



EXHIBITS

Annual Report

2020



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Role of the European Central Bank in the context of the COVID-19 crisis

EXHIBIT 1

The outbreak of the coronavirus pandemic forced the European Central Bank (ECB) to adopt a series of extraordinary monetary policy measures, in addition to those already in force¹ to address the enormous impact of the health crisis on the economy and markets.

These measures were adopted in two stages. The first, at the onset of the crisis, aimed at reducing tensions in financial markets, especially debt markets, in addition to guaranteeing that monetary policy transmission mechanisms worked properly, and the second, from the summer of 2020 onwards, focused on combating the effects of the economic crisis and supporting the recovery of the euro area economy. These measures were sustained by the framework of a highly expansionary monetary policy that included a new debt purchase programme (public and private debt), in addition to those already under way (with two successive increases in the amount allocated), keeping official interest rates at very low levels, the lowest in their history, in order to keep financing costs down, and new unconventional measures aimed at boosting financing for the financial sector so that it, in turn, could provide credit to the private sector and ultimately encourage investment and consumption.

Initially, on 12 March 2020, the ECB approved a first package of measures that included liquidity injections for banks² at a more favourable interest rate and extraordinary asset purchases amounting to €120 billion up until the end of 2020, in addition to the €20 billion per month of the asset purchase programme (APP) in force at that time, with the aim of providing more favourable financing conditions for the real economy. It also relaxed capital and liquidity rules for banks.³

Subsequently, in the second half of March, the ECB launched a package of measures of greater magnitude and scope – the Pandemic Emergency Purchase Programme (PEPP). The main objective of this programme, endowed with €750 billion, was to guarantee monetary policy transmission mechanisms and get rid of tensions in the debt markets, to prevent their fragmentation and ensure that all countries and economic sectors could benefit from favourable financial conditions to handle the shock. The main measures in the programme included purchases of public and private debt for an amount of €750 billion up until the end of 2020, with a flexible approach⁴ in terms of its distribution over time and by type of asset and country of origin.

The severity of the health crisis and its duration caused a sharp decline in economic activity throughout the euro area, prompting the ECB to adopt additional measures to stimulate economic recovery and support credit to the real economy. The first was the programme of non-targeted long-term refinancing operations⁵ (Pandemic Emergency Longer Term Refinancing Operations, PELTRO) in April, consisting of seven refinancing operations for banks to provide them with abundant liquidity at reduced cost to allow them to extend credit to companies and families under more favourable conditions. This measure was followed at the beginning of June by an increase of

€600 billion in the amount of purchases under the PEPP programme (up to a total of €1.35 trillion) and its extension until June 2021, or beyond, if necessary, as well as the creation of a liquidity line known as EUREP to allow euro area central banks to ensure the proper transmission of monetary policy.

At the end of the year (December), the ECB recalibrated its monetary policy tools once again, increasing the amount of the PEPP purchase programme endowment for a second time, with an additional €500 billion (making a total of €1.85 trillion), and extending it until March 2022, in addition to improving financing conditions for banks through the TLTRO⁶ and announcing four new PELTRO long-term financing operations in 2021.

All the measures adopted by the ECB remain in force as of the closing date of this report and its commitment to the recovery of the European economy and the euro is unchanged. Although the pandemic persists and its effects continue to seriously affect both the European and global economies, the value of some of the results obtained from the implementation of these measures should be unlocked. For instance:

- i) Interest rates on public debt have remained low all along the curve in all euro area economies, reaching negative values in terms close to or greater than 10 years in many cases. This has allowed pressure to be eased on the cost of debt services for Member States, especially at a time when they have had to take on significant increases in public spending and, consequently, debt, to address the pandemic. This effect has also extended to corporate rates, which have been at very low levels for most issues and maturities, even those of issuers with the lowest credit ratings, which has also allowed them to keep their financial costs down, and provide access to finance for companies with weaker financial structures.
- ii) Financing conditions for the different sectors (public administrations, non-financial companies and households) remain favourable. These conditions, which are especially significant at this time, derive both from the performance of interest rates, as mentioned above, and from the easing of conditions for financial institutions to access credit. The improvement in financing for banking financial entities has materialised in several ways. Particularly, the different financing transactions with the monetary authority and the temporary flexibility of capital requirements, all of which are aimed at increasing bank funds so that they can increase the volume of credit.

Although the initial planned duration of the pre-pandemic programmes was shorter, and some should have ended some time ago, the circumstances and economic data trends made an extension necessary. Thus, the asset purchase programme (APP), which was in force at the beginning of the year, was supplemented with the pandemic emergency purchase programme (PEPP), although the amount of the purchases and its composition have varied according to monetary policy requirements, as explained above (see Tables E1.1 and E1.2).

Net purchases under the ECB's asset purchase programmes¹

TABLE E1.1

Amounts in billions of euros

	ABSPP ²	CBPP3 ³	PSPP ⁴	CSPP ⁵	APP ⁶
	Total	Total	Total	Spain ⁷	Total
Programme start date	Nov-14	Oct-14	Mar-15		Jun-16
Vol. acquired as of 31 Dec. 2019	28.4	263.6	2,102.9	260.8	184.5
Vol. acquired as of 31 Dec. 2020	29.3	287.5	2,341.6	292.8	250.4

Source: ECB (1) Data correspond to net purchases, including adjustments for amortisation and depreciation. (2) ABSPP (Asset-Backed Securities Purchase Programme). (3) CBPP3 (Third Covered Bond Purchase Programme). (4) PSPP (Public Sector Purchase Programme). (5) CSPP (Corporate Sector Purchase Programme). (6) APP (Asset Purchase Programme). (7) In Spain, the data correspond to purchases not discounting adjustments for amortisation and depreciation.

Net purchases under the ECB's PEPP¹

TABLE E1.2

Amounts in billions of euros

	Commercial paper	Covered bonds	Public sector debt		Corporate debt	PEPP (total)
	Total	Total	Total	Spain ²	Total	Total
Vol. acquired as of 31 July 2020	34.8	3.1	384.5	46.1	17.6	440.0
Vol. acquired as of 31 January 2021	16.6	3.1	764.7	89.8	22.3	806.7

Source: ECB (1) Data correspond to net purchases, including adjustments for amortisation and depreciation. (2) In the case of Spain, data correspond to purchases not discounting adjustments for amortisation and depreciation.

- 1 The last monetary flexibility measures adopted by the ECB in 2019 included lowering the rate of the marginal deposit facility to -0.5%, the third round of financing to banks (TLTRO III), extending its term from 2 to 3 years and the start of net purchases of debt amounting to €20 billion per month from November of that year, within the framework of its APP programme, which was already in force.
- 2 In force from June 2020 to June 2021 and at a rate that could be 25 basis points (bp) lower than the marginal deposit facility if the funds were intended to provide financing to the real economy.
- 3 Including the suspension of the stress tests that were scheduled for July 2020.
- 4 The objective of the purchases included the acquisition of negotiable public and private fixed income securities with a minimum residual maturity of 28 days and a maximum of 30 years, including the acquisition of commercial paper, which up until then had not been included in the purchases, and exemption from the eligibility requirements to acquire public debt issued by Greece.
- 5 The PELTRO programme consists of seven refinancing operations that began in May 2020 and will expire, in a staggered sequence, between July and September 2021. Execution consists of fully allocated fixed rate auctions with an interest rate that is 25 bp lower than the rate for the main financing operations (0%).
- 6 Between June and December 2021, three additional financing operations will take place, extending the period in which more favourable conditions apply and the total amount of financing that can be obtained (ranging from 50% to 55% of the stock of eligible loans) until June 2022.

The health crisis caused by COVID-19 has profoundly affected economic activity. The restrictions on movement, and on leisure and restaurant activities, to curb the rate of infection have had a significant impact on production in Spain, causing a substantial drop in income for many companies and self-employed workers, particularly in the sectors most affected by these measures. The drop in income, coupled with the need to cover fixed costs, led to a rise in liquidity needs and consequently in demand for financing.

In the early days of the crisis, the Spanish government approved a line of guarantees for companies and self-employed workers to stimulate the supply of financing to companies and avoid a bottleneck in credit in the productive sector. The first line of guarantees was approved by Royal Decree-Law 8/2020, of 17 March, for a maximum amount of €100 billion, of which €67.5 billion were intended for SMEs and self-employed workers. These guarantees, which are managed by the Official Credit Institute (ICO), cover up to 80% of potential losses in the bank financing extended to them, and between 60% and 70% of the financing granted to larger companies.

Royal Decree-Law 25/2020, of 3 July, extended the amount, approving a new line of guarantees for an additional €40 billion, mainly aimed at financing investments in productive activity, unlike the initial line, which was focused on supplying liquidity needs. In this second line, €5 billion were earmarked for SMEs and self-employed workers. Lastly, Royal Decree-Law 34/2020, of 17 November, extended the time horizon in which guarantees could be requested until June 2021, in addition to extending the maximum maturity of loans from 5 to 8 years.

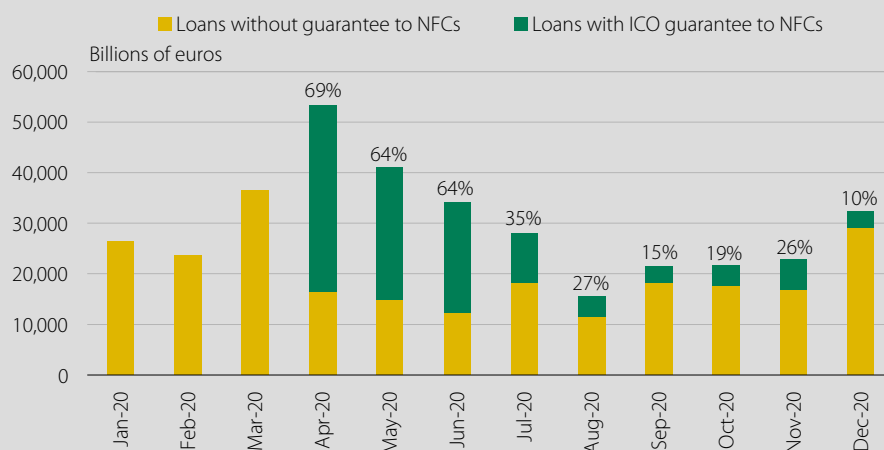
Figure E2.1 illustrates the movement in the volume of new loan transactions with non-financial companies, which include SMEs,¹ self-employed workers and large companies, throughout 2020, highlighting the transactions with public guarantees. It can be observed that new loan transactions with non-financial companies increased significantly during the first three months of the crisis, from the end of March to June. According to the Bank of Spain survey on bank loans, in that period there was a large increase in demand for credit by companies as a result of both the rise in their liquidity needs, resulting from the abrupt drop in revenues, and the desire to have a liquidity cushion in place in a highly uncertain context. Public guarantee lines contributed to the increase in the supply of credit to meet this growing demand. According to this survey, financial institutions relaxed the criteria for granting loans and the conditions applied to extended to companies and self-employed workers as part of the government guarantee programme, especially in the case of loans to SMEs and individual entrepreneurs (self-employed) during the second quarter of the year. In contrast, the criteria for granting loans was tightened for transactions without a guarantee. This would explain why the weight of secured loans was more than 60% of new credit granted to non-financial companies in the second quarter of 2020.

In the second half of the year, the total volume of new loans granted to non-financial companies slowed, due to a slight fall in the demand for credit and the somewhat stricter criteria for granting loans employed by financial enti-

ties.² Applications for secured loans fell during the second half of the year, as the maximum amount of the public guarantee lines was reached.

Total volume of new loan transactions¹ with non-financial companies (with a breakdown of transactions with a public guarantee)

FIGURE E2.1

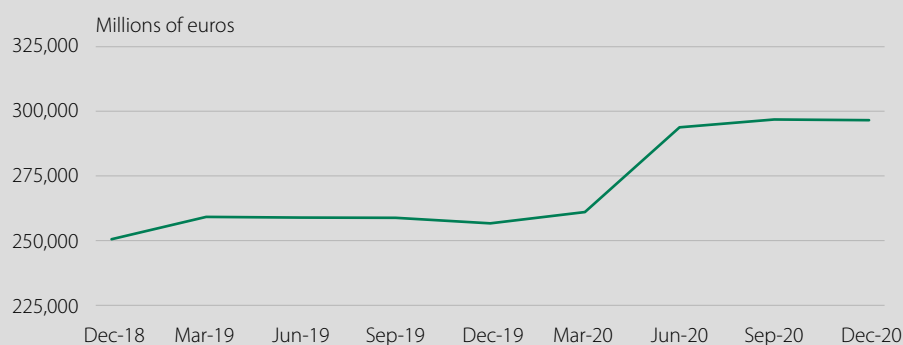


Source: Bank of Spain and ICO. (1) Loans with ICO guarantees include both the loans drawn down (around 80% of the total) and the amount of the credit lines (drawn down and available). Loans without guarantee refer exclusively to the volumes drawn down in new transactions.

In the early months of the crisis, in parallel with the increase in new credit, there was an increase of around €50 billion in deposits held by non-financial companies. The outstanding balance of sight and time deposits of these companies, which had remained almost unchanged from March 2019 to March 2020, increased by close to 20% in the early months of the crisis, rising from just over €250 billion at the end of February 2020 to a figure of close to €300 billion at the end of June 2020, to remain at this level until the end of the year (see Figure E2.2). The need for precautionary savings mentioned above would justify the companies' decision to increase the liquidity held in deposits, 90% of which was held in sight deposits. It is possible that the expectations of a future tightening of financing conditions could have led companies to request financing in advance, taking advantage of the advantageous conditions offered by the ICO lines to address potential liquidity needs arising a later date, given the uncertainty over the evolution and duration of the crisis.

Non-financial companies: balance of deposits held in financial entities

FIGURE E2.2



Source: Bank of Spain.

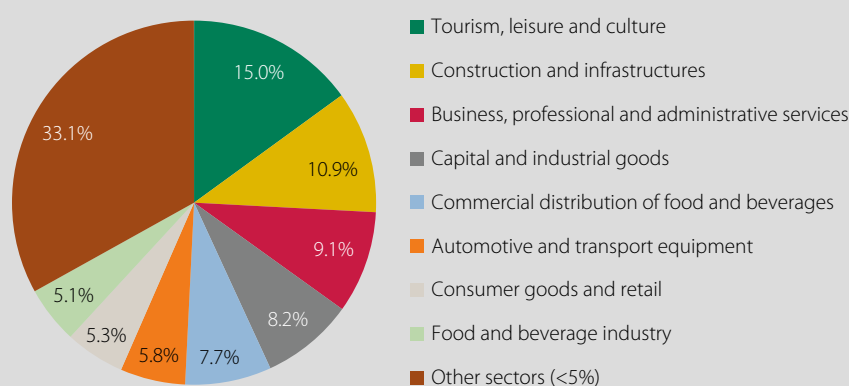
The conditions for loans with public guarantees were more advantageous than the conditions for other loans granted to companies in the same period, both in their term, since most were for four or five years³ compared to the one or two-year terms offered for loans without a guarantee, and in terms of the interest rates of 2.1% and 2.3% on financing with guarantees extended to SMEs and large companies respectively up until June – figures that are significantly lower than those observed in credit transactions carried out during the same period that were not part of the ICO⁴ line.

As of 31 December 2020, a total of 626,807 companies had obtained loans with a public guarantee for a total amount of €114.65 billion. The guarantees associated with this financing amounted to €87.08 billion. 70% of the guaranteed financing went to SMEs and self-employed workers, and the rest to larger companies. By sector, tourism, leisure and culture, whose activity had been greatly affected by the restrictions on movement, accounted for the highest percentage of guaranteed financing, with 15% of the total, followed by the construction and infrastructure sectors, with 11%, and the business, professional and administrative services sectors, with 9% (see Figure E2.3). These sectors experienced the sharpest falls in social security affiliations early on in the crisis.⁵ Transportation-related companies also made extensive use of the guarantee lines, although these companies are distributed across all the productive sectors.

In summary, public guarantee lines have played a very significant role in financing the Spanish productive sector in the COVID-19 crisis, boosting the continuity of credit flows, especially to SMEs and the sectors most affected by the crisis. The advantageous conditions of the loans associated with the guarantee lines led to demand for credit not only to meet immediate liquidity needs but also to address potential future difficulties. The uncertainty surrounding the scale and duration of the crisis has boosted precautionary cash savings and has probably delayed certain investment decisions.

Distribution of guaranteed financing by productive sector

FIGURE E2.3



Source: ICO.

1 The “loans with an ICO guarantee to NFCs” series includes loans granted to self-employed workers (micro SMEs), while the series ‘loans without guarantee to NFCs’ does not include the loans granted to self-employed workers in their entirety, since part of these loans may be classified as household loans.

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- 2 According to data from the survey on bank loans in Spain, published quarterly by the Bank of Spain.
- 3 Royal Decree-Law 34/2020, of 17 November, permitted the extension of the term of the guaranteed loans initially from the initial maximum of five years to the new maximum term of eight years.
- 4 Referring to the period from March to June 2020, according to the following article: Alves, P., Blanco, R., Mayordomo, S., Arrizabalaga, F., Delgado, J., Jiménez, G., Pérez, E., Pérez, C. and Trucharte, C. (2020). "Recent evolution of bank financing and credit to the non-financial private sector". Bank of Spain, *Economic Bulletin*, No. 4/2020, Analytical Articles.
- 5 Figure E2.2. Impact of the lockdown on employment. Bank of Spain (2020). "Reference macroeconomic scenarios for the Spanish economy after COVID-19". *Economic Bulletin*, No. 2/2020, Analytical Articles.

The crisis triggered by the spread of COVID-19 and its intensification in March 2020 was, and continues to be, an enormous challenge for Spanish society and for all the institutions that are part of it. In this context, the CNMV has adopted multiple different decisions to ensure that the institution functions normally at all times and at the same time responds to the challenges arising from the management of the crisis itself, making a significant effort to carry out its supervisory tasks for the markets and their participants. The reorientation and change of some priorities necessitated a revision of the Activity Plan that had been published at the beginning of February of last year, in which 33 of the 44 initially proposed objectives were maintained, 11 were postponed and 2 new ones were added. This exhibit describes the main actions, decisions and measures adopted by the CNMV from early March 2020 to address the crisis caused by COVID-19.¹

i) Organisation

- *Human resources.* The first significant measures that were put in place, following the health guidelines, were aimed at ensuring that CNMV employees could continue to work normally from home. The process began on 11 March, when approximately half the workforce began to work from home, and teams that were especially important for CNMV operations were doubled. On the day the Royal Decree announcing the State of Alarm came into force (published on 14 March) practically all employees were already working from home. The experience has reinforced the perceived importance of technology and communications in the CNMV's work and has involved the use of new tools, servers and equipment.

In mid-March, the temporary postponement of the CNMV's ongoing personnel selection processes (a total of five processes) was announced. These processes were resumed on 28 July.

- *The register.* Furthermore, on 16 March, the CNMV announced the closure of its General Register for the physical presentation of documents. To ensure continuity in the presentation and registration of documents, several channels were enabled: the open area and the investors' area of the CNMV's electronic office and the electronic offices of the registries of the various public administrations. Face-to-face activity was resumed on 8 June.

On 20 March, the CNMV announced the approval of a resolution on the suspension of administrative deadlines as provided in Royal Decree 463/2020, on the State of Alarm, published in the Spanish Official State Gazette (*BOE*) on 25 March. As indicated in this resolution, the suspension of deadlines provided in the Royal Decree did not affect activities such as the CNMV's supervisory activity in general (requirements and other supervisory actions) or authorisations processed by the Institutions or Markets Directorates General likely to benefit interested parties, or any other procedures established by the institution's executive committee.

ii) Market supervision

The context of extreme volatility in the financial markets created the need to step up the supervisory activity of the markets, their infrastructure and their agents. The most notable decisions in this area related to **restricting short positions in securities listed on Spanish securities markets**. The first decision, taken on 12 March, involved a one-day ban on short sales and affected 69 stocks. The second decision, prohibiting the creation or increase of net short positions for one month, was taken on 16 March. This ban affected all equity securities and was subsequently extended for a further month. Similar decisions were taken in the days following by other European securities supervisors, specifically those of France, Italy, Belgium, Austria and Greece. When the ban was lifted, the CNMV conducted a study to assess the impact on financial markets, the conclusions of which are described in Exhibit 4. Additionally, the European Securities and Markets Authority (ESMA) decided at the same time to lower the threshold that triggers the notification of short positions (from 0.2% to 0.1% of capital) to supervisors. This decision was extended three times, the last in December 2020, and was lifted on 19 May 2021. All in all, the usefulness of the information received in these months led ESMA to request the European Commission in May 2021 to permanently reduce this threshold to 0.1% of capital.

In the field of **market infrastructures**, in addition to verifying that the trading systems functioned normally despite the severe bout of volatility and price falls, special attention was given to the central counterparty (CCP), BME Clearing. The CCP, in addition to activating the contingency plan for pandemics, made extraordinary margin calls in numbers and amounts that were higher than usual, as price variation parameters were exceeded and due to the application of the CCP regulations to cover exceptional excesses of risk. No incidents were detected in the transfer of funds to the CCP. Back-testing exercises were also carried out regularly to check the extent to which it would be able to handle the hypothetical bankruptcy of the most significant members with the financial resources available to the entity, and the CCP reviewed the parameters margin calls. Special attention was paid to settlements, with some increase in inefficiency observed (failures in the delivery of securities on the agreed date) as a consequence, according to the entities, of the increase in activity and a decreased capacity to respond to and resolve incidents due to staff working from home. This trend, which was also observed to a lesser extent in other European countries, was partially reversed later.

For companies, some considerations were published both in relation to the holding of **general meetings** and the formulation of the **annual financial statements** and the proposed distribution of profit. In regard to general meetings, the CNMV indicated in a first statement in March that it considered it reasonable to encourage attendance by proxy, and to maximise the use of remote attendance and voting mechanisms for shareholders. It also stated that it understood that in the current circumstances the maximum flexibility should be granted to the boards of directors of listed companies to adopt measures and solutions that contribute to preserving public health and preventing the spread of the virus, even if they are not expressly envisaged in their by-laws, general meeting regulations or in the meeting calls, provided

that the exercise of the shareholders' information, attendance and voting rights were guaranteed, and the equal treatment of those in the same position ensured. In April, a joint statement from the CNMV and the Spanish College of Registrars endorsed these indications while the restrictions or recommendations of the public authorities in relation to the movement of people or with respect to meetings of more than a certain number of people remained in place.

Regarding the annual financial statements and the proposed distribution of profits of mercantile companies, a joint statement was also issued by the CNMV and the College of Registrars clarifying that as the situation deriving from the COVID-19 health crisis was an extraordinary circumstance, institutions could, among other measures, choose to replace the proposed distribution of profits set out in the notes to their financial statements with an alternative proposal to reflect the situation at hand. For meetings that had already been called, the decision on the proposed distribution of profits could be deferred to a subsequent meeting, convened within the term provided for holding the ordinary meeting. Subsequently, a statement was made public which clarified several questions related to the formulation and deposit of the annual financial statements of securities issuers in the European single electronic format (ESEF), which must be used from financial year 2020 onwards.

iii) Supervision of entities

As regards the supervision of entities, the specific efforts made in relation to collective investment schemes (CIS), and in particular, **investment funds**, stand out. The main tasks were related to the liquidity conditions of the assets on the funds' portfolios and the redemptions by entity, while remaining in constant contact with management companies to monitor the situation and remind them of their obligations and the liquidity management tools available. In this regard, the CNMV issued indications on the advisability in certain cases of valuing assets at the bid price or applying swing pricing schemes.

The **liquidity conditions** of the funds have been assessed based on various indicators such as trading volumes, time taken to unwind a position and the availability of prices to be able to trade. Attention has also been paid to the credit ratings of the debt assets held by these institutions and in particular to assets with a BBB rating, as this is the lowest rating that still qualifies as investment grade and could be affected if issuers' creditworthiness is perceived as deteriorating. Based on these analyses, the CNMV carries out an on-going special monitoring exercise on a number of management companies that manage one or more funds that have greater exposure to assets considered to be relatively illiquid or to debt with a relatively poor credit rating.

In terms of **monitoring redemptions**, the cumulative net volume from the time the crisis flared up in early March until the end of that month is estimated at approximately €5.5 billion, which managers handled with no difficulty. In a small number of funds, redemptions exceeded 20% of assets, a percentage that should be reported in a significant event notice (for this purpose, the percentage is applied to redemptions made in a single act; however, when

limits are reached through successive redemptions requested by the same unitholder or by several unitholders belonging to the same group in a period of two months, this is also considered as significant event). The only notable incident that occurred involved a fund of funds that had units of a Luxembourg open-ended collective investment scheme on its portfolio that had suspended the calculation of net asset value. Consequently, the fund carried out subscriptions and partial redemptions as normal without taking into account this investment, which accounted for 7.1% of its portfolio. Lastly, it is worth noting the inclusion, by virtue of Royal Decree-Law 11/2020, of 31 March, adopting urgent complementary measures in the social and economic area to deal with COVID-19, of a **new macroprudential tool** consisting of the possibility of establishing prior notice periods for redemptions without these being subject to the requirements that are normally applicable regarding term, minimum amount and being provided for in the management regulations. These terms can be established by the manager or by the CNMV itself.

Apart from these actions, the CNMV also adopted a series of measures related to certain information obligations of CIS management companies and the management companies of venture capital firm and, exceptionally, allowed remote assessment in the area of the application of Technical Guide 4/2017 for the evaluation of the knowledge and competences of the staff who inform and advise.

iv) Coordination and interaction with other institutions

To manage this crisis, coordination with other national and foreign institutions has proved to be essential. At the national level, the meetings taking place within the Macroprudential Authority Financial Stability Board (**AMCESFI**) stand out, the frequency of which has increased significantly. These bring together representatives of the Ministry of the Economy, the Bank of Spain, the CNMV and the General Directorate of Insurance and Pension Funds, to analyse the situation of the Spanish financial system from the point of view of financial stability. In times of market turmoil it is important for financial supervisors to exchange information to understand the extent of the risks involved and to take such measures as may be necessary.

At the international level, the CNMV stepped up the exchange of information with the different institutions of which it is a part or with which it regularly maintains contact, such as, the International Organization of Securities Commissions (IOSCO), the Financial Stability Board (FSB), ESMA or the European Systemic Risk Board (ESRB). In addition, it collaborated in several specific working groups created within these institutions to analyse and address several potential vulnerabilities revealed during the crisis and evaluate the measures adopted by the different authorities. Some examples of this work are related to the liquidity risk of funds in times of turmoil and the adequacy of liquidity management tools or the assessment of credit ratings.

1 Most of the actions taken by the CNMV are published in CNMV- Information related to the situation created by COVID-19.

Analysis of the effect of restrictions on net short positions of Spanish shares between March and May 2020

EXHIBIT 4

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The performance of global equity prices in 2020 was marked by the spread of COVID-19. The rapid spread of the pandemic forced many countries to implement lockdown measures on their populations, which significantly disrupted their productive and economic activity. In this context, the main stock market indices registered sharp declines in the first quarter of the year, especially during the month of March.

Specifically, on 12 March 2020, the European stock market indices experienced extraordinarily sharp falls. The Ibex 35 lost 14.1%, the highest loss in a single day in its 28-year history. In light of the situation, the CNMV resolved to prohibit short-selling during the day of 13 March on all liquid shares admitted to trading on the Spanish stock exchanges whose price had fallen more than 10% in the previous session (12 March) and on all illiquid,¹ shares when this fall was greater than 20%. The ban affected 69 securities in total and was carried out pursuant to the provisions of Article 23 of Regulation (EU) No. 236/2012 of the European Parliament and of the Council, of 14 March.

After another session of sharp falls on 16 March, in accordance with Article 20 of the aforementioned Regulation, the CNMV prohibited, for one month that was later extended to two,² the creation or increase of net short positions on shares admitted to trading on Spanish trading venues for which the CNMV is the competent authority. On that date, the Ibex 35 lost a further 7.9%. The ban was carried out in response to the exceptional nature of the situation and the uncertainty in the market, which could have been boosting sales and encouraging a downward spiral. On the following day, the supervisory authorities equivalent to the CNMV in France, Italy, Belgium, Austria and Greece adopted similar measures.

The rule allows this measure to be adopted to preserve financial stability and investor confidence at times when there are turbulences that could result in disorderly price movements. However, it also affects the efficiency of the markets, in other words, a ban of this type can reduce the speed at which prices adjust to the available information and deteriorate some liquidity measures such as the bid-ask spread or trading volumes. Therefore, the CNMV resolved to carry out a study³ to determine the impact, in terms of market efficiency, of the restrictions on short-selling described above. Specifically, the impact on some liquidity measures (such as the bid-ask spread, trading volume or the Amihud measure)⁴ was analysed, as well as the impact on price performance and intraday volatility. The study also assessed whether the ban could have influenced the credit risk of financial and non-financial issuers whose securities are listed on equity markets.

The first part of the analysis was based on establishing a comparison between the performance of Ibex 35 components and components from another index in a market where no restrictions were introduced, in this case the German Dax 30. A study was made of variables related to the returns, volatilities and liquidity measures of the shares listed on the stock exchanges that made up the Ibex 35 and the Dax 30 between 9 September 2019 and 19 June 2020. This

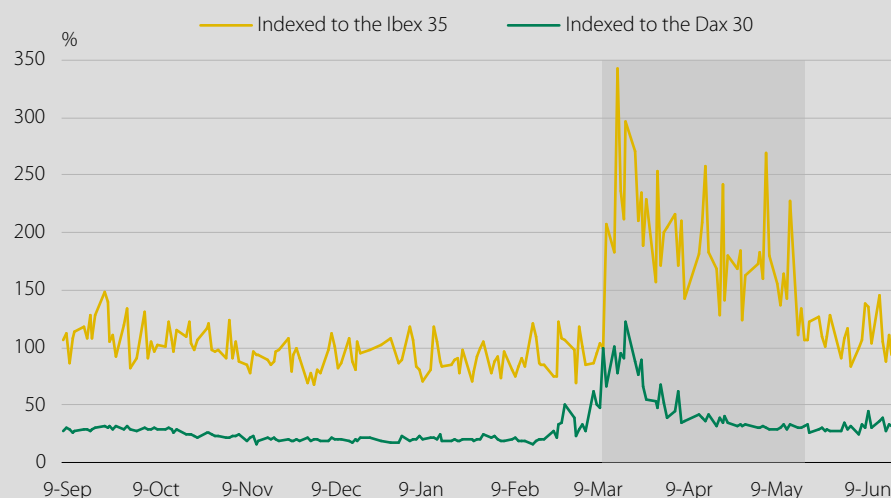
enabled sufficient data to be collected from sessions before and after the CNMV's adoption of the ban on creating or increasing net short positions. In a second part of the analysis, and for the same period of time, it was observed how these restrictions could influence the credit risk of issuers whose securities are subject to these restrictions, compared to the securities in the market in which there were no restrictions.

From the descriptive and econometric analyses carried out as part of the study, gave rise to the following conclusions.

- The bid-ask spreads increased for shares listed on the Ibex 35 and Dax 30 alike in the first few days after the ban and then tended to narrow. In relative terms, the initial increase was sharper for Spanish securities and therefore, despite the subsequent decrease, pre-crisis values were only reached once the ban had been lifted. The recovery of the German securities was faster. The econometric analysis revealed that the securities included in the ban experienced a drop in liquidity compared to the unrestricted scenario, an impact which persisted when the ban was lifted, albeit to a lesser degree.

Daily bid-ask spread for the Spanish and German markets
 (index = 100 corresponds to 12/03/2020)

FIGURE E4.1



Source: Datastream and own compilation by the authors. The shaded area indicates the period during which the CNMV prohibited the creation or the increase of short positions on shares admitted to trading in Spanish trading venues.

- Trading in Ibex 35 shares fell when the restrictions were imposed, standing at levels that were lower than in the pre-crisis period. However, it did bounce back when the ban was lifted. Trading in components of the Dax 30 index during the ban decreased significantly on the days after it was announced, and the trend was similar to that of the Ibex 35. Once the restrictions had been lifted, trading patterns were similar in both markets. The econometric analysis therefore concludes that the ban did not have a significant impact on trading of the securities to which it applied.

- The average Amihud measure increased during the period of the ban for securities traded on the Ibex 35 and the Dax 30. This suggests that both markets lost depth during that time lapse, which could be attributed to the generalised turbulence. Based on the evolution over time during the ban, it can be observed that the components of the Ibex 35 lost more depth than those of the Dax 30. However, once it had been lifted, both markets gained depth, reaching levels similar to those seen before the restrictions were imposed. Further, the econometric analysis found no evidence that the ban had a negative effect on the Amihud measure of the securities it affected. The greater loss of depth recorded by the Spanish securities could be more a result of the higher country risk of these securities than the restrictions themselves.
- For both equity indices, it was observed that volatility was higher during the prohibition than in the period immediately preceding it. Only returning to pre-crisis values in the last sessions, when the restrictions were no longer in force. Volatility was not observed to have behaved differently under the ban than it would have behaved otherwise.
- There was also no evidence to suggest that it had any notable effect on the price performance of the shares listed on the Ibex 35 with respect to share prices on the Dax 30 index, or with respect to the situation before the ban.
- Lastly, credit spreads widened significantly in the days prior to the implementation of the ban. These spreads narrowed as the pandemic in Europe eased, although they are still greater than their pre-crisis levels. In this sense, German securities recovered to a greater extent than Spanish securities. The econometric analysis offered no evidence that the ban had any influence on the credit risk spreads of Spanish equity issuers either during the application period or after it was lifted.

In short, the analysis found no notable evidence of effects attributable to the ban on other key variables, such as trading volumes, price trends, volatility or depth of the market, or issuers' credit spreads, identifying only a larger increase in bid-ask spreads (a certain loss of liquidity), which has then persisted to some extent.

- 1 According to Commission Delegated Regulation (EU) No. 918/2012, of 5 July 2012.
- 2 The ban was initially implemented until 17 April, extendible for additional periods of no more than three months if necessary. In practice, extensions are made every month. In this case, the ban was in effect until 18 May, after the extension that began on 18 April.
- 3 The full study is available at: [Informe_ventas_en_corto_23072020_en.pdf](#) (cnmv.es).
- 4 The Amihud illiquidity ratio is defined for each of the values considered as: $\frac{1}{T} \sum_{t=1}^T \frac{|r_t|}{\epsilon V_t}$, where $|r_t|$ is daily returns in absolute value and ϵV_t daily trading in euros. The ratio was calculated taking into account 5 sessions; therefore t is equal to 5. As a ratio measuring illiquidity, the higher its value, the less liquidity there is for that security. When the ratio has been calculated for an entire market, it is calculated as the simple average of the individual ratio of the securities listed on that market.

Changes in credit ratings of Spanish debt issues since the onset of the COVID-19 crisis

EXHIBIT 5

The coronavirus crisis that started in early 2020 has significantly dampened economic activity, raising doubts about the solvency of the companies hardest hit and, hence, their credit risk. The CNMV has prepared quarterly reports to analyse the credit ratings of Spanish debt assets since the onset of the crisis. The first of these reports¹ also compared these ratings with those of a sample of private issuers from other European countries. If an increase in credit risk were to be observed and persist, it could be reflected in downgrades of the ratings of the different companies and, if significant, would have damaging effects on many of the market agents and could ultimately have negative implications for financial stability. Among other things, there could be significant asset sales, downward price spirals, various contagion phenomena among entities, higher financing costs, etc.

The analysis of Spanish debt² was carried out on the outstanding fixed income issues at the end of each quarter. The number of issues with ISIN for which information was available stood at around 3,350 each quarter and, of these, issues with a credit rating are regularly assessed (approximately 95% of the total debt with ISIN). As shown in Table E5.1, there was a considerable increase in the outstanding balance of rated debt between March and June, going from €1,685.26 billion to €1,777.15 billion in response to liquidity needs in the context of the crisis and as companies took advantage of the low interest rates. There was also an increase in September, to €1,795.35 billion, followed by a slight decrease to €1,769.73 billion in December, mainly due to the repayment of some high rated debt assets.

This analysis shows that the Spanish fixed income issues analysed were mostly in the investment grade category (rating of BBB or higher), as these represented on average 96.5% of the total number of rated issues during the period assessed. This percentage remained fairly stable during the year, although in the last quarter it decreased slightly to 96.3%. This decrease was almost entirely due to the reduction in securities with A and AA ratings, due to the repayment of central government debt in the first case and that of monetary and non-monetary financial institutions in the second.

**Outstanding balance of rated Spanish fixed income securities,
by sector**

TABLE E5.1

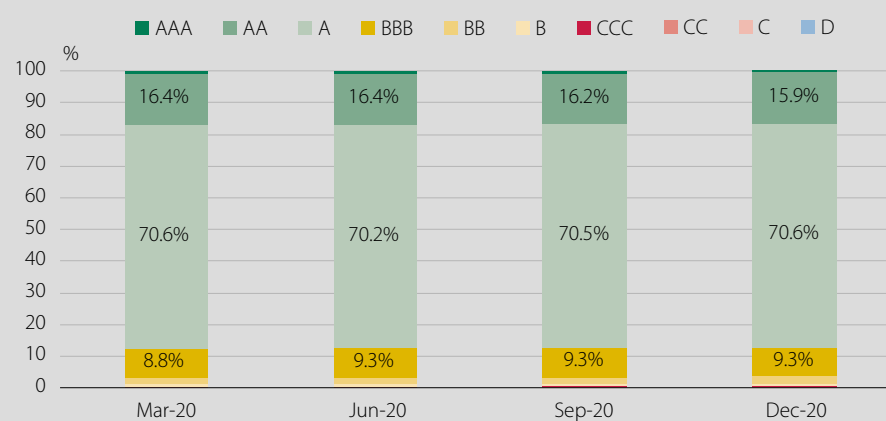
	31 March	30 June	30 September	31 December
Rating	1,685,262	1,777,151	1,795,335	1,769,732
AAA	12,179	11,685	11,145	9,353
AA	276,236	292,270	290,104	281,901
A	1,189,536	1,248,205	1,264,816	1,248,997
BBB	148,936	164,487	167,247	163,751
BB	35,107	36,240	35,990	39,849
B	11,383	11,691	12,819	12,660
CCC	4,897	4,988	5,081	5,063
CC	3,011	3,129	3,107	3,082
C	2,338	2,229	2,807	2,863
D	1,637	2,227	2,220	2,213
Pro memoria				
BBB	148,936	164,487	167,247	163,751
BBB+	28,245	40,088	37,664	37,454
BBB	65,942	45,720	48,097	47,652
BBB-	54,749	78,679	81,486	78,646
No rating data	92,994	93,148	90,947	114,035

Source: Bank of Spain, Bloomberg and CNMV. Nominal data in millions of euros.

It should be noted that the rating with the highest volume of outstanding debt was A (average of 70.5% of all rated outstanding debt during the year), since it included government debt issues, both short and long-term (see Figure E5.1). From March to June, there was a slight increase in the weight of BBB debt, from 8.8% to 9.3%, where it remained until the end of the year. Therefore, although most of Spanish debt remains of high quality, there was a slight shift within this group towards assets of lower credit quality, which has continued since then.

**Ratings of Spanish fixed income securities
(% of outstanding debt balance)**

FIGURE E5.1



Source: Bank of Spain, Bloomberg and CNMV.

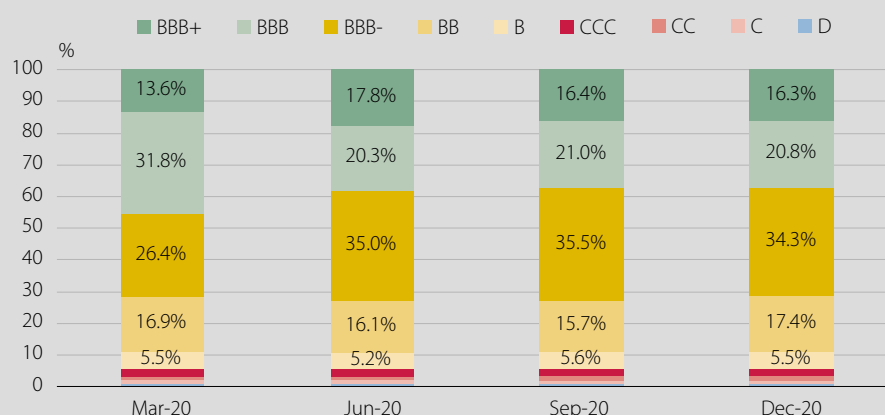
Due to this trend, it is important to monitor BBB issues and, within this group, those that while still investment grade are a notch above high yield (BBB- for Fitch and S&P or Baa3 for Moody's). As shown in Table E5.1, the amount of the BBB- debt increased from March to June from €54.75 billion to €78.68 billion (almost €24 billion more), mainly due to the downgrades in the bond ratings of the Community of Madrid, as well as different issues of monetary financial institutions and non-financial companies. From then on, variations in the outstanding balance of BBB- debt were much less marked: between June and September it was just over €2.81 billion due to the downgrades of the credit ratings of different assets issued by the autonomous community of the Canary Islands and financial sector entities, as well as the new issues to which this rating was assigned. In the last quarter of the year, the balance even decreased (€2.84 billion), as a result of the large volume of repayments made and the lower number of BBB- rated issues, as in this period of time there were no downgrades of credit ratings for this type of issue. In relation to total BBB-rated debt (which includes BBB +, BBB and BBB-), BBB- debt increased from 37% in March to 48% in June, where it remained until the end of the year. The increase in total debt was from 3.2% to 4.4%.

The increase in the balance of BBB- rated debt between March and June meant that from March onwards the size of this debt was greater than the debt of high yield issues. Although this difference narrowed slightly in the last quarter of the year, it is important to bear in mind that based on this performance, in the event of a mass downgrade of credit ratings, the high yield debt market might not be able to absorb the downgraded BBB- rated debt without difficulty. However, this matter could be less significant if we consider the reference debt market as being on a European scale rather than strictly domestic.

In regard to the proportion of high yield debt, it should be noted that after remaining stable for most of the year (around 3.5% of the total outstanding debt), this type of debt increased slightly to 3.7% in the last quarter of 2020 due to the issues of new assets with a BB (high yield) rating, as there were no downgrades of asset ratings to this category. These issues were mostly made by non-financial companies (80.5%), specifically two issues of Cellnex Telecom bonds (for a total value of €2.50 billion) and one bond issue and one issue of debentures by El Corte Inglés (€1.20 billion).

**Spanish fixed income securities rated BBB or lower
 (% of outstanding debt balance)**

FIGURE E5.2



Source: Bank of Spain, Bloomberg and CNMV.

In conclusion, although in the early months of the crisis the analysis identifies a certain increase in downgrades of Spanish debt ratings of certain issuers and sectors, it cannot be deduced that these are either significant or generalised. This is reflected in the stability of the high percentage of high quality debt (investment grade), although there has been a shift within this category towards the lowest rating grades. Therefore, there has been no notable deterioration in the credit quality of Spanish issuers in the context of the crisis, although it should be taken into account that this measure does not consider the performance of many smaller companies (which do not have a credit rating).

- 1 See Cambón Murcia, M.I. and Gordillo Santos, J.A. (2020). "Changes in credit ratings of Spanish debt assets since the onset of the COVID-19 crisis". *CNMV Bulletin*, Quarter III, pp. 93-121. Available at: [Boletin_3_En_2020en.pdf \(cnmv.es\)](#)
- 2 For the purposes of the study, Spanish debt is considered to be debt issued by an issuer of Spanish nationality or an entity that belongs to a group whose parent company is Spanish, even if the issues are made abroad.

Entry into force of EMIR 2.2 and creation of the ESMA CCP oversight committee

EXHIBIT 6

On 1 January 2020, Regulation (EU) 2019/2099 of the European Parliament and of the Council entered into force, amending Regulation (EU) No. 648/2012 as regards the procedures and authorities involved for the authorisation of central counterparties (CCPs), their participating entities and requirements for the recognition of third-country CCPs, popularly referred to as EMIR 2.2. This purpose of this amendment was essentially to strengthen the existing supervisory system for CCPs authorised to provide clearing services in the European Union, whether they are established in the Union itself or in third countries.

One of the key pieces of the new institutional framework developed in this review of the EMIR Regulation is the creation of a permanent committee in ESMA where the competent authorities of the CCPs established in the Union, as well as other authorities that may also have interest, can discuss and agree on the supervision criteria that must be implemented to monitor these infrastructures. Specifically, the committee, known as the CCP Supervisory Committee, has the following functions:

- Carry out, at least once a year, a peer review of the supervisory activities of all competent authorities of CCPs established in the Union.
- Initiate and coordinate, at least once a year, assessments at European Union level of the resilience of CCPs in the face of adverse market developments (stress testing).
- Validate significant changes to CCP models.
- Encourage the sharing of views and regular discussions between the competent authorities of CCPs, in particular with regard to:
 - The supervisory activities and decisions adopted by the competent authorities of European Union CCPs.
 - The draft decisions presented to ESMA by a competent authority in regard to matters such as the provision of new services, acquisition of significant holdings, mandatory registration of CCPs, outsourcing of critical functions, etc.
 - Market developments, including situations or events that have or may have an impact on the strength or resilience of CCPs established in the Union.
- Discuss the opinions and recommendations adopted by CCP colleges to contribute to the smooth and consistent operation of the college and ensure consistency in the application of EMIR.

Likewise, ESMA has been given specific functions to put forward guidelines or recommendations when, as a result of discussions held by the CCP Super-

visory Committee, a lack of convergence and coherence in the application of EMIR is observed.

With regard to CCPs established in third countries, the CCP Supervisory Committee will carry the tasks assigned to ESMA under EMIR 2.2, which essentially relate to:

- The recognition of CCPs established in third countries.
- Establishing whether these CCPs can adhere to a comparable compliance regime in order to comply with the obligations established in the EMIR Regulation based on the fulfillment of existing obligations in the CCP's country of origin.
- Verification that CCPs established in third countries whose activities are systemically important to the Union fully comply with the requirements established in EMIR.

For all of the above, at the beginning of 2020 the CCP Supervision Committee was set up, in which the CNMV actively participates together with other EU authorities, holding meetings almost on a monthly basis, and its role as facilitator between the competent authorities during the worst months of the crisis that affected the markets after the outbreak of COVID-19 stands out.

Stress test for non-real estate investment funds

EXHIBIT 7

For several years now, liquidity risk and, in particular, the risk that the proportion of liquid assets of investment funds may not be sufficient to meet a potential increase in the volume of requests for redemptions, has been one of the most significant vulnerabilities identified in these institutions as a whole at an international level. During the global financial crisis, there were several cases of money market funds that had difficulties in covering the increase in redemptions. From a supervisory perspective, the evaluation and identification of this risk, together with the development of tools that allow it to be properly managed, has become an essential task. In regard to the work carried out to identify these risks, the exhibit highlights the stress tests that simulate one or more market shocks and assess the level of resilience of the institutions. This exhibit provides a summary of the main findings of a test of this type performed on Spanish non-real estate investment funds, applying a methodology that was initiated by the European Securities and Markets Authority (STRESI framework, ESMA, 2019¹ and later expanded by the CNMV (see Ojea, 2020).²

Specifically, the CNMV designed a stress test for the sector comprising money market investment funds, undertakings for collective investment in transferable securities (UCITS) and quasi-UCITS.³ The database used for the test was extracted from the confidential statements submitted by Spanish investment fund managers to the CNMV in its supervisory role. The granularity of the information contained in this database with respect to the type of unitholder, the composition of the fund portfolio, its category and volume of assets allows the funds to be classified into detailed and representative categories. In this case, following the system used by ESMA, the categories of investment funds are: i) wholesale public debt funds, ii) retail public debt funds, iii) investment grade corporate fixed income funds, iv) high yield corporate fixed income funds, v) mixed fixed income funds, vi) wholesale equity funds, vii) retail equity funds and viii) other investment funds (global and absolute return). The funds are then filtered, as detailed in Ojea (2020), so that those which could distort the simulation of the scenarios are eliminated from the sample. For instance, funds with portfolios containing unidentifiable assets that represent more than 40% of their total assets are eliminated (such as funds that mostly invest in other funds). Guaranteed funds are also eliminated because they penalise redemptions outside the pre-established liquidity windows.

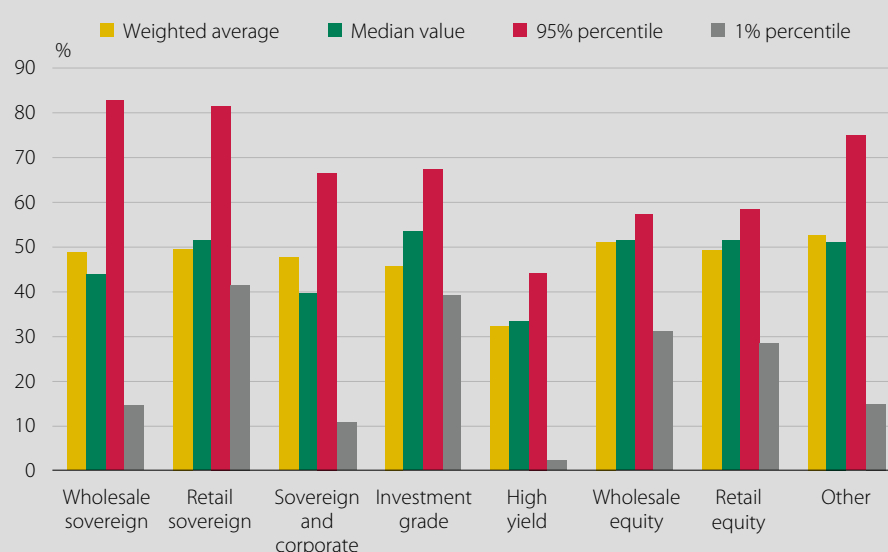
Results of the stress test with data at 30 December 2020

Using the methodology developed by the CNMV, the stress test was carried out on non-real estate investment funds with data from December 2008 to December 2020. The three most important results obtained are described below. Firstly, the proportion of liquid assets in the investment funds' portfolios is quantified. The funds that could experience difficulties in meeting requests for redemptions in different adverse scenarios are then identified, and lastly an estimate is made of the impact of the sale of fund assets on the financial markets.

Figure E7.1 shows the proportion of liquid assets of the funds measured using the HQLA approach⁴ by category, which defines the assets available to the funds in the event of a negative shock occurring in the next six months. The weighted average of liquid assets (based on this criterion) for most categories is around 50% of the funds' assets. Only those categories that include corporate bonds clearly fall below this figure, especially the category that includes funds with a large percentage of high-yield corporate bonds in their portfolios. It is also important to note that in all categories there is a certain percentage of funds that have available liquidity that is well below the average. This is especially significant for the wholesale sovereign, and sovereign and corporate categories.

Proportion of HQLA of investment funds by category

FIGURE E7.1



Source: CNMV.

The analysis, which considers different redemption shock scenarios for the different categories of funds, reveals that the non-real estate investment fund market is largely resilient in the scenarios posited. As shown in Table E7.1, which represents the percentage of funds (or assets) in each category that could experience difficulties in meeting the redemptions under different scenarios, only the category of high yield corporate fixed income funds could run into liquidity problems in all the scenarios contemplated. In addition, only one other category, "Other investment funds", has funds that could experience problems in the most extreme scenario: *Conditional Expected Shortfall, CoES*⁵ ($\alpha = \beta = 2\%$). In the case of high-yield fixed income funds, two funds were identified that could experience difficulties in the less extreme scenarios: *Expected Shortfall, ES* ($\alpha = 3\%$), *CoES* ($\alpha = \beta = \sqrt{5}\%$) and *CoES* ($\alpha = \beta = \sqrt{3}\%$). This number increases to three in the somewhat more extreme scenario *CoES* ($\alpha = \beta = \sqrt{2}\%$) and nine in the most extreme scenario of all. These funds represent 5.2% (two funds), 7.9% (three funds) and 23.7% (nine funds) of the funds in this category and represent in terms of assets compared to the total for the category 3.9%, 4.0% and 8.2% respectively. In particular, there are two funds that belong to the "Other funds" category that

could have liquidity problems in the most extreme scenario. These account for 2.1% of the category's funds and 14.2% of assets.

Results of the stress tests (aggregated flows)

TABLE E7.1

%

Number of funds with RCR¹ <1 in each style/Total of funds in each style

Scenarios	Sovereign Investment					Wholesale equity	Retail equity	Other
	Wholesale sovereign	Retail sovereign	and corporate	grade corporate	High yield corporate			
<i>ES</i> ($\alpha = 3\%$) ²	0.0	0.0	0.0	0.0	5.3	0.0	0.0	0.0
<i>CoES</i> ($\alpha = \beta = \sqrt{5\%}$)	0.0	0.0	0.0	0.0	5.3	0.0	0.0	0.0
<i>CoES</i> ($\alpha = \beta = \sqrt{3\%}$)	0.0	0.0	0.0	0.0	5.3	0.0	0.0	0.0
<i>CoES</i> ($\alpha = \beta = \sqrt{2\%}$)	0.0	0.0	0.0	0.0	7.9	0.0	0.0	0.0
<i>CoES</i> ($\alpha = \beta = 2\%$) ³	0.0	0.0	0.0	0.0	23.7	0.0	0.0	2.1

Assets of funds with RCR¹ <1 in each style/Total funds in each style

Scenarios	Sovereign Investment					Wholesale equity	Retail equity	Other
	Wholesale sovereign	Retail sovereign	and corporate	grade corporate	High yield corporate			
<i>ES</i> ($\alpha = 3\%$) ²	0.0	0.0	0.0	0.0	3.9	0.0	0.0	0.0
<i>CoES</i> ($\alpha = \beta = \sqrt{5\%}$)	0.0	0.0	0.0	0.0	3.9	0.0	0.0	0.0
<i>CoES</i> ($\alpha = \beta = \sqrt{3\%}$)	0.0	0.0	0.0	0.0	3.9	0.0	0.0	0.0
<i>CoES</i> ($\alpha = \beta = \sqrt{2\%}$)	0.0	0.0	0.0	0.0	4.0	0.0	0.0	0.0
<i>CoES</i> ($\alpha = \beta = 2\%$) ³	0.0	0.0	0.5	0.0	8.2	0.0	0.0	14.2

Source: CNMV. (1) Defined as the ratio of liquid assets of each fund to the size of the redemption (net outflows). Therefore, funds with an RCR <1 are identified as those that could directly experience liquidity problems. (2) This is the baseline scenario used in the stress test carried out by ESMA (2019). *ES* = *Expected Shortfall*, a risk measure for expected redemptions considering only the largest redemptions that may arise. In this case, the largest 3% of redemptions is considered. (3) The number of funds that could have liquidity problems are 8: 1 corresponds to the sovereign and corporate category, 6 to the high-yield corporate category and 1 to the "Other" category.

The last step in this test is to estimate the impact on debt and equity market prices when funds are subject to adverse redemption scenarios. The results shown in Table E7.2 suggest that the impact is limited. Unsurprisingly, even in the most adverse scenario, *CoES* ($\alpha = \beta = 2\%$) and applying a pro rata settlement method,⁶ it is estimated that equity asset prices would fall on average by 6.95 basis points (bp), investment grade private debt asset prices would fall by 6.80 bp, high yield private debt prices by 4.87 bp and public debt prices 2.76 bp.

Impact on asset prices in the securities markets

TABLE E7.2

Slicing approach (bp)

Scenarios	Public sector debt	IG corporate debt	HY corporate debt	Equity
ES ($\alpha = 3\%$) ¹	1.43	3.06	1.59	3.40
CoES ($\alpha = \beta = \sqrt{5\%}$)	1.17	2.44	1.15	2.67
CoES ($\alpha = \beta = \sqrt{3\%}$)	1.40	3.03	1.58	3.27
CoES ($\alpha = \beta = \sqrt{2\%}$)	1.60	3.47	1.86	3.82
CoES ($\alpha = \beta = 2\%$)	2.76	6.80	4.87	6.95

Source: CNMV. (1) This is the baseline scenario used in the stress test carried out by ESMA (2019). ES = *Expected Shortfall*, a risk measure for expected redemptions considering only the largest redemptions that may arise. In this case, the largest 3% of redemptions is considered.

1 ESMA (2019). *Stress simulation for investment funds*. ESMA Economic Report.

2 Ojea, J. (2020). "Quantifying uncertainty in adverse liquidity scenarios for investment funds". *CNMV Bulletin*, Quarter II, pp. 25-47.

3 Money market funds are those regulated by Regulation (EU) 2017/1131 of the European Parliament and of the Council, of 14 June 2017, on money market funds. UCITS are funds regulated by Directive 2009/65/EC of the European Parliament and of the Council, of 13 July 2009, on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). In Spain, UCITS and quasi-UCITS are regulated by Law 35/2003, of 4 November, on Collective Investment Schemes and its implementing regulations, which transposes Directive 2009/65/EC into Spanish law. It is important to note that according to European regulations, most quasi-UCITS are considered alternative Collective Investment Schemes, which ESMA includes in the "Other" category. These alternative funds are regulated at European level by Directive 2011/61/EU of the European Parliament and of the Council, of 8 June, 2011 on alternative investment fund managers, amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No. 1060/2009 and (EU) No. 1095/2010.

4 The HQLA approach measures the liquidity of the fund portfolio using an index that attributes to each asset class a degree of liquidity (a weight that can take values from 0 to 100) depending on its characteristics: $HQLA_i = \sum_{k=1}^n (w_{i,k} * S_{i,k}) * 100$. Where $w_{i,k}$ is the weight (degree of liquidity) of asset k of fund i and $S_{i,k}$ represents the proportion of that asset in the fund's portfolio. In other words, the HQLA index is a weighted average of the liquidity of the assets making up the fund portfolio. The attributed weights, $w_{i,k}$, correspond to those applied under Basel III.

5 CoES is defined as: $CoES_{ij}(\alpha, \beta) = \int_0^u F_i^{-1}(v) dv$, where $u = F_i^{-1}(CoVaR_{ij}(\alpha, \beta))$ and F_i^{-1} is the inverse distribution function of variable i . $CoVaR$ in this context takes a value that fulfils the expression: $Pr(Net\ flow\ \%_i < CoVaR_{ij}(\alpha, \beta) \mid Net\ flow\ \%_j < VaR_j(\alpha)) = \beta$, where $VaR_j(\alpha)$ is the percentile α of net flows j that determines the severity of the conditional redemptions, while β is the percentile that determines the severity of redemptions conditional on the previous scenario. For example, for $CoES(\alpha = \beta = 2\%)$, to calculate the redemption shock applied to the funds in each of the categories, the largest 2% of redemptions in each category have been taken into account selected at times when the largest 2% of redemptions occurred in the whole fund sector.

6 The pro rata or slicing settlement method consists of liquidating the assets of a fund in such a way that the proportion of each asset class in the portfolio is always maintained regardless of its total. This would be the most appropriate method to protect investors, unlike the cascade settlement method, whereby the most liquid assets are sold first.

Single European electronic format

EXHIBIT 8

With the entry into force of Commission Delegated Regulation (EU) 2019/815, of 17 December 2018, supplementing the Transparency Directive with regard to the specification of a single electronic reporting format (ESEF), the annual financial reports of listed entities corresponding to the tax years beginning on or after 1 January 2020 and published on or after 1 January 2021 must be submitted in electronic format.

However, on 26 February, Regulation (EU) 2021/337 of the European Parliament and of the Council, of 16 February 2021, was published, amending, among others, the Transparency Directive regarding the use of the single electronic format for the presentation of annual financial reports, which allows Member States to postpone the application of the aforementioned electronic format for one year. The Spanish government has informed the European Commission of its intention to authorise this option to postpone.

Nonetheless, issuers of securities listed on regulated markets may voluntarily submit their annual financial report in ESEF format, as long as the requirements established in the Delegated Regulation are met.

Main objectives of the Delegated Regulation on the Single European Electronic Format (ESEF)

This means that issuers must prepare their annual financial reports only using the XHTML format. In addition, when there are consolidated financial statements prepared in accordance with IFRS, in order to ensure better accessibility, analysis and comparability, the main financial statements should be marked using XBRL (eXtensible Business Reporting Language) tags. The block labelling of the notes to the consolidated financial statements will also be mandatory from 2022.

When it is not appropriate to use the base taxonomy to mark elements in their consolidated financial statements, issuers must create an extension to the base taxonomy.

The individual annual financial report must be presented in XHTML format, while the consolidated annual financial report will consist of a single information package containing the Inline XBRL document together with the taxonomy extension files.

Dissemination of the requirements to prepare and present the ESEF

The CNMV held an ESEF dissemination session in October 2019 to explain the main aspects to be taken into account by issuers in order to adapt to the new formulation and submission requirements for annual financial reports.

It is worth highlighting the content of the European Commission Communication of 10 November 2020, which clarifies some of the provisions of EU Law regarding the preparation, auditing and publication of financial statements drawn up in accordance with Delegated Regulation (EU) 2019/815.

Among other matters, these indicate that the responsibility for preparing and publishing the annual financial report in European Single Electronic Format (ESEF) lies with the issuer's board of directors, management or control body and that the auditor's conclusions following its verification of compliance with the legal requirements established in the ESEF Regulation must be included in the audit report.

The content of the aforementioned interpretive communication is aligned with the joint statement of the Spanish College of Registrars, the Institute of Accounting and Auditing of Accounts and the National Securities Market Commission of 30 April 2020¹ in relation to the formulation and deposit of the annual accounts of securities' issuers European Single Electronic Format.

In the section of the ESMA website related to the ESEF² there are various documents, tutorial videos, files for testing the software used to prepare the financial reporting packages and a report manual available to provide guidance on the implementation of the financial reporting packages established in the Delegated Regulation and, particularly, for the first time formulation of IFRS consolidated financial statements in Inline XBRL.

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- 1 Joint statement of the Spanish College of Registrars, the Accounting and Auditing Institute and the CNMV, of 30 April 2020. Available at: <https://www.cnmv.es/Portal/verDoc.axd?t={a7b04d70-5bec-449f-acbc-08bca5d728fa}>.
 - 2 Link to the ESMA website related to the ESEF: <https://www.esma.europa.eu/policy-activities/corporate-disclosure/european-single-electronic-format>.

Partial review of the Code of Good Governance of Listed Companies EXHIBIT 9

On 26 June 2020, the CNMV Board approved the partial review of the Code of Good Governance of Listed Companies based on four main lines: promoting the presence of women on the boards of directors, greater relevance of non-financial information and sustainability, more attention to reputational and, in general, non-financial risks, and clarification of aspects related to directors' remuneration.

The review affected, to a varying degree, the wording of 20 of the 64 recommendations of the code.¹

The main amendments are as follows:

Recommendation 2. Listing of companies belonging to groups

The scope of application of the recommendation has been expanded and the new text addresses not only cases where the two group companies are listed, but applies in all cases where the listed company is controlled by another entity.

Recommendation 4. General communication policy

Companies must now have a general policy for the disclosure of economic-financial and corporate information.

Recommendation 7. Voting and remote attendance

Entities must have systems in place so that shareholders can exercise their right to vote by remote means and even, at least for entities with high capitalisation, envisage mechanisms that allow remote attendance and participation in the meeting.

Recommendations 14 and 15. Gender diversity

Recommendations on gender diversity have been reinforced. The number of female directors should represent at least 40% of the members of the Board of Directors before the end of 2022. Companies should also work to increase the number of female senior managers.

Recommendations 22 and 24. Removal of directors

Recommendation is amended so that the board must assess any situation in which a director is involved in circumstances that could damage the standing or reputation of the company, and, where appropriate, take action without waiting for an official court decision (such as an indictment or the opening of oral proceedings).

Recommendation 37. Composition of the executive committee

The new text recommends the committee contain at least two non-executive directors, at least one of them being an independent director.

Recommendations 39, 41, 42 and 45. Risks and non-financial information

Technical adjustments have been made to the wording to include non-financial risks. The scope of the channel for reporting irregularities has been expanded and it is recommended that this mechanism guarantee confidentiality.

Recommendations 53, 54 and 55. Sustainability

Some technical adjustments are made and the term “corporate social responsibility” is replaced by the broader and currently used term of “sustainability in relation to environmental, social and governance” (ESG) aspects.

Recommendation 59. Variable retribution

The text has been changed to clarify that variable remuneration for directors should only be paid when it has been sufficiently verified to ensure that previously established performance or other criteria have been met.

Likewise, it is recommended that companies consider the inclusion of a reduction (*malus*) clause for the deferral of the payment of a portion of variable remuneration components that would imply their total or partial loss if an event were to occur prior to the payment date that would make this advisable.

Recommendation 62. Share-based remuneration

The new text clarifies the scope of the rule according to which, once shares or options or financial instruments arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership or exercising options or rights until a term of at least three years has elapsed.

The wording is also modified to clarify that it is not necessary to respect this requirement when the director has economic exposure to the variation in the price of the shares for a market value equivalent to at least twice the amount of his or her fixed annual remuneration.

Recommendation 64. Severance pay

The amendment specifies payments made for contractual termination, which may not together exceed two years' of salary, may include any payments accrued or where the payment obligation arises as a consequence of or due to the termination of the contractual relationship between the director and the company, including amounts not previously included in long-term savings systems and amounts paid under post-contractual non-competition agreements.

1 Specifically, recommendations 2, 4, 6, 7, 8, 14, 15, 22, 24, 37, 39, 41, 42, 45, 53, 54, 55, 59, 62 and 64 have been amended.

Change of control in BME's trading infrastructures

EXHIBIT 10

On 17 November 2019, SIX Group AG (SIX) launched a voluntary takeover bid for all the shares of Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A. (BME).

On 23 December, SIX submitted a request to the Government of Spain to authorise the takeover bid and change of control of the governing companies of the regulated markets, Iberclear and BME Clearing, in accordance with the provisions of section two of the Sixth Additional Provision of the recast text of the Securities Market Act and Regulation (EU) No. 648/2012 of the European Parliament and of the Council, of 4 July 2012. The Ministry of Economic Affairs and Digital Transformation declared the request to be complete on 10 February 2020, the date on which it requested the corresponding report from the CNMV.

The CNMV then started to analyse the documentation provided by SIX in accordance with the joint guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the banking, insurance and securities sectors implemented by the European Securities and Markets Authority, the European Banking Authority and the European Authority for Insurance and Retirement Pensions. This assessment covered aspects such as the new structure of the proposed group and effects on supervision, the reputation, professional capacity and experience of the managers, the reputation and financial solvency of the bidder, prudential requirements, prevention of money laundering, the financing of the bid and other considerations.

The CNMV also asked BME for the report provided for in Articles 2 and 4 of Royal Decree 361/2007, of 16 March, to rule on the consequences that the loss of its participation would have on the development of the regulated and the systems managed by the systems company and the central counterparty. The foreseeable impact of the operation on each of BME's infrastructures was also analysed, as well as the commitments assumed by SIX, which are described below. The reports submitted to the Ministry by the Catalanian, Valencian and Basque autonomous governments were also assessed.

Given the significance that the merger of SIX Group and BME Group could have for the operation of the Spanish and Swiss financial markets and that these groups include entities that are subject to supervision, to facilitate collaboration between FINMA (the Swiss competent authority) and the CNMV, the authorities agreed to draw up a collaboration agreement to cooperate in the supervision of BME and SIX.

After analysing the documentation received, the CNMV reported in favour of the proposed bid on 18 March 2020, stating that the commitments voluntarily assumed by SIX had been one of the key reasons for reaching such a conclusion. These commitments were recorded in the Agreement of the Council of Ministers, dated 24 March 2020, by which the Government authorised the takeover under certain conditions and highlighted the following points: i) equal treatment of users of Spanish and Swiss infrastructures; ii) the potential admission to trading of SIX, both on the Swiss and Spanish stock exchanges, should SIX become a listed company; iii) specific commitments for the three

key infrastructures (stock exchange, BME Clearing and Iberclear); iv) maintaining a sufficient supply of trading, clearing and settlement services, and services to ensure that the key infrastructures continue to operate normally; and v) when there is a cooperation agreement with the competent authority of the third country, the delegation or outsourcing of critical functions by the aforementioned infrastructure shall be subject to the authority of the CNMV.

On 25 March, the CNMV authorised the takeover bid, which was announced by SIX on 11 June. Following the exercise of sell-out rights by BME shareholders who did not accept the takeover bid and the exercise of squeeze-out rights by SIX, the acquisition of BME's entire share capital was completed and the company was delisted on 30 September.

Throughout the process, the CNMV paid close attention to the socio-organisational aspects of BME's market infrastructures. For instance, having recourse to its powers in this area, the CNMV carried out an exhaustive follow-up of all variations in the stakes in BME's share capital and of the modifications that occurred in its governing and management bodies after the change of control.

It should also be noted that on 3 December 2020, the CNMV approved a prospectus to admit a senior bond issue made by SIX to trading on the AIAF. This transaction was performed through its vehicle SIX Finance (Luxembourg) S.A., in the context of the refinancing of the acquisition of BME, for an amount of €650 million and matured in December 2025.

The CNMV will continue to monitor the integration of BME Group into SIX Group to ensure that it is carried out in accordance with applicable legal requirements and the aforementioned stated commitments.

Application of Regulation 2019/2088 on sustainability-related disclosures in the financial services sector

EXHIBIT 11

On 10 March 2021, Regulation (EU) 2019/2088 of the European Parliament and of the Council, of 27 November 2019, on sustainability-related disclosures in the financial services sector, entered into force (the Regulation). This Regulation establishes harmonised standards of transparency to be applied by participants in financial markets. Within the scope of the CNMV, it affects CIS management companies, management companies of closed-ended collective investment undertakings, entities that provide discretionary portfolio management services and financial advisers (entities that provide investment advice).

These standards refer to information on the integration of sustainability risks, transparency in the event of adverse sustainability impacts and information on the sustainability of financial products. The transparency obligations imposed by the Regulation affect the information that participants shall publish on their websites, pre-contractual information (in the case of CISs and venture capital firms, the prospectus) and the annual reports.

The transparency obligations can be summarised as follows:

- Information about policies on the integration of sustainability risks in the investment decision-making process: to be published on websites (Article 3) and in pre-contractual information (Article 6).
- Statement on policies on adverse impacts of investment decisions or advice on sustainability factors: to be published on websites (Article 4) and in pre-contractual information (Article 7).
- Transparency on remuneration policies in relation to the integration of sustainability risk on websites (Article 5).
- Information on the promotion of environmental or social (ESG) characteristics of a product (provided that the companies in which it is invested observe good governance practices): to be included on websites (Article 10), in pre-contractual information (Article 8) and in the information corresponding periodic information, annual reports in the case of CISs or alternative investment funds (Article 11).
- Information on products aimed at sustainable investments: to be included on websites (Article 10), in pre-contractual information (Article 9) and in the corresponding periodic information, annual report in the case of CISs or AIFs (Article 11).

With the exceptions set forth in Article 7 and Article 20 (entry into force and application), which postpones the obligation for periodic information to 1 January 2022, the Regulation shall be applicable from 10 March 2021.

For the purpose of specifying the details of the presentation and content of this information, Article 4 (transparency of adverse sustainability impacts on websites), Articles 8 and 9 (pre-contractual information) and Article 10 (infor-

mation on website) provide that the European Supervisory Authorities (ESAs), in other words, the European Securities and Markets Authority (ESMA) in the case of securities, the European Banking Authority (EBA) for banks and the European Authority for Insurance and Retirement Pensions (EIOPA) in the area of insurance and pension funds, should prepare draft regulatory technical standards, which have not yet been approved. Despite the absence of these standards and other regulatory developments, the European Commission has ratified the obligation to comply, as of 10 March of this year, with the obligations relating to information on sustainability risk and the main adverse aspects, as well as with the principles established in Articles 8 and 9, since their application is not conditioned to the prior implementation of technical standards. On 4 February, the ESAs published the draft regulatory technical standards, stating that they have proposed that they be applied from 1 January 2022. They also announced that they planned to issue a communication before the date of application of the Regulation to ensure its consistent application and monitoring.

Without prejudice to the content of the communication the ESAs may publish, on 18 February, the CNMV issued a statement¹ encouraging institutions to use the time remaining before the application of the technical standards to prepare properly. Likewise, during the period in which the Regulation is applied in which the technical standards are not enforceable, it indicated that institutions may voluntarily use the drafts of these standards submitted by the ESAs to the European Commission as a reference.

Therefore, entities must include on their websites and in their corresponding pre-contractual documentation information on the policy for integrating sustainability risks into the decision-making process and on the adverse effects of their decisions on sustainability factors (in the second case, and with regard to pre-contractual information at product level, the deadline is only applicable if adverse incidents are not taken into account, otherwise the obligation is postponed until 30 December 2022 at the latest).

Likewise, CISs or portfolios under management that, in accordance with the provisions of Articles 8 and 9, promote environmental or social characteristics (as long as the companies in which they invest observe good governance practices), or have sustainable investments as their objective, must include, as of 10 March 2021, the information provided for in the regulation on their websites and in their contractual documentation.

The CNMV has conveyed to the institutions subject to the Regulation the importance of proper transparency in the information on sustainability in the financial services sector and correct compliance with the obligations and principles established in the regulations. Further, with a view to the implementation of the Regulation, it intends to:

- Seek harmonised application at European level, for which purpose it will adhere to the guidelines established by the ESAs and in particular ESMA.

- Disseminate criteria to the sector on the implementation of the Regulation in the absence of the technical standards, through the publication of a Q&A document on the consultations received and its supervisory experience.
- Apply the principle of proportionality in the supervision of compliance with the regulations by the institutions required to do so.
- Take into account, both in regard to the registration of amendments in CIS prospectuses and supervision tasks, the uncertainty that has surrounded the date of entry into force of the obligations established in the Regulation.

In the particular case of updating the prospectuses of investment funds to adapt them to the requirements of Articles 6 and 7 of the Regulation (sustainability risk and adverse events), the CNMV has developed a simplified procedure to allow the agile incorporation of information in registered prospectuses.²

In regard to the obligations imposed by Articles 8 and 9 of the Regulation, management companies must review the prospectuses of the funds registered as socially sustainable investments and assess whether the information included in this document complies with regulatory requirements. In this sense, taking into account the aforementioned circumstances, the CNMV considers that in general and without prejudice to the review that each management company must carry out, the information contained in the prospectuses of these funds, in accordance with the criteria applied up until that time, could be considered sufficient to comply with the regulatory requirements. Notwithstanding, management companies that wish to do so may voluntarily adapt the content of the prospectuses of these CISs, in accordance with the draft regulatory technical standards submitted by the ESAs to the European Commission. Management companies that decide to update these prospectuses must also follow the simplified procedure referred to above.

The CNMV considers the credibility of the information regarding sustainable investment and awareness of sustainability risks to be essential, therefore it urges the institutions involved to equip themselves with adequate means and procedures to properly comply with the new regulations in this area. Likewise, to more easily meet the objectives pursued by the Regulation, the CNMV has offered to collaborate with the sectors involved to resolve any doubts that may arise and coordinate its application.

As a complement to the statement of 18 February and in accordance with the provisions of its 2021 Activity Plan, the CNMV published on 1 June 2021 the interpretative criteria that will guide its authorisation and supervisory actions in the application of this Regulation.

The document was published in question and answer format, in response to the queries raised by the main sector associations and has taken into account the newness of the Regulation, in addition to the fact that a large part of its content is pending development or clarification by the European Commis-

sion. Therefore, the criteria included may be subject to revision or expansion in the future as more information becomes available or guidelines are issued at the European level (by the Commission or ESAs).

As part of the criteria published, the CNMV clarifies that the CISs that wish to be classified as an ESG financial product from now on, may only include references to ESG elements in their commercial name if the percentage of investments that promote environmental or social characteristics exceeds 50% of the investment. In the case of general commercial communications these products (outside the scope of their name), references to ESG terms may be used as long as the advertising message is aligned with the information in the prospectus.

Likewise, the document includes criteria on the minimum information that the CIS prospectus must contain that promote environmental or social characteristics, or a combination of these, or that have sustainable investments as their objective (CISs under Article 8 or 9 of the Regulations, respectively), or various considerations on the principal adverse impacts (PAIs) and their material impact on investments.

1 verDoc.axd (cnmv.es)

2 <http://www.cnmv.es/portal/Gpage.aspx?id=ProcFolletolIC>

Review of the Guide to assess appropriateness and supervisory experience

EXHIBIT 12

In recent years, the CNMV has highlighted in its supervisory actions the importance for entities to ensure that the information they use to assess the appropriateness of their retail customers' transactions, especially when they refer to complex instruments, is sufficient, consistent, accurate and up-to-date.

Likewise, the importance of using prudent criteria to assess the information obtained from customers has been highlighted, to avoid overvaluing their knowledge and experience, in particular their real level of financial literacy.

In recent years, supervisory actions have been carried out with the specific objective of assessing the quality and consistency of the information on the knowledge and investment experience of customers used by institutions to assess appropriateness or suitability.

The CNMV also took part, together with other European supervisors, in the joint action coordinated by ESMA dedicated to the appropriateness assessment. The conclusions of this review, together with other data sources, were used by ESMA to prepare the new guidelines, which are currently in the public consultation phase.¹

Supervisory experience

Some of the results of the supervisory actions carried out that institutions should take into account are as follows.

The information obtained from customers should be considered as a whole, so that the result of the assessment is consistent and carefully weighs up their real level of financial knowledge.

For example, for highly complex instruments, if customers state that they do not have a high general level of financial knowledge or express doubts in the understanding of the key characteristics or risks of the products, it would not be appropriate or prudent to assume the product is appropriate, even if the customer may have a high level of academic expertise or previous investment experience in similar instruments.

Deficiencies were also identified in the global assessment when customers show a high level of financial knowledge or familiarity with highly complex instruments and this is inconsistent with their relatively low level of education, especially if they acknowledge that they lack experience in investing in financial instruments with such a degree of complexity. In these situations, the risk of overvaluing the customer's real level of financial knowledge should be avoided and their responses should be verified to ensure that they have sufficient knowledge before the transaction is considered to be appropriate.

The mechanisms used to obtain information on the customer's level of financial knowledge or familiarity with the characteristics and risks of financial

instruments must always be robust and aimed at preventing the risk of overvaluing their real level of financial culture.

For example, in the case of highly complex instruments, it has been observed that it is not advisable to ask closed questions about a certain characteristic or risk of the instrument, in which it is easy for the investor to guess what the correct answer to the question would be, or in which the answer is provided in the question itself, especially when customers are asked binary questions, usually with YES/NO answers (e.g. “Do you understand that this product could result in the loss of part of your investment?”. To which the answer is YES/NO). Supervisory experience suggests that these approaches are not advisable, since they often do not permit the customer’s real level of financial knowledge to be properly assessed as they may not pay sufficient attention to their responses or may want to appear to have a higher level of financial literacy than they actually have, thereby increasing the risk of overvaluing their real level.

The assessment must be performed using questions that refer to the risks and key features of the instruments, in such a way that customers are given the option to provide scaled responses (from not being aware of the risks to fully understanding them), and that customers are able to freely select their level of financial knowledge for the product in question, particularly when these are highly complex instruments. Likewise, questions should not be closed-ended so that the correct answer cannot be easily guessed because of the way the question has been put.

In any case, for instruments with a certain level of complexity, appropriateness should not be presumed to exist without first confirming that the customer has a sufficient level of financial knowledge (i.e. they should always be asked about this aspect, based on the above) regardless of whether they have previous investment experience.

While appropriateness and suitability assessments must be carried out on a case-by-case basis, entities must also adopt measures and take reasonable steps to ensure that the information obtained from customers is generally reliable. Therefore, an assessment should be made of whether situations exist that could at first glance be considered atypical, which would not be expected to occur or would be expected to occur occasionally or as a one-off incident. Entities must periodically critically assess the overall reasonableness of the information used to assess appropriateness, considering, at least: i) whether the overall data on the education level of retail clients as a whole are reasonable, taking into account their sociological features; ii) whether the global data corresponding to clients with a high degree of financial knowledge are reasonable, in particular in the case of groups of clients who do not have prior professional or investment experience or who do not have a level of academic training that would be consistent with a high level of financial knowledge, or iii) whether the global data of retail clients who declare that they have previous investing experience in complex instruments that are infrequently sold to retail investors is reasonable, in particular when the experience expressed by these clients does not correspond to their transactions in the entity.

These periodic and global reviews should aim to identify groups of customers for which the information available may not properly reflect their general level of education, financial knowledge or experience, regardless of whether the data are derived from the appropriateness or suitability assessments.

In sum, it is necessary to carry out a review of the CNMV's public guidelines for assessing appropriateness, since some of its content may be outdated. Thus, one of the objectives of the CNMV's Activity Plan for 2021 is to prepare a technical guide for the assessment of appropriateness. This technical guide will specify the criteria that the CNMV considers should be taken into account when assessing appropriateness to ensure that prudent, consistent and robust results are obtained.

1 On 29 January, ESMA published its *Consultation paper on the Guidelines on certain aspects of the MiFID II appropriateness and execution-only requirements*, which will be in the consultation phase until 29 April 2021.

On 3 December 2020, following its submission to public consultation, the CNMV approved its Technical Guide 3/2020 on non-professional advisers to collective investment Schemes (CIS), thereby fulfilling one of the commitments made in its 2020 Activity Plan.

The Technical Guide includes the criteria that the CNMV considers should be applied and which it follows when exercising its supervisory activities on the requirements for individuals or entities that are not authorised to operate as investment advisers to CISs, as well as the obligations of the management company or self-managed investment company.

The CNMV has acknowledged that CIS management companies (CISMCs) may receive advice from natural or legal persons that are not authorised to provide investment advisory services in Spain on a professional or regular basis, provided that this is a one-off, exclusive and non-professional event (as defined in the Securities Market Regulations), and meets certain requirements.

Given that the CIS Regulation approved by Royal Decree 1082/2012, of 13 July, requires the CIS prospectus to contain information about advisers, CISMCs have been including, where appropriate, a mention of both the entities or persons authorised to provide investment advisory services on a professional or regular basis, in addition to the entities or persons not authorised to do so, noting in this case that the adviser is not authorised to provide regular advice and therefore is not authorised or supervised.

In recent years there has been a significant increase in the number of advisers that are not qualified to perform advisory services, particularly for funds, fund compartments and open-ended collective investment schemes (SICAVs), which has made it advisable to establish and publicly disseminate criteria to take into account in relation to both non-qualified advisers and the management companies (in this case, about the preliminary actions and the subsequent controls that they have to carry out on the role carried out by advisers).

Technical Guide 3/2020 specify these criteria, which include:

- Verification that the adviser is of good repute, with sufficient investment knowledge and experience and is equipped with the technical means necessary to properly carry out their activity.
- Control procedures for advisers' activities, aimed at preventing and managing possible conflicts of interest, as well as ensuring that any recommendations that are carried out comply with current regulations, the policy established in the CIS prospectus and the risk limits approved by the board of directors of the CISMC or self-managed SICAV.
- Formalisation of the relationship with the adviser in a written contract with sufficient documentary evidence of all aspects required under the Technical Guide.

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To establish criteria for this area, the CNMV has been mindful that management companies are responsible for monitoring any recommendations made by the entities that advise them, since they are regulated investment management entities; that is, they have the experience, knowledge and qualifications to assess investment decisions and the inherent risks.

Supervision at national and European level on liquidity management of CISs during the COVID-19 crisis

EXHIBIT 14

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Based on the confidential information that management companies submit to the CNMV on a monthly basis, regular off-site supervision is carried out to monitor the liquidity levels of the assets held by the CIS, with the objective of identifying and anticipating possible liquidity problems that may arise, as well as detecting potential deficiencies in the controls and procedures that management companies must implement to ensure proper liquidity management.

For this purpose, based on a predefined methodology that combines information from different market sources, a liquidity level is assigned to each of the CIS assets, which allows institutions that could potentially present significant exposures to investments with the lowest levels of liquidity to be identified.

The objective of these supervisory analyses is to ensure that entities carry out a proper liquidity management activity, which respects the principle of equality between investors (using the slicing approach or the proportional sale of the liquid and illiquid portfolio to address repayments), that valuation procedures are applied that take into account the institution's net subscriptions and redemptions and that forced or accelerated sales of assets are avoided at prices that are significantly lower than the previous valuation prices.

These supervision tasks were reinforced in 2020, with a focus on the daily monitoring of subscriptions and redemptions of CISs. In those cases in which significant movements were identified, an analysis of the portfolios and the transactions carried out was made, with the aim of verifying that there were no forced sales of assets and that the slicing approach was properly complied with. Additionally, the follow-up actions on the valuation procedures implemented by management companies should be highlighted, specifically, those that took into account the net subscription/redemption position of the CIS and therefore applied valuations to asset buy/sell prices or making adjustments to the net asset value (through the mechanism known as swing pricing). Lastly, the reviews of the valuations were stepped up for assets that presented lower levels of liquidity.

These supervisory tasks were complemented by statements sent out to and regulatory changes. Specifically, in March (the worst moment of the crisis) a statement was sent to all entities, reminding them of the importance of reinforcing liquidity and valuation controls, in addition to adopting measures to avoid conflicts of interest between investors by complying with the "slicing approach" principle and using proper valuation procedures (through the mechanisms indicated in the previous paragraph). In May, an amendment to the CIS Law was approved so that managers could request (for stability reasons) authorisation from the CNMV to apply notice periods without having to comply with regulatory requirements (i.e. that it is expressly established in the fund's prospectus, that it involves requests for redemptions of more than €300,000 and that the term does not exceed 10 days).

It is also worth highlighting the tasks carried out in the context of a supervisory action coordinated by ESMA (known as the Common Supervisory Action or CSA) on the liquidity risk management of institutions for collective investment in transferable securities (UCITS). This action was performed in 2020 in two phases: a first, in which the member countries had to obtain detailed information on their UCITS from the management companies, with the aim of selecting, in a second phase, the UCITS managers and funds that, due to their characteristics and investments made, could have greater liquidity risk and on which a thorough analysis of the management and procedures implemented to control liquidity should be carried out.

In the first phase, ESMA required a minimum coverage of 80% of registered managers in each member state (which was 100% in Spain thanks to the regular monitoring of the portfolios mentioned above), and in the second phase coverage had to extend to at least 20% of the management companies with assets under management that accounted for more than 50% of total UCITS (in Spain, it was performed on 28% of authorised management companies, accounting for 72.35% of assets under management).

All the supervisory actions carried out in 2020, led to the conclusion that first of all Spanish management companies have a prudent approach to management, with significant percentages of their capital contained in highly liquid assets. Secondly, the portfolios of funds that invest mainly in corporate or financial fixed income are widely diversified, which also facilitates liquidity management, and most of the issuers are medium-sized or large companies, with a low exposure to high yield debt.

It should also be noted that since the beginning of the crisis, most management companies have been implementing measures to avoid the generation of conflicts of interest due to liquidity problems. These include increases in liquidity levels (to anticipate significant redemptions), strengthening their valuation and liquidity controls (by monitoring buy/sell spreads and analysing the representativeness of the prices contributed to the market), and monitoring of redemptions, proceeding, where appropriate, to apply notice periods and value assets at sale prices or use swing pricing mechanisms.

Therefore, in the current crisis, no specific incidents were detected that have led to a conflict of interest or caused damages to shareholders. However, certain deficiencies in the procedures and controls implemented by some entities were revealed, related to the definition of the criteria for the application of buy/sell prices or swing pricing, with the methodologies for estimating asset liquidity levels or where no backtesting was performed. All these deficiencies have been rectified.

Automated review of advertising and information disseminated on the websites of CIS management companies and CIS marketing undertakings

EXHIBIT 15

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The analysis consisted of a mass extraction of data from the web pages of more than 200 entities and an automated review of the regulatory requirements using Python programming language, which includes libraries of machine learning algorithms.

Controls were implemented that enabled highly automated supervision to be carried out (allowing human intervention to centre on criteria issues) which focused on: i) checking that the management company's website contained the latest version the prospectus, the key investor information document (KID) and the periodic public information (PPI); ii) checking the advertising through a search for any expressions or elements that referred to gains or returns that could be achieved without warning of the risks, or information that could be misleading or that is not based on objective data, and iii) verifying that the legally required performance data were being provided, specifically, the annual performance in the previous five years and that the information contained a notice stating that "past performance is not a reliable indicator of future results", with a font size equal to that of the rest of the information provided.

A quarter of the incidents detected in the analysis were related to ensuring that the latest version of the legally required public information (prospectus, KID or PPI) had been made available to investors.

Another 30% of the incidents corresponded to the identification of messages or expressions which referred to: i) the application of below-market fees and commissions or the possibility of obtaining of the better returns (while no objective supporting data or sources were provided in any of these cases); ii) the use of unclear terminology (for example, the term "guaranteed return", when the fund in question was not a guaranteed fund in the strictest sense), and iii) the highlighting of positive aspects or advantages (using superlative expressions in some cases) without including any kind of warning about the risks.

Lastly, the remaining 45% of incidents were related to information on returns, specifically: i) the legally required data on returns were not provided (annual returns for the previous five years); ii) the legally required data appeared in other sections of the website that were less visible compared to other data on returns (such as, the for the current year or accumulated figures), and iii) the warning notice required under the regulation ("past performance is not a reliable indicator of future results") was not included or it was provided but in a font size that was significantly smaller than the size used for the rest of the information provided.

Lastly, it should be noted that all entities have undertaken to carry out the necessary changes to their respective websites to rectify these issues.

Given the efficiency of this automated review, supervisory tasks in this area will continue throughout 2021, also extending to advertising for venture capital firms and other closed-ended investment schemes that may be offered to retail investors.

Status of the interest rate benchmark reform

EXHIBIT 16

Almost a decade after the G-20 Heads of State and Government Summit held in Saint Petersburg and the publication of the IOSCO Principles for Financial Benchmarks,¹ which marked the beginning of the reform of these indices, the transition is now in its final and most decisive stages.²

In 2020, the reform progressed according to plan, and the crisis caused by COVID-19 did not lead to any significant slowdown – there were only technical delays in some of the partial milestones.

Cessation of LIBOR

The cessation of Libor remains a priority and banks are expected to be prepared by the end of 2021. The index manager conducted a public inquiry in late 2020 on its intention to cease publication of the index beyond the end of 2021 on all available maturities in the following currencies: euro, Swiss franc, Japanese yen and British pound, as well as maturities of 1 week and 2 months corresponding to the US dollar. The remaining maturities (1 day and 1, 3, 6 and 12 months) in this last currency would cease to be published as of 30 June 2023, provided that the index, in said maturities and currency, continues to comply with the applicable regulations, including its representativeness.

The competent authorities of the United Kingdom and the United States have issued communications on the cessation of Libor as of these dates, urging entities not to enter into new contracts that use the index as soon as possible and, in any case, before 31 December 2021.

In Spain, there are numerous non-financial companies, public administrations and financial entities that have signed financing or hedging contracts referenced to Libor. In order to provide these entities with information on progress in the transition, the CNMV issued a communication in early 2021 reiterating the recommendations made in July 2019:

- The advisability of monitoring developments and actions of the working groups and the main advances in the reform process.
- Identifying and evaluating the risks and possible impacts deriving from their exposure.
- Designing a global strategy to plan the corresponding implementation actions.
- Having an appropriate organisational structure to coordinate the design and implementation of the transition work.

The Financial Stability Board (FSB), which coordinates the monitoring of the Libor transition at a global level, has also published a global transition roadmap aimed at raising awareness about the steps that financial and non-financial

companies should follow during the remaining period until the end of 2021 to successfully transition and cease Libor.

One of the key actions that entities have to complete during 2021 is the amendment of contracts and instruments linked to the benchmark to replace it with the alternative rates recommended by the working groups in the industry sponsored by the central banks. In the field of OTC derivatives contracts, the International Swaps and Derivatives Association (ISDA) has designed a supplement and a protocol on support clauses for derivatives contracts referenced to indices such as Libor, which facilitate the adaptation of contracts to address the cessation of the index and, where appropriate, their adjustment to the requirements set forth in Article 28.2 of Regulation (EU) 2016/1011 of the European Parliament and of the Council, of 8 June 2016, on the indices used as reference in financial instruments and in financial contracts or to measure the profitability of investment funds.

The CNMV, like other European and international authorities and institutions, has advised Spanish entities to consider the advisability of subscribing to these ISDA documents, taking into account their particular situation and their own needs.

As there are contracts and instruments that do not have proper backup clauses to address the cessation of Libor and which cannot be amended in the short period remaining until its abolition at the end of 2021, the European Union has approved a mechanism (amending Regulation (EU) 2016/1011) that will allow the European Commission to designate a legal replacement rate for all contracts that do not contain a permanently applicable alternative and are subject to the legislation of a Member State of the Union. A similar legislative solution is being considered in other jurisdictions such as the United Kingdom and the United States.

Continuity of Euribor and transition from Eonia to €STR

Significant progress has also been made in the euro area on the process of adapting Euribor methodology to the recommendations of the FSB and the requirements of the aforementioned Regulation, and the transition of Eonia to the new €STR (euro short-term rate) calculated and published by the European Central Bank since October 2019.

Since the disappearance of Eonia was announced, both its administrator, the European Money Markets Institute (EMMI) and the European authorities, have repeatedly reported the date on which it will be permanently discontinued and warned that to mitigate all legal and economic risks as far as possible, index users should use €STR on new contracts, especially if they expire after 3 January 2022.

The adaptation of Euribor calculation methodology to a system based on market transactions, which prioritises real transactions over expert judgement, has allowed for the continuation of Euribor, unlike Libor. The robustness and representativeness of the new Euribor have been demonstrated during the crisis generated by COVID-19. At all times during the pandemic, Euribor has

been published regularly and its performance continued to reflect monetary policy decisions and market perception of financing conditions for credit institutions in the unsecured wholesale money market.

To increase the robustness of contracts and financial instruments indexed to Euribor, fallback clauses must be included, as required by Regulation (EU) 2016/1011, to guarantee the continuity of the contracts in the unlikely scenario of the discontinuation of Euribor, increasing legal certainty and minimising the risks of litigation.

Therefore, the working group on risk-free rates in the euro area will shortly publish a recommendation, based on the public consultation carried out in 2020, on the best fallback rates for the different types of products such as loans, deposits, debt instruments, securitisations and investment funds. These rates are based on the euro area risk-free rate, €STR, applying backward-looking methodologies involving the calculation of term rates based on past data, as well as forward-looking methodologies, according to the type of product they are applied to.

The forward-looking approach requires a deep and liquid derivatives market to serve as the basis of calculation, but RFR-based derivatives markets are still far from sufficiently liquid for this purpose. The use by market participants of €STR instead of Eonia in new contracts and the replacement of the Eonia discount curve by the €STR discount curve by European clearing houses at the end of July 2020 have eased the transition. This change is expected to gradually shift the high liquidity of the derivatives markets on Eonia to the derivatives markets pegged to the €STR in the coming months.

1 IOSCO (2013). *IOSCO Principles for Financial Benchmarks*, July.

2 See Exhibit 17 (Progress in the reform of interest rate benchmarks) published in the *CNMV 2019 Annual Report*.

Financial education and savings and investment decisions: an analysis of the Survey of Financial Competences (SFC)

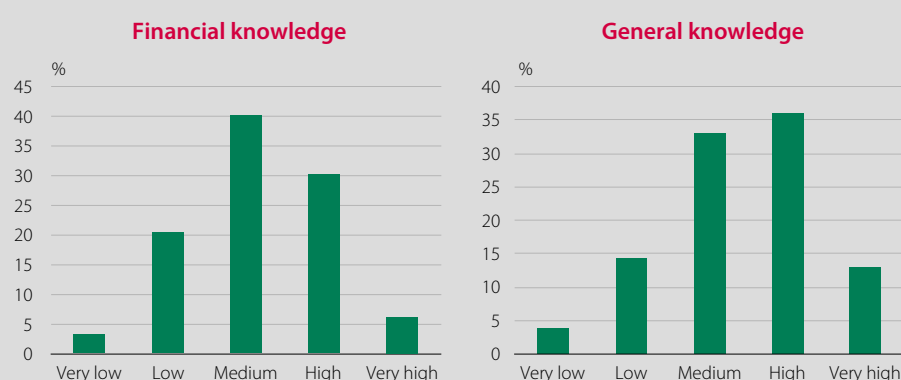
EXHIBIT 17

As part of the financial education strategy, between 2016 and 2017, the CNMV and the Bank of Spain, with the collaboration of the National Institute of Statistics, carried out a Survey of Financial Competences (SFC). The main objective of this survey, which consisted of around 200 questions that were put to 8,554 individuals, was to measure the Spanish population's knowledge of economic and financial concepts, as well as their ability to save and their holdings of financial products. To analyse and exploit this information, the CNMV carried out a study which presents an evaluation of the level of financial knowledge of the individuals in the sample, in comparison with a series of available socio-demographic and economic variables. Secondly, it seeks to establish the influence of financial knowledge on the decision to save and/or invest in a specific financial product, such as an investment fund or pension scheme. This Exhibit is a summary of the main conclusions of this study.¹

To evaluate the level of financial knowledge of individuals in the sample, both the survey questions related to their financial knowledge and some of those related to their cognitive skills were analysed. Each respondent was then given one score for financial knowledge and another for general knowledge. According to this analysis, the overall average score for financial knowledge was 6 out of 10, while the score for general knowledge was 6.3 out of 10. Figure E17.1 shows how 70% of the population have a medium or high level of financial knowledge and 25% have a low or very low level, while for general knowledge these percentages are 69% and 18%, respectively.

Breakdown of knowledge scores¹

FIGURE E17.1



Source: SFC and CNMV. (1) The knowledge of individuals in the sample was classified into five groups according to the score obtained. These groups were "very low" (score of 0 to 2), "low" (3 to 4), "medium" (5 to 6), "high" (7 to 8) and "very high" (9 to 10).

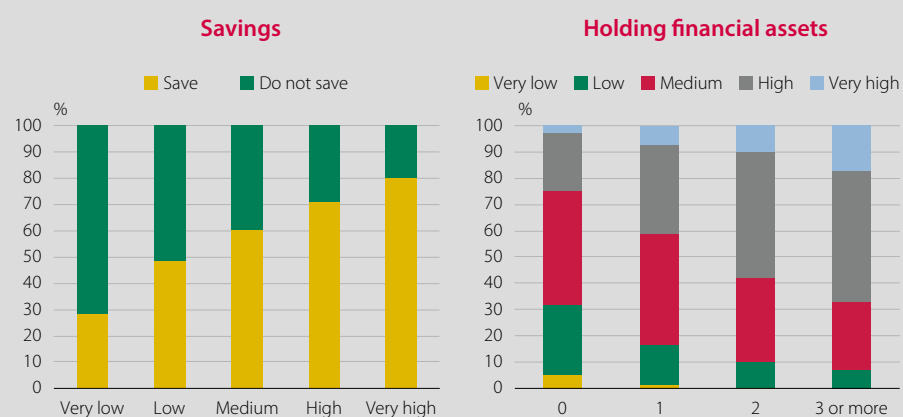
An analysis of the relationship between the knowledge of the population and certain demographic and financial variables reveals that the oldest age groups have the lowest levels of general and financial knowledge. In addition, lower age groups have higher knowledge in general and the differences between them are small. A higher proportion of men (82% compared to 71% of women) show a medium or higher level of financial knowledge and the higher the

educational level attained by the individual, the greater their financial (and general) knowledge. The data also appear to indicate the importance of acquiring the early stages of financial education in learning. Similarly, there appears to be a positive relationship between the individual's income level and their level of financial knowledge, although this relationship does not appear to be linear, in other words, the level of knowledge is relatively similar among lower-income groups and the same occurs for the higher-income groups. The greatest variation in knowledge is observed between the low-income and middle-income brackets.

Analysis of the individual's attitude towards saving shows that respondents generally give very high importance to saving, with only 22% of the population giving it low or moderate importance. However, the data obtained directly from the SFC show that almost 40% of individual have not saved in the past year. In regard to the relationship between financial knowledge and saving, the left-hand panel of Figure E17.2 shows a positive correlation between the two variables, that is, as the score obtained increases, the percentage of individuals who save goes up. A very similar pattern can be observed in the relationship between general knowledge and savings.

Among those who save, analysis was also made of the type and number of products used to channel these savings, since diversification is an important factor for an efficient portfolio. In general, people who save usually opt for a very small number of financial assets,² in very few cases more than two. Thus, for example, 32% of individuals who do not hold any financial assets belong to the group of people with low or very low financial knowledge, while this percentage is 10% and 7% for groups that hold two or three or more, respectively. Conversely, the right-hand panel of Figure E17.2 shows that the percentage of people with a high or very high financial knowledge score increases substantially as diversification among financial assets rises.

Savings and holding of assets according to financial knowledge FIGURE E17.2



Source: SFC and CNMV.

To assess the importance of financial skills for saving and investment decisions by individuals, probit models with instrumental variables were estimated. These estimates were analysed to show how financial knowledge deter-

mines attitudes to saving and the holding of different financial products (savings accounts, pension plans, investment funds, shares and fixed income) by individuals.

The main results of these estimates are shown in Table E17.1. The results show a positive impact of financial skills on the probability of participating in investment funds and of acquiring shares and fixed income assets, both public and corporate. However, they do not seem to influence the propensity to save, the holding of savings accounts or subscription to pension plans. The results achieved allow us to affirm that there is a causal relationship between financial knowledge and financial decisions and, furthermore, make it possible to establish the direction of this relationship: individuals with greater financial knowledge have a greater probability of participating in financial markets through holding shares and fixed income securities and being unitholders of investment funds. The analysis also identifies the relevance of certain demographic characteristics of individuals, such as age and income, in the financial decision-making process. Lastly, the findings indicate that the demographic characteristics of individuals influence their level of financial knowledge, and identify a gender gap in the financial literacy of the population.

Determinants of saving and holding financial products

TABLE E17.1

Variables	Saving	Savings account	Pension schemes	Investment funds	Shares	Fixed income
Financial knowledge	0.436	0.557	-0.143	0.736**	0.353***	0.844*
Age (Ref. 18-34)						
35-44	-0.362***	0.055	0.758***	0.341*	0.250***	0.141
45-54	-0.569***	-0.030	1.128***	0.512**	0.497***	0.134
55-64	-0.693***	0.040	1.273***	0.660***	0.600***	0.391
65-80	-0.541***	0.344***	0.645***	1.126***	1.129***	0.539**
Education (Ref. below primary)						
Primary and secondary education	-0.282	0.017	0.708	-0.030	0.199	3.182
Secondary school graduate and vocational training	-0.205	0.017	1.048	-0.033	0.550**	2.986
University	0.005	0.127	1.286*	0.023	0.752***	3.035
Gender						
Male	-0.122	-0.228*	0.141	-0.265*	--	-0.237
Family unit						
Living with a partner	-0.013	0.078	0.124**	-0.009	0.049	-0.194**
Living with children	-0.207***	-0.015	0.009	-0.070	0.020	-0.159*
Professional status						
Retired	-0.054	0.038	-0.116	-0.070	-0.112	0.021
Self-employed	-0.045	-0.028	0.294***	-0.027	0.277***	-0.035
Income (Ref. less than 9,000)						
14,501–26,000	0.337**	0.077	0.328***	-0.026	0.025	-0.316*
26,001–44,500	0.525***	0.229	0.591***	0.105	0.315**	-0.284
44,501–67,500	0.756***	0.205	0.857***	0.106	0.510***	-0.485
Over 67,500	0.903***	0.353	1.067***	0.301	0.846***	-0.319
Observations	8,553	8,553	8,553	8,553	8,553	8,553
Wald (i)	1,340***	685***	1,103***	735***	812***	122***
Wald (ii) (p value)	0.3548	0.3514	0.5345	0.2720	0.6630	0.1206

Source: CNMV. Probit models with instrumental variables. Instrumental variable: financial knowledge; instruments: education relating to economics/business; more than 100 books at age 10 and gender. Non-standardised coefficients are shown. Wald (i) is the test of the joint significance of the reported coefficients of the explanatory variables, asymptotically distributed as χ^2 under the null hypothesis of non-significance of the explanatory variables. Wald (ii) is the exogeneity test of the instrumental variable, which is asymptotically distributed as χ^2 under the null hypothesis of exogeneity of the instrumental variable. The models have been estimated with a constant; however, it is not shown in the table: * p < 0.10; ** p < 0.05; *** p < 0.01.

- 1 See Ispuerto, A., Martínez, I. and Ruiz, G. "Financial education and savings and investment decisions: an analysis of the Survey of Financial Competences (SCF)".
- 2 Savings accounts, pension plans, shares, investment fund units and public or private fixed income assets are considered financial assets.

The rapid development of the markets and new trends in education have led the CNMV to continue with activities aimed at improving the financial education of investors. Thus, new educational resources have been developed that are included in “Investors and financial education” section of the CNMV website and are periodically disseminated through social media and other communication channels.

The following resources have been developed.

- **New guides and quick guides for investors.** The previous guides and investor files have been re-published to include updated content and are presented with a new, more up-to-date graphic line. These publications seek to bring the investor closer to the main issues related to investment in a simple and didactic manner. The series consists of a total of 10 guides and 17 quick guides. The former are extensive publications that cover various subjects in detail, such as investor rights, investment funds and collective investment, or fixed income products. The second are shorter publications that provide summaries of topics such as sustainable finance, Fintech activity or investment funds, among others.
- **Podcasts.** Six podcasts have been released with the aim of bringing financial education material to new audiences that habitually use audio visual tools. The series, called “Accounts of life” reflects the ordinary life of a family and its relationship with financial matters and decisions that it takes on a daily basis. They address issues such as financial boiler rooms, how to know what your investor profile is, the differences between fixed income and equities, risk-return and behavioural economics.

The podcasts can be listened to or downloaded from the CNMV website on any mobile device through platforms such as iVoox, Spotify, Apple Podcasts and Google Podcasts.

- **Financial education videos.** The “Investors and financial education” section also includes educational videos and webinars that can be viewed in the multimedia area of this section and on the CNMV’s YouTube channel.
- **Infographics.** A series of infographics, that provide a simplified visual explanation of different concepts and content of financial education. In 2020, infographics were created on MiFID II, Fintech, sustainable finance, financial advertising and financial boiler rooms.
- **Dynamic quizzes** or questionnaires, to assess knowledge about certain matters related to the securities markets. These quizzes are intended for the general public and are included in the “Investors and financial education” section. They are disseminated through the CNMV’s social media platforms.

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- **Newsletters.** With the aim of opening new communication channels to the public, a monthly newsletter has been published which includes all training and informative items for investors and the general public.

The *Guide on basic investor skills* aims to establish a framework of basic knowledge, skills and abilities for investors that facilitates investment decision-making in a more aware and informed manner.

This framework is based on the work prepared by the International Organization of Securities Commissions (IOSCO), which establishes a set of basic skills to define the knowledge, attitudes and desirable conduct among retail investors.

The framework comprises seven areas of content in which investors should develop their skills. These range from basic investment principles and key features of investment products to the basic aspects that investors must take into account in the process of buying and selling these products, monitoring investments or their rights and responsibilities as investors.

The skills for each area are divided into three categories:

- i) Knowledge: the information received by an investor and related, for example, to fees and commissions, characteristics and risks of the main investment products.
- ii) Behaviour and skills: these refer to actions or the ability to act to achieve positive results and financial well-being, such as assessing the real return on investments before choosing a product.
- iii) Attitudes and motivation: the internal psychological mechanisms that could hinder or assist in making informed decisions and in achieving financial well-being, such as the investor's relationship with risk or uncertainty.

The Guide explains these issues and warns that in order to have a broader vision of this area and to access and gain more extensive knowledge, the other guides and didactic resources published by the CNMV should be used.

In addition, the development of the skills included in the Guide requires the acquisition of significant knowledge and its application in an effective and decisive manner. It is also necessary to combine knowledge and practical application with reflective capacity and self-knowledge in order to generate the discipline, motivation and sufficient confidence that the investment process requires.

Financial sustainability: ESMA, IOSCO and the role of the CNMV in both bodies

EXHIBIT 20

In recent years, sustainable finance has gained considerable traction in the international arena, in which different initiatives have arisen that seek to establish a common generally accepted framework that establishes the bases for the information published by the different market players (issuers, asset managers, institutional investors, benchmark indices, sustainability rating agencies, sustainability data providers, etc). Thus, both the European Securities and Markets Authority (ESMA) and the International Organization of Securities Commissions (IOSCO) have contributed to this international development, in which the CNMV has actively collaborated.

Under the auspices of the ESMA Sustainability Coordination Committee, chaired by the vice chair of the CNMV, 2020 began with the implementation of the Sustainable Finance Strategy, the content of which focused on the following priorities: i) completing the regulatory framework for the transparency obligations established in Regulation (EU) 2019/2088 of the European Parliament and of the Council, of 27 November, on the disclosure of information related to sustainability in the financial services sector; ii) reporting on trends, risks and vulnerabilities in sustainable finance; iii) analysing financial risks caused by climate change; iv) promoting supervisory convergence among national supervisors to prevent bad practices such as greenwashing; v) promoting the transparency and quality of non-financial information; vi) participating in the European Union Platform for Sustainable Finance; vii) overseeing the adherence of credit rating agencies to the Guidelines on sustainability factors, and viii) approving any new mandates related to sustainability.

Throughout the year, ESMA took part in different public consultations held by the European Commission (EC), such as those carried out on the occasion of the Renewed Sustainable Finance Strategy, the review of Directive 2014/95/EU of the European Parliament and of the Council, of 22 October, disclosure of non-financial and diversity information by certain large undertakings and groups, and the creation of a European standard for the issuance of green bonds. In all these consultations, ESMA was in favour of progressing with the implementation of the action plan for financing sustainable growth in the EC to improve the transparency of non-financial information, facilitate access to that information and offer investor protection by addressing practices such as greenwashing.

ESMA also provided guidance to the markets ahead of the implementation of the level 2 standards of Regulation 2019/2089 of the European Parliament and of the Council, of 27 November, as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks, specifically, of the commission delegated acts tasked with implementing the different obligations contained in this Regulation. In April 2020, it published a no action letter (separately from the opinion sent to the EC) in which it warned of the difficulty of implementing and complying with the new level 1 obligations while the delegated acts had not been developed. For this reason, it recommended that the national competent authorities should not focus their supervisory work on compliance with these obligations.

In the international arena, ESMA assumed the leadership, together with the Financial Services Authority of Japan, of a working group within the IOSCO Sustainability Task Force (STF) dedicated to the analysis and improvement of the information on sustainability published by credit rating agencies, ESG (environmental, social and governance) rating agencies and other data providers.

At the end of the year, ESMA published its response to the public consultation of the International Financial Reporting Standards Foundation (hereinafter, the Foundation) on the creation of international sustainability standards and a parallel structure similar to that existing within the Foundation for international accounting standards. ESMA's response was positive, although the need to take into account the particularities of jurisdictions that already have specific legal frameworks for financial sustainability was highlighted. It also emphasised the principle of double materiality as a point to take into account when incorporating the principle of transparency and investor protection.

As a member of the Joint Committee of European Supervisory Authorities, ESMA has performed important regulatory work to comply with the mandates conferred by the Disclosure and Taxonomy Regulations, the purpose of which is to establish certain obligations for institutional investors to publish information on various aspects of sustainability. In February 2021, the Joint Committee submitted a report to the EC with the draft regulatory technical standards that develop the mandates of the Disclosure Regulation and part of the Taxonomy Regulation.

Another international body that stood out for its work in the field of sustainability in 2020 was IOSCO, in which the CNMV chairs one of the working groups of the Sustainable Finance Network (SFN), made up of 40 regulators and supervisors of financial markets, which in April 2020 published a report titled *Sustainable Finance and the Role of Securities Regulators and IOSCO*. This document reflects the study and analysis of the main national and international initiatives in the field of sustainable finance carried out by both the public and private sectors in 35 jurisdictions up to the time of its publication. The main conclusions of the report highlight: i) the existence of a wide variety of frameworks and standards for providing information on sustainability, which hampers the comparability of the information, ii) the lack of a common taxonomy or set of definitions for sustainable activities, and iii) the greenwashing phenomenon and other issues that affect investor protection.

To further explore these issues, IOSCO established the STF in the spring of 2020, which comprises three working groups whose function is to carry out a detailed analysis of the information on sustainability provided by: i) issuers, ii) asset managers, and iii) credit rating agencies, ESG rating agencies and other data providers.

The CNMV holds one of the vice chairs of the SFN and the STF and also co-chairs (with the UK regulator, the Financial Conduct Authority (FCA)), the group that is studying the information provided by issuers, which intends to encourage the adoption of sole standards that allow the published information to be comparable and respond to common criteria.

Additionally, in December 2020, IOSCO published its response to the Foundation's public consultation on the advisability of issuing international sustainability standards and on the creation of a board and a parallel structure to that the Foundation's board for international accounting standards. The response from IOSCO, which is part of the Foundation's governance structure through the Monitoring Board, was positive and it urged the Foundation to take into account various factors that could contribute to the success of the initiative, such as the consideration of due diligence processes, independent governance, adequate funding sources or specialised human resources. The Foundation was also urged to take into account the work carried out to date by the Alliance of Standard Setters, specifically, the prototype for the issuance of a standard for preparing climate-related financial information, published by the organisation in December 2020.

Given its importance, the statement published by IOSCO should be noted, which underlines the urgent need to have a single framework of sustainability standards in place to ensure that issuers publish comparable, standardised and high quality non-financial information. IOSCO has announced its intention to remain in close contact with the Foundation and the Alliance of Standard Setters and the creation of an advisory committee to ensure coordination between more basic financial reporting standards on sustainability, which will operate as a common minimum based on the concept of value creation for the company, and other more elaborate ones, which go beyond the mere notion of value creation to accommodate ideas such as double materiality, which implies taking into account, in addition to financial materiality, the impact of the company itself on the environment and society.

Throughout 2021 and 2022, the STF is expected to publish several reports on the work carried out by its three working groups.

On 2 October 2020, ESMA published its **Work Programme for 2021**,¹ which addresses objectives such as the development of a broad base of retail investors supported by the Capital Markets Union (CMU), the development of sustainable finance and a long-term vision for markets, the risks and opportunities of digitisation, strengthening the role of the European Union (EU) in the global capital markets and ensuring a proportionate approach to regulation. The authority will also work to address the challenges posed by Brexit and carry out actions in response to the impact caused by the pandemic, which has also led to activities planned for 2020 being delayed to 2021. In 2021, ESMA will fully execute the new powers and tasks entrusted to it after the regulatory review process and will continue to assist the European Commission (EC) in the tasks related to the WBU action plan, the renewed sustainable finance strategy, the new digital finance strategy and the Fintech action plan.

In the area of **supervisory convergence**, in 2021 ESMA will focus on establishing a common supervisory culture based on risk identification and management, and focused on results. Actions will be prioritised through a more robust identification of supervisory risks and data collection in order to establish the areas of greatest risk or problems relating to investor protection, financial stability and the orderly functioning of the markets. Specifically, it will continue to drive convergence in the following areas: i) coordination of the actions carried out by the national competent authorities with respect to the two strategic supervisory priorities identified for the next three years (performance and costs of targeted investment products for retail customers and the quality of market data); ii) the liquidity risk of funds and the use of liquidity management tools as a continuation of the work carried out in 2020 in the context of COVID-19; iii) the performance and costs of retail investment products, particularly in the area of funds; iv) the quality and use of the information provided by the different disclosure regimes; and v) supervision of the obligations to disclose environmental, social and governance (ESG) data, as well as the use of this information by market participants. Additionally, the authority will contribute to ensuring the consistent application of the changes introduced by EMIR Refit and EMIR 2.2. Lastly, it will conduct peer reviews on the supervision of cross-border activities carried out by investment firms, assessing how national competent authorities have managed the relocation of companies from the United Kingdom to the EU27 in the context of Brexit, the supervision of central counterparties (CCPs) and central securities depositories, and the procedure for the approval of prospectuses.

In the area of **risk assessment**, in 2021, ESMA will focus on integrating financial innovation and ESG factors into its risk analysis, as well as the use of that data in supervision. It will also continue to monitor the impact of the pandemic on the markets and the end of the Brexit transition period.

In the area of **the single regulatory code**, ESMA will work on the review of MiFID II and AIFMD, while studying the regulatory modifications required to ensure a more integrated CMU, increase the attractiveness of the EU markets and promote sustainable finance and proportionality. Likewise, it will

re-examine the relevant technical standards to adapt them to the amendments arising from the review of the EMIR Regulation.

In the scope of its **direct supervision activity**, in 2021, ESMA will focus on the supervision of CCPs of third countries that are considered critical market infrastructures under EMIR 2.2 and prepare to take on the mandates deriving from the Regulation on benchmark indices and providers of data supply services. In addition, it will continue to directly supervise credit rating agencies, trade repositories and securitisation repositories.

1 https://www.esma.europa.eu/sites/default/files/library/esma20-95-1273_2021_annual_work_programme.pdf

In recent year, the CNMV has been working in coordination with the Ministry of Economic Affairs and Digital Transformation and other national and European organisations to address the prospect of the United Kingdom leaving the European Union (Brexit), with the aim of preserving financial stability and protecting investors, while bearing in mind the need to safeguard the competitiveness of the Spanish market.

On 24 December 2020, the European Union and the United Kingdom reached a principle of commitment on the basis of the EU-UK Trade and Cooperation Agreement, which was approved by the Council of Europe on 30 December.

Prior to this Trade and Cooperation Agreement, the British Parliament approved the Withdrawal Agreement on 23 January 2020, which established a transition period from the entry into force of the law until 31 December 2020. During this time EU Law has continued to apply in and to the United Kingdom, with certain exceptions. The main purpose of this transition period was to offer a period of to prepare citizens, economic figures and governments for the new situation, as well as to provide a framework of stability for the negotiation of an agreement on the future relationship between the European Union and the United Kingdom.

At the end of 2020, once the commitment to the Trade and Cooperation Agreement had been achieved, Royal Decree-Law 38/2020, of 29 December, was approved in Spain, adopting measures to adapt to the status of the United Kingdom of Great Britain and Northern Ireland as a third country after the end of the transition period provided for in the agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community. The purpose of this Royal Decree-Law is the adoption of measures to adapt the Spanish legal system in order to deal with the consequences of the withdrawal of the European Union from the United Kingdom of Great Britain and Northern Ireland, following the conclusion of the transition period established in the withdrawal agreement.

Throughout this process, the CNMV has maintained constant contact with the entities involved and has updated the “Brexit” section on its website with useful information for market participants and investors, such as a list of documents of interest and some interpretative criteria, in the form of a Q&A on the provisions relating to the securities markets and investment services.

The most salient point is that after the transition period, the third country regime contemplated in European and national regulations will apply to the United Kingdom. This regime includes the possibility of recognition of equivalence in certain financial subsectors.

In particular, with regard to the contracting of new financial services with British institutions, entities authorised by the United Kingdom will not be able to sign new contracts with Spanish clients, as they lack valid authorisation to provide financial services in Spain (although a transition period of six

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months has been established to allow institutions to unwind their positions and contracts in an orderly fashion). In order to provide these services, British institutions operating in Spain must request authorisation to set up a Spanish entity or adapt to third-country requirements. The Bank of Spain, the CNMV and the General Directorate of Insurance and Pension Funds will provide advice to entities in this process.

On 24 September 2020 the European Commission (EC) published a Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions in which it informed them of a new Action Plan to complete the Capital Markets Union (CMU) for people and businesses.

This proposal is a continuation of the first Action Plan published in 2015, in which the Commission aimed to achieve a CMU by 2019. It contemplated 33 measures to encourage a greater degree of financial integration at European level, facilitate access to financing for European companies in the different phases of their growth, broaden the spectrum of safe investments which investors can access and improve the stability of the European financial system (some of which were modified and others added in a mid-term review in 2017).

Although the measures adopted have laid the foundations of the Union, the EC considers that additional measures should be implemented to provide greater depth to the internal market in the area of capital markets and to support some of the Commission's main strategic lines, such as the economic recovery after the pandemic caused by COVID-19 or facilitating the financing required for the European Green Deal and the transition to the digital age.

Specifically, the new plan contains 16 actions centred on three key objectives:

- i) **Support a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies.**

Action 1: Making companies more visible for cross-border investors. The EC proposes to adopt a regulatory initiative to create an EU-wide platform to provide a single point for investors to access the financial and non-financial and sustainability information of companies (third quarter of 2021). The deadline for responding to a public consultation on this proposal expired on 3 March 2021.

Action 2: Supporting access to public markets. The EC proposes to carry out an evaluation on the feasibility of simplifying the regulations on the requirements for admissions to trading on public markets (fourth quarter of 2021). A group of experts will publish recommendations on this topic in the spring of 2021.

Action 3: Supporting long-term investment vehicles. The EC proposes a review of the Regulation on European long-term investment funds (third quarter of 2021). The deadline for responding to a public consultation on this proposal expired on 19 January 2021.

Action 4: Encouraging more long-term and equity financing from institutional investors. The EC proposes: i) a review of Solvency II, in order to make it easier for insurance companies to invest in the long term (third quarter of 2021), and ii) a review of the Regulation and Directive on capital requirements to ensure that banks invest long-term in the capital of SMEs (first quarter 2021).

Action 5: Directing SMEs to alternative financing providers. The EC proposes to evaluate the feasibility of requiring banks to direct small and medium enterprises whose funding application they have turned down to providers of alternative funding (fourth quarter 2021).

Action 6: Helping banks lend more to the real economy. The EC proposes: i) a review of the securitisation framework for both simple transparent and standardised (STS) and non-STS securitisation (fourth quarter of 2021), and ii) the introduction of the European guaranteed promissory note.

ii) **Making the EU an even safer place for individuals to save and invest long-term.**

Action 7: Empowering citizens through financial literacy. The EC proposes: i) a feasibility assessment on the development of a financial competence framework in the EU (second quarter of 2021), and ii) an assessment of whether the adoption of horizontal legislation that obliges Member States to promote training measures in this area is appropriate (first quarter of 2022). In April 2021, the EC published a report on the feasibility of a European financial competence framework and launched a joint project with the Organization for Economic Cooperation and Development (OECD).

Action 8: Building retail investors' trust in capital markets. The EC proposes: i) the evaluation and review of the applicable regulations regarding incentives and information obligations (first quarter of 2022); ii) a legislative proposal to reduce the administrative burden and reporting requirements for a subset of retail investors, including the revision of the current classification between retail and professional investors or even the creation of a new category of qualified investors (fourth quarter of 2021 or first quarter of 2022); and iii) an assessment of the requirement for financial advisers to certify their qualifications and continuing education (fourth quarter of 2021), as well as the possibility of requiring pan-European certification for the provision of financial advisory services (first quarter of 2022). The EC, in addition to contracting a company to study the regimes applicable to incentives, information obligations and suitability assessments, in May 2021 opened a public consultation to seek the views of stakeholders on all the points mentioned as part of the Retail Investment Strategy that it plans to launch in the first half of 2022.

Action 9: Supporting people in their retirement. The EC plans to: i) develop tables of pension indicators with detailed information on professional retirement regimes (fourth quarter of 2021); ii) identify best practices for the creation of national systems to monitor individual pensions for citizens (fourth quarter 2021); and iii) study the best auto-enrolment practices of Member States as well as professional retirement schemes that supplement citizens' public pensions (third quarter of 2020).

iii) **Integrating national capital markets into a genuine single market.**

Action 10: Alleviating the tax burden associated with cross-border investment. The EC proposes: i) a legislative initiative to lower tax-related costs for

cross-border investors and prevent tax fraud; and ii) the adoption a common, standardised, EU-wide system for withholding tax relief at source (fourth quarter of 2022).

Action 11: Making the outcome of cross-border investment more predictable with regard to insolvency proceedings. The EC proposes: i) a legislative or non-legislative initiative for increased convergence in targeted areas of non-bank insolvency regulations (second quarter of 2022); and ii) the EC and the European Banking Authority will also analyse the possibility of improving the exchange of information among Member States on the periodic evaluation of the effectiveness of their national loan enforcement systems (study in the first quarter of 2021 and regulatory proposal in the fourth quarter of 2022). The deadline for responding to a public consultation on this proposal expired on 26 March 2021.

Action 12: Facilitate shareholders engagement. The EC proposes: i) to coin an EU-wide, harmonised definition of the term “shareholder”; ii) further clarify and harmonise the rules governing the interaction between investors, intermediaries and issuers in relation to voting rights and corporate transactions (specifically, in the third quarter of 2023 the Commission plans to review the second Directive on shareholders’ rights); and iii) investigate whether there are national barriers to the use of new digital technologies in this area (fourth quarter of 2021).

Action 13: Developing cross-border settlement services. The EC is considering a review of the Regulation on central securities depositories (fourth quarter of 2021). The deadline for responding to a public consultation on this topic expired on 2 February 2021.

Action 14: Consolidated tape. The EC proposes a legislative amendment to the establishment of a consolidated tape, at EU level, providing consolidated post-trade data (fourth quarter of 2021).

Action 15: Investment protection and facilitation. The EC proposes to update and strengthen the framework for the protection and facilitation of cross-border investments in the EU by adopting measures such as improving dispute resolution mechanisms at national and EU level and collecting information on investors’ legal rights and opportunities in a single access point (second quarter of 2021).

Action 16: Supervision. The EC proposes: i) working on a single reinforced regulatory code for capital markets, while monitoring the level of convergence in supervision; ii) carrying out a study on these aspects and, depending on the result, assess the appropriateness or otherwise of adopting measures to strengthen the coordination of supervision or the direct supervision entrusted to the ESAs (fourth quarter of 2021); and iii) considering different regulatory amendments to address the deficiencies detected in the Wirecard case, particularly in the area of corporate governance, auditing and the supervision of financial reporting. The EC has launched a public consultation on this topic with a deadline of 21 May 2021.

The Commission has also announced its intention to complete the periodic reports that it has been publishing on the evolution of the CMU by means of a series of specific indicators that measure the level of integration achieved.

Lastly, the Council, at its meeting on 3 December 2020, supported all the actions proposed in this new Plan, while at the same time declared itself in favour of polycentric CMU, since it considers it beneficial for the European Union to have more than one financial centre.

The key role of central counterparties (CCPs) in the financial system and their growing systemic importance have made these infrastructures “too big to fail”. Therefore, despite the strict risk management system and lines of defence that they apply in the course of their usual activity, a recovery and resolution regime has been developed for these infrastructures to address the possibility, albeit remote, that they could become non-viable, ensuring the continuity of their essential functions, preserving financial stability and without exposing taxpayers to loss.

European Regulation on the recovery and resolution of CCPs

In the European Union, the publication in December 2020 of the CCP R&R Regulation¹ provides the appropriate legal framework to manage situations involving the non-viability of a CCP. The European rules are based on the Key Attributes of Effective Resolution Regimes for Financial Institutions² and on the same principles as the recovery and resolution framework that applies to banks. However, given that the business carried out by CCPs is very different from that of banks, the tools contained in the Regulation are better aligned with the risk and business profile of these entities, while at the same time taking account of the high degree of interdependence between banks and CCPs, given the key role of banks as clearing members and providers of other services to CCPs and the principle of mutualising losses among clearing members in the event of default.

The main aspects of the new Regulation are as follows:

- CCPs and resolution authorities are required to develop recovery and resolution plans setting out how to manage any form of financial difficulty that depletes the CCP’s existing resources. If the resolution authorities identify any obstacles to resolution in the course of the planning process, they may require the CCP to take appropriate action to remove them.
- The supervisory authorities have early intervention powers that allow them to act before the situation deteriorates irreparably, requiring the CCP to take specific actions that are included in its recovery plan or to make changes to its business strategy or legal or operational structure.
- To strengthen the incentives to properly manage risk and ensure that losses are distributed fairly, CCPs must hold a second tranche of resources (known as “second skin in the game”) to absorb default losses and non-default losses, as a recovery measure, prior to implementing other measures that may require a financial contribution from the clearing members.
- In the unlikely event of the failure of a CCP, the national authorities may use resolution tools to restore the matched book and absorb losses. Such tools include the cancellation of contracts, the write-down of financial instruments held by the CCP, cash calls on clearing members, varia-

tion margin gains haircutting, sale of the CCP or parts of its business, or the creation of a bridge CCP.

- In exceptional circumstances, as a last resort, extraordinary public support on a temporary basis may be sought, provided that there is a solid and credible plan in place for the recovery of the assistance.
- The use of resolution tools is governed by certain safeguards to ensure that all affected parties are treated fairly. The “no creditor worse off” principle (NCWO) ensures that no creditor should be worse off in the event of a resolution than it would have been if the CCP had gone into liquidation. The Regulation also provides for a compensation mechanism, at the discretion of the resolution authority, whereby the CCP is required to compensate non-defaulting members entitled to a NCWO claim with shares of the CCP, debt instruments or rights to future earnings.
- Each state must appoint least one resolution authority, which must have operational and functional independence to prevent any conflict of interest with the supervisor, but they must act in a coordinated manner.
- Taking into account the global and systemic nature of CCPs, the Regulation establishes close coordination between national authorities and those of other jurisdictions in which the CCP is significant within the framework of resolution colleges.
- ESMA plays a key role as the European reference authority for CCPs. It must create a CCP Resolution Committee, with coordination and regulatory development functions that are similar to those of the European Banking Authority (EBA), on which the CCP resolution authorities will sit, with the bank resolution and supervisory authorities (including the EBA) as observers.

The Regulation enters into force with immediate effect (it was published on 16 December 2020), with staggered application over a period of up to two years, so that during that period the second-level regulation can be developed and approved for practical implementation, the corresponding resolution authorities can be appointed and the resources necessary for the exercise of their functions can be provided.

FSB Guidance on Financial Resources to Support CCP Resolution and on the Treatment of CCP Equity in Resolution

One of the key aspects that the resolution authority must assess when drawing up its resolution plan is the sufficiency and appropriateness of the financial resources available to a CCP to address potential defaults, avoid bankruptcy and ensure the continuity of its critical functions. In contrast with the banking sector, this is largely unexplored territory, since there have been very few cases in which the losses incurred have exceeded the resources held to cover such events, and even fewer cases of bankruptcy of a CCP.

The latest development in this area is the publication in November 2020 of the FSB's *Guidance on Financial Resources to Support CCP Resolution and on the Treatment of CCP Equity in Resolution*. The Guidance was drawn up by the FSB Cross-border Crisis Management Group for Financial Market Infrastructures (fmiCBCM), co-chaired by a representative from the CNMV, in close collaboration with the CPMI and IOSCO.

It offers guidance to the resolution authorities on planning the resolution of a CCP with a view to ensuring that appropriate resources and tools are available, and that they understand the potential adverse effect that the use of certain resources and tools could have on financial stability in a resolution scenario.

A five-step process is proposed to assess the appropriateness of the financial resources and tools to achieve the resolution objectives in different scenarios:

- **Step 1:** Identifying hypothetical default loss and non-default loss scenarios that could lead to resolution.
- **Step 2:** Conducting a qualitative and quantitative evaluation of existing resources and tools available in resolution.
- **Step 3:** Assessing potential resolution costs.
- **Step 4:** Comparing existing resources and tools with resolution costs and identifying any potential gaps.
- **Step 5:** Evaluating the availability, costs and benefits of potential means of addressing any gaps identified.

The Guidance will be reviewed within five years, taking into account the performance of the market and the experience of resolution authorities in its application, in coordination with the other authorities involved through crisis management groups.

The recent approval of the European Regulation on CCP recovery and resolution will allow a specific, harmonised recovery and resolution framework to be established for all CCPs in the European Union, the application of which will benefit from the new FSB Guidance.

The Regulation itself recognises that the European Commission must review its content to incorporate international developments in regard to the treatment of capital in resolution as and when they come about and, within the same period of five years, in regard to the financial resources available to the resolution authorities to cover non-default losses and the CCP's own resources to be used in recovery and resolution.

1 Regulation (EU) 2021/23 of the European Parliament and of the Council, of 16 December 2020, on a framework for the recovery and resolution of central counterparties and amending Regulations (EU) No. 1095/2010, (EU) No. 648/2012, (EU) No. 600/2014, (EU) No. 806/2014 and (EU) 2015/2365 and Directives 2002/47/EC, 2004/25/CE, 2007/36/CE, 2014/59/EU and (EU) 2017/1132.

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- 2 *Key Attributes of Effective Resolution Regimes for Financial Institutions*, approved by the FSB in 2011, and updated in 2014, in response to the global financial crisis and to strengthen the soundness and resilience of the financial system.

In collaboration with the specialised company, Sigma Dos, the CNMV conducted a survey among market participants to seek the opinion of the entities and professionals that interact with the institution on how it operates.

This study has made it possible to deepen our understanding of the perception of market players of the institution's strengths and weaknesses and the results obtained will serve to guide the CNMV's actions so that it can provide the best possible service. Thus, the CNMV has already included in its strategy for 2021-2022 some points that are based on this information, as well as certain targets of its 2021 Activity Plan. The survey was given to 819 entities between October and November 2020 and responses were received from 350 professionals from institutions that issue securities, management companies of collective investment schemes, investment firms, credit institutions, market infrastructures, crowdfunding platforms, management companies of closed-ended collective investment undertakings and management companies of securitisation funds, as well as professionals from the different sector associations and the leading law firms and consulting and audit firms.

The survey contained 65 questions divided into different categories and assessed 67 attributes.

The main results of the survey are summarised below.

General overview

The study shows that the CNMV has a good institutional image, positioning itself as a transparent and credible institution, with sufficient knowledge and experience to carry out its functions, and with international prestige.

Also noteworthy is the assessment of the work carried out by the institution in fulfilling the functions that correspond to it by law (that is, ensuring transparency in the stock market, the correct formation of prices and the protection of investors).

However, in the opinion of the survey respondents there are some aspects that can be improved, such as openness to dialogue; consistency in its responses, criteria and actions; the predictability of the institution's actions; its modernisation and, in particular, its application of the principle of proportionality and its speed, as well as the resources it has to carry out its functions.

To respond to these issues, the CNMV has included some guidelines and considerations in its Strategic Lines for 2021-2022.

Specifically, the authority will try to adapt more quickly to changes in an environment that is in constant transformation, in addition to working towards its modernisation and encourage a cultural transformation process to make it a flexible, agile institution that is open to dialogue.

The authority will also apply the principle of proportionality in its supervisory activities to demand the most appropriate solution for the context, time and risk associated with the supervised activity or entity.

Regarding the consistency of the CNMV's criteria and predictability of its actions, further effort will be made to ensure that its actions are consistent, predictable and easily understood by market participants. The CNMV will maintain its policy of publishing technical guides and guidelines or criteria in order to increase transparency, assess the potential implementation of additional steps in its level of transparency and encourage dialogue with the sector with the aim of ensuring that its actions are understood by the market.

Alongside the inclusion of these factors in its strategy, several targets were set in the 2021 Activity Plan.

Communication with the CNMV and technology

Other aspects related to the personnel employed by the CNMV, the technology used and the processes to contact and communicate with the authority were also rated positively by a large number of respondents.

Specifically, it is considered that the CNMV staff have sufficient knowledge and experience to carry out their functions and that they carry out their work efficiently and with an open and friendly demeanour.

Regarding the tools made available to market participants to contact and communicate with the CNMV, the positive opinion of the CIFRADOC system and the website stands out, although it could be more intuitive.

In this respect, the CNMV will continue to develop its website content. Thus, in 2021 improvements will be made to the Sustainable Finance Portal and the content of the Investor Section, in addition to offering better accessibility to publications and statistics.

In the communication process, the survey respondents valued very positively aspects such as the reliability of the information received from the CNMV, the quality of the service provided on contact, the consistency of the information provided with the actions that the CNMV carries out subsequently, the speed with which it responds and the level of explanation it provides.

Supervisory activity

In relation to supervisory activity, the CNMV complies with deadlines and in regard to the amounts of information that supervised persons must make available to the institution, and its usefulness, so that it can carry out its functions properly, protect investors and respond to different risks.

In this area, aspects such as proportionality in relation to the size of the entity when requesting information for supervisory purposes, or the comparability

of its requirements with other European counterparts are more negatively perceived.

For the last issue, the CNMV considers it essential (and this is reflected in its strategic lines) to work to eliminate local particularities in both regulations and supervisory actions that are not duly justified.

The authority will also continue to work in close collaboration with other supervisors and international organisations in order to standardise supervisory practices, using tools such as peer reviews, and avoid unjustified fluctuations in the securities markets.

The survey highlights the advisability of continuing the analysis of the CNMV's fees and of improving the understanding of the amounts charged through informative work, so that they are seen as appropriate and in line with the quality of the service provided.

In this sense, the 2021 Activity Plan includes a proposal to update the Law on CNMV fees, the review of which will also take into account the objective of ensuring that its fee system contributes to strengthening the competitiveness of the Spanish markets.

Regulation and relationship with the sector

The results of the survey also highlight that although the CNMV is considered to have a good knowledge of the sector it regulates (both in terms of what happens within it and of the effects of regulation on supervised entities) there are some aspects of its relationship with the sector which warrant more attention.

The authority is not seen as having much ability to anticipate and react to changes that take place, or for boosting the growth of the Spanish financial sector at an international level through its actions.

Furthermore, the CNMV is not perceived to actively listen to the interests and opinions of the sector in regard to regulatory processes.

For this reason, as a sign of its commitment in this area, several measures have been included in the 2021 Activity Plan that aim to improve public consultations in regulatory processes, expanding communication channels and promoting transparency in contacts with stakeholders and other parties.

To improve, insofar as possible, its policy on public consultations, the CNMV will extend the deadlines for consultations on non-urgent matters, continue to publish the responses received and offer an *a posteriori* explanation of how they have been carried out taking into account the comments received. It will assess the call for open hearings for particularly significant matters. Likewise, it will reinforce the role of the CNMV Advisory Committee.

To expand and improve its communication channels, the CNMV, among other issues, will arrange meetings with the industry to convey messages and obtain its opinion of the institution's actions and the market situation. The

available communication channels will also be reviewed to ensure that market participants are able to efficiently raise any concerns or proposals they may have.

Lastly, to boost transparency in contacts with stakeholders, measures will be adopted such as the periodic publication of the acts and meetings of members of the CNMV Executive Committee (including the chair and vice-chair). The public events in which the CNMV management staff have participated as speakers will be published and the activity of the Advisory Committee will be made more transparent by updating the section on the website for this purpose and the publication of the reports issued in the exercise of its functions, among other issues.

Recent phenomena

In relation to the most recent phenomena, to which the CNMV has paid special attention in recent years, the survey revealed a lack of knowledge of the authority's activity in this area.

Thus, respondents did not know much about the actions carried out by the CNMV to include Fintech companies into the financial fabric, attract companies to the Spanish market after Brexit or encourage sustainability in investment activities.

For this reason, it is necessary to strengthen communication in these areas, following the line of actions carried out to publicise the CNMV's activity in the generated by COVID-19, which was rated as satisfactory by respondents. Specifically, in relation to this area, respondents highlighted the capacity shown by the CNMV in response to this situation, continuing its activity while also dealing with new needs deriving from the pandemic, implementing sufficient measures to guarantee the continuity of the markets and providing proper information to its participants.

In the coming years, the CNMV will give an additional boost to its communication and training actions for the sector and investors, especially in new areas such as sustainability.

General conclusion

As a general conclusion, the survey has provided a better understanding of the sector's perception of the CNMV's actions and will make it easier for the institution to adopt the necessary measures to overcome perceived weaknesses.

In fact, the CNMV has taken into account the results of the survey to prepare its Strategic Lines for 2021-2022 and its 2021 Activity Plan and plans to continue implementing actions that both allow it to resolve the weaknesses detected and continue to seek the opinion of all entities and participants related to the institution.

Therefore, continuing the exercises carried out by the CNMV in 2018 (benchmarking exercises) and 2019 (survey among market participants on the oper-

ation of the CNMV, this survey discussed in this Exhibit) to improve its operations, in 2021, new actions will be taken to seek the opinion and proposals for improvement of other stakeholders such as investors, the media and other entities that it does not directly supervise but which have an interest in its activities (e.g. academics or analysts).

The CNMV will also consider repeating this exercise in the future and on a regular basis in order to analyse the evolution of the perception of entities and professionals and assess whether the measures implemented have been successful.

The capital markets recovery package

EXHIBIT 26

In July 2020, with the aim of boosting economic recovery after the crisis caused by COVID-19, the European Union (EU) resolved to set up a capital markets recovery package. This initiative aims to make it easier for European companies, in particular small and medium-sized companies, to access funding by eliminating bureaucratic procedures and introducing carefully calibrated measures to alleviate economic turbulence. The negotiation of these measures has been a priority for the EU and the agreement between the Council and the European Parliament was reached in just five months after the presentation of the legislative proposal by the European Commission.

The package encompasses a limited series of proposals to adjust European capital markets regulations. Specifically, the Financial Instruments Markets Directive (MiFID II), the Prospectus Regulation and the European securitisation framework have been amended. In addition, although it was not initially envisaged, it includes an amendment of the Transparency Directive to allow Member States to opt to delay by one year the obligation for issuers with securities that have been admitted to trading on regulated markets in the European Union to submit their financial statements in the European single electronic format (ESEF).

The main changes to **MiFID II** are the following:

- i) Product governance requirements will no longer apply to bonds with make-whole clauses (designed to protect the investor by ensuring that, in the event of an early redemption of a bond, the issuer is obliged to pay its holder an amount equal to the sum of the net present value of the remaining coupon payments expected to maturity and the principal amount of the bond to be repaid).

In addition, since eligible counterparties are considered to have sufficient knowledge of financial instruments, financial instruments traded or distributed exclusively to these counterparties are also exempt from product governance requirements.

- ii) For services provided to professional clients and eligible counterparties, cost and expenses disclosure requirements are waived, except for investment advisory and portfolio management services. However, professional clients may still opt to receive this information.
- iii) Investment firms (IFs) are permitted to pay jointly for the provision of research and execution services, provided that certain conditions are met: i) that before the research and execution services are provided, an agreement has been arranged between the IF and the research service provider indicating how much of the combined expenses or joint payments for research and execution services corresponds to the research; ii) the IF informs its client of the joint payments for the research and execution services made to third-party providers of research services; and iii) the research is carried out on issuers whose market capitalisation for the three previous calendar years (or otherwise from the start of trading or the creation of the company), based on year-end quoted prices.

es (or on the basis of own funds for the years in which they were not listed) is not been more than €1 billion.

- iv) The publication of best execution reports introduced by Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, is temporarily suspended.
- v) Investment information should no longer be sent out on paper but should be provided, by default, in electronic format. However, retail clients should have the option to request the information on paper.
- vi) As a substitute for the current system, which applies to all types of commodities contracts, the new regime of position limits will apply only to contracts with an agricultural underlying and to critical or significant contracts. Thus, contracts with an open position of more than 300,000 lots are considered to be significant. Securitised derivatives, i.e. warrants and certificates, with commodities underlyings, are excluded from the position limits regime and from the daily position reports.

New exemptions to the application of the position limit regime have also been introduced.

Additionally, the main amendment to the **Prospectus Regulation** is the introduction of the new EU recovery prospectus. The basic features of this prospectus are as follows:

- i) It may be used by companies whose shares have been admitted to trading on a regulated market or an SME growth market continuously for at least 18 months prior to the share offering or admission to trading.
- ii) This prospectus should focus only on the key information that investors need to make informed investment decisions and should not allow issuers to move from an SME growth market to a regulated market.
- iii) A single document will be prepared with a maximum length of 30 pages which will include a summary with a maximum length of two pages. Issuers may decide the order in which the information is presented.
- iv) The key data should include information that specifically covers any economic and business consequences of the COVID-19 pandemic, as well as any expected future impact.
- v) This prospectus may be used for offers that do not exceed 150% of working capital.
- vi) The new regime will apply until 31 December 2022, to allow issuers to raise the additional capital they need to address the COVID-19 crisis.
- vii) Likewise, a short period (seven business days) is provided for the competent authority to notify the issuer of its decision on the approval of the

prospectus, and the issuer must inform the competent authority at least five business days before the scheduled date to submit a request for approval.

As part of this package, the threshold below which credit institutions are not obliged to publish a prospectus for offers or admissions to trading on a regulated market of certain non-equity securities has been raised for a limited time (until 31 December 2022). The threshold has been increased from €75 to €150 million to allow credit institutions to raise funds and give them scope to support their clients in the real economy.

Lastly, some adjustments have been made to the requirement for financial intermediaries to inform investors of the possibility of a supplement being published.

In terms of **adjustments to facilitate securitisation**, the existing framework for simple, transparent and standardised (STS) securitisation will be extended to include synthetic securitisations. The new rules also remove obstacles to the securitisation of non-performing exposures.

The aim of this reform is to allow bank capital to be more easily released and to allow a larger number of investors to finance the economic recovery.

Europe's digital transformation: the digital finance package presented by the European Commission

EXHIBIT 27

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The European Union is aware that digital finance will contribute to the global transformation of the economy and society, and bring significant benefits to both consumers and businesses. For this reason, work is being carried out along three lines:

- Technology at the service of the people: digital education, cybersecurity and ethics in the use of artificial intelligence.
- A fair and competitive digital economy: supply and access to financing for small and medium-sized companies, responsible digital platforms, regulations to boost development in a context of fair competition and high-quality data and adequate personal data protection.
- An open, democratic and sustainable society: technology is essential for reducing carbon emissions and to ensure that Europe is climate neutral by 2050, so that citizens have control over their data and in the fight against disinformation.

Some of the most significant objectives are:

- Innovation and digital finance will create opportunities to develop better financial products and services, with particular benefit for those who cannot easily access them. This will be accompanied by a robust regulation that factors in the specific risks for the consumer that the new business models and products and services offered entail.
- New ways of channelling financing to small and medium-sized companies.
- Improving the integration of financial markets in the Banking Union and the Capital Markets Union.

In regard to the promotion of innovation and new technologies that put investor protection first, in September 2020, the European Commission published a package of digital finance measures that include:

- A draft regulation on crypto-asset markets, known as MiCA, which establishes a regulatory framework for crypto-assets that are not considered financial instruments. This regulation identifies three types of crypto-asset: e-money-tokens that are backed by a single fiat currency, those that are backed by a basket of assets (currencies, commodities or other crypto-assets) and other crypto-assets. Specific requirements and procedures are established for their issuance and their marketing, trading and, in general, the provision of services related to them are regulated, which includes an approval regime for suppliers that provide services related to all crypto-assets.
- A draft regulation that will allow a pilot regime to be set up for market infrastructures that use distributed ledger technologies. Market opera-

tors or companies that provide investment services that can carry out this activity, as well as central securities depositories that use this technology, would be able request admission to this space. After five years and depending on the results obtained in the pilot scheme, regulatory actions may be carried out to eliminate existing obstacles to the full use of these technologies in market infrastructures.

- A draft regulation is also included that establishes a cross-cutting operational resilience framework (cybersecurity) for the entire financial sector that would cover both infrastructures and entities that offer services in the securities markets. Among other issues, the regulation addresses risk management, incident reporting, system testing and third-party management. It also addresses the risk of concentration of cloud service providers in Europe and provides an advanced testing framework for significant institutions.
- A proposed directive whose objective is to amend other directives to allow the implementation of the previous regulations.

On 14 November 2020, Law 7/2020, of 13 November, for the digital transformation of the financial system¹ (the Sandbox Law) was published in the Spanish Official State Gazette (*BOE*), opening the door to the regulatory sandbox in Spain. This Law aims to promote innovation by eliminating regulatory obstacles, establishing collaboration channels between entities and authorities through a single point of contact, using transparent and agile processes. At the same time, it aims to ensure that the transition to a digital financial system does not negatively affect consumer protection, financial stability or the integrity of the financial markets. On 15 December 2020, the call for applications for access to the sandbox was published. The period for the submission of applications by sponsors began on 13 January 2021 and ended on 23 February 2021.

The sandbox is part of a special regulatory regime under which regulated and non-regulated companies can test and experiment with innovative technology-based projects applicable to the financial system. This can give rise to new business models, applications, processes, products or other types of financial services. The tests are carried out in a controlled and safe environment, which is monitored by the supervisors. In addition, parameters are usually established between the competent authorities and the sponsors in advance, to set the limitations, scope and safeguards for users taking part in the tests. All these aspects are set down in an agreement or protocol.

The controlled test space has three key elements to understand its operation: it is a safe controlled environment for participants, it serves as a regulatory instrument that allows identifying regulatory amendments and improving the control of regulatory compliance with current legislation, and it is governed by a law-protocol scheme. In addition, it is important to note that the sponsors do not undertake regulated activities, as they are not carried out in a regular and professional manner, and therefore they would not be subject to authorisation, although they are obliged to comply with the provisions of the Sandbox Law and the corresponding protocol.

The Sandbox Law establishes the following **eligibility criteria for a favourable assessment** in order to enter the controlled environment. These requirements are as follows:

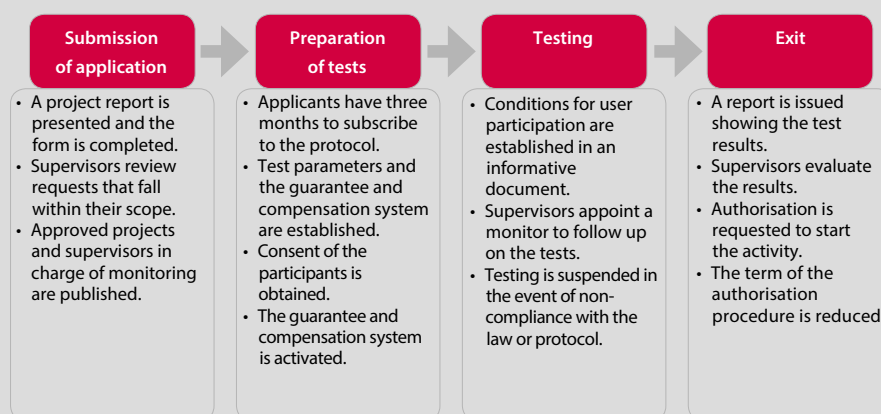
- i) Projects must provide technology-based innovation applicable to the financial system.
- ii) The innovation must be sufficiently advanced to be tested, in other words, projects must have a prototype that offers minimal functionality to prove its usefulness and ensure its future viability.
- iii) Projects must offer added value or potential usefulness in at least one of the following areas:
 - Facilitate regulatory compliance by improving or standardising processes or other tools.

- Provide some benefit for users of financial services in terms of cost reduction, improvement of quality or access conditions and availability of the provision of financial services, or increased consumer protection.
 - Increase the efficiency of entities or markets.
 - Provide mechanisms to improve regulation or financial supervision work.
- iv) The impact of the pilot project on the Spanish financial system will be taken into account.
- v) In no case will projects that are similar to others, in other words, those of an analogous nature and aimed at the same recipients, be able to access the sandbox.

The Sandbox Law establishes different phases in the process, which are summarised in the following figure.

Phase diagram of the controlled testing environment

FIGURE E28.1



Source: CNMV.

The Spanish sandbox is one of the most comprehensive and far-reaching, as all three financial supervisors are involved (the Bank of Spain, CNMV and General Directorate of Insurance and Pension Funds) and authorities such as SEPBLAC or the Spanish Agency for the Protection of Data are also available to participate in the projects that require their input. Therefore, the scope of the projects that may be admitted covers a wide range of financial products and services, and will need close cooperation and coordination by the authorities to provide a joint response to all the projects that require it. Likewise, the test results obtained will be taken into consideration for future amendments and simplifications of the current legislation (for example, eliminating obstacles and unnecessary duplications, establishing more agile procedures and relaxing burdensome administrative procedures) in order to promote an efficient regulatory framework that encourages innovation.

The first call for the sandbox, with an application period that ran from 13 January to 23 February 2021, received 67 applications, of which 18 received a favourable assessment.

Of the projects admitted in this first call, ten correspond to the Bank of Spain, four to the General Directorate of Insurance and Pension Funds and four to the Spanish National Securities Market Commission.

The objectives of the projects accepted include facilitating companies' access to financing, reducing costs by improving management efficiency and improving regulatory compliance by companies in the financial sector.

In the coming months, talks will take place between the competent financial supervisor and the sponsor of the project on the protocol that will govern the trial period.

Some guidelines are expected to be published to facilitate the presentation of new projects in subsequent sandbox calls, based on the lessons learned in this first experience.

1 <https://www.boe.es/eli/es/l/2020/11/13/7>.