investors, assets and breakdown of variation in assets of securities and real estate mutual funds[1]

II.1

Million euro

	No. of funds		No. of investors		Assets: Amount	Assets: Total variation (%)	Assets: Change in assets due to subscriptions and net yield[2]			Pro-memoria: Distribution net subscriptions FI
Category	2010	Change	2010	Change	2010	Change	Amount	Net subscrip	Net yield	(%)
Fixed income[3]	537	-45	1,622,664	-418,823	56,615	-33.1	-27,085	-27,150	64	-105.5
Mixed fixed income[4]	160	-9	270,341	-19,810	7,319	-15.8	-1,471	-1,417	-54	-5.5
Mixed equity[5]	138	-27	171,336	-11,206	3,471	-10.6	-146	-90	-56	-0.3
Euro equity[6]	172	-10	266,395	-32,958	5,357	-15.3	-952	-697	-255	-2.7
Foreign equity[7]	232	-10	501,138	43,041	8,037	36.2	2,029	1,152	877	4.5
Guaranteed fixed-income	276	43	790,081	219,118	26,180	24.5	4,548	4,716	-168	18.3
Guaranteed equity[8]	499	-62	1,065,426	-122,878	22,047	-14.1	-2,894	-2,500	-394	-9.7
Global funds	192	5	105,720	17,383	4,440	14.6	447	324	124	1.3
Passive management[9]	61	-8	90,343	4,940	2,105	-34.6	-900	-790	-110	-3.1
Absolute return[9]	141	-5	277,445	6,679	8,348	14.3	979	872	107	3.4
Total mutual funds	**2,408**	**-128**	**5,160,889**	**-314,514**	**143,918**	**-15.6**	**-25,479**	**-25,615**	**136**	**-99.5**
FIICIL (Funds of hedge funds)	31	-6	4286	-918	501	-20.5	-79	-87	8	-0.3
Hedge funds	31	3	1,831	-59	629	-2.7	-16	-42	26	-0.2
Total securities funds	**2,470**	**-131**	**5,167,006**	**-315,491**	**145,048**	**-15.6**	**-25,575**	**-25,744**	**169**	**-100.0**
Real estate funds	**7**	**-1**	**75,280**	**-8,303**	**6,116**	**-5.4**	**-342**	**-35**	**-307**	–
Foreign UCITS[10]	**660**	**78**	**865,767**	**180,673**	**36,693**	**45.6**	–	–	–	–

Source: CNMV. (1) Funds which have sent reserved statements (therefore does not include funds in process of dissolution or liquidation). (2) For each category, the variation in assets is due to net subscriptions, net yields on assets and the net asset balance resulting from changes in investment policy. (3) Until 1Q09 includes: Short-term fixed income, Long-term fixed income, Foreign fixed income and Monetary fixed income. From 2Q09 includes: Euro fixed income, Foreign fixed income and Monetary fixed income. (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 (that now includes RVN). (7) Until 1Q09 includes: RVI Europe, RVI Japan, RVI USA, RVI Emerging Countries and RVI Others. From 2Q09: RVI. (8) Until 1Q09: GRV. From 2Q09: GRV and Partial Guarantee. (9) New categories from 2Q09. All absolute return funds were previously classified in Global Funds. (10) The row on foreign UCITS includes both companies and funds. The asset data for foreign UCITS refer to the volume of investment, i.e. the product of the number of shares and units marketed in Spain and their year-end value.

Fund portfolio as a percentage of the outstanding balance of Spanish securities II.2

%

	2006	2007	2008	2009	2010
Listed equities[1]	**4.1**	**3.8**	**2.8**	**2.4**	**2.2**
Private sector fixed income	**8.8**	**8.1**	**4.8**	**4.1**	**3.4**
Short term	40.2	38.1	28.4	31.3	16
Long term	4.5	3.6	2.5	2.8	3
Public sector fixed-income	**3.8**	**3.3**	**3.6**	**3.9**	**4.4**
Short term[2]	9	6.6	14.5	7.8	7.5
Long term	3.3	2.9	1.9	3.1	3.8

Source: CNMV and Bank of Spain. (1) Realisation value. The outstanding balance figures are the capitalisation of domestic securities in the electronic market, open outcry market and MAB. (2) Does not include temporary asset acquisitions.

Expenses charged to financial mutual funds II.3

% of average daily assets

	Management fees			Depository fees[1]		
	2008	2009[2]	2010	2008	2009[2]	2010
Total investment funds	**0.87**	**0.87**	**0.91**	**0.08**	**0.09**	**0.09**
Fixed income	0.58	0.63	0.65	0.08	0.08	0.08
Mixed fixed income	1.14	1.14	1.2	0.09	0.09	0.1
Mixed equity	1.54	1.58	1.65	0.11	0.1	0.12
Euro equity	1.6	1.75	1.78	0.1	0.1	0.11
Foreign equity	1.69	1.79	1.84	0.12	0.12	0.12
Guaranteed fixed-income	0.49	0.65	0.62	0.07	0.08	0.07
Guaranteed equity	1.29	1.26	1.24	0.11	0.11	0.1
Global funds	1.04	1.08	1.06	0.09	0.08	0.09
Passive management	–	–	0.72	–	–	0.07
Absolute return	–	–	1.06	–	–	0.08
FIICIL (Funds of hedge funds)	**1.63**	**1.34**	**1.37**	**0.11**	**0.1**	**0.13**
Hedge funds[3]	**2.5**	**2.45**	**2.13**	**0.16**	**0.1**	**0.13**

Source: CNMV. (1) In hedge funds, financing fees. (2) Does not include the fees of global funds and passive management funds as these profiles were introduced with Circular 1/2009, as from the second quarter of 2009. However, the information is used for the calculation of total fees of investment funds. (3) The fees shown are a percentage of the average monthly assets.

Yields and net subscriptions of mutual funds[1]

II.4

Yield (%) and net subscriptions (million euro)

	2006		2007		2008		2009		2010	
	Yield	Net subs.	Yield	Net subs.	Yield	Net subs.	Yield	Net subs.	Yield	Net subs.
Fixed income[2]	2	-9,423	2.7	-5,852	2.1	-22,333	1.9	-7,479	0.1	-27,150
Mixed fixed income[3]	4.2	1,539	2	-1,942	-7.1	-6,222	6.9	2,543	-0.5	-1,417
Mixed equity[4]	10.3	-855	2.8	-1,277	-22.2	-3,325	16.5	-461	-1	-90
Euro equity[5]	27.3	-4,058	6.1	-5,071	-39.8	-5,759	32.4	-274	-2.9	-697
Foreign equity[6]	13.2	2,972	1.3	-586	-41.7	-5,348	37.3	764	14.2	1,152
Guaranteed fixed-income	0.8	1,019	2.8	2,715	3.3	2,438	3.8	-3,249	-0.7	4,716
Guaranteed equity[7]	4.7	-3,021	2.5	-3,605	-2.6	-11,672	3.6	-5,402	-1.8	-2,500
Global funds	4	7,302	1.6	-6,259	-8.6	-15,181	10.9	206	3.2	324
Passive management[8]	–	–	–	–	–	–	–	-173	-2.4	-790
Absolute return[8]	–	–	–	–	–	–	–	822	1.5	872
Total securities funds	**5.6**	**-4,525**	**2.7**	**-21,878**	**-4.2**	**-67,402**	**5.7**	**-12,702**	**0.4**	**-25,615**
Funds of hedge funds	–	1	-1	1,006	-15.4	351	7.4	-401	1.5	-87
Hedge funds	–	–	2.2	378	-5.4	131	15.1	46	5.8	-42
Total funds	**5.6**	**-4,525**	**2.7**	**20,494**	**-4.3**	**-66,921**	**5.8**	**-13,057**	**0.4**	**-25,744**
FIAMM (money market)	**1.2**	**-3,878**	**2.1**	**-54,629**	**–**	**–**	**–**	**–**	**–**	**–**
Real estate funds	**5.4**	**1,808**	**6**	**1,673**	**1.6**	**-1,267**	**-8.3**	**-321**	**-4.7**	**-35**
Pro memoria: amount commercialised by Spanish firms and Spanish-resident foreign firms										
Foreign UCITS	–	11,770	–	6,435	–	-10,016	–	3,291	–	9,082

Source: CNMV. (1) Funds which have sent reserved statements (therefore does not include funds in process of dissolution or liquidation). (2) Until 1Q09 includes: Short-term fixed income, Long-term fixed income, Foreign fixed income and Monetary fixed income. From 2Q09 includes: Euro fixed income, Foreign fixed income and Monetary fixed income. (3) Until 1Q09 includes: Mixed fixed income and Foreign mixed fixed income. From 2Q09 includes: Euro mixed fixed income and Foreign mixed fixed income. (4) Until 1Q09 includes: Mixed equity and Foreign mixed equity. From 2Q09 includes: Euro mixed equity and Foreign mixed equity. (5) Until 1Q09 includes: Spanish equity and Euro equity. From 2Q09 includes Euro equity (that now includes Spanish equity). (6) Until 1Q09 includes: RVI Europe, RVI Japan, RVI USA, RVI Emerging Countries and RVI Others. From 2Q09: RVI. (7) Until 1Q09: GRV. From 2Q09: GRV and Partial Guarantee. (8) New categories from 2Q09. All absolute return funds were previously classified in Global Funds.

Foreign UCITS commercialised in Spain

II.5

	2009	2010	Var. (%)
Number of institutions	**582**	**660**	**13.4**
Number of investors	**685,094**	**865,767**	**26.4**
Volume of investment (million euro)	**25,207.20**	**36,692.90**	**45.6**
Distribution per country of origin:			
Austria	27	27	0
Belgium	5	5	0
France	178	225	26.4
Germany	17	20	17.6
Ireland	64	75	17.2
Luxembourg	275	290	5.5
Malta	1	1	0
Netherlands	1	1	0
UK	14	16	14.3

Source: CNMV.

UCITS operators (SGIIC): registrations and deregistrations in 2010

II.6

UCITS operators	Controlling group
Registrations	
Acacia Inversión, SGIIC, S.A.	Acacia Inversión
Merrill Lynch Gestión, SGIIC, S.A.	Merrill Lynch
Fineco Patrimonios, SGIIC, S.A.	Fineco
Lombard Odier Darier Hentsch Gestión (España), SGIIC, S.A.	Lombard Odier Darier Hentsch & Cie (España), SV, S.A.
Nmas1 Asset Management, SGIIC, S.A.	Nmas1
AMISTRA, SGIIC, S.A.	Amistra
Deregistrations	
Adepa, SGIIC, S.A.	Adepa
Fortis Gesbeta, SGIIC, S.A.	Banque Nationale De Paris, S.A.
Próxima Alfa Investments, SGIIC, S.A.	Banco Bilbao Vizcaya Argentaria, S.A.

Source: CNMV.

Foreign investment firms with community passport: Home Member State[1] II.7

	2009	2010
No. of firms operating in Spain		
Free provision of services	1,904	2,135
Branches	36	41

Breakdown according to origin		
Free provision of services		
Austria	25	25
Belgium	9	9
Bulgaria	1	2
Cyprus	15	29
Czech Republic	0	1
Denmark	11	14
Estonia	1	1
Finland	4	5
France	45	44
Germany	35	41
Gibraltar	1	1
Greece	8	8
Hungary	2	2
Ireland	46	50
Italy	5	6
Liechtenstein	3	5
Luxembourg	16	17
Malta	2	5
Netherlands	62	70
Norway	24	25
Portugal	8	8
Romania	1	0
Slovenia	1	1
Sweden	9	9
UK	1,570	1,757
Branches		
France	3	4
Germany	1	2
Luxembourg	2	2
Netherlands	1	2
Poland	1	1
Portugal	2	1
UK	26	28

Source: CNMV. (1) Countries stated in the notifications of investment firms from EU Member States and in authorisations of investment firms from non-EU countries.

Registrations and deregistrations of broker-dealers, brokers and portfolio management companies, financial consultancy firms and foreign investment firms with branches

II.8

Firm	Controlling group
Broker-dealers and brokers	
Registrations	
Activotrade Valores, AV, S.A.	Independent
Sextante Partners, AV, S.A.	Independent
Market For Treasury Securities Spain, AV, S.A.	Società per il Mercato dei Titoli di Stato, SPA
Key Capital Partners, AV, S.A.	Independent
Arcano Valores, AV, S.A.	Independent
Solventis, AV, S.A.	Independent
Corretaje e Información Monetaria y de Divisas, SV, S.A.	Various Spanish financial institutions
Gefonsa, SV, S.A.	Banco Caminos, S.A.
Deregistrations	
General de Valores y Cambios, SV, S.A.	Independent
Crédit Agricole Asset Managment, AV	Amundi, S.A. (antes Crédit Agricole Asset Management, S.A.)
Tactical Global Advisory, AV, S.A.	Caja de Ahorros de Castilla la Mancha
Market For Treasury Securities Spain, AV, S.A.	Società per il Mercato dei Titoli di Stato, SPA
Sarasín Alén, AV, S.A.	Rabobank, NV
Harcourt Investments, AV, S.A.	Vontobel Holding, AG
Sebroker Bolsa, AV	Independent
Ibersecurities, SV, S.A.	Banco Sabadell, S.A.
Sextante Partners, AV, S.A.	Independent
Iberian Equities, AV, S.A.	Independent
Acacia Inversión, AV	Independent
Corretaje e Información Monetaria y de Divisas, AV, S.A.	Various Spanish financial institutions
Gefonsa, AV, S.A.	Banco Caminos, S.A.
Portfolio management companies	
Deregistrations	
Amistra, SGC, S.A.	Independent
Solventis Gestión, SGC, S.A.	Independent
Kutxa Gestión Privada, SGC	Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián
Financial consultancy firms	
Registrations	
Summa Patrimonia, EAFI, S.L.	Independent
John Siska Goytre, EAFI	Independent (natural person)
Lorenzo Dávila Cano, EAFI	Independent (natural person)
Afs Finance Advisors, EAFI, S.L.	Independent
Ábaco Capital Investment, EAFI, S.L.	Independent
Essenzo, EAFI, S.L.	Independent
José Carlos López Moraleja, EAFI	Independent (natural person)
Ángel Ochoa Crespo, EAFI	Independent (natural person)
Alitan Inversiones, EAFI, S.L.	Independent
Profim, Asesores Patrimoniales, EAFI, S.L.	Independent
David Gasso Puchal, EAFI	Independent (natural person)

Registrations and deregistrations of broker-dealers, brokers and portfolio management companies, financial consultancy firms and foreign investment firms with branches *(continuation)*

II.8

Firm	Controlling group
Arcano Investment Advisors, EAFI, S.A.	Independent
Finanze Fénix Planificadores Financieros, EAFI, S.A.	Independent
Pedro Alonso Sosa, EAFI	Independent (natural person)
Santiago Arribas González, EAFI	Independent (natural person)
Antonio Bernabeu Bernabéu, EAFI	Independent (natural person)
Expert Timing Systems International, EAFI, S.A.	Independent
Eurocapital Wealth Management, EAFI, S.L.U.	Independent
Amorós Arbaiza Inversores, EAFI, S.L.	Independent
Capital Value Inversiones Globales, EAFI, S.L.	Independent
Alterarea EAFI, S.L.	Independent
Esferalia Capital, EAFI, S.L.	Independent
M&M Capital Markets, EAFI, S.L.	Independent
Ética Patrimonios, EAFI, S.L.	Independent
Neo Inversiones Financieras, EAFI, S.L.	Independent
Familia y Negocio Consultores EAFI, S.L.	Independent
Frederick E. Artesani	Independent (natural person)
Juan Manuel Vicente Casadevall	Independent (natural person)
Extravalor, EAFI, S.L.	Independent
Cetrix Estrategias Adaptadas, EAFI, S.L.	Independent
Aspain 11 Asesores Financieros, EAFI, S.L.	Independent
Gcapital Wealth Management, EAFI	Independent
Gesem Asesoramiento Financiero, EAFI, S.L.	Independent
Portocolom Asesores, EAFI, S.L.	Independent
Sport Global Consulting Investment, EAFI, S.L.	Independent
Miramar Capital Asesores, EAFI, S.L.	Independent
Foreign investment firms with branch	
Registrations	
Deltastock AD, Sucursal en España	Deltastock AD
Evolution Securities Limited, Sucursal en España	Evolution Group PLC
Exane S.A. Paris, Sucursal en España	Exane Group
FPP Asset Management, LLP, Sucursal en España	FPP Asset Management LLP
Hanseatic Brokerhouse Financial Services GMBH, Sucursal en España	Hanseatic Brokerhouse
ING Asset Management B.V., Sucursal en España	ING Group
International Asset Management Limited, Sucursal en España	International Asset Management Limited (IAM)
Rubicon Fund Management LLP, Sucursal en España	Rubicon Fund Management LLP
Tudor Capital Europe LLP, Sucursal en España	Tudor Capital Europe
Deregistrations	
Lehman Brothers International (Europe), Sucursal en España	Lehman Brothers International Europe
Adm Investor Services International Limited, Sucursal en España	Archer Daniels Midland
Fairfield Greenwich (UK) Limited, Sucursal en España	Fairfield Greenwich Group
Orey Valores Sociedade Corretora, S.A., Sucursal en España	Orey Valores Sociedade Corretora

Source: CNMV.

Changes of control at broker-dealers, brokers and portfolio management companies. 2010

II.9

Firm	Buyer
Acquisition of control by Spanish financial institutions	
Grupo Nordkapp	Banco de Valencia
Capital at Work	Independent
Nmas1	Grupo Nmas1, Grupo Syz&Co. y 3 Axis
Venture Finanzas	Grupo Mirabaud
Able & Baker	Independent
Finanduero	Caja España de Inversiones, Salamanca y Soria, Caja de Ahorros and Monte de Piedad
Acquisition of control by foreign financial institutions	
SGAM Iberia	Crédit Agricole, S.A.

Source: CNMV.

Spanish investment firms with community passport. Host Member State[1]

II.10

	2009	2010
Number of firms with cross-border transactions		
Free provision of services	36	37
Branches	3	3
Breakdown of Spanish investment firms providing cross-border services[2]		
Free provision of services		
Austria	6	8
Belgium	13	15
Bulgaria	0	2
Czech Republic	0	2
Denmark	5	8
Estonia	0	1
Finland	5	7
France	16	20
Germany	18	22
Greece	7	9
Iceland	3	3
Ireland	9	12
Italy	14	16
Liechtenstein	1	1
Lithuania	0	1
Luxembourg	12	15
Malta	1	3
Netherlands	13	16
Norway	3	3
Poland	0	2
Portugal	21	24
Romania	0	2
Slovak Republic	0	2
Slovenia	0	1
Sweden	6	9
UK	16	22
Branches		
Italy	1	1
Sweden	1	1
UK	1	1

Source: CNMV. (1) Countries stated in the notifications relating to free provision of services and in authorisations of branches. (2) Number of Spanish investment firms providing services in other countries. A single firm may provide services in more than one country.

Foreign credit institutions authorised to provide investment services in Spain at 31 December 2010. Home Member State

II.11

	2009	2010
Number of non-EU credit institutions providing investment services in Spain		
EU credit institutions		
Free provision of services	359	364
Subsidiaries of EU credit institutions under the free provision of services regime	1	1
Branches	53	53
Non-EU credit institutions		
Free provision of services	1	2
Branches	8	8
Breakdown by home state		
Free provision of services		
EU credit institutions		
Austria	29	30
Belgium	8	9
Cyprus	3	2
Denmark	9	9
Finland	6	6
France	47	47
Germany	39	41
Greece	1	1
Hungary	4	5
Iceland	1	1
Ireland	29	30
Italy	8	8
Liechtenstein	3	3
Luxembourg	48	47
Malta	5	6
Netherlands	26	26
Norway	3	3
Portugal	11	10
Sweden	5	5
UK	74	75
Non-EU credit institutions		
Switzerland	1	2
Subsidiaries of EU credit institutions under the free provision of services regime		
Ireland	1	1
Branches		
EU credit institutions		
Belgium	3	3
Denmark	1	1
France	12	11
Germany	5	6
Iceland	0	0
Ireland	3	3
Italy	2	2
Luxembourg	4	5
Netherlands	5	4
Portugal	8	8
Sweden	1	1
UK	9	9
Non-EU credit institutions		
Argentina	1	1
Brazil	1	1
Japan	1	1
Switzerland	1	1
United States	4	4

Source: Bank of Spain.

Statistical annexes III: regulation and supervision

Number of shareholders of Ibex 35[1] companies with significant shareholdings

III.1

	Shareholdings				
Emetities	3%-5%	5%-10%	10%-25%	25%-50%	50%-100%
Abengoa	–	–	–	–	1
Abertis	–	1	–	2[2]	–
Acciona	–	–	–	–	1
Acerinox	3	1	3	–	–
ACS	1	2	3	–	–
Arcelor Mittal	–	1	–	–	–
BBVA	2	1	–	–	–
Banco Sabadell	–	4	–	–	–
Banesto	–	–	–	–	1
Banco Popular	1	4	1	–	–
Banco Santander	2	–	–	–	–
Bankinter	–	1	2	–	–
BME	1	3	–	–	–
Criteria	–	–	–	–	1
Ebro Foods	–	4	1	–	–
Enagás	3	6	–	–	–
Endesa	–	–	–	–	1
Ferrovial	2	–	–	1	–
FCC	1	–	–	–	1
Gamesa	1	–	1	–	–
Gas Natural	–	–	–	–	1[3]
Gestevisión Telecinco	1	1	–	1	–
Grifols	–	4	1	–	–
Iberdrola Renovables	–	–	–	–	1
Iberdrola	–	2	1	–	–
Iberia[4]	2	1	2	–	–
Indra	–	3	3	–	–
Inditex	–	1	–	–	1
Mapfre	–	–	1	–	1
OHL	1	–	–	–	1
Red Eléctrica Corporación	4	–	1	–	–
Repsol YPF	1	–	2	–	–
Sacyr Vallehermoso	2	2	4[5]	–	–
Técnicas Reunidas	–	–	–	1	–
Telefónica	1	2	–	–	–
Total	**29**	**44**	**26**	**5**	**11**

Source: CNMV. (1) Composition of Ibex 35 as at the close of the financial year. (2) Agreed action between Trebol Holdings, S.A.R.L and ACS. (3) Agreed action between La Caixa and Repsol. (4) Iberia was taken over by IAG on 21/1/11. (5) Agreed action between Caixanova, Participaciones Agrupadas, S.A.R.L. and Unicaja.

Outcome of disciplinary proceedings in 2010

Reference	Resolutions
(1/10)	**Ministerial Order of 12 February 2010**
	A natural person was fined 100,000 and 80,000 euros respectively for committing the following very serious breaches: one of Section 99 r) of the Securities Market Act - inaccuracies in a takeover prospectus - and another of Section 99 p) of the Securities Market Act - failure to report significant shareholdings.
(2/10)	**Ministerial Order of 25 February 2010**
	Resolution of the disciplinary proceedings brought against a company and two natural persons for the alleged commission of a very serious breach of Section 99 o) of the Securities Market Act, in the case of one of the natural persons for transmitting insider information, and in the case of the company and the other natural person for use of said information. The company was fined 230,000 euros, and the natural persons were fined 210,000 and 170,000 euros respectively.
(3/10)	**Ministerial Order of 10 May 2010**
	Resolution, in relation to a very serious breach of Section 99 ñ) of the Securities Market Act for not having informed the CNMV of significant information, of the disciplinary proceedings brought against an issuer and two members of its Board of Directors. The company was fined 50,000 euros and each of the directors was fined 20,000 euros.
(4/10)	**Ministerial Order of 26 May 2010**
	Resolution of the disciplinary proceedings brought against two companies and four natural persons for the alleged commission of a very serious breach of Section 99 r) of the Securities Market Act - basic inaccuracies in takeover prospectus which impede its authorisation. The companies were fined an overall amount of 500,000 euros and each natural person was fined 125,000 euros.
(5/10)	**Resolution of the Board of the CNMV of 14 June 2010**
	Resolution of the disciplinary proceedings brought against a venture capital firm management company for the alleged commission of a serious breach of the Venture Capital Firms Act for not providing the CNMV with financial statements. It was fined 2,500 euros.
(6/10)	**Resolution of the Board of the CNMV of 14 June 2010**
	Resolution of the disciplinary proceedings brought against a venture capital firm management company for the alleged commission of a serious breach of the Venture Capital Firms Act for not providing the CNMV with an auditors' report. It was fined 1,500 euros.
(7/10)	**Resolution of the Board of the CNMV of 14 June 2010**
	Resolution of the disciplinary proceedings brought against a venture capital firm for the alleged commission of a serious breach of the Venture Capital Firms Act for not providing the CNMV with an auditors' report. A ruling of no liability was given.
(8/10)	**Resolution of the Board of the CNMV of 14 June 2010**
	Resolution of the disciplinary proceedings brought against a venture capital firm for the alleged commission of a serious breach of the Venture Capital Firms Act for not providing the CNMV with financial statements. It was fined 1,500 euros.
(9/10)	**Resolution of the Board of the CNMV of 14 June 2010**
	Resolution of the disciplinary proceedings brought against a venture capital firm for the alleged commission of a serious breach of the Venture Capital Firms Act for not providing the CNMV with financial statements. It was fined 1,500 euros.
(10/10)	**Resolution of the Board of the CNMV of 7 July 2010**
	Resolution of the disciplinary proceedings brought against a venture capital firm for the alleged commission of a serious breach of the Venture Capital Firms Act for not providing the CNMV with financial statements. A minor breach was ruled to have been committed and a fine of 1,000 euros imposed.
(11/10)	**Resolution of the Board of the CNMV of 7 July 2010**
	Resolution of the disciplinary proceedings brought against a venture capital firm for the alleged commission of a serious breach of the Venture Capital Firms Act for not providing the CNMV with financial statements. It was fined 1,500 euros.
(12/10)	**Resolution of the Board of the CNMV of 7 July 2010**
	Resolution of the disciplinary proceedings brought against a venture capital firm for the alleged commission of a serious breach of the Venture Capital Firms Act for not providing the CNMV with financial statements or an auditors' report. It was fined 2,500 euros.
(13/10)	**Ministerial Order of 26 July 2010**
	Resolution of the disciplinary proceedings brought against a credit institution for the alleged commission of a very serious breach of Section 99 u) of the Securities Market Act, for failure to comply with the regime on significant holdings in relation to the management company of a Spanish official secondary market. It was fined 60,000 euros.

Outcome of disciplinary proceedings in 2010 *(continuation)*

(14/10)	**Ministerial Order of 26 August 2010**
	Resolution of the disciplinary proceedings brought against an issuer for the alleged commission of a very serious breach of Section 99 m) of the Securities Market Act, for a delay in providing the CNMV with the annual financial report. It was fined 15,000 euros.
(15/10)	**Resolution of the Board of the CNMV of 22 September 2010**
	Resolution of the disciplinary proceedings brought against a SICAV (open-end investment company) and its Board of Directors for the alleged commission of a serious breach of Section 81 a) of the UCITS Act for a delay in providing the CNMV with its annual accounts and auditors' report. The SICAV and one of its directors were fined 2,000 euros.
(16/10)	**Ministerial Order of 11 October 2010**
	Resolution of the disciplinary proceedings brought against an issuer and the members of its Board of Directors for the alleged commission of a very serious breach of Section 99 m) of the Securities Market Act, for a delay in providing the CNMV with the annual financial report. The company was fined 15,000 euros and each of the directors was fined 6,000 euros.
(17/10)	**Resolution of the Board of the CNMV of 14 October 2010**
	Resolution of the disciplinary proceedings brought against a venture capital firm for the alleged commission of a minor breach of the Venture Capital Firms Act for not providing the CNMV with financial statements. It was fined 1,000 euros.
(18/10)	**Ministerial Order of 2 November 2010**
	Resolution of the disciplinary proceedings brought against an investment services firm and its chairperson and Chief Executive Officer for the alleged commission of a very serious breach of Section 99 e) bis of the Securities Market Act, for defects in its administrative and accounting organisation and internal control procedures. The investment services firm was fined 150,000 euros, and its chairperson was suspended from holding office for a total of five years.
(19/10)	**Ministerial Order of 15 November 2010**
	Resolution of the disciplinary proceedings brought against an issuer and the members of its Board of Directors for the alleged commission of a very serious breach of Section 99 m) of the Securities Market Act, for a delay in providing the CNMV with the annual financial report. The company was fined 15,000 euros and each of the directors was fined 3,000 euros.
(20/10)	**Resolution of the Board of the CNMV of 18 November 2010**
	Resolution of the disciplinary proceedings brought against a SICAV (open-end investment company) and its Board of Directors for the alleged commission of a serious breach of Section 81 a) of the UCITS Act for delay in providing the CNMV with its annual accounts and auditors' report. The SICAV and each one of its directors were fined 2,000 euros.
(21/10)	**Resolution of the Board of the CNMV of 18 November 2010**
	Resolution, in relation to a serious breach of Section 100 t) of the Securities Market Act for failure to comply with rules of conduct, of the disciplinary proceedings brought against an investment services firm and its chairperson. The investment services firm was fined 15,000 euros and its chairperson was fined 7,500 euros.
(22/10)	**Resolution of the Board of the CNMV of 21 December 2010**
	Resolution of the disciplinary proceedings brought against all the members of the Board of Directors of an issuer for a breach of Section 89 of the Public Limited Companies Act for financial assistance in the sale of own shares. Eight of the ten directors were fined 10,000 euros each.
(23/10)	**Resolution of the Board of the CNMV of 21 December 2010**
	Resolution of the disciplinary proceedings brought against a SICAV (open-end investment company) and its Board of Directors for the alleged commission of a serious breach of Section 81 a) of the UCITS Act for a delay in providing the CNMV with its annual accounts and auditors' report. The SICAV was found to have committed a minor breach and was fined 1,000 euros.
(24/10)	**Ministerial Order of 27 December 2010**
	Resolution of the disciplinary proceedings brought against a company and a natural person for the alleged commission of three very serious breaches - two of them by the company, and a third by the natural person - of Section 99 p) of the Securities Market Act for failure to comply with the reporting requirements for significant shareholdings. The company was fined 12,000 and 6,000 euros, and the natural person was fined 6,000 euros.

List of rulings on contentious-administrative appeals against penalties in 2010

III.3

No.	Date	Tribunal	Appeal no.	Ruling appealed
1	30/03/2010	National High Court	290/2009	Order MEH 29/05/2009
Partially finds in favour of the appeal lodged against the Ministry of Economy and Finance of 29 May 2009, which in turn upholds on appeal the ruling of the Board of the CNMV of 18 March 2009 on the imposition of a fine for a serious breach of Section 100 x) ter of the Securities Market, reducing the amount of the penalty imposed.				
2	11/05/2010	Supreme Court	220/2005	Ruling AN17/07/2008
Rules against the appeal in the interest of the law lodged by the Central Government against the National High Court Ruling of 17 July 2008 which overturned the penalty imposed by Order of the Ministry of Economy and Finance of 14 February 2005 for a very serious breach of Section 99 l) of the Securities Market Act.				
3	25/05/2010	National High Court	398/2009	Order MEH 06/05/2009
Upholds the appeal lodged against the Ministry of Economy and Finance Ruling of 6 May 2009, upholding the Order from the same Ministry of 18 July 2008, on the imposition of a penalty for a very serious breach of Section 99 ñ) of the Securities Market Act, cancelling the penalty imposed.				
4	16/06/2010	Supreme Court	138/2004	Ruling AN02/03/2006
Rules against the appeal lodged against the National High Court Ruling of 2 March 2006, which upholds the penalty imposed - in relation to the serious breach of Section 100 g) of the Securities Market Act - for the ruling of the Board of the CNMV of 26 July 2002, in turn upheld by the Ministry of Economy and Finance Ruling of 30 January 2004.				
5	08/07/2010	Supreme Court	229/2007	Ruling AN23/03/2009
Upholds the appeal - doctrinal unification - lodged by the Central Government against the National High Court Ruling of 23 September 2009, which cancelled the penalties imposed for very serious breaches of Section 99 e) of the Securities Market Act by Order of the Ministry of Economy and Finance of 29 January 2007, which was in turn upheld by a ruling of the same Ministry on 24 April 2007, upholding the aforementioned National High Court Ruling and confirming the penalties.				
6	20/09/2010	National High Court	635/2009	Order MEH 07/07/2009
Upholds the penalty imposed by the Ministry of Economy and Finance Order dated 22 April 2008 for a very serious breach of article 99 p) of the Securities Market Act., in turn upheld by a ruling from the same Ministry, dated 7 July 2009.				
7	03/11/2010	National High Court	222/2008	Order MEH 02/04/2008
Partially upholds the appeal lodged against the Ministry of Economy and Finance Ruling of 2 April 2008, upholding the Ruling from the same Ministry, dated 24 January 2008, on the imposition of penalties for a very serious breach of Section 99 q) of the Securities Market Act, reducing the amount of the penalties imposed.				
8	23/11/2010	National High Court	596/2009	Order MEH 02/07/2009
Upholds the penalty imposed by Resolution of the Board of the CNMV of 18 March 2009, upholding an appeal by the Ministry of Economy and Finance Ruling of 2 July 2009, for a serious breach of Section 100 j) of the Securities Market Act.				

Source: CNMV.

Public warnings in respect of non-registered entities

Date	Company to which the warning relates	Regulator / Supervisor
Warnings from the CNMV regarding non-authorised entities		
11/01/2010	DIVIDIUM CAPITAL, S.L.	CNMV
11/01/2010	AFFIRMO GRUPO INVERSOR, S.L.	CNMV
01/02/2010	EL TORO CONSULT, S.L.	CNMV
18/10/2010	FIB TRADING, S.L. WWW.FIB-TRADING.ES	CNMV
18/10/2010	WINDSOR EXCHANGE WWW.WINDSOREXCHANGE.EU.COM	CNMV
08/11/2010	CONSULTRADING SOLUTIONS GROUP WWW.CFDIVISAS.COM WWW.HISPATRADERS.COM	CNMV
08/11/2010	FOREX GLOBAL FX WWW.FOREXGLOBALFX.COM	CNMV
22/11/2010	CLUB DE INVERSIÓN DE ALTO RENDIMIENTO (CIAR) CIAR INVESTMENT CORP.	CNMV
22/11/2010	BLUESTAR MANAGEMENT	CNMV
27/12/2010	TRAMITA FUNDS	CNMV
Public warnings forwarded to the CNMV by foreign regulators / supervisors		
13/01/2010	BERGUES INVEST WWW.BERGUESINVEST.COM TRENT CONSULTANTS HTTP://WWW.TRENT-CONSULTANTS.COM WAVERLY M & A WWW.WAVERLYMA.COM GOLDEN GLOBAL INVESTMENT LIMITED WWW.GOLDEN-FINANCE.COM	SFC - HONG KONG
13/01/2010	APEX GLOBAL PLATINUM INC. WWW.APEXGLOBAL.ORG AGP ONLINE WORLDWIDE WWW.APEXGLOBAL.ORG	FSC - ISLE OF MAN
13/01/2010	RAISINO HOLDINGS HTTP://WWW.REVENTON-SLOVENIA.COM PARTNERS INVESTMENT NETWORK LIMITED HTTP://PARTNERSINVESTMENTNETWORK.COM/	SSMA - SLOVENIA
13/01/2010	ORACLE EQUITY MANAGEMENT WWW.ORACLEEM.COM	CBFA - BELGIUM
13/01/2010	NICK2NICK (ASSOCIATION) «BANKLESS-LIFE» WWW.BANKLESS-LIFE.AT WWW.NICK2NICK.AT	FMA - AUSTRIA
13/01/2010	REINCARNATION BANK WWW.REINCARNATIONBANK.COM	GFSC - GIBRALTAR
20/01/2010	DENKO GROUP WWW.DENKOGROUP.COM SOLE INVEST GMBH WWW.DUBAI-CAPITAL.COM KSP BANK	FMA - AUSTRIA

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor
20/01/2010	ASSET INTERNATIONAL LIMITED HTTP://ASSET-INTERNATIONAL.ORG.UK DOUGLAS ELLIS INC WWW.DOUGLAS-ELLIS.COM	FSC - ISLE OF MAN
27/01/2010	SCHMID IMMOBILIEN LTD. (“KAPITAL24”; “DARLEHEN24”) WWW.DARLEHEN24.ORG WWW.KAPITAL24.ORG WWW.DARLEHEN24.BIZ CMP GLOBAL CONSULTING LTD.	FMA - AUSTRIA
27/01/2010	EQUITIES EUROPE OLTA CAPITAL MANAGEMENT INC.	IFSRA - IRELAND
27/01/2010	SCHAPIRO GLOBAL INC. WWW.SCHAPIROGLOBAL.COM	SFSA - SWEDEN
27/01/2010	CAPITAL INVESTORS, SA CAPITAL INVESTORS ASSET MANAGEMENT AG	HCMC - GREECE
03/02/2010	CHARTMORE INTERNATIONAL CROWN ALPHA LIMITED EURO PACIFIC TRADE RYER LIMITED SHIN FUTURES WWW.SHINFUTURES.COM	SFC - HONG KONG
03/02/2010	WESTERN PACIFIC ADVISORS, INC. (WESTPAC, INC.) WWW.WESTPACIFICADVISORS.COM KAWWII INTERNATIONAL GROUP WWW.KAWWII.COM	SFSA - SWEDEN
03/02/2010	ALLIANCE BANK	CBFA - BELGIUM
03/02/2010	TRADERS INTERNATIONAL RETURN NETWORK (TIRN) WWW.TIRN.ES	AMF - FRANCE
10/02/2010	OCEAN OIL AND GAS LIMITED WWW.OCEANOILNGAS.COM	FSC - ISLE OF MAN
17/02/2010	CREDIT FOR YOU LIMITED	FMA - AUSTRIA
17/02/2010	ASIA-PACIFIC FINANCE AND INVESTMENT WWW.ASIA-PACIFIC.HK.CN PELL FUTURES WWW.PELL-FUTURES.COM CARGHILL WRIGHT AND ASSOCIATES WWW.CARGHILLWRIGHT.COM EDENBRIDGE INTERNATIONAL LIMITED PEARLGATE INTERNATIONAL LIMITED THE CAPTRUST GROUP WWW.CAPTRUSTGROUP.COM WWW.FRKLIN.COM WWW.FRKLIN.NET WWW.FRKLIN.ORG	SFC - HONG KONG
24/02/2010	WALLSTREET FINANCIAL WWW.WALLSTREETFIN.COM ST JAMES PARTNERS WWW.SJASSETMANAGEMENT.CO.UK MACMILLAN FINE INTERNATIONAL WWW.MACMILLANFINE.COM	SFSA - SWEDEN

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor
24/02/2010	MITCHELL FINCH INTERNATIONAL HTTP://WWW.MITCHELLFINCH.COM	DFSA - DENMARK
24/02/2010	BLANC & BAUMAR WWW.BLANCANDBAUMAR.COM INVESTEX WWW.INVESTEXFUNDS.COM FINANCIAL MARKET AUTHORITY OF HONG KONG WWW.FMAHK.ORG	SFC - HONG KONG
24/02/2010	CAPITAL INVESTORS, SA OLTA CAPITAL MANAGEMENT INC.	CSSF - LUXEMBOURG
03/03/2010	PELL FUTURES WWW.PELL-FUTURES.COM WARWICK VENTURES WWW.WARWICKVC.COM	CBFA - BELGIUM
03/03/2010	GLOBAL INTERNATIONAL TRADING	AMF - FRANCE
03/03/2010	DAI-ICHI SECURITIES WWW.DAI-ICHI-SECURITIES.COM	DFSA - DENMARK
10/03/2010	DAWSON & FIELDING INC. WWW.DAWSONFIELDING.COM	SFSA - SWEDEN
10/03/2010	RESERVER BANK PLC WWW.RSVBONLINE.COM	FSC - ISLE OF MAN
10/03/2010	WILLIAM SMITH PARTNERS WWW.WILLIAMSMITHPARTNERS.COM	JFSC - JERSEY
17/03/2010	VENTURE ALLIANCE PARTNERS (VENPAR) WWW.VENPAR.COM	CBFA - BELGIUM
17/03/2010	FXT FINANCIAL CORP.	CONAVAL - PANAMA
31/03/2010	EBANK24 CORPORATION WWW.EBANK24.COM BEST EURO CREDIT HTTP://BESTEUROCREDIT.COM	FMA - AUSTRIA
31/03/2010	OVANNIS CAPITAL WWW.OVANNISCAPITAL.COM	DFSA - DENMARK
31/03/2010	BANK OF FAMILY WWW.BANKOFFAMILY.COM	JFSC - JERSEY
07/04/2010	BERGSTEIN FINANCIAL WWW.BERGSTEINFINANCIAL.COM DIGITS FINANCIAL HONG KONG COMPANY WWW.DIGITSFINANCIAL-HK.COM E-TRADER LIMITED BEIJING SECURITIES WWW.BEIJINGSECURITIES.COM.CN CHINA MERCANTILE EXCHANGE WWW.CNMEX.COM COVAST LIMITED EQUIASIA GROUP LIMITED WWW.EQUIASIAGROUP.NET MONETARY AUTHORITY OF CHINA PACIFIC GLOBAL ADVISORS CO., LIMITED WWW.PACIFICGLOBALADVISORS.COM SCHAPIRO GLOBAL INC.	SFC - HONG KONG

Date	Company to which the warning relates	Regulator / Supervisor
07/04/2010	WWW.SCHAPIROGLOBAL.COM TRANSFER SERVICES LTD WWW.TRANSFERSLIMITED.COM FRONT FUTURES WWW.FRONTFUTURES.COM	SFC - HONG KONG
14/04/2010	CAPITAL MARKETS ADVISORY WWW.CAPITALMARKETSADVISORY.COM	JFSC - JERSEY
14/04/2010	ASIA AUCTION INC. CHEER FORTUNE INTERNAT. INVESTMENT MANAGEMENT COMPANY LTD. WWW.CHEERFO.HK FAMEX FINANCIAL WWW.FAMEXFINANCIAL.COM FXMETATRADER JAPAN COMPANY LIMITED WWW.FXMETATRADER.NET FKL INVESTMENTS WWW.FKLTZ.COM MARKETS CENTRAL WWW.MARKETCENTRAL.NET MY FX STAR WWW.MYFXSTAR.NET REICH GLOBAL LTD SUNRISE FUTURES LLC WWW.SUNRISE-FUTURES.COM	SFC - HONG KONG
14/04/2010	GENIUS FUNDS	BCSC - CANADA
21/04/2010	PAYPAY S.A.R.L.	CSSF - LUXEMBOURG
21/04/2010	AVIVA CAPITAL HTTP://WWW.AVIVA-CAPITAL.COM	FSAN - NORWAY
21/04/2010	KAIROS GROUP S.R.O. WWW.KGAP.EU WWW.THEKAIROSGROUP.COM WWW.KGRF.EU	FMA - AUSTRIA
21/04/2010	FIRST FREE BANK - FOREX INVESTMENT BROKERS HTTP://WWW.FIRSTFREEBANK.COM/ SIMRAY ASA (MY PRIVATE TRADE) HTTP://WWW.MYPRIVATETRADE.COM/ WORLDWIDE FORSTOCK LTD (E-THOREX) HTTP://WWW.E-THOREX.COM/ WWI GROUP CORP HTTP://WWW.WWICORPORATION.COM/	SSMA - SLOVENIA
21/04/2010	WEST RIDGE LIMITED WWW.WESTRIDGELIMITED.COM VAN BROEKE CONSULTANCY GROUP WWW.VANBROEKECONSULTANCYGROUP.COM ENGLEFIELD CAPITAL WWW.ENGLEFIELDCAPITAL.NET	CBFA - BELGIUM
28/04/2010	BANK OF FAMILY HTTP://BANKOFFAMILY.COM HTTP://WWW.ALLIANCE-LISBK.CO.CC/ LORD MAURICE NELSON MRS VANESSA HAMINGTON	FSC - ISLE OF MAN
28/04/2010	MR A. G. DE VOS	AFM - NETHERLANDS (HOLLAND)

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor
28/04/2010	JORDAN & COLE INVESTMENTS LTD LONDON MCFEE INVESTMENT PARKER FORRESTER	IFSRA - IRELAND
28/04/2010	THE ALTERNATIVE INVESTMENT GROUP	GFSC - GIBRALTAR
28/04/2010	CROWN WEALTH INTERNATIONAL WWW.CROWNWEALTHINTERNATIONAL.COM FAITHWAY LIMITED FUTURE INDEX WWW.FINDEX8.COM HKOFX HONG KONG & NEW TERRITORIES FUTURES BOARD WWW.HKTFB.COM LEVIN MAYER WWW.LEVIN-MAYER.COM NEW TIMES CAPITAL (HK) LTD WWW.NEWTIMES-CAPITAL.COM NEWTON INTERNATIONAL LIMITED WWW.NEWTONFX.COM SHANGHAI MERCANTILE EXCHANGE WWW.SHMEX.ORG FAMEX FINANCIAL WWW.FAMEXFINANCIAL.COM LOGICAL CLEARING LIMITED MARKETS CENTRAL WWW.MARKETCENTRAL.NET MY FX STAR WWW.MYFXSTAR.NET	SFC - HONG KONG
28/04/2010	QOPPA PLACE FUNDS CONSULTING CORP. WWW.QOPPA.US GOLDBERG & ASSOCIATE WWW.GOLDBERG-NEWYORK.COM	FMA - AUSTRIA
28/04/2010	SAKURA FINANCIAL GROUP WWW.SAKURAFINANCIALGROUP.COM	DFSA - DENMARK
05/05/2010	MELQU INVEST HB WWW.MELQUINVEST.COM FINANCIAL RESEARCH ADVISORS WWW.FINRE-ADVISORS.COM	SFSA - SWEDEN
05/05/2010	GARANT PARTNERS JESUP & LAMONT WWW.JESUPLAMONT.COM JAM CAPITAL WWW.JAM-CAPITAL.COM MARSHALL BROWNING WWW.MARSHALLBROWNING.COM	FSA - UK
05/05/2010	RANTAU SIMFONI SDN BHD	SCM - MALAYSIA
19/05/2010	QU4DTRO CAPITAL INTERNATIONAL (UK) LIMITED GEORGE EDWARD LOCKHART	JFSC - JERSEY
19/05/2010	CAPITAL PARTNERS, A.S.	HCMC - GREECE
19/05/2010	GLOBAL ENERGY OPPORTUNITIES WWW.GLOBALENERGYOPPORTUNITIES.COM	SFSA - SWEDEN

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor
19/05/2010	WINDSOR (INTERNATIONAL) LIMITED/"WINDSOR EXCHANGE"	GFSC - GIBRALTAR
19/05/2010	G8 INVESTIMENTOS / G8 INVEST LTDA. WWW.G8INVESTIMENTOS.COM	CONAVAL - PANAMA
19/05/2010	INTELLISOURCE MARKETS B.V. (IS MARKETS) WWW.ISMARKETS.COM ORION ADVISORY SERVICES, S.A. WWW.ORIONFX.NET DAWSON & FIELDING INC. WWW.DAWSONFIELDING.COM	BCSC - CANADA
19/05/2010	INEZ SWIJSEN ORIENTAL CONSOLIDATORS WWW.ORIENTALCONSOLIDATORS.COM	CBFA - BELGIUM
19/05/2010	CHATEX LTD POWER POINT CAPITAL WWW.POWERPOINTCAPITAL.COM POWER POINT INTERNATIONAL LTD PRIME INTERNATIONAL TRADING LTD. WWW.PRIME-COMMODITIES.COM	SFC - HONG KONG
19/05/2010	SARADUNIA INVESTMENTS (L) LTD ROYAL PACIFIC INVESTMENT (LABUAN) LTD ASIA BANCORP (L) LTD ASIA BANCORP BHD SARADUNIA CAPITAL SDN. BHD. NUR CAHAYA ILHAM CONSULTANT MATRIK UNGGUL SDN. BHD.	LABUAN-FSA - MALAYSIA
26/05/2010	CROWN WEALTH INTERNATIONAL WWW.CROWNWEALTHINTERNATIONAL.COM HONG KONG OPTIONS AND FUTURES EXCHANGE (HKOFX) WWW.HKOFX.COM GLOBAL OPTION SOLUTIONS WWW.GLOBALOPTIONSOLUTIONS.COM INTERNATIONAL TRADE OVERSIGHT COMMITTEE WWW.INTL-TRADEOC.COM LANCE GLOBAL SOLUTIONS NORTHCOTT STERLING XAVIER ASSOCIATES WESTLINE M&A WWW.WESTLINEMA.COM	SFC - HONG KONG
26/05/2010	SAKURA FINANCIAL GROUP WWW.SAKURAFINANCIALGROUP.COM	FSAN - NORWAY
02/06/2010	DRAGON PARTNERS INC. AND PLATINUM GROUP INTERNATIONAL WWW.DRAGONPTSCN.COM	CBFA - BELGIUM
02/06/2010	COMMERCIAL FIRST TRADING CORPORATION WWW.COMMERCIALFIRSTTRADING.COM JOSEPH COOKE LTD. WWW.JBCOOKE.COM TITAN TRADING GROUP WWW.TITANTRADINGGROUP.COM CAPITAL SECURITIES INTERNATIONAL WWW.CAPSECINTERNATIONAL.COM	SFSA - SWEDEN

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor
09/06/2010	GENIUS FUNDS WWW.GENIUSFUNDS.COM	AMF - FRANCE
09/06/2010	SAKURA FINANCIAL GROUP WWW.SAKURAFINANCIALGROUP.COM PAYPAY INC. HTTP://WWW.PAYPAYINC.COM PAYPAY S.A.R.L. HTTP://WWW.PAYPAYINC.COM WORLDCLEARING HOLDING INC. (PAYPAY) HTTP://WWW.PAYPAY.COM HTTP://WWW.WORLDCLEARING.COM/	FMA - AUSTRIA
09/06/2010	I-INVESTORCLUB LTD. WWW.I-INVESTORCLUB.COM/ COMPLETE COMMODITY TRADING WWW.COMPLETECOMMODITY.COM	FSAN - NORWAY
16/06/2010	CENTER CAPITAL TRADING HTTP://CENTERCAPITALTRADING.COM CYBERSL WWW.CYBERSL.COM HONG KONG GOLD EXCHANGE HTTP://WWW.HKGOLDGE.COM HONG KONG INTERNATIONAL PETROLEUM EXCHANGE HTTP://WWW.HKPEX.COM SEKULIC DRAGON WWW.SEKULICDRAGON.COM SHIN FUTURES WWW.SHINFUTURES.COM THE HONG KONG FUTURES & OPTIONS EXCHANGE (THE HKFOE) WWW.HKFOE.COM	SFC - HONG KONG
16/06/2010	MITSCHKA ALTERNATIVE ADVISORY WWW.MITSCHKA-ADVISORY.COM	FMA - AUSTRIA
16/06/2010	WILTON INVESTMENT GROUP WWW.WILTONIG.COM TORTOLA CAPITAL WWW.TORTOLACAPITAL.COM VENTURE ASSOCIATES WWW.VENTUREASSOC.COM	CBFA - BELGIUM
23/06/2010	MORGAN FRANKLIN INVESTMENT INC. HTTP://WWW.MGFII.COM MADDEN GROUP INC. HTTP://WWW.MADDENGROUPINC.COM/ GLOBAL CAPITAL GROUP HTTP://WWW.GCGCO.COM/ APEX INVESTMENT CORPORATION HTTP://WWW.APEXINVESTMENTSCORPORATION.COM CAMERON POE & ASSOCIATES INC. HTTP://WWW.CAMERONPOE.COM/	DFSA - DENMARK
07/07/2010	FOX GLOBAL WWW.FOXGLOBAL.BIZ WWW.GSCL.HK	SFC - HONG KONG
07/07/2010	BORSA FINANCIAL NEW CENTURY CAPITAL	IFSRA - IRELAND

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor
07/07/2010	VITAURIUM INVESTMENT GROUP LIMITED HTTP://WWW.VIGINVEST.COM/	SSMA - SLOVENIA
07/07/2010	ORION ADVISORY SERVICES, S.A. WWW.ORIONFX.NET	BCSC - CANADA
07/07/2010	BERKLEY ASSURITY LIMITED STEVEN HARRISON DAVID DUKE MARY WALTER LUKE LAWSON MARK WILLIAMS CELTIC INVESTMENT BANK JOHNSON MIRCH	FSC - ISLE OF MAN
14/07/2010	RED DRAGON FINANCIAL CLAYTON & PHELPS WWW.CLAYTONANDPHELPS.COM PENDLETON AND ASSOCIATES WWW.PENDLETONANDASSOCIATES.COM MARCUS JONES INTERNATIONAL WWW.MARCUSJONESINTL.COM	FSA - UK
14/07/2010	PK CONSULTANTS USA, INC. WWW.PKCONSULTANTSUSA.COM	HCMC - GREECE
14/07/2010	CAPITALIUM EUROPE SA CAPITALIUM CONSULT SCRL	CBFA - BELGIUM
14/07/2010	SMITH AND DALTON M&A HTTP://SMITHDALTON.COM/	DFSA - DENMARK
21/07/2010	REDBRIDGE ASSOCIATES WWW.REDBRIGEASSOCIATES.COM SWISS EQUITY INVESTMENT WWW.SWISSEQUITYINVESTMENT.COM HAMILTON DAVIS CORPORATION CHURCHILL ADVISORY WWW.CHURCHILLADVISORY.COM UNIVERSAL CONSOLIDATED WWW.UNIVERSALCSLD.COM PRICE AND STONE MERGERS AND ACQUISITIONS WWW.PRICEANDSTONEMA.COM CAMERON POE & ASSOCIATES WWW.CAMERONPOE.COM GS GLOBAL ASSET MANAGEMENT LLC WWW.GSGAMGT.COM SELECT AMERICAN TRANSFER CO. GCI INTERNATIONAL WWW.GCI-INTERNATIONAL.COM	FSA - UK
21/07/2010	ARCADIAN INVESTMENT GROUP LIMITED	GFSC - GIBRALTAR
21/07/2010	ALFORT INTERNATIONAL LIMITED ANDERSON MUNRO NEWTON MOORE LIMITED PRICE AND STONE MERGERS AND ACQUISITIONS WWW.PRICEANDSTONEMA.COM	SFC - HONG KONG
28/07/2010	XR-GROUP	FMA - AUSTRIA

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor	
04/08/2010	CASH GROUP AG	FMA - AUSTRIA	
	WWW.CASH-GROUP.AG		
	RELAX INVESTMENT FINANCIAL SERVICES LTD.		
	HTTP://WWW.RELAX-INVESTMENTS.COM/		
	EASY BEST CREDIT		
	WWW.EASYBESTCREDIT.COM		
11/08/2010	OKUMA GROUP	FSAN - NORWAY	
	WWW.OKUMAGROUP.COM		
	OVANNIS CAPITAL		
	WWW.OVANNISCAPITAL.COM		
18/08/2010	COMMODORE ASSET	FSAN - NORWAY	
	WWW.COMMODOREASSET.COM		
	FIRST FINANCIAL MANAGEMENT		
	WWW.FIRSTFINANCIALMGMT.COM		Unrelated to the entity duly registered with the FSA, FIRST FINANCIAL MANAGEMENT (N.I.) LTD.
	MITSUBISHI GROUP		Unrelated to the companies of the group MITSUBISHI as listed on its website www.mitsubishi.com
	WWW.MITSUBISHI-GROUP.COM		
08/09/2010	PRENTICE MANAGEMENT CORP.	FSAN - NORWAY	
	WWW.PRENTICECORP.COM		
	CAMELOT ADVISORS		
	WWW.CAMELOTADVISORS.COM		
08/09/2010	PALATINE FINANCIAL	SSMA - SLOVENIA	
	HTTP://WWW.PALATINEFINANCIAL.COM/		
08/09/2010	LEHMAN CO. GLOBAL GROUP, INC.	FMA - AUSTRIA	
	HTTP://WWW.LEHMANGROUP.NET		
	INTERNATIONAL TRADE CORPORATION		
	GOLD SEAL TRADING		
08/09/2010	DUPONT CONSEILLE AG	AFM - NETHERLANDS (HOLLAND)	
	WWW.DUPONTCONSEILLE.COM		
	GULF OIL EXPLORATION CORPORATION INC.		
	WWW.GULFOILEXPLORATION.COM		
	TORTOLA CAPITAL		
	WWW.TORTOLACAPITAL.COM		
	IBERIA SECURITIES		
	WWW.IBERIASECURITIES.COM		
	VANTANGE EQUITY INTERNATIONAL		
	WWW.VANTAGEEQUITY.COM		
08/09/2010	FINANCIAL SOLUTIONS	CBFA - BELGIUM	
	WWW.FINANCIALSOLUTIONS.COM		
	COMMODORE ASSET		
	WWW.COMMODOREASSET.COM		
15/09/2010	FOS ASSET MANAGEMENT CO. LTD.	FMA - AUSTRIA	
	WWW.FOSASSETMANAGEMENT.COM		
	UNAICO LTD. (ENIGRO GROUP)		
	WWW.UNAICO.COM		
	WIDMER OPTIONS		
	WWW.WIDMEROPTIONS.COM		
15/09/2010	HUDSON ASSET MANAGEMENT	CBFA - BELGIUM	

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor
15/09/2010	STERLING EQUITY CORPORATION HTTP://WWW.STERLINGEQUITY.SE/	JFSC - JERSEY
15/09/2010	CARTWRIGHT & KEATING WWW.CARTWRIGHTANDKEATING.COM	SFSA - SWEDEN
29/09/2010	STEWART ALEXANDRA	AFM - NETHERLANDS (HOLLAND)
29/09/2010	UNICON CONSULTING AG WWW.TOPERTRAG.BIZ	FMA - AUSTRIA
29/09/2010	KENSINGTON ADVISORY & INVESTMENT GROUP WWW.KENSINGTONAIG.COM	FSAN - NORWAY
29/09/2010	BELGIUM FINANCIAL GROUP	CBFA - BELGIUM
29/09/2010	MARCUS JONES INTERNATIONAL	EI CBI - IRELAND
29/09/2010	AVGITIDIS TRADING GROUP	HCMC - GREECE
29/09/2010	FUEHRENDE INVESTITIONEN LIMITED HTTP://WWW.FISS-SOLUTIONS.COM/SI/ HTTP://WWW.FISS-INVESTMENTS.COM/	SSMA - SLOVENIA
06/10/2010	PAN-AM ADVISORY HTTP://WWW.PANAMADVISORY.COM/INDEX.PHP	DFSA - DENMARK
13/10/2010	FINANCIAL ASSET MANAGEMENT, INC. WWW.FINAMGTINC.COM YORK VENTURE CAPITAL WWW.YORKVC.COM	SFSA - SWEDEN
13/10/2010	MCLANDISH OFFSHORE BANK HTTP://MCLANDISHOBN.COM	JFSC - JERSEY
13/10/2010	SWIFTSURE SECURITIES LIMITED WWW.SWIFTSURESECURITIESLTD.COM	CBFA - BELGIUM
13/10/2010	FINTRON ASSET MANAGEMENT	HCMC - GREECE
20/10/2010	KAIROSINVEST HOLDINGS LTD. WWW.KAIROSINVEST.COM EUROSTOCKGROUP HTTP://EUROSTOCK.AT SWISS SIAM INVESTMENT CLUB HTTP://SWISS-SIAM-INVESTMENTS.ORG	FMA - AUSTRIA
20/10/2010	XR-GROUP WWW.XR-GROUP.COM IBERIA SECURITIES WWW.IBERIASECURITIES.COM	CBFA - BELGIUM
20/10/2010	BARVETII WEALTH CONSULTANTS WWW.BARVETII.COM	DFSA - DENMARK
20/10/2010	ORIENT CONSULT BUSINESS CONSULTANTS LTD. WWW.ORIENTCONSULT.BIZ ROXBORO CAPITAL INVESTMENT WWW.ROXBOROCI.COM MADISON SECURITIES WWW.MADISON-SECURITIES.COM WARTHON RUBIN WWW.WARTHON-RUBIN.COM WYATT M & A ADVISORY WWW.WYATTMAADVISORS.COM GRAHAM WALKER WWW.GRAHAMWALKER.COM	SFSA - SWEDEN

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor	
27/10/2010	FRANKFURT FINANCIAL SUPERVISORY AUTHORITY	BAFIN - GERMANY	Supposed German financial supervisory authority that does not exist
27/10/2010	SOURCE ONE INTERNATIONAL WWW.SOURCEONEINTERNATIONAL.COM	FMA - AUSTRIA	
27/10/2010	SATORI GROUP HTTP://WWW.SATORI-GROUP.NET/	DFSA - DENMARK	
27/10/2010	MORGAN INVESTMENT MANAGEMENT GROUP WWW.MORGANMANAGEMENTGROUP.NET BOSTON CAPITAL MANAGEMENT, INC. WWW.BOSTONCMI.US WARREN HILL, LLC WWW.WARREN-HILL.COM WILSHIRE PARK WWW.WILSHIRE-PARK.COM	SFSA - SWEDEN	
03/11/2010	ACCRESCENT HOLDINGS INCORPORATED CROWN GLOBAL ASSETS LTD. WWW.CROWN-GLOBAL-ASSETS.COM DONNELLY ABERDEEN INTERNATIONAL WWW.DONNELLY-ABERDEEN.COM DYNAMIC WEALTH MANAGEMENT, DWM WWW.DYNAMICWMANAGEMENT.COM	SFSA - SWEDEN	
03/11/2010	WWW.LUXCSSF.ORG	CSSF - LUXEMBOURG	Fake website of Luxembourg regulator
10/11/2010	TORTOLA CAPITAL WWW.TORTOLACAPITAL.COM	FMA - AUSTRIA	
10/11/2010	SATORI GROUP WWW.SATORI-GROUP.NET SECURITIES GROUP SINGAPORE WWW.SECGROUPSING.COM THE WALLSTREET M&A GROUP HTTP://WSTREETGRP.COM/ VANTAGE EQUITY INTERNATIONAL LTD WWW.VANTAGEEQUITY.COM PHOENIX MERGERS AND ACQUISITIONS WWW.PHOENIXMERGE.COM RICHMOND LLOYDS INTERNATIONAL HTTP://WWW.RICHMONDLLOYDS.CO.UK/ WILSHIRE PARK WWW.WILSHIRE-PARK.COM	FSAN - NORWAY	
10/11/2010	GOLDMANN IMPERIAL CAPITAL WWW.GOLDMANNIMPERIALCAPITAL.COM EHRMAN-LOEB WWW.EHRMAN-LOEB.COM INSTITUTIONAL EQUITY PARTNERS WWW.IEPNET.COM MILLENNIUM EQUITY MANAGEMENT WWW.MILLENNIUMEQUITYMANAGEMENT.COM ADDERLEY DAVIS & ASSOCIATES LTD. WWW.ADDERLEYDAVIS.COM PENFOLD & PARTNERS LTD. WWW.PENFOLDPARTNERS.COM WHITESTONE FINANCIAL PLANNING AG WWW.WSFINANCIALPLANNING.COM	SFSA - SWEDEN	

Public warnings in respect of non-registered entities *(continuation)*

III.4

Date	Company to which the warning relates	Regulator / Supervisor	
10/11/2010	(INTERNATIONAL) CORPORATE SERVICES LIMITED	GFSC - GIBRALTAR	
17/11/2010	OSAKA FUTURES AND OPTIONS EXCHANGE WWW.OFOX.JP/ ROTHMAN GLOBAL HTTP://ROTHMANGLOBAL.COM/ ROTHMAN SECURITIES OG ROTHMAN OFFSHORE HTTP://ROTHMANOFFSHORE.COM	FSAN - NORWAY	
17/11/2010	ANTEK INTERNATIONAL WWW.ANTEK-INTERNATIONAL.COM CAMPBELL CUMMINGS ASSOCIATES WWW.CAMPBELLCUMMINGS.COM GREENTREE FINANCIAL ADVISORS INC. WWW.GREENTREE-FINANCIAL-ADVISORS.US NORTHERN PEGASUS LLC. WWW.NORTHERNPEGASUS.COM STRATEGIC PRIVATE EQUITY GROUP WWW.STRATEGICPEG.COM CMI TRADING GROUP WWW.CMITRADINGGRP.US PRIME GROUP OF COMPANIES WWW.PRIMEGROUPOFCOMPANIES.COM BROOKS & HAWTHORNE CONSULTING LTD. WWW.BROOKS-HAWTHORNE.COM	SFSA - SWEDEN	
24/11/2010	RANDALL & GIBSON PARTNERSHIP COMPANY WWW.RANDALLANDGIBSON.COM	FMA - AUSTRIA	
24/11/2010	AMERICAN TAXATION INCORPORATED WWW.AMERICANTAXATION.COM	SFSA - SWEDEN	
24/11/2010	VALENTI INTERNATIONAL WWW.VALENTI-INTERNATIONAL.COM	FSAN - NORWAY	
01/12/2010	ROTHMAN GLOBAL WWW.ROTHMANGLOBAL.COM	FMA - AUSTRIA	
01/12/2010	QUANTUM PARTNERS LTD. WWW.QUANTUMPARTNERSLTD.COM TRADING RESOURCE CAPITAL MANAGEMENT WWW.TRCAPITALMGMT.COM	FSAN - NORWAY	
15/12/2010	ALTANUS LIMITED (SWISS MONEY REPORT) SWISSMONEYREPORT.NET	CBFA - BELGIUM	
22/12/2010	SHAW ASSET MANAGEMENT HTTP://WWW.SHAWASM.COM	DFSA - DENMARK	
22/12/2010	FOREX	AMF - FRANCE	
22/12/2010	HYPO VENTURE CAPITAL WWW.HYPOVC.COM PRIME SOLUTIONS INC. WWW.PRIMESOLUTIONS.US GUARDIAN CREATIVE TAX PLANNERS WWW.GUARDIAN-INTER.COM	SFSA - SWEDEN	
29/12/2010	PROFIT CLUB S.A. HTTP://PROFITCLUBGROUP.COM/	SSMA - SLOVENIA	
Other public warnings forwarded by foreign regulators			
20/01/2010	VARIOS ISLA DE MAN	FSC - ISLE OF MAN	Misleading offers in share acquisition

Public warnings in respect of non-registered entities *(continuation)*

Date	Company to which the warning relates	Regulator / Supervisor	
17/03/2010	THE INTERNATIONAL SECURITIES INVESTOR PROTECTION CORPORATION	SIPC - UNITED STATES	Fraudulent website. The website has no relation with the duly incorporated entity with the name SECURITIES INVESTOR PROTECTION CORPORATION (SIPC)
19/05/2010	SHK FINANCIAL GROUP (CHINA) CO. LTD. WWW.HKSHK.COM	SFC - HONG KONG	Misleading website
19/05/2010	WWW.87671.COM	SFC - HONG KONG	Misleading website.
19/05/2010	VARIOS LABUAN	LABUAN-FSA - MALAYSIA	Generic warning on trading with unauthorised entities
02/06/2010	AECNFX (MAURITIUS) LTD	FSCM - MAURICIO	Entity which has had its licence withdrawn
02/06/2010	BASEL FINANCIAL INC.	FSCM - MAURICIO	Entity which has had its licence withdrawn
02/06/2010	FXCOMPANY FINANCIAL GROUP LTD	FSCM - MAURICIO	Entity which has had its licence withdrawn
02/06/2010	FXMARKETS LTD	FSCM - MAURICIO	Entity which has had its licence withdrawn
02/06/2010	FXOPEN INVESTMENTS INC.	FSCM - MAURICIO	Entity which has had its licence withdrawn
02/06/2010	WORLD DERIVATIVES TRADERS LTD	FSCM - MAURICIO	Entity which has had its licence withdrawn
07/07/2010	WWW.ZURICH-FINANCE.NET	FSC - ISLE OF MAN	Misleading website
07/07/2010	GTA WORLDWIDE LLC WWW.GOALSTOACHIEVE.COM	FSC - ISLE OF MAN	Misleading website
07/07/2010	GTA (ISLE OF MAN) LIMITED WWW.GOALSTOACHIEVE.COM	FSC - ISLE OF MAN	Misleading website
07/07/2010	WWW.ANGLOIRISHONLINE.COM	FSC - ISLE OF MAN	Misleading website
06/10/2010	HYIPS-HIGH YIELD INVESTMENT PROGRAMS	FINRA - UNITED STATES	High yield investment programmes

Source: CNMV.

Legislative annexes

A Spanish legislation

A.1 Spanish Securities Market Commission

Resolution of 16 February 2010, of the President of the CNMV, creating the CNMV virtual office.

This Resolution simply identifies the virtual office of the CNMV. The virtual office is "that electronic address available for citizens through telecommunications networks, the ownership, management and administration of which is the responsibility of a Public Administration, administrative body or entity in exercise of its powers and functions" (Act 11/2007, of 22 July). The electronic reference address of the office is the following: https://sede.cnmv.gob.es

Resolution of 7 July 2010 of the CNMV Council, amending the Regulations of the Internal Regime of the CNMV.

This Resolution refers to the internal organisation of the CNMV and introduces the following changes: 1) the Investor Department is now to service and process claims and enquiries from investors and forms part of the Directorate-General of Legal Affairs, 2) all tasks related to financial education are assigned to the Research, Statistics and Publications Department, 3) the departments attached to the President and the Vice-President are reassigned. In addition to the Assistant to the President's Department, the Information Systems Department and the General Secretariat now report to the President. Under the supervision of the President, the following departments will report to the Vice-President: the International Relations Department and the Research, Statistics and Publications Department, 4) the cabinets of the President and the Vice-President provided in Article 27.4 of the Internal Regime Regulation are merged into one single cabinet. Finally, Articles 32 and 41 are redrafted so as to define the functions of the Assistant to the President's Department and the Internal Control Department regarding activities related to the risks which may affect the CNMV.

A.2 Official secondary markets in securities and other trading systems

Royal Decree 1282/2010, of 15 October, regulating official markets for futures, options and other derivative financial instruments.

This Royal Decree repeals Royal Decree 1814/1991, of 20 December, regulating official futures and options markets. The general aims of the Royal Decree are to bring national regulations into line with international standards and to establish agreements and connections with other similar derivatives markets, as well as to introduce new products, services and business lines in derivative instruments. It also aims to reduce the systemic risk associated with the clearing and settlement of these financial instruments.

Its main measures are as follows: 1) the Governing Council may offer trading, registration and central counterparty services or only registration and counterparty services or only trading services. This is one of the most significant new aspects, 2) it abolishes the requirement that each futures and options market has its own governing council. It provides for the possibility that the entities responsible for the central securities depository and other counterparties may become members, 3) the regime for guarantees is diversified. Together with a guarantee provided by the Governing Council, a joint and several guarantee provided by the members (collective guarantee) is now incorporated. It also establishes specific capital requirements for market members; 4) it establishes the regime for non-compliance by members and clients, and provides that the Governing Council may agree to transfer or close the contacts, informing the CNMV, 5) it provides the possibility of establishing a double-step accounting register, made up by the central register, kept by the Governing Council, and the breakdown registers, kept by the members authorised to act as recorders, 6) Finally, the products which can be traded and registered on these markets are extended to include all the derivatives included in Article 2 of the Securities Market Act and it repeals the mandatory intervention of the Governing Councils of the market where the underlying asset of the futures and options is traded with regard to the approval of new derivative contracts.

A.3 Securities numbering

CNMV Circular 2/2010, of 28 July, on securities and other instruments of a financial nature that may be numbered and the procedures for numbering.

This Circular incorporates the new financial instruments and practices to the numbering of tradable securities. It substitutes CNMV Circular 6/1998, of 16 December.

A.4 Securitisation funds

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

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

CNMV Circular 4/2010, of 14 October, amending Circular 2/2009, of 25 March, on accounting standards, annual accounts, public financial statements and reserved statements of statistical information of securitisation funds.

This Circular modifies the tax treatment of the depreciation of the financial assets of securitisation funds established in Circular 2/2009. It also amends some aspects of the annexes to the aforementioned Circular as a consequence of the amendment of the standard relating to the impairment of financial assets and, in addition, to facilitate the sending, publication and understanding of the financial information of securitisation funds.

A.5 Investment firms and credit institutions

Royal Decree 628/2010, of 14 May, amending Royal Decree 2606/1996, of 20 December, on deposit guarantee funds in credit institutions, and Royal Decree 948/2001, of 3 August, on investor compensation systems.

This legislation consolidates the texts of Royal Decree 2606/1996 and Royal Decree 948/2001 with the modifications introduced by Royal Decree 1642/2008, of 10 October, which extended the amount guaranteed by the deposit guarantee fund from 20,000 to 100,000 euros. An obligation is further established for credit institutions to extend the information which they provide to depositors in relation to the deposit guarantee fund protection system. It also provides that deposit guarantee funds must carry out functioning tests and, as appropriate, must be informed when the competent authorities discover problems in a credit institution which could give rise to involvement of the deposit guarantee system.

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

Pursuant to this order, the CNMV will now exercise *a posteriori* control over standard contracts, instead of *a priori* control, and may request rectification of these contracts at any time. This change aims to make legal traffic faster and to reduce administrative workloads. The obligation to register a fee prospectus which investment firms must adhere to is maintained. This new regulation repeals the orders of 25 October 1995, on the same subject, and that of 7 October 1999, implementing the general code of conduct and rules in managing investment portfolios.

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

This regulation implements Articles 94 of the Securities Market Act and 18.4 of the Undertakings for Collective Investment in Transferable Securities Act. The Order defines the scope of the activities subject to control and states the basic principles and criteria which govern them. The Order provides for an *a posteriori* advertising control system by the CNMV, which is authorised to complete the regulation by means of its circulars. The Order grants the CNMV the authority to request that advertising which does not comply with the legislation be stopped or rectified. The CNMV may also give its own public warnings, or include these warnings in the brochures for public share offerings and rights offerings. This regulation is also supplemented by the CNMV's powers to verify whether investment firms have the necessary mechanisms to manage legal and reputational risks.

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

This Order establishes the principles and criteria controlling the advertising of bank products and services and authorises the Bank of Spain to implement the provisions therein. The Order provides for an *a posteriori* advertising control system by the Bank of Spain. On the one hand, the supervisor prepares specific criteria for financial advertising, and on the other hand, the supervisor may correct unsuitable conduct and request that advertising which does not meet the requirements be stopped or rectified, without prejudice to the General Advertising Act. Advertising regulation is also supplemented by the supervisor verifying the banks' internal control mechanisms in order to minimise legal and reputational costs. Furthermore, the Order directly establishes certain advertising criteria. Advertising about deposits and loans which expressly refer to their cost or return must use the annual equivalent rate (AER). When a credit institution's advertising covers any type of offer to be made by another company, it must expressly mention that company.

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

This Circular introduces important amendments regarding provisions or recognition of losses from doubtful loans and credit. The following aspects are of particular importance: 1) the value of real estate guarantees will be deducted from the calculation of the provisions for doubtful transactions, although a cut will be applied to the value of these guarantees ranging from 20% for finished houses which are the borrower's first residence and 50% for buildable developed lots and plots, 2) the maximum time to provision for doubtful loans and credit is cut to 12 months, 3) principles are established for managing risks relating to business restructuring, and 4) certain assumptions are established relating to provisions for assets acquired as payment for debts so that credit institutions quickly release these assets and focus on their core activity.

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

The Royal Decree-Law introduces important amendments to the legal regime for savings banks. The main measures are as follows: 1) the participation shares issued by savings banks may confer voting rights on their holders. The volume of shares may not exceed 50% of the equity of each savings bank, 2) savings banks are expressly allowed to perform their financial activities through banks which they control, 3) savings banks may transform into a special foundation, maintaining the social work and transferring all their financial business to a bank, 4) measures are adopted to professionalise the governance bodies of savings banks, 5) the regulation of institutional protection systems (Spanish acronym: SIP - *sistemas institucionales de protección*) is amended. The Bank of Spain must express a ruling in the event that the savings bank aims to disassociate itself from these integration processes, 6) in the event that the savings banks making up the institutional protection system lose control of the core institution of the institutional protection system, the savings banks must convert into a special foundation and assign their banking businesses, 7) finally, a tax regime reform is introduced to guarantee fiscal neutrality for the different models planned for savings banks.

CNMV Circular 1/2010, of 28 July, on reserved information of investment services firms.

Through this Circular, the CNMV defines the content of the periodic information which, relating to the provision of investment services and codes of conduct, both investment services firms and credit institutions must report annually. An important new aspect of this regulation is the repeal of the absolute ban on securities acquired by UCITS being deposited in omnibus accounts, thus amending Rule 12 of CNMV Circular 1/1998, of 10 June.

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

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

Circular 5/2010, of 28 September, of the Bank of Spain, to credit institutions, on information which must be provided by any potential acquirer in the notification referred to in Article 57.1 of Act 26/1988, of 29 July, on discipline and intervention of credit institutions.

Article 57.1 of Act 26/1988 requires that any person who has decided to acquire, directly or indirectly, a significant holding in a Spanish credit institution must previously notify the Bank of Spain, which will assess the suitability of the acquirer and the financial strength of the proposed acquisition. Bank of Spain Circular 5/2010, in accordance with the Guide of the Committee of European Banking Supervisors, includes a list of information which the supervisor must request for the evaluation of an acquisition of a significant holding, with greater or lesser scope based on whether or not the acquisition leads to a change in control of the institution. The Circular also establishes the information that will be provided when the potential acquirer is a credit institution, a financial institution supervised by the CNMV or the Directorate-General of Insurance and Pension Funds.

Circular 6/2010, of 28 September, of the Bank of Spain, to credit institutions and payment institutions, on advertising banking services and products.

This Circular implements Order EHA/1718/2010, of 11 June, referred to above. The Circular addresses the setting of the general principles which advertising must meet and the criteria for the minimum content and the format of the advertising message. It also deals with internal procedures and controls and the commercial communications policy of credit institutions, encouraging the institutions to adhere to a certified body for self-regulation of advertising activities. The institutions which do not adhere to a self-regulation system or whose advertising is not subject to a prior authorisation by an Autonomous Region must submit themselves to control by the Bank of Spain.

Bank of Spain Circular 8/2010, of 22 December, to credit institutions, amending Circular 4/2004, of 22 December, on rules for public and reserved financial information and models for financial statements.

This Circular incorporates into Spanish law regulations (EC) 494/2009 and 495/2009, of the Commission, which adopted the amendments to IFRS 27 on consolidated and separate financial statements, and IFRS 3 on business combinations for the European Union.

Bank of Spain Circular 9/2010, of 22 December, to credit institutions, amending Circular 3/2008, of 22 May, on determining and controlling minimum own funds.

This Circular transposes several directives relating to own funds (Directive 2009/27/EC, of the Commission, of 7 April, Directive 2009/83/EC, of the Commission, of 27 July, and Directive 2009/111/EC, of 16 September). In particular, it establishes provisions aimed at strengthening the organisation and internal control relating to the management of liquidity risk and securitisation. It also introduces other technical amendments, such as the treatment for tax purposes of own shares and changes in the value of the securities portfolio.

A.6 UCITS and venture capital firms

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

This Royal Decree introduces the following amendments of the Regulations under Act 35/2003: 1) the regime for listed mutual funds under UCITS Regulations is extended to certain SICAVs (open-end investment companies) which replicate or reproduce stock market or fixed income indices, 2) it is now permitted to create a special purpose UCITS or compartments, known internationally as "side pockets", which will house assets affected by the economic crisis which makes them difficult to value and which reduces their liquidity, 3) the regime for real estate UCITS is made more flexible, including listed real estate market investment companies amongst the assets in which their investments can be made, 4) increased flexibility is given to certain limits to investments which mutual funds must comply with for the purposes of guaranteed return, 5) the rules governing transparency of fees are improved, 6) finally, an exception is made from the obligation to make a withholding or payments on account of income deriving from transfers or redemptions of shares or equity instruments or assets of listed mutual funds or index-listed SICAVs.

CNMV Circular 3/2010, of 14 October, on administrative procedures for authorisation of venture capital firms and their management companies, for authorisation of amendments to their regulations and articles and for disclosing changes of directors and executives.

The aim of this Circular is to adapt to the new legal framework established by Act 25/2005, of 24 November, improving the standardised procedures and forms established for venture capital firms and their management companies. Firstly, it establishes that the CNMV will make the standardised voluntary forms relating to authorisation procedures for new venture capital firms and their management companies publicly available at its virtual office. Secondly, certain amendments of the regulations of venture capital funds and the articles of venture capital companies are classified as of little importance. Finally, it regulates the procedure for informing the CNMV of changes in the Board of Directors and changes in the managing directors of venture capital firms and their management companies.

CNMV Circular 5/2010, of 18 November, on information which the potential acquirer must provide in the notification referred to in Article 69.4 of Act 24/1988, of 28 July, on the Securities Market and Article 45.3 of Act 35/2003, of 4 November, on

Undertakings for Collective Investment in Transferable Securities for the prudential assessment of the acquisitions of significant holdings and increases in holdings in investment firms and in management companies of undertakings for collective investment in transferable securities.

All persons who, whether alone or acting in agreement with others have decided to acquire, directly or indirectly, a significant holding (equal to or greater than 20, 30 or 50% of the voting rights or capital) in a Spanish investment firm or UCITS management company shall previously notify the CNMV, which must assess the suitability of the acquirer and the financial strength of the proposed acquisition. This Circular includes a list of information which the supervisor must request for assessing an acquisition, with greater or lesser scope depending on whether the acquisition leads to a change in control of the company.

CNMV Circular 6/2010, of 21 December, on transactions with financial instruments by UCITS.

Order EHA/888/2008 extends the scope of action of UCITS with regard to derivative instruments. The contents of the Circular are in line with Directive 2010/43/EC as regards organisational requirements, conflicts of interest, conduct of business, risk management and content of the agreement between a depository and a management company. The main aim of the Circular is to implement the methodology for calculating the limit for market risk associated with the use of derivative instruments. It also implements specific issues related to the joint diversification limits contained in Article 39.4 of Royal Decree 1309/2005: limits to the use of derivative instruments for counterparty risk, requirements on operating in non-organised markets, valuation of positions and calculation of the debt limit. In addition, it implements a specific regime for UCITS with a specific return target.

Act 40/2010, of 29 December, on geological storage of carbon dioxide.

The ninth final provision of this Act introduces an amendment in the taxing of SICAVs. In particular, capital reduction with return of contributions is now the equivalent of a dividend payment for tax purposes.

A.7 Measures with regard to the economic crisis

Resolution of 9 March 2010, of the Directorate General for the Treasury and Financial Policy, publishing the Resolution adopted by the Governing Board of the Fund for the Acquisition of Financial Assets, on 8 March 2010, on partial modification of the Fund investment directives.

The Fund for Acquisition of Financial Assets (Spanish acronym: FAAF - *Fondo de Adquisición de Activos Financieros*), is permitted to exceed the risk concentration limits with a single issuer taking into account that this no longer makes investments since it is not possible to hold auctions after 31 December 2009.

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

Together with other aspects with no relationship to securities markets, this Royal Decree-Law extends, for a further two years, the regime established by Royal Decree-

Law 10/2008, of 12 December, pursuant to which account is not taken of losses from impairment of property, plant and equipment, real estate investments, and stocks in cases of mandatory reduction of capital and dissolution of joint stock and limited liability companies.

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

Among other aspects, the following measures affecting the securities market are covered: 1) several periods relating to the functioning of the Fund for Orderly Banking Restructuring (Spanish acronym: FROB) are reduced, 2) the issue of participation shares in savings banks to be subscribed by the FROB is simplified, 3) the legislation regarding asset securitisation funds is amended, permitting these funds to hold real estate, rights and amounts resulting from the awards on the enforcement of mortgage loans which they hold as a result of their securitisation, 4) the Securities Market Act is amended to require the involvement of an authorised entity to provide investment services in certain securities offerings aimed at the public in general which do not require a prospectus and which use for this purpose any form of advertising communication, with the ultimate aim of implementing adequate channels for investor protection, 5) finally, the legislation raises the amounts which cannot be attached in the event that the price obtained from the sale of a mortgaged regular residence is insufficient to cover the secured loan.

A.8 Other legislation

Act 10/2010, of 28 April, on prevention of money-laundering and terrorist financing

This legislation consolidates the administrative regulation relating to the prevention of money laundering and financing of terrorism for the basic purpose of transposing Directive 2005/60/EC, of the European Parliament and the Council, of 26 October 2005, on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. The aspects of this legislation with greatest effect on the securities market are as follows: 1) Article 43.1.j) of Act 35/2003, of 4 November, on UCITS is amended in relation to internal risk control procedures, including the prevention of money laundering as one of the objectives of these procedures, 2) persons under obligations pursuant to the legislation must not establish nor maintain business relations with companies whose shares are represented by bearer certificates, 3) a financial ownership file is created and an obligation imposed on credit institutions to declare the opening and closing of current accounts, savings accounts, securities accounts and term deposits and to identify their holders for inclusion in this file.

Royal Decree 712/2010, of 28 May, on the legal regime of payment institutions.

This legislation implements Act 16/2009, of 13 November, on payment services and completes the process of transposing Directive 2007/64/EC of the European Parliament and of the Council, of 13 November 2007, on payment services in the internal market. The Directive regulates payments which involve the provision of widespread professional services by certain legal entities through certain means. From this perspective, the aim is to protect users and stimulate competition through harmonisation of the requirements for access to this market and the creation of the new category of payment institutions.

The main aspects covered by the Royal Decree are as follows: 1) the Royal Decree implements the legal regime of payment institutions as regulated in the Payment Services Act, 2) it establishes the initial capital and own funds requirements for this type of institution, as well as the requirements for applying for authorisation from the Ministry of Economy and Finance, 3) it implements the regime for the agents of payment institutions and a delegation of functions, which is very similar to the regulation of credit institutions, 4) it also establishes the cross-border activity of payment institutions (activity in Spain of payment institutions authorised in another Member State of the European Union, opening of branches and free provision of services in any non-EU State by Spanish payment institutions and the creation and acquisition of holdings in payment institutions of non-EU States), 5) it establishes a register of senior officers of payment institutions, kept by the Bank of Spain, as well as a register of the persons responsible for the management of the branches and agent networks, 6) it regulates the hybrid payment institution, which is one which engages in economic activity other than the provision of payment services, and it provides that the Bank of Spain may request information from these institutions on their economic activities, and 6) it restricts the possibility for payment accounts to have a debit balance (a debit balance is only accepted as a result of the provision of payment services initiated by the beneficiary of the services, but never as a result of payments initiated directly by the instructing holder of the payment account).

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

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

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

This legislation amends the regime for account auditing, transposing Directive 2006/43/EC of the European Parliament and of the Council, of 17 May 2006, and similarly introduces specific amendments to the Securities Market Act and the Public Limited Companies Act. The legislation revises the independence requirements for auditors with regard to the entities which they audit and incorporates the principle of full liability of the auditor of the business group for the consolidated financial statements. It also strengthens the system of public supervision of account auditing by strengthening the functions of the Institute of Accounting and Account Auditing (Spanish acronym: ICAC) and, in general, evolves towards more harmonised accounting standards at a European level.

With regard to the securities markets, the legislation provides that the Audit Committee of the entities issuing securities listed on official secondary markets must issue a non-binding report on the provision of additional services by external auditors or related persons. It also develops electronic forums for shareholders and shareholder associations, which are specific for each listed company, and which must be included in an administrative register of the CNMV, whose legal status is yet to be decided. This legislation also incorporates specific, yet very important, amendments to company law. Specifically, Article 105 of the Public Limited Companies Act is amended, excluding the possibility that the Articles of Association may limit the maximum number of votes which can be issued by one shareholder or companies belonging to one group, with the clauses which directly or indirectly establish this limit becoming null and void. This amendment will enter into force twelve months following its publication in the Official State Gazette (BOE).

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

In accordance with the Act on structural amendments of companies, this legal text consolidates the regulatory laws for capital companies: the Code of Commerce (with regard to partnerships limited by shares), the Public Limited Companies Act, the Limited Liability Companies Act and the Securities Market Act (as regards Title X on listed public limited companies). It also systemises the aforesaid regulations resolving discrepancies or extending solutions originally established for only one type of capital company. This harmonisation is especially important with regard to the dissolution and liquidation of capital companies, in which the model of the limited liability company is followed. It also harmonises legislation regarding the authority of the General Meeting. In addition, it establishes that listed companies have the right to be informed about the identity of their shareholders by the entities responsible for the book registration of the securities, without this right depending on a general meeting of shareholders being called.

Royal Decree 1159/2010, of 17 September, approving the Standards for Preparing Consolidated Annual Accounts and amending the Spanish General Chart of Accounts approved by Royal Decree 1514/2007, of 16 November and the General Plan for Small and Medium Enterprises approved by Royal Decree 1515/2007, of 16 November.

Pursuant to the final provision of Act 16/2007, of 4 July, on the reform and adaptation of commercial legislation relating to accounting for international harmonisation based on European Union legislation, this Royal Decree implements specific aspects of accounts consolidation, providing all companies with an accounting framework harmonised with European Union law. The pre-existing EU regulations on this matter will only be applicable to listed companies when preparing their consolidated accounts. The content of the Royal Decree shall be applied to annual accounts (consolidated and individual) prepared in the first three months of 2011, corresponding to financial years starting from 1 January 2010, so as to make this reform coincide with that approved in the European Union on the same matter for preparing the consolidated annual accounts of listed companies.

The new regulation revises the accounting of business mergers or spin-offs and specifies a new scope for consolidated accounts. At the same time, it introduces amendments to the methods which must be used when preparing such accounts. Noteworthy new aspects include that companies are exempt from the obligation to consolidate when the parent company participates exclusively in subsidiaries which do not hold a significant interest, individually and jointly, for the true and fair view of the group's companies. Similarly, if an investment in a multi-group or associate company is classified under the category of non-current asset held for sale, it will be consolidated in accordance with the full consolidation method.

B European Legislation

B.1 European System of Financial Supervision

Regulation (EU) 1092/2010, of the European Parliament and of the Council, of 24 November 2010, on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board.

Through this regulation, the European Systemic Risk Board (ESRB) is established. It will be responsible for macro-prudential oversight in the European Union without prejudice to its necessary collaboration with other bodies such as the European Central Bank and, outside the EU, the IMF, the G-20 and the Financial Stability Board. The ESRB's task is to monitor and assess systemic risk in normal times for the purpose of mitigating the exposure of the system to the risk of failure of systemic components and enhancing the financial system's resilience to shocks. The ESRB will contribute to ensuring financial stability and mitigating the negative impact on the internal market and the real economy. In particular, the ESRB may issue warnings which may be addressed in particular to one or several Member States or to a European Supervisory Authority with a specified timeline for the relevant policy response.

Regulation (EU) 1095/2010, of the European Parliament and of the Council, of 24 November, establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision 716/2009/EC and repealing Decision 2009/77/EC of the Commission.

This regulation creates the European Securities and Markets Authority (ESMA), one of the three sector authorities established in the new European system of financial supervision. Its tasks will include temporarily restricting certain financial activities that threaten the orderly functioning and integrity of financial markets or the stability of the financial system in the Union, assisting competent national supervisory authorities in the consistent interpretation and application of Union rules and contributing to financial stability. ESMA has direct supervision powers (investigation and execution) over credit rating agencies, entrusted to it in Regulation 1060/2009.

The Authority will present projects for technical regulation standards to the European Commission for its approval and may issue guidelines and recommendations about the application of European Union law. When the national authorities do not follow its recommendations, the Commission may issue a formal ruling requiring compliance. In exceptional situations of persistent inaction by the national authority, ESMA will be empowered to adopt decisions addressed to individual financial market participants. Similarly, it may require national supervisory authorities to adopt specific measures to remedy an emergency situation. It will also be able to settle disagreements and cross-border situations with binding effect, and it will participate in colleges of supervisors. The Authority will serve as an independent advisory body to the European Parliament, the Council and the Commission in its area of competence. It may provide its opinion on the prudential assessment of mergers and acquisitions.

The principal organ of the Authority will be made up of the top representatives of the Member States, who will take their decisions by simple majority except for acts of a general nature, including those relating to regulating and implementing technical standards, guidelines and recommendations for budgetary matters, as well as in respect of requests by Member States to reconsider a decision by the Authority to temporarily prohibit or restrict certain financial activities.

Directive 2010/78/EU of the European Parliament and of the Council, of 24 November, amending Directives 98/26/EC, 2002/87/EC, 2003/6/EC, 2003/41/EC, 2003/71/EC, 2004/39/EC, 2004/109/EC, 2005/60/EC, 2006/48/EC, 2006/49/EC and 2009/65/EC in respect of the powers of the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority.

This Directive aims to amend certain European Union standards regarding the securities market in order for the ESFS (European System of Financial Supervisors) to work effectively in the field of operation of the three authorities to guarantee their smooth and effective functioning. The European supervisory authorities will have powers to develop draft technical standards and to determine how they will be adopted. The technical standards may be established in two ways: as delegated acts or as acts implementing other acts of the EU which are legally binding. The European Parliament and the Council may object to delegated acts within three months from the date of notification.

The tasks of the European Securities and Markets Authority regarding the Directive on settlement finality in payment and securities settlement systems shall be without prejudice to the competence of the European System of Central Banks.

B.2 Primary markets

Directive 2010/73/EU of the European Parliament and of the Council, of 24 November 2010, amending Directives 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading and 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market.

This Directive amends certain aspects of Directive 2003/71/EC in order to simplify and improve its application, gaining efficiency and competitiveness in the international market. The main new aspects are as follows: 1) the disclosure requirements are reduced on issuing certain types of securities (small companies, small credit institutions, pre-emptive issues and public guarantee systems, 2) the exemptions from the requirement to publish a prospectus when the company sells through intermediaries (successive retail sales) are clearer, 3) the requirements to publish which currently overlap with those provided for in the European Directive on transparency of information about issuers of securities are eliminated, 4) the issuers of non-equity securities will have the possibility of determining their home country (whether or not a member of the EU), 5) the definition of "qualified investors" in the European Prospectus Directive will be brought into line with that of "professional clients" in the European Directive on markets in financial instruments (MiFID), and 6) the prospectuses will include a summary as an autonomous part, which will be simple and easy for investors to understand.

B.3 UCITS

Commission Regulation (EU) 583/2010, of 1 July 2010, implementing Directive 2009/65/EC of the European Parliament and of the Council as regards key investor information and conditions to be met when providing key investor information or the prospectus in a durable medium other than paper or by means of a website.

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

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

This Directive details protection measures for investors as regards the master-feeder structures and defines the information disclosure obligations for both master UCITS and feeder UCITS. It also regulates the liquidation, merger and division of UCITS.

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

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

Regulation (EU) 584/2010 of the Commission, of 1 July 2010, implementing Directive 2009/65/EC of the European Parliament and of the Council as regards the form and content of the standard notification letter and UCITS attestation, the use of electronic communication between competent authorities for the purpose of notification, and procedures for on-the-spot verifications and investigations and the exchange of information between competent authorities.

This Community Regulation implements Directive 2009/65, of 13 July, on undertakings for collective investment in transferable securities, according to which authorisation for marketing an UCITS in another Member State corresponds to the authority in the home Member State. Specifically, this regulation implements the notification procedure for marketing units of UCITS in a host Member State, and also establishes the additional procedures for promoting cooperation between Member States in supervising the cross-border activity of UCITS.

B.4 International financial reporting standards

Regulation (EC) 243/2010 of the Commission, of 23 March, amending Regulation (EC) 1126/2008, adopting certain international accounting standards as regards improvements to International Financial Reporting Standards (IFRS).

This regulation incorporates into EU law various modifications to IFRS published by the IASB in the framework of the improvement procedure which this body undertakes annually. The modifications affect the following standards: 1) IFRS 2, on share-based payments, in relation to its scope of application in order to maintain consistency with the provisions of IFRS 3, on business combinations, 2) IFRS 5, in relation to the information to be disclosed regarding non-current assets (or disposable groups) held for sale or discontinued operations, 3) IFRS 8, in relation to the information to be disclosed on the total value of assets and liabilities for each operating segment, 4) IAS 1, on presentation of financial statements, in relation to the classification of liabilities as current or non-current, 5) IAS 7, on the statement of cash flows, in relation to the classification of an asset as investing activity, 6) IAS 17, on leases, in particular on leases which include both land and buildings items, 7) IAS 36, on impairment of assets, in relation to the impairment testing of goodwill, 8) IAS 38, on intangible assets, particularly in relation to measuring the fair value of an intangible asset acquired in business combinations, 9) IAS 39, on recognition and measurement of financial instruments, in relation to cash flow hedges and derivatives that result in a business combination, 10) Interpretation 9 of the International Financial Reporting Interpretations Committee (IFRIC), in relation to the reassessment of embedded derivatives, with this modification specifying the scope of application of this standard with regard to business combinations, and 11) Interpretation 16 of the IFRIC, on hedges of a net investment in a foreign operation.

Regulation (EU) 244/2010 of the Commission, of 23 March 2010, amending Regulation (EC) 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 2.

This Regulation incorporates a modification of IFRS 2 into EU Law, relating to the accounting treatment of transactions in shares. As a general rule, it provides that in these transactions which include payments in shares, if the fair value of the shares delivered by one of the parties exceeds the consideration received, an additional consideration must be recorded for the difference even if it is not identifiable.

Regulation (EU) 550/2010, of the Commission, of 23 June 2010, amending Regulation (EC) 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 1.

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

Regulation (EU) 574/2010, of the Commission, of 30 June 2010, amending Regulation (EC) 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards (IFRS) 1 and 7.

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

Regulation (EU) 632/2010, of the Commission, of 19 July 2010, amending Regulation (EC) 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 24 and International Financial Reporting Standard (IFRS) 8.

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

Regulation (EU) 633/2010, of the Commission, of 19 July 2010, amending Regulation (EC) 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 14.

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

Regulation (EU) 662/2010, of the Commission, of 23 July 2010 amending Regulation (EC) 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 19 and International Financial Reporting Standard (IFRS) 1.

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

B.5 Other legislation

Directive 2010/76/EU of the European Parliament and of the Council, of 24 November, amending Directives 2006/48 and 2006/49 as regards capital requirements for the trading book and for re-securitisations, and the supervisory review of remuneration policies.

Pursuant to this Directive, financial institutions must: 1) have more financial resources available to cover risks when investing in re-securitisations, 2) disclose more information about the risks with complex products, 3) assess more appropriately the risks associated with their trading books so as not to be forced to sell when the market falls, and thus exacerbate the situation when making market prices fall even further, and 4) establish remuneration policies which no longer reward excessive risk-taking by their executives.

Annexes on CNMV Organisation

Composition of the CNMV Board as at 30 April 2011

President	Mr Julio Segura Sánchez
Vice-President	Mr Fernando Restoy Lozano
Board Members	Ms Soledad Núñez Ramos
	Mr Francisco Javier Aríztegui Yáñez
	Ms Rosa Rodríguez Moreno[1]
	Ms Ana Isabel Fernández Álvarez[2]
	Mr Luis Pedroche y Rojo
Secretary	Mr Alfonso Cárcamo Gil

Composition of the CNMV Executive Committee as at 30 April 2011[3]

President	Mr Julio Segura Sánchez
Vice-President	Mr Fernando Restoy Lozano
Members	Ms Rosa Rodríguez Moreno
	Ms Ana Isabel Fernández Álvarez
	Mr Luis Pedroche y Rojo
Secretary	Mr Alfonso Cárcamo Gil

1 Until July 6, 2010 (Order EHA/1815/2010, Official State Gazette of 7 July 2010).
2 Appointed by Order EHA/1850/2010, of 9 July (published in Official State Gazette on 10 July 2010).
3 The creation, constitution and functions of the Executive Committee are regulated by article 18 of Securities Market Act 24/1988, of 28 July, as amended by Act 44/2002, of 22 November, on Measures to Reform the Financial System.

Composition of the CNMV Advisory Committee as at 30 April 2011[4]

President	Mr Fernando Restoy Lozano
Secretary	Mr Alfonso Cárcamo Gil
Technical Secretary	Mr Víctor Rodríguez Quejido
Members	
Representatives of members of the official secondary markets	
Member	Mr Ignacio Santillán Fraile
Alternate	Mr José Ignacio García-Junceda Fernández
Member	Mr Jaime Aguilar Fernández-Hontoria
Alternate	Mr José María Antúnez Xaus
Member	Mr Manuel Ardanza Fresno
Alternate	Mr Miguel Ángel Morro Martí
Member	Mr Francisco Oña Navarro
Alternate	Mr Ignacio Solloa Mendoza
Member	Mr José María Méndez Álvarez-Cedrón
Alternate	Mr Julio Alcántara Lera
Member	Ms Ana Ibáñez Díaz-Bustamante
Alternate	Ms Aránzazu Ullibarri Royuela
Representatives of issuers	
Member	Mr Francisco Uría Fernández
Alternate	Mr Ángel Antonio del Valle Suárez
Member	Mr Juan A. Margenat Padrós
Alternate	Ms Ana Delgado Alcaide
Member	Mr Luis Miralles García
Alternate	Mr Manuel González Escudero
Member	Mr José Manuel González Porro
Alternate	Mr Manuel Ángel Romero Rey
Representatives of investors	
Member	Mr Manuel Pardos Vicente
Alternate	Mr Jofre Farres Roselló
Member	Ms Pilar González de Frutos
Alternate	Ms Mª Aránzazu del Valle Schaan
Member	Mr Antonio Mª Malpica Muñoz
Alternate	Mr José Manuel Pomarón Bagües
Member	Mr Mariano Rabadán Forniés
Alternate	Mr Ángel Martínez-Aldama Hervás
Representatives of the Autonomous Regions with an official secondary market	
Basque Country	
Member	Ms Manuela Escribano Riego
Alternate	Mr Miguel Bengoechea Romero
Catalonia	
Member	Mr Jordi Óliva Ritort
Alternate	Mr Josep María Sánchez i Pascual
Region of Valencia	
Member	Mr Jorge Vela Bargues
Alternate	Mr Nicolás Jannone Bellot

4 Royal Decree 504/2003, of 2 May, regulating the CNMV Advisory Committee.

CNMV Organisation Chart