



# Annual Report 2017





**CNMV Annual Report  
2017**

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## Abbreviations

AA. PP.	Public Administration Services
ABS	Asset-backed security
ACGR	Annual corporate governance report
AIAF	Asociación de Intermediarios de Activos Financieros (Spanish market in fixed-income securities)
AIF	Alternative investment funds
ANCV	Agencia Nacional de Codificación de Valores (Spain's national numbering agency)
ARDR	Annual report on director remuneration
ASCRI	Asociación española de entidades de capital-riesgo (Association of Spanish venture capital firms)
AV	Agencia de valores (broker)
BIS	Bank for International Settlements
BME	Bolsas y Mercados Españoles
BTA	Bono de titulización de activos (asset-backed bond)
BTH	Bono de titulización hipotecaria (mortgage-backed bond)
CADE	Central de Anotaciones de Deuda del Estado (public debt book-entry trading system)
CC. AA.	Autonomous regions
CCP	Central counterparty
CDS	Credit default swap
CDTI	Centre for the Development of Industrial Technology
CFD	Contract for differences
CNA	Competent national authority
CNMV	Comisión Nacional del Mercado de Valores (Spain's National Securities Market Commission)
CP	Crowdfunding platforms
CSD	Central securities depository
CSDR	Central Securities Depositories Regulation
EAFI	Empresa de asesoramiento financiero (financial advisory firm)
EBA	European Banking Authority
EC	European Commission
ECA	Credit and savings institutions
ECB	European Central Bank
ECR	Entidad de capital-riesgo (venture capital firm)
EICC	Entidad de inversión colectiva de tipo cerrado (closed-ended collective investment entity)
EIOPA	European Insurance and Occupational Pensions Authority
EIP	Public interest entity
EFAMA	European Fund and Asset Management Association
EMIR	European Market Infrastructure Regulation
EMU	Economic and Monetary Union (euro area)
ESFS	European System of Financial Supervisors
ESI	Investment firms
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded fund
EU	European Union
EuSEF	European social entrepreneurship fund
EuVECA	European venture capital fund
FCR	Fondo de capital-riesgo (venture capital fund)
FCR-pyme	Fondo de capital-riesgo pyme (SME venture capital fund)
FI	Fondo de inversión de carácter financiero (mutual fund)
FICC	Fondo de inversión colectiva de tipo cerrado (closed-ended investment firm)
FII	Fondo de inversión inmobiliaria (real estate investment fund)
FIICIL	Fondo de instituciones de inversión colectiva de inversión libre (fund of hedge fund)
FIL	Fondo de inversión libre (hedge fund)
FINTECH	Financial Technology
FOGAIN	Fondo General de Garantía de Inversiones (investment guarantee fund)

FRA	Forward rate agreement
FROB	Fund for Orderly Bank Restructuring
FSB	Financial Stability Board
FTA	Fondo de titulización de activos (asset securitisation trust)
FTH	Fondo de titulización hipotecaria (mortgage securitisation trust)
HFT	High frequency trading
IAS	International Accounting Standards
ICO	Initial coin offerings
IFRS	International Financial Reporting Standards
IIC	Institución de inversión colectiva (UCITS)
IICIL	Institución de inversión colectiva de inversión libre (hedge fund)
IIMV	Instituto Iberoamericano del Mercado De Valores (Ibero-American Securities Market Institute)
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IRR	Internal rate of return
ISIN	International Securities Identification Number
KIID	Key Investor Information Document
Latibex	Market in Latin American securities, based in Madrid
LEI	Legal entity identifier
LMV	Securities Market Act
LRL	Last resort loan
MAB	Mercado Alternativo Bursátil (alternative stock market)
MAD	Market Abuse Directive
MAR	Market Abuse Regulation
MARF	Alternative Fixed-Income Market
MEFF	Spanish Financial Futures and Options Market
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MMU	CNMV Market Monitoring Unit
MTS	Market for Treasury Securities
MOU	Memorandum of Understanding
NCA	National competent authority
NPGC	New general chart of accounts
OECD	Organisation for Economic Co-operation and Development
OIS	Overnight indexed swaps
OPS	Public offering (for subscription of securities)
OPV	Public offering (for sale of securities)
OTC	Over the counter
PER	Price to earnings ratio
PPI	Periodic public information
REIT	Real estate investment trust
RENADE	Registro Nacional de los Derechos de Emisión de Gases de Efecto Invernadero (Spain's national register of greenhouse gas emission allowances)
RFQ	Request for quote
ROE	Return on equity
SAMMS	Advanced Secondary Market Tracking System
SAREB	Asset Management Company for Assets Arising from Bank Restructuring
SCLV	Servicio de Compensación y Liquidación de Valores (Spain's securities clearing and settlement system)
SCR	Sociedad de capital-riesgo (venture capital company)
SCR-pyme	Sociedad de capital-riesgo pyme (SME venture capital company)
SENAF	Sistema Electrónico de Negociación de Activos Financieros (electronic trading platform in Spanish government bonds)
SEPBLAC	Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales e infracciones monetarias (Bank of Spain unit to combat money laundering)
SGC	Sociedad gestora de carteras (portfolio management company)
SGEGR	Sociedad gestora de entidades de capital-riesgo (venture capital firm management company)
SGEIC	Closed-ended investment scheme management company
SGFT	Sociedad gestora de fondo de titulización (asset securitisation trust management company)
SGIIC	Sociedad gestora de instituciones de inversión colectiva (UCITS management company)
SIBE	Sistema de Interconexión Bursátil Español (Spain's electronic market in securities)
SICAV	Sociedad de inversión de carácter financiero (open-ended investment company)
SICC	Closed-ended investment undertaking
SII	Sociedad de inversión inmobiliaria (real estate investment company)
SIL	Sociedad de inversión libre (hedge fund in the form of a company)

SMN	Sistema multilateral de negociación (multilateral trading facility)
SON	Sistema organizado de negociación (organised trading facility)
SRB	Single Resolution Board
SSS	Securities settlement system
STOR	Suspicious transaction and order report
SV	Sociedad de valores (broker-dealer)
TER	Total expense ratio
TRLMV	Texto refundido de la LMV (RDL 4/2015, de 23 de octubre) (recast text of the Securities Market Act)
T2S	TARGET2-Securities
UCITS	Undertaking for collective investment in transferable securities



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# I Securities markets and their agents



This first part of the Annual Report presents the most significant features of the national and international macroeconomic and financial environment in 2017, as well as the main trends recorded in Spanish financial markets and in the various types of market participants, all of which fall under the CNMV's supervisory remit.

With regard to the macroeconomic and financial environment (Chapter 1), 2017 was characterised by consolidated global growth and increasing divergence between the monetary policies applied on each side of the Atlantic. International financial markets, supported by the buoyancy of the economy, performed very positively in a context free of volatility. Stock markets recorded significant gains, particularly in the United States. For its part, the Spanish economy continued growing at above 3%, which helped to reduce unemployment and the government deficit.

The scenario is not without risk, as shown by the turmoil in financial markets in February 2018. The main sources of uncertainty are linked to the appearance of information that might imply unexpected changes in the monetary policy decisions of central banks, the accumulation of some macroeconomic and financial imbalances, the shift towards more restrictive trade policies and the effects resulting from Brexit.

Spanish financial markets (Chapter 2) did not record any significant upturns in their level of stress during the year. Their performance was similar to that of other European markets except in the case of equity assets in the last quarter of the year, when the political crisis in Catalonia led to prices posting a relatively worse performance. Debt markets underwent few changes in 2017, with interest rates at historic lows and a falling level of issues. The securities, clearing, settlement and registry reform was completed in September 2017, from which time Iberclear (Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores) started to perform these activities in one single securities settlement system named ARCO.

With regard to market participants (Chapter 3), the collective investment industry continued along its expansive path and reached a volume of assets similar to that recorded prior to the crisis, while the profits of brokers and broker-dealers improved despite growing competition from banks in providing services. This improvement was the result of these entities changing their business model and placing increasing importance on marketing collective investment schemes, portfolio management and advisory services, together with the implementation of cost containment measures. The venture capital sector also continued to grow in 2017, both in terms of the number of entities registered and the volume of investment, as did crowdfunding platforms, with 9 more entities registered (27 in total).



# 1 Economic and financial environment

## 1.1 International environment

2017 was characterised by consolidated global growth and increasing divergence between the monetary policies applied on each side of the Atlantic. According to IMF data, world GDP rose by 3.8% last year, 0.6 percentage points more than in 2016, and it did so with a high level of synchrony between advanced and emerging economies, and also within these groups of economies. In the case of the United States, favourable movements in employment and inflation allowed the Federal Reserve to raise interest rates three times in 2017 and to start reducing the size of the central bank's balance sheet following the strong expansion recorded over recent years. In contrast, the monetary policy stance in the euro area and in Japan remained ultra-expansive. The ECB maintained the main refinancing rate at 0% and continued with its debt purchase programmes, which, among other factors, contributed towards keeping the returns on these assets at historic lows. For the moment, the ECB has decided to reduce net monthly debt purchases from 60 billion euros to 30 billion euros from January until September 2018. The extension of these purchases beyond September will mainly depend on movements in inflation in the euro area (it should be noted that the ECB target is for inflation to be close to, but slightly below, 2%).

In this context, international financial markets performed positively, characterised by low interest rates and solid growth. Short-term rates in the advanced economies followed the path set by official rates, while long-term government bond yields remained relatively stable over the year. In the case of the United States, this led to a marked flattening of the yield curve. In some European economies, long-term bond yields fell in 2017 due to the improvements noted in their credit quality. Global stock markets recorded significant gains against a backdrop of extremely low volatility. The largest increases were seen in US indices, with gains of between 19% and 28% in the year, while the gains in Europe were somewhat smaller, between 6.5% and 13.6%, probably due to some political uncertainties and the Brexit negotiations.

The growth outlook for 2018 remains favourable although with some downside risks. One of the most significant relates to a possible upturn in inflation in the event that, for example, the tax reform in the United States has a major effect on prices. In general, a scenario of higher inflation might have an impact on monetary policy and lead to higher or earlier hikes in interest rates, which might affect financial markets. Other risks are related to the possible accumulation of financial imbalances resulting from an environment of very low interest rates over a long time, particularly in the euro area and, lastly, to the persistence of certain political uncertainties and conflicts.

### 1.1.1 The world economy

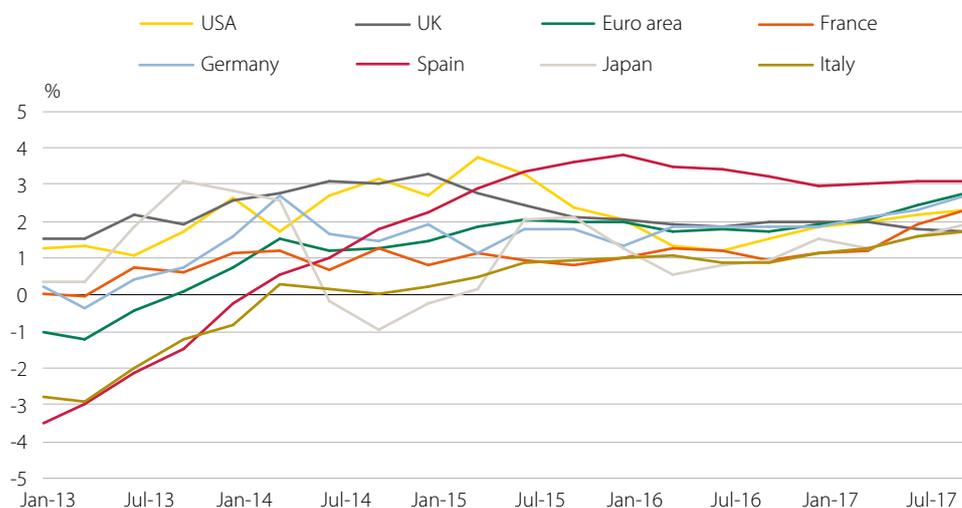
#### Sharp acceleration in the world economy in 2017, which also occurred with a high degree of synchrony between advanced and emerging economies

The world economy grew by 3.8% in 2017 according to IMF estimates,<sup>1</sup> 0.6 percentage points more than in 2016. One of the most important features of this growth was the synchrony between advanced and emerging economies. The former grew by 2.3% in 2017, 0.6 percentage points more than in 2016, while the latter grew by 4.8%, 0.4 percentage points more than in the previous year. The growth in world trade driven by buoyant investment, particularly in advanced economies, and the price increase in some commodities were some of the factors driving this growth. The political uncertainties present in the international economic and financial landscape have not yet had a significant impact on economic activity.

Particularly noteworthy among advanced economies was the growth in the euro area, where GDP rose by 2.3% (1.8% in 2016), with a notable acceleration in activity in all its economies. The largest increases include Spain, with growth of 3.1%, and Germany, with growth of 2.5%. In the United States, GDP grew by 2.3%, 0.8 percentage points more than in the previous year, supported by the expectations generated by the expansive policies of the US administration. Among the major European economies, only the United Kingdom recorded lower growth than in the previous year (1.8% compared with 1.9%), which is partly associated with the uncertainties resulting from Brexit.

**GDP: annual change**

FIGURE 1.1.1



Source: Thomson Datastream.

Noteworthy among emerging and developing economies was the recovery of Brazil and Russia, which broke away from the negative rates of 2016 (-3.5% and -0.2%, respectively) and recorded annual growth of 1% and 1.5%, respectively. Emerging Asian economies as a whole grew by 6.5%, the same rate as in 2016, thanks to strong activity in China, which recorded annual growth of 6.9%. The emerging economies in Eastern Europe also recorded a significant recovery, growing by 5.8% as a whole, 2.6 percentage points (pp) more than in 2016.

<sup>1</sup> World Economic Outlook.

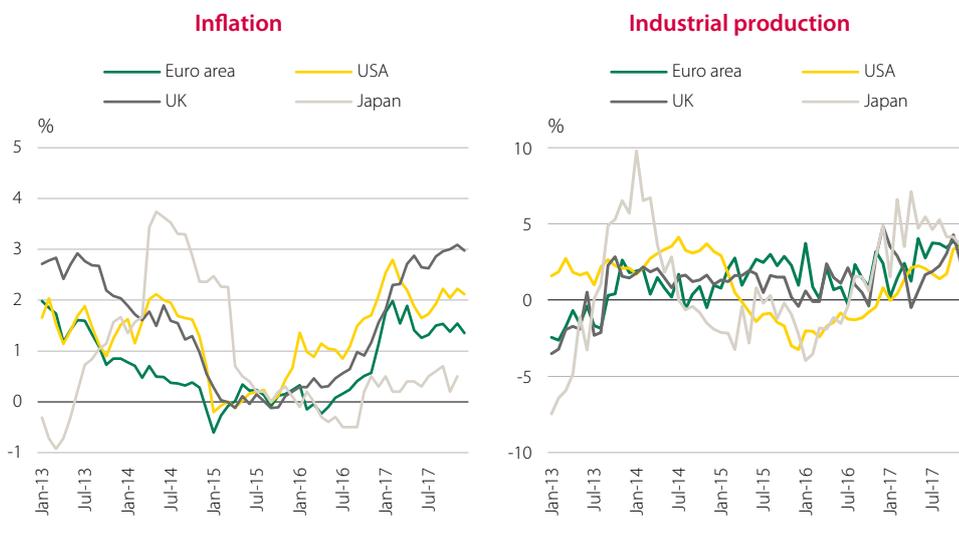
**The buoyant economy did not lead to significant price increases, except in the United Kingdom, which is influenced by the depreciation of the pound**

Securities markets  
and their agents  
Economic and financial  
environment

In an environment of higher global growth, inflation rates in the main economies did not record significant upturns in 2017 (except in the United Kingdom), as was the case with core inflation, which remained extremely stable. It is only worth noting that in the United States and in the euro area, there was a temporary upturn in inflation in the first quarter of the year as a result of higher oil prices (and the comparison with the low level at the start of 2016). Year-on-year inflation reached highs of 2.8% in the United States and 2% in the euro area in February, but then fell as the energy inflation rate normalised. At the end of the year, US inflation stood at 2.1% (core inflation at 1.8%) and inflation in the euro area stood at 1.4% (core inflation at 0.9%).

**Inflation and industrial production (annual change)**

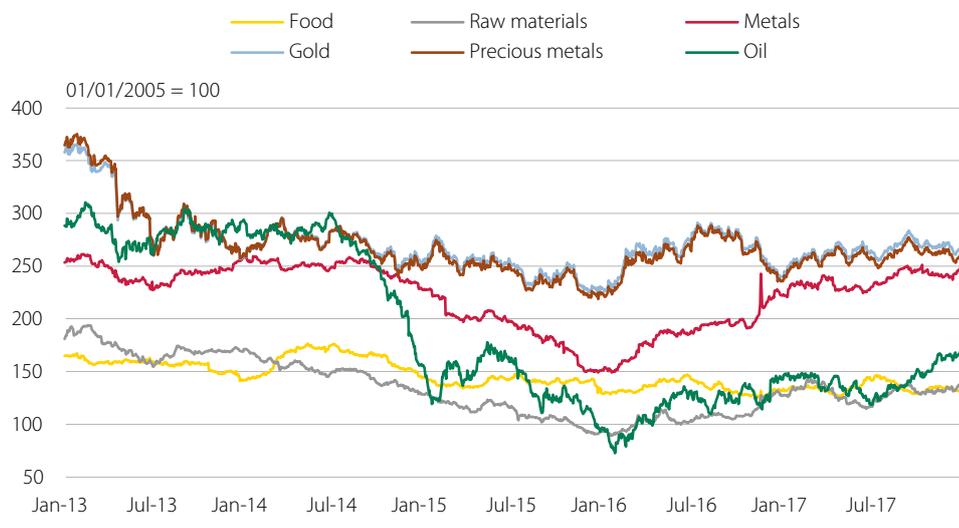
FIGURE 1.1.2



Source: Thomson Datastream.

**Commodity prices**

FIGURE 1.1.3



Source: Thomson Datastream.

The United Kingdom recorded a significant upturn both in general inflation, which rose from 1.6% at year-end 2016 to 3% at year-end 2017 (see Figure 1.1.2), and in core inflation (which rose from 1.6% to 2.5% over the same period), largely due to the significant depreciation of the pound. As discussed below, this trend justified the Bank of England’s decision to raise interest rates in November. Finally, inflation in Japan over 2017 ranged between 0.2% and 0.7%, without showing a clear trend in the year.

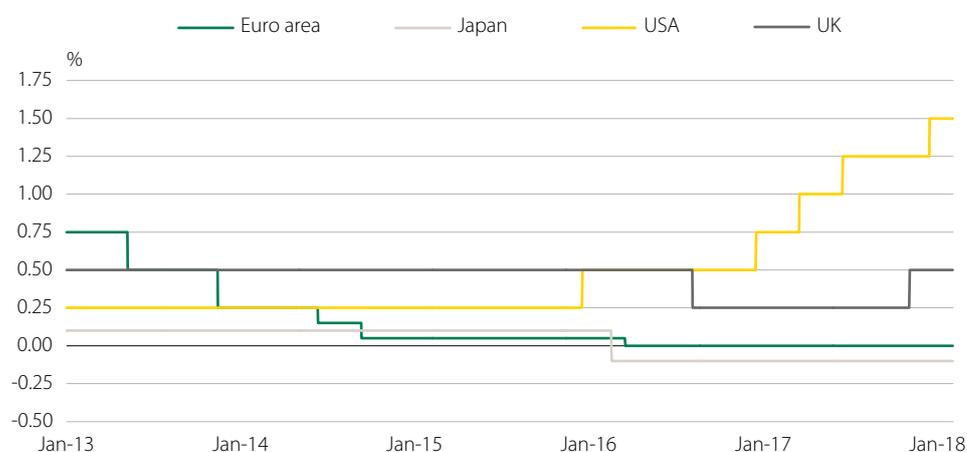
### The monetary policy stance in the United States and in the euro area diverged further in 2017

As mentioned above, 2017 was characterised by consolidated global growth and increasing divergence between the monetary policies applied on each side of the Atlantic. In the United States, the Federal Reserve decided to increase interest rates three times over the year as a result of the positive changes in employment and inflation. The last hike in the year in December left official interest rate in the range of 1.25-1.50% (see Figure 1.14). It also decided to begin to reduce the size of the Federal Reserve’s balance sheet following the sharp growth of recent years. The Bank of England also raised interest rates in November (25 basis points [bp], to 0.5%) in order to contain the upturn in inflation.

In contrast, the monetary policy stance in the euro area and in Japan remained ultra-expansive. The ECB maintained the main refinancing rate at 0% and continued with the debt purchase programmes, which keep the returns on these assets at historic lows. For the moment, the ECB has decided to reduce monthly debt purchases from 60 billion euros to 30 billion euros from January until September 2018. The extension of these purchases beyond September will mainly depend on movements in inflation in the euro area and whether it falls in line with the ECB’s target (around, but slightly below, 2%). The evolution of inflation will be decisive in the decisions taken by the ECB in 2018. Official interest rates in Japan have remained at -0.1% since February 2016.

Official interest rates

FIGURE 1.1.4



Source: Thomson Datastream.

## Evolution of the ECB's debt purchase programmes

EXHIBIT 1

Since the European Central Bank (ECB) launched its first asset purchase programme<sup>1</sup> in the financial markets in July 2009, a series of public and private debt purchase programmes have followed aimed at combating the effects of the recent economic and financial crisis, some of which remained in force at the end of 2017, within the framework of an expansionary monetary policy, which has included non-conventional measures.<sup>2</sup>

In October 2014, the Governing Council of the ECB launched two new private debt purchase programmes: the Third Covered Bond Purchase Programme (CBPP3) and the Asset-Backed Securities Purchase Programme (ABSPP). Similarly, as from March 2015, the ECB added to its asset purchase programme the acquisition of bonds issued by euro area governments and European agencies and institutions (Public Sector Purchase Programme, PSPP). This programme was further expanded in June 2016 to include a Corporate Sector Purchase Programme (CSPP). All these programs in turn make up the Expanded Asset Purchase Programme (APP), which includes the purchases of private sector and public sector securities included under the aforementioned programmes.

Debt purchases under the APP programme began with monthly net purchases of 60 billion euros from March 2015 until March 2016, to rise to net purchases of 80 billion euros from April 2016 until March 2017. As from April 2017, they fell again to monthly net purchases of 60 billion euros, which continued until the end of the year.

Although the programmes were initially planned for a shorter duration and some of them should have finished some time ago, the economic circumstances and data made it recommendable to adopt complementary monetary policy measures, which included extending the duration of said programmes. The asset purchase programme was therefore still in place at year-end, although the amount of the purchases and their composition have evolved over time depending on monetary policy needs.

Up to 31 December 2017, purchases under the APP amounted to close to 2.28 trillion euros, with 83% corresponding to the PSPP, 11% to the CBPP3, 6% to the CSPP and the remaining 1% to the ABSPP (see Table E1.1). Of the 1.88 trillion euros of public asset purchases under the PSPP, 230.26 billion euros corresponded to purchases of Spanish assets with an average maturity of 8.27 years. In the case of the corporate sector purchase programme (CSPP), 11% of the purchases<sup>3</sup> (for an amount exceeding 14 billion euros) corresponded to debt issued by 17 Spanish issuers.

Total purchases grew from almost 650 billion euros at the end of 2015 to 2.28 trillion euros in 2017, after reaching 1.53 trillion euros in 2016, which represents an unprecedented monetary stimulus of over 1.6 trillion euros in just the last 2 years. Of this amount, public debt purchases amounted to almost 1.9 trillion euros at the end of the year, of which 230 billion euros corresponded to Spanish public debt (12% of the total). For their part, covered bond and corporate sector purchases amounted to almost 241 billion euros

and 131.6 billion euros, respectively, of which around 35% and 16% were acquired directly in the primary market with the aim of accelerating monetary policy transmission mechanisms.

### Net purchases under the ECB's asset purchase programmes

TABLE E1.1

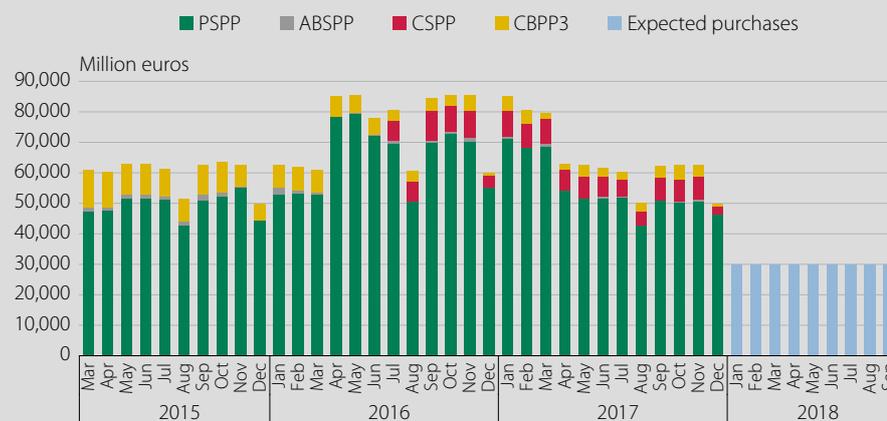
	ABSPP	CBPP3	PSPP	CSPP	APP
	Euro area total	Euro area total	Spain <sup>1</sup>	Euro area total	Euro area total
Start of the programme	Nov-14	Oct-14	Mar-15	Jun-16	–
Volume acquired at 31/12/2015	13.2	143.3	56.8	491.2	–
Volume acquired at 31/12/2016	22.8	203.5	150.3	1,254.6	51.0
Volume acquired at 31/12/2017	25.0	240.7	230.2	1,888.7	131.6

Source: ECB. Volumes in billions. (1) In the case of Spain, the ECB data correspond to purchases without discounting amortisation adjustments.

Their composition has evolved over time (see Figure E1.1) although public debt purchases have remained stable over the last 2 years at around 82-83% of the total. Covered bond purchases have lost ground to corporate bond purchases once their objective of improving financial conditions in the euro area and facilitating the growth in lending in the real economy had been achieved. Thus, corporate debt purchases have risen to 6% of total with the aim of becoming the monetary policy transmission tool aimed at facilitating lending to companies and reducing their financing costs. However, the size of purchases is dependent on the availability of eligible assets.

### Monthly net purchases under the ECB's purchase programmes

FIGURE E1.1



Source: CNMV with ECB data.

Finally, on 26 October 2017, the ECB's Governing Council decided that monthly net purchases under the aforementioned programme would be reduced to 30 billion euros from January 2018. The aim is for the purchases to continue until the end of September this year or later if necessary and, in any

event, until the Council sees a sustained adjustment in the path of inflation that is consistent with its medium-term target (below, but close to, 2%). However, the market expects that monetary policy in the euro area will be normalised and all these non-conventional programmes and measures will be gradually phased out.

- 1 On 9 July 2009, the first Covered Bond Purchase Programme (CBPP1) was launched, which ran until June 2010 and led to purchases for a nominal amount of 60 billion euros. Subsequently, the Securities Market Programme (SMP), which included purchases of public debt issued by euro area governments, ran from May 2010 to September 2012. The latter programme coincided in time with the second Covered Bond Purchase Programme (CBPP2), which ran from November 2011 to October 2012 and accumulated purchases for a nominal amount of 16.4 billion euros.
- 2 These non-conventional measures have included negative interest rates and a set of targeted long-term refinancing operations for the financial sector (up to 4 years) (TLTRO I and II) under attractive conditions designed to encourage private sector financing.
- 3 Data up to the third quarter of 2017.

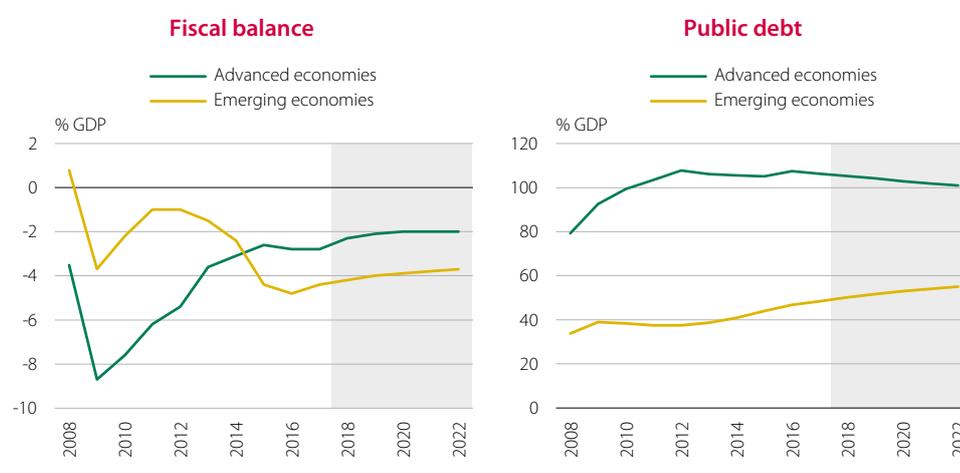
Source: ECB.

### In 2017, the public deficit stabilised in advanced economies at below 3% of GDP and fell by almost half a percentage point in emerging economies

According to IMF estimates, the aggregate government deficit of advanced economies stabilised in 2017 at 2.8% of GDP, while that of emerging and developing economies decreased by 0.4 percentage points to 4.4% of GDP. In the case of the former, the fiscal policy stance was slightly expansive, especially in the United States, but the fall in the cyclical deficit as a result of the economic boom allowed for the stability of the aggregate fiscal balance. In the latter, rising commodity prices over the year favoured the reduction in the government deficit of many exporting economies. With regard to public debt, advanced economies recorded a slight fall in the aggregate ratio (from 107.4% of GDP in 2016 to 106.3% in 2017), while emerging economies recorded a slight increase of 1.6 percentage points to 48.4% of GDP (see Figure 1.1.5).

Fiscal balance and public debt

FIGURE 1.1.5



Source: IMF.

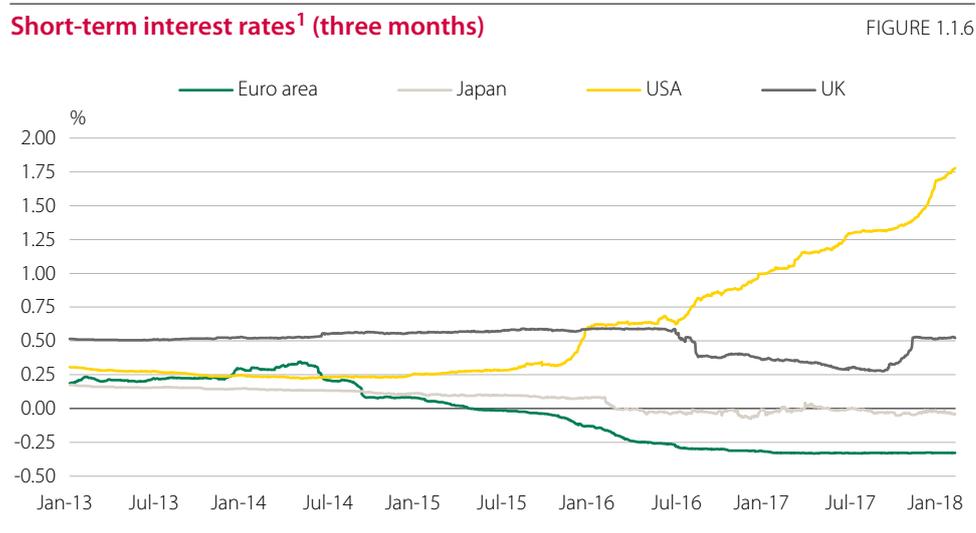
The IMF forecasts a gradual reduction in the government deficit of advanced economies to ratios of 2% of GDP and of emerging economies to ratios of under 4%.<sup>2</sup> The government debt of advanced economies will fall to levels of close to 100% of GDP in the next 5 years, while that of emerging economies will record an upward trend to 55% of GDP.

### 1.1.2 Developments in international financial markets

#### The difference between three-month interest rates in the United States and the euro area now exceeds two percentage points

Short-term interest rates in the major advanced economies continued to drift apart over 2017 as a result of the different paths followed by the monetary policies applied by their central banks. Thus, in the United States, 3-month interest rates followed an upward trend throughout the year, standing at 1.69% at the end of December (1% at the end of 2016). These levels of short-term rates are the highest from among the advanced economies and set a difference of over two percentage points compared with those in the euro area (see Figure 1.1.6). In the United Kingdom, three-month interest rates also rose in 2017, in line with the central bank's decision to raise interest rates in November. These interest rates began to rise more sharply from September and ended the year at 0.52% (15 bp higher than at year-end 2016).

In contrast, in the euro area and in Japan, where the monetary policy stance remained ultra-expansive, short-term interest rates remained almost unchanged throughout the year. In the euro area, 3-month rates hovered at around -0.33% and in Japan at around 0%.



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

As regards interest rate expectations, forward rates (FRAs) suggest that there will be continued divergence in the short-term benchmark rates in the euro area and in the

<sup>2</sup> These forecasts were released in the autumn of 2017, before the details of the US tax reform were known, and therefore significant adjustments may be expected in the coming forecast, which will be published in the spring, particularly in the aggregate figures of advanced economies.

United States. In the euro area, rates are expected to remain broadly unchanged throughout the year, which is in line with the ECB's intention to keep official interest rates at low levels for a long period of time, beyond the horizon scheduled for the end of its asset purchase programme. In contrast, interest rates in the United States are expected to rise by over half a percentage point in line with the process of normalising monetary policy implemented by the Federal Reserve.

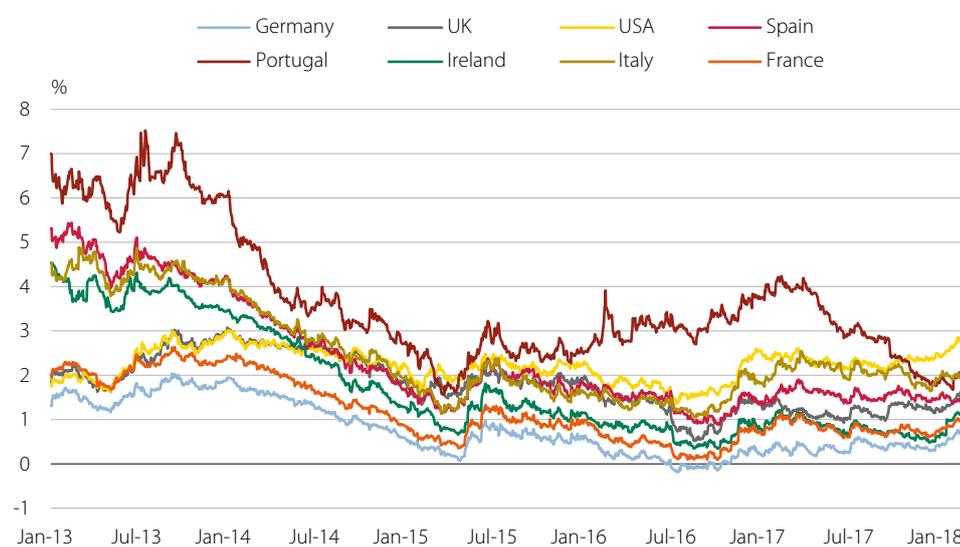
### Debt markets were characterised by stable bond yields and declining risk premiums

Long-term yields on sovereign bonds in most advanced economies remained extremely stable over 2017. Only in euro area countries were there some small increases, probably as a result of several political uncertainties, which tended to dissipate as the results of the various elections came through, but also as a result of the consolidation of higher-than-expected growth rates in the area.

In the case of the United States and the United Kingdom, the yield on the 10-year government bond stood at 2.4% and 1.2%, respectively, in December, similar levels to those recorded at the end of 2016. The increase in the short-term yields of these two economies, resulting from the increases in official interest rates, together with the stability of long-term rates, led to a marked flattening of the yield curve, which is compatible with inflation expectations that are, for the moment, relatively contained.

Ten-year government bond yields

FIGURE 1.1.7



Source: Thomson Datastream.

In the euro area, 10-year bond yields rose slightly, from the 10 bp of the French sovereign bond (which stood at 0.79%) to the 22 bp of the German bond (which ended the year at 0.42%). In contrast with this trend, the yield on Portuguese and Greek sovereign debt fell sharply as a result of the perceived improvement in their credit quality, which was confirmed by the upgrading of their ratings.<sup>3</sup> The yield on

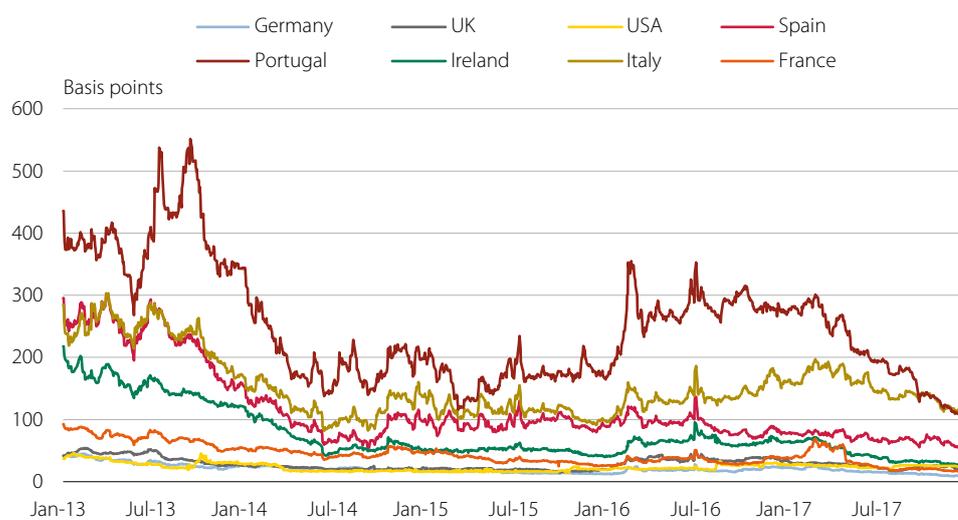
3 The rating of Portugal's long-term sovereign debt was upgraded in September by Standard & Poor's and in December by Fitch, and that of Greece in June by Moody's and in August by Fitch.

the sovereign Portuguese bond fell by 183 bp to 1.93%, while the yield of the Greek bond fell by over 300 bp to 4.12%. The credit ratings of sovereign bonds in other European economies were also upgraded (for example, in Ireland and Italy), but the yield changes were less pronounced.

Sovereign risk premiums (as gleaned from five-year CDS contracts) fell significantly in 2017 in the peripheral euro area countries, and more moderately in the other advanced economies. Specifically, risk premiums fell in Spain (22 bp), France (21 bp) and Germany (13 bp) to 57, 17 and 10 bp, respectively, as a result of both the consolidation of economic growth and the dissipation of certain sources of political uncertainty in the region. The most significant falls were recorded in Portugal (183 bp) and Italy (46 bp), where they fell to 95 and 118 bp, respectively, as a result of improvements in their ratings. Particularly noteworthy was the reduction in the sovereign risk premium of the Greek CDS (621 bp to 382 bp), which coincided with approval of the release of an additional tranche of 8.5 billion euros in financial support offered by the European Stability Mechanism (ESM) and the recent upgrades to its credit rating based on the recovery of its economy. The US and UK sovereign risk premiums stood at 24 and 19 bp, respectively, at the end of December, very similar to the levels recorded at year-end 2016 (see Figure 1.1.8).

Sovereign CDS spreads

FIGURE 1.1.8



Source: Thomson Datastream.

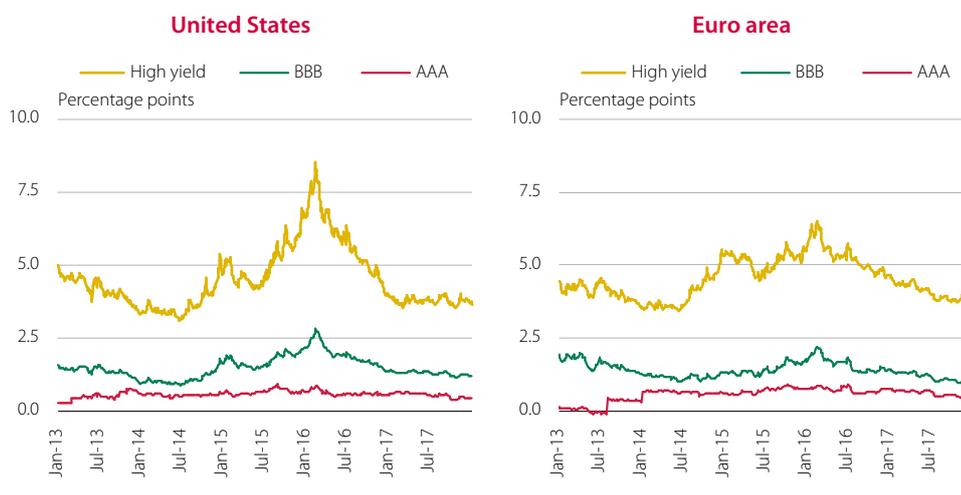
Risk premiums of European banks fell over 2017 as the same factors that pushed down sovereign risk premiums, i.e., consolidation of the economic recovery and reduction in political uncertainty, led to positive changes in the outlook for the banking sector. These reductions were also linked to idiosyncratic factors, such as the gradual reduction in banks' doubtful assets and efforts aimed at restructuring their balance sheets. In this context, the spreads of the banking sector as a whole fell by 120 bp in 2017 to 134 bp at the end of December. The spreads of the banking sector in the United States were much more stable and only fell by 22 bp to 39 bp.

Spreads on corporate debt fell in 2017 in the major advanced economies, particularly in lower quality corporate bonds, which reflects a widespread increase in the appetite for risk. These falls were more moderate in the United States, where spreads

on high-yield bonds stood at 362 bp at the end of December, accumulating an annual fall of 29 bp. Over the same period, the spread on corporate debt with the worst credit rating in the euro area recorded a larger fall (76 bp) to stand at 384 bp against a backdrop of extremely low interest rates, which encourages the search for higher returns.

### Corporate bond spreads<sup>1</sup>

FIGURE 1.1.9



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

### Corporate bond issues grew in 2017 in order to take advantage of the good market conditions in advance of the process of interest rate hikes

Net issuance on global debt markets amounted to 2.04 trillion dollars in 2017, 21.4% down on 2016. By sector, corporate debt issues rose by 9.9% to 1.44 trillion dollars, while sovereign bond issues fell significantly (by 53% to 599 billion dollars), particularly in the United States. Net issues fell in every region studied (see Figure 1.1.10).

In the United States, net debt issuance fell to 800 billion dollars in 2017 (1.2 trillion dollars in 2016). The fall was concentrated in government bonds due to the restrictions linked to the debt ceiling. In contrast, private sector issuance rose by 20.6% on the previous year to 808 billion dollars, as corporations took advantage of the current good financing conditions in the expectation that the Federal Reserve will toughen monetary policy.

Net debt issuance in Europe amounted to 155 billion dollars (27 billion dollars down on 2016). Sovereign issues fell to 71 billion dollars (40 billion dollars less than in 2016). In the private sector, the environment of low interest rates, which continued to encourage funding through the markets, and the improvement in the outlook for the financial sector led to net debt issuance by this sector once again becoming positive in the second half of the year for the first time since 2014, although in annual terms it remained negative. Although non-financial companies recorded increases in gross issues, the higher volume of maturities meant that, in net terms, the cumulative amount over the year stood at 139 billion dollars, 20 billion dollars down on 2016.

## Net international debt issuances

FIGURE 1.1.10



Source: Dealogic. Half-yearly data.

## Strong gains in international stock markets based on the buoyant economy in a context of volatility at historic lows

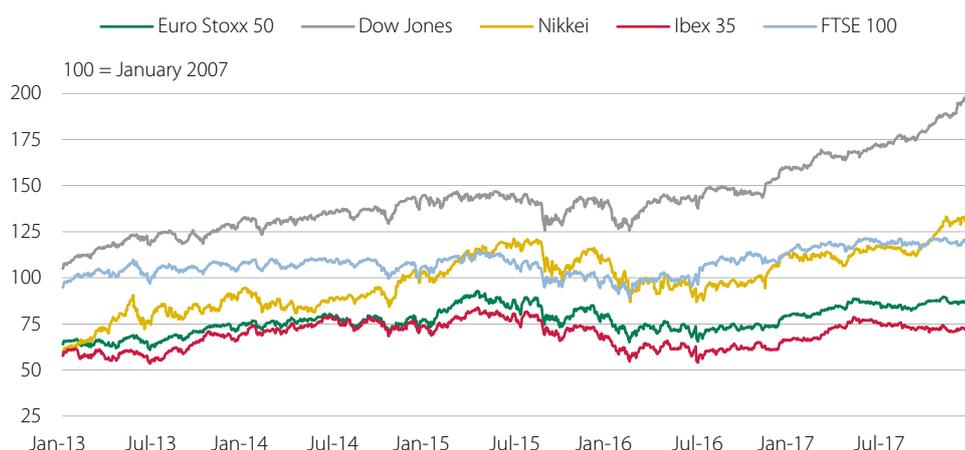
In the year as a whole, the leading stock indices recorded significant gains, generally as a result of the strength of economic growth worldwide in a context free from inflationary pressures and in an environment of low interest rates. The largest gains were recorded in the United States, where indices rose by between 19% and 28%, largely as a result of the positive position of the employment market and the healthy outlook as a result of the tax reform that is expected to have a positive effect on corporate income statements in the United States. Gains in European stock markets were more moderate, ranging from 6.5% to 13.6%. At the lower end of the range were the British FTSE 100, which grew by 7.6% in the context of weak economic growth and uncertainty relating to the Brexit negotiations, and the Ibox 35, with gains of 7.4%.

The gains recorded across the board by the major stock indices were accompanied by historically low volatility, which over 2017 ranged between the 5% of the Eurostoxx 50 and the 15% of the Dow Jones (see Figure 1.1.12). In the case of the Ibox 35, volatility reached 20% in October and although this figure is not high compared with the historic average, it temporarily stood out from the volatility of the other European markets as a result of the domestic political tensions at that time. In December, Ibox 35 volatility once again fell to levels close to 10%.

## Performance of main world stock indices

FIGURE 1.1.11

Securities markets  
and their agents  
Economic and financial  
environment



Source: Thomson Datastream.

## Performance of main world equity markets

TABLE 1.1.1

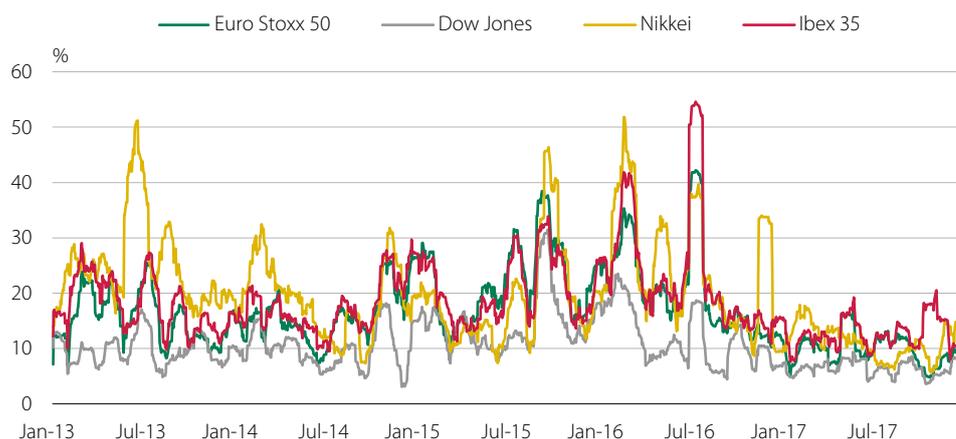
Stock market	Index	Change <sup>1</sup> (%)				
		2013	2014	2015	2016	2017
<b>Developed countries</b>						
United States	Dow Jones Ind. A.	26.5	7.5	-2.2	13.4	25.1
United States	Nasdaq Composite	38.3	13.4	5.7	7.5	28.2
United States	S&P 500	29.6	11.4	-0.7	9.5	19.4
Japan	Nikkei	56.7	7.1	9.1	0.4	19.1
United Kingdom	FTSE 100	14.4	-2.7	-4.9	14.4	7.6
Euro area	Euro Stoxx 50	17.9	1.2	3.8	0.7	6.5
Euronext	Euronext 100	19.0	3.6	8.0	3.0	10.6
Germany	Dax 30	25.5	2.7	9.6	6.9	12.5
Italy	Mib 30	16.6	0.2	12.7	-10.2	13.6
Spain	Ibex 35	21.4	3.7	-7.2	-2.0	7.4
<b>Latin America &amp; Asia</b>						
Argentina	Merval	88.9	59.1	36.1	44.9	77.7
Brazil	Bovespa	-15.5	-2.9	-13.3	38.9	26.9
Chile	IGPA	-13.5	3.5	-3.8	14.2	35.0
Mexico	CPI	-2.2	1.0	-0.4	6.2	8.1
Peru	IGBL	-23.6	-6.1	-33.4	58.1	28.3
South Korea	Korea Cmp Ex	0.7	-4.8	2.4	3.3	21.8
Hong Kong	Hang Seng	2.9	1.3	-7.2	0.4	36.0
China	Shanghai Composite	-6.7	52.9	9.4	-12.3	6.6

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

The implied volatilities of international stock markets also remained at low levels. However, these levels contrasted with the high cost of tail risk hedging. In the case of the S&P 500, the VIX stood at historic lows (10%), while the SKEW index, which is based on the implied volatility of the options offering tail risk hedging, has followed an upward trend since 2016 and now stands at high levels (130%). This suggests that despite the relative calm in equity markets, certain changes in the factors which set the tone for investors' risk appetite, such as interest rate levels or increases in geopolitical tensions, might trigger significant price adjustments in financial markets.

### Historical volatility<sup>1</sup> of main stock indices

FIGURE 1.1.12



Source: Thomson Datastream. (1) The index's historical volatility on day  $t$  is calculated as the standard deviation of daily index returns in the 20 preceding sessions.

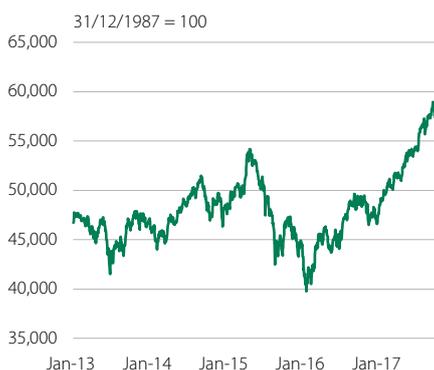
The positive performance of most emerging economies during the first half of last year, with positive surprises in the growth rates of China, Russia and some emerging countries in Europe, enabled significant price gains in their stock markets and notable reductions in risk premiums. In 2017 as a whole, the MSCI emerging market stock index gained 27.8% and the risk premium fell by 54 bp to stand at 311 bp at the end of December (see Figure 1.1.13).

Emerging stock markets generally recorded significant gains in 2017. In Latin America, the Brazilian Bovespa index rose by 26.9%, although the price increases were concentrated in the third quarter (18.1%) as a result of growth rates returning to positive figures and as a result of the expectation that a set of reforms perceived as favourable to the market would be approved. In Asia, where significant gains were recorded in most stock indices, the Shanghai Composite was in the lower range with a rise of 6.6% between January and December. The Russian RTS Index performed irregularly over the year, with falls of 13.1% in the first half, which reflected doubts about the evolution of oil prices and the impact of international economic sanctions, and gains of 15.3% in the second half of the year. As a result of the above, the index gained 0.2% overall in 2017.

### Emerging economy financial markets

FIGURE 1.1.13

#### Emerging market stock index (MSCI)



#### Emerging market bond spreads (EMBI)



Source: Thomson Datastream and Bloomberg.

According to figures published by the World Federation of Exchanges and the Federation of European Securities Exchanges, equity trading volumes performed unevenly between the different stock markets and platforms. Thus, the United States and the European BATS Europe and Turquoise platforms recorded falls in trading, while the Euronext and Deutsche Börse recorded gains. In 2017, the London Stock Exchange and BME recorded similar trading volumes to those recorded in the previous year.

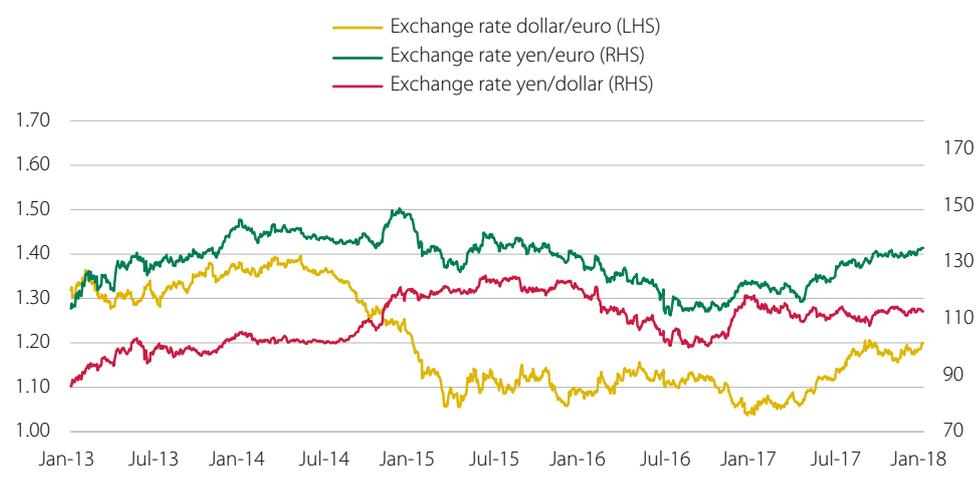
Stock markets continued this expansive path in the first few weeks of 2018, but at the start of February, publication of higher than expected wages in the United States led to revised expectations for US inflation and, consequently for the process of interest rate hikes. These developments, combined with announcements of protectionist measures by the US government, led to sharp falls in prices on US stock exchanges, along with a significant upturn in volatility, which spread to other European and Asian stock exchanges. In this context, the VIX volatility indicator reached a high of 37%, a level which had not been recorded since the summer of 2015. This upturn was amplified by the growing number of leveraged mutual funds trading volatility. This increase in volatility was followed by an almost immediate fall and another subsequent rise at the beginning of March, which was associated with partial materialisation of the risks relating to the protectionist measures in the United States in an environment that seems to herald a period of greater variability in the immediate future.

### The euro appreciated significantly against the major currencies in 2017

In exchange markets, the euro appreciated significantly against the major currencies in 2017, partly as a result of strong economic growth in the area. In relation to the US dollar, the exchange rate, which had begun the year at 1.05 dollars per euro, started to appreciate sharply from the middle of the year, to end 2017 at 1.20. This change put an end to the uneven downward trend that had begun in 2014. The euro/yen exchange rate followed a similar path to that of the dollar/euro rate over the year, although the gain of the euro was somewhat more moderate in this case. The yen/euro exchange rate stood at 135 in December (123.4 at year-end 2016), coinciding with a slight appreciation of the yen against the dollar.

**Euro exchange rates against the dollar and the yen**

FIGURE 1.1.14



Source: Thomson Datastream.

### 1.1.3 Outlook and risks

The latest IMF forecasts (April 2018) indicate that global growth will accelerate even further in 2018 to 3.9%, maintaining the same rate in 2019. These forecasts are similar to those published in January of this year and 0.2 percentage points up on those of its report from October last year. The forecast for the expected overall growth of advanced economies for the year was revised upwards by 0.2 percentage points to 2.5% (2.3% in 2017). A large part of this adjustment was the result of the significant tax reform adopted in the United States, where the growth rate will be close to 3% this year. The euro area will grow by 2.4% in 2018 (2.2% in 2019), 0.2 percentage points up on the last forecast, as a result of the greater vitality of the most important economies, including the Spanish economy. Emerging and developing economies will grow by 4.9% this year and by 5.1% next year, figures that were revised slightly upwards.

The most significant risks that loom over this scenario include a possible upturn in inflation in the case, for example, of the tax reform in the United States or the buoyancy of the economy in general eventually having a stronger-than-expected effect on prices. In general, a higher inflation scenario might have an impact on monetary policy and lead to higher or earlier increases in interest rates, which could have a significant impact on financial markets.<sup>4</sup> Other risks relate to the possible accumulation of financial imbalances resulting from the environment of prolonged low interest rates, particularly in the euro area. Some market participants may have acquired a proportion of high-risk assets that would not be appropriate to their investor profile in order to obtain higher returns, and these investors may be more sensitive to potential volatility or losses of liquidity. Finally, some uncertainties of a political nature persist, such as those related to Brexit and other potential geopolitical conflicts, which may trigger moments of market stress.

## 1.2 Spanish environment

The Spanish macroeconomic environment was favourable in 2017 as GDP continued growing at a good rate, inflation gradually declined after the highs at the start of the year and the public deficit also fell to close to 3% of GDP, favoured not only by the buoyancy of the economy but also by the significant savings in the debt interest expense. The uncertainty generated by the political crisis in Catalonia had no significant impact on activity in the Spanish economy, nor did it generate an increase in stress in financial markets, although it did have an impact on stock prices during the final months of 2017.

Against this background, GDP grew by 3.1% in 2017, 0.6 percentage points higher than in the euro area, in a year of greater synchrony in terms of growth between advanced and emerging economies. The prolongation of the economic expansion allowed the number of people in work to grow by close to 500,000, which meant that the unemployment rate, although still high, ended 2017 at 16.55% of the active population, 2 percentage points down on 2016. The financial position of households continued to improve as a result of the increase in their incomes and the reduction in their debts, but the savings rate fell significantly, partly as a result of the small

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4 In fact, in early February 2018, there was already an episode of volatility in international equity markets due to a change in inflation expectations in the United States.

increase in remuneration per employee. Banks continued to face difficulties in increasing their profitability due to the low level of interest rates, but there were signs of a budding recovery in lending in some segments.

Debt markets underwent few changes in 2017, with interest rates at historic lows as a result of the monetary policy adopted by the ECB and falling issues of fixed-income instruments, due both to the de-leveraging process of Spanish companies and the increase in issues in foreign markets. The Spanish bond spread ranged between 95 bp and 153 bp over the year (114 bp in December) and did not record significant changes at the times of greatest uncertainty in Catalonia. In addition, in early January, the credit rating of Spanish public debt was revised upwards, which had a positive impact on its yield and the spread. Corporate bond spreads followed a similar path to government bond spreads in 2017.

In equity markets, the Ibex 35 gained 7.4% as a result of the buoyant economy and against a backdrop of extremely low volatility and stability in traded volumes. This gain was lower than in other European markets due to the worse price data from the Spanish market in the last few months of the year, mainly as a result of the political crisis in Catalonia. Primary market activity was positive, as were liquidity conditions. In February 2018, the Spanish stock market suffered a resurgence of volatility originating in the United States, which, seems to have been temporary, although new periods of turbulence cannot be ruled out.

### 1.2.1 Economic environment

#### The Spanish economy continued to grow by over 3% in 2017, but the gap with the euro area narrowed

Spain's GDP grew by 3.1% in 2017, only 0.2 percentage points lower than in 2016, thus extending the expansion that began in 2014. The growth in the Spanish economy was greater than in the euro area (2.5%), but this gap narrowed compared with 2016 (from 1.5 pp to 0.6 pp) due to the strong recovery in European economies last year.

The contribution of domestic demand to GDP growth rose progressively over 2017, increasing from 2.5 pp in 2016 to 2.8 pp in 2017. In contrast, the contribution of the external sector to growth fell over the year, ending the last quarter in negative territory (annual average of 0.3 pp compared with 0.7 pp in 2016). The components of domestic demand showed that public consumption picked up speed between 2016 and 2017 (rising from 0.8% to 1.6%), as did gross fixed capital formation (from 3.3% to 5%), while private consumption slipped by 0.5 percentage points to 2.4%. With regard to the components of the external sector, exports grew at a higher average annual rate than in 2016 (5% in 2017 compared with 4.8% in 2016) but the higher growth in imports (from 2.7% to 4.7%) meant that the contribution of the external sector to growth fell progressively to slightly negative figures.

On the supply side of the economy, growth was recorded in the construction sector, whose value added grew by 4.9% in 2017, far above the growth in 2016 (1.9%) and, to a lesser extent, in the industrial sector (including the energy sector), which recorded a slight acceleration (from 3.6% to 3.7%). In contrast, the services sector and the primary sectors recorded slower growth in 2017. In the case of services, value added rose by 2.6% (3% in 2016) and in the primary sectors, it rose by 3.7% (6.9% in 2016).

## Key variables of the Spanish economy

TABLE 1.2.1

	2013	2014	2015	2016	2017
GDP	-1.7	1.4	3.4	3.3	3.1
Private consumption	-3.2	1.5	3.0	2.9	2.4
Government consumption	-2.1	-0.3	2.1	0.8	1.6
Gross fixed capital formation, of which:	-3.4	4.7	6.5	3.3	5.0
Capital goods	4.9	6.0	11.6	4.9	6.1
Exports	4.3	4.3	4.2	4.8	5.0
Imports	-0.5	6.6	5.9	2.7	4.7
Net exports (contribution to growth, pp)	1.5	-0.5	-0.4	0.7	0.3
Employment <sup>1</sup>	-3.4	1.0	3.2	3.0	2.8
Unemployment rate (% of active population).	26.1	24.4	22.1	19.6	17.2
Consumer price index	1.4	-0.1	-0.5	-0.2	2.0
Current account balance (% GDP)	1.5	1.1	1.1	1.9	1.9
Public authority balance (% GDP) <sup>2</sup>	-7.0	-6.0	-5.3	-4.5	-3.1

Source: Ministry of Economy and Competitiveness, European Commission and Thomson Datastream. Annual change unless otherwise stated. (1) Full-time equivalent jobs. (2) Figures for 2013, 2014, 2015, 2016 and 2017 include government aid to credit institutions amounting to 0.5%, 0.1%, 0.1%, 0.2% and 0.04% of GDP, respectively.

Inflation, which started 2017 at year-on-year rates of 3% as a result of the upturn in energy prices, fell over the following months to stand at 1.1% in December as energy inflation returned to normal.<sup>5</sup> Core inflation, which excludes the more volatile elements of the index, such as energy and fresh food, rose slightly from 1.1% to 1.4% in July, to then resume its downward trend in the last part of the year to close the year at 0.8%. The inflation gap versus the euro area, which started 2017 at over 1 percentage point ended the year in slightly negative territory (-0.1 pp), with the average gap standing at 0.5 pp (-0.6 pp in 2016).

In the job market, the buoyancy of the economy allowed employment to grow by 2.8% in 2017, only a fraction of a percentage point below the growth recorded in the last 2 years (3.2% in 2015 and 3% in 2016). Information from the Labour Force Survey (EPA) indicates that last year the number of employed people rose by 490,000 (1.86 million over the last 4 years) and that the unemployment rate fell to 16.55% in the fourth quarter (18.6% at the end of 2016). Furthermore, year-on-year growth in unit labour costs remained negative in 2017, although a little less than in 2016, as the increase in apparent productivity (0.23% on average in the year) outstripped the growth in remuneration per employee (0.14%).

Public sector finances improved significantly in 2017 as a result of the recovery in the economy as well as the sharp fall in spending on debt interest. These factors allowed the public deficit to end the year at 3.11% of GDP,<sup>6</sup> 1.22 percentage points lower than in 2016, in line with the target set by the government. All levels of public

5 The year-on-year rate of change in energy prices fell from 17.5% in January, also resulting from the low level of oil prices one year previously, to 2.6% in December.

6 The government deficit figure stood at 3.07% of GDP if the amount of the support given to credit institutions is excluded.

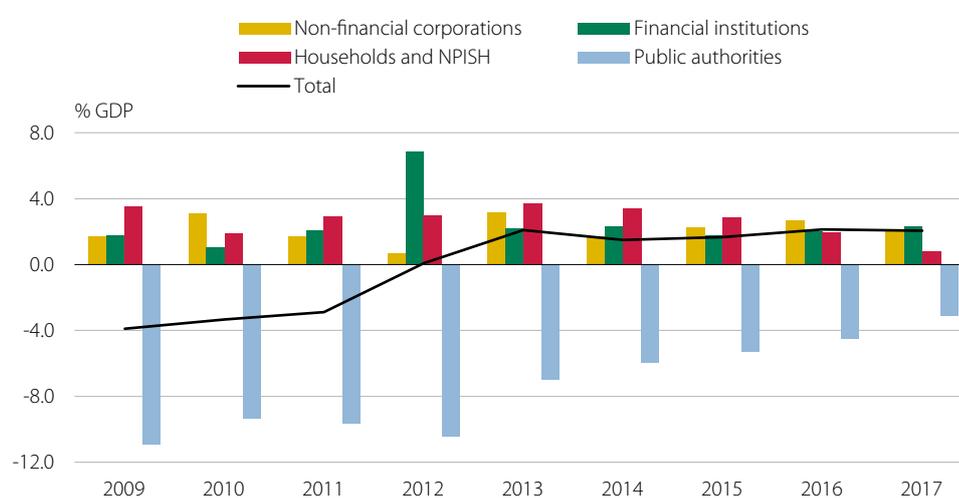
authorities that require financing reduced the amount borrowed. Particularly noteworthy was the fall in the deficit of the central government, which dropped from 2.7% in 2016 to 1.9% in 2017 and recorded a primary surplus for the first time in 10 years, and that of the autonomous regions, which stood at 0.32% (0.84% in 2016). The deficit of the social security funds also fell, although to a lesser extent, dropping from 1.59% to 1.48%. The surplus of the local authorities remained practically unchanged in 2017 at close to 0.60% of GDP. Government debt stood at 98.3% of GDP at the end of the year, recording very few changes since the middle of 2014.

### Net lending of the Spanish economy with regard to the rest of the world remained stable in 2017 at values of around 2% of GDP

In 2017, the savings rate of the Spanish economy recorded an increase similar to that seen in investment in non-financial assets, which meant that net lending remained at levels very similar to those of 2016 (around 2% of GDP). By sector, net borrowing by the public authorities fell, for the fifth consecutive year, in line with the fall in the public deficit. With cumulative data from four quarters up to the third quarter of 2017, net borrowing by this sector stood at 3.1% of GDP (4.5% in 2016). The other sectors of the economy, all of which were net lenders, recorded less pronounced changes in this figure between 2016 and 2017. The non-financial sectors (companies and households) recorded falls (from 2.7% of GDP to 2% in the case of companies, and from 2% to 0.8% in the case of households), while financial institutions recorded an increase, from 2% of GDP to 2.3%.

Net lending (+) / Net borrowing (-) of the Spanish economy<sup>1</sup>

FIGURE 1.2.1



Source: Bank of Spain. (1) Data for 2017 are cumulative for four quarters to September.

### The improvement in the financial position of households continues, but their savings rates are at very low levels

The latest data on the financial position of households reveal that both their savings rates and their debt-to-income and debt burden ratios continued to fall in 2017. The fall in the savings rate, which dropped from 7.7% of gross disposable income (GDI) at the end of 2016 to 6% at the end of the third quarter of 2017, can be explained by buoyant aggregate consumption in a context of only a marginal increase in

remuneration per employee. The debt-to-income ratio fell from 104.9% of GDI at year-end 2016 to 99.8% in September 2017 as a result of both a reduction in the level of debt and an increase in the level of disposable income. The debt burden ratio fell slightly (from 12% of GDI to 11.6%) given the stability of the average cost of debt in the context of growing income.<sup>7</sup> Net household wealth rose in 2017 (from 528% of GDP to 544%) due to the increase in the value of real estate assets. Financial wealth, in terms of GDP, remained stable in the year.

Households' net financial investments rose to 2.6% of GDP in 2017 (2.5% in 2016), while the major trends in place since 2013 continued: investors are reducing their investments in term deposits and bonds (5.7% of GDP) as a result of low returns, and they are investing in more liquid assets (5.3% of GDP) and in mutual funds (2.6% of GDP). In the case of mutual funds, it is important to indicate that investors are showing a clear preference for higher-risk categories; in fact, figures for year-end 2017 show that the most conservative categories recorded net redemptions of over 7.2 billion euros, while higher-risk categories received a significant inflow of investment (over 30 billion euros in total). Among the latter category, there was significant investment in global funds (over 13 billion euros) and in absolute return, mixed equity and international equity funds, with amounts for each category ranging between 4.2 and 5.5 billion euros.

## 1.2.2 Financial environment

### The financial market stress index remained at very low levels throughout the year, with no significant shocks

The Spanish financial market stress index remained very low throughout practically the whole year, standing at 0.15 at the end of December (stress is considered to be low at under 0.27). The index did not record any significant upturns at any of the times of greatest uncertainty in the year, such as those relating to the Banco Popular resolution process or the political crisis in Catalonia.<sup>8</sup> The highest stress level has generally been found in the fixed-income segment due to occasional upswings in volatility and the loss of liquidity of these instruments. It should be pointed out that the stress index is based on information on risk spreads, volatility, liquidity and, in addition, sharp falls in prices. It therefore measures the current stress in the market which, as in the rest of Europe and in other advanced economies, is very low, but it does not forecast future stress.

In early February 2018, the stress level in Spanish financial markets rose sharply to 0.27, the threshold that separates low and medium stress levels. This increase was linked to the episode of turmoil that began in US equity markets, in which strong employment and rising salaries led to a change in inflation expectations in the

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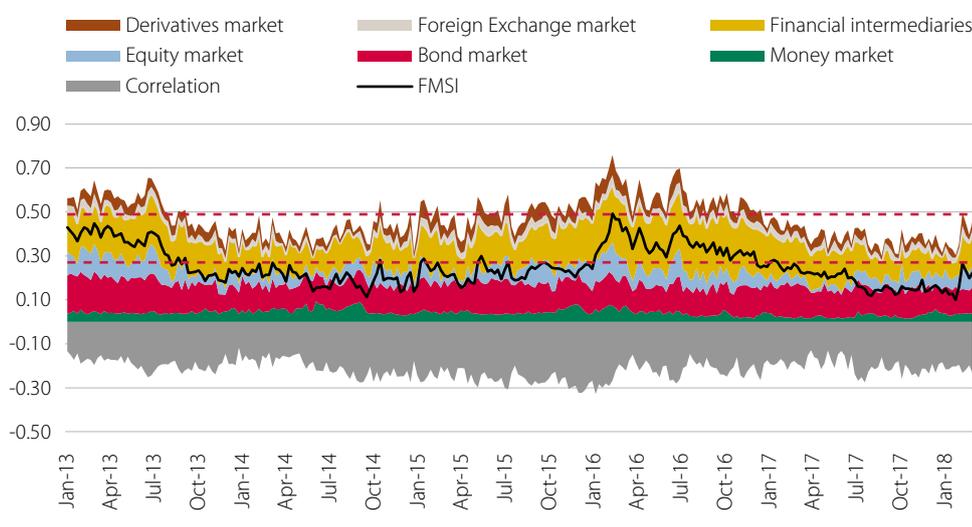
7 The fact that income grew and remuneration per employee stagnated is down to the fact that the former is calculated as the sum of the income of all employees, the number of which has grown significantly over recent years, while the latter corresponds to the changes in remuneration per employee.

8 For more detailed information on the recent progress of this index and its components, see the CNMV's quarterly *Financial Stability Note* and statistical series (*Market stress indicators*) available at <http://www.cnmv.es/portal/Menu/Publicaciones-CNMV.aspx>. For further information on the methodology of this index, see Cambón M.I. and Estévez, L. (2016). "A Spanish Financial Market Stress Index (FMSI)". *Spanish Review of Financial Economics* 14, January (1), pp. 23-41, or CNMV Working Paper No. 60 (<http://www.cnmv.es/portal/Publicaciones/monografias.aspx>).

United States and, consequently, in the process of interest rate rises. These events had an impact on European stock markets, which suffered sharp falls in prices and significant rises in volatility. The Spanish financial markets stress index thus recorded upturns in the equity, derivatives and exchange rate segment.

**Stress index of Spanish financial markets<sup>1</sup>**

FIGURE 1.2.2



Source: CNMV. (1) See footnote No. 8.

### In debt markets, asset yields and risk premiums remained at very low levels as a result of the ECB's monetary policy

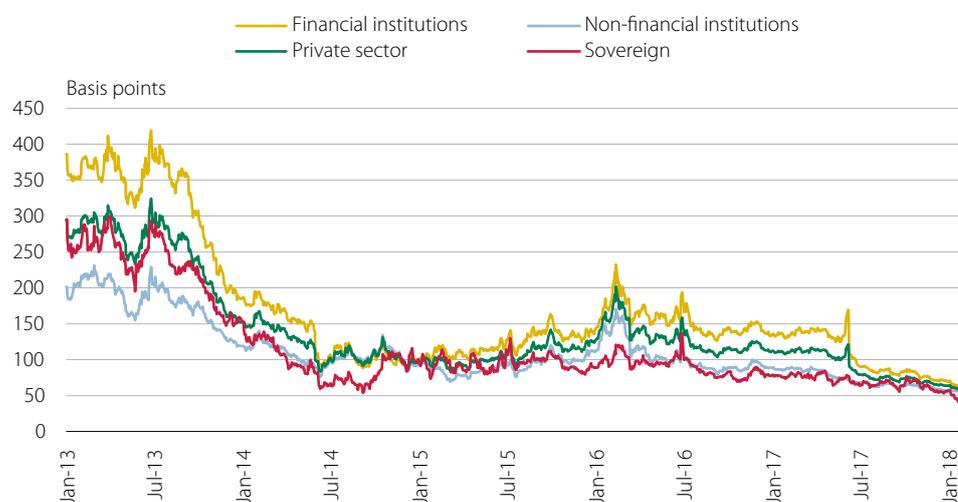
In domestic debt markets, short-term government bond yields declined further in 2017 to new historical lows, as their movements were in line with the accommodative monetary policy followed by the ECB, whose official rates remained at record lows. At the end of December, the 3-month, 6-month and 12-month yields on *letras de tesoro* stood at -0.62%, -0.54% and -0.47%, respectively, below the values for year-end 2016 (-0.56%, -0.36% and -0.29%, respectively). Medium and long-term yields recorded small temporary increases in the first few months of the year as a result of the political certainties arising from various elections in Europe. The political crisis in Catalonia led to another slight increase, but in the final part of the year the confirmation of the accommodative monetary policy stance by the ECB, which decided to maintain its Public Sector Purchase Programme (PSPP), as well as an easing of political uncertainty, allowed yields to fall. Consequently, at the end of 2017, the yield on 10-year government bonds stood at 1.57%, just 18 bp higher than the figure at the end of 2016 (1.39%).

The sovereign credit risk premium rose slightly in the first few months of the year as a result of the aforementioned uncertainties and recorded an annual high of 153 bp in February. It then dropped significantly to a low of under 100 bp in July and, in the final part of the year, experienced some ups and downs related to the crisis in Catalonia but ended the year at 114 bp, 4 bp down on year-and 2016. The performance of risk premiums in the private subsectors of the economy was a little more favourable than in the public sector, particularly the risk premium of financial institutions, which fell over practically the whole year. These indicators benefited from stronger corporate balance sheets in a highly buoyant economy and from the ECB's debt purchase programmes. Thus, the average CDS of Spanish financial institutions at the end of December stood at 70 bp, below the 136 bp at the start of the year, and

the average for non-financial companies stood at 58 bp, an annual low, compared with 89 bp at the start of the year.

### Risk premium paid by Spanish issuers<sup>1</sup>

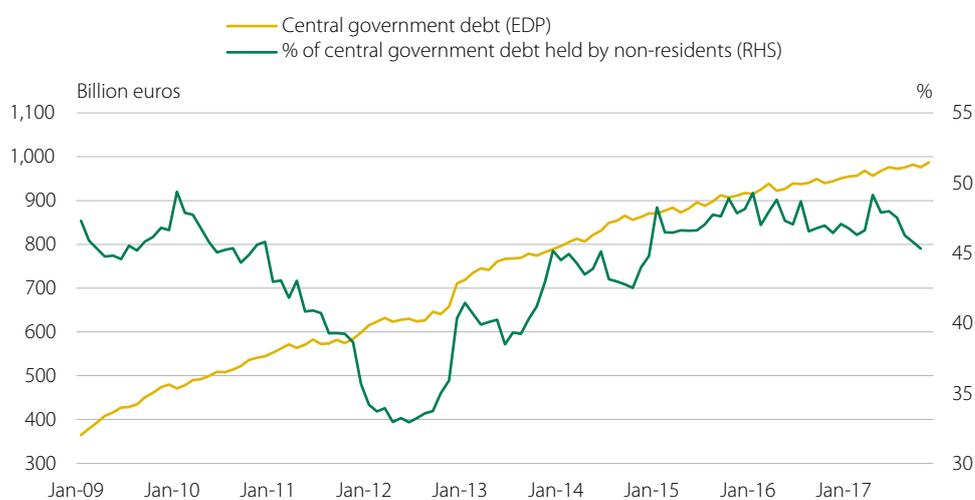
FIGURE 1.2.3



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

### Central government debt and non-resident holdings

FIGURE 1.2.4



Source: Bank of Spain.

In an environment which remains favourable to fixed-income issues thanks to the falls in risk premiums and the ECB's ongoing purchase programmes, corporate bond issues registered with the CNMV and those carried out abroad traced different paths over the year. While the former fell by 21.3% in the year as a whole, to 109.5 billion euros, the latter rose by 44.7% to 84.77 billion euros (now accounting for 44% of total issues). However, issues registered with the CNMV recovered in the fourth quarter thanks to several issues of asset-backed securities of significant amounts, as well as an issue of bonds of the SAREB (Asset Management Company for Assets Arising from Bank Restructuring) for an amount greater than 10 billion euros.

The Alternative Fixed-Income Market (MARF), which is mainly used for funding SMEs through the issuance of fixed-income securities and is focused on

institutional investors, continued to grow in 2017. The nominal amount issued in 2017 stood at almost 3.97 billion euros, an increase of 80% on the previous year. Most of this amount corresponded to commercial paper issues (92%) made by 23 companies, including large companies such as El Corte Inglés, Sacyr and Tubacex. Trading of securities listed on the MARF continued to primarily be carried out on a bilateral basis.

### **The low interest rate environment continues to weigh on bank profits, but some recovery in lending is starting to be seen**

Banks continue to operate in a complex scenario of low interest rates that apply downward pressure on their profitability. The buoyancy of the economy remains a favourable factor for the financial sector in Spain. In fact, the emergence of attractive investment projects and healthy private consumption are favouring a recovery in lending. However, the volume of non-performing assets remains high<sup>9</sup> and, as in other European economies, a certain overcapacity is noted, as well as a series of latent challenges, some of which are related to the development of new technologies applied to finance (FinTech).

Bank income statements show that their activities in Spain led to losses of almost 5 billion euros between January and September 2017 (a profit of 8.29 billion euros in 2016) as a result of the losses of Banco Popular, which are greater than 12 billion euros, after its resolution by the Single Resolution Board (SRB) in June. In addition, bank profits are still restricted by the context of very low interest rates (the net interest margin stood at 17.66 billion euros in 2017 compared with 18.19 billion euros in 2016) and by the volume of non-performing assets, which is falling but remains high.

Bank lending to the non-financial resident sector<sup>10</sup> (households and companies) rose slightly in 2017 in the case of companies (0.4%) and fell in the case of households (-0.8%), although the fall in the latter was not as sharp as in previous years (-1.3% in 2016 and -2.1% in 2015). Lending to non-financial companies remains at a low level with no significant gains since 2009.<sup>11</sup> The moderation in the fall in lending to households was related both to the smaller fall in home purchase loans (-2.8% in 2017 compared with -3% in 2016) and to the intensification of consumer lending (6.4% in 2017 compared with 4.2% in 2016). In the euro area, lending to companies climbed by 1.9% in December, while lending to households rose by 3.2%.

The size of the banking sector, in terms of the aggregate volume of assets from its activity in Spain, remained stable in 2017 at 2.65 trillion euros, thus interrupting the downward trend that began in 2013. Some of the most important sources of funding, such as debt or borrowing from the Eurosystem,<sup>12</sup> grew, while others, such as deposits from resident households and companies, recorded falls. Bank equity remained stable at a little over 360 billion euros.

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9 The NPL ratio stood at 7.8% of total lending in December 2017 (9.1% in 2016).

10 This lending includes the loans of resident credit institutions, loans from abroad and securities other than shares.

11 Lending to companies recorded temporary gains at the end of 2010 and start of 2011, as well as in the middle of 2016, which in no case were greater than 0.8%.

12 Borrowing from the Eurosystem (deducting the amount of the debt purchase programmes) at the end of 2017 amounted to 164 billion euros (139 billion in 2016).

## The profits of non-financial listed companies grew significantly in 2017 and across all sectors

Non-financial listed companies obtained aggregate profit of 31.54 billion euros in 2017, more than double the figure recorded in 2016. Every sector, except the industrial sector, recorded gains in their income statements in line with the buoyancy of domestic economic activity. Leading the gains were retail and services companies, whose profits rose from 63 million euros in 2016 to 14.63 billion euros in 2017.<sup>13</sup> Energy companies recorded a 10.5% increase in their profits to 9.76 billion euros, while construction and real estate companies recorded an even larger increase of 54%, to 5.27 billion euros. In general terms, industrial companies performed positively, but the contraction in the profits of some companies<sup>14</sup> led to the sector's aggregate profits falling from 2.34 billion euros in 2016 to 1.92 billion euros in 2017 (see Table 1.2.2).

### Profit by sector: non-financial listed companies

TABLE 1.2.2

Million euros

	Operating profit		Profit before tax		(Consolidated) profit for the year	
	2016	2017	2016	2017	2016	2017
Energy	13,101	11,621	10,735	10,344	8,828	9,759
Industry	3,807	3,273	3,173	2,474	2,336	1,920
Retail and services	12,907	17,331	6,762	19,050	63	14,625
Construction and real estate	4,907	6,339	3,240	5,353	3,417	5,267
Adjustments	37	44	32	40	26	33
<b>Aggregate total</b>	<b>34,685</b>	<b>38,520</b>	<b>23,878</b>	<b>37,181</b>	<b>14,618</b>	<b>31,538</b>

Source: CNMV.

The aggregate debt of non-financial listed companies, at 252.61 billion euros, was barely 0.2% lower than the previous year. However, its composition changed significantly as the level of short-term debts fell by 12.6% to around 46 billion euros, while long-term debts grew by 3% to over 206 billion euros. The changes in debt were not even across sectors: while there was a rise in debt levels among energy companies (from 5.16 billion euros to 81.51 billion euros) and industrial companies (from 3.78 billion euros to close on 21 billion euros), companies in the retail and services sector and in the construction and real estate sector, which are on average the most leveraged companies, continued to reduce their debt levels (by 7.6% and 2.3%, respectively). As a consequence of these movements, the aggregate leverage ratio of listed companies as a whole, measured as the debt to equity ratio, fell slightly from 1.15 to 1.07 as a result of the slight increase in energy companies and the fall in retail and services companies and, above all, the fall in construction and real estate companies. The debt coverage ratio, measured using the ratio of debt to operating profit, improved significantly (falling from 7.3 to 6.6) as the increase in profit was much sharper than the rise in debt.

13 The increased profits of Abengoa and, to a lesser extent, of Codere explain the bulk of the change in aggregate profits.

14 For example, Siemens, Duro Felguera and Almirall.

## The Ibex 35 grew by 7.4% in 2017, driven by buoyant domestic activity, but some internal uncertainties weighed on its performance

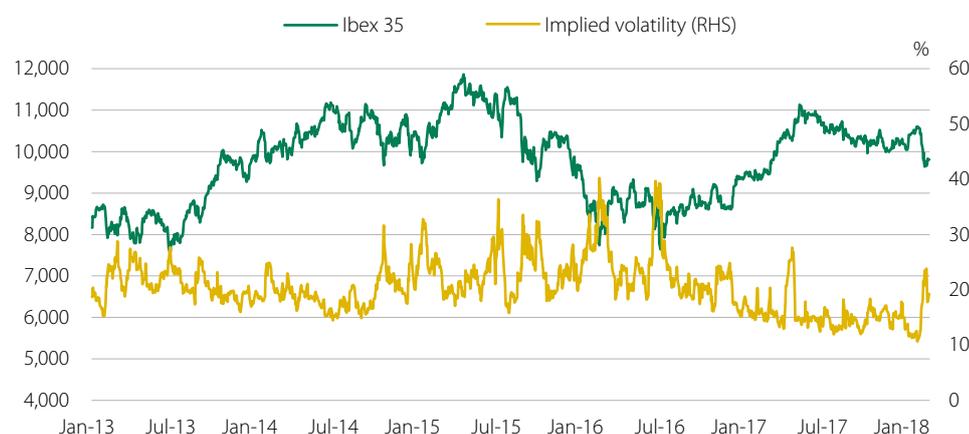
In domestic equity markets, the Ibex 35 began the year with significant gains (11.9% in the first quarter) due to strong economic activity, and then fell slightly in a scenario of greater uncertainty. For the year as a whole, the Ibex 35 rose by 7.4%, a smaller gain than in most comparable European markets (see Section 1.1). By sector, the largest gains were recorded in industrial companies and in companies from the construction and real estate sector, while the falls were concentrated in companies from the energy, consumer goods and telecommunications sectors.

Mid-cap companies gained 4%, below the general index, while the shares of small-cap companies recorded strong gains (31.4% in the year). Although the latter are more exposed to domestic risks, they benefited from the positive performance of the Spanish economy and from foreign trade in the case of those companies which have a greater focus on exports. The indices representing Latin American shares that are listed in euros also recorded significant gains in 2017 (the FTSE Latibex All-Share and FTSE Latibex Top indices gained 9% and 7.3%, respectively) thanks to the recovery in the prices of Latin American companies, which benefited from the positive behaviour of commodity prices.

Stock market capitalisation grew for the sixth consecutive year to stand at 701 billion euros, 11% up on the previous year. The growth was due both to the increase in share prices and the raising of funds through capital increases and new companies joining Spanish markets.

Ibex 35 performance and implied volatility

FIGURE 1.2.5



Source: Thomson Datastream.

Ibex 35 volatility remained very low throughout the year and hardly underwent any changes during the moments of greatest uncertainty. As in other international benchmark exchanges, volatility figures remained at record lows in a context of economic buoyancy that may have led to some increase in complacency among agents. At the end of the year, the implied volatility of the Ibex 35 stood at 14%, well below the average for the last two years (24%) and its historical average. Against this backdrop of low volatility, trading of Spanish shares exceeded 933 billion euros in 2017 (6.3% up in year-on-year terms), of which almost 635 billion euros corresponded to the Spanish regulated market (similar figures to those recorded in the same period of the previous year) and 299 billion euros corresponded

to competing multilateral trading facilities (MTFs) and regulated markets (56.9 billion euros up on the previous year). In this regard, it is worth noting the recovery by the relative weight of the Spanish regulated market in total trading of the securities admitted to it in the final months of the year, thus breaking the downward trend of recent years.

In the early weeks of 2018, the Ibex 35 recorded significant gains until the episode of turmoil in US stock markets in the first few days of February, which spread to European and Asian markets. In the case of Spain, the initial gains of the Ibex 35 turned into losses of 2.4%<sup>15</sup> over the year and volatility rose to 24%.

### Performance of Spanish stock market indices and sectors

TABLE 1.2.3

%					
	2013	2014	2015	2016	2017
<b>Indices</b>					
Ibex 35	21.4	3.7	-7.2	-2.0	7.4
Madrid	22.7	3.0	-7.4	-2.2	7.6
Ibex Medium Cap	52.0	-1.8	13.7	-6.6	4.0
Ibex Small Cap	44.3	-11.6	6.4	8.9	31.4
FTSE Latibex All-Share	-20.0	-16.1	-39.2	71.0	9.0
FTSE Latibex Top	-12.4	-11.1	-34.6	67.8	7.3
<b>Sectors<sup>1</sup></b>					
Oil and gas	29.9	-9.8	-21.0	32.7	-11.9
Chemical	-34.6	-17.1	56.7	198.2	55.4
Basic materials	25.4	17.8	-8.5	24.0	26.1
Construction and construction materials	28.3	9.9	6.3	-4.3	15.8
Industrial goods and services	39.7	-1.4	9.1	8.4	29.8
Healthcare	41.1	1.1	23.9	-7.8	12.9
Utilities	28.4	27.3	7.9	-0.7	3.1
Banks	23.1	8.1	-22.7	-1.1	11.9
Insurance	44.7	-9.2	-5.1	15.5	0.1
Real estate	4.9	46.3	12.6	-5.0	15.6
Financial services	31.5	5.3	-2.7	-1.3	7.3
Telecommunications and media	23.5	3.8	-8.2	-8.3	-3.2
Discretionary consumption	18.9	-0.1	29.7	3.1	-9.5
Consumer staples	19.7	-7.8	5.5	-6.0	-1.0

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

### 1.2.3 Outlook and risks

According to the IMF's forecast in April this year, the Spanish economy will grow by 2.8% in 2018 and by 2.2% in 2019, which is an upward revision of 0.4 and 0.1 percentage points, respectively, with regard to the forecast published in January. With these figures, the growth differential between Spain and the euro area would stand

at 0.4 percentage points this year and 0.2 points next year, below the figures recorded over the last three years (1.2 pp on average between 2015 and 2017).

The most significant risks to the national economic outlook relate to: i) the need to reduce economic agents' high level of debt (both in the public sector and the private sector), especially if the upward trend in medium-term interest rates is confirmed; ii) the high, although falling, unemployment rate, especially in relation to the long-term unemployed; iii) the prolongation of political uncertainty in Catalonia; and iv), more recently, the effects of the appreciation of the euro on Spanish exporting companies. This last risk, as well as the risk related to the banking sector's difficulties in raising its profitability in the current context of low interest rates, are common to other major European economies.

The most important financial risks include those relating to the possible emergence of periods of turbulence in financial markets with falls in prices and increases in spreads, triggered by factors relating to changes in inflation expectations and, therefore, the likely schedule for interest rate hikes, particularly in the United States. There are also concerns about the impact on the financial markets of the outcome of the Brexit negotiation process and, finally, from an investor protection point of view, the continuation of the search for higher returns, which might lead to choices that are not appropriate to the investment profile of market participants. In this regard, some investors may be acquiring riskier, less liquid or more complex assets than they should, including virtual assets, which are a source of growing concern for financial regulators, many of which have published preventive warnings or statements over recent months, including the CNMV together with the Bank of Spain (see Exhibit 2).

### Cryptocurrencies and initial coin offerings

EXHIBIT 2

Cryptocurrencies or virtual currencies have been subject to an intense debate in recent times, with doubts even about the nature of these assets. Although they are often presented as alternatives to legal tender, they have very different features as they are not backed by a central bank or any other public authority. There is no obligation to accept them as means of payment of debts or other obligations, their circulation is very limited and their value fluctuates heavily and therefore they cannot be considered either a good store of value or a stable unit of account. Moreover, they are not regulated in the European Union and therefore do not offer any of the guarantees provided for in European legislation for regulated investments.

At present, the number of cryptocurrencies in existence exceeds 1,000, although it is difficult to estimate the size of this market. Some estimates point to market capitalisation exceeding 450 billion dollars at the end of February 2018, of which 35-45% corresponds to the best-known cryptocurrency, bitcoin.

The CNMV has identified various methods of marketing or acquiring cryptocurrencies, such as direct marketing or investment through contracts for differences (CFDs), futures, options and other derivatives. However, constant innovation in products and channels may lead to additional forms of exposure to cryptocurrencies.

Furthermore, funds are being raised from investors through initial client offerings (ICOs). ICOs are a new way of financing companies and projects based on blockchain technology, which is also used by most cryptocurrencies. This technology is based on the so-called decentralised ledger and it is receiving a great deal of attention because, according to experts, it has the potential to transform how financial markets function and to bring about new business models.

In an ICO, the investor acquires virtual rights of various types, called tokens, which cannot only be invested (buy them and sell them), but can also be used in the future platform or service developed with the funding obtained with the ICO. It is important to note that investors receive cryptocurrencies or tokens in exchange for official currency (euros), but also on many occasions, investors exchange cryptocurrencies for tokens and therefore if they do not possess them previously, they must acquire them in order to participate in the ICO.

The uses and characteristics of these tokens vary, but they can normally be divided into two types:

- “Security tokens”: these generally provide a share in the future revenues or increased value of the issuing venture or of a business or entail a periodic remuneration.
- “Utility tokens”: these give the right to access a service or receive a product, without prejudice to which, on occasion of the offer, mention is usually made to the expectations of an increase in value and liquidity through the possibility of trading them on specific secondary markets.

Cryptocurrencies and tokens are offered globally on the Internet and are commonly issued and marketed in multiple jurisdictions. This global dimension of the phenomenon means that this question should be addressed at an international level.

The debate about these assets has over recent months attracted the attention of the media, the public and, of course, regulators and supervisors from around the world, who are analysing the potential implications of this phenomenon for financial stability, together with other aspects, such as investor and consumer protection, market integrity, money laundering, terrorist financing, tax evasion, circumvention of capital controls and international sanctions, and the performance of illegal offerings of securities.

At a global level, the G20 discussed the implications of cryptocurrencies and their trading in its meeting in March 2018 and concluded that while such assets and transactions do not yet pose risks to global financial stability, they should continue to be monitored, and there are significant concerns with regard to other areas such as money laundering and protection of the consumers who acquire these products. The Financial Stability Board (FSB) and other bodies, including the International Organisation of Securities Commissions (IOSCO), were also asked to perform an analysis on the issue by July 2018.

In addition, numerous authorities have issued statements or warnings to the public about cryptocurrencies and related technologies. IOSCO, the European Commission, the European Securities and Markets Authority (ESMA) and the European supervisory authorities in the fields of banking, insurance and securities markets (EBA and EIOPA, in addition to ESMA), among others, have published various documents warning about the risks associated with investing in cryptocurrencies and ICOs, in particular the high risk of losing the capital invested, the extreme levels of volatility and significant lack of liquidity.

The CNMV has included in its *2018 Activity Plan* a new strategic line that entails promoting technological development and preventing potential risks (see Section 10.1. 2018 Activity Plan and CNMV Strategic Areas 2017-2018). In line with defining this general strategy, the CNMV has established the objective of setting the criteria for applying existing legislation or detecting the need for new regulation with regard to cryptocurrencies and ICOs.

In compliance with this objective, two communications were published in February:

- The first of these, a joint press statement by the CNMV and Bank of Spain addressed to investors and, in general, retail financial users, highlighting that no cryptocurrency or ICO had been registered, authorised or verified by any supervisory agencies in Spain.

This statement set out a number of considerations that should be taken into account before acquiring cryptocurrencies or participating in an ICO:

- The lack of local and European regulation means that buyers lack the corresponding protection and are particularly vulnerable to fraud, price-fixing or other illicit activities.
- The existence of problems arising from the cross-border nature of the phenomenon as on many occasions the different market participants involved in the issuance, custody and marketing of cryptocurrencies are not located in Spain.
- A high risk of loss of the capital invested as these are highly speculative investments exposed to operating failures and cybernetic threats. In addition, most ICOs are associated with business projects at a very early stage of development which may be highly prone to failure.
- Problems of illiquidity and extreme volatility. The lack of markets with a status equivalent to that of organised securities markets subject to regulation may hamper the sale of cryptocurrencies or tokens issued in ICOs in order to obtain conventional cash.
- The information made available to investors in the case of ICOs may not be adequate as it is not usually audited and is often incomplete and stresses the benefits while minimising the risks. Therefore, it

may not be understandable or appropriate for the customers' needs and risk profiles.

- Secondly, a CNMV communication with various considerations addressed to market professionals with criteria offering initial guidance on the implications of ICOs from a regulatory point of view.

In the communication, the CNMV believes that a good number of the operations structured as ICOs should be treated as issues or public offerings of transferable securities. In this case, they would be subject to the corresponding Spanish or European regulations, such as those resulting from MiFID II, the Prospectus Directive or the Alternative Investment Fund Managers Directive.

The following factors are deemed important for assessing whether transferable securities are being offered through an ICO:

- Firstly, that the tokens assign rights or expectations of a share in the potential rise in the value or profitability of businesses or projects or, in general, that they constitute or assign rights equivalent or similar to those inherent to shares, bonds or other financial instruments included in Article 2 of the recast text of the Securities Market Act.
- Secondly, in the case of tokens that entitle access to services or to receive goods or products, that they are offered referring explicitly or implicitly to the expectation of a rise in their value or to some remuneration associated with the instrument or mentioning their liquidity or tradability on equivalent or allegedly similar markets to the securities markets subject to regulation.

In the case of those ICOs that are not considered public offerings (because they are either aimed at fewer than 150 investors, set a minimum investment of 100,000 euros or involve a total amount below 5 million euros), these will be subject to Article 35.3 of the recast text of the Securities Market Act. In this regard, if the placement is made using any form of advertising, which includes promotion through websites or social networks, for the purposes of the marketing an entity authorised to provide investment services must be involved.

Furthermore, the CNMV is participating in the working groups created within the international bodies of which it is a member in order to address this issue, which, given its cross-border nature, requires a common international position that might lead to a uniform regulatory environment between different jurisdictions. Noteworthy in this regard is the task force set up in ESMA, which is already analysing the legal nature of these types of assets and operations and the manner in which the regulation should be applied.

### 2.1 Equity markets

As happened in 2016, albeit in the opposite sense, share prices on the Spanish equity markets followed an irregular trend from better to worse. The significant gains made in the first quarter were reduced by the losses in the other quarters of the year, cutting annual gains to 7.4%. In this context of moderate gains, market capitalisation continued to grow, to a large extent due to the effect of capital increases, in which financial institutions were once again the main protagonists in terms of the amount of funds they obtained from the markets. Also the improving economy and the better situation of the markets prompted a resurgence of new companies going public, together with a significant increase in the amount of funds raised.

Business in the Spanish markets, which had declined significantly in 2016, put a halt to the losses, and the first signs of recovery began to be seen. Meanwhile, trading of Spanish securities admitted to trading in other European regulated markets and multilateral trading systems, mainly located in the United Kingdom, continued to grow, causing aggregate trading in Spanish securities to experience moderate growth for the year as a whole, despite the uncertainties affecting the Spanish market. The importance of trading in Spanish securities abroad grew during most of the year due, to a certain extent, to the effect of the launch of the reform of clearing, settlement and registration system in Spain. However, it appears that most of this impact had already been factored in by the market, with the percentage of trading stabilising at around a third of the total at year-end 2017.

#### 2.1.1 General overview

The Spanish equity markets started 2017 with significant gains, accompanied by a major drop in volatility as a result of the confirmation that the ECB was to maintain its expansive monetary policy, and also due to the growth rate of the Spanish economy, which was benefiting from an environment of greater political stability after the formation of the new government. The Ibex 35 rose by 11.9% in the first quarter and these gains continued into the start of the second on the back of the result of the French elections, which brought stability and credibility to the European project. However, the initial gains were corrected as the second quarter progressed, until by the end of the quarter the index was showing practically no change, in the fear that the ECB might change the direction of its monetary policy, following the tougher line taken by the Federal Reserve.<sup>1</sup>

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1 The Federal Reserve first raised its rates on 15 March, by 25 bps to between 0.75% and 1%, then again on 15 June, when they again rose by 25 bps to between 1% and 1.25%, and then for a third time on 13 December, leaving the rate in the 1.25%-1.5% bracket.

In contrast with the first half-year, the share price trend in the second half of the year was negative, which reduced the gains accumulated in the first half. The change of direction in the share price trend was prompted by two factors. On the one hand, looking abroad, the slowdown in the growth of the US economy, the geopolitical tensions in East Asia, and the strength of the euro, all had the potential to erode the competitiveness of the European economy, which fed fears of a longer delay in rebalancing the ECB's monetary policy. On the other hand, political uncertainties in Catalonia, which caused some of the large companies of the Ibex 35 based in the region to change their registered office, and in some cases their tax domicile, also contributed to the negative trend of the indices. The Ibex 35 fell back by 0.6% in the third quarter and by 3.3% in the fourth, to close the year with a gain of 7.4%, slightly above the European Eurostoxx 50 index, but below the gains posted by the main European, US, and Asian indices.<sup>2</sup> This worse relative performance of the Spanish index can largely be explained by internal political uncertainties, which gained importance as the year progressed, since the relative performance of the Spanish index in the first half-year was even better than that of the main international benchmark indices.

Despite the various episodes of uncertainty throughout the year, both at home and abroad, the ECB's maintenance of its expansive monetary policy and the consolidation of the growth path in the main economies led to the implicit volatility of the Ibex 35 to decrease significantly, as also occurred in the case of the main international market indices. Its range of variation was 15 percentage points, 10 points less than in 2016 and the lowest figure in the last four years. The year closed with an implicit volatility of 13.43%, very close to the annual low, and the lowest year-end figure in the last 10 years. Similarly, average volatility for the year was 15.48%, 8 percentage points below 2016, but higher than the figure seen in the main European securities markets, with the exception of the Italian markets.

Stock market capitalisation grew for the sixth year running to 701 billion euros by year-end 2017, 11% more than the previous year. This growth was due to three factors: the appreciation of share prices – which grew by over 7% –,<sup>3</sup> the raising of new funds through the capital increases made by numerous companies during the year, and the listing of new companies in the Spanish markets.

The volumes traded in the Spanish stock market recovered significantly in the first half-year only to fall again in the second, coinciding with the increase in political uncertainty and falling securities prices. However, equity trading on official secondary markets halted the downward trend seen in 2016 (when trading fell by 32.4%) and shrank by a mere 0.2% in year-on-year terms in the year as a whole. Domestic stock markets continue to account for a large part of the trading of the Spanish securities listed on them, but the whole increase in their trading during 2017 was absorbed by the European multilateral trading systems (MTS) or other regulated markets, which now account for a third of all trading, nearly 4 percentage points more than in 2016 and 12 more than in 2015. At any event, the percentage of all trading handled by the new competitors seems to be levelling, and we are starting to see the first signs that their growth is easing and their share in all markets has stabilised.

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2 In 2017, the US stock market indices Dow Jones, S&P 500 and Nasdaq appreciated by 25.1%, 19.4% and 28.2%, respectively; the Japanese indices Nikkei 225 and Topix increased by 19.1% and 19.7%, respectively; while the European Eurostoxx 50, Dax 30, Cac 40 and Mib 30 appreciated by 6.5%, 12.5%, 9.3% and 13.6%, respectively.

3 The Ibex 35 rose by 7.4% in the year, while the IGBM increased by 7.6%.

As is the norm, non-resident investors once again played a very important role in the Spanish equity market, both in terms of trading and in ownership. According to the BME's *Market Report 2017*, their participation in share ownership topped 45% at the end of the first half-year, a record high (43.1% and 42.3% at year-ends 2016 and 2015, respectively). We would also highlight the importance of Spanish households, which account for around 23-24% of share ownership, worth 136.4 billion euros in June 2017, 6% more than at year-end 2016.<sup>4</sup>

Table 2.1.1 compares the size of the main international equity markets by using capitalisation and trading to nominal GDP ratios. In 2017, the capitalisation to GDP ratio grew in all markets thanks to the positive trend in all international stock markets, especially in the case of the markets in the United States, Canada and Japan, where the gains were most significant. In the case of the European and Chinese stock markets, growth was more moderate, reflecting the more discreet performance of these latter markets. In the case of trading, the trend in the ratio was more heterogeneous and limited, with the downward trend in the United States and China, and the stability in regulated European markets being the most salient features. During 2017, the trend in trading on the main regulated markets was affected by competition from other regulated markets and MTS competitors, due to the impact of bilateral trading outside the scope of the markets, and the lower market volatility, which has reduced algorithmic and high frequency trading (HFT).<sup>5</sup> In the case of the Spanish equity market, its relative size remains in line with that of other European markets in terms of both capitalisation and trading.

**Market capitalisation and trading on regulated markets as a percentage of nominal GDP**

TABLE 2.1.1

%

	Market capitalisation <sup>1</sup>		Trading volume	
	2016	2017	2016	2017
USA <sup>2</sup>	147.3	162.7	152.9	131.1
Canada	149.0	173.7	86.2	94.4
China <sup>3</sup>	95.0	100.2	178.2	147.2
Japan	107.9	127.7	113.9	118.6
London Stock Exchange <sup>4</sup>	117.0	128.8	61.2	65.7
Euronext <sup>5</sup>	93.5	100.3	45.5	46.7
Germany	52.4	57.8	38.0	39.8
Italy <sup>4</sup>	31.2	37.3	37.3	36.6
Spain	57.1	60.2	57.5	55.8

Source: World Federation of Exchanges; Eurostat; statistical offices of the United States, Canada and Japan; Datastream and CNMV. (1) In local currency, the market capitalisation figures correspond to the last working session of the year. (2) The numerator is the combined total of the NYSE Euronext US and NASDAQ. (3) Includes data from the Hong Kong, Shanghai and Shenzhen stock markets, as well as the GDP of the People's Republic of China and Hong Kong. (4) Although Borsa Italiana was integrated into the LSE Group in 2010, here the percentages of capitalisation and trading over GDP corresponding to each country are provided separately. (5) The denominator is the sum of the nominal GDP of France, the Netherlands, Belgium and Portugal.

4 According to Bank of Spain figures.

5 High Frequency Trading.

## 2.1.2 Listed companies and capitalisation

Spanish stock markets closed 2017 with 150 listed companies, one more than at year-end 2016.<sup>6</sup> Seven companies joined the electronic market, five of which were new listings – a bank (Unicaja), a steel company (Gestamp), a cash management company (Prosegur Cash), and two real estate companies (Neinor Homes and Aedas Homes) – while the rest were companies which switched market – a food company from the secondary market (Borges) and a telecommunications company which traded on the MAB (Masmóvil). Meanwhile, there were five delistings, three from the electronic market and two from the open outcry market.<sup>7</sup> Among the delisted companies, one bank (Banco Popular) delisted as a result of the resolution of the Single Resolution Board, another two companies were delisted after the settlement of takeover bids (Tecnocom and Portland), while another was delisted due to having registered for trading on the electronic market (Borges Agricultural & Industrial Nuts, S.A.).

Number of companies listed on Spanish stock markets<sup>1</sup>

TABLE 2.1.2

	All markets	Electronic market			Open outcry	Second market
		Total	National	Foreign		
Listed at 31/12/16	149	130	123	7	14	5
Listed at 31/12/17	150	134	127	7	12	4
<b>New listings in 2017</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>0</b>
New listings	5	5	5	0	0	0
Listed due to merger	0	0	0	0	0	0
Change of market	2	2	2	0	0	0
<b>Delistings in 2017</b>	<b>6</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>2</b>	<b>1</b>
Delistings	5	3	3	0	2	0
Delistings due to mergers	0	0	0	0	0	0
Change of market	1	0	0	0	0	1
<b>Net change in 2017</b>	<b>1</b>	<b>4</b>	<b>4</b>	<b>0</b>	<b>-2</b>	<b>-1</b>

Source: CNMV. (1) Totals do not include MAB, Latibex or ETFs.

Stock market capitalisation grew by 11% in 2017 to over 700 billion euros, the highest figure since the start of the financial crisis in 2007. This was 66% higher than the low recorded in 2011 but still almost 10% lower than the end of the year in which the crisis started.

The performance of the sectors represented in the Spanish stock market was positive in nearly all cases, although gains were not across the board, either in terms of sectors or securities. The greatest gains were made by non-financial sector companies, especially real estate companies and listed real estate investment companies (SOCIMI) and metallurgical, construction materials, and other non-financial companies, especially consumer services companies within the latter group.

<sup>6</sup> This total refers to the official equity markets and hence does not include the companies listed on the Latibex or on the MAB, which are multilateral trading facilities.

<sup>7</sup> Annex I.3 provides further information on new listings and delistings.

## Capitalisation<sup>1</sup> of equity on Spanish stock markets

TABLE 2.1.3

Securities markets  
and their agents  
Markets and issuers

Million euros

	2014	2015	2016	2017	% change 17/ 16
<b>All markets</b>	<b>609,380.0</b>	<b>626,700.2</b>	<b>630,995.3</b>	<b>701,029.6</b>	<b>11.1</b>
Electronic market	606,883.1	625,639.3	629,589.7	699,691.2	11.1
National	602,456.7	624,640.4	628,080.6	697,909.0	11.1
Foreign <sup>2</sup>	4,426.4	998.9	1,509.1	1,782.3	18.1
Open outcry <sup>3</sup>	2,466.6	1,040.3	1,291.6	1,288.5	-0.2
Madrid	376.5	296.9	289.9	0.0	-
Barcelona	162.5	887.7	1,136.6	165.9	-42.8
Bilbao	326.4	943.3	54.0	1,134.3	-0.2
Valencia	326.4	150.1	349.2	54.0	0.1
Second Market	30.2	20.6	114.1	211.3	-39.5

Source: CNMV. (1) Only includes capitalisation of companies that were traded at some time during the year. Excludes Latibex, MAB and ETFs. (2) The capitalisation of foreign companies listed on Spanish markets is based on the number of shares registered by Iberclear. (3) The market capitalisation of companies traded by open outcry in more than one market has been included in the figures for each market at the price for that market, but only once in the total for all markets.

Losses were more moderate than in previous years and were concentrated in the textile and paper sector (see Table 2.1.4 and Annexes I.5 and I.7). The largest increase in capitalisation was recorded by the transport and communications sector, due to transport infrastructure and motorway concession companies. In this latter case, the most important company – Abertis Infraestructuras – enjoyed a significant gain as a result of the takeover bid process the company was involved in. The share prices of banks also benefited from the economic recovery and the progress made in the restructuring and consolidation of the banking sector, as did, to a lesser extent, the oil sector, which for the second year running benefited from the recovery of crude oil prices.

On the losses side, the textile and paper sector was negatively affected by the downward trend of the most important company in the textile sector. Also, the most important company in the transport and communications sector lost ground for the second year, running under pressure from the competition and as a result of the weakness of some Latin American currencies. Meanwhile, the energy, insurance, and food sectors performed discreetly.

In terms of capitalisation, concentration remains high, at similar levels to those of the previous year. As in 2016, 6 securities accounted for around half the market capitalisation, while once again 17 Ibx 35 securities accounted for 75% of the index. Meanwhile, the percentage of the five Spanish securities included in the Eurostoxx 50 index in the total capitalisation of the Spanish stock market shrank to around 44%, compared with 47% and 55% recorded in the years 2016 and 2015, respectively, which reflects the strong growth of smaller size companies relative to large traditional companies.

## Number of listed companies and capitalisation by sector<sup>1</sup>

TABLE 2.1.4

Million euros

Sector	2016	2017	2016	2017	% change 17/16
Oil	1	1	19,668.9	22,521.5	14.5
Energy	9	9	95,239.6	95,910.30	0.7
Mining & base metals	7	7	7,132.4	7,677.4	7.6
Cement and construction materials	4	3	2,366.1	3,157.7	33.5
Chemical and pharmaceuticals	8	8	17,011.6	19,362.0	13.8
Textile and paper	10	10	103,388.3	94,443.0	-8.7
Metal-mechanical	15	15	10,166.4	13,402.8	31.8
Food	12	13	7,057.7	7,353.5	4.2
Construction	8	9	31,103.7	35,730.5	14.9
Real estate and SOCIMI	20	20	11,408.1	16,023.6	40.5
Transport and communications	7	8	95,353.2	111,801.3	17.2
Other non-financial	30	30	52,200.3	66,976.4	28.3
<b>Total non-financial sector</b>	<b>131</b>	<b>133</b>	<b>452,096.3</b>	<b>494,359.9</b>	<b>9.3</b>
Banks	10	10	163,430.2	190,682.5	16.7
Insurance	2	2	12,663.9	12,679.8	0.1
Portfolio companies	6	5	2,804.9	3,307.4	17.9
SICAV	0	0	0.0	0.0	-
<b>Total financial sector</b>	<b>18</b>	<b>17</b>	<b>178,899.0</b>	<b>206,669.8</b>	<b>15.5</b>
<b>Total</b>	<b>149</b>	<b>150</b>	<b>630,995.3</b>	<b>701,029.6</b>	<b>11.1</b>

Source: CNMV. (1) Only includes capitalisation of companies that were traded at some time during the year. Excludes Latibex, MAB and ETFs.

### 2.1.3 Listings, issues and public offerings

84 capital increases were carried out in 2017, 5 more than in the previous year, corresponding to a total of 45 companies, the same number as in 2016 (see Annexes I.1 and I.2 for further details). The increase in the number of transactions of this type was allied to a significant increase in the amount of funds raised, which totalled 25.8 billion euros, 86.2% more than in the previous year.

87% of the capital increases were aimed at raising funds compared with 70% the previous year, while only the remaining 13% were capital increases against reserves. The most important in terms of amount were non-monetary capital increases (nearly five times more than in 2016), mainly as a result of the absorption by part of a renewable energy company (Gamesa Corporación Tecnológica, S.A.) of a subsidiary of Siemens, A.G. which handled the group's businesses in the sector. Meanwhile, capital increases with pre-emption rights for the shareholders grew to a little over 7.8 billion euros, 20.2% more than in 2016, mainly accounted for by Banco Santander's capital increase, worth more than 7.1 billion euros. With regard to the rest of the capital increases aimed at raising funds, debt conversions once again featured strongly, growing significantly for the second year running (153% more in 2017 than in 2016), due to companies continuing with their capital restructuring processes. Also, some issuers once again carried out capital increases through accelerated bookbuilding.

Capital increases, 13 of which were associated with scrip dividend transactions (6 fewer than in the previous year), fell once again for the third year running (35.5% less than in 2016), as shown in Table 2.1.5. This new decline, both in terms of number of transactions and volume, confirms the change in the dividend policy of many companies from that followed during the crisis years, when remuneration in shares was a popular practice. The directors of those companies have tended to do away with this practice or at least reduce the amount in favour of the traditional policy of paying dividends in cash.

The growth of capital increases aimed at raising funds, totalled close to 26 billion euros (almost double the 2016 figure). Funds were once again used by the financial sector to strengthen their balance sheets, by large industrial companies for capital restructuring and, to a lesser extent, by the real estate sector, which continued to interest investors.

The improvement in the economy and the positive trend of the markets encouraged the flow of investment towards equity. This reactivated the initial public offering, which grew in terms of both number and amount over the previous year, becoming the third most valuable market in the euro area after Ireland and Italy. The amount of initial public offerings (IPOs) multiplied practically six-fold to an annual total of nearly 3 billion euros, while in terms of number the increase was twofold (from 2 in 2016 to 4 in 2017). The most important IPOs were those of an industrial corporation (Gestamp) and 2 real estate companies (Neinor Homes and Aedas Homes). All the offerings were made on the electronic market, where a medium-size bank (Unicaja) was also floated on the stock market by means of an initial public offering.

### Primary and secondary public offerings<sup>1</sup>

TABLE 2.1.5

Million euros

	2014	2015	2016	2017	% change 17/16
<b>Capital increases aimed at raising funds</b>	<b>15,221.5</b>	<b>19,106.1</b>	<b>13,846.7</b>	<b>25,787.7</b>	<b>86.2</b>
With pre-emption right	2,790.8	7,932.6	6,513.3	7,831.4	20.2
Without pre-emption right <sup>2</sup>	2,951.5	0.0	807.6	956.2	18.4
Accelerated book builds	2,595.6	8,092.3	0.0	821.8	–
Increases with non-monetary consideration <sup>3</sup>	2,811.3	365.2	1,791.7	8,469.3	372.7
Capital increase by conversion	3,645.6	1,868.7	2,343.9	1,648.8	-29.7
Other <sup>4</sup>	426.6	847.4	2,390.2	6,060.2	153.5
<b>Bonus issues</b>	<b>12,650.8</b>	<b>9,627.8</b>	<b>5,898.3</b>	<b>3,807.3</b>	<b>-35.5</b>
Of which, scrip dividend	12,573.8	9,627.8	5,898.3	3,807.3	-35.5
<b>Total capital increases</b>	<b>27,872.3</b>	<b>28,733.9</b>	<b>19,745.1</b>	<b>29,595.0</b>	<b>49.9</b>
<b>Secondary offerings</b>	<b>4,886.9</b>	<b>8,331.6</b>	<b>500.6</b>	<b>2,944.5</b>	<b>481.2</b>

Source: CNMV. (1) Does not include data from the MAB, ETF or Latibex. (2) Primary offerings. (3) Capital increases with non-monetary consideration have been recorded at market prices. (4) 96% of the amount under this heading corresponds to Abengoa's capital increase, which was carried out in ten tranches and forms part of its capital and debt restructuring process.

## 2.1.4 Trading

### Spot trading

The process of relocating trading to the detriment of traditional stock markets,<sup>8</sup> which had been very pronounced in previous years, and which brought about a significant drop in their market shares, continued into 2017, albeit to a lesser extent. It appears that the domestic regulated markets' share of the market as a whole has now stabilised. The relocation of regulated markets to competitor's trading centres has spread throughout Europe, the main beneficiaries being MTS and the new regulated markets based in the United Kingdom, which continue to grow at the cost of the traditional markets.

The trading of Spanish equity securities admitted to trading on official domestic markets remained stable in 2017, putting a halt to the decline seen in the previous year, when share values fell by 32.4% and the market share shrank by over 8 percentage points. However, as we can see in Table 2.1.6, which includes all major trading centres of Spanish securities, all the increase in trading in 2017 has been absorbed by a number of European regulated markets and MTS, which now account for around a third of all the volume traded. Thus, market share has grown by nearly 4 percentage points compared with 2016 and in the region of 12 compared with 2015.

Considering all trading of Spanish securities, as we can see from Table 2.1.6, the bulk of this trading continues to be concentrated in domestic stock markets, with 68% of the total traded amount, up by 6.3% or 932.76 billion euros over 2016's figure. Meanwhile, the amount traded on foreign platforms competing with BME grew by 23.5% to nearly 300 billion euros, 40% of which was traded on the Chi-X platform. Nevertheless, its percentage of the total has shrunk (from more than 48% in 2016) to the benefit of other competitors, as is also the case of the Turquoise trading platform.

BATS, however, shows the opposite trend; its market share continues to grow for the third year running (a 68% increase in 2017) and now stands at 25% of the total volume traded abroad. Given that Chi-X and BATS form part of the same group – Cboe Global Markets (Cboe) – their combined market share of all trading abroad is nearly two thirds, while their traded volume is more than 193 billion euros, in the region of 30% of the volume traded on BME.

In the main European regulated markets, a similar phenomenon has been seen in the closing months of 2017 as was seen in the Spanish markets, so fragmentation would seem to have stopped growing, and there has even been a certain recovery of market share to the detriment of the new regulated markets and MTS. Thus, considering the main European financial markets as a whole,<sup>9</sup> around 40% of European equity trading subject to market rules or MTS takes place outside the regulated market in which the securities are admitted to trading.

It should however be taken into account that the significant reduction in volatility in the equity markets during 2017 has given rise to a decrease in HFT trades, which are normally carried out to a greater extent through MTS. This may have impacted on their share in the market as a whole.

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8 This trading relocation process started in 2007 with the entry into force of the MiFID Directive.

9 Including the main stock markets in the euro area and the London securities markets.

## Total trading in Spanish equity listed on official Spanish markets<sup>1</sup>

TABLE 2.1.6

Securities markets  
and their agents  
Markets and issuers

Million euros

	2013	2014	2015	2016	2017	% change 17/16
<b>Total</b>	<b>765,502.2</b>	<b>1,002,992.8</b>	<b>1,162,979.7</b>	<b>878,329.9</b>	<b>933,416.3</b>	<b>6.3</b>
<b>Admitted on SIBE</b>	<b>764,933.4</b>	<b>1,002,095.8</b>	<b>1,161,222.9</b>	<b>877,408.4</b>	<b>932,763.1</b>	<b>6.3</b>
BME	687,527.6	849,934.5	925,978.7	634,914.5	633,385.7	-0.2
Chi-X	53,396.7	95,973.0	150,139.9	117,419.4	117,899.2	0.4
Turquoise	11,707.9	28,497.5	35,680.5	51,051.8	44,720.1	-12.4
BATS	10,632.1	18,671.0	35,857.6	44,839.8	75,411.6	68.2
Other <sup>2</sup>	1,669.2	9,019.8	13,566.2	29,182.9	61,346.5	110.2
<b>Open outcry</b>	<b>51.4</b>	<b>92.5</b>	<b>246.1</b>	<b>7.9</b>	<b>8.1</b>	<b>2.1</b>
<b>Second Market</b>	<b>1.7</b>	<b>0.7</b>	<b>13.8</b>	<b>3.2</b>	<b>0.7</b>	<b>-77.3</b>
<b>ETF<sup>3</sup></b>	<b>515.7</b>	<b>803.9</b>	<b>1,496.8</b>	<b>910.4</b>	<b>644.5</b>	<b>-29.2</b>

Source: Bloomberg and CNMV. (1) Equity instruments admitted to trading on Spanish official secondary markets and identified by means of an ISIN issued in Spain. Hence, this does not include foreign securities admitted to trading on those markets whose ISIN is not issued in Spain. (2) It is calculated as the difference between the amount traded of the EU Composite calculated by Bloomberg for each share and the amount traded for the markets and MTF included in the table, and hence includes trading on other regulated markets and MTFs, as well as OTC trading. (3) Only ETFs with Spanish ISIN.

Meanwhile, the percentage of trading reported as OTC has remained stable at a little over 40% of total trading. We can expect the new regulatory framework established by the MiFID II Directive and the MiFIR regulation to have a negative impact on OTC trading, given that one of their basic aims is to increase transparency levels in the market and redirect OTC trading to regulated environments.

### Trading on official markets operated by BME

Equity trading on the markets operated by BME continues to take place predominantly on the SIBE trading platform (see Table 2.1.7), with open outcry trading reduced to a token figure. The amount traded in equity on the SIBE has scarcely changed since the previous year, now standing at 645 billion,<sup>10</sup> while the number of trades fell by 6.4% to a little under 51 million, having fallen now for three years running, reflecting the impact of the drop in high frequency trading. Thus, the effective average per trade grew to 12,788 euros, 6.6% more than in the previous year.

The number of orders fell by 30.9% on 2016 to 422.64 million, below the figures recorded in the previous 3 years – in 2015 and 2016 the figures were 645 and 611 million orders, respectively. The orders to trades ratio has therefore dropped to 8.3 times (11.2 in 2016), which confirms the decline of algorithmic trading, including high frequency trading, as a result of the scenario of lower market volatility.<sup>11</sup> Algorithmic trading is normally characterised by the high number of orders, generally small, sent to the market, which applies downward pressure on the average size of the trades.

<sup>10</sup> This figure includes the trading of exchange-traded investment funds (ETF), which totalled 4.46 billion.

<sup>11</sup> High frequency trading is characterised by the performance of a very high number of trades of securities with a very short average life (less than one session), the aim of which is to benefit from small changes in the price of securities. This type of trading is best suited to scenarios of high market volatility.

## Equity trading on markets operated by BME

TABLE 2.1.7

Million euros

	2014	2015	2016	2017	% change 17/16
<b>Total</b>	<b>882,482.4</b>	<b>957,990.7</b>	<b>652,226.2</b>	<b>649,883.3</b>	<b>-0.4</b>
<b>Official markets</b>	<b>874,386.1</b>	<b>951,290.3</b>	<b>647,003.2</b>	<b>644,766.7</b>	<b>-0.3</b>
<b>SIBE</b>	<b>874,292.9</b>	<b>951,030.4</b>	<b>646,992.6</b>	<b>644,757.8</b>	<b>-0.3</b>
of which ETFs	9,849.4	12,633.8	6,045.2	4,464.1	-26.2
<b>Open outcry</b>	<b>92.5</b>	<b>246.1</b>	<b>7.5</b>	<b>8.1</b>	<b>9.2</b>
Madrid	32.6	19.4	3.2	1.8	-45.2
Bilbao	14.3	7.5	0.0	0.1	51.7
Barcelona	45.2	219.1	4.2	6.3	51.2
Valencia	0.3	0.1	0.0	0.0	-4.3
<b>Second Market</b>	<b>0.7</b>	<b>13.8</b>	<b>3.2</b>	<b>0.7</b>	<b>-77.1</b>
<b>MAB</b>	<b>7,723.2</b>	<b>6,441.7</b>	<b>5,066.2</b>	<b>4,985.8</b>	<b>-1.6</b>
<b>Latibex</b>	<b>373.1</b>	<b>258.7</b>	<b>156.7</b>	<b>130.8</b>	<b>-16.5</b>

Source: CNMV.

Looking now at trading methods on the electronic market, Table 2.1.8 shows how there has been a drop in the amounts traded in order-based trading (54% of the total) and application-based trading (8%), to the benefit of block trading (37%), up by 16.4%, reflecting the increase in bilateral trading for large volume trades. Block trading accounts for a large percentage of the trades made on the new regulated markets in London and on the MTS.

## Trading on BME by type

TABLE 2.1.8

Million euros

	2013	2014	2015	2016	2017	% change 17/16
<b>Regular trading</b>	<b>668,553.2</b>	<b>831,962.6</b>	<b>903,397.2</b>	<b>618,600.9</b>	<b>619,108.6</b>	<b>0.1</b>
Order-based	346,049.6	453,294.9	475,210.0	350,783.5	335,917.3	-4.2
Applications	56,565.3	73,056.8	96,187.7	68,631.6	51,316.0	-25.2
Block trades	265,938.3	305,610.8	331,999.5	199,185.8	231,875.3	16.4
Off-hours	7,654.7	7,568.9	3,137.9	2,196.1	2,373.8	8.1
<b>Other types</b>	<b>16,960.1</b>	<b>24,912.5</b>	<b>31,861.5</b>	<b>20,150.4</b>	<b>18,811.3</b>	<b>-6.6</b>

Source: CNMV.

Stock market trading continued to be highly concentrated in a relatively low number of shares, with a slight increase in the degree of concentration compared with the previous year. In 2017, 5 and 14 shares were necessary to account for 50% and 75%, respectively, of the cash amount traded on SIBE (5 and 15 shares in the preceding 2 years). The shares with the highest level of trading were the same as in 2017 – Banco Santander, BBVA, Telefónica, Inditex and Iberdrola –, all of which form part of the European Euro Stoxx 50 index (see Annexes I.6 and I.8 for further details regarding trading and distribution).

## Short positions

The aggregate position of short sales according to the information received by the CNMV fell during 2017 to a year-end 0.7% of total share capitalisation of the electronic market, less than the 0.97% at year-end 2016. At the end of the year, there were 5 and 16 shares in short positions of 5% and 2% of their individual capitalisation, respectively, compared with the 6 and 18 shares in the same situation in 2016. The short positions were not evenly spread among the various sectors; most were concentrated in a number of individual shares of the sectors of distribution, technology and telecommunications, construction, steelworks, engineering, and the media.

### Short positions

TABLE 2.1.9

	% short positions/ capitalisation <sup>1</sup>	No. of companies with short positions > 2% <sup>2</sup>	No. of companies with short positions > 5% <sup>2</sup>
2013	0.35	9	2
2014	0.57	14	2
2015	0.86	20	7
2016	0.97	18	6
2017	0.70	16	5

Source: CNMV. (1) The figure for aggregate net short positions includes the sum at the end of each reference year of the individual positions declared (equal to or greater than 0.5%), plus the sum of all positions equal to or greater than 0.2% and less than 0.5% for all securities included in the SIBE. (2) Number of companies whose aggregate net short positions at the end of each reference year were greater than 2% and 5%, respectively, of their capital (including the sum of the individual positions declared – equal to or greater than 0.5% – plus the sum of all positions equal to or greater than 0.2% and less than 0.5%).

The information on aggregate short positions provided in this section comes from communications made in application of the rules set out in Regulation 236/2012 and its delegated regulations which make it obligatory to report short positions if they account for 0.2% of share capital and therefore do not include short positions accounting for smaller percentages, which in the case of high capitalisation shares may be significant. The CNMV has brought this circumstance to the attention of ESMA with a view to a possible partial revision of the aforementioned regulations.

### 2.1.5 Takeover bids (OPAs)

In 2017, 5 takeover bids for a potential amount of 19.71 billion euros were authorised (19.9 billion if we include the acquisitions agreed on previously), over 10 times the previous year's amount and the highest figure in recent years (see Table 2.1.10). The amount of transactions actually carried out by year-end represented 85.79%<sup>12</sup> of the potential amount. A list of the takeover bids authorised during the last year can be found in Annex I.9.

By volume, the largest transaction was initially the voluntary takeover bid by Atlantia, S.p.A. for the shares of Abertis Infraestructuras, S.A. in the amount of

12 We have excluded the amount corresponding to Atlantia S.p.A.'s bid for Abertis Infraestructuras from the potential amount because this transaction was the only one authorised at year-end 2017, but at the closing date of this report it had not been completed.

16.34 billion euros, over 90% of the total amount. On the closing date of this report, this bid was in a competing offers process, since Atlantia's takeover bid was followed by a second bid from Hochtief AG in October 2017 for a total of 18.18 billion euros, which was authorised on 12 March 2018. An agreement has also been reached between the bidders which may give rise to a modification of Hochtief AG's bid and the withdrawal of Atlantia's. The authorisation process of these two takeover bids by the CNMV has been especially complex. After Atlantia's takeover bid had been authorised in early October 2017 by the CNMV Board, on 7 December the Ministries of Public Works and Energy, Tourism and Digital Agenda each filed an appeal for judicial review in which they urged the CNMV to cancel the authorisation granted. On 8 January 2018, in response to the petitions, the CNMV Board decided to uphold the authorisation in the understanding that even if the indirect transfer of certain assets (Spanish motorway concessions and Hispasat, S.A.) arising from the possible takeover of Abertis by Atlantia, were to require administrative authorisations within the purview of those ministries, according to Article 26.2 of Royal Decree 1066/2007 on the legal regime of takeover bids, the requirement of such administrative authorisations would not prevent the CNMV from authorising the bid until evidence is provided that these authorisations have been secured.

The other transactions consisted of a delisting tender offer for Sotogrande, S.A., formulated by its controlling shareholder, and three voluntary takeover bids: by Indra Systems, S.A. over TecnoCom, Telecomunicaciones y Energía, S.A.; Aier Eye International (Europe), S.L.U. over Clínica Baviera, S.A.; and Inmobiliaria Colonial, SOCIMI, S.A. over Axiare Patrimonio SOCIMI, S.A.

All the bids were made at a price defined as fair by applicable legislation. Three bids included cash considerations, another was arranged as a mixed consideration bid (share swap and cash), and in another bid there was the option of either a cash price or a share swap up to a certain number of acceptances, and under the condition that the swap was accepted by a certain minimum number of shares.

The TecnoCom bid involved the mandatory sale by all shareholders, since shareholders representing over 90% of the shares had accepted the bid.

## Takeover bids

TABLE 2.1.10

Million euros

	2013	2014	2015	2016	2017
<b>Authorised<sup>1</sup></b>					
Number	6	7	9	5	5
Potential amount	395	478	5,049	1,682	18,183
Potential amount plus agreements prior to acquisition <sup>2</sup>	395	644	7,360	1,743	19,902
<b>Carried out<sup>3</sup></b>					
Number	6	7	8	5	4
Amount	351	216	4,394	853	1,309
Amount plus agreements prior to acquisition <sup>2</sup>	351	382	6,705	914	1,502

Source: CNMV. (1) Authorised during the year. (2) Potential amount of takeover bids plus cash volume of acquisitions agreed prior to each bid. (3) All bids authorised during the year, even if completed in the following year, except where the bid was unsuccessful or was withdrawn. Does not include the amounts for squeeze outs.

## Latibex

Securities traded on Latibex performed irregularly throughout the year, with successive quarters of gains and losses with a final balance of moderate growth for the year as a whole. This performance was due to the uneven growth of Latin American economies, featuring weak growth from Brazil (whose companies are well represented in this market), and a slight improvement in raw material<sup>13</sup> and oil prices. Its performance (measured in euros) was also dragged by the depreciation of the main Latin American currencies,<sup>14</sup> in particular the Brazilian real and the Argentine peso, although the companies of this latter economy have a lower weighting in the main indices.

The two indices representative of Latin American securities included in this MTS, the FTSE Latibex All-Share and the FTSE Latibex Top, recorded gains of 9% and 7.3%, respectively, compared with the 71% and 67.8%, respectively, in 2016. However, despite being the only market of this type in Europe, it currently represents a very small percentage of the total listings for the various companies in their main markets in Latin America.

The market value of the shares registered in Iberclear for the purpose of trading in this MTS shrank by 3.9% over the previous year to 233.3 million euros, which is less than 1% of the capitalisation of the companies traded there. As in previous years, most of the total registered in Iberclear were Brazilian companies, which accounted for 83% of the total, followed by Mexican companies, which accounted for 15%. 20 companies traded on this market.

In addition to the drop in market value of shares traded on Latibex there was a 16.5% decrease in effective trading of these shares, down to 130.8 million euros, of which 83% and 17% corresponded to Brazilian and Mexican companies, respectively. The trading volume of shares of Argentine and Peruvian companies was negligible.

## Companies listed on Latibex, by country

TABLE 2.1.11

Million euros

Country	No. of companies		Negotiable securities at market price <sup>1</sup>			Trading volume		
	2016	2017	2016	2017	% change	2016	2017	% change
Argentina	2	2	13.5	4.2	-68.6	0.6	0.2	-58.4
Brazil	10	10	208.3	194.2	-6.8	137.9	108.3	-21.5
Mexico	7	7	19.9	34.9	75.2	18.1	21.9	21.0
Peru	1	1	1.1	0.0	-97.1	0.2	0.0	-100.0
<b>Total</b>	<b>20</b>	<b>20</b>	<b>242.8</b>	<b>233.3</b>	<b>-3.9</b>	<b>156.7</b>	<b>130.8</b>	<b>-16.5</b>

Source: CNMV. (1) Securities deposited in Iberclear.

13 The CRB industrial raw materials index rose by 4.3% in 2017 (21.9% in 2016).

14 In 2017, the Brazilian real, the Argentine peso, and the Mexican peso depreciated by 13.8%, 25.2% and 7.6% respectively against the euro.

## The Alternative Stock Market (MAB)

As in previous years, the various segments traded on the MAB multilateral trading system once again performed irregularly, with growth in the number of SOCIMIs to the detriment of the SICAVs, whose numbers fell significantly for the second year running. As we can see in Table 2.1.12, in the rest of the segments the number of listed companies scarcely changed. In terms of capitalisation, capitalisation of SOCIMIs grew, while there was a reduction in the case of growth stocks and slight gains for SICAVs, which continued to account for 90% of the trading of this MTS.

The total number of companies listed on the MAB fell by 11% to 2,965 at year-end, due to the lower number of SICAVs, 392 of which were delisted, leaving the number of SICAVs quoting on the MAB at 2,864. Nevertheless, the aggregate capitalisation of the MTS increased by 13.5% to 43.8 billion euros, thanks to the strong growth of the value of SOCIMIs – whose capitalisation increased by 138.8% to 7.92 billion euros – and the discreet improvement in the value of SICAVs.

SOCIMIs grew strongly for the third year running and now total 46 companies, confirming the recovery and good outlook of the real estate sector. Since its inclusion in the MAB at the end of 2013, the SOCIMI segment has not ceased to grow, aided by an especially advantageous tax regime. SOCIMIs are the Spanish adaptation of the real estate investment vehicles (REIT) that exist in other countries<sup>15</sup> and are characterised by having a favourable tax treatment, which exempts them from paying corporate income tax and allows them to enjoy a 95% credit on transfer tax and stamp duty. In return, they are required to distribute 80% of the profits obtained from rental income and 50% of the gains generated by the sale of assets. Their activities focus on the promotion, refurbishment and transaction of leased real estate, holdings in other SOCIMIs and the performance of ancillary real estate activities. They are required to have a minimum capital of five million euros and be listed on a regulated market or multilateral trading facility such as the MAB.

### Companies listed on MAB, by segment

TABLE 2.1.12

Million euros

	No. of companies		Market capitalisation <sup>1</sup>			Trading volume		
	2016	2017	2016	2017	% change	2016	2017	% change
Growth stocks	39	41	2,154.6	1,734.7	-19.5	247.8	294.2	18.7
SICAV	3,256	2,864	32,691.5	33,702.3	3.1	4,780.2	4,566.5	-4.5
Hedge funds	13	14	418.3	448.7	7.3	23.2	55.5	139.1
SOCIMIs	28	46	3,316.5	7,919.0	138.8	15.0	69.6	363.2
<b>Total</b>	<b>3,336</b>	<b>2,965</b>	<b>38,580.8</b>	<b>43,804.8</b>	<b>13.5</b>	<b>5,066.2</b>	<b>4,985.8</b>	<b>-1.6</b>

Source: CNMV. (1) Includes only the value of those entities for which there was trading during the year.

The number of companies listed in the growth stock segment rose by 2 to a total of 41. The cash amount traded grew by nearly 19% to 294 million euros, but capitalisation fell by almost 20% to under 1.74 billion euros, its lowest level since 2013. This was mainly due to Masmóvil switching to the electronic market, in application for

the first time of the rule concerning companies with a capitalisation of over 500 million euros, included in the Securities Market Act in 2015. Excluding the effect of that delisting, actual trading would have grown by 126%. The three companies that joined the market were: Asturiana de Laminados (Elzinc), in March; Netex, in October; and Greenalia, in December. Masmóvil was delisted from this segment in February in order to quote on the electronic market, as mentioned earlier.

### 2.1.7 Exchange-traded funds (ETF)

Activity in the ETF segment of the SIBE declined significantly in 2017, in terms of both trading and assets. Despite the flexibility to adopt positions diversified by type of asset, market, sector, geographic area, and even strategy, its tax treatment is less advantageous in comparison with traditional investment funds (unlisted) and, judging by the consultation published by the General Directorate of Taxes dated 27 October 2016, also in comparison with ETFs listed on other European markets, which detracts from their competitiveness.

Trading fell for the second year running to 4.46 billion euros, 26% less than in 2016, while assets at year-end were also down to 1.86 billion euros, 89% less than in the previous period. As in previous years, trading was concentrated in a small number of funds referenced to the Ibex, which accounted for over 95% of the total trading volume. At year-end, 8 ETFs were being traded on Spanish stock markets, 13 fewer than in 2016, as the less liquid funds disappeared. As in the previous year, the listed ETFs continued to be managed by one of three financial institutions: one French, one German, and one Spanish. In the case of the Spanish manager, its listed funds were limited to two stocks referenced to the stock market indices Ibex 35 and Eurostoxx 50.

Most of the ETFs traded on SIBE follow passive investment strategies based on tracking the Ibex 35, although there is a small number of inverse and leveraged funds that account for a significant percentage of the amount traded in this segment.

Contrary to the case of active investment funds, Spanish investors and fund managers take little part in this collective investment segment, whose growth in Europe has been very high in recent years due to its flexibility and low fees. According to data from Thomson Reuters Lipper, at year-end managed assets totalled 631.2 billion euros in Europe, an all-time high.

## 2.2 Fixed income

During 2017, activity in the Spanish primary fixed-income markets was underpinned by a context of extremely low interest rates which may have provided incentives to issuers to refinance themselves in the expectation of a future tightening of the monetary policy in the euro area. The volume of net issues increased significantly, partly due to a lower level of amortisations, and moved into positive territory for the first time since 2012.

Total gross issues showed a slight increase, aided by both public authorities and non-financial companies, while the volume issued by financial institutions decreased due to the more favourable conditions offered by the facilities provided by the Eurosystem, to which they have access. The Asset Management Company for

Assets Arising from Bank Restructuring (SAREB)<sup>16</sup> once again accounted for a significant percentage of the total amount issued. Also, the low interest rates are encouraging listed non-financial companies to increase their financing on the capital markets by issuing fixed-income instruments. Securing non-banking financing continues to be a challenge for SMEs, although there are markets such as the MARF created with this purpose in mind.

Meanwhile, issues made by domestic issuers in other jurisdictions grew considerably in comparison with the previous year and accounted for a significant percentage of the total issued by domestic issuers. Although this phenomenon is not exclusive to the Spanish market and is due to a number of factors that not only concern the regulatory or supervisory environment, the CNMV has made some changes with a view to increasing the efficiency of verification processes for fixed-income issues aimed at qualified investors. These changes try to avoid unnecessary specificities and combine supervisory rigour with agility in the admission process.

Trading volumes fell in all the secondary fixed-income markets, although the most significant decline was in the public debt book-entry market, which is the largest in terms of amounts traded. The amount of trading in private debt also shrank, although the second phase of the reform of the clearing, settlement and registration system for domestic market securities (see section 2.4) altered the reporting of some transactions, of both public and private fixed income, during the last third of the year, causing the 2017 amounts to be not fully comparable with those of 2016.

### 2.2.1 General overview

Interest rates for public debt remained low in 2017, due to the continuation of the ECB's expansive monetary policy, the strong economic growth of the Spanish economy, and the reduction of the political uncertainty that existed early in the year in the European Union. Nevertheless, there was a slight steepening of the rate curve slope, since short-term returns fell a little after the continuity of the ECB's asset purchase programme was confirmed, while interest rates in the long-term increased slightly in expectation of a future tightening of the monetary policy.

This context of low interest rates and abundant liquidity in the markets, both as a result of the accommodating monetary policy adopted by the ECB, encouraged Spanish issuers to be active on the primary markets. The average cost of treasury financing, which had fallen considerably in recent years, remained practically unchanged compared with 2016, while the average life of public debt in circulation increased. Meanwhile, the risk premium of fixed-income instruments issued by financial institutions dropped considerably throughout the year, due to the robustness of economic growth, which helped strengthen their balance sheets, the processes of reorganisation, restructuring and strengthening of the institutions' equities, and also the unconventional set of monetary policy measures adopted by the ECB.

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16 Regarding the SAREB, it should be noted that the CNMV forms part of its Monitoring Committee, created under previous Spanish legislation. Among other tasks, this committee analyses the company's business plan, and monitors the divestment plans and the authorisation of debt guaranteed by the Spanish State. Since its creation in mid-2017, the SAREB has reduced its portfolio of received assets by more than 23% and has cancelled debt totalling more than 19%.

The amount of gross issues registered during 2017 increased to 437.87 billion euros (2.8% more than in 2016). The volume of net issues, affected by a drop in amortisations, grew more significantly and returned to positive territory, for the first time since 2012. By sector, net issues made by public authorities increased by 85.4% on 2016, partly due to the drop in amortisations as a result of the increase in the average life of debt. Meanwhile, despite increasing, the amount of issues made by financial institutions continued to be negative due to their access to the financing facilities offered by the Eurosystem. Finally, net issues by non-financial companies increased by 192%, although it should be noted that this increase was on a low figure (see Table 2.2.1).

### Issues and outstanding balances: breakdown by issuer

TABLE 2.2.1

Million euros

	Amount <sup>1</sup>			Pro memoria: euro area	
	2016	2017	% change 17/16	2017	% change 17/16
<b>Gross issues<sup>2</sup></b>	<b>426,001</b>	<b>437,872</b>	<b>2.8</b>	<b>7,347,646</b>	<b>7.6</b>
Public authorities	227,933	241,868	6.1	2,403,617	0.9
Financial institutions	185,897	180,229	-3.0	4,297,902	11.4
Non-financial companies	12,170	15,774	29.6	646,128	9.3
<b>Net issues<sup>2</sup></b>	<b>-35,081</b>	<b>19,191</b>	<b>-</b>	<b>206,800</b>	<b>365.5</b>
Public authorities	25,299	46,910	85.4	154,643	5.3
Financial institutions	-63,256	-36,118	42.9	-25,246	86.5
Non-financial companies	2,876	8,400	192.0	77,403	-8.2
<b>Outstanding balances<sup>3, 4</sup></b>	<b>1,646,717</b>	<b>1,678,969</b>	<b>2.0</b>	<b>16,565,929</b>	<b>-0.4</b>
Public authorities	942,466	989,029	4.9	7,957,347	1.9
Financial institutions	675,695	654,660	-3.1	7,352,177	-3.1
Non-financial companies	28,556	35,281	23.5	1,256,405	1.0

Source: Bank of Spain, CNMV and ECB. The data for the debt of public authorities in this table are not directly comparable with the data drawn up according to the Excessive Deficit Protocol, mainly due to the fact that the latter methodology excludes securities held in the portfolios of public authorities and includes currency swaps. (1) Includes issues by Spanish companies in Spain and abroad. (2) For currency issues of public authorities, the exchange value in euros is used by applying the average exchange rate for the month published by the ECB. For currency issues of financial institutions and non-financial companies, the exchange value in euros is used by applying the exchange rate for the last day of the month published by the ECB. (3) For the outstanding balances of currency issues, the exchange value in euros is used by applying the exchange rate of the ECB at the end of the period. (4) Outstanding balances cannot be adjusted with net issues because of the use of different exchange rates for currency issues.

The SAREB issued more than one fifth of the total of the private long-term fixed-income securities registered with the CNMV. Issues of this entity are not placed on the market but are entirely subscribed by its partners.

The official secondary fixed-income market posted falling trading volumes. The most significant drop was in the public debt book-entry segment, in which trading fell to 3,589.93 billion euros, 823.72 billion less than in the previous year. This decline was mainly due to two factors: i) the effect on trading of the ECB's public debt asset purchase programme; and ii) financial institutions reduced interest in making use of sell-buybacks/buy-sellbacks, due to the financing facilities offered by the Eurosystem (see Table 2.2.2).

In the case of the AIAF fixed-income market, on which most private fixed-income instruments are traded, the trading amount fell once again in 2017, in line with the negative trend seen in recent years. The year-end figure was 69.89 billion euros, a 58.8% reduction compared with the volume traded in 2016. These negative figures can be explained in part by the lower activity of financial institutions in the primary fixed-income markets, but also, as already mentioned, by the impact of the reform of the securities clearing, settlement and registration system on the reporting of some transactions between September and December (see footnote to Table 2.2.2). Meanwhile, in the fixed-income market, where the trading amount had been marginal in previous years, there were no trades at all.

## Trading on official secondary markets

TABLE 2.2.2

Nominal amount in million euros

By market	2013	2014	2015	2016	2017 <sup>1</sup>	% change 17/16
Public debt book-entry	8,002,024	8,170,059	5,096,671	4,413,657	3,589,934	-18.7
AIAF	1,400,758	1,118,964	521,854	169,654	69,894	-58.8
Stock markets	46,159	49,072	24,238	6,279	0	-100.0
<b>Total</b>	<b>9,448,941</b>	<b>9,338,095</b>	<b>5,642,764</b>	<b>4,589,590</b>	<b>3,659,829</b>	<b>-20.3</b>

Source: CNMV and Bank of Spain. (1) The reform of the securities clearing, settlement and registration system affected the way certain methods of trading public debt were accounted for, and altered the reporting of some private fixed-income transactions during the last third of the year, so the figures are not entirely comparable.

## 2.2.2 Public debt

### 2.2.2.1 Primary market

The volume of gross issues registered by the public authorities increased for the first time since 2013 to 241.87 billion euros, a 6.1% increase on the 2016 figure, reversing the downward trend seen in recent years. The breakdown by type of issuer shows that the General State Administration was responsible for 97.8% of all issues (236.51 billion euros, 6% more than in the previous year), while the amount issued by the autonomous regions (5.31 billion euros, 2.2% of the total) and by the local authorities (56 million euros) accounted for a very low percentage of the total.

Net issues posted an even greater increase (up 85.4% to 46.91 billion euros). The amount of the net issues made by the General State Administration, which accounted for practically all the volume issued by public authorities, moved into negative territory (-3.53 billion euros) in the case of short-term instruments, while in the case of long-term instruments the increase was considerable (to 50.49 billion). These amounts are in line with the objective stated by the Public Treasury of increasing the average life of public debt in circulation and thus reduce refinancing risk while taking advantage of very low interest rates. Net issues by both autonomous regions and local authorities were negligible, although the former posted a positive amount for the first time since 2011 (113 million) while the latter was negative (-165 million). The larger increase in net issues in comparison with gross issues was due to the lower volume of amortisations (see Annex I.12).

With regard to issue terms, 60.7% of the nominal amount of gross issues by public authorities corresponded to long-term issues and the remaining 39.3% to short-term

issues. The former increased by 16.2% on 2016, while the latter fell by 6.4%. This increase of the proportion of long-term issues, as mentioned previously, occurred in the context of very favourable financing conditions and in the expectation of a tightening of the monetary policy in the euro area in the medium term.

### 2.2.2.2 Secondary market

#### Public debt book-entry market, AIAF and stock markets

The public debt issued by public authorities is admitted to trading on three official markets: the public debt book-entry market, AIAF and stock markets, although in the latter no transactions were made in 2017. In general, the trading of these assets during the year was made less attractive due to the context of low interest rates and low volatility seen in these instruments.

In the public debt book-entry market, on which more than 99% of the total volume of public debt was traded, the amount traded fell once again for the third year running. The year-end figure was 3.59 trillion euros, an 18.7% drop on 2016, and it represented less than half the volume traded in 2014 (43.9%). This drop was due to the trading of both long-term instruments (government bonds and debentures) and of short-term instruments (treasury bills), although in the latter case the drop was more pronounced. To be specific, the trading volume of trading of government bonds and debentures fell to 2.81 trillion euros, 10.3% less than in the previous year. The breakdown by type of transaction for this category shows that the decline was concentrated in sell-buybacks/buy-sellbacks, with a 52% drop, while there was a significant increase (79.1%) in trading to maturity (see Table 2.2.3).

The trading of short-term instruments (treasury bills) fell by 39.7% to 764.9 billion euros. By type of transaction, sell-buybacks/buy-sellbacks once again showed the most significant decline (-65.5%), down to 248.84 billion euros, and accounted for 32.5% of the total. Meanwhile, transactions to maturity became the most important category in volume terms, despite suffering a 5.9% drop, after recording trading worth 516.06 billion euros (67.5% of the total).

When interpreting the evolution of the amounts traded by type of transaction (for both short-term and long-term instruments), it is important to bear in mind that they were affected by the reform of the securities clearing, settlement and registration system,<sup>17</sup> since trading in sell-buybacks/buy-sellbacks have been accounted for in the category of transactions to maturity since September. Therefore rises and falls in the amounts are not only the result of real changes in trading, but are also affected by the way trades are reported.

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17 BME carried out a reform of the securities clearing, settlement and registration system, which introduced three key changes: i) the migration to a registration system based on balances, ii) the introduction of a central counterparty (ECC) – BME Clearing – and iii) the integration of CADE and SCLV into a single platform. This reform was implemented in two phases: the first was carried out in April 2016 and gave rise to the implementation of the ECC and the migration of SCLV to ARCO, while the second phase took place in September 2017, when CADE was migrated to ARCO and the T2S connection was made.

## Trading on the public debt book-entry market

TABLE 2.2.3

Million euros

	2013	2014	2015	2016	2017 <sup>1</sup>	% change 17/16
<b>Treasury bills</b>	<b>1,522,409</b>	<b>1,032,591</b>	<b>921,196</b>	<b>1,268,902</b>	<b>764,895</b>	<b>-39.7</b>
Outright	243,841	283,516	338,573	548,249	516,058	-5.9
Spot	239,107	278,152	334,274	546,155	509,986	-6.6
Futures	4,733	5,364	4,299	2,094	6,072	190.0
Repos	0	0	0	0	0	-
Sell-buybacks/ Buy-sellbacks	1,278,569	749,075	582,623	720,653	248,836	-65.5
<b>Bonds and debentures</b>	<b>6,468,526</b>	<b>7,127,181</b>	<b>4,165,026</b>	<b>3,136,660</b>	<b>2,812,699</b>	<b>-10.3</b>
Outright	1,078,083	1,158,897	931,175	997,849	1,786,664	79.1
Spot	1,048,621	1,106,868	900,483	987,018	1,609,111	63.0
Futures	29,462	52,029	30,692	10,832	177,553	1,539.2
Repos	0	0	0	0	0	-
Sell-buybacks/ Buy-sellbacks	5,390,443	5,968,284	3,233,851	2,138,811	1,026,035	-52.0
<b>Debt of regional governments and other public institutions</b>	<b>11,089</b>	<b>10,287</b>	<b>10,450</b>	<b>8,095</b>	<b>12,341</b>	<b>52.5</b>
Outright	7,683	9,543	7,723	6,235	9,904	58.8
Spot	5,912	4,545	4,034	4,220	5,970	41.5
Futures	1,771	4,998	3,689	2,015	3,934	95.2
Repos	0	0	0	0	0	-
Sell-buybacks/ Buy-sellbacks	3,406	744	2,727	1,860	2,437	31.0
<b>Total</b>	<b>8,002,024</b>	<b>8,170,059</b>	<b>5,096,671</b>	<b>4,413,657</b>	<b>3,589,934</b>	<b>-18.7</b>

Source: Bank of Spain. (1) As a result of the reform of the securities clearing, settlement and registration system, the trading of sell-buybacks/buy-sellbacks has been accounted for under the category of transactions to maturity since September of 2017.

As can be seen in Table 2.2.4, the volume of public debt trading on AIAF and on stock markets fell by 66.5% in 2017 to 1.60 billion euros. The drop was the result of the disappearance of trading on stock markets, where in previous years, bonds and debentures issued by autonomous regions and other public authorities had been traded. Thus in 2017 trading took place entirely on AIAF, where the nominal trading amount increased by 6.3% on 2016. The category of bonds and debentures of government entities, which is the most important in terms of trading volume, grew by 5.5% to 1.45 billion euros (91% of the total).

## Trading of public debt on AIAF and on stock markets

TABLE 2.2.4

Million euros

By market	2013	2014	2015	2016	2017	% change 17/16
<b>AIAF</b>	<b>177</b>	<b>264</b>	<b>5,112</b>	<b>1,502</b>	<b>1,597</b>	<b>6.3</b>
Treasury Bills	12	31	30	8	4	-50.8
State bonds and debentures	144	213	233	112	120	7.3
Regional government bonds and debentures	0	0	0	0	0	-
Local authority bonds and debentures	4	0	0	0	0	-
State entity bonds and debentures	6	0	4,828	1,377	1,453	5.5
Other public body bonds and debentures	11	20	21	6	20	251.7
<b>Stock markets</b>	<b>41,363</b>	<b>42,848</b>	<b>22,498</b>	<b>3,262</b>	<b>0</b>	<b>-100.0</b>
Treasury Bills	12	0	0	0	0	-
State bonds and debentures	102	0	0	0	0	-
Regional government bonds and debentures	40,100	42,048	21,747	3,103	0	-100.0
Local authority bonds and debentures	51	0	5	0	0	-
State entity bonds and debentures	0	0	0	0	0	-
Other public body bonds and debentures	1,099	800	746	159	0	-100.0
<b>Total</b>	<b>41,539</b>	<b>43,112</b>	<b>27,609</b>	<b>4,765</b>	<b>1,597</b>	<b>-66.5</b>

Source: CNMV.

## SENAF

SENAF (Electronic System for Trading in Financial Assets) is a multilateral trading facility of the BME group intended for the wholesale trading of Spanish public debt (both spot and repos and sell-buybacks/buy-sellbacks) and of some assets registered on AIAF. Trading on this platform is restricted to admitted institutional members and is carried out “blind”, i.e. anonymously. In 2017, trading fell to 137.62 billion euros (21.3% less than in 2016). The decline was to a large extent due to the drop in the trading amount of treasury bills, down by 29.7% to 70.91 billion euros (51.5% of the total). In total, 13,731 trades were matched, 13.1% less than the previous year.

### 2.2.3 Private fixed income

#### 2.2.3.1 Primary market

The amount of gross issues of private fixed income registered in the CNMV stood at 109.49 billion euros in 2017, 21.2% less than in 2016, thus ending the slight upward trend seen since 2014. Issues made by financial institutions, which accounted for most of the total volume issued (around 96%), shrank by 21.3% due to the abundant liquidity arising from Eurosystem financing operations, including the TLTRO II

programme, launched in late March.<sup>18</sup> As explained below, it should be noted that if we exclude the amounts issued by the SAREB, the volume of issues made by financial institutions actually increased by 6.38% on 2016 (see Table 2.2.5).

Securities with long-term maturities accounted for 83.6% of the total issued, a very similar percentage to the one seen in 2016, while commercial paper accounted for 16.4%. All instruments recorded decreases in the volume of issues compared with the previous year (with the exception of subordinated debt, the issued amount of which increased, in a context in which investors were looking for better returns). The most significant decline was posted by territorial bonds, down by 95%, while issues of non-convertible bonds and debentures and securitisation bonds fell by 25.3% and a 17.2%, respectively. Meanwhile, commercial paper fell by 22%. As can be seen in Table 2.2.5, the instruments with the highest number of issues registered in the CNMV were non-convertible bonds and debentures (27.4%), followed by mortgage-covered bonds (27.2%), securitisation bonds (26.9%) and commercial paper (16.4%).

### Gross issues registered at the CNMV: breakdown by instrument

TABLE 2.2.5

Nominal amount in million euros

	2013	2014	2015	2016	2017
<b>Long-term</b>	<b>94,848</b>	<b>96,604</b>	<b>109,298</b>	<b>116,068</b>	<b>91,576</b>
Non-convertible bonds and debentures	32,537	41,155	39,100	40,170	30,006
Subordinated debt	0	1,000	500	512	1,550
Convertible bonds and debentures	803	750	53	0	0
Mortgage bonds	24,800	23,838	31,375	31,643	29,824
Territorial bonds	8,115	1,853	10,400	7,250	350
Securitisation bonds	28,593	29,008	28,370	35,505	29,415
Preferred shares	0	0	0	0	1,000
Other issues	0	0	0	1,500	981
<b>Short term<sup>1</sup></b>	<b>43,991</b>	<b>33,654</b>	<b>27,310</b>	<b>22,960</b>	<b>17,911</b>
Commercial paper	43,991	33,654	27,310	22,960	17,911
Asset-backed	1,410	620	2,420	1,880	1,800
<b>Total</b>	<b>138,839</b>	<b>130,258</b>	<b>136,607</b>	<b>139,028</b>	<b>109,487</b>

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

Issues of bonds and debentures fell to 30.01 billion euros (40.17 billion in 2016). The issues made by the SAREB, in the amount of 20.04 billion, accounted for 66.8% of the total (76.7% in 2016). If we exclude the amounts recorded by this entity, issues increased by 6.38% on the figure for 2016 to 9.97 billion euros, of which 2.36 billion (23.7%) were structured bonds.

Issues of mortgage-covered bonds shrank by 5.7% to 29.82 billion euros, a drop which in percentage terms was considerably lower than for all other instruments. This decrease was to a large extent due to the continuous reduction in the mortgage

18 Targeted longer-term refinancing operations (TLTRO) are one of the monetary policy tools used by the ECB whereby long-term loans are offered to financial institutions in order to promote the granting of credit to businesses and households in the euro area.

credit balance as a result of the deleveraging of households, and despite the favourable effect on issues of the third covered bond purchase programme (CBPP3), described in detail in Table 1. Territorial bonds, which were affected by the reduction in credit granted to public authorities and by the fact that many of them are financed off-market, experienced an exceptional decline (from 7.25 billion euros in 2016 to 350 million in 2017).

Meanwhile, issues of securitisation bonds fell by 17.2% on 2016 to 29.42 billion euros. Both securitisations of loans to companies and mortgage loan securitisations decreased, with a 35.5% drop in the former case and a 24.1% drop in the latter. At year-end, the figures were 4.85 and 14.89 billion euros, respectively, accounting for 16.4% and 50.6%, respectively, of the total (see Annex I.18). Meanwhile, securitisations of debt issued to finance the electricity deficit accounted for 8.5% of the securitisation bonds issued (6.5% in 2016). In this case, the ECB's asset-backed securities purchase programme (ABSPP) had a much more limited impact on issues.

As has been the case in recent years, the amount of securitisation bonds subscribed by the issuer of the bonds was very high (82%, close to the 77.9% registered in 2016). Annexes I.17 and I.18 provide additional information regarding issues of securitisation bonds registered in the CNMV.

In line with the trend seen in the last 5 years, the amount of the issue of commercial paper fell to 17.91 billion euros, a 22% drop on the figure for 2016. This trend was due to the scant appeal of commercial paper, since it offers a very low return in the current context of low interest rates. Within this group, asset-backed commercial paper, which was issued by a single entity (Banco Santander), fell by 4.3% to 1.8 billion euros.

Annexes I.14, I.15 and I.16 provide further details about private fixed-income issues registered with the CNMV.

Gross issues of private fixed income made by Spanish issuers abroad increased by 44.7% in 2017, to 84.77 billion euros,<sup>19</sup> benefiting from the ECB corporate sector purchase programme (CSPP, for which only fixed income assets issued by non-banking institutions are eligible), which reduced the risk premium of these assets. These increases were seen in the long-term instrument segment, whose total of 61.13 billion euros almost doubled the figure for 2016 (31.66 billion). In this group we would highlight the percentage increases of hybrid instrument issues (contingent convertible bonds and, to a lesser extent, preferred shares) and subordinate debentures (387% and 131.4%, respectively). In absolute terms the most significant increase was in the issue of bonds and debentures, for which the traded amount increased to 49.88 billion euros (28.12 billion in 2016). Meanwhile, commercial paper decreased by 12.2% to 23.65 billion euros, and accounted for 27.9% of the total issued abroad (see Table 2.2.6).

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19 With the aim of helping the Spanish market be more attractive for the admission to trading of bonds and obligations from both Spanish companies and from companies from the rest of the European Union, in December 2017 the CNMV announced its intention to introduce some changes to speed up its procedures for verifying fixed-income issues aimed at qualified investors. Among the most important of these changes were the reduction of the number of days needed to complete some of the stages of the issue, and the fact that signature may now take place on any business day. See <https://www.cnmv.es/portal/verDoc.axd?t={04b0efa8-dc0b-41db-8bc3-e2edf52adf9a}>

## Gross private fixed income issued by Spanish issuers in foreign markets

TABLE 2.2.6

Nominal amount in million euros

	2013	2014	2015	2016	% change	
					2017	17/16
<b>Long-term</b>	<b>34,299</b>	<b>35,281</b>	<b>33,362</b>	<b>31,655</b>	<b>61,125</b>	<b>93.1</b>
Hybrid debt <sup>1</sup>	1,588	5,602	2,250	1,200	5,844	387.0
Subordinated debt	750	3,000	2,918	2,333	5,399	131.4
Bonds and debentures	31,961	26,679	28,194	28,122	49,882	77.4
Securitisation bonds	0	0	0	0	0	-
<b>Short-term</b>	<b>13,400</b>	<b>21,441</b>	<b>32,984</b>	<b>26,932</b>	<b>23,646</b>	<b>-12.2</b>
Commercial paper	13,400	21,441	32,984	26,932	23,646	-12.2
Asset-backed	0	0	0	0	0	-
<b>Total</b>	<b>47,699</b>	<b>56,722</b>	<b>66,347</b>	<b>58,587</b>	<b>84,771</b>	<b>44.7</b>

Source: Bank of Spain. (1) Includes contingent convertible bonds (CoCos) and preferred shares.

### 2.2.3.2 Secondary market

#### AIAF and stock markets

In the two official secondary markets on which private debt is traded in Spain, AIAF and the stock markets, the outstanding balance of fixed-income instruments admitted to trading was 494.67 billion euros, 3.2% less than in 2016. The outstanding balance of securities admitted to trading on AIAF decreased by 3.1% on year-end 2016 to 493.63 billion euros at year-end 2017, accounting for 99.8% of the total. The breakdown by instruments (see Table 2.2.7) shows that this reduction occurred across all categories. In absolute terms, the outstanding balance of securitisation bonds and mortgage-covered bonds decreased the most, while in percentage terms, commercial paper (25.8%) and territorial bonds (11.3%) were the worst affected. Securitisation bonds and mortgage-covered bonds continued to be the instruments with the greatest relative weighting in the balance admitted to trading, with 41.4% and 36.7%, respectively.

## Issuers, issues and outstanding balances of private fixed income on AIAF

TABLE 2.2.7

Nominal amount in million euros

	No. of issuers		No. of issues		Outstanding balance		
	2016	2017	2016	2017	2016	% change	
						2017	17/16
Commercial paper	14	14	333	179	16,149	11,979	-25.8
Bonds and debentures	328	315	1,876	1,657	279,646	276,093	-1.3
Securitisation bonds	278	262	956	889	218,953	204,570	-6.6
Mortgage bonds	43	41	234	218	186,528	181,309	-2.8
Territorial bonds	9	7	28	24	26,887	23,862	-11.3
Matador bonds	6	6	6	6	387	387	0.0
<b>Total</b>	<b>372</b>	<b>383</b>	<b>2,477</b>	<b>2,084</b>	<b>509,597</b>	<b>493,630</b>	<b>-3.1</b>

Source: AIAF and CNMV.

The outstanding balance of fixed income admitted to trading on stock markets fell by 18.5% to 1.04 billion euros. This balance consisted entirely of issues made by the financial sector (see Table 2.2.8).

### Issuers, issues and outstanding balances of private fixed income on stock markets

TABLE 2.2.8

Nominal amount in million euros

	No. of issuers		No. of issues		Outstanding balance		
	2016	2017	2016	2017	2016	2017	% change 17/16
Financial institutions	8	7	27	24	1,270	1,035	-18.5
Credit institutions	0	0	0	0	0	0	-
Other financial institutions <sup>1</sup>	8	7	27	24	1,270	1,035	-18.5
Non-financial companies	0	0	0	0	0	0	-
Barcelona Stock Exchange	8	7	27	24	1,270	1,035	-18.5
Bilbao Stock Exchange	1	0	1	1	90	0	-100.0
Madrid Stock Exchange	1	0	1	1	90	0	-100.0
Valencia Stock Exchange	1	0	1	1	90	0	-100.0
<b>Total</b>	<b>8</b>	<b>7</b>	<b>27</b>	<b>27</b>	<b>1,270</b>	<b>1,035</b>	<b>-18.5</b>

Source: Stock markets and CNMV. (1) Includes the European Investment Bank and the securitisation bonds guaranteed by the Generalitat de Catalunya (Regional Government of Catalonia).

Total trading of private fixed income on AIAF during 2017 stood at 68.3 billion euros, 59.4% less than in the previous year, continuing the downward trend seen in recent years. The decline was seen in all types of assets (see Table 2.2.9), although the most significant drop was in the trading of territorial bonds (92.8%). The trading of mortgage-covered bonds (68.5%) and commercial paper (65.5%) also decreased significantly.

### Private fixed-income trading on the stock markets

TABLE 2.2.9

Nominal amount in million euros

By type of asset	2013	2014	2015	2016	% change	
					2017 <sup>1</sup>	17/16
Commercial paper	112,560	48,817	31,346	20,684	7,144	-65.5
Bonds and debentures	859,492	611,566	251,412	63,011	35,824	-43.1
Securitisation bonds	538,065	341,828	177,844	36,555	18,502	-49.4
Mortgage bonds	341,674	376,273	187,202	79,116	24,936	-68.5
Territorial bonds	86,759	82,023	46,711	5,329	382	-92.8
Matador bonds	97	21	71	11	11	-4.2
<b>By type of transaction</b>						
Outright	290,457	396,077	234,085	126,590	57,599	-54.5
Repos	69,063	29,800	14,891	4,144	672	-83.8
Sell-buybacks/ Buy-sellbacks	1,041,061	692,822	267,766	37,418	10,026	-73.2
<b>Total</b>	<b>1,400,581</b>	<b>1,118,700</b>	<b>516,742</b>	<b>168,152</b>	<b>68,297</b>	<b>-59.4</b>

Source: AIAF and CNMV. (1) The amounts traded in 2017 are affected by the reform of the securities clearing, settlement and registration system, which introduced changes in the reporting of transactions in the last third of the year.

By transaction type, simple trades have gained importance in terms of traded volume in recent years. In 2017, they accounted for 84.3% of the total traded amount, while sell-buybacks/buy-sellbacks have been losing ground and in 2017 accounted for 14.7% of the total amount traded. Meanwhile, the trading of repos fell by 83.8% to 672 million euros (1% of the traded total).

Own account trading on AIAF has been decreasing in recent years and in 2017 it represented 28.1% of the total traded, while trading with third parties accounted for 71.9%. Own account trading fell to 19.19 billion euros, 63.3% less than in 2016 (see Annex I.19). By instrument, there was a significant generalised decline, although the most affected category was territorial bonds, with a drop of 88.7%. Mortgage-covered bonds continued to be the most traded instruments despite a decrease of 61.8%, while the second most traded instrument – securitisation bonds – fell by 40.1%. The trading of commercial paper accounted for 19.9% of the total.

Trading with third parties decreased by 57.6% to 17.59 billion euros. Territorial bonds were most affected (99.3%), while bonds (including securitisation bonds) experienced a more moderate decline (33.5%), becoming the most traded category to the detriment of mortgage-covered bonds, for which trading fell by 70.3%. Commercial paper, meanwhile, declined by 68.9%.

Finally, there was no trading of private fixed income on the stock markets.

#### Private fixed-income trading on the stock markets

TABLE 2.2.10

Nominal amount in million euros

	2013	2014	2015	2016	2017	% change 17/16
Financial institutions	4,792	6,580	1,741	1,514	0	-100.0
Credit institutions	1,743	849	19	0	0	–
Other financial institutions <sup>1</sup>	3,049	5,731	1,722	1,514	0	-100.0
Non-financial companies	4	0	0	0	0	–
Barcelona Stock Exchange	4,057	5,793	1,723	1,514	0	-100.0
Bilbao Stock Exchange	4	1	0	0	0	–
Madrid Stock Exchange	401	142	7	0	0	–
Valencia Stock Exchange	335	644	11	0	0	–
<b>Total</b>	<b>4,796</b>	<b>6,580</b>	<b>1,741</b>	<b>1,514</b>	<b>0</b>	<b>-100.0</b>

Source: Stock markets and CNMV. (1) Includes the European Investment Bank and the securitisation bonds guaranteed by the Generalitat de Catalunya (Regional Government of Catalonia).

#### Alternative Fixed-Income Market (MARF)

The MARF is a market mainly aimed at the financing of SMEs by issuing fixed-income securities. This market adopted the legal structure of a multilateral trading facility, mainly aimed at institutional investors.

The nominal amount issued in 2017 was 3.97 billion euros, up 80.1% on the figure for 2016. Most of this amount corresponded to commercial paper (92%) issued by 23 companies, among which were such major companies as El Corte Inglés, Vocento, Sacyr, Gestamp, Fluidra and Tubos Reunidos, in 303 transactions. However, the

volume of bonds (issued by TecnoCom, Masmóvil, Pikolin, etc.) dropped by 24.6% to 318.3 million euros, in a context of improving conditions for the securing of traditional bank financing. This amount accounted for 8% of the total and was issued by 10 companies in 16 transactions.

Transactions on MARF-listed securities were mostly bilateral, so the volume traded on this MTS was very low. A nominal amount of 3 million euros was traded (1.5 million in 2016) in 24 transactions, all in the form of bonds and debentures.

### A measurement of liquidity of Spanish fixed income between 2005 and 2016

EXHIBIT 3

The concept of liquidity is intuitively simple: it concerns the possibility of rapidly buying and selling an asset without incurring significant losses. But these concepts may have different interpretations depending on the context. In financial markets, for example, providing exact measurements of liquidity for each type of asset is a complex task, but it is possible to establish a ranking of assets according to their liquidity. At one end we would have cash as the most liquid asset, while at the other end we would have structured products, derivatives and, in general, all assets with no secondary market as the least liquid assets. In the middle would be shares, which in general are highly liquid products, and fixed income, which is more complex because, although most products have a secondary market (a positive factor for liquidity), they are highly diverse in nature, and many of them are not traded for long (a negative factor for liquidity).

Assessing liquidity conditions in fixed-income markets has become a very important task for both market supervisors and those participating in the markets, given the three changes that have had a profound effect on these markets in recent years: i) financial regulation after the international financial crisis, ii) the context of extremely low interest rates, especially in Europe, and iii) the unconventional policies of central banks aimed at purchasing bonds on the markets. Some participants feel that fixed-income markets are much less liquid than before the crisis, despite the fact that the technological innovation has, in principle, had some beneficial effects on liquidity. Some empirical studies published in recent years have analysed liquidity conditions in various bond markets – mostly European markets<sup>1</sup> – and generally reached the conclusion that there has been no appreciable deterioration of those conditions. However, on the back of some criticisms of the approach and methodology used, the study has been updated and more recently does seem to show a loss of liquidity.

This table shows a summary of a working document published on the CNMV's website in 2017, which aims to assess the liquidity conditions of Spanish debt between the years 2005 and 2016.<sup>2</sup> Following the methodology proposed by Broto and Lamas (2016) for the US market, a synthetic liquidity indicator was designed for Spanish bonds which allows us to draw conclusions not only regarding the evolution of liquidity over time, but also regarding its dimensions (for example, transaction costs) and the sector responsible for the changes.

The study is based on the calculation of individual liquidity indicators with data on prices and amounts (transactions) of various types of assets: bonds, notes and securitisations, all issued by private Spanish issuers, regardless of the market they trade on. Trading information comes from AIAF, the Spanish fixed-income market, and the Transaction Reporting Exchange Mechanism (TREM) for transactions made on OTC and foreign markets. The individual liquidity indicators, which are briefly described below, represent some of the characteristics of the market: narrowness, depth, breadth, and resistance.

- Bid-ask price spread: the difference between the quoted sale price of a bond and the immediate purchase price of the same asset. This indicator is included as representative of market narrowness or transaction cost.
- Volume: the aggregate volumes traded each day. In general, a market with a higher trading volume is a more liquid market. This indicator is usually considered to be representative of market depth.
- Turnover: the quotient between the traded volume of each asset and the total amount issued. It is also an indicator of market depth.
- Proportion of bonds traded: the percentage of traded bonds over the total of current bonds over a period of time. It is the third indicator of market depth.
- Amihud ratio: this ratio measures the effect of the trading volume on the performance of an asset; it is representative of market breadth.
- Market efficiency coefficient: the quotient between the change in the return on an asset over a long period and the yield over a shorter one. It is used to estimate market resistance.

Figure E3.1 shows the liquidity indicator after transforming and aggregating the information of the above indicators using functions of cumulative distribution, the analysis of key components, and the importance of outstanding balances of the various types of debt. The figure distinguishes between the contribution of the various dimensions of liquidity (box above) and those of the various sectors (box below). According to the calculations of the study, the indicator shows three moments at which the liquidity of fixed-income instruments evidenced a significant deterioration. These were the uncertainty caused by the Lehman Brothers bankruptcy in late 2008, when the indicator hit 0.84, and the doubts arising from the European sovereign debt crises in Europe in 2010 and 2012. Between 2012 and 2014 the liquidity indicator improved considerably but this trend has reversed once again since 2015, since when we have seen a gradual deterioration in the liquidity conditions of Spanish fixed-income instruments.

The contributions from the various dimensions of liquidity and from the sectors have changed over time, especially at times of greatest stress in the markets. Thus, for example, we see that during the global financial crisis, the loss of liquidity of fixed-income securities had more to do with the deterioration of market depth and resistance, especially in the financial sector. However, in periods

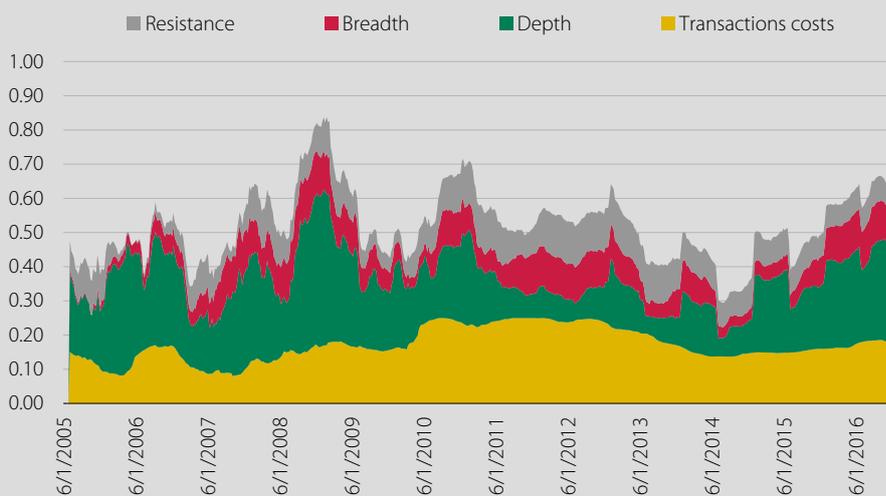
of loss of liquidity related to the European sovereign debt crisis, the role of transaction costs was much more significant, and in those periods we also saw a deterioration of liquidity in both financial fixed income and public debt.

In the most recent period of the study we have seen a more gradual deterioration of liquidity of debt assets which appears not to be related to any episode of stress in the financial markets, but rather to be due to factors of a structural nature. The loss of liquidity would seem to be explained by a greater deterioration in market depth, especially for financial debt assets. To a certain extent this is natural, bearing in mind the proliferation of complex assets which were traded very little on the markets after the financial crisis. Factors mentioned earlier, such as: i) the change in financial regulation, which makes the banks' activity of market making less attractive; ii) the context of low interest rates, which makes the trading of debt products less attractive; and iii) the ECB's asset purchase programme, which is taking a not insignificant percentage of bonds off the market, would explain part of the loss of liquidity in the market.

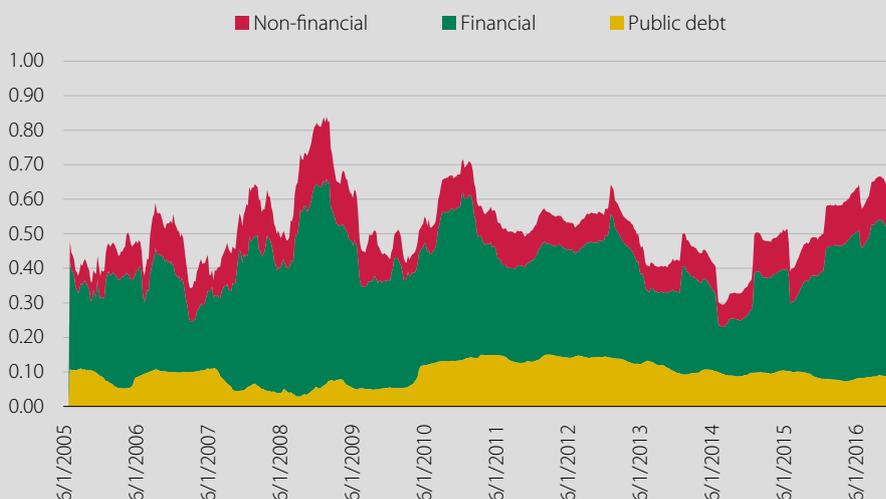
### Synthetic liquidity indicator for Spanish debt

FIGURE E3.1

#### With breakdown of liquidity



#### With breakdown by sector



Source: CNMV.

In the future we can expect the conditions of liquidity of these products to gradually improve, mainly as a result of the reversal of the monetary policy adopted by the ECB in the medium term, which will raise interest rates and stop its massive purchasing of debt on the markets.

- 1 See AMF (2015). *Study of Liquidity in French Bond Markets*; FCA (2016). *New evidence on liquidity in UK corporate bond markets*. Available at <https://www.fca.org.uk/publications/research/new-evidence-liquidity-uk-corporate-bond-markets>; ESMA (2016). *Report on Trends, Risks and Vulnerabilities*, no. 2; and ESMA (2017). *Report on Trends, Risks and Vulnerabilities*, no. 1. Also, a working group has been set up at ESMA to evaluate the liquidity of the corporate debt market in Europe, which uses, among other sources, information from the Transaction Reporting Exchange Mechanism (TREM) of each State. Its results are not yet available.
- 2 Cambón, M. I., Cano, J. L. and González, J. (2017). *Measuring liquidity of Spanish debt*. CNMV Working Document no. 66. Available at: <http://www.cnmv.es/portal/Publicaciones/monografias.aspx>

## 2.3 Derivatives markets

In this section we analyse the trend in 2017 of the activity of Spanish organised derivatives markets: the MEFF exchange (financial derivatives and electrical power contracts) and the warrants and certificates market. In the former there was slight increase in the number of financial derivatives contracts traded. Conversely, as occurred in 2016, both the trading of warrants on the secondary stock market and the volume of warrants issued on the primary market fell in comparison with the previous year's figures.

### 2.3.1 MEFF Exchange

#### Financial derivatives

Trading of derivative contracts on the MEFF grew in 2017 by 1.2% due to the growing activity in contracts on indices (12.1% more), which offset the slight decline in derivative contracts on shares (1.2% less). Also, futures trading on the Spanish ten-year sovereign bond, which had fallen drastically in 2016, disappeared completely due to competition from a similar contract on the German Eurex market.<sup>20</sup>

#### Trading on European financial derivatives markets

TABLE 2.3.1

Thousands of contracts				
	2015	2016	2017	% change 17/16
Eurex	1,672,648	1,727,460	1,675,898	-3.0
ICE Futures Europe	901,659	973,858	1,166,947	19.8
Euronext	135,515	126,241	140,276	11.1
Nasdaq Exchange Nordic Markets	99,990	91,077	86,420	-5.1
London Stock Exchange Group	48,879	54,065	42,538	-21.3
MEFF	40,056	40,205	40,703	1.2

Source: Eurex, Futures Industry Association, Intercontinental Exchange and CNMV.

20 On 26 October 2015, Eurex launched its Euro-BOND Futures contract, a future whose underlying asset is the Spanish sovereign ten-year bond.

In the segment of Ibex 35 derivatives, the contracts with the highest volume were Ibex 35 futures, which grew by 11.1% due to the increase in Mini contracts, the volume of which grew more than fivefold, which offset the slight drop in the larger Plus contracts. Ibex 35 option contracts also grew (33.6%), as did sector options (378.9%), although the volume of the latter continues to be low and concentrated in the banking sector. Conversely, the volume of dividend impact futures retreated by 25.3%.

Among derivatives whose underlying are shares, trading continued to be concentrated in a small number of underlying assets (Banco Santander, BBVA, Telefónica, Iberdrola, and Repsol), whose contracts account for 91% and 92% of the total activity of futures and options, respectively. Contracts shares as their underlying shrank by 1.2% in 2017, due to the fact that the growth of the traded volume of futures on shares (23.3%) was not enough to offset the lower volume of options on shares (-11.3%). Meanwhile, futures on dividends retreated slightly and account for a mere 3% of the total of futures whose underlying are shares.

### Trading on MEFF Exchange<sup>1</sup>

TABLE 2.3.2

Number of contracts

	2014	2015	2016	2017	% change 17/16
<b>Debt contracts</b>	<b>4,690</b>	<b>8,012</b>	<b>360</b>	<b>0</b>	<b>-100.0</b>
Ten-year bond future	4,690	8,012	360	0	-100.0
<b>Ibex 35 contracts</b>	<b>7,984,894</b>	<b>8,279,939</b>	<b>7,468,299</b>	<b>8,368,642</b>	<b>12.1</b>
Ibex 35 futures <sup>2</sup>	7,252,898	7,735,524	7,146,060	7,838,272	11.1
Plus	6,924,068	7,384,896	6,836,500	6,268,290	-8.3
Mini <sup>2</sup>	304,891	318,129	249,897	1,618,857	547.8
Dividend impact	23,939	32,499	58,044	43,372	-25.3
Sector	-	-	1,619	7,753	378.9
Ibex 35 options <sup>2</sup>	731,996	544,416	322,239	430,370	33.6
<b>Contracts on shares</b>	<b>38,611,291</b>	<b>31,769,507</b>	<b>32,736,458</b>	<b>32,335,004</b>	<b>-1.2</b>
Stock futures	12,740,105	10,054,830	9,467,294	11,671,215	23.3
Dividend futures	236,151	292,840	367,785	346,555	-5.8
Dividend futures plus		1,152	760	880	15.8
Stock options	25,635,035	21,420,685	22,900,619	20,316,354	-11.3
<b>Total</b>	<b>46,600,875</b>	<b>40,056,458</b>	<b>40,205,117</b>	<b>40,703,646</b>	<b>1.2</b>

Source: CNMV. (1) The differences in the nominal value of the different products make it impossible to compare them based on the number of contracts traded. However, the evolution of trading over time in each type of product can be tracked. (2) In the case of the Mini futures and options, the number of contracts traded is calculated by dividing by ten so as to standardise the individual size of the contract with those of the Ibex 35 Plus future (it is taken into account that the multiplier of the index used to calculate the nominal value of the contract is one euro in the first two cases and ten euros in the latter case).

### New developments in the financial derivatives segment

In the financial derivatives segment the main development was that as from the month of April it is possible to extend maturities of futures on dividends (shares and Ibex 35 Dividend Impact) to over five years (in principle up to seven years).

Also, the timetable of the market for trading in futures on the Ibex 35 and the MiniIbex 35 were extended in January; the market now opens at 8:00 am instead of the previous opening time of 9:00 am. In this way, futures trading on the main Spanish stock market index is now in line with futures trading at a European level, on the Eurostoxx 50. According to BME figures, in the first year of the extended timetable, futures contracts on the Ibex 35 and the MiniIbex 35 traded 1.23% and 5.7% of their daily volume, respectively, in the extra hour, with trading in those periods increasing whenever there were important economic or political events.

Other significant innovations included the approval at year-end of the modifications required to comply with the MiFID II Directive, which centred on the following aspects:

- **Trading systems.** In addition to the traditional electronic system in which there is also a mechanism for registering agreed transactions, a request for quote system (RFQ) was set up which enables members to request quotations for any volume, in any contract, from one or several members. Unlike the electronic system, in the RFQ system the requesting member is the only person who can see and execute the response orders.
- **Transparency regime.** The information to be disclosed and published was brought in line with the provisions of the MiFIR regulation and its implementing regulations, together with the waivers that MEFF requested pursuant to these regulations, and the deferrals agreed by the CNMV.
- **Algorithmic trading.** The necessary provisions to comply with the requirements of MiFID II, on the part of both the market and its members, were included in the market's internal rules. The most important of these provisions were those concerning the establishment of market-making agreements and volatility management mechanisms.
- **Management of commodity derivatives positions.** MEFF has developed mechanisms whereby it can receive from its members their positions in power segment contracts and has established management powers over such positions in the event that a member exceeds the limits established by the CNMV.

### 2.3.2 MEFF Power

The total volume recorded in this segment fell by 25.6% on 2016, with trading totalling 17.9 TWh of underlying power, compared with 24.1 TWh in the previous year. In cash terms, contracts totalled 854 million euros, compared with 1.02 billion in the previous year.

The number of operations traded fell to 1,985, compared with 2,592 in 2016. In a context of low trading volumes, the busiest period was the summer, recording a high in the month of June and a very significant decline in activity after September. This decline affected contracts of all lengths, with the exception of annual contracts, for which the year-on-year volume rose by 16.1% to 1,135 contracts (equivalent to 9.9 TWh). This accounted for 55.5% of the total volume traded during 2017, a much higher percentage than in 2016 (35%). In general, we can see that last year's drop in trading was more significant in shorter contracts, especially weekly and monthly contracts, with year-on-year drops in traded volume of 75.5% and 63.3%, respectively.

The open position at year-end 2017 totalled over 8 TWh (with closing prices valued at nearly 422 million euros), lower than the 9.1 TWh of the open position at the end of the previous year. 53% of the final position corresponded to quarterly contracts and another third (33.7% to be precise) to monthly contracts.

At year-end 2017, this market had a total of 198 participants, with a gain during the year of 38 entities, the result of 40 inclusions and 2 deletions.

### 2.3.3 Market members

At year-end 2017, MEFF Exchange had a total of 90 market members, 2 fewer than the previous year. Of these 90, 59 traded in the financial derivatives segment and 36 in the power segment. During the year, there were two inclusions of new members in the power derivatives segment and four deletions in the financial derivatives segment.

#### Number of members in MEFF Exchange

TABLE 2.3.3

Segment	Traders	Own account traders	Total entities	Change 2017
Financial derivatives	46	13	59	-4
Power	7	29	36	2
<b>Total entities<sup>1</sup></b>	<b>48</b>	<b>42</b>	<b>90</b>	<b>-2</b>
<b>Change 2017</b>	<b>-5</b>	<b>3</b>	<b>-2</b>	<b>-</b>

Source: MEFF Exchange and CNMV. (1) The total is lower than the sum of members in each segment due to there being entities participating in more than one segment.

### 2.3.4 Warrants and certificates

In 2017, both the number of warrants issued and their amount fell once again, as was also the case of their trading on the secondary market, with the result that the amount of premiums traded fell by 35.4% on 2016. Meanwhile, the primary certificates market once again recorded no activity (there have been no issues since 2010), while the amount of premiums traded on the secondary market fell by 9.6%.

#### Issues

5,730 warrants were issued in 2017, a 26.6% drop on the previous year and the lowest figure in the last 5 years. The number of issuers increased to six; the new issuer was an engineering company that issued warrants among its creditors as part of its restructuring process. The total amount of premiums was 2.43 billion euros, 9.5% less than in 2016, the majority being contracts whose underlying assets were shares or indices, although the latter's share of the total increased. In aggregate terms, the total amount of issues was the lowest in recent years, and this trend affected all underlying assets with the exception of indices, where the amount of premiums recovered by 25.1% on the previous year. Meanwhile, as mentioned previously, in 2017 no issue of certificates was registered with the CNMV.

## Warrant issues registered with the CNMV

TABLE 2.3.4

Thousand euros

	Number		Amount of premium				
	Issuers	Issues	Total	Shares	Indices <sup>1</sup>	Currencies	Commodities
2013	7	8,347	3,621,169	2,211,777	1,122,621	141,402	145,369
2014	6	8,574	3,644,239	1,770,915	1,697,295	99,964	76,065
2015	8	9,059	3,479,064	1,807,276	1,486,148	106,199	79,441
2016	5	7,809	2,688,574	1,438,206	1,153,143	57,305	39,920
2017	6	5,730	2,433,614	939,528	1,443,030	32,415	18,642

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

## Secondary market

The trading of warrants on the secondary market fell by 35.3% in the year, with the volume of premiums traded standing at 462.6 million euros, compared with 715.5 million registered in 2016. This reduction was mainly the result of the fall in traded premiums of both index warrants and stock warrants, which fell by 36.7% and 33.5%, respectively. Contracts with currencies and commodities as their underlying assets, which accounted for only 2% of total premium trading, also experienced drops in the amounts traded.

## Trading in warrants on the electronic market

TABLE 2.3.5

Premiums traded, in thousand euros

	No. of issues	Premiums traded, by type of underlying				Total
		Indices <sup>1</sup>	Shares	Currencies <sup>2</sup>	Commodities	
2013	7,299	255,411	465,674	15,415	16,213	752,713
2014	7,612	364,302	430,984	14,209	8,202	817,698
2015	7,530	691,995	370,256	20,004	13,604	1,095,859
2016	6,296	420,353	280,953	5,025	9,209	715,541
2017	5,082	266,016	186,717	2,018	7,837	462,588

Source: CNMV, (1) Includes baskets of securities and of indices, (2) Includes fixed-income warrants in the years in which these were traded.

Meanwhile, the amount of premiums traded in the certificates segment was once again very low due to the absence of new issues of this type of asset. Trading scarcely reached 0.4 million euros, corresponding to the only 2 issues active on the market, whose underlying assets are gold and oil (both were issued by the same bank in 2007 and 2010, respectively),

## Trading in certificates on the electronic market

TABLE 2.3.6

Securities markets  
and their agents  
Markets and issuers

Premiums traded, in thousand euros

	Premiums traded, by type of underlying					Total
	No. of issues <sup>1</sup>	Indices <sup>2</sup>	Shares	Currencies	Commodities	
2013	2	0.0	0.0	0.0	996.3	996.3
2014	2	0.0	0.0	0.0	1,682.5	1,682.5
2015	2	0.0	0.0	0.0	1,135.1	1,135.1
2016	2	0.0	0.0	0.0	400.5	400.5
2017	2	0.0	0.0	0.0	362.2	362.2

Source: CNMV. (1) The number of issues states the issues that recorded trading in each period. (2) Includes baskets of securities and of indices.

### 2.3.5 Atypical financial contracts

During the year, 15 issues of atypical financial contracts were registered with the CNMV. Atypical contracts means **contracts not traded on organised secondary markets**, whereby a credit institution receives money from its clients and undertakes to reimburse them according to how one or a number of securities perform in the market, with no commitment to repay the principal received in full. Reimbursement consists of either the delivery of certain listed securities, or the payment of a sum of money, or both. The amount involved was 1.96 billion euros, an amount over 3 times higher than that of the premiums of 4 issues made in 2016, their underlying assets being shares and indices.

## Issues of call and put options registered with the CNMV

TABLE 2.3.7

Thousand euros

	Number		Amount of premium				Exchange rates
	Issuers	Issues	Total	Shares	Indices <sup>1</sup>	Commodities	
2013	0	0	0	0	0	0	0
2014	0	0	0	0	0	0	0
2015	1	1	5,000	5,000	0	0	0
2016	1	4	650,000	650,000	0	0	0
2017	2	15	1,964,500	1,950,000	14,500	0	0

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

## 2.4 Clearing, settlement and registry

### 2.4.1 Iberclear

Since the completion of the reform process of the clearing, settlement and registry system for securities traded on the domestic market (hereinafter, the Reform) in September 2017, Iberclear (Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, or Securities Registry, Clearing and Settlement Management Company) has carried out these activities within a single securities settlement platform called ARCO. The Reform has been a key project for the

updating and standardisation of post-trading systems for the Spanish securities market. Its development was carried out in two phases:

- Phase I, which came into force in April 2016, implementing significant changes in the clearing, settlement and method of registration of equity trading.
- Phase II, in which fixed-income securities were incorporated into the ARCO settlement system (in which equity securities were already being settled). In turn, Iberclear connected to TARGET2-Securities (T2S), the new central platform for securities settlement in Europe.

Another important innovation in 2017 was Iberclear's designation as the settlement system for trading on the BME Fondos platform, which was set up as an additional segment of the Alternative Stock Market (MAB). However, at the time of writing this report, it had not yet entered into operation.

#### Integration of Iberclear in TARGET2-Securities

EXHIBIT 4

TARGET2-Securities (T2S) is the centralised Eurosystem platform for the central bank cash settlement of securities, which provides European central securities depositories (CSD) with an integrated and neutral settlement service with advanced functionalities. The CSD integrated settlement method uses T2S as a technical support for the provision of securities settlement services. In this respect, T2S harmonises settlement processes in Europe and aligns cross-border settlement with domestic settlement, giving a boost to the former while providing a less costly, more efficient and simpler way to manage trading. This contributes towards the unification of the securities markets and financial integration in Europe, and so represents a key step towards the achievement of a Single Capital Market.

T2S was launched in June 2015 and since then CSDs from all over Europe have been joining the platform with their respective securities markets. New members have been joining gradually over five migratory waves.

In the case of the Spanish market, Iberclear successfully completed migration to T2S in September 2017. For the migration to take place on the agreed date it was necessary to carry out a number of actions, the most important of which we list below:

- Approval in March 2013 by the CNMV Board of the master agreement signed between Iberclear and the Eurosystem, which regulates the rights and obligations of the two parties for the development, start-up and functioning of T2S.
- The implementation, in April 2016, of Phase I of the Reform, with important modifications to the trading of equity securities, such as the mandatory involvement of a central counterparty (CCP) for multilateral trades, the transition from the old registry references to a balance-based system, and the association of the irrevocability of trade orders with their case.

- The approval of Royal Decree-Law 9/2017, of 26 May, which transposes European Union directives on financial, trade and healthcare issues, and on the posting of workers, and which in its first article amends Law 41/1999 of 12 November, on securities payment and settlement systems, regarding the definition of the finality and irrevocability of trade orders. The amendment enables Iberclear to establish the different moments of finality in accordance with T2S's operating protocols.
- The approval of Royal Decree 827/2017, of 1 September 2017, amending Royal Decree 878/2015, of 2 October. This Royal Decree 827/2017 establishes the legal framework for the adaptation of post-trading activities for fixed-income securities, the flexibilisation of certain aspects of the settlement process, and the Spanish market's entry into T2S.
- The approval of the modification of Iberclear's internal regulation, required for entry into T2S, and the adaptation of relevant circulars.

After the successful migration of the CSDs to T2S, the platform is now fully operational. However, there are still some challenges left to overcome before all the benefits offered by T2S can be reaped, the most important of which is the need to increase the number of cross-border transactions.

At year-end 2017, Iberclear had 67 participating entities, 60 entities fewer than at the end of 2016 (see Table 2.4.1). This drop is related to the regulatory changes that allow entities to operate through individual accounts open in other entities, which have been used by: i) the central banks of other countries of the European Union, ii) many securities firms and iii) a significant number of public debt market-makers.

#### Iberclear members

TABLE 2.4.1

Members	2016 <sup>1</sup>	2017
SCL/ARCO	43	67
AIAF	80	n.a.
Public debt	115	n.a.
<b>Total Iberclear</b>	<b>127</b>	<b>67</b>

Source: Iberclear. (1) The total is lower than the sum of the number of entities participating in the settlement of the various markets due to the fact that many entities provide services in more than one market.

#### 2.4.1.1 Iberclear CADE

##### Registration of issues

Debt issues registered in Iberclear at year-end totalled 2,726, worth a total nominal amount of 1.5 trillion euros (see Table 2.4.2). Of this figure, 83% were admitted to trading on the AIAF market and the remainder on the public debt book-entry market. 65% of the nominal amount corresponded to public debt issues while the remaining 35% was corporate debt. Taking into consideration the two markets, the number of issues fell by 8%, although the nominal amount issued grew by 2.6% on the previous year.

The number of issues admitted to trading on the AIAF market dropped by 12% over 2016, which in nominal amount terms represented a 3% drop. On the public debt book-entry market, the number of issues rose by 19% compared to 2016, with an increase in the nominal amount issued of 6%.

### Iberclear CADE. Registry

TABLE 2.4.2

Million euros

Securities registered	Sovereign debt		Corporate debt		Total		% change
	2016	2017	2016	2017	2016	2017	
Number of issues	397	472	2,567	2,254	2,964	2,726	-8.03
Nominal amount	933,007	989,698	547,945	530,290	1,480,952	1,519,988	2.64

Source: Iberclear.

### Settlement activity

Up until 15 September 2017, the date on which CADE migrated to ARCO, 188,541 trades on the AIAF market had been settled (see Tables 2.4.3 and 2.4.4), a 4% drop in the monthly average compared with 2016. This drop was due to the lower number of repos and sell-buybacks/buy-sellbacks (an average of 62%) and outright trades (13%), which were not offset by the 232% increase in transfers for collateral. In nominal volume terms, the average monthly decline was 87%.

In the public debt market, we also saw a generalised drop in average monthly activity, in terms of both the number of trades (9%) and amount settled (15%). In this market, there was a significant drop in repos and sell-buybacks/buy-sellbacks, both in terms of number of trades (18%) and amount settled (27%).

Taking both markets as a whole (corporate debt and public debt), the total number of settled trades fell by a monthly average of 9% while the settled amount fell by 25%.

### Iberclear CADE. Number of settled trades

TABLE 2.4.3

Type of transaction	Debt <sup>1</sup>		
	Sovereign	Corporate	Total
Outright trades	437,584	89,340	526,924
Repos and sell-buybacks/buy-sellbacks	510,201	1,802	512,003
Outright transfers (between accounts of the same owner)	386,416	68,791	455,207
Temporary transfers (between accounts of the same owner)	9,254	17	9,271
Transfers of held-to-maturity securities	420,320	26,415	446,735
Transfers for collateral (to a different owner)	1,141	2,176	3,317
<b>Total</b>	<b>1,764,916</b>	<b>188,541</b>	<b>1,953,457</b>

Source: Iberclear. (1) Figures from 02/01/17 to 15/09/17.

**Iberclear CADE. Amount of settled trades<sup>1</sup>**

TABLE 2.4.4

Securities markets  
and their agents  
Markets and issuers

Million euros

Type of transaction	Debt <sup>2</sup>		Total
	Sovereign	Corporate	
Outright trades	4,915,570	94,725	5,010,295
Repos and sell-buybacks/buy-sellbacks	5,216,876	23,428	5,240,304
Outright transfers (between accounts of the same owner)	5,237,543	271,054	5,508,597
Temporary transfers (between accounts of the same owner)	328,558	342	328,899
Transfers of held-to-maturity securities	6,738,893	146,460	6,885,353
Transfers for collateral (to a different owner)	58,708	33,709	92,417
<b>Total</b>	<b>22,496,148</b>	<b>569,717</b>	<b>23,065,865</b>

Source: Iberclear. (1) Effective amount, in the case of outright trades, repos and sell-buybacks/buy-sellbacks; nominal amount for transfers to different accounts of the same owner and to different owners. (2) Figures from 02/01/17 to 15/09/17.

**2.4.1.2 Iberclear ARCO****Registration of equity issues**

At year-end, 6,429 issues of equity securities had been registered on the ARCO platform, for an amount of 146.71 billion euros. Compared with the previous year, this represents a drop in both the number of issues registered and their amount, as can be seen in Table 2.4.5. This decline is mainly concentrated in warrants (-35%) and SICAVs (-9%).

**Iberclear ARCO. Registry**

TABLE 2.4.5

Million euros

Registered securities	Stock market and MTS		
	2016	2017	% change
Number of issues	8,051	6,429	-20.1
Nominal amount	159,214	146,705	-7.9

Source: Iberclear. (1) Nominal amount for stock market, MAB and warrants in cash.

Settlement figures are not comparable with those of 2016, neither in terms of equity, due to the implementation in April 2016 of Phase I of the Reform, nor fixed income, due to the implementation in September 2017 of Phase II. Consequently neither of the two years contains comparable information in this respect.

However, with regard to equity trades from CCPs, in monthly average terms for the period April 2016-December 2017, activity shrank both in number of settled trades and in their volume, in line with the market's lower level of activity. With regard to bilateral trading, there was a slight increase in the number of trades and also in the amount.

## Iberclear ARCO. Settled trades

TABLE 2.4.6

Million euros

	2016 (RV - Phase I)		2017 (RV)		2017 (RF - Phase II)	
	Trades	Amount	Trades	Amount	Trades	Amount
Trades from CCPs	1,611,505	407,149	2,289,039	690,397	78,490	2,092,330
Buy-ins and settlement in cash	531	6	104	2	0	0
Bilateral and platform trades	3,284,109	619,282	5,278,452	1,214,028	405,136	2,683,895
<b>TOTAL</b>	<b>4,895,614</b>	<b>1,026,431</b>	<b>7,567,491</b>	<b>1,904,425</b>	<b>483,626</b>	<b>4,776,225</b>
Failed trades	438,523	139,319	745,317	239,366	26,725	439,482

Source: CNMV.

Failed fixed-income trades represented 9% of total trades, while failed equity trades accounted for 12%. With regard to the efficiency of fixed-income trading, it is important to note that, with the migration to T2S, the management tools for failed trades that Iberclear used to employ have been eliminated, and therefore these figures are not comparable with the figures prior to migration. Neither is the efficiency of equity trading comparable, because in 2017 failed trades from CCPs and bilateral trading were included in the figures.

With regard to problem solving, there was a significant drop in the number of trades and in their cash amounts. In the equity segment, there were 9 buy-ins, for a cash amount of 1 million euros, and 95 trades settled in cash, in an amount of 1 million euros. In the fixed-income segment there were no buy-ins.

### 2.4.2 BME Clearing

BME Clearing is the central counterparty (CCP) authorised to provide clearing services in Spain in accordance with Regulation (EU) 648/2012, of the European Parliament and of the Council, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories (EMIR).

Table 2.4.7 shows the distribution of active members in BME Clearing, differentiated by segment and by type of member. Over the course of 2017, 8 new entities registered while 9 deregistered, leaving the number of BME Clearing members at 134 at year-end.

The main new developments in each segment refer to the extension of clearing activities to gas contracts with settlement by physical delivery (in the power segment) and to the adaptations required to join the T2S platform (which affect the equity and repo segments). It should also be noted that, since November 2017, it has been necessary for all accounts in the name of legal persons to be identified by their LEI code (see exhibit regarding this code in Chapter 5).

## Number of members in BME Clearing by segment

TABLE 2.4.7

Segment	Clearing			Non-clearing			Total entities	Diff. 2016
	General	Individual	Special indiv.	Non-clearing	Ordinary	Proprietary		
BME Clearing Financial Derivatives	7	29	–	10	–	12	58	-6
BME Clearing Energy	5	1	–	–	–	30	36	2
BME Clearing Repo	–	28	–	–	–	–	28	0
BME Clearing Swap	–	8	–	–	–	–	8	-1
BME Clearing Equity	9	19	7	–	19	–	54	0
<b>Total entities (*)</b>	<b>17</b>	<b>54</b>	<b>7</b>	<b>10</b>	<b>19</b>	<b>42</b>	<b>134</b>	<b>-1</b>
Change 2016	0	-1	0	-5	2	2	-1	–

Source: BME Clearing and CNMV. (\*) The “total entities” row does not correspond to the sum by segments as one entity may participate in several segments.

### 2.4.2.1 BME Clearing Derivatives

Transactions in financial derivatives traded on MEFF are cleared in this segment. In the course of 2017, 8 entities deregistered and 2 registered, leaving the number of members at 58 at year-end 6 fewer than in 2016).

### 2.4.2.2 BME Clearing Energy

The main new development in this segment in 2017 was the authorisation for clearing activities to be extended to gas contracts, which BME Clearing will start to clear in 2018. Unlike those cleared up until now, these contracts are characterised by physical settlement (by delivery of the gas) rather than being traded on MEFF.

BME Clearing is going to accept spot contracts, futures contracts, loan contracts, and deposit contracts on natural gas and liquefied natural gas. In the case of futures contracts, delivery periods may be as follows: weekly, monthly, quarterly, seasonally or annually. The CCP will allow the registration of contracts exchanged on any trading platforms with which the CCP has reached an agreement, and of any trades which members agree to bilaterally.

As already mentioned, natural gas contracts are settled by means of the physical delivery of the underlying in exchange for the corresponding monetary amount. Delivery is made through notifications of gas transfers and acquisitions to the Technical System Operator (TSO) on the one hand, and on the other, through the payment of the amount resulting from multiplying the quantity of product supplied by the fixed price at maturity plus any corresponding taxes and fees. In accordance with the rules of the sector, compliance with obligations is deemed to have occurred when the TSO confirms receipt of the notification telematically or, in the absence of any express confirmation, 30 minutes after notification.

Over the course of 2017, 2 entities in this BME Clearing segment deregistered and 4 registered, leaving the total number of members at 36 (2 more than in 2016).

### 2.4.2.3 BME Equity

This segment began operating on 27 April 2016, the starting date of the new clearing, settlement and registry system, which made it obligatory for trading on shares and subscription rights carried out through multilateral segments of official secondary markets to be cleared through a CCP. As mentioned earlier, the Spanish market joined the T2S settlement platform in September 2017, which has required a number of changes to the rules and procedures of CCPs.

In the equity segment the main changes refer, on the one hand, to the adaptation of timetables, due to the fact that the predominant daytime settlement model in T2S is in real time, compared with the cycles system that existed prior to migration and, on the other hand, to the disappearance of the Loan of Last Resort (Spanish acronym: PUI) as the primary mechanism for managing failed trades (as a result, the structure of penalties for failed trades has also been modified).

In order to facilitate settlement in real time, the regulation now includes the possibility of using the cash deposited as guarantee for actions other than the management of non-compliances, and using securities provided by transfer of ownership, in respect of which auto-collateralisation operations would be carried out.

With regard to the activity in this segment, while the absolute figures are not comparable with those of 2016, if we look at the monthly averages we see a slight drop in the number of cleared trades and an increase in cash.

At year-end 2017, this segment had 54 clearing members, unchanged from 2016, although 2 members deregistered and another 2 registered (see Table 2.4.7).

### 2.4.2.4 BME Clearing Repo

BME Clearing Repo is the segment for clearing transactions with repurchase agreement (repos on public debt). In this segment, the main change occurring in 2017 was the adaptation of the model to bring it in line with the other CCP segments, in which there is prior netting and settlement instructions are generated for the net amount (up until now each of the original trades was settled separately).

The registered nominal amount in this segment, which fully corresponded to bilateral trades, totalled 295 billion euros, a fall of 19% on 2016 (see Table 2.4.8). A total of 4,915 trades were registered, a fall of 7.7% on the previous year. This continues the downward trend that started in 2012 when levels were at their highest.

The average nominal amount per trade stood at around 54 million euros, a fall on the 70 million euros recorded in 2016, while the average risk registered stood at 10.12 billion euros, 38% down on 2016 (16.4 billion euros).

The number of members of this segment remained at 28, unchanged from 2016.

## Activity in BME Clearing Repo

TABLE 2.4.8

Nominal volume in million euros

	2016	2017
Nominal volume	366,837	295,256
Number of transactions	5,325	4,915

Source: CNMV and BME Clearing.

### 2.4.2.5 BME Clearing Swap

BME Clearing began clearing interest-rate OTC derivative contracts on 30 November 2015, when the characteristics of contracts admitted to registration were defined. In 2017, BME Clearing introduced a number of changes regarding eligibility terms and criteria:

- Referencing of certain criteria (for example: residual life of the swap) to the clearing house registration date instead of the trade date or value date.
- Redefinition of additional payments which, by being linked to the clearing house registration date, enables already settled trades to be admitted.
- More decimal places in the floating rate spread are permitted, to bring these figures in line with interest rate figures.
- Redefinition of the interpolation method used between indices for stub periods, extending the method to cover the eight official rates of the ECB for the three types of stubs.
- Redefinition of the payment frequencies for overnight indexed swaps (OIS), making them coincide in the two legs of the swap.
- Extension of the day count conventions in the fixed leg of OIS, in order to bring them in line with other swaps.

In 2017, a total of 47 trades were registered for a nominal amount of over 2.2 billion euros (in 2016, there were 105 trades for a volume in excess of 4.7 billion euros).

At year-end 2017, this segment had eight clearing members (one member deregistered in the course of the year), all individual clearers.

### 2.4.3 European initiatives in changes to registry, counterparty, clearing, and settlement services

In 2017, progress continued to be made on the various initiatives set in motion in recent years in the area of post-trading in Europe. The main objective of these initiatives is to strengthen the basic market infrastructures, such as central securities depositories and central counterparties.

### **Progress in the implementation of Regulation (EU) 909/2014 on improving securities settlement in the European Union and on central securities depositories (CSDR)**

Together with T2S, the main post-trading regulations, including the Central Securities Depositories Regulation (CSDR), provide a key basis for a single capital market. The aim of this Level 1 Regulation is to establish standardised requirements for the settlement of financial instruments throughout the European Union and to harmonise the organisation and conduct of European CSDs.

As a development of the CSDR, on 10 March 2017 the delegated regulations and Level 2 implementing regulations were published in the *Official Journal of the European Union*. These include specifications and criteria related to: i) the calculation of penalties for settlement failures and to determine the substantial importance of a CSD in other Member States; ii) the prudential, authorisation, supervisory and operational requirements applicable to CSDs; and iii) the information that settlement internalisers must send to their competent authorities. In this respect, it is important to note that Level 2 regulations relating to settlement internalisers will not come into force until March 2019.

With regard to Level 3 measures, in order to help achieve the aim of ensuring supervisory convergence and a standardised implementation of the CSDR and of associated Level 2 measures, in 2017 ESMA published a series of guidelines, recommendations, opinions, and Q&As. Among the most important guidelines were those concerning the rules and procedures to be applied in the event of participant default and those referring to a CSD's access to the reporting of transactions by CCPs and trading centres. Both sets of guidelines were published on 8 June 2017 on ESMA's website, and the CNMV conveyed its intention to comply with them.

ESMA also published guidelines concerning the process for calculating the indicators used to determine the most important currencies in which trades are settled, guidelines referring to the process for calculating the indicators used to determine the substantial importance of a CSD of a host Member State, and guidelines on the cooperation between authorities pursuant to Articles 17 and 23 of the CSDR.

Lastly, in application of the provisions of Article 17 of the CSDR, since June 2017 Iberclear's authorisation process of as a CSD has been taking place under the terms of that regulation.

### **Progress in the implementation of Regulation (EU) 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR)**

In 2017, four years after the approval of EMIR, the European Commission published two legislative proposals for modifying the regulation with a view to simplifying the system and reducing the financial costs of some types of counterparties.

The main changes proposed aim to:

- Facilitate access to CCPs, so that more entities are able to meet the obligations of centralised clearing, and to review some technical aspects of the regulation, such as the calculation of clearing thresholds, the exemptions of pension plans, and the retroactive application of some requirements.

- Make some adjustments to the requirements governing the use of risk mitigation techniques for OTC contracts which are not cleared centrally, such as including an authorisation procedure when an entity wishes to calculate guarantees in OTC products in accordance with an internal model.
- Simplify compliance with non-financial entities' obligation to report to trade repositories.
- Increase the transparency of central counterparties.

Meanwhile, the various obligations of the EMIR Regulation also continued to be implemented in 2017. In this respect, there has been progress on all fronts. Among the most significant aspects are:

- The entry into force of the obligations concerning the exchanging of guarantees set out in Delegated Regulation (EU) 2016/2251, whereby entities must exchange variation margins and initial margins with their counterparties. The implementation follows a phased schedule which started on 4 February 2017 and will end on 1 September 2019, depending on the volumes of OTC derivatives traded by the entity and its counterparties.
- The approval of Delegated Regulation (EU) 2017/2155, amending Delegated Regulation (EU) 149/2013 with regard to regulatory technical standards on indirect clearing arrangements. This regulation introduces new rules and specifications regarding types of account, procedures and requirements for indirect clearing arrangements, with a view to facilitating the increase in the number of users with access to CCPs and making it consistent with the MIFIR implementing regulation.
- 1 November saw the entry into force of the obligations arising from Delegated Regulation (EU) 2017/104 and of Implementing Regulation (EU) 2017/105, introducing changes to the format and the frequency of trade notifications to trade repositories. These changes have mainly resulted in the incorporation of a number of elements to the information in the notification and the simplification of some of the previously existing fields.



## 3 Financial institutions and investment services

### 3.1 Collective investment

Financial investment funds recorded growth in assets under management for the fifth consecutive year in 2017 as a result of the new funds from subscriptions of new units and, to a lesser extent, as a result of the positive yields of portfolios in overall terms. This growth in assets managed, following the rise in the relative weighting of more conservative categories in 2016, was led by higher risk fund categories, such as equity funds, global funds and, to a lesser extent, mixed equity funds. One of the possible causes of this change was the positive performance of equity markets worldwide in the context of very low interest rates.

In contrast, there was a significant reduction in the number of open-ended investment companies (SICAVs), a process that had already begun in 2016, although at a slower pace. Most of the SICAVs that were de-registered were converted into other collective investment vehicles.

The year was also positive for foreign collective investment schemes marketed in Spain, which increased their market share, thus continuing the expansion recorded over recent years.

#### 3.1.1 Mutual funds

The assets managed by Spanish mutual funds followed an upward path over 2017 to stand at 265.2 billion euros at the end of the year, 11.5% up on 2016. Even taking into account the significant growth, it is worth noting that this type of investment is still relatively insignificant in Spain if compared with Europe as a whole (15.6 trillion euros) and, in particular, with some other comparable countries.

The upward trend of recent years continued in 2017 with cumulative growth since 2012 of 114%. The increase is essentially supported by the subscription of units, which, in net terms, amounted to 21.33 billion euros, 54.3% up on the amount recorded in the previous year. To a lesser extent, the net yield of the portfolio, which was higher than in 2016 (6.02 billion euros compared with 1.9 billion euros in 2016) also contributed to growth.

As shown in Statistical Annex II.1, the categories that recorded the largest increase in assets were, in order, global funds (14.6 billion euros more than in 2016, growth of 69.8%), international equity funds (6.39 billion euros, up 36.1%) and mixed equity funds (6.08 billion euros, up 37.3%). In every case, most of the increase came from subscriptions by investors, although in the case of international equity funds, the increase in the value of the portfolio was also important as it accounted for 30% of the rise. Absolute return funds reported an increase in assets under management

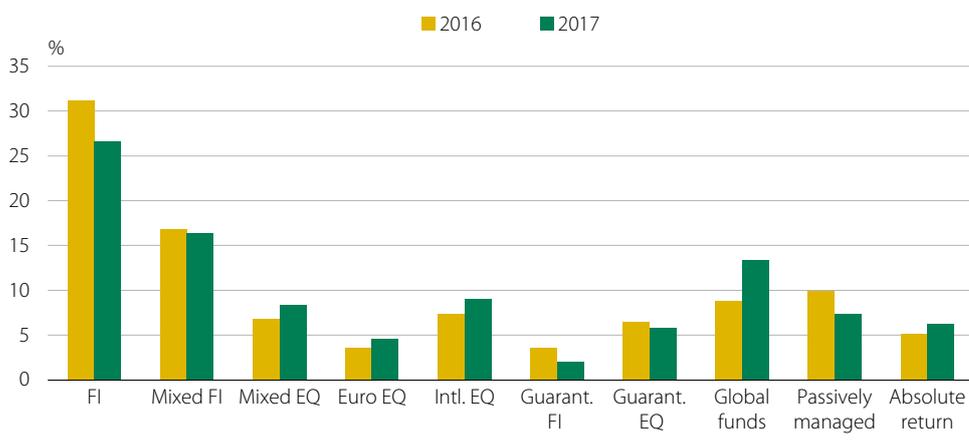
of 4.49 billion euros (36.8% up on 2016), while euro equity and mixed equity funds recorded increases of 3.54 billion euros and 3.34 billion euros, respectively. It should be noted that these last two categories suffered net redemptions in 2016, which were particularly high in the case of mixed fixed-income funds.

The two largest contractions in assets under management were recorded in passively-managed funds and in fixed-income funds, with falls of 4.12 billion euros (down 17.5% on the previous year) and 3.66 billion euros (down 4.9%), respectively. Over 2016, these had been two of the categories recording the largest growth in assets under management. Guaranteed fixed-income funds shrank by 3.22 billion euros, thus continuing with the downward trend of recent years (their assets under management have contracted by 85% since 2013). In contrast, assets managed by guaranteed equity funds remained practically unchanged, following a year in which they had increased partly due to the fact that they play a significant role in the marketing strategies of investment products aimed at the retail customers of financial institutions.

The changes in assets under management recorded over the year in the different fund categories led to a decrease in the joint relative weighting of more conservative formulas (fixed-income funds and guaranteed fixed-income and equity funds) in the total assets managed by mutual funds, which rose from 41.4% in 2016 to 34.5% in 2017. Thus, following a year in which unit-holders appeared to invest once again in relatively low risk funds, the trend that began in 2013 seems to have resumed, with an increase in the joint share of higher risk categories, which results from investors seeking out higher returns. Therefore, between 2013 and 2015, the funds that most benefited from this trend were mixed fixed-income funds, equity funds and passively-managed funds, while in 2017, the gains were recorded by equity funds and global funds (see Figure 3.1.1).

Mutual fund asset breakdown

FIGURE 3.1.1



Source: CNMV.

The aggregate yield of mutual funds at year-end 2017 stood at 2.4%, a significant increase on the previous year, which closed with an aggregate yield of 0.98%. Most categories recorded their best performance in the first quarter of the year, particularly categories with equity in their portfolios, thanks to the increase in both domestic and international share prices over the quarter. The funds with the highest yields in 2017 were euro equity funds, with a yield of 11.16% and international equity funds, with 8.75%, percentages which were both higher than those recorded in 2016 (2.61% and 4.15%, respectively). Only fixed-income funds ended the year with a negative yield, in this case of -0.13% (see Annex II.4 for further details).

## Mutual fund asset breakdown<sup>1</sup>

TABLE 3.1.1

Securities markets  
and their agents  
Financial institutions  
and investment services

Million euros

	2016	%	2017	%	% change 17/16
<b>Assets</b>	<b>237,862</b>	<b>100.0</b>	<b>265,195</b>	<b>100.0</b>	<b>11.5</b>
<b>Financial investment portfolio</b>	<b>219,141</b>	<b>92.1</b>	<b>244,598</b>	<b>92.2</b>	<b>11.6</b>
Spanish securities	95,799	40.3	83,032	31.3	-13.3
Debt securities	63,471	26.7	55,389	20.9	-12.7
Shares and equity instruments	8,530	3.6	10,912	4.1	27.9
Collective investment schemes	6,250	2.6	7,626	2.9	22.0
Deposits in credit institutions	17,134	7.2	8,657	3.3	-49.5
Derivatives	405.7	0.2	441.4	0.2	8.8
Other	8.5	0.0	6.8	0.0	-20.0
Foreign securities	123,336	51.9	161,557	60.9	31.0
Debt securities	56,308	23.7	67,794	25.6	20.4
Shares and equity instruments	20,035	8.4	27,082	10.2	35.2
Collective investment schemes	46,435	19.5	66,100	24.9	42.4
Deposits in credit institutions	81.2	0.0	74.7	0.0	-8.0
Derivatives	474.3	0.2	504.7	0.2	6.4
Other	2.3	0.0	1.4	0.0	-39.1
Doubtful, delinquent or in litigation investments	6.1	0.0	9.3	0.0	52.5
<b>Cash</b>	<b>18,393</b>	<b>7.7</b>	<b>19,988</b>	<b>7.5</b>	<b>8.7</b>
<b>Net balance (debtors/creditors)</b>	<b>328.5</b>	<b>0.1</b>	<b>608.0</b>	<b>0.2</b>	<b>85.1</b>

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

As has been the case since 2013, the breakdown of the aggregate assets of mutual funds changed in 2017 in favour of foreign securities, whose proportion of total assets stood at 60.9% at year-end 2016, 9 percentage points more than in 2016 and 11 points up on 2015. The size of the domestic portfolio fell in both absolute and relative terms to 83 billion euros, 31.3% of the total.

Within the foreign portfolio, the most significant increase took place in investment in other collective investment schemes, which grew from 46.44 billion euros to 66 billion euros, followed by investment in debt securities, which rose by almost 1.5 billion euros to 67.79 billion euros. Both categories had already recorded significant increases in the previous year.

As in 2016, the largest fall within the domestic portfolio was recorded in deposits in credit institutions, which shrank by almost half to 8.66 billion euros. The investment in national debt securities also contracted, falling to 55.39 billion euros, 12.7% less than in 2016, when it recorded growth of 8.6%.

Although at a slower pace than in previous years, management companies continued the process of streamlining the supply of funds, which between 2012 and 2016 led to the number of funds dropping by over 450. At year-end 2017, there was a total of 1,676 mutual funds, following 123 new registrations and 195 de-registrations over the year (see Table 3.1.2). A total of 188 funds were de-registered after being taken over by other mutual funds. This reduction in the number of vehicles,

together with the increase in assets managed by the funds, led to an increase in the average assets per fund in the year, which rose from 136.1 million euros in 2016 to 158.2 million euros in 2017.

### Registrations and de-registrations in 2017

TABLE 3.1.2

Type of firm	Firms registered at 31/12/2016	New registrations	Separations	Firms registered at 31/12/2017
<b>Total financial CIS</b>	<b>5,035</b>	<b>134</b>	<b>605</b>	<b>4,564</b>
Mutual funds	1,748	123	195	1,676
Investment companies	3,239	3	409	2,833
Funds of hedge funds	7	2	1	8
Hedge funds	41	6	0	47
<b>Total real estate CIS</b>	<b>9</b>	<b>1</b>	<b>3</b>	<b>7</b>
Real estate mutual funds	3	0	0	3
Real estate investment companies	6	1	3	4
<b>Total foreign UCITS marketed in Spain</b>	<b>941</b>	<b>134</b>	<b>62</b>	<b>1,013</b>
Foreign funds	441	60	46	455
Foreign companies	500	74	16	558
<b>CIS management companies</b>	<b>101</b>	<b>9</b>	<b>1</b>	<b>109</b>
<b>Depositories</b>	<b>56</b>	<b>0</b>	<b>2</b>	<b>54</b>

Source: CNMV.

In line with the growth in assets under management, the number of unit-holders rose by 24.6 % to over 10.2 million (see Annex II.1). International equity funds recorded the highest growth, with 693,080 more unit-holders, followed by global funds and euro equity funds, with increases of 428,215 and 315,231, respectively. The percentage of unit-holders in mutual funds who were natural persons stood at 98% and they accounted for 82.4% of total assets. Both percentages were very similar to those recorded in 2016.

### 3.1.2 Open-ended investment companies (SICAVs)

The fall in the number of SICAVs registered with the CNMV in 2017 was much sharper than that recorded in the previous year. The number of SICAVs fell to 2,833 at the end of 2017 following 409 de-registrations and 3 new registrations. This decrease was also reflected in the number of shareholders, which fell by 7.6% to 421,273. Almost all SICAVs, over 99% of the total, were listed on the Alternative Stock Market.

Mainly as a result of the high number of de-registrations referred to above, the assets managed by SICAVs fell by 2.1% to 31.42 billion euros. Average assets per SICAV rose from 9.9 million euros at the end of 2016 to 11.1 million euros in 2017, while the average assets per shareholder rose from 70,364 to 74,595 euros.

As with mutual funds, there was a displacement of SICAV investments in favour of the foreign portfolio, whose relative weighting in total assets stood at 71.8% at the end of the year compared with 63.6% in 2016, a year in which it had already

contracted by 4 percentage points. This displacement took place in practically every category, particularly in the investment in other CIS, which recorded an increase of around 1.5 billion euros, placing their relative weighting in the total assets of SICAVs at 35.5% (30.1 in 2016 and 27.1% in 2015).

Securities markets  
and their agents  
Financial institutions  
and investment services

The domestic portfolio, in contrast, shrank by 19.2% to 6.23 billion euros, and its relative importance in total assets fell from 24% to 19.8%. The reduction was mainly the result of divestments in national debt instruments, as was the case in the two previous years. The value of these assets in the portfolio at year-end stood at 1.65 billion euros, 30.9% down on 2016. Unlike the case of mutual funds, the cash balance fell significantly on the previous year and accounted for 7.7% of total assets.

### Breakdown of investment company assets

TABLE 3.1.3

Million euros

	2016	%	2017	%	% change 17/16
<b>Assets</b>	<b>32,092</b>	<b>100.0</b>	<b>31,425</b>	<b>100.0</b>	<b>-2.1</b>
<b>Financial investment portfolio</b>	<b>28,128</b>	<b>87.6</b>	<b>28,805</b>	<b>91.7</b>	<b>2.4</b>
Spanish securities	7,707	24.0	6,229	19.8	-19.2
Debt securities	2,395	7.5	1,654	5.3	-30.9
Shares and equity instruments	2,872	8.9	2,675	8.5	-6.9
Collective investment schemes	1,485	4.6	1,626	5.2	9.5
Deposits in credit institutions	925	2.9	236	0.8	-74.5
Derivatives	-5.2	0.0	-0.6	0.0	-88.5
Other	34.4	0.1	39.7	0.1	15.4
Foreign securities	20,413	63.6	22,566	71.8	10.5
Debt securities	4,263	13.3	4,397	14.0	3.1
Shares and equity instruments	6,466	20.1	6,988	22.2	8.1
Collective investment schemes	9,653	30.1	11,154	35.5	15.5
Deposits in credit institutions	6.7	0.0	0.0	0.0	-100.0
Derivatives	15.7	0.0	19.3	0.1	22.9
Other	8.4	0.0	8.9	0.0	6.0
Doubtful, delinquent or in litigation investments	7.9	0.0	9.3	0.0	17.7
<b>Intangible assets</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>
<b>Property, plant and equipment</b>	<b>0.1</b>	<b>0.0</b>	<b>0.6</b>	<b>0.0</b>	<b>500.0</b>
<b>Cash</b>	<b>3,791.7</b>	<b>11.8</b>	<b>2,421.7</b>	<b>7.7</b>	<b>-36.1</b>
<b>Net balance (debtors/creditors)</b>	<b>172.2</b>	<b>0.5</b>	<b>197.5</b>	<b>0.6</b>	<b>14.7</b>
<i>Pro-memoria: no. of shareholders</i>	<b>456,080</b>	<b>-</b>	<b>421,273</b>	<b>-</b>	<b>-7.6</b>

Source: CNMV.

### 3.1.3 Hedge funds

Hedge funds continue to have a very low share of collective investment in Spain as they account for less than 1% of total assets. This collective investment segment is made up of two types of vehicle: those that invest directly in assets (hedge funds) and those that invest through other hedge funds (funds of hedge funds). In both cases, the vehicle may be set up as a fund or a company.

In any event, their aggregate assets increased significantly in 2017, specifically by 26.8%, and closed the year at 2.77 billion euros. The rise was recorded both in funds of hedge funds, which grew by 59.6% to 468.7 million euros,<sup>1</sup> and in hedge funds, which grew by 21.7% to 2.3 billion euros.

At the end of the year, hedge funds accounted for 73.1% of the segment's total (76.7% in 2016). Funds of hedge funds continue to be relatively less important, although their proportion of the total rose significantly from 1% in 2016 to 7.5% in 2017. Companies operating in both sectors accounted for the remaining 19.3%.

The performance of the portfolio was uneven between the different categories: while hedge funds recorded a return on their portfolio of 7.19% to November, funds of hedge funds recorded a negative return (-1.66%). As with mutual funds, the highest returns were obtained in the first quarter of the year.

The total number of unit-holders and shareholders in the segment rose significantly to 7,250, 74% up on the previous year. This growth was recorded in every category, but it was particularly significant in the case of funds of hedge funds, in which the number of unit-holders rose from 1,022 in December 2016 to 3,491 at the end of last year.<sup>2</sup>

The total number of these vehicles registered with the CNMV at year-end 2017 amounted to 55, 7 more than at the end of 2016. As shown in Table 3.1.2, the number of hedge funds rose from 41 to 47, following 6 new registrations, while the number of funds of hedge funds rose from 7 to 8 (2 registrations and 1 de-registration). It should be pointed out that the number of funds of hedge funds had been falling continuously since the start of the financial crisis, when they totalled 41.

#### 3.1.4 Real estate CIS

Since the height of the financial crisis – before which they managed over 9.5 billion euros (in mid-2007) – real estate collective investment schemes have suffered a continuous and uninterrupted fall in the number of schemes, the number of unit-holders and the assets managed to such an extent that they may now be considered an insignificant sub-sector within the collective investment sector.

In 2017, following two years with no changes in registered real estate CIS, there were three de-registrations and one new registration, and hence these totalled seven entities at year-end: three real estate funds and four real estate companies.

The assets managed by real estate CIS fell by 2.7% in 2017 to 360 million euros. The cause of this fall was the negative return on the asset portfolio, as has been the case, although now at a lower rate, since the middle years of the crisis, as it stood at 2.6% (having reached -11.3% in 2013). The number of unit-holders shrank dramatically, falling by 72% to 1,097. This fall was the result of the buyback of units by the group parent of one fund from unit-holders that wished to sell.

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1 The significant growth in assets of funds of hedge funds was essentially the result of two funds which registered in 2017 whose volume of assets is high compared with the previously existing vehicles.

2 As was the case with the growth in assets under management, the increase in unit-holders was due to the two new funds that registered in 2017.

The assets managed by real estate companies fell by 10.7% as a result of the de-registrations occurring over the year. For the same reason, the number of shareholders fell to less than half, dropping from 674 to 327.

### **An analysis of redemptions in the Spanish fund industry in periods of stress**

EXHIBIT 5

The mutual fund industry has taken on greater importance in terms of financial stability over recent years as a result of several factors. Firstly, the amount of assets managed by mutual funds has grown significantly worldwide. In Europe, the closest reference market, assets managed by the sector stood at 15.6 trillion euros at the end of 2017.<sup>1</sup> Secondly, the environment of low interest rates has driven some managers to seek out higher returns by acquiring fixed-income assets with lower liquidity, longer duration and higher credit risk.

Consequently, the mutual fund industry has been the focus of particular interest from securities market regulators worldwide. At the start of 2017, the Financial Stability Board (FSB) published a set of recommendations to address structural vulnerabilities from asset management activities,<sup>2</sup> while in the middle of the same year, IOSCO released another set of recommendations focused on improving liquidity risk management.<sup>3</sup>

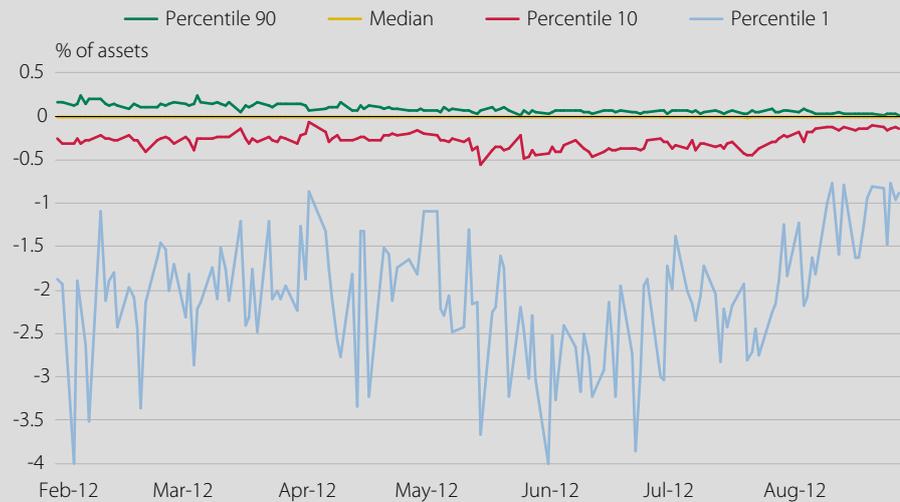
For its part, the CNMV is conducting a study to determine how the fund industry might be a factor in increased systemic risk at times of financial stress and what tools might be appropriate for mitigating a negative impact in terms of financial stability.

The study contains two parts: an initial analysis, which is currently in progress and which identifies the characteristics of the funds that are most likely to suffer redemptions in periods of stress and, subsequently, the preparation of a conceptual framework that will quantify the risks to financial stability that might be generated by the mutual fund industry.

The initial analysis studies the variables that explain the net daily subscriptions of Spanish mutual funds between February and August 2012, a period of time that corresponds with an episode of heightened uncertainty relating to the Spanish banking sector which falls within the context of the European sovereign debt crisis (see Figure E5.1). In order to address the heterogeneity between the different types of funds, subgroups have been created according to: i) the assets in which the fund invests (fixed income or equity);<sup>4</sup> ii) the type of unit-holder that predominates in the fund (wholesale or retail);<sup>5</sup> and iii) the group to which the fund manager belongs (bank or independent).

Net daily subscriptions by percentile

FIGURE E5.1

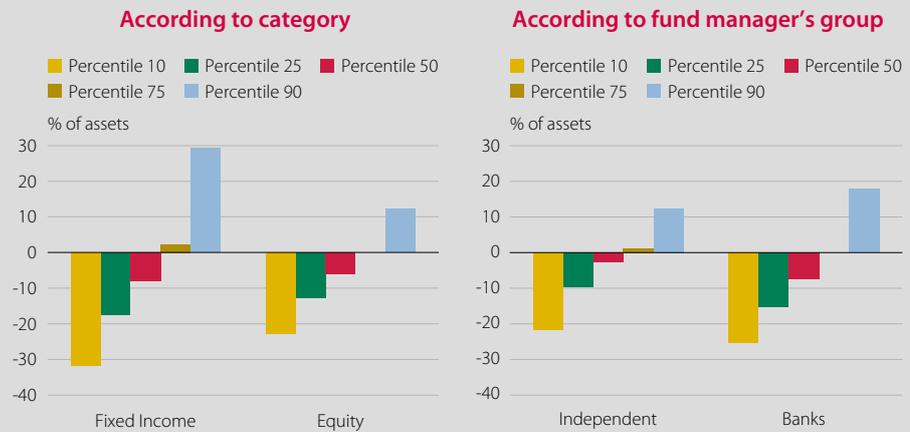


Source: CNMV.

An initial descriptive analysis reveals that the distribution of cumulative net subscriptions over the period studied was more disperse in fixed-income funds and in the funds of managers belonging to banks (see Figure E5.2).

Cumulative net subscriptions by percentile

FIGURE E5.2



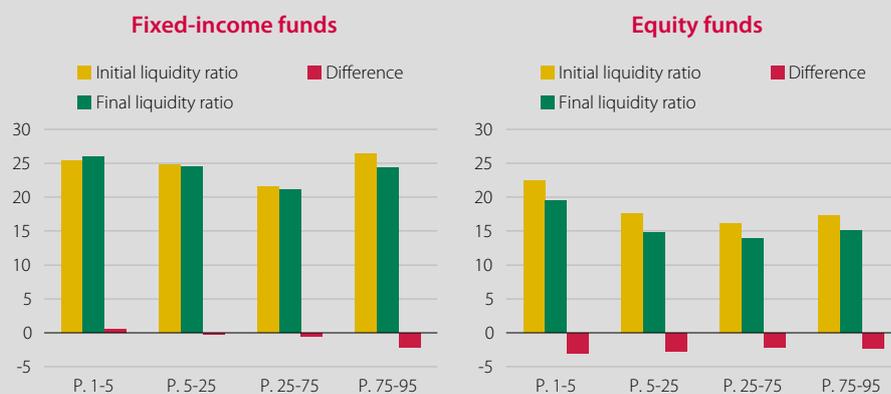
Source: CNMV.

The preliminary results obtained from an analysis based on quantile regressions – which make it possible to examine the tails of the distribution and which are therefore appropriate for the subject matter of this study – show that the characteristics relating to the type of investor were very significant for explaining redemptions. Particularly important among these characteristics is the volatility of past flows, which had a significant impact on net subscriptions. Flow volatility is usually interpreted as a measure of “volatile capital” and is related to the frequency and amount of the subscriptions and redemptions that unit-holders make in mutual funds. With regard to the characteristics relating to the portfolio’s fundamental variables, the impact of yields on flows was limited in all categories, while the liquidity ratio<sup>6</sup> was important for explaining the flows of fixed-income funds.

As shown in Figure E5.3, the fixed-income funds that suffered most redemptions had a high liquidity ratio at the start of the period under analysis and this ratio in fact increased in the subsequent months. This behaviour might be explained by the funds' willingness to increase their liquidity ratio in order to meet potential redemptions.

Liquidity ratio based on cumulative net subscriptions<sup>1</sup>

FIGURE E5.3



Source: CNMV. (1) On the horizontal axis, the percentiles correspond to cumulative net subscriptions (in percentage terms) over the assets of fund subgroup. The average liquidity ratio of the funds falling in each percentile range is calculated for the first and last week of the period studied (initial liquidity ratio and final liquidity ratio, respectively) and the difference is shown.

In conclusion, the mutual fund industry proved to be highly resilient during the period of greatest uncertainty relating to the health of the Spanish banking system in 2012. In addition, certain characteristics of the industry, such as the high percentage of funds that are UCITS or the insignificant presence of real estate funds, act as mitigating factors for certain risks. However, in a context of financial stress and a lack of liquidity in markets, funds that have added less liquid assets to their portfolios may have to bear high transaction costs if they wish to unwind their positions. This could provide an incentive for unit-holders to seek redemptions earlier than others in an attempt to avoid said costs, which might contribute towards reinforcing spiralling price falls. An analysis that will allow these risks to be understood and quantified is essential in order to implement, where necessary, measures to mitigate the risks and help to maintain financial stability when tensions emerge in financial markets.

1 EFAMA (2018). *Quarterly Statistical Release*, No.17 (March). Available at: <http://www.efama.org/Publications/Statistics/Quarterly/Quarterly%20Statistical%20Reports/Quarterly%20Statistical%20Release%20Q4%202017.pdf>

2 FSB (2017). *Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities*. Available at: <http://www.fsb.org/wp-content/uploads/FSB-Asset-Management-Consultative-Documents.pdf>

3 IOSCO (2018). *Recommendations for Liquidity Risk Management for Collective Investment Schemes*. Available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD573.pdf>

4 Fixed-income funds include only those that invest in money market instruments and pure fixed income, while equity funds include mixed, pure equity, absolute return and global funds.

5 The classification of wholesale or retail is that defined by Cambón, M.I. and Losada, R. (2012). *Competition and structure of the mutual funds industry in Spain: the role of credit institutions*. CNMV Working Paper No. 54. Available at: [http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/WP54\\_weben.PDF](http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/WP54_weben.PDF)

6 The variable is defined as the average liquidity ratio recorded for each fund over February 2012. This ratio measures the percentage of highly liquid assets (overnight repos on government debt, depository accounts and deposits with credit institutions) as a percentage of total assets under management.

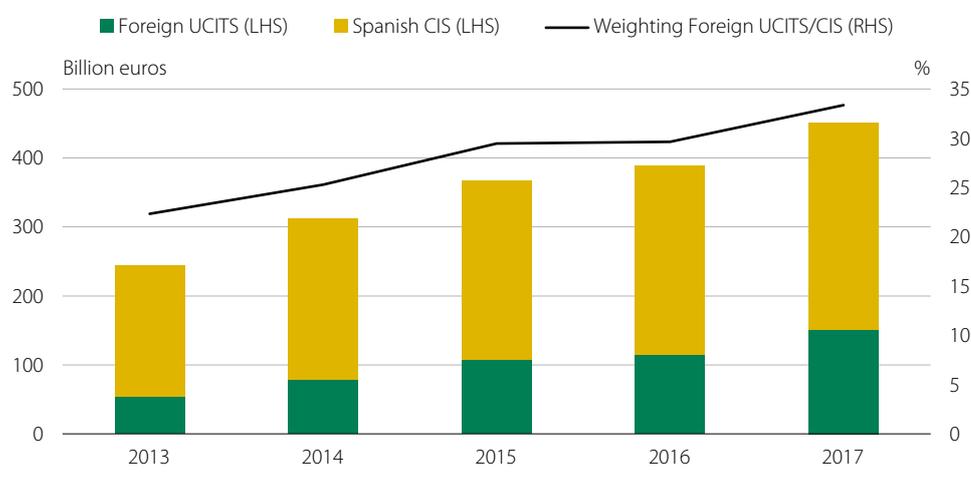
### 3.1.5 Foreign UCITS marketed in Spain

The volume of foreign UCITS marketed in Spain has continued to grow over recent years, as shown in Figure 3.1.2. Indeed, between the middle of 2012 and the end of 2017 this figure increased five-fold. Following a slower pace of growth in 2016 than in previous years, investment once again grew sharply in 2017, with an increase of 30.8% to 150.42 billion euros.<sup>3</sup> This figure was equivalent to 33.4% of the total assets of CIS marketed in Spain, 4 percentage points up on 2016.

In line with the trend of recent years, the number of foreign UCITS registered with the CNMV grew by 14 funds and 58 companies in 2017, and hence at year-end there were a total of 1,013 undertakings of this type (455 funds and 558 companies). As in previous years, most of the new registrations corresponded to undertakings from Luxembourg and Ireland (see Annex II.5).

Assets of foreign UCITS marketed in Spain

FIGURE 3.1.2



Source: CNMV.

### 3.1.6 Collective investment scheme management companies

A total of 109 CIS management companies were registered with the CNMV at year-end 2017, 8 more than at the end of the previous year. There were 9 new registrations and 1 de-registration (see Annex II.6). Assets managed by CIS management companies grew by 9.9% to practically 300 billion euros. This growth was largely due to the positive performance of subscriptions in real estate funds, which account for almost 90% of total assets managed, with growth of 11.5%. The sector also continued to be extremely concentrated: the 3 largest management companies held a combined share of 42% of total assets managed at year-end 2017, 1 percentage point below the proportion in 2016.

<sup>3</sup> These figures only correspond to harmonised CIS (excluding ETFs), as until 2017 these were the only foreign CIS required to submit information to the CNMV. As of 1 January 2018, with entry into force of CNMV Circular 2/2017, of 25 October, both harmonised and non-harmonised CIS are required to submit such information. In addition, the data to be submitted have been extended to include both qualitative and quantitative variables including the investment category and a disclosure on commissions paid and commissions effectively received. This will allow the CNMV to have access to information that was thus far unavailable.

In line with the positive performance of collective investment over the year, aggregate profits before tax of CIS management companies grew by 25.6% on 2016 to 754.6 million euros. The main reason for this increase was the rise in commission revenue, which rose by 14.9% on 2016 to stand at 2.98 billion euros. Within this revenue, commissions for CIS management, which account for around 90% of total commissions received by management companies, recorded the largest growth, with an increase of over 300 million euros, after having contracted slightly in 2016 (see Table 3.1.4). These commissions accounted for 0.88% of assets under management, above the figure of 0.86% for the end of 2016. Commissions paid to other entities also rose, although at a lower proportion, to 1.76 billion euros, 10.8% up on the figure for 2016.

### Income statement of CIS management companies

TABLE 3.1.4

Thousand euros

	2016	2017	Change (%)
<b>Interest margin</b>	<b>5,208</b>	<b>3,361</b>	<b>-35.5</b>
Net commissions	1,004,839	1,219,956	21.4
Commission revenue	2,588,841	2,975,368	14.9
CIS management	2,347,199	2,647,397	12.8
Front-end and back-end fees	13,964	21,555	54.4
Other	227,678	306,412	34.6
Commission expenses	1,584,002	1,755,412	10.8
Profit from net financial investments	5,456	12,362	126.6
Earnings on capital instruments	771	10,302	1,236.2
Net exchange differences	189	-635	-436.0
Other products and net operating charges	-1,692	-479	-71.7
<b>Gross profit</b>	<b>1,014,771</b>	<b>1,244,867</b>	<b>22.7</b>
Operating expenses	389,989	466,615	19.6
Personnel	239,325	285,496	19.3
General expenses	150,664	181,119	20.2
Depreciation, amortisation and other provisions	28,905	24,840	-14.1
Impairment losses on financial assets	-453	303	-
<b>Net operating profit</b>	<b>596,330</b>	<b>753,109</b>	<b>26.3</b>
Other gains/losses	4,489	1,455	-67.6
<b>Profit (loss) before tax</b>	<b>600,819</b>	<b>754,564</b>	<b>25.6</b>
Income tax expense	-163,628	-204,655	25.1
<b>Profit from continuing operations</b>	<b>437,191</b>	<b>549,909</b>	<b>25.8</b>
Profit from discontinued operations	0	0	-
<b>Net profit (loss) for the year</b>	<b>437,191</b>	<b>549,909</b>	<b>25.8</b>

Source: CNMV.

The year ended with 19 loss-making entities, 6 more than in 2016, although aggregate losses were down, falling from 7.4 million euros to 6.6 million euros (see Table 3.1.5).

**Profit before tax, number of loss-making firms and amount of loss**

TABLE 3.1.5

Thousand euros

	<b>Profit before tax</b>	<b>No. of loss-making firms</b>	<b>Amount of loss</b>
2013	453,001	11	2,102
2014	545,484	14	2,828
2015	626,446	11	3,526
2016	600,818	13	7,369
2017	754,562	19	6,630

Source: CNMV.

### 3.1.7 CIS depositories

The number of CIS depositories registered with the CNMV at the end of the year stood at 54, following 2 de-registrations, although only 23 were truly operative within the activity. In addition, the 2 de-registrations specifically corresponded to depositories that were operative at year-end 2016. Banking groups clearly predominated among the active depositories as they accounted for 94.8% of total assets deposited by CIS at year-end 2017 (95.2% in 2016). Of this amount, 11.8% corresponded to branches of foreign financial institutions, mostly from Member States of the European Union. The remaining 5.2% was divided among credit cooperatives, broker-dealers and insurance companies.

## 3.2 Provision of investment services

Different types of entities may provide investment services in Spain including, firstly, credit institutions and, secondly, broker-dealers and brokers. The former are by far the main providers of these services in Spain and account for the bulk of commission revenue in the different types of services. The latter continue to have a significant relative importance, particularly in order transmission and execution, although they also offer a wide range of services. In addition to these entities, specific investment services are also provided by financial advisory firms and by portfolio management companies. With respect to the latter, however, only one entity was registered with the CNMV at the end of 2017, one fewer than at year-end 2016. This does not mean that over recent years no entities have been created whose main business model is managing their clients' portfolios, rather that these entities have preferred to operate as brokers. The reason for this is that while the requirements to set up a portfolio management company or a broker with a similar programme of activities are not very different, brokers are entities that are more flexible when progressively providing other investment services.

This section provides a detailed description of the activity and the economic and financial position of entities subject to prudential supervision by the CNMV,<sup>4</sup> It also

<sup>4</sup> The CNMV oversees broker-dealers and brokers, portfolio management companies and financial advisory firms both with regard to prudential supervision and in order to ensure compliance with conduct of business rules. In the case of credit institutions, the CNMV only supervises this second aspect with regard to the provision of investment services.

focuses some attention on the activity of credit institutions that provide investment services and are therefore also subject to supervision by the CNMV with regard to compliance with market and customer conduct of business rules.

Broker-dealers and brokers operated in more favourable conditions in 2017 than in previous years, particularly in the case of brokers. In addition, the results of both types of entities were marked by the gradual change in their business models, particularly in the case of broker-dealers.

Traditionally, commissions for order processing and execution have been the main source of revenue for brokers and broker-dealers. However, growing competition from credit institutions in the provision of investment services and the displacement of a significant amount of the trading of securities admitted to trading on Spanish stock markets towards trading platforms located in other European countries (see Section 2.1) have led to a reduction in the relative importance of this item over recent years.

This fall in commissions for order processing and execution has been offset by the increase in other commission revenue: especially, marketing CIS, portfolio management and investment advisory services. In addition, in the case of broker-dealers, also by a reduction in commissions paid to other entities. This substitution meant that in 2017 the entities in the sector recorded an increase in their net income from providing services to third parties. For their part, broker-dealers suffered a significant fall in the results of their proprietary activities, particularly in financial investments.

The combination of the different revenue received by the entities resulted in the sector recording a higher aggregate gross margin than in the previous year. The containment of operating expenses, particularly in broker-dealers, led to an increase in the sector's profit before tax. As a whole, net profit rose by 9.8% on 2016 (7.1% for broker-dealers and 54.9% for brokers).

Nevertheless, a relatively high number of firms (20 out of 89) closed the year with losses (7 broker-dealers and 13 brokers). The aggregate amount of losses was higher than in the previous year for broker-dealers and slightly higher for brokers. The combination of better aggregate profits and a significant number of loss-making entities reflects how this sector is suffering a process of polarisation: profitable entities increasingly obtain higher profits while less profitable entities finding it difficult to remain viable. At any event, the sector continued to enjoy a large surplus equity over minimum requirements required by law, although the buffer provided by the excess equity over minimum requirements is low as these are not significant amounts in absolute terms.

The total volume of assets under advice of financial advisory firms remained stable compared with the previous year, although the proportion of retail clients rose significantly. This greater volume of retail business led to an increase in aggregate profits.

### 3.2.1 Credit institutions<sup>5</sup>

At the end of 2017, a total of 122 Spanish credit institutions (banks, savings banks and credit cooperatives) were registered with the CNMV to provide investment services, 3 fewer than in 2016. This fall is still linked to the conversion and concentration process undertaken in the banking sector as a result of the financial crisis. A total of 467 foreign credit institutions were authorised to provide investment services in Spain, the same number as in the previous year. 411 of the registered foreign credit institutions operated under the free provision of services regime and 56 through branches. Almost all of these institutions were from other Member States of the European Union (461 institutions, see Annex II.12).

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

TABLE 3.2.1

Million euros

	2014	2015	2016	2017	% of total commissions CI <sup>1</sup>
<b>For security services</b>	<b>1,479</b>	<b>1,476</b>	<b>1,334</b>	<b>1,436</b>	<b>10.0</b>
Placement and underwriting	301	218	190	231	1.6
Securities trading	477	488	410	457	3.2
Administration and custody	583	632	596	551	3.9
Asset management	119	138	138	197	1.4
<b>Marketing of non-bank financial products</b>	<b>3,689</b>	<b>4,213</b>	<b>4,389</b>	<b>4,380</b>	<b>30.6</b>
Mutual funds	1,762	2,295	2,187	2,290	16.0
Pension funds	482	458	520	498	3.5
Insurance	1,235	1,224	1,446	1,330	9.3
Other	209	236	236	262	1.8
<b>Pro memoria:</b>					
For securities services and marketing of mutual funds	3,241	3,771	3,521	3,726	26.0
<b>Total revenue from commissions</b>	<b>13,735</b>	<b>13,615</b>	<b>13,486</b>	<b>14,295</b>	<b>100.0</b>

Source: Bank of Spain. (1) In 2017, the confidential statements that credit institutions submit to the Bank of Spain were modified as a result of adaptation to the preparation criteria, terminology, definitions and formats of the FINREP statements of the European Union.

Table 3.2.1 shows the revenue of credit institutions from the provision of securities services and marketing of mutual funds and other non-bank financial products. It is important to indicate that in 2017 there was an accounting modification that affected the confidential statements that credit institutions submit to the Bank of Spain. They had to be adapted to the preparation criteria, terminology, definitions and formats of the FINREP (FINancial REPorting) statements of the European Union.<sup>6</sup>

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

6 The European regulation for preparing supervisory reporting is known as FINREP (Commission Implementing Regulation (EU) No. 680/2014, of 16 April 2014, laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013).

This accounting change means that the data on bank commission revenue for 2016 and 2017 are compared on a non-homogeneous basis.

At any event, it is important to highlight the increase in commissions that credit institutions received for securities services, particularly for securities trading, placement and underwriting and asset management. With regard to the marketing of non-bank financial products, the revenue received for marketing mutual funds rose, while the revenue for pension funds and insurance fell. The combined proportion of revenue from providing securities services and marketing mutual funds remained at 26.1% in 2017 (the same figure as in 2016).

The comparison of the commissions received by credit institutions and investment firms shows the great importance of the former in providing investment services. This was largely due to the fact that a significant number of investment firms (broker-dealers and brokers) whose leading or sole shareholder was a credit institution have disappeared with their activities now taken on by the credit institutions themselves. As shown in Table 3.2.2, the former clearly exceeded the latter even in services for processing or executing securities trading, a segment that was traditionally dominated by investment firms. This trend changed in 2013 and over recent years credit institutions have increasingly gained more market share in this segment.

**Commissions received for investment services. 2017**

TABLE 3.2.2

Million euros

	Broker-dealers and brokers <sup>1</sup>	Credit institutions (CI)	Total	% CI/total
<b>Total investment services</b>	<b>503</b>	<b>3,726</b>	<b>4,229</b>	<b>88.1</b>
Placement and underwriting	21	231	252	91.7
Securities trading	238	457	695	65.8
Asset management	64	197	261	75.5
Administration and custody	39	551	590	93.4
Mutual fund marketing	141	2,290	2,431	94.2

Source: CNMV and Bank of Spain. (1) Includes portfolio management companies.

### 3.2.2 Investment firms<sup>7</sup>

#### 3.2.2.1 Broker-dealers and brokers

##### Authorisation and registration

At the end of 2017, a total of 89 broker-dealers and brokers were registered with the CNMV, 8 more than at the end of 2016. This increase in the number of firms breaks the negative trend in the sector resulting from the significant adjustment process of recent years (in 2008 there was a total of 101 broker-dealers and brokers), in which the parent of banking groups has taken on the operations relating to securities markets.

<sup>7</sup> In accordance with Article 143 of the recast text of the Securities Market Act, investment firms cover broker-dealers, brokers, portfolio management companies and financial advisory firms.

A total of 20 firms ended the year with losses, 1 more than in 2016. The aggregate volume of the losses was higher both for broker-dealers and for brokers. In the case of the former, the increase in losses was significant, while the increase for brokers was marginal (see Tables 3.2.5 and 3.2.7).

As shown in Table 3.2.3, nine new firms registered and one firm de-registered over the year. Seven of the new registrations corresponded to independent firms, while the other two corresponded to foreign financial institutions. The de-registration corresponded to an independent broker (see Statistical Annex II.8).

There were also three significant changes in the controlling interests of broker-dealers and brokers. All three affected broker-dealers. Two of them were bought by a Spanish credit institution, while the other was bought by a foreign financial institution. Ownership of the broker was transferred to an independent company (see Statistical Annex II.9).

### Registrations and de-registrations of firms

TABLE 3.2.3

Type of firm	Firms at 31/12/2016	New registrations	De- registrations	Firms at 31/12/2017
<b>Spanish firms</b>	<b>81</b>	<b>9</b>	<b>1</b>	<b>89</b>
Broker-dealers	40	1	0	41
Brokers	41	8	1	48
<b>Foreign firms</b>	<b>2,839</b>	<b>202</b>	<b>155</b>	<b>2,886</b>
With a branch	46	10	3	53
Free provision of services	2,793	192	152	2,833
<i>Pro memoria:</i>				
Representatives	6,253	592	637	6,208

Source: CNMV.

As usual, most of the broker-dealers and brokers that use an EU passport to operate in other countries of the European Union do so under the free provision of services system. Accordingly, at year-end 2017, only 5 Spanish firms maintained branches in other countries (United Kingdom, Italy and Portugal), 1 fewer than at year-end 2015, while 46 – 6 more than in the previous year – operated under the free provision of services. There were no changes in the list of countries in which the firms provide services although the number of firms operating in several countries increased (see Statistical Annex II.10).

As shown in Table 3.2.3, 202 firms authorised in other Member States informed the CNMV in 2017 of their intention to begin providing investment services in Spain. A significant number of entities also notified that they were ceasing to operate, with a total of 155 de-registrations. Most of these notifications, both for registrations and de-registrations, corresponded to entities under the free provision of services regime, which increased in number from 2,793 in 2016 to 2,833 in 2017. The number of foreign institutions with a branch rose from 46 to 53. Most of the new entities registered were authorised in Cyprus and Holland (see Statistical Annex II.7).

## Results

Broker-dealers and brokers obtained profit before tax of 210.8 million euros in 2017, 9.8% up on the previous year. The increase was smaller in broker-dealers (7.1%), but very significant in brokers (54.9%). Broker-dealers usually generate most of the profit before tax for the sector.

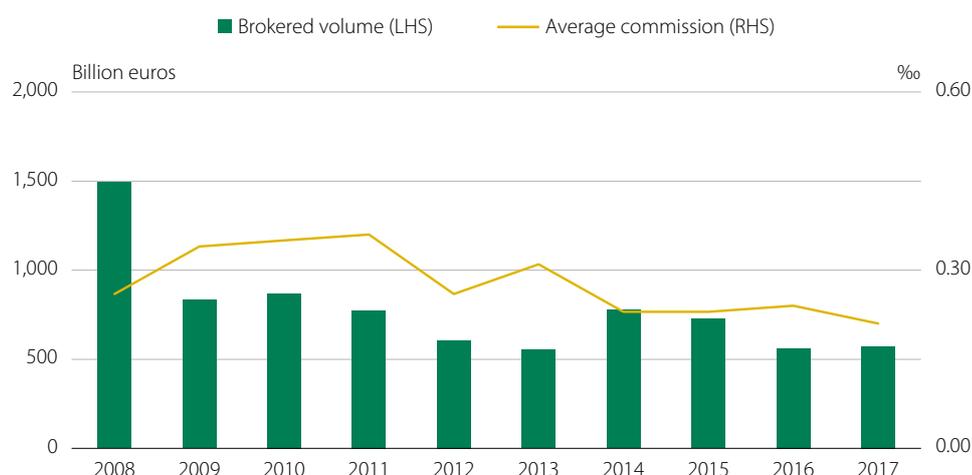
As shown in Table 3.2.4, broker-dealers suffered a small reduction in their revenue on the previous year. The change in revenue was affected by both the significant fall in revenue from proprietary trading and the increase in revenue from providing investment services to third parties. Particularly noteworthy was the fall in net profit from financial investments, which fell by more than half on the figure for 2016 to account for 7.7% of broker-dealer revenue (19.7% in 2016).

Commissions from providing services to third parties, the main source of income for broker-dealers, rose by 7.3%, mainly as a result of the commissions received for portfolio management, issue placement and underwriting and marketing of CIS. There were falls in other commissions, including those for order processing and execution and for deposit and entry of securities.

Commissions from order processing and execution remained the most important of the sources of revenue from the provision of services to third parties. These commissions mainly come from brokering in Spanish equity markets. It should be noted that the revenue for this item shrank by 11.4% on the previous year. Brokered volumes in these markets increased marginally in 2017, in line with the stock market trading (see Section 1.2) and the greater relative importance in this market of credit institutions, while average brokerage fees fell slightly. The combination of both factors led to the aforementioned fall in revenue (see Figure 3.2.1).

**Broker-dealers that are stock market members: brokered volume and average effective commission in Spanish equity**

FIGURE 3.2.1



Source: CNMV.

With regard to other commissions, there was a noteworthy increase in commissions for investment advisory services, while the heading of “Other” remained stable. These commissions come from ancillary services, which include, for example, advice to companies on capital structure, services relating to mergers and acquisitions

and the preparation of investment and financial analysis reports.<sup>8</sup> Commissions paid to other entities fell significantly (11.0% on the previous year) and were the equivalent of 26.8% of the commissions received.

The operating expenses of broker-dealers once again fell (by 2.8%), which suggests that the sector may be continuing with the adjustments in these expenses which began as a result of the financial crisis in order to adapt to the changes in financial markets. Depreciation, amortisation and other provisions also fell significantly. The maintenance of the gross margin, which broker-dealers accompanied with lower expenses, led to a 6.3% increase in the operating profit, which rose from 169.5 million euros in 2016 to 180.2 million euros in 2017. Profit before tax grew by 7.1% to 194.0 million euros.

### Income statement for broker-dealers<sup>1</sup>

TABLE 3.2.4

Thousand euros

	2016	2017	% change 17/16
<b>Interest margin</b>	<b>53,930</b>	<b>58,545</b>	<b>8.6</b>
<b>Net commissions</b>	<b>373,552</b>	<b>400,884</b>	<b>7.3</b>
Commission revenue	538,586	547,776	1.7
Order processing and execution	245,700	217,667	-11.4
Placement and underwriting	5,955	17,553	194.8
Deposit and entry of securities	47,843	38,175	-20.2
Marketing CIS	75,505	81,225	7.6
Portfolio management	23,738	50,467	112.6
Investment advisory services	2,547	5,551	117.9
Other	137,298	137,138	-0.1
Commission expenses	165,034	146,892	11.0
<b>Profit from financial investments</b>	<b>104,292</b>	<b>40,996</b>	<b>-60.7</b>
Net exchange differences	-29,731	4,290	-
Other products and operating charges	28,554	24,160	-15.4
<b>Gross profit</b>	<b>530,597</b>	<b>528,875</b>	<b>-0.3</b>
Operating expenses	351,951	341,944	-2.8
Personnel	228,518	217,130	5.0
General expenses	123,433	124,814	1.1
Depreciation, amortisation and other provisions	10,451	5,764	-44.8
Impairment losses on financial assets	-1,304	963	-
<b>Net operating profit</b>	<b>169,499</b>	<b>180,204</b>	<b>6.3</b>
Other gains/losses	11,695	13,808	18.1
<b>Profit (loss) before tax</b>	<b>181,194</b>	<b>194,012</b>	<b>7.1</b>
Income tax expense	40,673	37,633	-7.5
<b>Profit from continuing operations</b>	<b>140,521</b>	<b>156,379</b>	<b>11.3</b>
<b>Profit from discontinued operations</b>	<b>0</b>	<b>-407</b>	<b>-</b>
<b>Net profit (loss) for the year</b>	<b>140,521</b>	<b>155,972</b>	<b>11.0</b>

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

Movements in the aggregate income statement over recent years reveal the change in the business model of broker-dealers. Their traditional main business, brokerage in securities markets, has been losing its relative importance, while marketing, management and advice services provided to third parties are increasingly important in their income statement. It should be pointed out that, as shown in Table 3.2.4, proprietary trading – which is extremely important for investment firms in most comparable countries – is practically non-existent in Spain for the broker-dealers that could perform such trading.

As has increasingly been the case in recent years, a small number of firms generated most of the profits in this sub-sector. Specifically, 4 broker-dealers generated 76.2% of the aggregate profits of all the profit-making broker-dealers, which indicates greater concentration than in previous years. Another noteworthy fact is that over half the companies recorded an increase in profits in the year. In general, the firms with the largest size in the sector tend to be increasingly profitable, while the viability of the smaller companies is more complicated.

Although the sector's performance was better this year, seven broker-dealers posted losses before tax, the same number as at year-end 2016 (see Table 3.2.5). Five of these had already suffered losses in 2016. Six of the seven companies are independent firms while the seventh belongs to several Spanish credit institutions. The accumulated losses rose significantly from 8.9 million euros in 2016 to 14.7 million euros in 2017.

**Profit before tax, No. of loss-making broker-dealers and amount of the losses before tax**

TABLE 3.2.5

Thousand euros

	Profit before tax (total) <sup>1</sup>	No. of loss-making firms	Amount of the losses before tax
<b>Broker-dealers</b>			
2014	275,629	3	-4,623
2015	192,776	8	-14,829
2016	181,194	7	-8,957
2017	194,012	7	-14,701

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

Unlike broker-dealers, brokers may not invest on their own account. Therefore, their revenue almost exclusively comes from providing services to third parties. While some of the brokers obtain the bulk of their revenue from processing and executing orders, most of them tend to specialise in certain services, such as marketing CIS or portfolio management. Most of the firms in the sub-sector are independent (27 out of a total of 48 brokers), unlike broker-dealers, which are mostly controlled by a financial group (only 8 firms out of a total of 41 are independent).

Aggregate profits before tax of brokers grew by 54.9% to 16.7 million euros. The improved results were due to the increase in the ordinary revenue of brokers, mainly commissions.

Net commissions rose by 11.2% on the previous year. Within gross commissions (commissions received), there were noteworthy increases in the items of marketing

CIS (up 17.6% on 2016) and investment advisory services (16.6%). These items accounted for over 72% of the commissions received. On the negative side, commissions for order processing and execution fell by 15.4%.

The greater activity of brokers in 2016 in several of their business lines led to a slight increase in commissions paid to third parties, which in fact rose by 2.6%. The aggregate gross margin reflected the improved performance of net revenue from services and rose by 13.4%.

Operating expenses rose by 8.3% on the previous year. Within operating expenses, personnel expenses rose by 5.1%, while general expenses increased by 14.7%. Despite the higher operating expenses, net operating profit stood at 16.9 million euros, a significant increase of 66.9% on 2016.

### Income statement for brokers<sup>1</sup>

TABLE 3.2.6

Thousand euros

	2016	2017	% change 17/16
<b>Interest margin</b>	<b>903</b>	<b>3,127</b>	<b>246.3</b>
<b>Net commissions</b>	<b>108,111</b>	<b>120,194</b>	<b>11.2</b>
Commission revenue	129,682	142,323	9.7
Order processing and execution	24,181	20,459	-15.4
Placement and underwriting	3,193	3,427	7.3
Deposit and entry of securities	603	924	53.2
Marketing CIS	50,504	59,398	17.6
Portfolio management	11,054	12,492	13.0
Investment advisory services	8,614	11,572	34.3
Other	31,533	34,051	8.0
Commission expenses	21,571	22,129	2.6
<b>Profit from financial investments</b>	<b>245</b>	<b>1,139</b>	<b>364.9</b>
Net exchange differences	154	-578	-
Other products and operating charges	-1,184	-1,128	4.7
<b>Gross profit</b>	<b>108,229</b>	<b>122,754</b>	<b>13.4</b>
Operating expenses	95,142	103,052	8.3
Personnel	63,167	66,372	5.1
General expenses	31,975	36,680	14.7
Depreciation, amortisation and other provisions	2,891	2,783	-3.7
Impairment losses on financial assets	56	-10	-
<b>Net operating profit</b>	<b>10,140</b>	<b>16,929</b>	<b>66.9</b>
Other gains/losses	682	-163	-
<b>Profit (loss) before tax</b>	<b>10,822</b>	<b>16,766</b>	<b>54.9</b>
Income tax expense	3,840	4,876	27.0
<b>Profit from continuing operations</b>	<b>6,982</b>	<b>11,890</b>	<b>70.3</b>
<b>Profit from discontinued operations</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>Net profit (loss) for the year</b>	<b>6,982</b>	<b>11,890</b>	<b>70.3</b>

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

The increase in profit before tax affected a large number of brokers. Specifically, 67.5% of brokers registered both at year-end 2016 and year-end 2017 obtained better results.

This improvement in aggregate results was not reflected in the number of loss-making firms, which rose from 11 to 13. However, the increase in accumulated losses was only a little over 500,000 euros, as the losses of these firms rose from 7.4 million euros in 2016 to 7.9 million euros in 2017 (see Table 3.2.7). Five of the thirteen loss-making brokers at the end of the year had already suffered losses in the previous year.

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

TABLE 3.2.7

Thousand euros

	Profit before tax <sup>1</sup>	No. of loss-making firms	Amount of the losses before tax
<b>Brokers</b>			
2014	24,832	5	-2,111
2015	22,781	12	-3,689
2016	10,822	11	-7,402
2017	16,766	13	-7,952

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

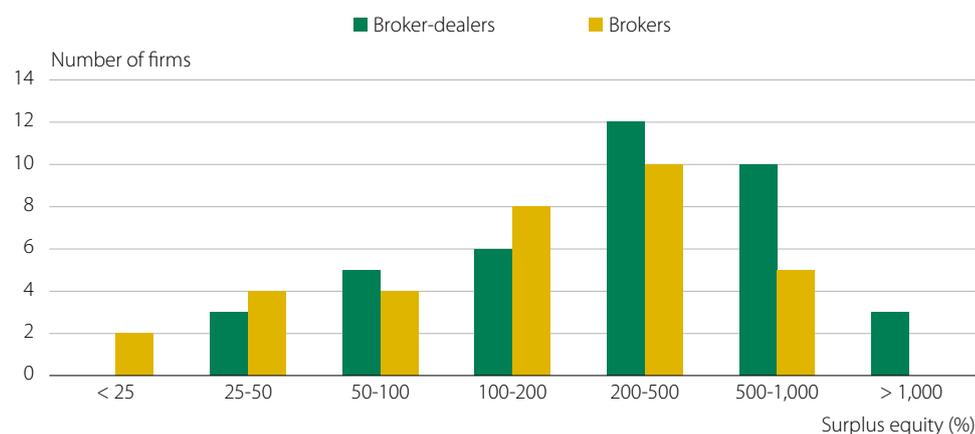
## Solvency

The solvency of the sector as a whole remained high in 2017, although at the end of the year, the equity surplus was 3.2 times the capital requirements, compared with a figure of 4.5 at year-end 2016.

As is usual, this margin was generally greater in broker-dealers than in brokers. While the equity surplus for broker-dealers was around 3.3, it remained at 2.1 for brokers. With regard to the distribution of this ratio, Figure 3.2.2 shows that most broker-dealers at the end of 2016 continue to have surplus equity greater than 200%, while brokers showed a greater spread. No broker-dealer or broker closed the year with an equity deficit, although, in the case of these entities, the gap provided by the equity surplus was low as the amounts involved were not significant.

**Surplus equity over minimum requirements for broker-dealers and brokers**

FIGURE 3.2.2



Source: CNMV.

### 3.2.2.2 Financial advisory firms

Financial advisory firms are a type of investment firm which began operating in 2009 under the Spanish legislation which transposed the Directive on Markets in Financial Instruments (MiFID). These firms, which offer their clients the reserved activity of advisory services in financial investments, have an extensive portfolio of retail clients, although their revenue mainly comes from advising large investors, including CIS and other institutional investors.

At year-end 2017, 171,<sup>9</sup> financial advisory firms were registered with the CNMV, 11 more than in 2016. There were 16 new registrations and 5 de-registrations, all of which were independent firms with the exception of the registration of one firm linked to a Swiss bank specialised in high net worth clients. Total assets under advisory services amounted to 30,791 million euros, a rise of 2% on the previous year. The bulk of the advisory service contracts signed corresponded to retail clients (93.4% of a total of 6,769), although these contracts only accounted for 29.5% of assets under advisory services. At any event, it should be pointed out that the assets under advisory services for retail clients grew significantly in 2017 while the assets under advisory services for professional or non-retail clients fell (see Table 3.2.9). Finally, the overall profit of these firms grew significantly from 7.5 million euros in 2016 to 11.9 million euros in 2017, which reflects a 23.2% increase in the revenue from commissions from clients to 63.7 million euros. With regard to the types of financial instrument recommended to clients, 85% of the total amount recommended in 2017 corresponded to CIS.

In addition, it is important to note that with entry into force of the new MiFID II Directive, financial advisory firms are required to inform investors of whether or not the investment advisory service provided is independent. This may provide an opportunity for independent advisers to commercially exploit their competitive advantage over non-independent advisers, particularly with regard to banks, as they provide a service that is free from conflicts of interest.

**Financial advisory firms: number of contracts and volume of assets under advisory services<sup>1</sup>**

TABLE 3.2.8

Thousand euros

	2016	2017	% change 17/16
<b>Number of contracts</b>			
Retail clients	5,510	6,320	14.7
Non-retail clients	413	449	8.7
<b>Total</b>	<b>5,923</b>	<b>6,769</b>	<b>14.3</b>
<b>Assets under advisory service (thousand euros)</b>			
Retail clients	7,588,143	9,096,071	19.9
Non-retail clients	22,586,734	21,694,464	-4.0
<b>Total</b>	<b>30,174,877</b>	<b>30,790,535</b>	<b>2.0</b>

Source: CNMV. (1) Provisional data for 2017 with 99% of registered firms.

9 Of these 171 firms, 122 mostly advised retail clients, 12 had more professional clients than retail clients, while 22 only had professional clients. The remaining 15 reported having no clients receiving advisory services.

### 3.3 Venture capital firms and crowdfunding platforms

#### 3.3.1 Venture capital firms and other closed-end collective investment undertakings

##### Firms registered with the CNMV

In 2017, private equity and venture capital activity followed the trend of the previous two years, with a significant number of new registrations of both vehicles and management companies. A total of 39 closed-end investment vehicles and 11 management companies of closed-end vehicles were registered. The CNMV Register closed the year with a total of 326 closed-end investment vehicles and 89 management companies, a rise of 9.4% and 9.9%, respectively, on the figures for year-end 2016.

There were 39 new registrations of closed-end investment vehicles with a variety of legal structures and investment objectives. With regard to venture capital vehicles – venture capital funds and venture capital companies – there were 23 new registrations. In the case of SME venture capital vehicles, both funds and companies, there were 5 new registrations. In addition, 3 European venture capital funds (EuVEECAs) were registered. This fund category, which was provided for in Regulation (EU) No. 345/2013 of the European Parliament and of the Council, of 17 April 2013, on European venture capital funds, can be marketed to investors who contribute over 100,000 euros, both in Spain and in European Union countries. At 31 December 2017, a total of 5 EuVEECAs were registered, a significant increase on the previous year.

It is worth noting that in 2017 there were new registrations of close-end collective investment undertakings, which increased the total number of these undertakings to 2 funds and 13 companies. This new investment category was introduced by Law 22/2014 and it enjoys a great deal of flexibility with regard to investment rules, both in terms of policy and compliance with ratios. Last year, for example, three closed-end collective investment companies were registered which had an investment policy focused on the real estate sector and a further three companies were registered with an investment policy focused on private equity investments, with the particular feature that each vehicle will invest in one single company.

It is also worth noting the initiative of the ICO (Spanish Official Credit Institute), through the Fond-ICO Global venture capital fund. This fund remains extremely important in raising funds from the private sector through co-investment as 28% of the new investment vehicles registered in 2017 had some link with this initiative.

The number of management companies of closed-end collective investment undertakings rose by 8, leading to a total of 89 such companies registered with the CNMV at 31 December 2017. Three of the new management companies of closed-end collective investment undertakings were set up in compliance with all the requirements to this effect set out in the Alternative Investment Fund Managers Directive in order to market the managed venture capital vehicles to both professional investors and non-professional investors, with a particular feature that the latter are subject to compliance with two requirements: i) that investors undertake to invest at least 100,000 euros, and ii) that such investors state in writing, in a separate

document from the contract relating to the investment commitment, that they are aware of the risks associated with the investment.<sup>10</sup>

### Registrations and de-registrations in 2017

TABLE 3.3.1

Type of entity	Firms at 31/12/2016	New registrations	De- registrations	Firms at 31/12/2017
Venture capital companies	99	10	4	105
Venture capital funds	166	13	6	173
SME venture capital companies	13	4	1	16
SME venture capital funds	11	1	0	12
European venture capital funds	2	3	0	5
<b>Total venture capital undertakings</b>	<b>291</b>	<b>31</b>	<b>11</b>	<b>311</b>
Closed-end collective investment companies	6	7	0	13
Closed-end collective investment funds	1	1	0	2
<b>Total closed-end collective investment undertakings</b>	<b>7</b>	<b>8</b>	<b>0</b>	<b>15</b>
<b>Total venture capital undertakings + closed-end collective investment undertakings</b>	<b>298</b>	<b>39</b>	<b>11</b>	<b>326</b>
<b>Management companies of closed-end collective investment undertakings</b>	<b>81</b>	<b>11</b>	<b>3</b>	<b>89</b>

Source: CNMV.

### Sector data

According to ASCRI (Association of Spanish venture capital firms), private equity and venture capital investment in Spain in 2017 amounted to around 5 billion euros, an increase of 27% on 2016. A total of 11 deals of over 100 million euros were carried out (7 deals in 2016), with an aggregate volume of 3 billion euros, and a total of 679 investments were made, compared with 584 in the previous year.

International operators accounted for 75% of total investment, with a very significant presence in large-scale deals, while private and public Spanish investors generally participated in a higher number of small-scale deals.

The segment of medium-scale deals (between 10 and 100 million euros) recorded a volume of around 1.47 billion euros, an increase of 12% on 2016, spread over a total of 55 investments.

Investment in seed and start-up stages played a prominent role in 2017 with an investment volume of close to 500 million euros (385 million euros in 2016) spread over a total of 519 investments. Spanish private operators and public funds played a more prominent role than international funds in this segment. As has become customary over recent years, there is still significant support in this segment from the investment of public funds through the Fond-ICO Global and the CDTI Innvierre programmes.

<sup>10</sup> Article 75 Law 22/2014, of 12 November, regulating venture capital firms, other closed-end collective investment undertakings and management companies of closed-end collective investment undertakings, and amending Law 35/2003, of 4 November, on collective investment schemes.

The new funds raised by private Spanish operators amounted to 1.86 billion euros, 17% down on the previous year. The volume of disinvestments grew by 85% to 3.48 billion euros spread over 317 divestments.

The sectors that received the highest volume of investment over 2017 were the consumer products sector, with 26% of total investment, the hospitality/leisure sector with 18.5% and the transport/logistics sector with 14.6%. The IT sector recorded the highest number of deals, accounting for 40% of the total.

### 3.3.2 Crowdfunding platforms

A total of nine applications were submitted in 2017 for authorisation of crowdfunding platforms. Consequently, from publication of Law 5/2015, which regulates said entities, up to the end of 2017, the number of applications totalled 54, with the number submitted in 2017 much lower than in the two previous years: 24 and 2015 and 21 in 2016. This trend is due to the fact that in 2015 the bulk of the applications concerned platforms that were already operating as such and which, as a consequence of the new regulation, had to adapt to the legislative requirements in order to be able to continue their business.

#### Number of crowdfunding platform applications

TABLE 3.3.2

Platform type	2015	2016	2017	Cumulative total
Equity	10	7	3	20
Lending	12	7	3	22
Mixed	1	7	3	11
No data <sup>1</sup>	1	–	–	1
<b>Total</b>	<b>24</b>	<b>21</b>	<b>9</b>	<b>54</b>

Source: CNMV. (1) The application for authorisation did not indicate the type of crowdfunding platform.

The number of crowdfunding platforms authorised in 2017 was also lower than in the previous year: 9, compared with 17 in 2016. By type, 4 equity platforms were authorised (7 in 2016), 2 lending platforms (8 in 2016) and 3 mixed platforms (2 in 2016). In addition, in 2017, 4 platform projects were rejected (1 in 2016) and 4 others were withdrawn or deemed withdrawn (7 in 2016). In 2015, there were no rejections or withdrawals. One of the authorisations granted to an equity crowdfunding platform project expired in 2017 after more than one year elapsed without the platform being registered with the CNMV.

#### Number of authorised crowdfunding platforms

TABLE 3.3.3

Platform type	2015	2016	2017	Cumulative total
Equity	1	7	4	12
Lending	0	8	2	10
Mixed	0	2	3	5
<b>Total</b>	<b>1</b>	<b>17</b>	<b>9</b>	<b>27</b>

Source: CNMV.

### Number of rejected or withdrawn crowdfunding platforms

TABLE 3.3.4

Platform type	2016		2017		Cumulative total	
	Rejected	Withdrawn	Rejected	Withdrawn	Rejected	Withdrawn
Equity	1	2	1	1	2	3
Lending	0	4	2	2	2	6
Mixed	0	0	1	1	1	1
No data <sup>1</sup>	0	1	0	0	0	1
<b>Total</b>	<b>1</b>	<b>7</b>	<b>4</b>	<b>4</b>	<b>5</b>	<b>11</b>

Source: CNMV. (1) The application for authorisation did not indicate the type of crowdfunding platform.

At the end of 2017, the CNMV Register contained a total of 21 platforms, of which 8 were registered in 2017, 12 in 2016 and 1 in 2015. The key features of the registered platforms include:

- 8 are equity platforms, 9 are lending platforms and 4 are mixed.
- 2 are real estate platforms, one lending and the other mixed; both were registered in 2017.
- 12 have their registered address in Madrid, 5 in Barcelona, 2 in Valencia, 1 in Soria and 1 in Santa Cruz in Tenerife.
- 1 lending crowdfunding platform and another equity crowdfunding platform, both registered in 2016, are controlled by foreign companies engaged in crowdfunding activities.
- Only 1 platform, registered in 2016, is a hybrid platform (it is authorised to act as a crowdfunding platform and as a payment institution).

### Number of registered crowdfunding platforms

TABLE 3.3.5

Platform type	2015			2016			2017			Cumulative total		
	Total	of which		Total	of which <sup>1</sup>		Total	of which <sup>1</sup>		Total	of which <sup>1</sup>	
		Madrid	Barcelona		Madrid	Barcelona		Madrid	Barcelona		Madrid	Barcelona
Equity	1	1	0	4	3	1	3	0	2	8	4	3
Lending	0	0	0	8	4	2	1	1	0	9	5	2
Mixed	0	0	0	0	0	0	4	3	0	4	3	0
<b>Total</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>12</b>	<b>7</b>	<b>3</b>	<b>8</b>	<b>4</b>	<b>2</b>	<b>21</b>	<b>12</b>	<b>5</b>

Source: CNMV. (1) In addition, one crowdfunding platform with registered address in Soria and another in Valencia were registered in 2016. In addition, one crowdfunding platform with registered address in Santa Cruz de Tenerife and another in Valencia were registered in 2017.

The preliminary information received from the platforms on their activity over the first half of 2017 reveals that these entities raised 23.18 million euros, 13% more than all funding received in 2016, and that they obtained revenue of 816,000 euros, 25% up on the revenue of the previous year. The new platforms registered in that half-year accounted for 28% of the funds raised and 27% of the revenue. In addition, between January and June, the number of published projects amounted to 280 (487 in 2016 as a whole) and the number of investors stood at 7,494 (1,599 accredited investors and 5,895 non-accredited investors).

## II CNMV actions in the securities markets



The CNMV's actions in the securities markets over 2017 are described in this second part of the Annual Report. It is worth mentioning, firstly, that the year was marked by the imminent implementation of two important European regulations: the MiFID II Directive and the MiFIR Regulation, which required an extra effort from both a supervisory and a regulatory perspective.

This part begins with the section on financial disclosures and corporate governance, areas in which the degree of compliance with regulatory demands and the monitoring of recommendations continue to improve, albeit based on a high degree of compliance in previous years.

Subsequently, in the section on market supervision, noteworthy is the work on supervising adaptation processes to the Pan-European platform TARGET2-Securities (T2S), which Iberclear joined in September, as well as the close attention paid to certain situations such as Banco Popular or that which, consequently, gave rise to restrictions on the short selling of shares of another entity. Also worthy of mention is the increase in the number of suspicious operations reported and the temporary suspensions of trading.

A fundamental part of the ordinary supervisory work of the CNMV is centred on trading processes, issues, public offerings of securities, fixed income issues and takeover bids, which is covered in the first block of this report and will not thus be addressed in this part.

In the section given over to the supervision of entities providing investment services, noteworthy is the task performed on such aspects as the content of the advertising information on entities' web pages, their Regulatory Compliance Unit and the measures to step up the protection of retail clients in the marketing of CFDs and other speculative products. Furthermore, as regards the supervision of CIS, also noteworthy is the implementation of various non-recurrent controls, such as the analysis of stress tests with regard to interest rate changes, the evolution of investment funds with a fixed return target and the provision of the Key Investor Information Document (KIID).

In the part on investor assistance provided by the CNMV, noteworthy is the reduction in the number of claims received (mainly due to the decline in those relating to preferential shares) and the increase in queries attended (above all due to the resolution of Banco Popular Español, S.A.). In turn, it is worth mentioning that the joint commitment by the Bank of Spain and the CNMV to the new Financial Education Plan for the next four years was renewed in October.

As regards disciplinary actions carried out in 2017, disciplinary files opened and concluded over the year are described in this part, as well as the judicial review of the disciplinary resolutions and claims received by the CNMV.

Lastly, the section on international activity addresses the initiatives adopted by ESMA and IOSCO with active participation from the CNMV. In the case of ESMA, noteworthy work was performed on the consequences of the imminent withdrawal of the United Kingdom from the European Union (Brexit) and the application, as from 3 January 2018, of the MiFID II Directive and the MiFIR Regulation. In the case of IOSCO, the attention to and work on cybersecurity and regulatory aspects related to cryptocurrencies should be underlined.

### Application of MiFID II and MiFIR: situation and objectives

EXHIBIT 6

The new regulatory framework on the markets and financial instruments, based on the MiFID II<sup>1</sup> Directive and the MiFIR<sup>2</sup> Regulation began to be applied on 3 January 2018. This new raft of legislation seeks to ensure higher levels of investor protection and to improve the organisational and corporate governance structure of investment firms, as well as to increase the security, efficiency, smooth functioning and stability of the securities markets.

Rapid market changes justified the need to strengthen the regulatory framework on investment services; specifically it was necessary to address new unregulated areas and step up the powers attributed to supervisory bodies. In this regard, MiFID II updates the framework on transparency and investor protection already established in MiFID I.

On the one hand, MiFID II and MiFIR strengthen investor protection by modifying the existent provisions on authorisation, rules of conduct and organisational requirements of investment service providers, and introduce new obligations and measures on preventative supervision. In particular, they establish new requirements on product governance and independent advice, and include structured deposits within the scope of application of these rules. Furthermore, requirements are improved in such aspects as the liability of governing bodies, incentives, pre-contractual and periodic information to clients, cross-selling, training of sales networks, staff remuneration and best execution. These measures are complemented by the content of the MiFIR Regulation, which introduces specific powers of intervention for ESMA and national supervisors, which will allow the advertising, distribution or sale of a financial instrument, activity or practice under certain conditions to be temporarily banned or restricted.

Furthermore, after MiFID I had been in force for several years, the need arose to strengthen the regulatory framework of the securities markets to adapt them to the new market reality and to incorporate many improvements that became apparent in the financial crisis. Specifically, the new raft of legislation seeks to contribute to the creation of a more competitive, integrated and efficient securities market in the European Union with the following goals: i) to channel OTC trading to trading centres, ii) to increase transparency in the pre- and post-trading periods, iii) to introduce controls on algorithmic trading, iv) to recognise non-discriminatory rights of access to central counterparties, and v) to introduce limits on derivative positions on commodities.

The implementation of this new regulatory framework amounts to a significant step forward in the functioning of the markets and trading centres in the

European Union. In this regard, the CNMV has been very active in its advisory role to the Government in order to facilitate the incorporation of MiFID II in the Spanish legal system. The Draft Securities Market and Financial Instruments Bill, currently in its passage through Parliament, underwent a public consultation process which ended on 18 September 2017.

Given the lack of EU legislation that is transposed on time, and in order to provide market participants with the necessary legal guarantees to operate in accordance with the new regulations in a single market environment, the Council of Ministers approved a Royal Decree-Law<sup>3</sup> on 29 December to transpose the MiFID II Directive to the Spanish legal system in all aspects relating to trading centres – regulated markets, multilateral trading systems and organised trading systems.

In parallel, the CNMV issued a publication on 2 January 2018 as a reminder that other parts of MiFID II and MiFIR also apply directly as from 3 January in relation to those matters not covered by the Royal Decree-Law. This also stressed the direct effect of European directives in certain cases, in line with the case law handed down by the Court of Justice of the European Union.

The CNMV considers that market participants will, in general, adapt their organisations and activities to the set of rules and obligations deriving from MiFID II and MiFIR as from 3 January 2018. In order to facilitate the adaptation to the new set of rules, the CNMV published various documents in the months prior to its entry into force, with criteria and guidelines in this regard, and established a specific section on its web page with all of the relevant rules and information.

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1 Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments, modifying Directive 2002/92/EC and Directive 2011/61/EU.

2 Regulation (EU) No. 600/2014 of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments, modifying Regulation (EU) No. 648/2012.

3 Royal Decree-Law, of 29 December, on urgent measures for the adaptation of Spanish law in accordance with European Union regulations in relation to the securities market.



## 4 Issuers' financial and corporate governance disclosures

### 4.1 Financial disclosures

#### Annual financial reporting

Issuers of securities admitted to trading on an official secondary market or any other regulated market in the European Union which have Spain as their home Member State are obliged to file an annual financial report with the CNMV, comprising their audited annual financial statements, management report and statements of responsibility for their content, with the exceptions provided for in current legislation.<sup>1</sup>

Last year, the CNMV received a total of 309 annual financial reports for 2016 from 165 securities issuers. These figures include both the separate and consolidated reports and exclude those submitted by asset securitisation funds and bank asset funds. The number of reports submitted was 2.5% down on the previous year, mainly as a result of the delisting of several companies – essentially as they were subject to a takeover bid – and other issuers no longer being required to submit a report following the cancellation of their fixed-income instruments. This effect was partially offset by new listings of non-financial companies.

The percentage of auditor's reports with an unqualified opinion corresponding to the 2016 annual accounts rose slightly (0.9%) on the previous year (see Table 4.1.1). For the ninth consecutive year, all Ibex 35 companies submitted an auditor's report with an unqualified opinion.

The number of auditor's reports for asset securitisation funds stood at 362 (9.5% down on the previous year), all with an unqualified opinion. A total of 175 reports of funds included some type of emphasis of matter paragraph, mainly relating to the use of credit enhancements (reserve fund, line of credit, etc.), the repercussion of losses in liabilities, early liquidation of the fund or the measurement of assets held for sale.

Finally, in 2017 the CNMV received the audited 2016 annual accounts of three bank asset funds (five in 2015) and the interim financial statements – for the period between 1 January and 30 June 2016 – of two bank asset funds that were terminated on 30 June 2016. The reports of these last two funds contained an emphasis of matter paragraph relating to their termination.

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<sup>1</sup> See Article 121 of the recast text of the Securities Market Act.

**Summary of issuer audits received by the CNMV**

TABLE 4.1.1

**(excluding asset securitisation funds and bank asset funds)**

	2014		2015		2016	
	Number	%	Number	%	Number	%
<b>Audits received by the CNMV</b>	<b>340</b>	<b>100.0</b>	<b>317</b>	<b>100.0</b>	<b>309</b>	<b>100.0</b>
Separate accounts	189	55.6	170	53.6	165	53.4
Consolidated accounts	151	44.4	147	46.4	144	46.6
Special reports under Ministerial Order 30/09/92	11	–	9	–	7	–
<b>Audit opinion</b>						
Unqualified opinion	329	96.8	307	96.8	302	97.7
Qualified opinion	11	3.2	9	2.8	7	2.3
Disclaimer of opinion or adverse opinion	0	0.0	1	0.3	0	0.0
<b>Type of qualification</b>						
Audits with exceptions	1	0.3	1	0.3	3	1.0
Audits with scope limitations	10	2.9	9	2.8	7	2.3
<b>Effects of exceptions</b>						
<b>Effects on profit</b>						
Audits with positive effects	0	0.0	0	0.0	2	0.0
Audits with negative effects	0	0.0	1	0.3	0	0.0
<b>Effects on equity</b>						
Audits with positive effects	0	0.0	0	0.0	2	0.0
Audits with negative effects	0	0.0	1	0.3	0	0.0
<b>Nature of emphasis of matter paragraphs</b>						
Going concern related	46	13.5	36	11.4	34	11.0
Asset recovery related	16	4.7	15	4.7	10	3.2
Other circumstances	27	7.9	14	4.4	7	2.3

Source: CNMV.

The recast text of the Securities Market Act entrusts the CNMV with the task of verifying that the periodic public information included in annual financial statements has been prepared in accordance with applicable standards. In order to perform this duty, which is considered to be extremely important and to contribute year after year to improving the quality of the financial information of Spanish issuers, the CNMV is empowered to require listed companies to publish additional information, reconciliations, corrections and, if necessary, reformulations of their published financial information.

What this means in practice is that, where necessary, the CNMV approaches issuers requesting written clarifications or data on specific issues. The additional information companies provide in response to such letters is published in the official registers and can be consulted on the CNMV website.

Firstly, all reports received by the CNMV are submitted to review, focusing on their formal correctness and compliance with the applicable rules and standards, as well as other questions relating to specific regulatory changes. In the review of 2016 financial statements and management reports, this involved checking at least the following points: i) that the statement of responsibility for the content of the annual financial statements is signed by the directors (Article 8 of Royal Decree

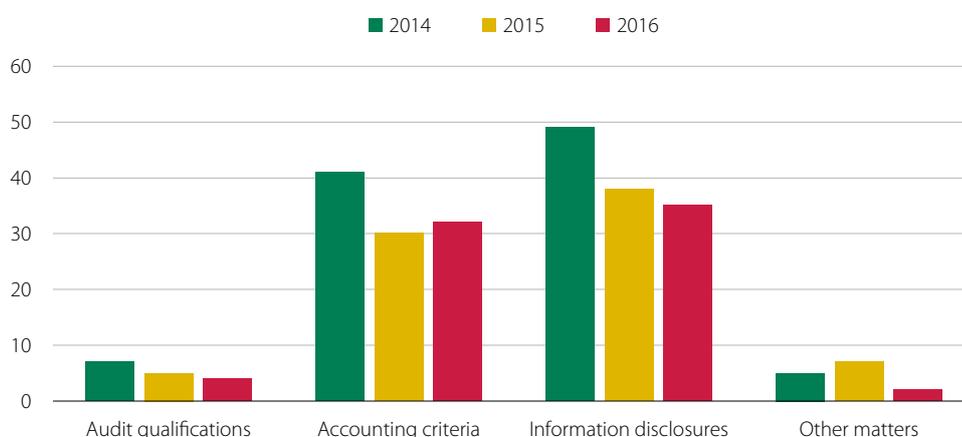
1362/2007, of 19 October, implementing the Securities Market Act 24/1988, of 28 July, with regard to transparency requirements relating to information on issuers whose securities are admitted to trading on an official secondary market or on another regulated market in the European Union (Royal Decree on Transparency); ii) that the Annual Corporate Governance Report is included as an integral part of the management report; iii) that there are no material differences between the annual financial statements and the financial reporting of the second half-year submitted previously and, in the event that such differences do exist, that they have been reported within the period of 10 business days following preparation of the accounts, in accordance with Article 16.3 of the aforementioned Royal Decree 1362/2007; and iv) that, where called for, the auditor has been duly rotated (Article 19 of the recast text of the Account Auditing Act, approved by means of Royal Legislative Decree 1/2011, of 1 July).

Secondly, the CNMV performs a substantive review of a certain number of audited annual accounts. Entities are chosen to be the subject of this review on the basis of a mixed selection technique based on risk and random rotation, in accordance with the ESMA Guidelines on Enforcement. In this regard, it should be pointed out that in 2012 European supervisors agreed to establish annually, in coordination with ESMA, common enforcement priorities for financial statements so as to promote the consistent application of international financial reporting standards (IFRS) throughout the European Union. In addition, the CNMV incorporates other critical review areas into its work plan which supplement the priorities established by ESMA.

This formal and substantive review led to 31 companies, excluding asset securitisation funds and bank asset funds, being sent deficiency letters in 2017 in respect of qualifications or requesting supplementary information on the 2016 annual financial reports, with the responses being published on the CNMV's website by means of the corresponding significant events. Figure 4.1.1 shows the main reasons deficiency letters were sent to listed companies over the last three years.

Reason for deficiency letters sent to issuers (excluding securitisation funds and bank asset funds)<sup>1</sup>

FIGURE 4.1.1



Source: CNMV. (1) Deficiency letters sent to issuers subject to formal and substantive review.

For the purpose of facilitating the dissemination of financial information, every year the CNMV publishes on its website a **Review of the annual financial reports** received each year, which sets out the main incidents detected in the review of annual and interim financial statements. A key section of this report identifies the priority

areas which will be subject to closer scrutiny in the following year's review process, including both the common review priorities established by ESMA and the specific areas selected by the CNMV following analysis of the economic climate, changes in accounting regulations and the experience acquired in prior-year reviews.

In three cases,<sup>2</sup> the supervisory work performed on the 2016 annual accounts led to a commitment to restate the financial information in 2017 by means of a modification of the comparative information. In their response to the deficiency letter (which is published on the CNMV's website), the respective issuers disclosed the results of the correction in the 2016 financial statements and undertook to amend the accounting classification or treatment in the 2017 annual financial report in accordance with the provisions of IAS 8: Accounting policies, changes in accounting estimates and errors.

As of 2010, the financial disclosures of securitisation funds have also been subject to two levels of review: formal and substantive. The supervisory work performed on the 2016 annual accounts of one securitisation fund<sup>3</sup> led to a commitment to restate its financial information in 2017 by means of a modification of the comparative information after de-registering certain securitised assets after detecting irregularities in its accuracy.

**Annual financial reports** are available on the CNMV's website, where the official registries of the audited annual accounts of companies that issue securities may be consulted.

### Half-yearly and quarterly reporting

Issuers of securities admitted to trading on an official secondary market or on any other regulated market domiciled in the European Union, where Spain is the home Member State, are also obliged to send financial information to the CNMV on a quarterly and half-yearly basis.<sup>4</sup> The review of this information has a narrower scope than that of the annual accounts, since interim financial statement forms contain summarised information.

As a result of the review work carried out, nine companies were sent letters requiring them to supplement or amend their periodic disclosures, and one issuer<sup>5</sup> undertook to restate its separate financial statements for the first half of 2017 in order to correct the accounting of the financial restructuring (although this correction has no impact on total equity, it entails a significant reduction in the profit for the period).

54.8% of issuers (55.56% in the same period of the previous year) submitted their financial information for the first half of 2017 to some type of review by auditors. This percentage climbs to 94.1% if we only consider Ibex 35 companies (91.4% in the same period of the previous year).

These reviews might entail a full audit (10 companies), in which case the auditor provides reasonable assurance regarding the interim financial statements, or

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2 Laboratorios Farmacéuticos Rovi, S.A., Liberbank, S.A. and Fomento de Construcciones y Contratas, S.A.

3 IM Auriga Pymes Eur 1, F.T.A.

4 Articles 119 and 120 of the recast text of the Securities Market Act.

5 Abengoa, S.A.

limited reviews (76 companies), in which the assurance offered by the auditor is only moderate. No qualified opinions were issued by the auditors.

### Other key issues related to financial reporting

With regard to **implementation of the new standards for financial statements prepared under IFRS**, it is likely that entry into force of IFRS 9: Financial instruments, IFRS 15: Revenue from contracts with customers, and IFRS 16: Leases, will have a significant impact on the financial statements of issuers given that the standards bring about a substantial change with regard to the current standards on the criteria for recognition, measurement and presentation. Therefore, in addition to including it as an enforcement priority, ESMA published two **documents on implementation of IFRS 15 (July 2016) and of IFRS 9 (November 2016)**, and expects these to be taken into account when preparing the 2016 annual accounts and the interim reporting of 2017. In this regard, entities should make an additional effort to provide qualitative and quantitative disclosures on the expected effect of the new standards as soon as possible and to offer, providing they are known or reasonable estimates can be made, disclosures of the assessment of the impact on the 2016 annual accounts and, to a greater extent, on the interim financial information for 2017.

A **tax reform** introducing significant regulatory changes in the United States was signed into law on 22 December and will take effect on 1 January 2018. Some issuers affected by the change have expressed their concern about the tight deadlines available for estimating the accounting effects of the reform under IFRS. Consequently, with the aim of avoiding inconsistencies between the accounting treatment of different European issuers, ESMA published a **document on the valuation of tax assets and liabilities**. Although a full understanding of the implications of the reform may take some time, ESMA expects issuers to be able to make a reasonable estimate of the impact of the material aspects in their 2017 financial statements. Given that the reported amounts may be subject to a high degree of uncertainty, entities must disclose clear information on the judgements used and the level of uncertainty or variability in the estimates.

In 2017, the CNMV emphasised that entities should submit **interim financial information in both English and Spanish versions**. In this regard, the CNMV reviewed the reporting in English in 2017, particularly the 2016 annual accounts and the first half-yearly financial report for 2017. Without forgetting that submitting information in English is voluntary, the CNMV believes it is necessary to establish some minimum criteria that cover aspects such as what information should be sent in English, what requirements must be met, how it should be sent and when it should be sent.

#### New requirements relating to non-financial and diversity information for large public-interest entities

EXHIBIT 7

With the publication of Royal Decree-Law 18/2017, of 24 November, Directive 2014/95/EU of the European Parliament and of the Council, of 22 October 2014, as regards the disclosure of non-financial and diversity information, was transposed into Spanish law.

This legislation requires capital companies which are considered to be public-interest entities with an average number of employees of over 500, and which at the same time are deemed large undertakings in the terms defined by Directive 2013/34, to prepare a non-financial statement. This statement should include information to the extent necessary for an understanding of the entity's and its group's development, performance and position, and impact of its activity relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters.

Undertakings fulfilling the obligation shall rely on national, EU-based or international frameworks, with the requirement to specify which frameworks they have relied upon. The company will be deemed to fulfil the obligation if it incorporates the information required by the aforementioned Royal Decree-Law 18/2017 into the management report. However, a company will be deemed to have fulfilled the obligation of preparing the non-financial statement if it issues a separate report expressly indicating that said information forms part of the management report and that the information required for said statement is included. This separate report will be subject to the same criteria for approval, filing and publication as the management report.

In order to facilitate the disclosure of this information, in May 2017 the European Commission approved non-binding guidelines on the methodology for reporting non-financial information, which included general and sectoral non-financial key performance indicators.

In addition, the *Guide for Setting Up Listed Companies' Management Reports* published by the CNMV in 2013 contains recommendations that listed companies may follow in order to prepare management reports, including the reporting of both financial and non-financial key performance indicators.

The aforementioned Royal Decree-Law amends Article 540 of the Capital Companies Act, regulating the content of the annual corporate governance report of public listed companies, extending the information on diversity policies in order to include not only those relating to gender, but also those concerning, for example, age, disability and professional training and experience.

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NB: The Report on the CNMV's review of the annual financial reports and main enforcement priorities for the following financial year, which is published annually on the CNMV's website, provides more detailed information relating to the CNMV's actions summarised in this section.

## 4.2 Information relating to significant shareholders, directors, managers and treasury shares

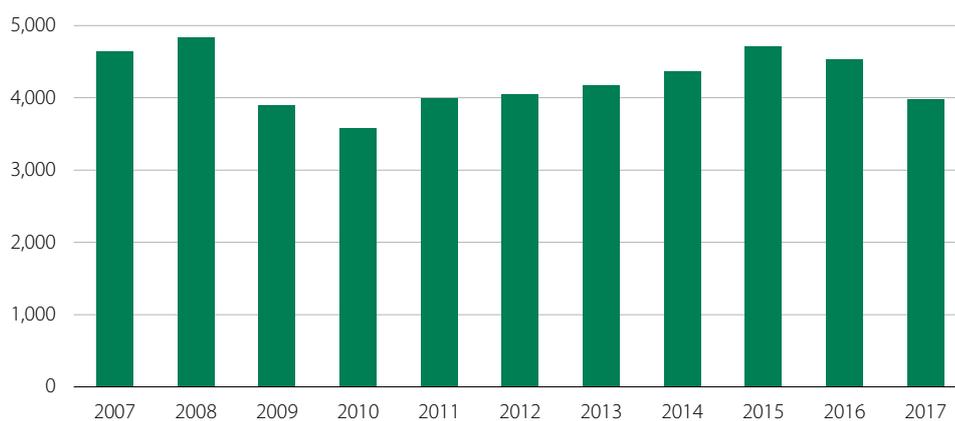
The reporting of significant shareholdings and transactions by directors, managers and closely associated parties, and the disclosure of listed company own share transactions (hereinafter notifications) are governed by Royal Decree 1362/2007, of 19 October, implementing the Securities Market Act, with regard to the transparency requirements of issuers whose securities are admitted to trading on an official secondary market or on another regulated market of the European Union (Royal Decree on Transparency), and by Regulation (EU) No. 596/2014 of the European Parliament and of the Council, of 16 April 2014, on market abuse (Market Abuse

Regulation), whose Article 19 regulates the notification requirement for persons discharging managerial responsibilities as well as persons closely associated with them.

A total of 3,976 notifications were validated in 2017, a fall of 12.2% on 2016. By subject, 37% corresponded to directors (40% in 2016), 37% to non-director significant shareholders (40% in 2016), 23% to managers (19% in 2016) and the remaining 5% to treasury share transactions (4% in 2016). Comparative information for the last 10 years is shown in Figure 4.2.1.

No. of notifications registered

FIGURE 4.2.1



Source: CNMV.

Validated notifications accounted for 89% of all those received (4,475), while the remainder were either cancelled or replaced, where appropriate, by new notifications.

The number of notifications cancelled due to error was 1.4% higher than in 2016. Most were cancelled at the request of the CNMV when it detected errors, omissions or inconsistencies.

As in previous years, the most common reasons for rectification of notifications were as follows: i) errors in the date, price or volume of reported transactions; ii) incomplete information regarding the indirect ownership of voting rights, caused, for example, by a failure to identify the chain of control of the companies through which the obligated party exercises control of the declared voting rights; and iii) inconsistency between the initial position declared by the obligated party in its new notification with the final position declared in the last notification registered. Another frequent error is that, after increases or reductions in the listed company's capital, obligated parties make erroneous disclosures of the total number of the issuer's voting rights and/or their own percentage holding.

39% of cancelled notifications were filed by directors, 35% by significant shareholders, 21% by members of the listed company's senior management and by entities or persons closely associated with the directors or managers of the listed company, and the remaining 5% corresponded to company declarations of treasury share transactions.

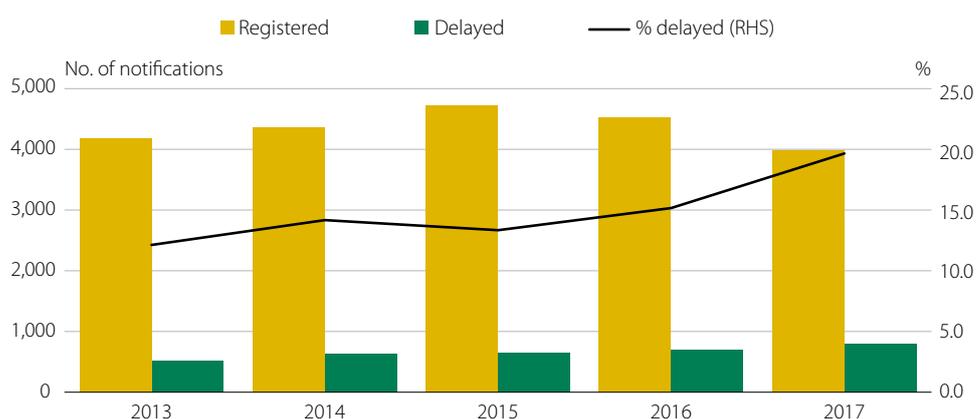
A total of 797 notifications (700 in 2016) were received outside the maximum time frame established by the regulations, equating to 20% of the total (15% in 2016).

73% of late notifications were filed by directors and significant shareholders (78% in 2016).

The proportion of notifications filed in 2017 with a delay of fewer than 7 days was 54.3% (55.5% in 2016). Delays exceeding 90 days accounted for 20.4% of the cases (11.7% in 2016). Comparative information for the last 10 years is shown in Figure 4.2.2.

Director and significant shareholder notifications submitted late

FIGURE 4.2.2



Source: CNMV.

Under the Royal Decree on Transparency, the first **notification threshold for significant shareholder voting rights** is set at 3% of share capital. If the shareholder is resident in a tax haven, this threshold drops to 1% and its respective multiples. The average annual number of notifications per significant shareholder stood at 4.1 (5 in 2016). The 1,393 notifications received in 2017 (1,681 in 2016) concerned significant shareholdings in 118 listed companies (116 in 2016) and were submitted by 338 separate shareholders (335 in 2016). Table 4.2.1 gives a breakdown of notifications received, grouped by intervals of voting rights and the market capitalisation of the companies involved.

Shareholders must also notify the CNMV of the purchase or transfer of financial instruments which entitle the holder to acquire a significant shareholding in terms of voting rights or which have a similar economic effect to those which give the right to acquire shares, whether or not these are settled by physical delivery, as established in the amendment to the Royal Decree on Transparency.

No. of notifications regarding significant shareholder voting rights

TABLE 4.2.1

	Total notifications	Under 5%	5% to 30%	30% to 50%	Over 50%
Ibex 35	600	428	140	15	3
Over 500 million euros <sup>1</sup>	523	330	148	28	6
Under 500 million euros <sup>1</sup>	270	177	57	21	2
<b>Total</b>	<b>1,393</b>	<b>935</b>	<b>345</b>	<b>64</b>	<b>11</b>
<b>% of total</b>	<b>100</b>	<b>67</b>	<b>24</b>	<b>5</b>	<b>1</b>

Source: CNMV. (1) Excluding the companies that form part of the Ibex 35.

With regard to **notifications relating to directors**, the Market Abuse Regulation (up to July 2016, the Royal Decree on Market Abuse) obliges directors of listed companies to disclose all transactions involving shares or financial instruments whose underlying instrument is shares of the listed company on whose board they sit. Such transactions are notifiable whether the director makes them directly or indirectly through third parties or persons with whom they are closely associated, as long as the director is able to exercise the voting rights at his/her own discretion. In addition, the Royal Decree on Transparency obliges directors to disclose their final position in voting rights or financial instruments. As shown in Table 4.2.2, in 2017, directors submitted 1,467 notifications on 134 companies, a fall of 18.4% on the number of notifications received in 2016.

**No. of notifications regarding director voting rights**

TABLE 4.2.2

	Issuers			Notifications			Directors		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Ibex 35	35	33	34	1,069	1,786	534	331	279	252
Over 500 million euros <sup>1</sup>	30	35	41	330	431	377	154	187	210
Under 500 million euros <sup>1</sup>	69	53	59	807	580	556	315	239	239
<b>Total</b>	<b>134</b>	<b>121</b>	<b>134</b>	<b>2,206</b>	<b>1,797</b>	<b>1,467</b>	<b>800</b>	<b>705</b>	<b>701</b>

Source: CNMV. (1) Excluding the companies that form part of the Ibex 35.

With regard to **notifications relating to managers and persons closely associated with directors and managers**, one of the most important modifications of the Market Abuse Regulation is that natural or legal persons closely associated with directors and managers must submit their notifications directly. The CNMV received 924 notifications from managers in 2017 (7.7% more than the 858 of 2016), which affected 65 companies (62 in 2016).

In **disclosures of treasury share transactions**, according to the Royal Decree on Transparency, listed companies are obliged to notify the CNMV of the share of voting rights in their possession when they make acquisitions amounting to or exceeding 1% of the company's total voting rights, without discounting sales or disposals. In April 2009, the ceiling for treasury shareholdings under the Capital Companies Act for listed companies rose from 5% to 10%. In 2017, the CNMV validated a total of 192 notifications of treasury share transactions (190 in 2016) which affected 55 issuers (60 in 2016). Table 4.2.3 shows the breakdown of notifications received last year, grouped by market capitalisation and percentage of final holdings of treasury shares.

**No. of treasury share notifications according to final position**

TABLE 4.2.3

	Total notifications	Under 1%	1% to 2%	2% to 3%	3% to 4%	4% to 5%	Over 5%
Ibex 35	108	51	10	7	34	1	5
Over 500 million euros <sup>1</sup>	46	28	7	2	1	6	2
Under 500 million euros <sup>1</sup>	38	17	6	5	7	1	2
<b>Total</b>	<b>192</b>	<b>96</b>	<b>23</b>	<b>14</b>	<b>42</b>	<b>8</b>	<b>9</b>

Source: CNMV. (1) Excluding the companies that form part of the Ibex 35.

The Capital Companies Act<sup>6</sup> requires disclosure of any **shareholder agreements** affecting listed companies or their controlling shareholders. Such notifications are registered as significant events. An agreement may regulate the exercise of voting rights or restrict the free transferability of shares and, in the first case, the CNMV analyses its effect on significant shareholding notifications. The CNMV received a total of 26 notifications of significant events relating to shareholder agreements in 2017 (14 in 2016), affecting 17 listed companies (12 in 2016).

The Royal Decree on Transparency provides that any agreement entered into with a third party whereby the parties use their voting rights to impose a lasting common policy in relation to the company's management or to significantly influence the course of the same must be notified as a **concerted action**. A total of five concerted action notifications were registered in 2017 (four in 2016), involving shareholders at four listed companies (same number as in 2016).

### 4.3 Corporate governance report

In 2017, 137 public listed companies and 25 fixed-income issuers filed their 2016 Annual Corporate Governance Reports (ACGRs), as provided in Article 540 of the Capital Companies Act, Article 31 of Law 26/2013, of 27 December, on savings banks and bank foundations, and the seventh additional provision of the recast text of the Securities Market Act.

In general, there were no incidents with the electronic receipt of the reports, though notices were sent to nine companies (eleven in 2016) for filing after the deadline.

On the basis of companies' ACGRs, the CNMV prepares and publishes on its website an annual report in which it analyses, in aggregate terms, issuers' main corporate governance practices and disseminates a wide range of statistical data for each individual entity.

According to the 2016 **Corporate Governance Report** of entities with securities admitted to trading on regulated markets, the most important **aspects and trends in the corporate governance practices** of listed companies are as follows.

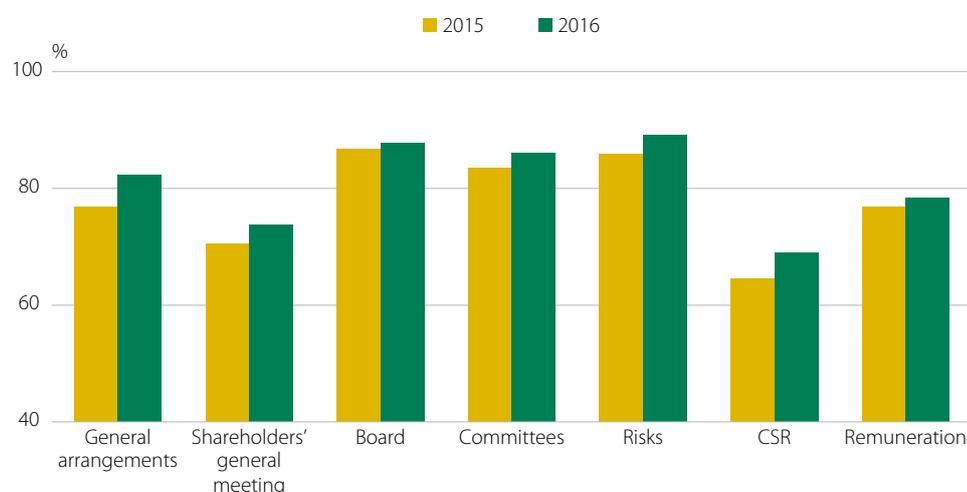
#### Application of the "comply or explain" principle

The level of compliance with the new Good Governance Code of listed companies in its second year of application (it was approved in February 2015) was high. Listed companies complied on average with 83.9% of the new code's recommendations (in 2015 the level of compliance with the recommendations of the Unified Code stood at 81.8%) and partially with a further 7.4% (8.8% in 2015). Therefore, on an aggregate level, listed companies did not follow, even partially, only 8.7% of the total recommendations.

As in previous years, Ibex 35 companies present an average percentage of compliance (90.1%) higher than the average recorded by listed companies as a whole.

Figure 4.3.1 tracks average compliance with the Good Governance Code recommendations, with a breakdown by category.

**Degree of compliance with the Good Governance Code recommendations** FIGURE 4.3.1



Source: Companies' ACGRs and CNMV.

The CNMV analysed a sample of 429 explanations for not following the recommendations included in the 2016 ACGRs (35.9% of the total), all of which related to the 10 least followed recommendations of the Good Governance Code.

As a result of the review of the criteria used by listed companies in their ACGRs to inform on the level of compliance with the Good Governance Code recommendations or to explain the reasons for non-compliance, the CNMV sent notices to 26 companies (25 in 2016) requesting information, additional clarifications or correct information with regard to compliance with certain recommendations set out in the code. Most letters sent included guidelines on how to improve the quality of the explanations given when not following the recommendations and suggested that the company should follow the *Technical guide on good practices for the application of the "comply or explain" principle*, published on the CNMV's website in July 2016.

In other cases, the notices requested clarifications on discrepancies or certain inconsistencies between the information disclosed in the ACGRs and other publicly available information on the company, its shareholders or directors.

### General Shareholders' Meeting

The average percentage of capital taking part in general meetings held in 2016 was 68.3% (69.6% in 2015). Average participation, in terms of the percentage of capital present or represented at the meeting, remains inversely proportional to the companies' free float, such that attendance tends to be higher when the free float of companies is lower.

### Board of directors and director categories

The total number of board members of listed companies rose to 1,346 (1,325 in 2015). The percentage corresponding to Ibox 35 companies fell slightly to 34% (34.7% in 2015).

The average board size stood at 9.8 members (9.7 in 2015), rising to 13.1 board members in Ibx 35 companies (the same number as in 2015). In 90.5% of companies (91.3% in 2015), board size lay within the 5 to 15 range recommended in the Good Governance Code. Boards with over 15 members (5.9%) were once again mainly within Ibx 35 companies.

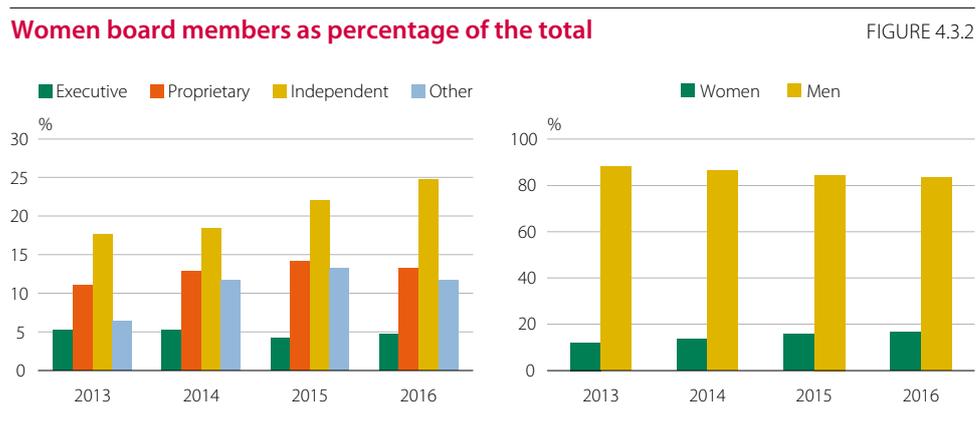
The chairs of the boards of listed companies continued to be mostly executive directors (54.7% of the companies, 1 percentage point up on 2015). The percentage of independent directors chairing the board rose to 10.9% (7.4% in 2015).

There was a majority of non-executive members on the boards of 98.5% of the companies (97.1% in 2015).

In 2016, independent directors accounted for at least half of the board members in 60% of Ibx 35 companies. Of the other companies, in 66.7% at least one third of the directors were independent.

The percentage of women on the boards rose by 4.6 percentage points between 2013 and 2016 to stand at 16.6% (15.6% in 2015) and at 19.7% in Ibx 35 companies (19.6% in 2015). This percentage is still far from the target of 30% of women board members by 2020 established in Recommendation 14 of the Good Governance Code of Listed Companies. By category, there was a noteworthy increase of 2.8 percentage points in the proportion of female independent directors, which rose to 24.8% of total independent directors in 2016. There was also a slight rise in the percentage of female executive directors to 4.7%. In contrast, the percentage of female proprietary directors and of other external directors fell on the previous year (13.3% and 11.7%, respectively).

Figure 4.3.2 shows the presence of women on boards by category.



Source: Companies' ACGRs and CNMV.

### Board committees

In 2016, 38% of listed companies had established board committees with executive functions (40.1% in 2015). All listed companies are required to establish an audit committee and an appointments and remuneration committee (or, in the latter case, two separate committees).

On 27 June 2017, the CNMV board approved the *Technical guide 3/2017 on audit committees at public-interest entities* with the aim of publishing certain good practices for the functioning, scope and responsibilities to be undertaken by audit committees.

The importance of audit committees within companies' corporate governance structure was first reflected in Spain in 1997 with the Olivencia Code. One of the main and most innovative recommendations in the code was that listed companies should create, from the members of the board of directors, an audit committee composed exclusively of external directors. This committee would be responsible for accounting information and oversight and relations with the external auditor and should include independent directors in proportion to the free float. Since that time, audit committees have taken on growing importance and in 2002, with approval of Law 44/2002, of 22 November, the Olivencia Code recommendation became a legal obligation for entities with listed securities. Subsequently, in 2015, Law 22/2015, of 20 July, on Account Auditing, extended this obligation, with some exemptions, to public interest entities (PIEs), a category that includes, in addition to listed companies, certain financial institutions subject to supervision and enterprises that exceed a given size threshold.<sup>1</sup>

There are two important aspects to bear in mind in order to understand this guide published by the CNMV. The first is that, in view of the wide range of entities to which it is addressed, not all of the principles or recommendations are applicable to all of them to the same extent. Each PIE must therefore adapt said principles and recommendations to its particular circumstances and features. The second important aspect is that, unlike the Good Governance Code, the guide is not intended to be applied under the principle of "comply or explain" as it refers to good practices based, ultimately, on common sense and supervisory experience. However, if an entity decides not to apply it to its full extent, it should be prepared to give an explanation of the reasons why it believes that the audit committee is able to achieve its aims and suitably perform the functions entrusted to it by law, despite not fully applying these principles or recommendations.

The guide is structured into two main chapters. The first chapter establishes some key principles to guide audit committees in the performance of their functions. The second sets out a series of criteria and good practices for appropriate and effective performance of the duties entrusted to these committees.

The second part of the guide sets out the basic principles, which form the basis for the other criteria and good practices for the proper and effective performance of the duties entrusted to the audit committee. These principles are as follows:

- Responsibility. The audit committee is responsible for advising the board of directors and for supervising and monitoring the process of preparation and presentation of financial information and for ensuring

the independence of the statutory auditor and the effectiveness of the internal control and risk management systems.

- Sceptical stance. Committee members must act with a critical stance, questioning the data and judgements provided to them in order to form their own opinion.
- Constructive dialogue that encourages members to speak freely. The audit committee must nurture constructive dialogue, encouraging members to participate and speak freely and to take a critical approach.
- Ongoing dialogue with the internal audit unit, the statutory auditor and management. In order to perform its role properly, the committee must put in place channels for effective communication with its usual points of contact. However, this ongoing dialogue should not threaten the independence of the committee or that of the statutory auditors. Therefore, the presence of managers, board members who are not committee members (especially executive directors) and other persons should be limited to those items on the agenda which require their presence and for which they have been previously invited.
- Adequate analytical capability (recourse to experts). The committee must have the power to seek and obtain expert advice or opinions as well as internal support and advice where considered necessary.

Finally, it should be highlighted that it is important for shareholders and other stakeholders to know and understand the activities performed by the audit committee each year and therefore it is essential for the committee to prepare an annual report with the minimum content suggested in Section 9 of the guide and that this report should be published on the company's website. This annual report should also be made available to shareholders upon the announcement of the ordinary general meeting, thus encouraging transparency in its actions and greater involvement of shareholders and investors.

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<sup>1</sup> See the full definition in Article 3.5 of Law 22/2015, on Account Auditing, and in Article 15 of the implementing Royal Decree 1517/2011.

Finally, for the last four years the CNMV has published on its website an *Annual Report on the Remuneration of Directors of Listed Companies*, which describes in aggregate terms the main features of the remuneration policies and practices applied to directors, obtained from the information included in the annual report on direct remuneration published by each listed company.

In 2017, 137 public listed companies filed their 2016 report, in accordance with the provisions of Article 541 of the Capital Companies Act.

The average remuneration per board and per director stood at 3.2 million euros and 344,000 euros, respectively, in 2016. These figures represent a 7.5% fall for the board and a 1.2% rise per director compared with the remuneration accrued in 2015.

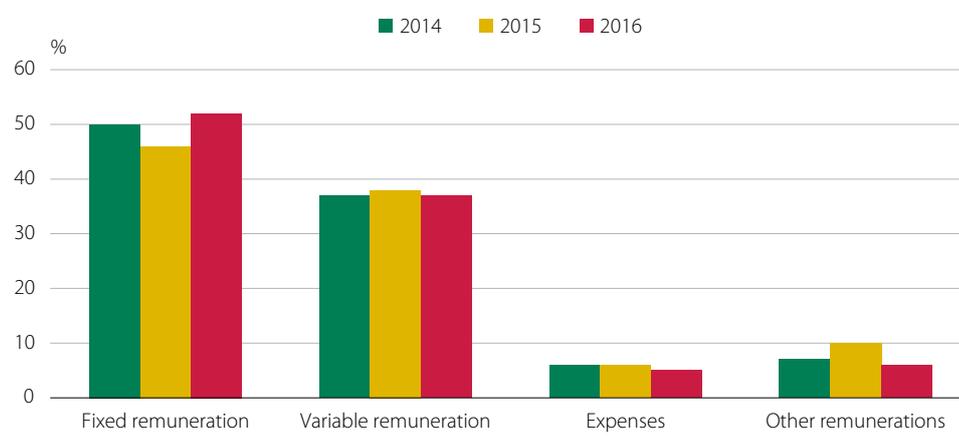
The fall in the average remuneration per board reflects the 12.7% reduction in average remuneration paid in companies that do not belong to the Ibex 35, together with a 5% reduction in Ibex 35 companies. However, if the non-recurring payments declared by two companies in 2015 for 15.9 million euros<sup>7</sup> and 21.6 million euros<sup>8</sup> are deducted, the average remuneration for listed companies as a whole would not change significantly compared with the previous year.

The increase in the average remuneration per director was largely due to the higher sums paid to executive directors, particularly in companies not belonging to the Ibex 35, and, to a lesser extent, to external directors, both in Ibex 35 companies and in companies not belonging to the index. This rise also reflects, firstly, the maturity of long-term incentive schemes and, secondly, the fact that as the calculation is made for four years, the one-off increases of 2015<sup>9</sup> have not been taken into account.

Figure 4.3.3 tracks the remuneration per board by item.

### Remuneration by item

FIGURE 4.3.3



Source: Companies' ACGRs and CNMV.

Fixed remuneration remains the most significant component making up remuneration, accounting for 52% of the total. The proportion of variable remuneration with regard to total remuneration remained stable and was more significant in high capitalisation companies.

7 Abengoa.

8 Talgo.

9 Abengoa and Talgo.



## 5 Supervision of the markets

### 5.1 Trading and post-trading

As shown in Table 5.1.1, the **number of transactions** in markets supervised by the CNMV fell by 8.7% on the previous year, which was reflected in the equity market as well as in the fixed-income and derivatives markets. The corresponding **volume** in these markets also fell in general (-4.5%), with the exception of the derivatives market, where volume increased.

**Number of transactions and volume**

TABLE 5.1.1

Markets	Number of transactions (in thousands)	% change trans. 16/17	Nominal / Effective (€ million)	% change vol. 16/17
<b>Equity</b>		-6.4		-0.2
2016	54,444		652,926	
2017	50,947		651,489	
<b>Fixed income</b>		-23.4		-38.6
2016	94		347,780	
2017	72		213,666	
<b>Derivatives</b>		-32.0		9.0
2016	5,198		666,012	
2017	3,534		726,158	
<b>Total markets</b>		<b>-8.7</b>		<b>-4.5</b>
<b>2016</b>	<b>59,736</b>		<b>1,666,718</b>	
<b>2017</b>	<b>54,553</b>		<b>1,591,313</b>	
<b>Settlement<sup>1</sup></b>		-46.6		8.3
2016	17,015		18,527,022	
2017	9,090		16,984,249	
<b>Clearing<sup>2</sup></b>		39.2		23.7
2016	75,710		1,873,050	
2017	105,398		2,317,536	
<b>Total</b>				
<b>2016</b>	<b>152,461</b>		<b>22,066,790</b>	
<b>2017</b>	<b>169,041</b>		<b>20,893,098</b>	

Source: CNMV. (1) The decrease in settlement is the result of the fact that up to 25 April 2016, stock market transactions were not netted in a CCP, which meant that each transaction was settled individually. (2) The increase recorded in BME Clearing does not reflect increased activity, but rather the fact that, for the CCP's equity segment, the 2016 figures only cover an eight-month period (27 April to 31 December).

The deficiency letters sent by the CNMV in the course of its market supervision, as well as the reports prepared in this area, are shown in Table 5.1.2.

**Summary of market supervisory activities**

TABLE 5.1.2

Markets	Deficiency letters	Supervision reports	Reports sent to other bodies and agencies	Periodic reports
<b>Equity</b>				
2016	127	70	26	26
2017	160	96	26	26
<b>Fixed income</b>				
2016	5	4	4	12
2017	19	4	18	8
<b>Derivatives</b>				
2016	2	6	2	29
2017	1	1	0	30
<b>Settlement</b>				
2016	11 <sup>1</sup>	1	1	0
2017	1	1	1	0
<b>Clearing</b>				
2016	22	2	0	12
2017	28	21	0	12
<b>Other</b>				
2016	40	9	0	52
2017	14	7	0	50
<b>Total</b>				
2016	207	92	33	131
2017	223	130	45	126

Source: CNMV. (1) All the letters deal exclusively with the reform of the clearing, settlement and registry system.

One of the main aims of supervising secondary markets is to detect and prevent possible market abuse conduct. With this aim, the CNMV uses various sources of information, particularly the daily reporting of transactions in financial instruments executed by investment firms, credit institutions and the branches in Spain of both types of entity. The information contained in this reporting is entered into an alarm system, referred to as the advanced system for monitoring secondary markets (Spanish acronym: SAMMS). Another important source of information is the reporting by firms of suspicious transactions.

The CNMV increased its supervisory work in 2017 in order to encourage entities not only to comply with this obligation, but also that they should do so by submitting information with a high standard of quality. For this purpose, in addition to sending various general notices to the entities subject to such obligations resulting from the general quality tests, the CNMV individually reviewed the transaction reporting of certain entities. The 29 deficiency letters in this area sent in 2017 referred both to failures to report and problems in the quality of the content of the reports.

In addition, for entities whose errors or omissions were recurrent, the CNMV requested information on the procedures and controls for reporting transactions and on the reports of their internal control or compliance units, in order to verify that they allow the entity to properly monitor its reporting to the CNMV.

In order to rectify the incidents, entities send supplementary reporting files in addition to those of the daily report that cancel or amend the incorrectly reported transactions (reporting them again) and report transactions which were previously omitted. A total of 113 supplementary reporting files were correctly submitted last year.

In 2017, the CNMV received 105 million registrations (22% down on 2016) from a total of 136 entities subject to the requirement to **report transactions executed in financial instruments**, of which more than half report on an almost daily basis.

In addition, the CNMV received over 263 million registrations from the competent authorities of other Member States of the European Union (an increase of 6.5% on the previous year). In turn, the CNMV sent over 23 million registrations (a fall of 18% on the previous year) to the competent authorities of other Member States.

In addition, the CNMV conducted intense work in preparation for application of the new transaction reporting regime under MiFID II (included in Article 26 of the MiFIR Regulation and its implementing standards), which entered into force on 3 January 2018. Much of this adaptation work has involved responding to the doubts raised by regulated entities.

The number of **suspicious transactions reported** – STOR: suspicious transaction and order report – totalled 235 (22% up on 2016) and, as in previous years, the bulk of the reports related to actual or attempted insider dealing (70%) and the others to possible market manipulation.<sup>1</sup> Most (61%) of the STORs received related to electronic market shares, followed in second place by a significant number of reports on derivative instruments (15%). Reports relating to fixed-income trading remained at a very low level.

Reports of suspicious transactions relating to Spanish instruments received from other regulators accounted for 40% of the STORs (54% up on the previous year) compared with 9% of the total for reports forwarded by the CNMV to other regulators (more than double the figure for 2016).

With regard to **temporary trading halts**, Table 5.1.3 shows a significant increase in the number of both issuers affected by listing suspensions (up 87.5%) and suspensions (up 100%).

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1 Article 1 of Commission Delegated Regulation (EU) 2016/957 defined suspicious transactions as: market manipulation, insider dealing, attempted market manipulation and attempted insider dealing.

## Temporary trading halts

TABLE 5.1.3

	2016	2017
Number of issuers suspended	8	15
Number of halts	9	18
Due to the need to disclose significant information	8	12
Due to expiry of acceptance period for delisting bids	1	5
Other	0	1

Source: CNMV.

The number of **disclosures of significant information** submitted to the CNMV in 2017 stood at 8,994 (3% up on the previous year). Table 5.1.4 provides a breakdown of significant event disclosures by type.

## Significant event notices received by the CNMV

TABLE 5.1.4

Type	2016	2017	% change 17/16
<b>Financial Instruments</b>	<b>4,794</b>	<b>5,087</b>	<b>6.1</b>
Capital increases and reductions	189	189	0.0
Public offerings for sale or subscription	47	46	-2.1
Dividend information	195	211	8.2
Block trades	36	57	58.3
Trading halts and resumptions	17	33	94.1
Credit ratings	86	117	36.0
Asset funds	3,219	3,275	1.7
Other financial instruments	1,005	1,159	15.3
<b>Business and financial position</b>	<b>2,067</b>	<b>2,201</b>	<b>6.5</b>
Earnings information	1,529	1,550	1.4
Insolvency proceedings	11	11	0.0
Other business and financial position	527	640	21.4
<b>Corporate transactions</b>	<b>451</b>	<b>425</b>	<b>-5.8</b>
Transformations, mergers, spin-offs and liquidations	65	36	-44.6
Strategic agreements with third parties	27	18	-33.3
Transfers and acquisitions of shareholdings	148	108	-27.0
Other corporate transactions	211	263	24.6
<b>Corporate governance and official notices</b>	<b>1,424</b>	<b>1,281</b>	<b>-10.0</b>
Notices and resolutions of general meetings and assemblies	520	476	-8.5
Composition of board of directors	277	318	14.8
Annual corporate governance report	172	171	-0.6
Other corporate governance	455	316	-30.5
<b>Total</b>	<b>8,736</b>	<b>8,994</b>	<b>3.0</b>

Source: CNMV.

A total of 18 **accelerated book builds for large packages of shares**, affecting 17 issuers, took place in 2017 (1 was subject to 2 book builds), compared with 24 and 12 in 2015 and 2016, respectively. These book builds were the result of: i) the sale to the public of shares held by a significant shareholder in the company; ii) the sale of

treasury stock by the company itself; or, to a lesser extent, although in some cases of significant importance, iii) capital increases carried out by the company without pre-emptive subscription rights which entail an effective raising of capital. This last category is an example of the market's capacity to facilitate, even in very short periods of time, sufficient liquidity to provide companies with the capital that they need. 12 of these operations involved issued shares held by one of the issuer's significant shareholders, while the other 6 involved shares resulting from capital increases. The percentages of the book builds ranged between 2.5% and 27%. One of the book builds was performed without a discount with regard to the closing price of the session, while the discounts for the others ranged between 2% and 17.8%. They all began following the market close and were completed prior to the start of the following stock market session.

The Market Abuse Regulation and its implementing standards define what is understood by market sounding and indicate the obligations that must be met so that disclosure of inside information made in the course of a market sounding are deemed to be made in the normal exercise of a person's employment, profession or functions and do not therefore constitute the unlawful disclosure of inside information. Such obligations apply both to the market participant that discloses information in the context of a market sounding and those that receive it. They refer to aspects such as whether the information disclosed is deemed insider information or the need to create and maintain records of the information that they disclose and to maintain a record of potential investors that they contact.

In 2017, the CNMV performed various supervisory actions of some of the accelerated book builds to determine whether they were performed in line with Article 11 of the Market Abuse Regulation. The actions performed on a selection of supervised operations – determined by the volume of the book build and the discount on the offered price – began with letters requesting information from the entities responsible for performing the accelerated book build and from entities that received information in the context of the market sounding. The CNMV also analysed possible insider dealing by the latter entities.

With regard to **treasury stock trading**, the CNMV continued monitoring the operations performed by issuers through **buy-back programmes** under the Market Abuse Regulation and its implementing legislation, Delegated Regulation (EU) 2016/1052.

In order to be covered by Delegated Regulation (EU) 2016/1052 (in the sense of a safe harbour), buy-back programmes, in addition to complying with the operational and transparency conditions established by the regulation, must have one of the following objectives as their purpose: i) to reduce the capital of an issuer, ii) to meet obligations arising from debt financial instruments that are exchangeable into equity instruments or iii) to meet obligations arising from share option programmes, or other allocations of shares, to employees or to members of the administrative body of the issuer or of an associate company.

There were 11 buy-back programmes in force and operative in 2017 corresponding to 10 issuers (1 issuer had 2 buy-back programmes). Seven of these programmes aimed to buy back shares for their subsequent amortisation while the remaining four were for share option programmes.

Supervision of the buy-back programmes was essentially focused on the following aspects: i) supervision of the significant event published by the issuer prior to the

start of the buy-back programme; ii) supervision of the significant event published by the issuer with the details of the transactions performed under the framework of the buy-back programme; iii) supervision of compliance with the conditions for operating in terms of volume in order to verify that the issuer did not buy more than 25% of the average daily volume of the shares; iv) supervision of operations in auctions; and v) supervision of compliance with the restrictions to trading implemented in the framework of the buy-back programme.

The Market Abuse Regulation and Delegated Regulation (EU) 2016/1052 also regulate as safe harbours stabilisation transactions intended to provide support for the price of an initial or secondary offering of securities during a limited time period if the securities come under selling pressure, thus alleviating sales pressure generated by short-term investors and maintaining an orderly market, which contributes to greater confidence of investors and issuers in financial markets.

In order for stabilisation transactions to benefit from the safe harbour, they must comply with a series of transparency and operational conditions. In this regard, supervision of stabilisation transactions performed in the framework of public offerings for sale or subscription focus on verifying compliance with said conditions, with particular attention paid to the following aspects: i) the price at which the stabilisation transactions are executed, which may never be above the offer price; ii) the volume of the shares subject to stabilisation; and iii) the significant events published in the context of the stabilisation, both relating to the transactions performed and to the start and end of the stabilisation.

Another of the lines of supervision in the area of treasury stock is that relating to **liquidity contracts** entered into by issuers with a financial intermediary. In 2017, the CNMV approved Circular 1/2017, of 26 April, which entered into force on 11 July, in order to comply with the provisions of the Market Abuse Regulation and to introduce improvements in its configuration in light of the experience acquired.

The main changes with respect to the previous regulation were as follows: i) extension of the scope to cover multilateral trading facilities; ii) establishment of a threshold associated with the average daily trading volume that can be executed in the scope of a liquidity contract, which will vary depending on whether or not the shares to which the contract refers have a liquid market, as defined in Article 2.1.17 of the MIFIR Regulation; iii) the inclusion of a maximum level of resources that can be assigned to a liquidity contract; iv) the obligation that the financial intermediary executing the market practice be a market member; v) the requirement that the volume of purchases and sales under the liquidity contract balance out over the long term; vi) the conditions for entering and amending orders in the auction periods, referring basically to the price and volume of such orders; vii) the conditions for performing block trades or other negotiated bilateral trades, arranged in accordance with current law, so that they are only permitted if the order in question is being executed at the request of a third party that is not the issuer of the shares or the financial intermediary acting on its behalf; viii) the conditions applicable to the transactions performed under a liquidity contract with shares that are traded by means of the fixing method; and ix) the cases where performance of the liquidity contract must be suspended.

When Circular 1/2017 was approved, the CNMV sent a letter to each issuer with liquidity contracts in force, as well as to the financial intermediaries, and answered the numerous enquiries they made by telephone. In addition, on the dates

immediately prior to its entry into force, most of the drafts of the new contracts and their corresponding significant events were received. The ordinary supervision focused on verifying compliance with transparency and operational conditions, with special emphasis on supervising the new obligations imposed by Circular 1/2017.

At year-end, 31 issuers held operating liquidity contracts.

Finally, the CNMV continued supervising the criteria it recommends for securities issuers and financial intermediaries in their **discretionary treasury stock trading**, published in July 2013, which establish instructions on the manner in which discretionary treasury stock trading should be carried out in terms of volume, price and time, internal organisation and control of the activity and on the disclosures to be made to the supervisor and to the market.

The CNMV supervises **changes in the composition of the Ibex 35 index** in order to analyse whether such changes meet the technical rules of the index and to detect any distortions in trading in the market aimed at favouring a share remaining in or joining the index. The CNMV also monitors whether any person might have traded making use of the insider information on which securities will join or be removed from the index. In the first ordinary review, in June, the technical advisory committee of the Ibex 35 agreed to add the shares of Inmobiliaria Colonial to the selective index, after having previously decided to remove the shares of Banco Popular as a result of its resolution (at which time the index was temporarily made up of 34 shares). In the second ordinary review conducted in December, the committee agreed to keep the composition of the index unchanged.

As from 1 January 2018, the European regulation on benchmarks applies, for which the CNMV is the competent authority. In accordance with this regulation, the Ibex 35 is classified as a regulated-data benchmark, and therefore its administrator is able to opt for a simplified system of obligations with regard to procedures, safeguards and other requirements of the regulation. However, the Sociedad de Bolsas has stated its intention not to exercise this option and the Ibex 35 will therefore comply fully with all the specifications resulting from the regulation.

With regard to **managers' transactions in closed periods**, the CNMV sent letters requesting information and warning letters to several issuers and persons discharging managerial responsibilities in the analysed companies in order to verify compliance with the obligations set out in Article 19 of the Market Abuse Regulation. Specifically, the CNMV focused its supervision, firstly, on determining whether the issuers complied with the obligation to notify in writing the persons discharging managerial responsibilities of their obligations under Article 19 and to draw up a list of all persons discharging managerial responsibilities and persons closely associated with them. Secondly, the CNMV aimed to determine whether the persons discharging managerial responsibilities complied with the ban (except with authorisation granted by the issuer) on conducting any transaction on his/her own account or on the account of a third party, directly or indirectly, relating to the shares and debt instruments of the issuer or to derivatives or other financial instruments linked to them during a closed period of 30 calendar days before the announcement of an interim financial report or a year-end report.

As in previous years, a good deal of the CNMV's supervisory work focused on compliance with the **obligations resulting from Regulation (EU) No. 236/2012** of the European Parliament and of the Council, of 14 March 2012, on short selling and

certain aspects of credit default swaps. These obligations are mainly in the following areas:

- Transparency regime.

The Regulation establishes a transparency regime with the obligation to notify net short positions in shares which reach or fall below 0.2% of the capital, as well as each additional 0.1% in excess of that percentage. In addition, the Regulation establishes the obligation to disclose positions which reach or fall below 0.5% of the capital, as well as each additional 0.1% in excess of that percentage.

In 2017, the CNMV received a total of 4,669 notifications of net short positions in shares (down 11% on 2016) and a total of 179 investors reported short positions, mostly US and UK hedge funds, as in previous years. At the end of the year, 66 issuers held net short positions, while a total of 86 were affected by short positions at some time during the year (79 issuers in 2016). The average of all the aggregate net positions weighted by market capitalisation stood at 0.70% of the capital at year-end 2017, compared with 0.98% at year-end 2016.

The CNMV performs different supervisory actions aimed at verifying compliance with the transparency regime established by the Regulation. In this regard, the CNMV performs an analysis of the notifications of net short positions and carries out periodic supervisions of notifications of net short positions of greater than six months so as to determine whether they remain in force or not. This work makes it possible to detect possible breaches of the Regulation by those holders who have not updated their net short positions by means of the appropriate notification, which led to the CNMV sending several letters requiring information. This analysis also allows the CNMV to keep an updated register of the net short positions in listed issuers on Spanish markets.

- Creation and increase in net short positions and compliance with conditions for performing short sales.

The CNMV sent various letters requiring information to determine how the reported net short positions had been generated and, as the case may be, to verify compliance with conditions for performing short sales. These letters were sent to various foreign entities that operate in Spanish securities markets.

This supervisory work is carried out on an ongoing basis and allows the CNMV to know which mechanisms and financial instruments are commonly used by investors to take a net short position in a security and the type of agreements reached in the short sales in order to comply with the Regulation.

In 2017, several members of Spanish stock markets notified the CNMV of their intention to make use of the exemption for market-making activities. In accordance with the Regulation on short selling, these entities are not subject to the obligations relating to notification and transparency of net short positions or the restrictions on uncovered short selling with regard to their market making activities. The CNMV analysed the notifications received and verified whether they were in line with the aforementioned regulation and the ESMA guidelines on the exemption for market making activities. The CNMV also notified ESMA that the applicant entities were going to make use of the exemption as market makers.

On June 12, in view of the movements in the share price of Liberbank, S.A., and its probable link to the resolution decision adopted by the Single Resolution Board on 7 June relating to Banco Popular Español, S.A., the CNMV agreed to ban short sales and similar transactions on the shares of Liberbank, S.A. The decision was initially adopted for a period of one month and received the favourable opinion of ESMA, which deemed it appropriate, proportionate and of justified duration. Certain operations were excluded from the ban so as not to harm liquidity of the bank's shares or the financing operations that it might carry out. The adopted resolution was renewed twice (on 12 July<sup>2</sup> and on 12 September)<sup>3</sup> and, once the entity's capital increase was completed, the CNMV agreed to lift the ban with effect as from 21 November..

### Action of the CNMV in relation to the crisis and subsequent resolution of Banco Popular

EXHIBIT 9

In the six months that elapsed between 30 November 2016 and 7 June 2017, the date on which the Single Resolution Board adopted the decision for the bank's resolution, Banco Popular was the focus of special attention from the media. It was also the listed company that published the most significant events (77, including those relating to financial transactions, cancellations, issues and similar operations) on the CNMV's website. The most important of these related to the change in the bank's chairperson, the resignation of its CEO, the impact on the bank of the European ruling on floor clauses, the 2016 results, the results of the first quarter of 2017, the adjustments to provisions and regulatory capital that the entity reported at the start of April, certain news published in the media, the process of a possible sale or merger that the entity had initiated and the downgrading of the rating of the bank and of its issues.

Throughout this period, the CNMV closely oversaw and actively monitored the significant events and the news that appeared in the media and urged the bank on several occasions, including by means of written requests, to publish more information and clarifications.

During the aforementioned period, the CNMV also actively monitored the financial information, particularly with regard to the aforementioned adjustments reported and published by the bank at the beginning of April 2017. This information was analysed in order to determine whether it made it legally necessary to restate the 2016 accounts or whether a restatement was technically appropriate regardless of the need to immediately and accurately provide information on the scope of the incident and its repercussions. The CNMV paid particular attention to the significant event in this regard, which

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- 2 The CNMV considered all the circumstances involved, including the movements in the share price, the volatility shown and the data available on securities lending. The extension was adopted for a period of two months and ESMA once again deemed the measure appropriate.
  - 3 This new extension was justified by the announcement made by Liberbank, S.A. calling an extraordinary general shareholders' meeting in order to approve a capital increase of 500 million euros. This further extension was adopted until 30 November, although the CNMV informed that its intention was to lift the ban as soon as the capital increase process was completed. As in the two previous occasions, ESMA deemed the measure appropriate.

was published on 3 April 2017, and it conducted several actions relating to said event.

Additionally, the CNMV was active in monitoring possible market abuse with regard to Banco Popular shares, undertaking various actions and investigations, including those aimed at identifying possible insider trading prior to publication of important information – such as the change in chairperson, the resignation of the CEO, publication of the 2016 results or certain press releases – and analysis and investigations on the evolution of the share price and the trading conducted in Banco Popular shares, particularly with regard to short selling, especially in order to identify possible manipulation. These actions gave rise to numerous requests for information and documentation, both in Spain and abroad.

The CNMV followed the movements in the share price at all times, taking into account the information available to the market. In this regard, it should be noted that although the share price recorded a downward trend in general terms, it was fairly stable from the end of the capital increase in June 2016 to the start of April 2017. At that time, the aforementioned unexpected adjustments were published leading to the share price falling significantly and then recovering. On 10 May, 3 weeks before its resolution, the share price still stood at 0.84 euros.

It was as from that moment that the share price began to fall more sharply. On 19 May, the share price stood at 0.72 and on 30 May, 1 week before resolution, at 0.65 euros. During this stage, additional negative news was published, including information that the Single Resolution Board was monitoring the bank's situation and it became known that the share was removed from the Morgan Stanley Capital International (MSCI) indices. It was in the last four days, following this information, that the sharpest and most dramatic falls in the share price were recorded. The CNMV did not suspend the listing of the share before the resolution as at no time was there a situation of disorder in the share's market or of serious information asymmetries. The CNMV always takes into account that suspensions leave those who wish to sell trapped and they should therefore be as short as possible, only until the corresponding information is clarified or the turmoil resolved.

The reported short positions in the share basically remained stable over the aforementioned six-month period, which meant that there was no significant net selling contribution from short investors over the period. In fact, the aggregate reported positions in the first stage (December and January) stood at between 9% and 10% of the capital and, as from that moment, when the 2016 results were published, until resolution, at between 10% and 12%. This level was higher than the share had recorded months previously – for example, during the months prior to the capital increase, the figure had been 7% – although lower than in other listed companies, but which could be explained by the negative information about the bank's operations. In the 7 days prior to the resolution, the reported aggregate short positions fell significantly, as they took place in a short period of time, by around 2%, which meant that they generated a net buying contribution in the share's trading.

## Fixed income

With regard to supervision of fixed-income markets in 2017, the following important aspects should be highlighted:

### *Adaptation of the Spanish fixed-income market to the new regulatory framework of MiFID II and MiFIR*

The changes introduced to the new legislative framework have affected the market model and the transparency of trading on AIAF. Trading is now performed electronically for all issues by means of two trading systems: an order book trading system with two trading methods (multilateral and bilateral) and a request for quote (RFQ) system.<sup>4</sup> The bilateral method accounted for most of the traded volume in the first months of 2018. In the multilateral order book system, the aggregate number of orders and the volume that they represent at each price level for the five best positions are published in real time for each instrument. In the request for quote system, the executable orders that respond to a request are published simultaneously. In both systems, the market has requested the application of waivers for orders that exceed a specific volume or which are for illiquid securities.

With regard to post-trade transparency, information including the time, price and volume of the trades is published in real time. In the case of transactions above certain volume thresholds or on illiquid instruments, the publication of such data may be deferred to T+2 or the publication of the volume may be postponed for up to four weeks. Such information, both pre- and post-trade, is provided on a reasonable commercial basis and must be made available to the public free of charge at 15 minutes following publication.

### *Migration of settlement to the pan-European TARGET2-Securities (T2S) platform*

New procedures are established in the AIAF market for settlement through Iberclear's new ARCO system, which replaces the CADE system. Similarly, the requirements to acquire the status of market member are updated, adapting them to the applicable legislation and eliminating, among other conditions, the requirement to be a participant of a central securities depository.

As a result of regulatory change, the CNMV approved the amendment of the AIAF regulation, in addition to the regulations of two new organised trading facilities (OTFs): CAPI and CIMD.

## Derivative products

The CNMV's supervision of **derivatives traded on MEFF Exchange** focused on daily trading, price trends and open positions. The CNMV closely monitored trading on dates close to the disclosure of significant information by the issuers of securities with derivatives traded on MEFF, as well as trading prior to suspensions of trading.

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4 Since 2010, this market already had an electronic platform for trading issues aimed at retail investors (SEND), which were joined in 2013 by issues of government bonds.

As part of the monitoring of open positions, during the weeks the contracts mature, the CNMV conducted a specific analysis of the roll-over of positions of the accounts with the largest open positions. The CNMV also monitored the performance of the Ibex 35 over the period for calculating the settlement price upon the maturity of the future.

In the **warrants segment**, the supervisory work focused on specialists' compliance with their obligations and on reviewing intraday trading. As part of this second aspect, the CNMV paid special attention to joint trading in warrants and their underlying assets by the same holder. The CNMV also analysed trading related to reporting of suspicious transactions linked both to spot trading and trading in other derivatives markets. In addition, the CNMV monitored the publication of significant information of the issuers of warrants and of the settlements corresponding to the different maturities.

### Clearing, settlement and registry

The Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (Iberclear) is supervised by the CNMV, which is the competent authority responsible for authorising, supervising and sanctioning central securities depositories (CSDs).<sup>5</sup> A significant part of the supervision conducted by the CNMV over the year related to the processes of adaptation to the T2S platform, which Iberclear joined in September.

In this area, the CNMV monitored settlement efficiency, particularly in the post-migration period. After joining the T2S platform, inefficiency ratios rose for both fixed-income and equity securities, although they stood at levels that were very similar to those in the European Union as a whole. The reasons for this increase in inefficiency include those resulting from the necessary adaptation to the new system and the removal of the incident management mechanisms by Iberclear in fixed income and the last resort loan of BME Clearing, as these do not fit within the operation of T2S.

In addition, several *ad hoc* activities were also performed, including the following: i) monitoring of the testing process for migration to T2S, the migration itself and the corresponding subsequent stabilisation stage, which in general terms was performed successfully both by Iberclear and its participating entities; ii) evaluation, together with the Bank of Spain, of the compliance of Iberclear – as CSD – and of Iberclear-ARCO – as a securities settlement system – with the principles for financial market infrastructures (PFMI);<sup>6</sup> and iii) analysis of the information submitted by Iberclear in October for its application for authorisation as a CSD.

In 2017, a very significant part of the CNMV's supervisory work was focused on verifying compliance by the Spanish central counterparty – BME Clearing – with the requirements of Regulation (EU) No. 648/2012 of the European Parliament and

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5 In accordance with Regulation (EU) No. 909/2014 of the European Parliament and of the Council, of 23 July 2014, on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012 (CSDR).

6 The aim of this exercise was to provide Iberclear with the necessary report to be deemed eligible for access to T2S services, in accordance with the framework agreement.

of the Council, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories (EMIR). In this regard, the CNMV performed a series of assessments on the manner in which the CCP meets prudential, operational, corporate governance and service quality requirements. For all segments, the CNMV analysed the evolution of open positions and the collateral requested with the aim of verifying that the registered risk was suitably covered.

In addition, the CNMV performed the following specific supervisory actions during this period: i) review of cyber-resilience measures, protocols and policies – in accordance with the principles published in June 2016 by CPMI-IOSCO; ii) instruction that the CCP should draw up a recovery plan – in line with that defined and developed in the principles for financial market infrastructures of CPMI-IOSCO and in anticipation of the future European regulation on the resolution of CCPs; and iii) the CNMV's participation in the European stress test designed by ESMA, during which the information provided by BME Clearing was assessed and checked.

Similarly, in 2017 the CNMV reviewed the request for authorisation submitted by BME Clearing in order to provide clearing services in natural gas derivatives, which required the risk models to be revised and modified. In May 2017, the CNMV authorised the CCP to carry on this activity and the new service is scheduled to start in the first quarter of 2018.

In addition, during 2017 the CNMV continued its work of **supervising the compliance of Spanish entities with their obligations under EMIR**. It frequently monitored the level of accuracy of the reporting sent by entities to trade repositories. In addition, the CNMV participated together with other Spanish authorities in the analysis exercises coordinated by ESMA to assess the quality of the information reported at a European level. Following the application in November of Commission Delegated Regulation (EU) 2017/104, which amended the regulatory technical standards that specify the content of the information to be reported, the CNMV monitored the effect that implementation of this measure had on the notifications made by Spanish entities. Finally, as a result of entry into force of the mandatory exchange of collateral regulated in Article 11.3 of EMIR, the CNMV requested that the most active Spanish entities in the OTC derivatives segment submit information on the manner in which they were complying with this requirement.

### The LEI code

EXHIBIT 10

The LEI (legal entity identifier) is a code that identifies a legal entity worldwide and permanently. Once assigned, this code is exclusive and unique to each entity, regardless of its nationality.

All LEI codes assigned by the local operating unit (LOU) are reported on a daily basis to a global database that is available to the public free of charge, the central operating unit (COU), which is managed by a Swiss foundation – the Global Legal Identity Identifier Foundation (GLEIF).

While MiFIR and its implementing regulations are not the first European rules to require the use of the LEI code to identify legal entities in reporting

obligations, they have had the greatest impact on the financial industry. This is because previous regulations required the LEI to identify legal entities that were counterparties to financial transactions (banks, investment firms, issuers, funds, etc.), while it is now required for any entity that carries out a transaction in a financial instrument, which may be as simple as, for example, the purchase or sale of a share or bond.

Thus, at the end of 2017, financial institutions worked to ensure that their legal entity clients obtained and communicated their LEI before 3 January 2018 so to prevent the trading of said clients being interrupted.

The institution responsible for allocating and managing LEIs in Spain is the College of Registrars. Managing the LEIs requires maintaining and updating the reference data associated with each code, which include, as appropriate, the entity's tax identification number.

The origin of the LEI code, which follows the ISO 17442 standard, lies in the Financial Stability Board (FSB) agreements of 2012. These agreements arose from the financial crisis of 2017 in response to the fact that it was impossible to measure financial risk and identify counterparties in a reliable way in order to take the pertinent preventive measures. This resulted in the inclusion of the LEI in the European EMIR Regulation and the US Dodd-Frank Act.

The use of LEIs is expected to increase as the different pieces of legislation incorporate it as the identification code for legal entities and the more it is used, the more entities will require it for their own internal management and the lower the corresponding maintenance cost will be.<sup>1</sup>

<sup>1</sup> The cost of allocating and renewing the LEI is determined on the basis of the costs incurred in generating it, which the GLEIF passes on annually to the LOs, and the latter in turn to their customers. Therefore, the higher the number of LEIs, the lower the cost.

## 5.2 The Market Monitoring Unit

Through its Market Monitoring Unit (Spanish acronym: UVM), the CNMV undertakes in-depth investigations of situations in which actions contrary to market integrity may have been performed. Firstly, the investigations aim to detect cases of the illegal performance, recommendation or disclosure of insider dealing and, secondly, manipulation practices performed in securities markets. In both types of investigation, the CNMV also reviews such aspects as proper preparation and maintenance of insider lists or the effectiveness of the mechanisms, systems and procedures of entities providing investment services for identifying and reporting transactions suspected of market abuse to the CNMV. On completion of the UVM's investigations, the CNMV decides whether to apply measures, including disciplinary measures.

As a result of the aforementioned investigations, in 2017 six disciplinary proceedings were initiated affecting eleven legal or natural persons for the commission of the following infringements:

- One issuer and one broker-dealer for market manipulation in the trading performed with the issuer's shares.

The issuer had performed, with the brokerage of a broker-dealer, discretionary transactions with its own shares that accounted for a significant volume of trading on the order market, which distorted free price discovery. In addition, the issuer held a clear dominant position during the periods in which the prices of the opening or closing auctions were set. The issuing company chose not to sign a liquidity contract<sup>7</sup> or to entrust management of its treasury stock to a third party, performing discretionary trading of its treasury stock that was not in line with the criteria recommended by the CNMV (published in July 2013). The disciplinary proceeding was also brought against the chairperson of the issuer as the party responsible for the irregular trading, as well as against the broker-dealer that brokered the transactions for failing to make the corresponding suspicious transaction report.

In addition, the broker-dealer and its chief executive officer were affected by the commencement of another disciplinary proceeding for performing transactions with no real change in ownership of the shares of that same issuer – purchases and sales in which the buyer and seller is the broker-dealer itself. These transactions consumed significant trading volumes in the periods in which the opening and closing prices of each session are determined and therefore gave a distorted image both of trading volumes and of price discovery in those periods.

- One issuer for market manipulation in trading with its own shares.

As in the previous case, this issuer chose not to enter into a liquidity contract or to entrust management of its treasury stock to a third party and performed discretionary trading of its treasury stock that was not in line with the criteria published by the CNMV. The issuer issued purchase orders in order to moderate or prevent the fall in the price of its own shares. It therefore bought shares in the opening in order to maintain the price prior to the closing; it entered large orders during trading in order to slow down or hinder natural market trends; and it entered orders immediately before or during the closing auction period in order to maintain a specific closing price. These practices were undertaken consuming large volumes of the demand for its own shares and thus hindering free price discovery through the participation of third parties. The disciplinary proceeding was also brought against the broker-dealer that brokered the transactions as it failed to file a suspicious transaction report despite having detected and analysed the issuer's trading in its own shares.

- A natural person for market manipulation in various shares as a result of the transactions of various owners.

A natural person, decision maker and ordering party of the trading for the person's family group, gave a few large-volume orders on the shares of several issuers, which led to an increase in their price, which was used to unwind positions in favour of one of the participants in the trading. In these sequences of

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<sup>7</sup> Under the provisions of CNMV Circular 1/2017, of 26 April 2007 (formerly, Circular 3/2007, of 19 December 2007, on liquidity contracts for the purpose of their acceptance as a market practice).

purchases at growing prices, when the sellers did not appear, the natural person ordered sales for one of the holders (including the actual buyer) thus generating transactions that made no economic sense.

- One director of an issuer for insider trading.

The director of an issuer made an order for the sale of the shares of that company to a related person, despite having been included in the list of insiders as a result of knowing, within the context of the director's functions, insider information relating to a significant financial restructuring process.

- One broker-dealer for market manipulation as a result of orders and transactions on its own account.

One broker-dealer, the main buyer and seller in certain trading sessions of one specific security triggered changes through small-sized orders either in the prices or in the purchase order book of said security. Most of these orders were executed against the broker-dealer itself in trades without a change of ownership as part of a manipulation strategy. The small fluctuations generated in the share price allowed the broker-dealer to make a profit when unwinding the previously taken positions.

Finally, the CNMV's Executive Committee decided to send a formal communication to an entity which provides investment services in order for it to establish appropriate internal procedures for processing share buy and sell orders for significant quantities that it received from other entities.

### 5.3 Credit rating agencies

In the scope of the powers relating to regulating credit rating agencies,<sup>8</sup> in 2017 the CNMV continued its supervision of compliance by Spanish issuers of their obligation to consider hiring small agencies<sup>9</sup> to rate their issues or the issuer itself when appointing at least two credit rating agencies. It thus completed the work aimed at harmonising application of this requirement by ESMA.

The common approach (in the form of a "supervisory briefing") for application of the provisions of the Credit Rating Agencies Regulation relating to the use of smaller agencies was published on the ESMA website on 6 April. This document aims to facilitate supervision and application of these obligations by competent national authorities and proposes a standard form for documenting the decision not to designate a small agency.

The CNMV continues to actively cooperate with ESMA in the implementing regulations on rating agencies as well as disciplinary procedures and authorisations and

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8 Regulation (EU) No. 462/2013 of the European Parliament and of the Council, of 21 May 2013, amending Regulation (EC) No. 1060/2009 on credit rating agencies.

9 Article 8d of the Agencies Regulation, relating to the use of multiple credit rating agencies by an issuer, establishes that where issuers intend to appoint at least two credit rating agencies for the credit rating of the same issuance or entity, they shall consider appointing at least one small credit agency, with no more than 10% of the total market share (in accordance with total revenue) from among the list of agencies published by ESMA, providing the issuer considers it capable of rating the relevant issuance or entity.

rejections of registrations of new agencies in Europe. Particularly noteworthy in this regard are the guidelines on the endorsement of ratings issued in non-EU countries, which amended the previous standards such that agencies that intend to endorse ratings issued by companies of their group outside the European Union for regulatory purposes in Europe will be required to verify and demonstrate on an ongoing basis that the conduct of the agencies of third countries is as “stringent” as provided for in the EU Regulation.

**CNMV actions in the  
securities markets**  
Supervision of the markets



## 6 Supervision of entities

### 6.1 Investment firms

2017 was a year of intense activity for the CNMV as, in addition to its usual supervisory work, it prepared for the imminent introduction of MiFID II,<sup>1</sup> MiFIR<sup>2</sup> and the PRIIPS Regulation,<sup>3</sup> all of which apply as from January 2018.

Table 6.1.1 shows that, as a result of these supervisory actions, the CNMV sent out a total of 1,014 deficiency letters to supervised entities (a similar figure to 2016), 912 of which originated from off-site supervision.

**Supervision of investment firms and credit institutions:  
deficiency letters sent by the CNMV in 2017**

TABLE 6.1.1

Type of deficiency letter	Off-site	On-site	Total
For late filing of information	157	1	158
Requests for information	177	110	287
Corrective measures or recommendations	162	25	187
Other notifications	317	65	382
<b>Total</b>	<b>912</b>	<b>213</b>	<b>1,014</b>

Source: CNMV.

### Conduct of business rules and organisational requirements

In 2017, the CNMV continued to maintain ongoing contact with the sector to hear its concerns and share opinions on the implementation of the new legislation. It also promoted appropriate interpretive and supervisory convergence in the international groups in which it participates.

In addition to the work carried out at a European level – the publication of numerous questions and answers by ESMA and the Joint Committee of EBA, ESMA and EIOPA – the CNMV published various question and answer documents to address the issues raised by the industry in relation to MiFID II and the PRIIPS Regulation.

In its supervisory work, the CNMV continued to perform **horizontal reviews** in which it analyses compliance with a particular aspect by a representative sample of the

1 Directive 2014/65/EU on Markets in Financial Instruments.

2 Regulation (EU) No. 600/2014 on Markets in Financial Instruments.

3 Regulation (EU) No. 1286/2014 on key information documents for packaged retail and insurance-based investment products.

entities providing investment services. In particular, in 2017, the CNMV reviewed the following issues included in the 2017 Activity Plan: i) the content of the advertising information on entities' websites; ii) the content of the entities' periodic compliance reports and the organizational structure of the compliance function; and iii) measures to enhance the protection of retail customers in the marketing of CFDs and other speculative products. These actions and their conclusions are described below.

### **Horizontal review of the content of the advertising information on the websites of credit institutions**

EXHIBIT 11

The advertising information of the different instruments (products and services) that are offered to retail customers is a key element in their acquisition and the Internet has become a medium for broad dissemination of information and for promotion.

In 2015, the CNMV performed a review of the advertising of collective investment schemes (CIS) provided by management companies and distributors on their websites. Subsequently, in 2017, the CNMV deemed it appropriate to supplement said analysis with a review of the advertising information contained on the public websites of credit institutions.

The 2017 review was performed on a representative sample of 20 institutions, which accounted for approximately 90% of the retail clients of credit institutions that are users of investment services. The general aim of the review was to verify that the information provided on financial instruments on the public website was accurate and balanced and corresponded, as the case may be, to the legally required information documents.

The bulk of the advertising information provided on public websites relates to CIS and therefore many of the verifications were focused on this type of product. General information is also often provided with respect to services relating to equity products or portfolio management. In contrast, specific information is not usually given on other types of financial instruments of the securities market.

The review identified a number of weaknesses, including the following:

- **General advertising messages and promotional campaigns for specific products.**

The general descriptions of products or services sometimes include advertising messages which do not clearly identify their promotional nature.

The promotional campaigns of certain products (generally mutual funds) often do not provide easy access to the legal documents describing the instruments included in the funds.

In certain cases, the general description of some product categories highlights certain benefits without making any reference to the fact that the features, risks and costs vary depending on the specific product in question within said category.

– **Advertising information relating to mutual funds.**

In addition to providing the legally required information documentation (KIID, prospectus, half-yearly reports, etc.), public websites also usually include other types of information documents, referred to as “factsheets”. By their very nature and the way in which they are made available to customers, these factsheets are not a short advertising medium to highlight specific aspects of the products, but rather they are used to inform customers about their nature, risks and costs as an alternative to the legally required documents.

Taking into account that the legislation establishes that entities are required to provide evidence that they have given the KIID to customers by obtaining a signed copy during the sales process, the CNMV believes that it is advisable for these documents to also be used during the preparatory process for the provision of the investment service. Therefore, access to these documents should be prioritised and appropriately highlighted on the website. However, the CNMV noted that some websites prioritise access to the factsheets over the legally required documents.

Although the CNMV deems it acceptable for these factsheets to be prepared and used, they should not contain inaccuracies or contradict the information contained in the KIIDs and they must include all the essential information contained in the latter, including, as the case may be, the same warnings.

The most frequent shortcomings noted in the revised factsheets were: i) the warnings in the KIIDs were not included or were given less importance; ii) the existence of the required legal documents was not mentioned prominently; iii) the investment policy, information on past performance or other relevant information (risk markers, recommended time horizon, costs, etc.) were not sufficiently described; and iv) the waivers of liability with regard to the accuracy of the data included in the factsheet were not appropriately included.

– **General information on equity-related services.**

Irrespective of whether information is provided elsewhere on the website, those sections specifically designed to report on equity-related services did not always provide easy access to the best execution policies or to the fees and costs of the service.

The conduct of business rules of securities markets establish the general duty of entities providing investment services to give information to their customers, an aspect the CNMV deems of particular importance. Retail customers in particular must be appropriately informed and the information provided to them during the acts that are preparatory to the provision of an investment service must be fair, clear and not misleading. Furthermore, the information should not highlight the potential benefits of the instruments without providing a balanced explanation of other aspects, such as their risks and costs.

## Supervision of the content of the entities' periodic compliance reports and the organisational structure in relation to the verification of regulatory compliance

In almost all the cases analysed, the CNMV noted some type of functional hierarchy or reporting mechanism of the compliance function to the board of directors. There were, however, a variety of types of hierarchical structure in this area. In some entities, the compliance officer reports hierarchically to the board of directors, the chairperson or the CEO and does not combine functions that pose potential conflicts of interest. In contrast, in other cases this responsibility falls within the general secretariat when the general secretary is in turn responsible for legal advice, which may generate (particularly in entities with significant or complex trading in the securities market) conflicts of interest that should be avoided. In general, the board of directors is the body that appoints the compliance officer, as required by MiFID II.

In some cases, the human resources allocated to supervising compliance with securities market legislation are relatively limited bearing in mind the size, type and volume of trading performed. The CNMV therefore recommended that some entities evaluate the sufficiency of the resources allocated to said department.

With regard to the content of the periodic reports, although most compliance functions indicate that they monitor all areas and matters required by Spanish legislation, they sometimes do not reflect in their annual report the appropriate explanations of the work performed for each of them. In addition, the periodic reports do not always include a specific section that allows proper monitoring of the measures proposed for resolving incidents detected in prior verifications or their effective level of implementation.

### Measures to improve the protection of retail customers in the marketing of CFDs and other speculative products

EXHIBIT 12

There has been an increase over recent years in Spain and other European countries in the marketing to retail customers of increasingly complex and risky financial instruments, such as contracts for differences (CFDs), rolling spot foreign exchange contracts (Forex products) and binary options.

Due to the sophisticated nature of these financial instruments and the difficulty involved in understanding their risks, their marketing to retail customers has long been of concern to both ESMA and the CNMV. Both bodies have made several warnings aimed at investors, highlighting the risks and high probability of losses.

The various studies conducted by the CNMV and by other security supervisors have shown that in most cases the customers trading with this type of product have lost the money that they have invested. According to data from the latest CNMV study, between 1 January 2015 and 30 September 2016, 82% of the clients that performed transactions with CFDs suffered losses.

It was found that the warnings to investors up to that time had not been fully effective. Consequently, in accordance with the commitment set out in the CNMV's Activity Plan, in the first half of 2017, it implemented a series of measures to strengthen the protection of retail investors in Spain when

investing in CFDs, Forex products and binary options. The measures implemented were as follows:

- The CNMV sent requests to the financial intermediaries that marketed (outside the scope of advisory services) CFDs or Forex products with a leverage greater than 10 times (10:1) or binary options to retail customers established in Spain. These requests required intermediaries to:
  - Expressly warn customers that the CNMV considers that the acquisition of these products is not appropriate for retail customers due to their complexity and risk.
  - Inform customers of the cost that they would incur if they decided to close the position as soon as they contracted the product. In the case of CFDs and Forex products to also warn them that, due to the leverage, the losses may be greater than the amount initially paid for the purchase of the product.
  - Obtain a handwritten text or recording from the customer that provides evidence that they are aware that the product that they will acquire is particularly complex and that the CNMV considers that it is not appropriate for retail investors.
  - Ensure that the advertising used by entities to promote CFDs, Forex products and binary options always contains a warning about the difficulty in understanding these products and about the fact that the CNMV considers that they are not appropriate for retail investors due to their complexity and risk.

Entities marketing such complex and high-risk products must adapt their procedures and systems so as to be able to provide the above warnings and to obtain the above-mentioned handwritten or oral statements.

In the second half of 2017, the CNMV conducted a horizontal review to verify the implementation of these measures by the financial intermediaries that it supervises.

- The CNMV approached the securities supervisors of other European countries, in particular the supervisory authority of Cyprus, with the aim of also protecting retail customers that trade with these instruments through intermediaries that market them in Spain under the freedom to provide services. Supervisors were asked to require intermediaries registered in their territory to comply with the above warnings and actions.

Through its participation in ESMA, the CNMV continues to actively advocate that coordinated measures should be adopted at a European level in this area to improve investor protection, which has been reflected in the Board of Supervisors of ESMA agreeing, on 27 March 2018, to prohibit the marketing of binary options and to establish certain restrictions to the marketing of contracts for differences (CFDs) in order to protect retail investors (as described below in the section on ESMA).

## Technical guide for the assessment of the knowledge and competence of staff giving information and advice

EXHIBIT 13

In order for investors to understand the risks of the products in which they invest, it is necessary that the person offering them such products has the necessary knowledge to understand them, assess whether they are appropriate or suitable for each client and be able to explain them. Until now, this responsibility has fallen to entities providing the services, which have designed their sales networks based on very generic legislative obligations relating to the need to have human and material resources that are appropriate to the services that they intend to provide.

MiFID II further specified these requirements by including, among other aspects, the obligations for Member States to publish the criteria used to assess the knowledge and competence of the staff providing advice or giving information on financial instruments, investment services or ancillary services to clients on behalf of the investment firm.

In order to specify the criteria necessary to assess such knowledge and competence, on 22 March 2016, ESMA published the *Guidelines for the assessment of knowledge and competence*, relating to the staff that provide information and advice, applicable as from 1 January 2018.

Taking into account these guidelines, on 27 June 2017, the CNMV approved *Technical Guide 4/2017*, which specifies the criteria which the CNMV considers appropriate so that institutions may demonstrate that the staff that give information or that give advice on investment services have the necessary knowledge and competence. This guide imposes organisational requirements on the entities subject to its provisions in order to guarantee that the relevant staff have the appropriate knowledge and competence, with the management body required to establish criteria relating to the qualifications and experience of said staff and to designate the unit in the group responsible for compliance. Similarly, the guide establishes details on the minimum subjects and knowledge.

The guide also establishes that the CNMV will publish a list of qualifications or certificates which will demonstrate that the relevant staff are suitably qualified to provide the services indicated in the list in each case. However, financial institutions may, under their own responsibility, consider appropriate qualifications or certificates other than those included in the aforementioned list providing that its compliance unit verifies the equivalence between the training and assessment activities corresponding to said qualifications and certificates and the criteria and characteristics set out in the technical guide. Similarly, the financial institution may consider as appropriate qualifications whose scope does not cover all the aspects required in the guide if the training and assessment is completed such that all aspects are covered. They may also consider as valid qualifications or certificates accepted as appropriate and published by other competent national authorities.

In July 2017, the CNMV began an analysis of the applications submitted by the entities interested in having their qualifications or certificates included in

the list. From approval of the technical guide until 31 December, a total of 42 applications with their corresponding qualifications or certificates were received, 16 of which have received a decision from the CNMV. This led to 36 qualifications or certificates (13 of them from universities) being added to the CNMV's list in 2017: 26 to demonstrate the knowledge and competence of the staff providing investment advice and 10 to demonstrate the knowledge and competence of the staff providing information on investment products, investment services and ancillary services.

It is also of interest to note the **main incidents detected in the recurring reviews on compliance with conduct of business rules and organisational requirements**. Since 2015, the CNMV has received detailed quarterly information on the products that the main entities market to retail clients. In 2017, it continued with the early analysis of the investment trends reflected in the data received in order to identify products or trends of particular supervisory interest which might demand close attention from the CNMV. In this regard, there was an increase in ordinary stock market trading by retail clients, while trading in derivatives remained stable compared with 2016. Stock-market trading of CIS rose slightly on the previous year and continued to account for a very significant portion of the trading of retail clients. Equity trading remained stable compared with 2016. In fixed income, trading of non-complex instruments fell, while trading in complex instruments (financial contracts, structured bonds and other complex bonds such as bail-inable debt instruments of credit institutions) rose. At any event, the volume of fixed-income trading of retail clients is much lower than their trading in CIS or equities.

The main incidents detected in the inspections performed are shown below:

- Deficiencies in compliance with conduct of business rules relating to duties of diligence and transparency in dealing with clients.
- New cases of entities recommending or acquiring, in the context of the provision of the discretionary portfolio management service, classes of CIS that were less favourable than those clients could access.
- Deficiencies in information and inappropriate management and identification of conflicts of interest by one entity conducting significant brokerage and trading on its own account in public debt instruments for professional clients and eligible counterparties. In this case, a disciplinary proceeding was initiated.
- Need for improved information for investors in the case of one crowdfunding platform. The early supervisory action carried out revealed the need for substantial improvements with regard to the information offered on the projects published, particularly in relation to their risks, profitability and costs or the advertising offered, among other aspects.
- Aggressive campaigns to attract investors by the branch of a European investment firm and one financial advisory firm, which brokered and advised, respectively, on complex and leveraged products.

In 2017, the CNMV received the **2016 annual accounts and report of crowdfunding platforms** from a dozen entities registered at the end of said year. As a supplement to this documentation, the CNMV also collected a variety of information relating to the position and activity of the platforms as well as an auditor's report on the appropriateness and effectiveness of the procedures and the reliability of the information provided. The review undertaken revealed that this sector is still relatively small and that certain improvements need to be introduced into the platforms' procedures, although no incidents with a significant effect were observed.

### Prudential requirements

The prudential supervision of investment firms is carried out, firstly, by analysing their economic-financial situation and net worth viability and, secondly, by verifying that they comply with the solvency requirements laid down in the specific legislation. The ultimate aim is to ensure that these firms have sufficient own funds to take on the risks associated with the activity that they perform. The bulk of this supervision is based on an analysis of the information sent periodically to the CNMV, which is complemented by on-site inspections.

As in other years, the sector as a whole had ample own funds in 2017 (see Chapter 3.2.2). As part of its supervisory tasks, the CNMV closely monitored the firms that had revealed net worth or solvency incidents.

The common procedures and methodologies for the supervisory review and evaluation process (SREP) were once again applied during 2016. In accordance with these procedures, supervisory authorities must give different scores to each entity, which will serve as a reference not only for the purposes of supervising the entities, but also in order to set the time at which the recovery measures planned by the entities should be initiated.

With regard to specific supervision work, the CNMV reviewed compliance with prudential requirements in the case of one entity with very significant activity in the trading and settlement of traded derivatives on behalf of clients. The exposures – and, therefore, capital requirements – in said entity resulting from counterparty risk in the administration and custody of these instruments, ultimately registered in central counterparties, were very significant.

Similarly, the CNMV has continued reviewing the risk profiles of all entities, reporting to the FROB those that fall within the scope of Directive 2014/59/EU of the European Parliament and of the Council, of 15 May 2014, establishing a framework for the restructuring and resolution of credit institutions and investment firms.

With regard to recovery and resolution, in accordance with the provisions of the legislation on the resolution of investment firms, the CNMV continued reviewing the recovery plans submitted by firms subject to this obligation, as well as the resolution plans drawn up by the CNMV itself as the preventive resolution authority.

## 6.2 Collective investment schemes and closed-end investment undertakings

### Mutual funds and SICAVs

As in previous years, the CNMV focused the bulk of its supervision of mutual funds and financial investment companies (SICAVs) on preventive analysis aimed at ensuring that CIS management companies adequately comply with their obligations, that conflicts of interest are managed appropriately and that unit-holders and shareholders receive sufficient information about their investments.

The CNMV's supervision combines off-site supervision and on-site inspections. Off-site supervision is essentially based on analysing the statements of the CIS that they, or their management companies, submit to the CNMV on a monthly basis, which include a list of individual positions of the portfolio assets and derivatives. On-site inspections are basically focused on verifying less standardised or more specific aspects of the CIS that do not appear in the standardised reporting.

The supervision involves two types of analysis: periodic and non-recurring. The periodic analyses generally include verifying that the sector complies with aspects such as adequacy of resources and the internal controls of CIS management companies, the prevention of conflicts of interest and compliance with legally established ratios and the suitability of investments. In turn, the non-recurring controls may be general or specific and focus on particular aspects of the activity of management companies that are detected during the supervision.

As a result of these supervisory actions, the CNMV sent out 808 deficiency letters to supervised entities in 2017.

As shown in Table 6.2.1, most of the deficiency letters were for late filing of information (particularly audit reports of CIS) or in order to request the adoption of corrective measures or recommendations in order to resolve incidents detected during supervision). In addition, 92 letters were sent requesting information necessary for supervision (other than that available on a general basis) from the entities subject to supervision and 85 letters relating to other types of communication (basically, answering enquiries).

Supervision of CIS: deficiency letters sent by the CNMV in 2017

TABLE 6.2.1

	Actions		Total
	Off-site	On-site	
For late filing of information	301	0	301
Requests for information	52	40	92
Corrective measures or recommendations	291	39	330
Other notifications	52	33	85
<b>Total</b>	<b>696</b>	<b>112</b>	<b>808</b>

Source: CNMV.

The main **periodic controls** performed in 2017 are summarised below.

- Control of legality. CIS legislation establishes a series of ratios and limits relating to diversification and to exposure held in derivative instruments. In addition, legislation requires that CIS maintain minimum assets and a minimum number of unit-holders and shareholders so as to ensure the collective nature of CIS. In 2017, the CNMV continued performing analyses aimed at ensuring compliance with the different limits and ratios. The most numerous incidents were once again the result of sudden failures to comply with diversification limits (resulting from circumstances beyond the control of the management companies, such as a rise in market value), although the vast majority of such incidents were regularised within the legally established time periods. There were few breaches relating to the structure of CIS (minimum levels of assets, capital and unit-holders) and for exceeding limits in trading and derivatives. Therefore, only 61 breaches not beyond the control of the management companies were detected relating to diversification limits, 38 breaches of liquidity ratios and 52 breaches of a structural nature, of which 3 corresponded to SICAVs that were revoked as a result of failing to comply with the minimum number of shareholders.
- Analysis of returns and asset valuations. Using regression analysis, the CNMV compares the net asset values of the CIS with other estimates based on the performance of the markets, which makes it possible to identify returns that may be classified as atypical and which may reveal incidents in the control and valuation procedures, as well as other incidents relating to the recording of transactions, conflicts of interest, etc. In addition, the CNMV performs comparative analyses of the valuations applied by entities for the same asset with the aim of detecting possible errors and deficiencies in the controls applied. A total of 105 incidents were detected, most of which were of little importance and therefore additional actions were only carried out in 12 management companies.
- Analysis of fixed-income, equity and CIS trading. This involves identifying transactions that might give rise to possible situations of conflicts of interest that are not adequately resolved, such as: i) applications or transactions in which some CIS acquire a fixed-income asset and others from the same management company sell it for the same or very similar amounts; ii) fixed-income or equity placements; iii) secondary market transactions in assets with low liquidity in which a significant percentage of the issue is acquired; and iv) acquisitions of other CIS from the management company's group. A total of 44 incidents were detected, almost all of which were the result of applications between CIS or as a result of the investment in other CIS from the management company's group, and a total of 18 entities were sent deficiency letters.
- Analysis of CIS audits. Regulations require firms to send CIS audit reports and annual accounts electronically to the CNMV. This information must be delivered to investors as part of the annual report. No relevant incidents were detected in the CIS audit reports in 2017, with the number of qualifications being very low, and therefore most of the deficiency letters sent were the result of discrepancies between the figures in the annual accounts and those corresponding to the confidential statements. However, these discrepancies instead turned out to be errors in the sending of the data.

The **non-recurring controls** performed over the year were as follows:

- Analysis of the stress tests of CIS portfolios with respect to interest rates. The risk management and stress scenario systems and procedures of CIS management companies were analysed and deficiencies were identified in a small number of them (seven entities). In addition, in the case of funds with significant exposures to subordinated or senior debt, twelve entities were required to perform a stress test in a market situation similar to the one that occurred at the height of the liquidity crisis (2008 and 2009), together with the measures and procedures that would be applied to avoid conflicts of interest.
- Analysis of the performance of investment funds with a fixed target return (both guaranteed and non-guaranteed). The CNMV identified the funds that had achieved the target set out in the prospectus prior to the maturity date in order to verify that sufficient information was provided in the periodic reporting on the evolution of their net asset value from the start and their position with regard to their target return. In addition, as a measure to bolster transparency, 16 management companies of the 144 detected funds were requested to send a letter to unit-holders and to establish a procedure to publish a significant event in any future cases.
- Analysis of the remuneration information of CIS management companies. The CNMV checked whether all the quantitative and qualitative information required by the regulations was included in the funds' periodic reporting. It also studied possible cases in which the management company's remuneration system may be contributing towards excessive risk-taking. At any event, it may be generally stated that the variable remuneration of CIS management companies is moderate and reasonably proportionate to the fixed remuneration.
- Sample analysis of the delivery of the integrated KIID in marketing processes. The key investor information document (KIID) must include the total ratio data on past expenses and returns instead of links. This analysis follows on from a previous one in which the CNMV detected that there were still occasional incidents in this area. Following this sample analysis, the CNMV only detected one incident of a management company that delivers the KIID with links, plus an additional document with figures. The management company was required to integrate the figures into the KIID.
- Analysis of discretionary management of third-party portfolios by management companies. The aim is to ensure compliance with rules on transparency, due diligence, investment in the most appropriate class, etc. The number of detected incidents was low and they were related to inadequate performance of the suitability test, and to deficiencies in the information provided, particularly with regard to costs and expenses and the inclusion of a benchmark in the discretionary portfolio management agreement. Deficiency letters were sent to seven management companies. In addition, the CNMV discovered that management companies invested discretionary portfolios in the CIS share/unit classes that were most beneficial for the investor, although they sometimes did not reach the minimum level required.
- Analysis of the investment of CIS in other CIS. The CNMV aims to ensure, firstly, that the CIS that are invested in are suitable according to the nature of the investor and, secondly, to check that CIS invest in the most financially advantageous

underlying classes. In the first aspect, only a small number of incidents were detected, and these were mostly unplanned situations that were subsequently regularised. With regard to the investment of CIS in classes of other CIS, the CNMV was able to verify that most management companies invest in the appropriate classes. Deficiency letters were sent in relation to the detected incidents and these were rectified, with the unit-holders, where appropriate, compensated.

In addition to these analyses performed on a sector scale, the CNMV also performed numerous controls as a result of specific issues that affected individual entities (asset valuation, investments in unsuitable assets or liquidity, conflicts of interest, etc.).

### **Strengthening transparency in certain mutual fund policy categories**

EXHIBIT 14

2017 was characterised by the continuation of an environment of very low interest rates, which affected funds with a specific target return (both guaranteed and non-guaranteed), one of the investment policy categories with the highest volumes of assets and unit-holders.

This market environment prompted investors with a highly conservative profile who held positions in this type of fund (and also fixed-income funds) to seek alternatives with greater potential for gains, even at the expense of higher risk. The absolute return category was therefore one of those that most benefited, with significant inflows of investments.

In the case of funds with a specific target return (with or without guarantee) at a specific term, the CNMV paid particular attention to those funds that had achieved their target in 2017 – due to the positive movements in the market value of their fixed-income positions in previous years – prior to the maturity date established in their prospectuses. The CNMV performed analyses to identify all the schemes that met this criterion, which from the investor's point of view meant that it was highly likely that the return would fall thereafter. The following guidelines were passed on to the affected entities in order to facilitate decision-making by these funds' unit-holders: i) strengthening of the information included in the explanatory annex of the periodic reporting on the evolution of the fund's net asset value, clearly indicating that the target return set in the prospectus has been exceeded and ii) publication of a significant event for those funds which in the future might exceed their respective target returns in accordance with the internal procedures defined by the management company. In addition, for funds whose net asset value at that time already exceeded the target return and whose prospectus established liquidity windows, their management companies were asked to send a letter to unit-holders explaining the scheme's position.

In addition, in view of the high investment inflows, the CNMV performed an analysis of the information provided to the unit-holders of funds with an absolute return investment policy.<sup>1</sup> Specifically, it reviewed the content and format of the advertising information appearing on the websites, both of the management companies and the distributors, with the aim of verifying that said information was clear, objective and fair in accordance with the legislation in force.<sup>2</sup> The CNMV also verified compliance with the risk limits (in

terms of the volatility or VaR)<sup>3</sup> set out in the prospectuses of these schemes and, in the event that they included a non-guaranteed target return, its evolution was analysed compared with the net asset value. As a conclusion of the analysis performed, the management companies were informed of the need to strengthen the information that they were including in the periodic reporting of these funds, particularly that relating to movements in the net asset value and any divergences arising, as the case may be, with respect to the target return set out in the prospectus.

- 1 CNMV Circular 1/2009 defines this investment policy category as that whose management target is to achieve a specific non-guaranteed periodic return/risk, applying for this purpose different management techniques, including: relative value, absolute value, dynamic techniques, etc.
- 2 Article 60 of Royal Decree 217/2008, of 15 February, establishing the conditions that information, including advertising information, must meet in order to be fair, clear and not misleading, and Order EHA 1717/2010, of 11 June, regulating the standards, principles and criteria applicable to the advertising of financial instruments and investment services. Also noteworthy is the CNMV communication of 10 November 2015 regarding the content and format of the advertising information on the websites of CIS management companies and distributors.
- 3 VaR or Value at Risk. Estimates the maximum loss expected that may be suffered under normal market conditions during a time period or horizon. The estimate is made with a certain level of confidence.

## Hedge funds and funds of hedge funds

The assets managed by hedge funds remained at low levels in 2017 (only 2 billion euros). There are only 8 funds of hedge funds, 4 of which are in the process of liquidation.

In this context, the supervision of hedge funds in 2017 mainly consisted of analysing risk levels and compliance with structural requirements (assets and minimum number of unit-holders and shareholders).

With regard to funds of hedge funds, the CNMV focused its supervision on the liquidation processes in progress in order to check that the management companies acted with due diligence and that they provided adequate information on these processes to investors.

## Real estate CIS

At present, there are only three real estate funds registered, which are currently in the process of liquidation. There are four real estate investment companies, one of which is in the process of liquidation. The CNMV's supervision in 2017 therefore focused on monitoring these processes and ensuring that unit-holders received adequate information about the process.

## Closed-end collective investment undertakings

Supervisory work focused on monitoring compliance with the mandatory investment and diversification ratios required for closed-end collective investment undertakings. The CNMV conducted a case-by-case analysis of the breaches and took action to ensure entities were able to return to a regulatory compliance scenario.

In addition, the CNMV conducted certain specific analyses in which it paid special attention to aspects such as: i) the evolution of the returns of certain venture capital vehicles; ii) the valuation methods used by different entities with the same investments or with similar investment portfolios, with the aim of verifying uniform compliance with the applicable accounting standards; and iii) the marketing policies for this type of investment vehicle and whether they are in line with the provisions of current legislation with regard to the type of investor acquiring this financial product.

The CNMV also conducted, for the first time, supervision of European venture capital funds, registered in 2016 and introduced a new venture capital model under Law 22/2014, of 12 November.

Table 6.2.2 shows that, as a result of its supervisory actions, the CNMV issued a total of 628 deficiency letters in the year to management companies of closed-end collective investment undertakings, relating both to the management companies themselves and to the vehicles that they manage.

**Supervision of venture capital vehicles/management companies of closed-end collective investment undertakings: deficiency letters sent by the CNMV in 2017**

TABLE 6.2.2

Type of deficiency letter	Total
For late filing of information	280
Requests for information	36
Corrective measures or recommendations	305
Other notifications	7
<b>Total</b>	<b>628</b>

Source: CNMV.

### **6.3 Management companies: CIS management companies and management companies of closed-end collective investment undertakings**

The supervision of CIS management companies and management companies of closed-end collective investment undertakings continues to focus on preventing scenarios of capital deficits that might endanger their solvency.

The supervisory tasks performed on a recurring basis mainly focus on compliance with capital requirements, the activity of the internal audit unit, a review of the auditor's opinion and compliance with certain legal requirements.

In addition to its periodic supervisory tasks, the CNMV also conducted supervision relating to specific issues, such as an analysis of the variable remuneration paid by management companies of closed-end collective investment undertakings, clarification of certain concepts for the purposes of application of the new legislation or improved quality of the information sent by these companies (both relating to their managed vehicles and to the companies themselves).

The CNMV also conducted an analysis of the corporate governance of CIS management companies. Firstly, for all management companies, it assessed compliance

with the legislative obligations relating to the existence of an audit committee, a remuneration committee, the independence of the members of the board of directors, etc. Secondly, the CNMV conducted an in-depth review of the organisational structure of recently-created management companies.

The number of registered companies rose by 11% from 173 in December 2015 (96 CIS management companies and 77 management companies of closed-end collective investment undertakings) to 192 in June 2017 (106 CIS management companies and 86 management companies of closed-end collective investment undertakings).<sup>4</sup> The aggregate assets managed by these entities also increased.

The sector of management companies of closed-end collective investment undertakings held a high surplus of own funds at 31 December 2016, which continued over the first six months of 2017.<sup>5</sup>

## 6.4 Depositories

The supervision of depositories in 2017 mainly focused on analysing their level of compliance with Circular 4/2016.<sup>6</sup> This circular details how depositories should perform their functions, both with regard to custody and registration and to oversight and supervision of the activities of the management companies.

The CNMV continued its recurring analysis of the half-yearly reports on depositors' supervision and oversight function, in which they are required to include all the failures to comply with legislation or anomalies that have been detected in the management and administration of the CIS.

In addition, the CNMV performed off-site supervision of the compliance of the depository function in two credit institutions. The review covered, firstly, the function of custody of the assets owned by the CIS and the function of supervision and oversight of the activity of the management companies. It also covered the structure, resources and independence of this function within the organisation.

### Adaptation of CIS depositories to the new Circular 4/2016

EXHIBIT 15

On 13 October 2016, Commission Delegated Regulation (EU) 2016/438, of 17 December 2015, supplementing the UCITS Directive, entered into force. This regulation establishes at a European level, in an extensive and detailed manner, the functions and responsibility of UCITS depositories, as Commission

4 The supervision performed over 2017 is based on the full-year information for 2016 and the information for the first half of 2017.

5 The management companies of closed-end collective investment undertakings have until 30 April 2018 to submit the periodic reporting relating to 31 December 2017.

6 CNMV Circular 4/2016, on the functions of depositories of collective investment schemes and entities regulated under Law 22/2014, of 12 November, regulating venture capital undertakings, other closed-end collective investment undertakings and management companies of closed-end collective investment undertakings, and amending Law 35/2003, of 4 November, on collective investment schemes. This circular entered into force on 13 October 2016.

Delegated Regulation (EU) No. 231/2013, of 19 December 2012, did previously with non-harmonised collective investment undertakings.

Both EU regulations establish equivalent requirements for depositories, although the regulation applying to UCITS – mainly intended for retail investors – includes some additional measures to guarantee investor protection. These measures include the following: i) when the depository delegates the safekeeping function to a third party located outside the European Union, it has to receive an independent legal opinion on the enforceability of the contractual arrangement with the third party under the applicable insolvency law of the corresponding country; and ii) UCITS depositories may not transfer liability for the loss of an asset to a third party.

Spanish legislation is now in line with most of the requirements set out in European regulations and therefore the entry into force does not entail any significant changes in the functions entrusted to depositories. However, said regulations incorporate some new functions or clarify them in more detail, which is reflected in Circular 4/2016, which also entered into force on 13 October 2016. As set out in its 2017 Activity Plan, the CNMV has supervised the process of adaptation of depositories to the new requirements included in the regulations.

The new aspects laid down in the circular focus mainly on the following aspects with which the depository must comply:

- Maintaining an up-to-date record of “other assets not to be held in custody” and obtain certificates from third parties demonstrating ownership of the instruments.
- In the event of delegating the deposit function to a third party, the depository must assess – both when appointing the third party and on a regular basis – aspects such as the procedures, structures and controls implemented by said third party, as well as its solvency and reputation. The depository must also evaluate the existence of full separation between the entity’s proprietary account to which custody is delegated and the account of third parties.
- Assessing and supervising risks throughout the custody chain. This implies knowing and assessing the legal and regulatory framework in every country in which third parties to whom safekeeping has been delegated are located, paying particular attention to the enforceability of the agreements. It also implies recognising the segregation of assets in the event of the third party’s insolvency and the existence (in the case of UCITS and countries outside the European Union) of an independent legal opinion. In addition, when the delegated third party in turn appoints other entities to perform safekeeping functions, the depository must ensure that the procedures and controls implemented throughout the chain are adequate.
- Having a contingency plan established for each market in which the depository has delegated the safekeeping function to a third party, identifying alternative third parties.

## 6.5 Securitisation fund management companies

The supervisory activity relating to these companies was channelled through off-site supervision, which essentially focuses on the information provided in audit reports.

In addition, and given the new legislative aspects introduced by Law 5/2015, of 27 April, on promoting business financing, in the regime for securitisations – in particular with regard to requirements relating to own funds which securitisation fund management companies need to comply with – the CNMV conducted, for the first time, supervision of these companies' own funds. All the companies exceeded the minimum levels required by law.

With regard to the implementing regulations resulting from this legislation, in December 2017, the text of the Draft circular on annual accounts and confidential statements of securities fund management companies, which includes the deadlines for submission and the models for confidential and public reporting, were submitted to public consultation.

A significant incident in this area occurred on 1 June when Intermoney SGFT, the management company of the fund IM Auriga Pymes Eur 1, FTA, submitted a significant event to the Alternative Fixed-Income Market (MAREF) reporting that it had become aware of the filing by Finalter, S.L.U. – which assigned credit rights to the fund – of a claim against Publiolimpia, S.L. and against the sole director and financial director of this company for the offence of serious fraud. From the content of the claim, the management company deduced that all the credit rights assigned to the fund by Finalter, which had their origin in Publiolimpia, S.L., were based on non-existent trade receivables. Consequently, and pursuant to the provisions of the fund's incorporation instrument, the management company, in representation of the fund, claimed from the assigning party the full amount paid by the fund for said credit rights (the amount claimed totalled 38,818,123.46 euros). Subsequently, on 27 October, a new significant event was published in which it was announced that the management company had received a communication from Auriga Capital Investments, S.L. informing it that it had decided to make an offer to buy the bonds from the fund. Auriga Capital Investments, S.L. purchased 100% of these bonds and the fund is currently in the process of being liquidated.

## 6.6 Cooperation in the prevention of money laundering

The Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (Spanish acronym: SEPBLAC) and the CNMV have applied the cooperation agreement entered into between the two entities, which takes into account both the CNMV's supervision plan and the priorities set by SEPBLAC in its analyses of money-laundering risks. In application of said agreement, in 2016 the CNMV submitted notifications to SEPBLAC with the conclusions reached on the level of compliance with the obligations in the prevention of money laundering by investment firms and collective investment scheme management companies included in the reviews previously agreed between the CNMV and SEPBLAC.

Similarly, the CNMV submitted information obtained in supervising certain entities to SEPBLAC as it noted the existence of indications of suspicious transactions that may be related to money laundering.

## 6.7 Benchmarks

Benchmarks are regulated under Regulation (EU) 2016/1011 of the European Parliament and of the Council, which was published on 29 June 2016 and applies as from 1 January 2018. Some of its provisions, such as those relating to critical benchmarks and the colleges of supervisors, apply as from 30 June 2016.

This regulation is the result of the cases of manipulation of benchmarks and it establishes mechanisms to reduce the vulnerability of benchmarks to the risk of manipulation. That is why in practically every European jurisdiction the securities regulator (in the case of Spain, the CNMV) has been the competent authority designated to apply the new regulation.

This legislation establishes new obligations for administrators and contributors of input data, as well as for supervised entities that use benchmarks. The CNMV, as the competent authority designated to apply the new regulation, also takes on new powers relating to the authorisation and registration of administrators of benchmarks located in Spain and of supervision of administrators, contributors and any persons involved in the provision of these benchmarks.

Consequently, in 2017 the CNMV focused its activity on defining the scope of application of Regulation 2016/1011. As this is an area that had not previously been regulated, it was necessary to actively seek out and identify the administrators and benchmarks used by supervised Spanish entities. Based on this information, the CNMV also carried out preparatory activities with the entities identified as providers of benchmarks in Spain in order to facilitate their adaptation to the new legislation and their prompt registration in ESMA's centralised register. It also cooperated with the sector in order to facilitate and promote implementation of the new legislation and to conduct joint monitoring of the reform of the critical benchmarks, Euribor and Eonia.

Furthermore, the CNMV has participated in the colleges of supervisors of the benchmarks declared to be critical by the European Commission: Euribor and Eonia and Libor (in 2018), together with the active participation of the CNMV in the international working groups.

## 6.8 Resolution authority (preventive stage) of investment firms

Spanish legislation on recovery and resolution opted for a model that distinguishes between resolution functions in the preventive stage, which are entrusted to the CNMV with regard to investment firms and to the Bank of Spain with regard to credit institutions, and in the enforcement stage, which are assigned to the Fund for Orderly Bank Restructuring (Spanish acronym: FROB) for both types of entity.

The **resolution plans** of investment firms continued to be drawn up in 2017, having applied the following criteria and guidelines:

- Strategy: In the event of failure, liquidation in accordance with an ordinary insolvency procedure is a credible and feasible procedure to the extent that it would make it reasonably possible to achieve, and at least to the same extent as a resolution process, the resolution objectives established by the Law on recovery and resolution in this area.

- **Resolvability.** Some firms hold significant client assets (cash and financial instruments) and, therefore, in the event of failure, the resolvability may be affected by difficulties and delays in the restitution and transfer of these assets to other entities in the course of a liquidation through ordinary insolvency proceedings. The CNMV has proposed preventive measures to these entities, such as entering into agreements with third entities when certain early warning thresholds are reached so that, in the event of failure, the transfer and redemption of client assets is assured, whether on a provisional or final basis, without incidents and in the shortest time possible.
- **Minimum requirement for own funds and eligible liabilities (MREL).** In the course of the evaluation of resolvability and the drafting of resolution plans, the CNMV must also analyse whether the entity has sufficient minimum own funds and eligible liabilities to absorb losses and to carry out the chosen (resolution or liquidation) strategy. In the cases analysed, no additional amount was considered necessary to recapitalise the firms, given that the strategy proposed was liquidation through ordinary insolvency proceedings.
- **Simplified obligations.** The legislation allows the CNMV to establish, for certain entities, simplified obligations in drawing up recovery and resolution plans. These will be based on indicators of size, type of activity, risk, interconnections and impact of the firm or group on markets and the economy.

Table 6.8.1 shows the number of plans implemented since 2016.

#### Investment firm resolution plans

TABLE 6.8.1

Type	2016		2017		Total	
	No. of plans drawn up	Plans with possible obstacles	No. of plans drawn up	Plans with possible obstacles	No. of plans drawn up	Plans with possible obstacles
Individual	5	–	5	4	10	4
Group	2	2	9	4	11	6
Update	–	–	1	–	1	–
<b>Total</b>	<b>7</b>	<b>2</b>	<b>15</b>	<b>8</b>	<b>22</b>	<b>10</b>

Source: CNMV.

As indicated in Section 6.1, in 2017 all investment firms falling within the scope of application of resolution legislation submitted their **recovery plans**. These plans have been reviewed independently by the supervision and resolution functional areas of the CNMV, as well as by the FROB, in its capacity as resolution authority at the enforcement stage, and it has been concluded that in no case did their content have a negative effect on the resolvability of the entities.

**Coordination between Spanish resolution authorities** is guaranteed institutionally as the CNMV, through its Vice-chairperson, has been a member of the governing commission of the FROB since entry into force, in July 2015, of Law 11/2015. The Bank of Spain is also a member of the governing commission of the FROB.

A recovery and resolution framework is also being designed for **central counterparties (CCPs)** that are considered critical market infrastructures and of systemic

importance, which makes it necessary to have appropriate tools and measures to ensure continuity of the critical clearing services and to ensure that they may be resolved in an orderly manner, minimising the risks for financial stability and at no cost to the taxpayer.

In Spain, there is only one single CCP for the derivatives and spot market, both for fixed income and for equity, that the Financial Stability Board considers to be systemic in Spain and in other jurisdictions due to the interconnections it has through its participants. The CNMV has therefore been involved in monitoring the European legislative project, whose negotiations have continued over 2017 and, due to their complexity, are expected to continue during a large part of 2018. In addition, as a preparatory measure, the CNMV has begun an analysis of the resolvability of the Spanish CCP in accordance with the international standards of the FSB and the resolution legislation in progress.

## 6.9 Investment Guarantee Fund (FOGAIN)

The Investment Guarantee Fund (FOGAIN) compensates customers who are unable to recover the money or securities entrusted to investment firms – except financial advisory firms (which are not actually allowed to hold their customers' money or securities) – in the event of bankruptcy proceedings or a declaration of insolvency by the CNMV. The fund's coverage also extends to customers of CIS management companies and of management companies of closed-end collective investment undertakings in relation to the provision of investment services and under the same insolvency situations as for investment firms. The maximum amount of the compensation following verification of the investor's net position stands at 100,000 euros.

As indicated, the customers of financial advisory firms are not covered by the fund. Neither are customers of foreign entities operating in Spain covered by FOGAIN unless these operate through a branch and they have decided to join up to FOGAIN. There are currently no entities in this situation. Foreign entities are therefore attached to the guarantee funds of their home State, whose coverage may not be the same as that offered in Spain.

At year-end 2016, FOGAIN had a total of 142 member entities, 6 up on the previous year. Table 6.9.1 shows the breakdown by type of entity.

**Trend in number of member entities**

TABLE 6.9.1

Type of firm	2014	2015	2016	2017
Broker-dealers/brokers	77	77	81	89
Portfolio management companies	5	3	2	1
CIS management companies	48	56	58	68
Closed-end collective investment entity management companies	–	–	1	2
<b>Total</b>	<b>130</b>	<b>136</b>	<b>142</b>	<b>160</b>

Source: CNMV

Following the security and liquidity criteria set out in its regulations, the fund continued to invest its assets in public debt with different maturities over the year. It also invested part of its assets in bank deposits.

The fund's assets totalled 88.4 million euros at year-end, an increase of 10.22% on 2016. The rise was the result of the contributions of the member entities and the return on investments, as well as the amounts recovered by FOGAIN over the year. The fund recovered 2.13 million euros in the bankruptcy proceedings of Interdín Bolsa, SV, S.A. in 2017, which amounts to approximately 60% of the total amount paid by FOGAIN to the customers of said entity.

The compensation process remains open with regard to those member entities of FOGAIN in which there has been an insolvency situation and where the deadline for the right of customers to request compensation from said fund has not been reached (Interdín Bolsa, SV, S.A. and Sebroker Bolsa, AV, S.A., whose insolvency was declared in 2015 and 2010, respectively).

With regard to managing the recovery of the amounts paid out, FOGAIN remains party to several open legal proceedings relating to the claims which it has covered and it initiates all the actions available to it in order to achieve said objective.

During the year, FOGAIN operated different working groups of member entities on issues of common interest, and it was also present on the CNMV's Advisory Committee.

Finally, FOGAIN continues informing investors of its coverage, the entities that are covered and the procedures to request, as the case may be, compensation. This investor information service is another of the functions that are legally assigned to the fund and it is provided by telephone and through its website ([www.fogain.com](http://www.fogain.com)).



### 7.1 Claims

Investors can file complaints with the CNMV's Claims Service for delays, failures to address their problems or other inadequate actions by financial institutions, as well as claims for specific actions or omissions that harm their interests and rights. Nevertheless, they must prove that they previously filed these complaints or claims with the customer care service and/or customer ombudsman of the entity in question without obtaining satisfaction or a timely response from the latter.

In 2017, investors presented 998 claims and complaints likely to give rise to the opening of a claim file. The Claims Service analyses these claims and complaints which according to whether they meet the requirements to be admitted as claims from their submission, may go through several different phases (preliminary, processing and resolution, and subsequent).

The fall in the number of claims and complaints received is mainly down to the effect of overcoming the crisis in preferred shares, which had led to a major rise in the number of claims and complaints.

It is also noteworthy that most of the claims and complaints processed relate to issues regarding a lack of information – mainly on subsequent information – and that the number of conflicts when assessing the suitability of the product to the characteristics of the investor has fallen.

As regards the nature of the product claimed, around one third of the claims and complaints submitted related to collective investment schemes, while the remaining two thirds relate to capital instruments, bonds and debentures, and financial derivatives.

Lastly, as regards the type of entity subject to the claim, practically all of the claims and complaints received were made against banks, followed by investment firms. The latter includes claims and complaints against firms established in another EU Member State but registered in Spain as branches, and which mainly offer services to investments in derivative products through platforms.

Table 7.1.1 shows the data on the resolution of claims and complaints processed broken down by type of resolution.

## Complaints processed broken down by type of resolution

TABLE 7.1.1

Number of claims and complaints

	2015		2016		2017		% change 16/17
	No.	%	No.	%	No.	%	
<b>Registered with the CNMV's Claims Service</b>	<b>1,400</b>	<b>-</b>	<b>1,205</b>	<b>-</b>	<b>998</b>	<b>-</b>	<b>-17.2</b>
<b>Not accepted for processing</b>	<b>547</b>	<b>-</b>	<b>400</b>	<b>-</b>	<b>407</b>	<b>-</b>	<b>1.8</b>
<b>Processed without final reasoned report</b>	<b>213</b>	<b>14.1</b>	<b>141</b>	<b>19.0</b>	<b>108</b>	<b>16.3</b>	<b>-23.4</b>
Acceptance or mutual agreement	139	9.2	110	14.8	73	11.0	-33.6
Complaint withdrawn	28	1.8	19	2.6	21	3.2	10.5
Competence of other authorities	46	3.0	12	1.6	14	2.1	16.7
<b>Processed with final reasoned report</b>	<b>1,303</b>	<b>85.9</b>	<b>602</b>	<b>81.0</b>	<b>555</b>	<b>83.7</b>	<b>-7.8</b>
Report favourable to claimant	761	50.2	309	41.6	301	45.4	-2.6
Report unfavourable to claimant	542	35.8	293	39.4	254	38.3	-13.3
<b>Total processed</b>	<b>1,516</b>	<b>100.0</b>	<b>743</b>	<b>100.0</b>	<b>663</b>	<b>100.0</b>	<b>-10.8</b>
<b>Being processed at the end of the year</b>	<b>233</b>	<b>-</b>	<b>295</b>	<b>-</b>	<b>223</b>	<b>-</b>	<b>-24.4</b>

Source: CNMV.

The reasons for the claims made in the 663 claims and complaints concluded in 2017 amounted to 976<sup>1</sup> as broken down in Table 7.1.2.

## Reasons for the claims concluded in 2017

TABLE 7.1.2

Investment firm/reason	Reason	Securities	CIS	Total
<b>Marketing/execution</b>	Appropriateness/suitability	94	64	158
<b>Advisory service</b>	Prior information	116	78	194
<b>Portfolio management</b>	Purchase/sale orders	107	37	144
	Fees	112	46	158
	Transfers	13	21	34
	Subsequent information	143	49	192
	Ownership	23	8	31
<b>Mortis causa acquisitions</b>	Appropriateness/suitability	4	0	4
	Prior information	4	0	4
	Purchase/sale orders	1	2	3
	Fees	4	0	4
	Transfers	1	1	2
	Subsequent information	14	6	20
	Ownership	7	12	19
<b>Functioning of the CCS</b>		6	3	9
<b>Total</b>		<b>649</b>	<b>327</b>	<b>976</b>

Source: CNMV.

<sup>1</sup> There may be several reasons stated in the same claim or complaint file.

Noteworthy is the percentage of claims and complaints grounded in alleged irregularities in the information provided on the product before (20.3%) or after (21.7%) being contracted. In terms of the product subject to the claim or complaint, the proportion of claims or complaints relating to collective investment schemes was also noteworthy (33.5%).

## 7.2 Enquiries

The CNMV's Claims Service responds to enquiries from investors on matters of general interest relating to the rights of users of financial services and the legal routes for exercising such rights. These requests for advice and information are provided for in Article 2.3 of Order ECC/2502/2012, of 16 November, which regulates the procedure for filing claims with the claims services of the Bank of Spain, the CNMV and the Directorate-General of Insurance and Pension Funds.

In addition to the enquiries provided for in the aforementioned Order ECC/2502/2012, the CNMV helps investors search for information contained in the official public registries of the CNMV and in other public documents which it publishes. The CNMV also deals with various enquiries and doubts relating to securities markets that investors may have.

As can be seen in Table 7.2.1, 11,199 enquiries were dealt with in 2017 (up 39.5% on 2016), the majority made by telephone<sup>2</sup> (88.5%). The second most used medium was the Virtual Office (8.0%), followed by postal mail or presented at the general registry (3.6%).

Enquiries dealt with by the CNMV by method of receipt

TABLE 7.2.1

	2015		2016		2017		% change 17/16
	No.	% / total	No.	% / total	No.	% / total	
Telephone	6,974	78.7	6,514	81.1	9,907	88.5	52.1
Postal mail	512	5.8	331	4.1	399	3.6	20.5
Form/Virtual Office	1,380	15.6	1,183	14.7	893	8.0	-24.5
<b>Total</b>	<b>8,866</b>	<b>100.0</b>	<b>8,028</b>	<b>100.0</b>	<b>11,199</b>	<b>100.0</b>	<b>39.5</b>

Source: CNMV.

One of the reasons that explain the increase in the number of enquiries dealt with in 2017 on the figure for 2016 was the agreement adopted by the Single Resolution Board (SRB) on Banco Popular Español, S.A. Given the avalanche of enquiries in this regard, a Q&A document was drafted and passed on to the call centre to cater for the demand.

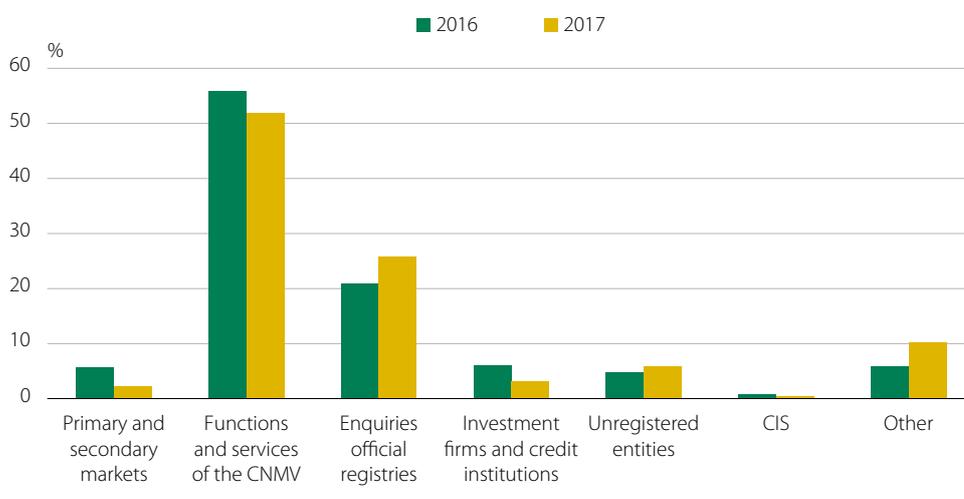
The average period of response times, apart from enquiries received by telephone and dealt with immediately, stood at 15 calendar days in 2017.

<sup>2</sup> Telephone enquiries are answered by operators at a call centre, who limit themselves to providing pre-existing information available at the official registers and on the CNMV web page.

As in previous years, enquiries in 2017 were related to investors requesting information about data available on the CNMV's official registries: information on registered entities, fees for investment services, significant events, short positions, significant shareholdings, CNMV notifications, statistics and publications, among other content that is freely available to the public. As shown in Figure 7.2.1, and as is now the norm, the most numerous enquiries were those relating to the CNMV's functions and services, in particular those relating to the status of claim and complaint proceedings. The call centre also provided interested parties with telephone numbers and contact details of other bodies when the issues raised in the enquiry do not fall under the responsibility of the CNMV (these enquiries were catalogued under the heading of "Other" in Figure 7.2.1).

Enquiries by topic

FIGURE 7.2.1



Source: CNMV.

Together with recurring issues, investors made other enquiries or complaints about issues relating to the market situation or certain events, including the following noteworthy matters:

- Resolution of Banco Popular Español, S.A.

Interested parties were informed about such aspects as the following: i) that the Fund for Orderly Bank Restructuring (Spanish acronym: FROB) had adopted the resolution on 7 June 2017, thus executing the decision adopted by the SRB after being declared unfeasible by the European Central Bank; ii) the immediate enforcement of the resolution; iii) that the holders of shares, contingent convertible bonds and subordinate bonds of the bank had lost all their investments; and iv) that Banco Santander, S.A. had become the sole shareholder of the bank. It also informed that the resolution did not affect the securities issued by other entities and depositories at the bank, or the assets of the investment funds marketed by the bank or those for which Banco Popular Español, S.A. was their depository or where the management company was an entity of the Banco Popular Group.

- Data on transactions, such as the purchase price of certain securities.

Interested parties were informed that the CNMV does not hold this information in its public registries. However, it was clarified that entities must

maintain registers of transactions and keep files on proof of orders for a minimum period of five years from their reception, and that it must always provide this information when within the deadline.

- Certain aspects on the company Abengoa, S.A.: i) alleged manipulation of the share price between 23 and 31 March; ii) alleged coercion for the mass purchase and manipulation of its shares through significant events; and iii) alleged irregularities in the share capital increase in March 2017 and a breach of the requirements on the informative prospectus on the increase published in the English language.

Interested parties were informed that there was no evidence of actions regarding a possible manipulation of share values of this issuer during the period indicated, nor any alleged coercion for the mass purchase and manipulation of its shares through significant events. As regards the language of the prospectus, it recalled that prevailing legislation<sup>3</sup> establishes that the prospectuses approved by the CNMV for admission to trading on an official secondary market could be drafted, at the election of the party requesting their admission, in the Spanish language, in a common language of the world of international finance or in any other language aside from these accepted by the CNMV – whereby the English language is a common language in this field.

- The suspension from trading of the shares of Urbas Grupo Financiero, S.A., adopted on 13 September after receiving information on a claim lodged by the Anti-Corruption Public Prosecution Service for an alleged offence of fraud, offences related to the market and consumers, and a corporate offence of improper management.

In the statement lifting this precautionary suspension on trading (29 December), the importance of the data contained in both the periodical financial information on the first half of 2017 and the significant events published by the company as from the date of the suspension on trading was conveyed to investors.

- Obligation to have the LEI code.

The interested parties were informed that in Spain this code must be requested from the College of Property, Companies and Moveable Goods Registrars.

- Fees for the management and custody of securities suspended or excluded from trading.

This type of enquiry is common. Interested parties were informed of the importance of obtaining prior information on the fees and expenses that depositories have set out in their fee prospectus. The CNMV considers that it is good practice for depositories not to charge management and custody fees for company shares that are excluded from trading and hence inactive, regardless of the procedure on waivers provided for in legislation.<sup>4</sup>

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<sup>3</sup> Article 23.1 of Royal Decree 1310/2005, of 4 November, on the admission to trading of securities on official secondary markets, call or put bids and on the prospectus required to that end.

<sup>4</sup> Circular 7/2001, of 18 July, of the Service for the Clearing and Settlement of Securities regulated the procedure on the voluntary waiver on keeping an accounting register for companies excluded from

In the case of companies suspended from trading, enquiries mainly focused on the companies Nyesa Valores Corporación, S.A., Vértice Trescientos Sesenta Grados, S.A., and Reyal Urbis, S.A. (in liquidation). As regards those excluded from trading, enquiries mainly focused on Fergo Aisa, S.A. (in liquidation), La Seda de Barcelona, S.A. (in liquidation), Indo Internacional, S.A. (in liquidation) and Compañía Logística de Hidrocarburos CLH, S.A. (in liquidation).

- Issues that do not fall within the powers attributed to the CNMV.

Noteworthy are the enquiries related to banking products or services, and those related to pension funds or insurance. In these cases, the CNMV transfers the enquiries to the competent supervisory body and reports this to the interested party. As regards enquiries of a fiscal nature, the CNMV informs interested parties that they should get in contact with the competent fiscal authority.

### 7.3 Warnings about unregistered firms

Through its website, the CNMV issues warnings to investors about firms that are not authorised to provide the investment services provided for by law that have been detected by it or by other supervisors.<sup>5</sup>

Below is a summary of the information on the warnings issued over 2017 (detailed information is contained in the Investor Section on **Warnings** on the website of the CNMV):

- 53 warnings by the CNMV about this number of entities, by virtue of the provisions of the Securities Market Act.<sup>6</sup> This figure is a rise of 51.4% on the number of warnings issued by the CNMV in 2016 (35), and is a similar figure to those issued by other supervisory bodies in our peer countries.
- 447 statements (441 in the previous year) were received from supervisors in Member States of the European Union, of which 418 related to unauthorised firms, and 29 others were included under the heading “Other warnings”, with alerts relating to improper conduct or actions.<sup>7</sup>

As a result of this activity, a total of 500 warnings were made over 2017 (5% up on 2016). It should be noted that 4 bodies (22.2% of the total), including the CNMV, made 77% of all warnings issued.

Figure 7.3.1 shows the trend in the number of warnings on unauthorised entities made by the CNMV over the last three years.

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trading and hence, inactive.

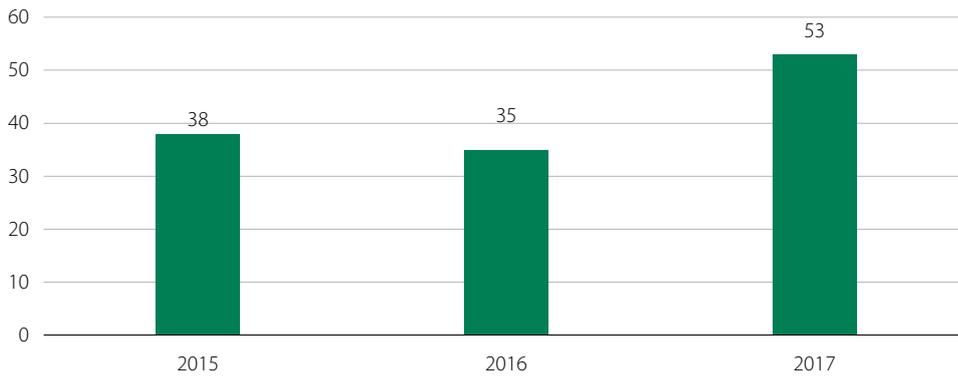
5 Since February 2018, anonymous and confidential notifications to the CNMV have been authorised on potential infringements regarding the securities market.

6 Articles 17 and 144 of the Securities Market Act.

7 In 2010, IOSCO enabled an alert service on unauthorised entities that includes those warnings issued by members of the organisation on **its website**. Given that not all warnings issued by IOSCO members are communicated, in turn, to the CNMV, you are recommended to visit this **website** for further information.

### No. of warnings made by the CNMV on unauthorised entities

FIGURE 7.3.1

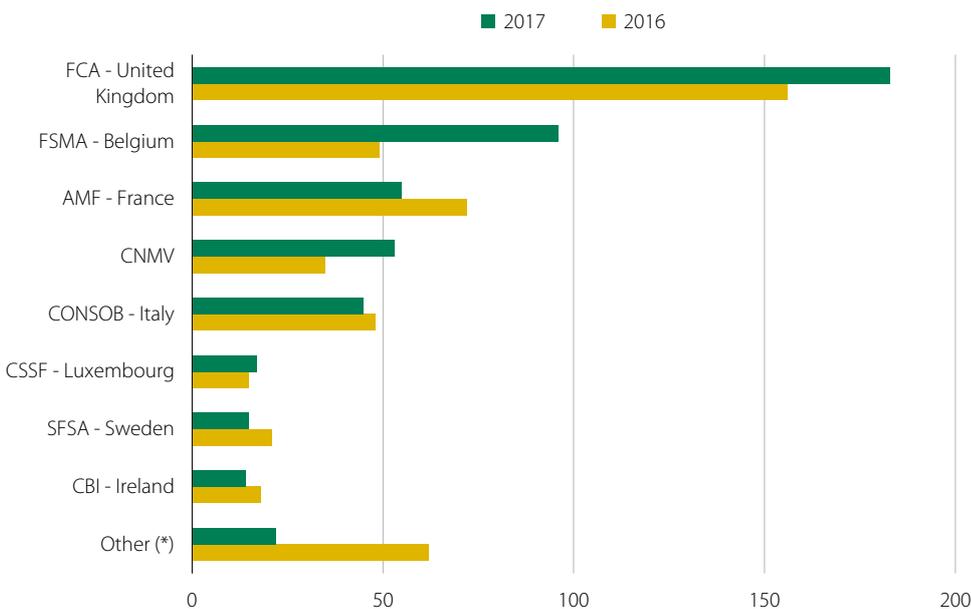


Source: CNMV.

Figure 7.3.2 shows the number of warnings from supervisory bodies of EU Member States. It should be pointed out that the FCA (United Kingdom) and the FSMA (Belgium) also regulate the banking and insurance sectors and hence their warnings also cover these areas.

### No. of warnings from EU Member States on unauthorised entities

FIGURE 7.3.2



(\*) 10 supervisory bodies with less than 12 warnings in 2017.

Source: CNMV.

## 7.4 Investor education

In 2017, the CNMV continued with its Financial Education Plan, together with the Bank of Spain and with the support of the Secretariat-General of the Treasury and Financial Policy and of the Directorate-General of Insurance and Pension Funds. In October, the joint commitment of the Bank of Spain and the CNMV was renewed through the signing of a new partnership agreement for the next four years. Accordingly, the aim is to continue promoting financial education and to extend its scope, which to date has been particularly focused on young people of school age.

Work was done over the year on identifying the results obtained in the period 2013-2017 and on defining the future strategy for the period 2018-2021. This strategy will translate into certain goals primarily aimed at establishing a communication plan that incorporates new technologies, provides more exhaustive knowledge of the needs to financially educate the public and strengthens the promotion of financial education among specific social groups (particularly vulnerable consumers, debtors in difficulties, people with a low level of financial inclusion, etc.).

Another initiative framed within the scope of the Financial Education Plan developed over the year was the holding of Financial Education Day on 2 October. On the occasion of this celebration, various activities were carried out throughout the country lasting several days, with a central event at the Bank of Spain, which included the presence of the Chairperson of the CNMV, the Governor of the Bank of Spain, the State Secretaries for Economy, and for Education, Vocational Training and Universities. Contact with public and private institutions and bodies that collaborate on the plan was also stepped up and the active promotion of financial education in the media<sup>8</sup> continued.

It is also worthy of mention that in 2017 a voluntary programme was set up among CNMV employees designed to foster their participation in activities related to financial education, with more than 25% of the workforce participating in training days, school workshops and radio programmes.

As regards **international forums on financial education**, the CNMV took part in all the technical meetings of the International Network of Financial Education of the OECD and actively collaborated in the work carried out there. Furthermore, as a member of IOSCO's Committee on Retail Investors (C8), the CNMV took part in the work on the vulnerability of elderly investors and the application of behavioural economics to improving investor protection, and took steps towards developing the framework of basic powers on financial education.

As regards the **CNMV training activities**, as well as those carried out under the Financial Education Plan, others were specifically developed for investors. This included the publication of the worksheet<sup>9</sup> on *Psychological mechanisms that affect investment decisions*, which includes the most common traits in investment decisions and advice to reduce their effect. Furthermore, the revision and updating of the content of the worksheets and guidelines commenced, in order to adapt them to regulatory change and establish a new strategy for their dissemination to allow their content to reach all investors and interested parties through new channels and formats.

Lastly, the CNMV continued its participation in numerous **training conferences and seminars** on matters related to investor protection (UNED, BME Institute, consumer techniques in Castile-La Mancha and Catalonia) and also took part in the IOSCO/PIFS-HLS Global Certificate Program, at which it presented the aforesaid worksheet on psychological mechanisms that affect investment decisions.

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8 Noteworthy in this regard is the weekly participation on the programme *Las cuentas claras* [Clear accounts] on Radio 5.

9 The Investor Section of the CNMV webpage offers news and information of interest for non professional investors, warnings to the public, and the possibility of downloading and consulting investor worksheets and guidelines. In addition, enquiries, claims, complaints and requests for information can be made through the Investor Section.

## 8 Disciplinary action

### 8.1 Disciplinary proceedings

On 2 October 2016, Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Administrations, expressly repealing Law 30/1992, of 26 November, on the Legal Regime of the Public Administrations and the Common Administrative Procedure, and Royal Decree 1398/1993, of 4 August, approving the Regulation of the Procedure for the Exercise of Sanctioning Powers, came into force. In 2017, the CNMV applied the provisions of the aforementioned law to the new disciplinary proceedings initiated by the CNMV. These provisions include Article 85 of the law, which allows termination of the proceedings as a result of voluntary recognition of liability by the alleged infringer or as a result of voluntary payment, with application of reductions to the monetary fines. Consequently, in eight of the proceedings initiated in 2017, the alleged infringers took advantage of early termination, three of which were closed during the year. Without prejudice to the processing time depending on the complexity of each case, this has contributed towards the average processing time standing at eight months.

In 2017, the CNMV Executive Committee initiated 16 new disciplinary proceedings, investigating a total of 23 possible breaches (see Tables 8.1.1 and 8.1.2). Disciplinary proceedings were opened in relation to: one breach of rules of conduct on client/investor relations, eight for market abuse (manipulation and use of insider information), four for a failure to report significant holdings, three for breaching rules on short selling, one for breaches relating to the reporting obligations of listed companies and the rest for breaches of general regulations by investment firms and CIS.

#### Proceedings initiated and concluded

TABLE 8.1.1

	2016	2017
<b>Number of proceedings initiated</b>	<b>18</b>	<b>16</b>
<b>Number of proceedings concluded</b>	<b>23</b>	<b>16</b>
Of which:		
Initiated in 2009	–	1
Initiated in 2015	16	1
Initiated in 2016	7	11
Initiated in 2017	–	3

Source: CNMV.

**Breaches addressed in disciplinary proceedings**

TABLE 8.1.2

	Initiated		Closed	
	2016	2017	2016	2017
<b>Very serious breaches</b>	<b>21</b>	<b>14</b>	<b>24</b>	<b>21</b>
I. Failure to disclose/incorrect disclosure of significant holdings or treasury stock transactions	1	4	9	1
II. Operating without authorisation	1	–	–	1
III. Breach of rules of conduct	6	1	5	4
IV. Breach of general investment firm regulations	6	2	5	3
V. Breach of general venture capital firm regulations	1	–	–	1
VI. Breach of general CIS regulations	–	2	–	2
VII. Breach of legislation on short selling	2	3	2	3
VIII. Market manipulation	1	1	–	1
IX. Insider information	3	1	3	5
<b>Serious breaches</b>	<b>7</b>	<b>9</b>	<b>12</b>	<b>8</b>
I. Breach of annual reporting requirements of issuers	–	1	–	–
II. Market abuse breaches	1	2	1	1
III. Breach in customer service	–	–	2	–
IV. Breach of general investment firm regulations	–	1	–	–
V. Breach of general CIS regulations	2	1	2	1
VI. Breach of legislation on short selling	–	–	2	–
VII. Insider information	1	–	–	3
VIII. Market manipulation	3	4	5	3
<b>Minor breaches</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Source: CNMV.

Over the year, the CNMV concluded 16 proceedings, which included a total of 29 breaches – 11 were initiated in 2016, 3 in 2017, 1 in 2015 and 1 in 2009.<sup>1</sup>

Table 8.2.1 shows the nature of the breaches addressed in the different disciplinary proceedings concluded in 2017 and Statistical Annex III.3 shows a summary of the decisions adopted by the CNMV.

As shown in Table 8.1.3, 27 fines were imposed for a total of 13,964,000 euros, and 1 sanction of disqualification from holding administration or management positions in financial institutions for a period of 5 years.

<sup>1</sup> The two proceedings initiated in 2015 and 2009 have been suspended as a result of the existence of related criminal proceedings until the final court judgements were issued.

	2016			2017		
	Number	Amount <sup>1</sup>	Period <sup>2</sup>	Number	Amount <sup>1</sup>	Period <sup>2</sup>
I. Fine	41	10,058	–	27	13,964	–
II. Removal/general disqualification	–	–	–	1	–	5
III. Suspension of market member	1	–	0.5	–	–	–

Source: CNMV. (1) Thousand euros. (2) Years.

Various penalties for serious and very serious breaches were incorporated into the **public register of penalties** in 2017. These can be found on the **CNMV website**.

## 8.2 Litigation department: Judicial review of disciplinary proceedings and other actions

In 2017, a total of 17 administrative appeals were brought against the disciplinary decisions with the Ministry of Economic Affairs and Competition (16 to a higher court, and 1 motion to set aside the decision), with 6 appeals to a higher court and 1 motion to set aside the decision rejected as at year-end 2017. In addition, the Ministry rejected 11 appeals to a higher court and 1 motion to set aside the decision lodged in 2016, as well as 1 appeal to a higher court lodged in 2015. Furthermore, the CNMV rejected 1 motion to set aside the decision lodged in 2016 against a decision to take no further action on a complaint (see Table 8.2.1).

A total of 18 appeals were filed with the administrative courts in 2017, 15 of them against disciplinary decisions, including one – through the special procedure of protection of fundamental rights – which was dismissed by the National High Court in the same year. The other three appeals were brought against the ruling authorising a takeover bid, the announcement of a tender process and the administrative terms and conditions of a procurement procedure, and the rejection of a claim of liability as a result of the disclosure of a public warning, the last of which was rejected in the same year.

Similarly, the courts ruled on 32 administrative appeals – 19 brought against disciplinary decisions – and 10 appeals for judicial review. Of the 19 judgements handed down by the Central Administrative Courts and the National High Court which referred to disciplinary proceedings, 15 fully upheld the contested decisions, 2 allowed the appeal and annulled the contested decisions, 1 reduced the amount of one of the penalties imposed, and another annulled 2 of the penalties imposed, although an appeal by the Administration has been brought against this last decision. For its part, the Supreme Court dismissed 3 appeals for judicial review brought against judgements upholding disciplinary decisions and it handed down 2 court orders and 5 court decisions declaring 2 appeals inadmissible, one of which was brought by the Administration against a judgement of the National High Court which annulled a disciplinary decision of the same year (see Table 8.2.1 and Annex III.4).

With regard to the legal proceedings relating to non-disciplinary decisions, the rulings in all the appeals have been in favour of the CNMV. The judgements handed down by the National High Court include the dismissal of an appeal brought against a decision ordering the de-registration of a financial institution from the CNMV's depositories register. Proceedings were closed (as a result of the withdrawal of the

appellant or become time-barred) in four appeals brought against decisions dismissing claims of liability with regard to the marketing of preferred shares or subordinated debt by various financial institutions, as well as five procedures (all of them through withdrawal) brought against the dismissal of a claim of liability made by a number of claimants against the CNMV as a result of its actions in relation to a mutual fund.

Furthermore, in compliance with the general principle to provide collaboration to legal authorities, CNMV experts provided support to judges and courts of all types in the exercise of their functions. The number of requests for collaboration received in 2017 (186) remained stable with regard to the total processed in the previous year. Although there was noteworthy collaboration with criminal courts, mainly relating to fraud or embezzlement, most of the requests (123) were from the civil courts. These requests basically related to the following issues: information on the issuing and marketing of financial instruments; asset securitisation; notices of attachment (which are the competency of governing councils); disciplinary proceedings ruled on in the framework of the proceedings handled by the CNMV; identification of securities and ownership of people or entities (knowledge of which corresponds to the depositories of said securities); information on entities that have operated without due authorisation; and, in general, the attainment of evidence in proceedings of various types brought before the different courts, with requests for data or documentation.

**Cases in which the CNMV participated in 2017**

TABLE 8.2.1

	Presented	Decided
<b>Administrative appeals</b>	<b>17</b>	<b>21</b>
Appeals to a higher court	16	18
Motions to set aside the decision	1	3
<b>Appeals to the courts against administrative decisions /judicial review</b>	<b>18</b>	<b>42</b>
	<b>Requests received for assistance</b>	
<b>Assistance to courts</b>		<b>186</b>

Source: CNMV.

### 8.3 Claims

In 2017, a total of seven claims were filed with the CNMV, mostly relating to the conduct of issuers or listed companies, in addition to one management company and one entity of another type.

The claims essentially focused on alleged breaches of market abuse legislation. To a lesser extent they related to possible irregularities relating to the obligation to provide information to investors, as well as a failure to comply with accounting duties.

At 31 December 2017, after the CNMV had performed in each case the appropriate investigations (the scope and content of which are subject to the duty of secrecy), the processing of one claim was completed, while the others remain outstanding.

**Claims made in 2017**

TABLE 8.3.1

**CNMV actions in the  
securities markets  
Disciplinary action**

<b>Type of entity claim brought against</b>	<b>No. of claims</b>
Securities issuers/listed companies	3
Management companies	1
Other	3
<b>Total</b>	<b>7</b>
<b>Content of claims</b>	<b>No. of claims</b>
Market abuse	4
Information obligations	1
Accounting obligations	1
Other	1
<b>Total</b>	<b>7</b>
<b>Situation of claims at 31-12-2017</b>	<b>No. of claims</b>
In process	6
Closed	1
<b>Total</b>	<b>7</b>

Source: CNMV.



Participation in international forums is a fundamental part of the day-to-day work of the CNMV. In particular, and as can be seen in the previous sections, participation in the European Securities Markets Authority (ESMA) has a major impact on the supervisory work of the CNMV. Furthermore, participation in the Organisation of Securities Commission (IOSCO), the Financial Stability Board (FSB) and in the work of the European Systemic Risk Board (ESRB) also helps to globally, consistently and in a harmonised fashion, address the main challenges of regulating and supervising the markets and market players.

In 2017, the CNMV's work in ESMA involved greater dedication than previously, as the Chairperson and Vice-Chairperson of the CNMV had been appointed as a member of the Management Board and Chairperson of the Financial Information Standing Committee, respectively. Furthermore, more than 100 people from the institution took part in 340 international meetings, not including training activities.

This section mainly addresses certain initiatives adopted by ESMA and IOSCO over the year that involved the active participation of the CNMV. As regards ESMA, the work carried out to address the consequences of the imminent withdrawal of the United Kingdom from the European Union (Brexit) was important, together with the application, as from 3 January 2018, of the two European regulations that constitute the cornerstones of the capital markets legislation: the MiFID II<sup>1</sup> Directive and the MiFIR Regulation (regulatory package MIFID II-MIFIR).<sup>2</sup> As regards IOSCO, together with the regular work of its standing committees and intense collaboration by the organisation with the FSB and other entities in developing the international financial reform, noteworthy is the focus and work on cyber-security and regulatory aspects related to crypto-currencies.

### 9.1 European Securities and Markets Authority (ESMA)

The application, as from 3 January 2018, of the two aforesaid European regulations once again required that ESMA devote a significant part of its resources to ensuring that the implementation of this legislation in the different Member States was as coherent and effective as possible. This led to the drafting of a large number of guidelines, questions and answers, opinions and workshops for the competent national authorities (CNAs), and some implementing regulations even remain pending. Furthermore, work continued on the preparation of the databases required by

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1 Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments, amending Directive 2002/92/EC and Directive 2011/61/EU.

2 Regulation (EU) No. 600/2014 of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments, amending Regulation (EU) No. 648/2012.

these regulations, such as the one relating to the reference data for financial instruments (FIRDS).

Brexit also impacted ESMA's activity over the year, due to the plans by many financial institutions established in the United Kingdom to relocate, at least partially, in another Member State in order to maintain the so-called European passport and thus continue to enjoy the possibility of providing investment services in the European Union. ESMA adopted several initiatives, fundamentally aimed at avoiding regulatory arbitrage and at controlling potential risks for the European financial system in this context.

In addition, ESMA's contribution in 2017 to the European Commission's plan for the Capital Markets Union mainly consisted of participating in the regulatory developments that require rules on prospectuses and securitisation. Work was also done on the study requested on net returns and fees for investment products aimed at retail clients and another study began on the costs and past performance of investment products aimed at retail clients, insurance and pension products. ESMA also significantly contributed, in line with the strategic guidelines defined in 2016, to the process of European financial integration thanks to its activity in the area of supervisory convergence, specifically through the application of its work plan on supervisory convergence for 2017.

The main ESMA activities and committees in which the CNMV participated are described below, in particular, the actions developed over the year in relation to Brexit.

Noteworthy among the work carried out by ESMA on Brexit includes, firstly, the issuing of certain opinions on asset management, investment firms and secondary markets, aimed at the CNAs and, indirectly at market participants in the United Kingdom. These opinions develop a series of general principles to be taken into account when evaluating the applications for relocation in the EU-27 by participants in the British markets. In particular, they address the regulatory and supervisory risks related to authorisation and certain requirements relating to the governance of these entities and to the delegation or outsourcing of activities. The following conclusions can be derived from these opinions: i) that, without prejudice to the freedom of market participants to decide in which of the remaining 27 Member States they want to relocate, this decision cannot be adopted with the intention of avoiding regulatory standards or stricter supervision in another jurisdiction; and ii) that the CNAs cannot provide authorisation simply based on the recognition of authorisation from other CNAs deriving from Brexit, but must submit the applications received to procedures with full guarantees.

Furthermore, ESMA has analysed the potential risks that Brexit may hold for financial markets in the European Union and is monitoring them in case it becomes necessary to adopt measures to guarantee the financial stability of the European system. Particularly important in this regard was the debate held in the European Union of whether central counterparties established in the United Kingdom with high clearing volumes in euros must transfer this activity to any of the remaining Member States so that the European authorities have the ability to control systemic risks that may derive from this.

Lastly, the Supervisory Coordination Network was set up, in which the 27 CNAs (excluding the British authority) meet periodically to agree on common positions regarding potential disputes on the applications for relocation by British authorities.

The CNMV has pushed through measures on Brexit, in coordination with other Spanish bodies and institutions, to attract companies and facilitate relations with them. These measures are designed, not only for the potential relocation of businesses currently located in the United Kingdom, but also to attract investment projects and to grow the European financial industry to locations that, until recently were hardly considered as viable alternatives to London.

As part of the measures to host those financial institutions that wish to transfer all or part of their business to Spain, the CNMV implemented a programme in 2017 aimed at investment firms and management companies, known as the **Welcome Programme**. Noteworthy as part of this programme was the creation of a single point of contact for interested parties, as well as individual attention in English through the appointment of a CNMV coach to guide them throughout the authorisation process. An authorisation process was also established aimed at companies with their head office in the United Kingdom and which are supervised by the competent authorities of that country, which includes a pre-authorisation phase under which, within two weeks, an indication is provided on the existence or not of significant difficulties with a subsequent commitment to authorise these projects in a maximum term of two months should no difficulties arise. Detailed guidelines and models are also incorporated that can facilitate the process and the presentation of all relevant documentation is permitted in the English language, without the need for translation. All the information in this programme is available on the CNMV's web page.

Over the course of the first year of operation of this programme, numerous requests for information have been received and there have been multiple contacts with international banks and financial entities located in the City of London. The largest number of enquiries received were related to investment firms and management companies, followed by those related to FinTech companies (principally on automated advice).

Another important area on which ESMA worked over 2017 was the adaptation to the entry in force of the MiFID II Directive and MiFIR Regulation. In this regard, guidelines and Q&A documents were drafted, aimed at facilitating their coherent application and at boosting coordination between the CNAs. These guidelines referred to requirements on the governance of products, on the evaluation of appropriateness in the provision of advisory services on investments and portfolio management, and on assessing the suitability of members of the management committee and other key executives, the latter in collaboration with the EBA.

As regards the Q&A documents, updates were published specifying aspects of the application of MiFID II and MiFIR in relation to the following matters: best execution, appropriateness and suitability, phone call and electronic mail records, registers, incentives, service provision and activities of third-country institutions, categories of clients, complex financial instruments and after-sales information.

New Q&A documents were also published on the provision of contracts for differences (CFDs) and other speculative products for retail investors. These Q&A documents were related to passports and the cross-border provision of services by investment firms that offer these products outside of their home Member States without the mediation of a branch or an agent, having published a statement announcing the possibility of exercising powers of intervention over these instruments.

In this regard, it is particularly noteworthy that, on 27 March 2018, ESMA agreed to ban binary options and establish certain restrictions on the marketing of CFDs to protect retail investors.

This is the first time that this type of exceptional measure on intervention on financial products as provided for in MiFIR (European Regulation that forms part of the MiFID II package) has been applied to protect investors. This regulation provides that ESMA can adopt these measures temporarily and renew them every three months whilst national authorities can take them on a permanent basis. The adoption, in this case by ESMA, of these measures is particularly appropriate, since they are products with a high degree of cross-border distribution by electronic means throughout Europe. Measures were also adopted on CFDs with crypto-currencies as the underlying asset, to which highly demanding leverage limits are applied. ESMA and the national authorities are concerned by the specific risks of crypto-currencies, such as their lack of transparency, their complexity and the lack of reliability of their valuation.

Other leading issues on which ESMA worked are as follows:

- **Short selling.** Technical advice to the European Commission on the Regulation on short selling,<sup>3</sup> focusing on market creation activities, the procedure to impose short-term restrictions and notification and public dissemination. The CNMV considers that the degree of transparency on short positions should be increased by reducing the thresholds on notification to the supervisor and by establishing different thresholds according to the size of the listed companies affected.
- **Market abuse.** The opinion containing the conditions and limits to be taken into account so that certain liquidity contracts can be accepted as market practices, in other words, as exceptions to the general ban on market manipulation. This year, the CNMV approved an accepted market practice (AMP) adapted to this opinion.
- **The second stress test for central counterparties** in the European Union, which consisted of stress tests on credit and liquidity risks, and of reverse stress tests on credit risk. The annual report evaluating the supervision of European central counterparties was published, which in 2017 addressed procedures for managing non-compliance.
- **Implementing regulations of the new Regulation on prospectuses,**<sup>4</sup> with public consultation on technical standards of regulation in the following areas: the examination and approval of the prospectus, the review and registration of the universal registration document and conditions on the loss of status as a frequent issuer, the content and format of the new prospectus of growth companies in the European Union and the content and format of the prospectus (including the universal registration document), the base prospectus and the final conditions.

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3 Regulation (EU) No. 236/2012 of the European Parliament and of the Council, of 14 March 2012, on short selling and certain aspects of credit default swaps.

4 Regulation (UE) 2017/1129 of the European Parliament and of the Council, of 14 June 2017, on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC. Published in the *Official Journal of the European Union* on 30 June.

ESMA also worked to analyse financial innovation with the aim of providing a coordinated approach to the regulatory and supervisory treatment of this activity. In particular, it carried out periodic surveys among its members to gather data and draw conclusions on the marketing of financial products to retail investors, financial innovation and complaints in different Member States. The responses from the CNAs to the survey regarding their initiatives in relation to the different innovation facilitators, for example, allowed the Committee to see which of its members have established hubs, regulatory sandboxes and accelerators.

Work was also done in such areas of financial innovation as crowdfunding, distributed ledger technology (DLT), initial coin offerings (ICO), virtual currencies, the use of technology to comply with regulatory requirements (RegTech) and the exercise of powers of intervention under the MiFIR Regulation. As regards blockchain technology, ESMA published a report on DLT applied to securities markets. Two statements were also issued on ICO, one relating to investor risks and the other with recommendations and rules aimed at issuers. As regards RegTech, this Committee is analysing the different proposals on how the application of this technology can facilitate compliance with regulatory requirements, such as obligations on the prevention of money laundering, client identification, the disclosure of information and risk management. Lastly, it collaborated with ESMA's Investor Protection and Intermediaries Standing Committee (IPISC) in analysing the potential exercise of powers of intervention over binary options and CFDs.

### Revision of the European System of Financial Supervision

EXHIBIT 16

The European Commission, in line with the strategy outlined in its Action Plan to achieve a Capital Markets Union by 2019, published a regulatory proposal in September with the aim of strengthening the framework of European financial supervision made by the European Supervisory Authorities (ESMA, EBA and EIOPA).

The proposal seeks to step up supervisory convergence and extend the direct supervision of the European Supervisory Authorities to some additional matters of the capital markets; furthermore, changes are proposed on the governance and financing of these authorities.

The main aspects of the proposal as regards ESMA are as follows:

- **To step up supervisory convergence.** Greater financial integration requires providing the European Supervisory Authorities with more effective resources in this field. Noteworthy among the proposed mechanisms are the following: strategic supervision plans, supervision manuals, independent assessments, coordinated supervision of outsourcing and delegation to third-country agreements, the right of initiative in cases of binding mediation, requests for information from market participants, greater participation in equivalence decisions of third countries, coordination on market abuse in suspicious cross-border transactions, and certain changes in the process of drafting guidelines.

- **New powers of direct supervision.** The European Commission considers that certain matters require direct supervision by a European authority. Specifically, the proposal attributes direct supervisory powers to ESMA on data supply service providers and indices used as critical benchmarks, as well as in relation to certain institutions and transactions from third countries (such as central counterparties and prospectuses from issuers outside the European Union but drafted in line with European regulations). In addition, although in this case the proposals will probably lead to further debate, ESMA will be granted authorisation powers over certain prospectuses (basically on fixed-income securities aimed at wholesale investors, securitisations and certain specialised issuers) and harmonised collective investment schemes (EuVECA, EuSEF and ELTIF).
- **Governance and funding.** The European Commission considers it necessary to modify the structure and funding of these European authorities in order to comply with the powers attributed to them. Noteworthy among the proposals is the creation, above all, of a new body – the executive board – to replace the current management board, made up of full-time members with powers to adopt decisions in the field of supervisory convergence. In terms of funding, the aim is to replace the current contributions from the CNA by individual annual contributions from financial institutions.
- **Integration of new goals for the European Supervisory Authorities.** Specifically, sustainable finances and FinTech.

## 9.2 European Systemic Risk Board

The European Systemic Risk Board (ESRB) is an independent body set up in 2010 that is responsible for the macro-prudential oversight of the financial system within the European Union whereby its goal is to prevent, and where appropriate mitigate, the impact of systemic risk. Its scope of action is the banking system, insurance companies and pension funds, asset managers, shadow banks and other financial institutions and markets.

As a member of the ESRB, the CNMV participates on the Advisory Technical Committee and in groups of experts that analyse the formation of systemic risk in areas related to securities markets. Furthermore, a member of the CNMV Board sits on the General Board of the ESRB as a non-voting member.

The leading issues addressed in 2017 in those areas of interest to the CNMV were the following: i) the analysis of the most significant risks and sources of uncertainty for the financial stability of the European Union, ii) the possible formation of systemic risk related to leverage and liquidity mismatches in investment funds, and iii) the inherent risk to activities and entities related to shadow banking.

Furthermore, and specifically in relation to banking, there was an in-depth analysis of the impact of non-performing loans, with a proposal for measures to mitigate the risk of the accumulation of these assets, a framework for analysis was drafted to

identify and evaluate the risks deriving from the commercial segment of the real estate market and several empirical studies were carried out with the aim of analysing the risks and interconnection in the derivatives market.

The CNMV actively participated in two expert groups which focused the actions of the ESRB: one related to investment funds and the other to shadow banking.

In the area of investment funds, recommendations were issued that seek to mitigate, on the one hand, systemic risk from mismatches between investment liquidity and the redemption profile of each fund and, on the other hand, the knock-on effect that leverage may have on periods of mass redemptions. To achieve this, Member States are recommended to provide CIS managers with a wide range of measures to manage redemptions in situations of stress and to perform stress tests to assess the potential consequences of future crises. The ESRB also recommends establishing a harmonised report for the different type of CIS so that the level of leverage in the system can be effectively supervised, identifying those schemes that pose the greatest risk and establish macro-prudential limits suitable to the leverage of alternative investment funds (AIFs).

As regards shadow banking, the ESRB analysed growth and the risks associated with the different types of institution and activities by non-bank financial institutions in the new annual edition of the *Shadow Banking Monitor* (SBM). This report highlights potential vulnerabilities, such as the risk of contagion and the interconnection between different financial sectors, leverage and the pro-cyclical factor related to the use of derivatives and operations backed by collateral, and the lack of detailed information in the category of “Other financial intermediaries”. Over 2017, the mechanisms for contagion between shadow banking activities and other financial sectors were also analysed, and a study was conducted on the use of derivatives by investment funds.

### 9.3 International Organization of Securities Commissions (IOSCO)

Over the course of 2017, IOSCO continued implementing its 2015-2020 strategic programme, and mention should be made of the opening of a new training centre in Kuala Lumpur – with the aim of increasing knowledge of the technical staff of its members in the Asia Pacific region – together with the work done and warnings made on crypto-currencies and the establishment of a network of initial coin offerings (ICOs).

At an organisational level, noteworthy was the adoption of the agreement by the IOSCO Board to hold two of its three annual meetings at the organisation’s head office in Madrid, which heightens Spain’s visibility in international cooperation related to financial regulation and supervision. Also worthy of mention is the reduction in the duration of the annual conferences and greater efficiency in committee meetings, as well as public workshops on securities markets, which are held on a joint basis with industry players.

At a technical level, the Board agreed to establish the organisation’s priorities on an annual basis to develop new work projects, with the aim of seeking greater efficiency. The priorities established in 2017 were concentrated in the following areas of action: i) strengthening the structural resilience of the capital markets; ii) the insufficiency of data and the problems in exchanging them; iii) the application of new

techniques to protect and financially educate investors; iv) the analysis of the role of securities markets in capital increases and sustainability; and v) the role of regulation in financial technology and automation.

In order to establish the annual priorities and to approve new working projects, the IOSCO Board will use the annual report on risks prepared by the Emerging Risks Committee, entitled *Risk Outlook*.

The Board agreed that additional priority work for this would include the use of mechanisms to tackle secondary market volatility, the analysis of potential vulnerabilities related to ETFs and the problems deriving from the marketing of complex financial products to retail investors.

As in the previous year, FinTech initiatives were the subject of attention at the Board's meetings and it was expressed that matters related to FinTech could soon lead to proposals to develop standards, guidelines and recommendations.

Also worthy of mention is the active participation in the analysis of the proposals drawn up by the Monitoring Group<sup>5</sup> to strengthen the governance and supervision of bodies involved in establishing international audit standards to the benefit of the public interest. This group undertook its first public consultation process at which it gathered various opinions to improve the governance of bodies that issue standards on work procedures of auditors. A second consultation is planned for 2018, once the responses have been analysed.

In the area of **cooperation and the exchange of information** between securities regulators and supervisors, the new General Data Protection Regulation of the European Union – due to come into force in May 2018 – led to the creation of a joint working group with ESMA to develop an administrative agreement under negotiation with the European Data Protection Supervisor. This administrative agreement will allow information to be shared between EU Member States and third countries with all the guarantees contained in the aforesaid regulation.

Within the area of **collective investment schemes**, noteworthy is the report entitled *Good Practices for the Termination of Investment Funds*. The report, on voluntary liquidation practices, identifies a total of 14 good practices, grouped into 5 sections (disclosure at time of investment, decision to terminate, decision to merge, the termination process and specific types of investment funds). The purpose is to promote practices that take into account the interests and protection of investors during the termination process.<sup>6</sup> The fourth biannual report on alternative investment funds was also published, which contains information to facilitate the evaluation of systemic risks associated with the activity of these funds, as well as a vision of the industry and its regulatory developments. Lastly, work was performed on the development and implementation of the recommendations published by the FSB to address structural vulnerabilities from asset management activities.

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5 Members of the Monitoring Group include: the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), the World Bank, the European Commission, the Financial Stability Board (FSB), the International Forum of Independent Audit Regulators (IFIAR) and IOSCO.

6 Although the report refers to the termination of investment funds, these good practices are applicable in Spain and to traditional collective investment schemes (investment funds and SICAVs), as well as to real estate collective investment schemes, hedge funds and schemes that invest in commodities.

IOSCO also published a research report on FinTech, focusing on crowdfunding platforms, retail trading and investment platforms, institutional trading platforms and distributed ledger technology (DLT). Each one of these categories is analysed from four perspectives: i) market developments and size, ii) beneficiaries and opportunities, iii) risks and challenges, and iv) regulatory importance. A section is given over to regulatory considerations, given that the activity is carried on in an eminently cross-border environment but regulated at a national level, which may lead to arbitrage and other asymmetries, particularly in relation to cyber-security. Lastly, the report includes a section on FinTech developments in emerging countries.

#### 9.4 Financial Stability Board (FSB)

The Financial Stability Board (FSB) is structured around three committees: Standing Committee on Assessment of Vulnerabilities (SCAV), Standing Committee on Supervisory and Regulatory Cooperation (SRC) and Standing Committee on Standards Implementation (SCSI). The CNMV participates as a full member of the SCSI through the representation of its Chairperson.

In 2017, the Financial Stability Board (FSB) continued developing and applying G20 recommendations and requirements in the financial sector. In 2017, Germany held the Presidency of the G20. The scope of action of the FSB in relation to the securities markets over the year was as follows:

- Shadow banking to provide stable market-based finance, thus helping contribute to reducing risk from the perspective of financial stability. The members of the FSB have stepped up their ongoing monitoring measures, the exchange of data and analysis in this field.
- Continuation of the reforms of the OTC derivatives markets in order to make the system more transparent and robust and more geared towards serving the real economy. The use of central counterparties (CCP) for the central clearing of OTC derivatives transactions has increased the systemic importance of these entities, which has led to greater importance being assigned to their resistance. To this end, the FSB coordinated the drafting of guidelines on the resolution, resistance and recovery of CCPs.
- Minimisation of the risks associated with asset management, particularly those deriving from potential liquidity mismatches. The recommendations drawn up by the FSB to this end require assessment to guarantee their implementation.
- Initiatives to address the underlying causes of inappropriate conduct in the financial markets, fostering the individual responsibility of market participants and matching their incentives.
- Recommendation for the disclosure of information to investors, lenders and insurers on the risks related to climate change. The FSB intends to promote the swift adoption of these recommendations over 2018.
- Evaluation of the risks associated with FinTech and cyber-security, which led to two main conclusions. Firstly, it was shown that the FinTech sector is of limited systemic importance for the time being, together with the need to

continually monitor its development and its interdependence with other financial markets. Secondly, due to the significant increase in possible cyber-attacks – as a result of the continued digitalisation of the financial sector – the FSB has decided to foster the adoption of shared practices among G20 members.

- Continuous assessment of the implementation and effects of financial reforms, with particular emphasis on market liquidity and on the consequences on emerging economies.

One of the priority areas for the FSB is monitoring the implementation of resolution systems, carried out through the Resolution Steering Group (ReSG). The CNMV participates in one of its working groups on cross-border crisis management of financial market infrastructures (fmiCBCM), which in 2017 published a guide on the resolution and planned resolution of CCPs and began to work on the financial resources and treatment of capital of those CCPs subject to resolution.

In 2017, CNMV also took part in drawing up the Principles on Bail in Execution, drafted by the Cross-Border Crisis Management (CBCM) group. This document may be completed and improved with the added perspective of securities regulators, due to the implications and interactions that the application of this resolution strategy has on the markets.<sup>7</sup>

As regards the Standing Committee on Standards Implementation (SCSI) of the FSB, of which the Chairperson of the CNMV is a member, its main lines of action are as follows: i) to ensure implementation of financial standards agreed by the G20 and the FSB; ii) to report to the Plenary Session of the FSB – and indirectly to the G20 – on the level of implementation of the standards in each one of the member jurisdictions; iii) undertake thematic and country peer reviews amongst its members; and iv) encourage global adherence to prudential regulatory and supervisory standards approved by the FSB and drawn up by standards issuers, such as IOSCO and the Basel Committee. Over the course of 2017, the SCSI addressed such issues as the following: i) the completion of the report on OTC markets and the identification of new areas (implementation of the LEI code and incentives for centralised clearing of OTC derivatives) for thematic peer reviews in the coming years; ii) the country peer reviews of Brazil, Argentina, France, South Korea, Hong Kong and Singapore, during which the issues of crisis management, the resolution of financial institutions and macro-prudential policy have been recurrent themes; and iii) the evaluation of the impact of the financial reforms implemented on both financial institutions and on the real economy.

The CNMV also participates in the expert group that seeks to identify the main entities and activities relating to shadow banking and their quantification (SBEG). Since 2011, this group has drawn up the annual *Global Shadow Banking Monitoring Report*, which describes the most significant trends and risks relating to shadow banking. This report is prepared with the information sent by each jurisdiction participating in the group about the size of its financial system and the activities that may be considered as shadow banking. In this regard, the CNMV not only prepares and provides a series of data on its supervised entities, but also contributes with an assessment of the risks that these entities generate for financial stability, as well as a description of the most important measures adopted to mitigate them.

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<sup>7</sup> The CNMV Advisory Committee issued a report on this document during its public consultation phase.

In 2017, the stability of the financial system in Spain was assessed by the International Monetary Fund (IMF), as part of its Financial Sector Assessment Program (FSAP).

The FSAP is the instrument used by the IMF to identify sources of systemic risk, as well as to suggest policies that strengthen the resilience of the financial system to potential shocks and contagion.

In countries with a financial sector considered by the IMF to be important from a systemic perspective, the FSAP forms part of the periodic review of the national economy performed by this body which, according to the agreement adopted by the members of the G20/FSB, must be performed every five years.

Given the growing importance of capital markets in generating and transmitting the risk of financial stability, the CNMV played an important role in the FSAP's assessment exercise, in coordination with such other authorities as the Bank of Spain, the Directorate-General of Insurance and Pension Funds and the Fund for Orderly Bank Restructuring (FROB) under the direction of the Secretariat-General of the Treasury and Financial Policy.

The following are the most important recommendations made to the CNMV or directly related to its scope of actions:

- To foster the development of market-based financing, thus reducing dependency on bank financing by offering non-banking financial products for companies and families.
- To strengthen the capacity to monitor and analyse macro-financial ties, connectivity between different financial sectors and indirect cross-border effects, and to gather data that allow for said analysis.
- To establish a Systemic Risks Board that can act as the future macro-prudential authority tasked with coordination between supervisory authorities of the monitoring of factors that trigger systemic risk.
- To extend macro-prudential instruments to tackle risks deriving from exposure of the real estate sector.
- To promote greater supervisory attention covering corporate governance practices of both credit institutions and non-banking institutions.

As regards assessment of the implementation of the FSAP recommendations for 2012 specifically aimed at the CNMV, the IMF verified that the CNMV's capabilities to supervise investment firms was strengthened through on-site inspections, as well as through exclusive powers for authorisation and sanction. It also verified that its capabilities to monitor systemic risk and threats to financial stability have been strengthened through the publication of its

*Financial Stability Notes* and the periodical publication of its stress indicator of the Spanish financial system. Lastly, although the IMF positively assesses the proactive use of its disciplinary powers following infringements of rules of conduct, it points to its still limited autonomy to manage human resources.

Finally, within the framework of the objectives of the Argentinean presidency of the G20 in 2018, the FSB's activities will focus on the following lines of action: i) ongoing supervision of emerging risks, particularly those derived from crypto-assets, which require coordinated action by the different international organisations; ii) the completion of the priority financial reforms for the G20 prior to the summit of its leaders at the end of 2018;<sup>8</sup> and iii) strategic assessment to ensure that the financial reform programme is efficiently, coherently and effectively applied. The first two assessments to be made in 2018 relate to financial intermediation, with particular emphasis on infrastructure financing and incentives for market participants to use the centralised clearing of OTC derivative transactions.

## 9.5 Other international forums

The **Mediterranean Partnership of Securities Regulators** presented the different legislative proposals at its Annual Conference of presidents, held in Rabat, and reported on the current state of affairs and the outlook for progress in different economies. The different legislative proposals and activities performed as a result of the global financial reform promoted by the G20 and the FSB, the proposals and work plans for the year and other recommendations from these forums were presented. The southern Mediterranean countries stressed their commitment to sustainability and green financing programmes. A report was also presented on the activities performed by the European Securities Markets Authority (ESMA) and the legislation adopted by the European Union on collective investment, financing information, and cooperation and information sharing relating to market abuse practices. The IOSCO work, activities and proposals on the work of the Growth and Emerging Markets Committee (GEMC) were also presented, a direct result of the G20 priorities on financing the real economy.

The **Ibero-American Institute of Securities Markets (IIMV)** performed different activities that include in-person training courses and actions, and distance learning, attended by more than 250 people – without including those attending international conferences organised on the occasion of the IIMV Board Meeting in Santo Domingo. As well as ordinary courses on supervision and inspection in various aspects of securities markets, the IIMV placed great emphasis on corporate governance and FinTech, specifically in relation to crowdfunding and cyber-security. The two distance courses, now standard practice, focus on international financial reporting standards (IFRS) and on corporate governance, respectively. Also worthy of mention is the study on the financing of SMEs through capital markets in Ibero-America, presented in Guayaquil and in Lima. Furthermore, the three journals published by the IIMV in 2017 focused on corporate finance through the markets, market transparency and crowdfunding.

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8 Basel III, correspondent banking, misconduct, market-based finance, CCP resolution, cyber incidents, climate-related financial risks.

## 9.6 Cooperation and information sharing with foreign authorities

Following the same upward trend as in previous years, in 2017 there was a general increase in acts of cooperation and information sharing with foreign authorities, particularly those requested by the CNMV. The CNMV handled 106 requests for support from supervisors from other States (110 in 2016 and 68 in 2015) and issued 96 requests for support from its counterparts abroad (63 in 2016 and 25 in 2015). Most of this cooperation involved the submission of information or the performance of investigations on cross-border transactions that allegedly involved market abuse (39 requests sent and 16 received), as well as the sharing of information aimed at verifying the suitability and good repute of regulated entities and individuals (48 requests sent and 38 received).



### **III CNMV: Institutional, organisational and financial aspects**



This third part of the Annual Report refers to institutional, organisational and financial aspects.

Reference is firstly made to the strategic areas that guided the institution's activity in 2017, contained in the Activity Plan for the year and which have been confirmed in the 2018 plan, adding an additional area to reflect the growing impact of technology development on financial services: i) prioritisation of supervision and promotion of market transparency, ii) enhancing the attractiveness and competitiveness of Spanish securities markets, iii) developing the analysis and monitoring of financial stability in matters relating to capital markets, and iv) strengthening financial education and support for investors.

In terms of human resources, there were 20 new hires of technical staff as a result of an ordinary selection process carried out in the second half of 2016, as well as a selection process to cover 10 vacancies for specialised technical staff and the definitive authorisation of 40 new hires under the Public Employment Offer for 2017. These latter two selection processes should not only recover the human capital lost in previous years, but also slightly strengthen this capital to address supervisory work that is increasing in terms of its scope and technical complexity under better conditions. Furthermore, the CNMV has continued focusing attention on staff training as a priority, which is key given the highly specialised nature of its activities and the characteristics of the sector under supervision.

As regards internal organisation, changes were structured through amendments to the Internal Regulation of the CNMV, such as changes in the structure of the Directorate-General of Legal Affairs.

This part of the report also sets out the improvements introduced in the information systems geared, on the one hand, to renewing the central technical infrastructures and, on the other hand, to enhancing security and the continuity of the various facilities.

Reference is also made to the activities of the Advisory Committee over the year, in which there was a considerable increase in the regulatory reports issued in relation to the increase in activity of the publication of technical guidelines and documents with criteria and recommendations made by the CNMV.



### 10.1 2018 Activity Plan and CNMV's strategic areas 2017-2018

On 14 February 2018, the CNMV presented its Activity Plan for the year. This plan, previously presented to the CNMV Advisory Committee for its consideration, sets out 50 targets for the year, and includes a review of the degree of completion of the commitments taken on in the previous year's plan. Specifically, it explains that 86% of the targets were achieved, somewhat higher than in previous years (79% in 2015 and 82% in 2016).

Noteworthy among the targets achieved, due to its importance, was the approval of the technical guidelines on audit committees and the formation of sales networks. These guides are an example of the policy followed by the CNMV in recent years being stepped up, a policy that seeks to enhance transparency on its operating guidelines and to facilitate compliance with regulations by supervised firms.

Furthermore, with the aim of promoting innovation in the financial sector, the CNMV launched the FinTech Portal to help promoters and financial institutions with regulatory aspects that may affect their projects and create an informal space for communication on their initiatives in this field. The figures for the activity of this portal, which has been very well received, can be consulted in Exhibit 18.

Those targets pending completion only amount to 14% of all targets set for 2017. In some cases, the lack of completion was caused by the delay in the approval of related national regulations, as was the case with the target of amending Circular 5/2013, which establishes the templates for the annual corporate governance report, or caused by the need to incorporate certain new aspects derived from new European regulations, as was the case with the critical review of the guidelines on issues.

At any event, many of the targets pending completion are now under way and are at an advanced stage.

On the occasion of the preparation of the 2017 Activity Plan, a decision was taken to define the CNMV's strategic areas on a biannual basis, and hence no new areas were prepared in 2018, but rather the validity of those already defined was reviewed and confirmed, adding, as mentioned above, an additional area to reflect the growing importance of technology developments in financial services. The CNMV's strategic areas, including the latter, are as follows:

#### **Prioritisation of supervision and promotion of market transparency**

The CNMV plays close attention to those aspects related to improving market transparency, the correct functioning of its infrastructures and compliance with the most

important standards of conduct and investor protection. The main aim is to strengthen the general perception of the integrity of the Spanish market through the rigorous exercise of its supervisory powers.

It must rigorously supervise compliance with rules on the financial disclosures of issuers, place great emphasis on the fight against market abuse and pay close attention to the correct functioning of market infrastructures and the information that issuers and other entities that provide investment services furnish to retail investors.

In parallel, the CNMV will continue to monitor the corporate governance of listed companies with the aim of contributing to enhancing the image of corporate culture in this regard.

Lastly, the CNMV will continue to publish technical guidelines and criteria to enhance transparency on its operational standards and facilitate compliance with regulations by supervised firms. It will also continue working to ensure fluid interaction with the sector, geared towards making sure that the adaptation process to new European regulations is carried out efficiently.

### **Enhancing the attractiveness and competitiveness of Spanish securities markets**

The CNMV will work in a coordinated fashion with the sector to promote confidence in the Spanish securities markets as a source of financing for companies, and boost a competitive and stable regulatory framework. To achieve this, it is necessary to invest in strengthening decisions on regulatory policy through a rigorous analysis of the underlying national and international reality.

Over 2017, the CNMV worked hard both on preparing the institution and sector for the application of new European regulations, whilst paying close attention to its advisory function for the government and the Ministry of Economic Affairs, Industry and Competition on matters related to the securities markets and, specifically, to the adaptation of the Securities Market Act to the MiFID II Directive and to the new European Market Abuse Regulation with the aim of contributing to clarity and legal certainty, and of enhancing regulatory simplification. Efforts to this end will remain a priority in 2018.

Likewise, it is essential for the CNMV to continue working with other European supervisors to coordinate the implementation of European regulations in as homogeneous a way as possible and avoid possible regulatory or supervisory arbitrage between countries.

Furthermore, the CNMV, in coordination with other bodies and institutions, will continue promoting measures and initiatives that attract financial business to Spain. Among other actions, it is important to back initiatives from the International Organization of Securities Commissions (IOSCO) and contribute to the headquarters of this important organisation having a greater impact and visibility, due to it being located in Madrid.

Lastly, in order to continue performing its functions and responsibilities as a supervisory body efficiently and effectively, the CNMV will continue to promote investment in technology, the switchover to electronic government and the digitalisation of documentation.

## Developing the analysis and monitoring of financial stability in matters relating to capital markets

The financial crisis has highlighted the growing interdependence of financial stability and capital markets. Hence, a major part of the work that the Financial Stability Board (FSB) has given priority status to is focused on the securities markets.

The CNMV actively participates in IOSCO and the FSB. Furthermore, in Europe, it is a member of the European Securities and Markets Authority (ESMA), whose remit includes maintaining financial stability, and of the European Systemic Risk Board (ESRB), which has issued recommendations stressing the need for EU Member States to put in place a framework for macro-scale action and tools by establishing macro-prudential authorities.

Given the importance of these matters, the CMMV must intensify analysis and monitoring of those areas of securities markets with the potential to impact financial stability.

## Strengthening financial education and support for investors

In line with the work carried out over recent years, the CNMV will continue focusing on the Financial Education Plan as a priority area, a joint initiative with the Bank of Spain and backed by the General Secretariat of the Treasury and Financial Policy and the Directorate General for Insurance and Pension Funds.

The progressive complexity of the markets, of financial relations between individuals and companies, and of financial products and services underlines the importance of making people more aware of the value of financial education at all stages of life, with particular emphasis on its value as a fundamental element in stability and the protection of financial consumers.

To this end, the joint commitment of the Bank of Spain and the CNMV was renewed in October 2017 with the signing of a new agreement, and, after analysing the results obtained to date, work is ongoing on the detailed definition of the future strategy of the plan for the period 2018-2021.

In parallel, the CNMV will continue to strongly focus on the system for managing complaints reaching the institution. In light of the entry into force of Law 7/2017 on alternative dispute resolution for consumer disputes in November 2017, the CNMV is working with the government and other financial supervisors in Spain to develop a system that better satisfies the demands of financial consumers.

## Promoting technological development and the prevention of its potential associated risks

In recent years, there has been a spectacular increase in the investment rate in technology and digital services. The rhythm of innovation and digitalisation has increased exponentially and, although this is not a recent phenomenon, it is profoundly affecting society and the business world. The financial sector is no stranger to these changes. It is not only one of the main users of digital technology but nowadays represents a major driver of the digital transformation of the economy and of society as a whole.

FinTech (financial technology) companies epitomise this, having transformed the way in which financial services are provided and performed, implementing models that use disruptive solutions based on new technologies such as digital identification, Big Data, artificial intelligence and distributed ledger technology.

The new financial technologies represent an opportunity to improve the financial services industry and securities markets in general and, from the CNMV's perspective, to optimise interaction with administered and supervised firms. To that end, a considerable investment has been made in technical resources that have led to more than 85% of all entry records being received in an electronic format. But these technologies also present a challenge to regulators and supervisors, who must evaluate the risks to achieving the goals of protecting investors, transparency, and the orderly functioning of the market. In fact, initiatives have already begun to be developed in this field, both through international organisations (ESMA and IOSCO) and at a national level.

Against this backdrop, the CNMV is very closely following developments in this field and their implications with a view to driving innovation, particularly with regard to those business models more focused on the final investor, which allow for financial services to be provided more efficiently. Following this approach, and with the aim of being more aware of the new digital developments applied in our markets and to provide advice to innovative companies on applicable regulations, the CNMV launched its FinTech Portal in December 2016 (see Exhibit 18).

During 2018, sandboxes could be regulated at a national, or even European, level in one or more areas. The CNMV is playing close attention to this potential development, which could be very positive for driving innovation.

Furthermore, the CNMV must set criteria to apply existing regulations and collaborate in the analyses relating to the possible new regulation of such phenomena as cryptocurrencies and initial coin offerings. The goal is to ensure that investors enjoy adequate levels of protection without undermining the development of new ideas and projects that may prove to be useful. As regards this idea, cooperation is fundamental with other supervisory bodies, both at a national and an international level.

The CNMV recognises the importance of cyber risks, including potential cyber attacks, with the potential consequences for market integrity and the protection of personal data. To that end, it will step up monitoring of aspects related to technology developments in the markets, working to ensure that the technology used is resistant to cyber risks. The institution also actively takes part in international working groups that are addressing this issue. It will also back the adoption of measures by market infrastructure managers and those responsible for supervisory entities to raise cybersecurity standards. In this field, at any event, personal data protection is important, including the application of the new General Data Protection Regulation, scheduled to come into force in May 2018.

The CNMV also intends to introduce a software quality plan which, through structured procedures, will contribute towards increasing system quality and will serve as a basis for the acquisition of software from third parties. The aim is also to have quality IT systems and tools available that facilitate the monitoring of aspects related to technology developments.

In light of the foregoing, the CNMV considers it important to ensure its technical staff are qualified and knowledgeable to address the challenges posed by this new

scenario, and will take into account the suitability of the financial education of investors – understood as the set of skills and knowledge that allows an individual to take informed decisions on all their financial resources – also including an understanding of the implications derived from new technologies.

### Activity of the FinTech Portal

EXHIBIT 18

FinTech activity (a contraction of the expression Financial Technology) consists of the application of new technologies to financial services. This application is likely to provide added value to clients both through enhanced efficiency and through genuine financial innovations that allow new and useful services to be provided to clients.

Financial innovation is a factor in the modernisation and democratisation of financial services and in driving economic growth. New technologies allow new investment and savings options to be proposed to investors anywhere in the world through channels that were not previously regulated. This potential represents, on the one hand, an opportunity to improve the functioning of the markets through business models more closely geared towards the end investor and, on the other hand, to more efficiently provide financial services and improve the competitiveness of the markets.

Along these lines, the CNMV set up the FinTech Portal at the end of 2016, an initiative designed to provide advisory services to innovative companies that wish to operate through digital technologies in the securities markets. This Portal is an informal communication channel that allows companies, on the one hand, to obtain information on applicable regulations and, on the other hand, allows the institution to acquire better knowledge of new market events. The CNMV, together with its counterparts in the European Union, is firmly committed to promoting innovation in the financial sector, without renouncing its main goal of investor protection.

In its first year of operation – from 23 December 2016 to 31 December 2017 – the FinTech Portal received 130 enquiries, which can be classified in the following categories:

- **Crowdfunding platforms (PFPs) and other unregulated platforms.** 53 enquiries were received, of which 8 related to crowdfunding platforms for loans and 12 to crowdfunding platforms with projects consisting of real estate investments. Most requested clarification on the scope of application of Law 5/2015, of 27 April, on the promotion of business financing, with the aim of determining when a platform should be authorised and registered with the CNMV.
- **Robo-advice (advice and management of automated portfolios).** 19 enquiries were received, most relating to compliance with the provisions of MiFID II.
- **Distributed ledger technology, cryptocurrencies and initial coin offerings (ICOs).** 16 enquiries were received on whether tokens for issuance

through certain ICOs were securities or financial instruments, on the requirements necessary to set up a cryptocurrency exchange and on the possibility of setting up an investment fund in cryptocurrency.

- **Digitalisation and automation of relations with clients.** Nine enquiries were received on the incorporation of clients and the performance of suitability and appropriateness tests carried out digitally.
- **Technology providers.** Seven enquiries were received from technology providers on the need for authorisation for the provision of the service, given their relations with authorised entities and the end client.
- **Accelerators.** One informative document was received on this matter.
- **Others.** 25 enquiries were received on such issues as microloans, the marketing of CO<sub>2</sub> emission allowances, olive derivatives, investment portfolios comprised of dried fruit and nuts, etc.

The CNMV plans to publish a selection of the most important criteria conveyed through the FinTech Portal on its web page in a Q&A format.

# 11 Organisation

## 11.1 Human resources and organisation

### Changes in workforce and staff selection processes

At the end of 2017, the CNMV had 422 employees (somewhat less than in 2012, when the figure stood at 427 employees, from which time the figure declined until its minimum figure of 401 in 2016). There were 36 new hires and 15 departures during the year. Tables 11.1.1 and 11.1.2 show the distribution of CNMV staff by professional category and by department.

**CNMV staff: composition by professional category**

TABLE 11.1.1

Number of employees at the end of each year

	2016			2017		
	Total	Men	Women	Total	Men	Women
Services	8	8	–	8	8	–
Clerical staff / Computer operators	64	13	51	62	12	50
Technical staff	305	141	164	327	148	179
Management	24	16	8	25	17	8
<b>Total</b>	<b>401</b>	<b>178</b>	<b>223</b>	<b>422</b>	<b>185</b>	<b>237</b>

Source: CNMV.

The candidates selected to cover 20 vacancies for technical staff in different CNMV directorates and departments were incorporated in the month of February. Furthermore, definitive authorisation was received in December for a total of 40 posts to be covered under the 2017 Public Employment Offer. Selection and incorporation processes for these posts will be undertaken over the course of 2018. This will allow the institution's human resources to be slightly strengthened in line with the pattern over recent years at its counterparts in the main European countries, as well as to cover departures until these processes are completed.

Furthermore, a selection process was undergone in the second half of the year to cover 10 vacancies for specialised technical staff in risk measurement models and quantitative techniques, aimed both at external candidates and at technical staff already working for the CNMV. The process was finalised in April 2018, with the incorporation of three new external technical staff over the next few weeks, while five vacancies were covered internally and two remain uncovered.

In addition, six internal processes were carried out to cover technical staff and one process to cover administrative positions during the year.

With the aim of speeding up selection processes and contributing to shaping the image of the CNMV as an employer, the use of such online channels as LinkedIn and Infoempleo have been stepped up in order to more widely publish job offers.

### Breakdown of staff by department

TABLE 11.1.2

Number of employees at the end of each year

	2016			2017		
	Total	Men	Women	Total	Men	Women
Directorates-general	309	132	177	327	139	188
Entities	109	45	64	120	50	70
Markets	101	46	55	110	51	59
Legal Affairs	55	21	34	50	20	30
Strategic Policy and International Affairs	44	20	24	47	18	29
Departments	78	44	34	78	42	36
Chair, Vice-Chair and Board	14	2	12	17	4	13
<b>Total</b>	<b>401</b>	<b>178</b>	<b>223</b>	<b>422</b>	<b>185</b>	<b>237</b>

Source: CNMV.

### Training

The initiatives implemented by the CNMV in 2017 in the context of its training programme include the following:

- Technical training actions, developed and given in cooperation with different specialised schools and training centres. A total of 7,046 training hours were given (68% of total training given), which were attended by 41% of the staff.
- Technical training actions taught internally, with participation from 5% of the workforce.
- Training actions in occupational health and safety. Four training course on occupational risk prevention were organised, with 170 hours of classes on first aid, specific risks in the workplace and a self-protection plan for emergency teams.
- Training actions in skills development (15% of total training hours) were attended by 59 CNMV employees.
- International training actions, planned and given by ESMA, were attended by 23 CNMV employees.

In 2017, the training programme comprised a total of 57 training actions and 10,289 training hours. Each employee received, on average, 24 training hours, and 50% of the workforce participated in at least one of the planned training actions.

Furthermore, work on the ESMA technical training programme provided through e-learning continued, in which 29 CNMV employees participated.

As in previous years, a new edition of the Language Programme was implemented, with participation by 46% of the workforce. The participants received a total of 9,168 training hours, an average of 22 hours per student. In addition, and with the aim of perfecting the language (English, French or German), the possibility of attending a summer course was offered, both in Spain and abroad, in a native environment. In total, 11% of the staff participated in the summer programme.

### New organisational developments

In its meeting held on 7 February 2017, the CNMV Board agreed to amend the Internal Regulation to introduce certain organisational changes:

- The structure of the Directorate-General for Legal Affairs was modified to create an assistant Directorate-General, the head of which assists the Director-General to exercise his powers and acts as the Vice-Secretary of the Board. The Legal Advice and Litigation, and the Disciplinary Regime departments will become individual units that directly depend upon the assistant Director-General, regardless of the overall hierarchical control of the Director-General for Legal Affairs. Furthermore, the Directorate-General for Legal Affairs began to take on certain new powers, such as receiving and monitoring communications on alleged breaches of the disciplinary and organisational rules of the securities market (whistleblowing channel).
- The Communication Department was formally tasked with the managing, updating and maintenance of the web page, a key tool for communications and relations with CNMV investors. This work is performed under the supervision of the Strategy and Institutional Relations Department, which forms part of the Directorate-General of Strategic Policy and International Affairs.

Furthermore, at its meeting on 25 July 2017, the CNMV Board agreed to a new amendment of the Internal Regulation. The most significant changes were on this occasion as follows:

- The Information Systems Department shall report directly to the Vice-Chairperson, rather than the Chairperson, as it had previously, to encourage more continuous and closer attention to this department from the higher ranks of the CNMV.
- Introduce certain changes in relations between functions of the directorates-general, with the aim of adapting them to regulatory change and to introduce greater flexibility in some process (e.g., allow the Director-General of Entities to make low-level registrations in the administrative registers of supervised firms).
- As regards changes in the management team over 2017, Fabio Pascua Mateo was removed as Director-General of Legal Affairs and as Secretary of the Board by a resolution of 18 January 2017, and José Miguel Martínez Gimeno was appointed in his place. The same meeting resolved to appoint Alberto Estévez Lucas as Communications Director.
- Following the appointment of Ángel Benito Benito as a member of the CNMV Board by the Minister for Economic Affairs, Industry and Competition,

ratified by Order EIC/43/2017, of 23 January 2017, the CNMV Board formally removed him, at its meeting held on 7 February 2017, as Director-General of Markets. At this same meeting, Rodrigo Buenaventura Canino was appointed Director-General of Markets and Patricia Muñoz González-Úbeda as Assistant Director-General of Legal Affairs and as Vice-Secretary of the CNMV Board.

- The Chairperson of the CNMV appointed Luis Martín Hernández as Director of the Authorisation and Registration of Entities Department on 2 March 2017 and José Ramón Zuazua Fernández as Director of the Information Systems Department on 21 July 2017.
- At the CNMV Board meeting held on 6 September 2017, Natalia Vítores Mingo was appointed as General Secretary with effect from 14 September.

### CNMV office in Barcelona

The CNMV has run an office in Barcelona since 1996 in order to facilitate both the institution's work and that of registered and supervised firms with headquarters in Catalonia, as well as to assist investors. The office performs activities including the general register, authorisation and registration of entities, supervision (of investment firms, credit and savings institutions, collective investment schemes and venture capital firms) and investor assistance. In 2017, this office had a team of 16 professionals working in coordination with the central offices, divided into 1 member of management, 11 technicians and 4 administrative staff.

This office functionally depends on different directorates-general and is assigned the following powers:

- To collaborate in the supervision of those investment firms, collective investment schemes and venture capital firms with headquarters in Catalonia.
- To receive, analyse and process files to register entities and securities prospectuses, provided that these correspond to companies based in Catalonia.
- To inform entities, institutions, companies and investors on issues related to the securities market.

In 2017, the total number of entities based in Catalonia under the supervision of the CNMV amounted to 42 investment firms, 13 collective investment schemes management companies and 741 collective investment schemes, representing 16%, 12% and 16% respectively of all companies engaged in these activities throughout the country. At year-end 2017, a total of 28 listed companies, with market capitalisation exceeding 100 billion euros, had their business headquarters or registered office in Catalonia. Other entities and companies, with their operational headquarters in Catalonia, together with investors and the public in general, manage their affairs or makes enquiries through the Barcelona office.

With the aim of establishing closer and more direct relations with supervised firms and companies, as well as to strengthen relations and support with investors, the CNMV announced in 2017 that it would open a new office in Bilbao, which is expected to be operational during the course of 2018.

## Antonio Moreno Espejo Prize

In March 2017, the CNMV Board created the Antonio Moreno Espejo Prize for financial journalism as a tribute to the former Director of the Authorisation and Registration of Entities Department of the CNMV for 17 years, until his untimely death. Each year, the prize will acknowledge one of several journalistic projects published in the Spanish media that have stood out for fostering the integrity and transparency of the securities market or for protecting the interests of investors – principles that guide the actions of the CNMV.

112 articles published by 15 different media outlets were presented at the first edition of the prize. The jury, chaired by Beatriz Gloria Viana – CNMV director – and comprising Ángel Martínez-Aldama – Chairperson of Inverco –, Manuel Pardos – Chairperson of Adicae –, and Ignacio Santillán Fraile – Director General of FOGAIN – decided to award the prize *ex aequo* for the following articles:

- “*El Euribor, a las aulas*” [The Euribor, to the classrooms], written by Carlos de Fuenmayor and published in *elindependiente.com*.
- “*Así actúan los chiringuitos financieros: Cómo evitar caer en sus tentáculos*” [This is how unauthorised financial service providers act: How to avoid falling into their grasp], written by Fernando Belinchón, Eduardo Loren García and Pablo M. Simón, published in *Cinco Días*.

The award ceremony took place on Thursday, 1 February 2018, in the events room of the CNMV.

## 11.2 Information systems

One of the main aims of the CNMV over 2017 in the field of information systems was the renewal of the central technical infrastructures in order to increase storage and processing capabilities, as well as to enhance security and provide continuity at its different offices.

The renewal of obsolete applications continued, as well as the development of new applications to provide back-up for new regulations published and the necessary processes to comply with the functions entrusted to the CNMV.

The following noteworthy modules and applications were developed over the year: i) the development and implementation of applications related to the international projects promoted by ESMA to develop the MiFID II Directive – primarily the FIRDS (Financial Instruments Reference Data System) Project and the Transaction Reporting Project; ii) new interim financial disclosure obligations on entities issuing securities admitted to trading; iii) the new securitisation fund report; iv) the modules to be remitted to ESMA on entity registration information; v) the new services incorporated on the web page Welcome to Spain, the FinTech Portal and the notification of infringements; and v) the module for managing electronic communications, which can be used both independently and incorporated into any management application that requires this function.

All of the new procedures that supervised firms are obliged to carry out with the CNMV can be processed through its website.

The registers for incoming and outgoing documents are integrated within the Registry Exchange System (SIR), which allows registry entries to be both sent to and received from the different administrative bodies integrated within the system.

The data on incoming and outgoing documents in the CNMV's register (see Table 11.2) confirm the ongoing consolidation of electronic administration at the CNMV. The electronic channel continues to take over from paper: only 13% of the incoming documents and 16% of the outgoing documents were performed on paper.

**Incoming and outgoing documents at the CNMV**

TABLE 11.2.1

	2016		2017	
	Number	%	Number	%
<b>Incoming total</b>	<b>140,741</b>	<b>100</b>	<b>136,913</b>	<b>100</b>
Electronic	118,882	84	119,180	87
On paper	21,859	16	17,733	13
<b>Outgoing total</b>	<b>154,017</b>	<b>100</b>	<b>146,550</b>	<b>100</b>
Electronic	124,576	81	123,438	84
On paper	29,441	19	23,112	16

Source: CNMV.

The bulk of the funding of the CNMV comes from the fees collected from supervised entities in accordance with the items and tariffs established in Law 16/2014, of 30 December. The income from fees increased by 4.9% in 2017, mainly as a result of the increase in fees originating from the supervision of national and foreign investment firms and institutions. To a lesser extent, ordinary expenses also increased, particularly staff expenses, the largest component.

### 12.1 Revenue and expenses

In 2017, the CNMV obtained 63.8 million euros in revenue and incurred 43.1 million euros in expenses. The surplus for ordinary activities amounted to 19.1 million euros while the net surplus amounted to 20.7 million euros, a 1.4% rise on the previous year. One of the main factors leading to this surplus is the lapse in processes to incorporate new staff provided for in the CNMV budget. Furthermore, the current level of CNMV fees was set based on the activity carried out in the Spanish markets in 2012 and 2013, and hence the increased level of this activity over recent years also partly explains this profit. However, part of the current surplus also has a structural component. Accordingly, the CNMV is analysing the structure and situation of its fees with the aim of proposing the necessary changes to reduce this.

Ordinary revenue, which mostly come from fees received, amounted to 61.8 million euros, 3.1% up on 2016. Ordinary expenses amounted to 42.7 million euros, 3.7% up on the previous year. Those corresponding to staff costs, which accounted for 69.7% of ordinary expenses, grew by 5.8% with an increase in the average workforce of 3.2%. Other ordinary expenses fell by 0.9% on 2016. This fall was centred on the headings of depreciation/amortisation, offset in part by slight increases in the following items: external supplies and services, taxes and transfers, and grants given. The depreciation/amortisation expense fell by 9.7% as a result of the reduction in the amortisable value of intangible assets (computer software and data processing equipment). The item of external supplies and services, which amounted to 8.4 million euros, recorded an increase of 0.2%, while taxes, which mainly contains the amount corresponding to Property Tax on the CNMV headquarters, recorded an increase of 4.8%. Transfers and grants given increased by 5.3% as a result of the increase in the annual payment made to ESMA. The profit from financial operations amounted to 1.7 million euros.

On 28 July 2017, the government, upon a proposal from the CNMV, agreed to distribute the profit obtained in 2015 and 2016, with revenue to the Public Treasury of 16,177,136.25 euros y 20,459,378.26 euros, respectively.

## 12.2 Fee structure

As shown in Table 12.2.1, which shows the different types of fees established for the different services provided by CNMV, fee revenue increased by 2.9% on the previous year.

This increase can mainly be explained by the increase in fees from the supervision of entities (8.6%), offset in part by the reduction in fees from the registration of prospectuses (-15.6%) and from the authorisation and registration of entities (-3.3%).

### CNMV fee revenues

TABLE 12.2.1

Activity or service	2016	2017	Change (%) 17/16
<b>Registration of prospectuses and market participants</b>	<b>9,954.1</b>	<b>9,274.4</b>	<b>-6.8</b>
Prospectus registration	5,174.4	4,365.5	-15.6
Issue prospectuses	152.9	309.6	102.5
Listing prospectuses	5,021.5	4,056.0	-19.2
Securitisation funds and bank asset funds	48.7	74.1	52.1
Authorisation and registration of entities	4,413.1	4,267.2	-3.3
Authorisation of takeover bids	317.9	567.6	78.5
<b>Market supervision</b>	<b>20,944.3</b>	<b>20,921.5</b>	<b>-0.1</b>
Stock market and MTF members	8,585.8	7,896.9	-8.0
MEFF members	126.5	152.2	20.3
Sociedad de Sistemas members	5,041.4	4,992.9	-1.0
CCP clearing members	220.6	255.6	15.9
Market governing companies	895.0	1,434.2	60.2
Listed issuers	6,075.0	6,189.8	1.9
<b>Market participant supervision</b>	<b>27,671.7</b>	<b>30,063.0</b>	<b>8.6</b>
CIS solvency supervision	11,996.7	12,808.5	6.8
Solvency supervision of CIS and securitisation fund management companies	124.4	142.2	14.3
CIS management companies	117.4	126.2	7.5
Securitisation fund management companies	7.0	16.0	128.7
Investment firm solvency supervision	556.6	492.2	-11.6
Venture capital solvency supervision	418.3	447.0	6.9
Management companies of closed-ended collective investment entities	81.0	83.8	3.5
Close-ended collective investment entities	337.3	363.1	7.7
Supervision of CIS and venture capital vehicle depositories	2,736.7	2,977.7	8.8
Supervision of conduct of business rules of investment firms, credit institutions and CIS management companies	8,184.4	8,782.4	7.3
Marketing foreign UCITS	3,654.5	4,413.0	20.8
<b>Issuance of certificates</b>	<b>17.2</b>	<b>25.2</b>	<b>46.5</b>
<b>Total</b>	<b>58,587.2</b>	<b>60,284.1</b>	<b>2.9</b>

Source: CNMV.

## 13 National Securities Numbering Agency

CNMV: Institutional,  
organisational and  
financial aspects  
National Securities  
Numbering Agency

The CNMV discharges the functions of the Spanish National Securities Numbering Agency (Spanish acronym: ANCV), whose main goal is to assign and administer International Securities Identification Numbers (ISIN)<sup>1</sup> and Classification of Financial Instruments (CFI)<sup>2</sup> codes to facilitate their dissemination. It is also responsible for assigning the Financial Instrument Short Name (FISN).<sup>3</sup> In Spain, the ISIN code is used as the primary identifier in securities trading, clearing and settlement. In its role as ANCV, the CNMV is a founder and full member of the Association of National Numbering Agencies (ANNA), which at year-end 2017 had a total of 92 full member countries and 27 associates.

As part of its international activity, the ANCV actively participates in various working groups and management bodies, such as WG2: ISIN Quality and Guidelines, which belongs to ANNA and comprises representatives from several national agencies. This group is responsible for drawing up uniform rules and criteria for ISIN allocation worldwide. The ANCV also contributes towards developing and reviewing ISO standards through Technical Subcommittee 8 (SC8).<sup>4</sup>

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1 International Securities Identification Number: ISO standard 6166.

2 Classification of Financial Instruments: ISO standard 10962.

3 Financial Instrument Short Name: ISO standard 18774.

4 SC8 is responsible for the standards on baseline data for financial instruments and forms part of ISO Technical Committee 68.

Table 13.1.1 shows the number of securities and financial instruments assigned codes by the ANCV in 2017:

<b>Number of securities and other financial instruments with ISIN</b>			
	2016	2017	% change 17/16
<b>Equity</b>	<b>569</b>	<b>532</b>	<b>-6.5</b>
Shares	154	140	-9.1
CIS and venture capital funds	415	392	-5.5
<b>Fixed income</b>	<b>850</b>	<b>680</b>	<b>-20.0</b>
Public debt	50	83	66.0
Treasury bills and commercial paper	12	12	0.0
Bonds and debentures	38	71	86.8
Private fixed income	800	580	-25.4
Commercial paper	659	467	-29.1
Bonds	30	14	-53.3
Debentures	14	18	28.6
Covered bonds	41	29	-29.3
Securitisation bonds	56	69	23.2
<b>Additional Tier 1 financing securities</b>	<b>0</b>	<b>1</b>	<b>100.0</b>
<b>Structured products</b>	<b>242</b>	<b>254</b>	<b>5.0</b>
<b>Rights</b>	<b>48</b>	<b>34</b>	<b>-29.2</b>
<b>Warrants and certificates</b>	<b>2,317</b>	<b>2,171</b>	<b>-6.3</b>
<b>Options</b>	<b>8,440</b>	<b>34,332</b>	<b>306.8</b>
<b>Futures</b>	<b>251</b>	<b>906</b>	<b>261.0</b>
<b>Swaps</b>	<b>348</b>	<b>371</b>	<b>6.6</b>
<b>Total</b>	<b>13,065</b>	<b>39,281</b>	<b>200.7</b>

Source: CNMV.

At the end of the year, the number of active securities and other financial instruments with an ISIN code in the ANCV database totalled 28,072. Listed securities and financial instruments accounted for 76% of the total.

Table 13.1.2 shows the figures for queries directly handled by the ANCV.

<b>Queries handled by the ANCV</b>			
	2016	2017	% change 17/16
Spanish codes	644	424	-34
Foreign codes	85	36	-57.6
<b>Total</b>	<b>729</b>	<b>460</b>	<b>-37</b>

Source: CNMV.

The Advisory Committee is the body which provides advice to the CNMV Board. Its functions and composition are provided for in Articles 30 and 31 of the recast text of the Securities Market Act and its implementing legislation – Royal Decree 303/2012, of 3 February. The Committee is chaired by the CNMV's Vice-Chairperson and includes representatives of market infrastructures, issuers, investors, credit institutions and insurance companies, professional groups designated by the CNMV, the Investment Guarantee Fund and each one of the autonomous regions with authority with regard to securities markets and in which there is an official secondary market. These representatives were approved by the CNMV Resolution of 4 March 2016. The Advisory Committee must meet at least once every three months, but in practice it holds a meeting every month.

As a body providing advice to the CNMV Board, the Advisory Committee informs on those issues referred to it by the Board. In particular, the Committee shall issue a mandatory report relating to: i) the CNMV provisions referred to in Article 21 of the recast text of the Securities Market Act (circulars and technical guides); ii) authorisations, revocations and corporate operations of investment firms; and iii) authorisations and revocations of branches of investment firms from non-EU countries, and the other participants in securities markets when required by regulations, bearing in mind the economic and legal significance of said participants. In addition, the Advisory Committee provides advice on draft regulations relating in general to the securities market which are referred to it by the government or the Ministry of Economy, Industry and Competitiveness.

As a consequence of the process of intense international integration affecting the CNMV's activity, the committee's agenda also includes voluntary consultations from international bodies, such as IOSCO, ESMA or the European Commission, in addition to other initiatives of the CNMV or the Committee itself. In addition, since 2012 the Committee has been analysing the recommendations and standards issued by ESMA prior to their application in Spain. This allows greater participation from the sector, which is in line with international recommendations on analysing the impact of regulations.

### **Actions by the Advisory Committee in 2017**

Table 14.1.1 offers a statistical summary of the issues addressed by the Advisory Committee in 2017, in which a considerable increase in the number of mandatory reports can be seen on the previous year. Over the year, the CNMV applied its policy of publishing technical guidelines and criteria with the aim of increasing transparency on its guidelines and of facilitating compliance with regulations by supervised firms, above all taking into account the entry into force of new regulations, such as MiFID II/MiFIR and MAD/MAR. However, the number of voluntary consultations is similar to the previous year as the importance of the international activity has remained stable for the CNMV, as well as its desire to collect, through the Advisory Committee, the sector's opinion as often as possible and beyond that required by legislation.

## Type of issues referred to the Advisory Committee

TABLE 14.1.1

	Number of issues	
	2016	2017
Mandatory reports on regulations	5	11
Voluntary consultations (IOSCO, ESMA and others)	14	9
<b>Total</b>	<b>19</b>	<b>20</b>

Source: CNMV.

Table 14.1.2 provides a breakdown of the issues addressed.

## List of CNMV Advisory Committee actions in 2017

TABLE 14.1.2

### Mandatory reports on regulations

- Draft Technical Guidelines on enhancing the transparency of investment funds to specifically increase long-term profitability (Session of 16 January).
- Draft Technical Guidelines on related-party transactions performed by collective investment institution management companies (Session of 16 January).
- Proposed resolution of disciplinary file no. 6/2009 (Session of 16 January).
- Draft Technical Guidelines to evaluate knowledge and skills of informative and advisory staff (Session of 8 May).
- Draft Royal Decree amending Royal Decree 878/2015, of 2 October, on the clearing, settlement and registration of securities instruments represented by book entries, on the legal system for central securities depositories and central counterparties, and on transparency requirements for securities issuers listed for trading on an official secondary market (Session of 19 June).
- Draft Technical Guidelines on audit committees at public interest entities (Session of 19 June).
- Draft CNMV Circular on warnings relating to financial instruments (Session of 10 July).
- Public consultation on Draft Bill to transpose MiFID/MiFIR and MAD/MAR (Session of 18 September).
- Draft CNMV Circular on web page advertising obligations of investment firms on corporate governance and remuneration policy, amending CNMV Circular 7/2008, of 26 November, on accounting rules, annual accounts and reserved information statements of investment firms, collective investment institution management companies and venture capital firm management companies (Session of 9 October).
- Draft CNMV Circular amending CNMV Circular 2/2011, of 9 June, on disclosures by foreign collective investment institutions registered with the CNMV (Session of 9 October).
- Draft CNMV Circular on annual accounts and reserved information statements of securitisation fund management companies, amending CNMV Circulars 4/2008, of 11 September, 7/2008, of 26 November, 11/2008, of 30 December, and 1/2010, of 28 July, affecting issues relating to the periodical public disclosures of collective investment institutions, collective investment institution management companies, venture capital firm management companies, venture capital companies and entities that provide investment services, respectively (Session of 11 December).

### Voluntary consultations (IOSCO, ESMA and others):

#### International Organization of Securities Commissions (IOSCO)

- Consultation report. Open-ended Fund Liquidity and Risk Management. Good Practices and Issues for Consideration (Session of 18 September).
- Consultation on CIS Liquidity Risk Management Recommendations (Session of 18 September).

#### European Securities and Markets Authority (ESMA)

- Consultation on technical advice under the new Prospectus Regulation (Session of 18 September).
- Amendments to Commission Delegated Regulation (EU) 2017/587 (RTS) (Session of 11 December).

#### CNMV

- CNMV Strategic Areas 2017-2018 and 2017 Activity Plan (Session of 16 January).

#### European Commission (EC)

- Public consultation on the Capital Markets Union Mid-Term Review (Session of 13 March).
- Public consultation on the operations of the European Supervisory Authorities (Session of 8 May).
- Consultation Document. FinTech: A more competitive and innovative European financial sector (Session of 8 May).

#### Joint Committee of European Supervisory Authorities

- Discussion Paper on the Use of Big Data by Financial Institutions (Session of 13 March).

Source: CNMV.

## 15 Financial statements of the CNMV

### 15.1 Balance sheet

<b>Assets</b>	<b>Year 2017</b>	<b>Year 2016</b>
<b>A) Non-current assets</b>	<b>123,797,911.95</b>	<b>121,619,218.60</b>
<b>I. Intangible assets</b>	<b>4,737,962.58</b>	<b>5,112,706.61</b>
1. Investment in research and development	1,168,298.52	1,167,903.47
3. Computer software	3,569,664.06	3,577,334.14
5. Other intangible assets	0.00	367,469.00
<b>II. Property, plant and equipment</b>	<b>76,961,552.88</b>	<b>76,605,778.05</b>
1. Land	43,614,118.99	43,569,402.66
2. Buildings	29,598,381.89	30,235,672.53
5. Other property, plant and equipment	3,749,052.00	2,800,702.86
<b>IV. Long-term financial investments in group companies, jointly-controlled entities and associates</b>	<b>41,888,286.18</b>	<b>39,638,960.67</b>
3. Loans and debt securities	41,888,286.18	39,638,960.67
<b>V. Long-term financial investments</b>	<b>210,110.31</b>	<b>261,773.27</b>
1. Financial investments in equity	935.36	935.36
2. Loans and debt securities	207,909.32	259,572.28
4. Other financial investments	1,265.63	1,265.63
<b>B) Current assets</b>	<b>70,869,243.45</b>	<b>87,312,547.17</b>
<b>III. Trade and other receivables</b>	<b>32,370,332.85</b>	<b>30,213,902.30</b>
1. Receivables for operating activities	31,340,159.53	27,283,358.74
2. Other receivables	1,030,160.89	2,930,504.14
3. Public authorities	12.43	39.42
<b>IV. Short-term financial investments in group companies, jointly-controlled entities and associates</b>	<b>10,276,971.82</b>	<b>9,077,651.31</b>
2. Loans and debt securities	10,276,971.82	9,077,651.31
<b>V. Short-term financial investments</b>	<b>193,584.44</b>	<b>198,485.37</b>
2. Loans and debt securities	193,584.44	198,485.37
<b>VI. Accrual accounts</b>	<b>192,800.17</b>	<b>493,268.44</b>
<b>VII. Cash and cash equivalents</b>	<b>27,835,554.17</b>	<b>47,329,239.75</b>
2. Cash	27,835,554.17	47,329,239.75
<b>TOTAL ASSETS</b>	<b>194,667,155.40</b>	<b>208,931,765.77</b>

Source: CNMV.

## 15.1 Balance sheet (continuation)

Equity and liabilities	Year 2017	Year 2016
<b>A) Shareholders' equity</b>	<b>187,248,677.40</b>	<b>204,325,463.09</b>
<b>I. Contributed equity</b>	<b>5,385,871.28</b>	<b>5,385,871.28</b>
<b>II. Equity generated</b>	<b>178,848,710.48</b>	<b>194,743,793.29</b>
1. Retained earnings / losses	10,428,334.09	33,503,690.70
2. Surplus for the year	20,741,431.70	20,494,216.30
3. Reserves	147,678,944.69	140,745,886.29
<b>III. Valuation adjustments</b>	<b>3,014,095.64</b>	<b>4,195,798.52</b>
2. Available-for-sale financial assets	3,014,095.64	4,195,798.52
<b>B) Non-current liabilities</b>	<b>900,410.96</b>	<b>641,114.65</b>
<b>I. Long-term provisions</b>	<b>900,410.96</b>	<b>641,114.65</b>
<b>C) Current liabilities</b>	<b>6,518,067.04</b>	<b>3,965,188.03</b>
<b>I. Short-term provisions</b>	<b>426,802.48</b>	<b>861,302.34</b>
<b>II. Short-term debts</b>	<b>1,233,462.25</b>	<b>37,576.55</b>
4. Other borrowings	1,233,462.25	37,576.55
<b>IV. Trade and other payables</b>	<b>4,857,802.31</b>	<b>3,066,309.14</b>
1. Payables for operating activities	1,327,759.86	1,186,112.84
2. Other payables	2,259,256.74	688,917.40
3. Public authorities	1,270,785.71	1,191,278.90
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>194,667,155.40</b>	<b>208,931,765.77</b>

Source: CNMV.

## 15.2 Income statement

	Year 2017	Year 2016
<b>1. Tax revenues and social contributions</b>	<b>60,284,143.47</b>	<b>58,587,231.24</b>
b) Fees	60,284,143.47	58,587,231.24
<b>5. Own work capitalised</b>	<b>685,848.00</b>	<b>569,858.86</b>
<b>6. Other ordinary revenue</b>	<b>33,566.34</b>	<b>47,069.32</b>
<b>7. Provision surplus</b>	<b>771,700.94</b>	<b>689,056.29</b>
<b>A) TOTAL ORDINARY REVENUE (1+2+3+4+5+6+7)</b>	<b>61,775,258.75</b>	<b>59,893,215.71</b>
<b>8. Personnel expenses</b>	<b>-29,778,631.37</b>	<b>-28,139,571.53</b>
a) Salaries, wages and similar	-23,672,692.10	-22,293,024.84
b) Employee welfare expenses	-6,105,939.27	-5,846,546.69
<b>9. Transfers and subsidies granted</b>	<b>-1,742,245.31</b>	<b>-1,646,941.54</b>
<b>11. Other ordinary expenses</b>	<b>-8,844,408.22</b>	<b>-8,804,702.38</b>
a) Supplies and outside services	-8,405,954.23	-8,386,494.58
b) Taxes	-438,453.99	-418,207.80
<b>12. Depreciation and amortisation</b>	<b>-2,331,448.36</b>	<b>-2,592,136.64</b>
<b>B) TOTAL ORDINARY EXPENSES (8+9+10+11+12)</b>	<b>-42,696,733.26</b>	<b>-41,183,352.09</b>
<b>I. Profit (loss) from ordinary activities (A+B)</b>	<b>19,078,525.49</b>	<b>18,709,863.62</b>
<b>13. Impairment and gains (losses) from disposal of non-financial assets and assets for sale</b>	<b>29,105.81</b>	<b>49,392.25</b>
a) Impairment	60,431.41	60,339.64
b) Deletions and disposals	-31,325.60	-10,947.39
<b>14. Other non-ordinary items</b>	<b>-58,696.36</b>	<b>-392,889.49</b>
b) Expenses	-58,696.36	-392,889.49
<b>II. Profit (loss) from non-financial operations (I+13+14)</b>	<b>19,048,934.94</b>	<b>18,366,366.38</b>
<b>15. Finance income</b>	<b>1,757,866.03</b>	<b>2,035,753.76</b>
b) From marketable securities and loans forming part of fixed assets	1,757,866.03	2,035,753.76
b.1) In group companies, jointly-controlled entities and associates	1,491,577.61	1,883,280.50
b.2) Other	266,288.42	152,473.26
<b>16. Finance costs</b>	<b>-41,446.45</b>	<b>-171.61</b>
b) Other	-41,446.45	-171.61
<b>19. Exchange differences</b>	<b>-1,285.07</b>	<b>-6,548.27</b>
<b>20. Impairment, deletions and disposal of financial assets and liabilities</b>	<b>-22,637.75</b>	<b>98,816.04</b>
b) Other	-22,637.75	98,816.04
<b>III. Profit (loss) from financial operations (15+16+17+18+19+20+21)</b>	<b>1,692,496.76</b>	<b>2,127,849.92</b>
<b>IV. Net profit for the year (II+III)</b>	<b>20,741,431.70</b>	<b>20,494,216.30</b>

## 15.3 Statement of cash flows

	Year 2017	Year 2016
<b>I. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>A) Receipts</b>	<b>60,395,434.58</b>	<b>68,718,291.56</b>
1. Tax revenues and social contributions	58,430,931.13	65,686,713.23
5. Interest and dividends received	1,791,953.74	2,698,618.03
6. Other receipts	172,549.71	332,960.30
<b>B) Payments</b>	<b>38,669,323.80</b>	<b>39,399,299.67</b>
7. Personnel expenses	28,451,502.65	28,519,511.88
8. Transfers and subsidies granted	1,711,691.06	1,629,385.22
10. Other operating expenses	8,255,894.40	9,169,397.27
13. Other payments	250,235.69	81,005.30
<b>Net cash flows from operating activities (+A-B)</b>	<b>21,726,110.78</b>	<b>29,318,991.89</b>
<b>II. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>C) Receipts</b>	<b>8,241,161.41</b>	<b>7,819,736.92</b>
2. Sale of financial assets	8,025,829.26	7,589,371.50
3. Other receipts from investment activities	215,332.15	230,365.42
<b>D) Payments</b>	<b>14,241,838.16</b>	<b>1,456,793.09</b>
5. Purchase of property investments	1,062,188.22	1,240,454.73
6. Purchase of financial assets	12,939,970.25	0.00
7. Other payments for investment activities	239,679.69	216,338.36
<b>Net cash flows from investment activities (+C-D)</b>	<b>-6,000,676.75</b>	<b>6,362,943.83</b>
<b>III. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>F) Payments to owning entity/entities</b>	<b>36,636,514.51</b>	<b>0.00</b>
2. Return of contributions and payment of profit (loss) to owner(s)	36,636,514.51	0.00
<b>Net cash flows from financing activities (+E-F+G-H)</b>	<b>-36,636,514.51</b>	<b>0.00</b>
<b>IV. CASH FLOWS PENDING CLASSIFICATION</b>		
<b>I) Receipts pending application</b>	<b>1,469,353.35</b>	<b>22,882.15</b>
<b>J) Payments pending application</b>	<b>51,782.23</b>	<b>3,689.19</b>
<b>Net cash flows pending classification (+I-J)</b>	<b>1,417,571.12</b>	<b>19,192.96</b>
<b>V. EFFECT OF EXCHANGE RATE CHANGES</b>		
	<b>-176.22</b>	<b>-3,739.30</b>
<b>VI. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (I+II+III+IV+V)</b>	<b>-19,493,685.58</b>	<b>35,697,389.38</b>
Cash and cash equivalents at the start of the year	47,329,239.75	11,631,850.37
Cash and cash equivalents at the end of the year	27,835,554.17	47,329,239.75

Source: CNMV.

## 15.4 Statement of changes in equity

	I. Contributed equity	II. Equity generated	III. Valuation adjustments	IV. Other equity increases	Total
A. Equity at end of financial year N-1	5,385,871.28	194,849,364.44	4,195,798.52	0.00	204,431,034.24
B. Adjustments for changes in accounting criteria and error correction	0.00	-105,571.15	0.00	0.00	-105,571.15
C. Adjusted starting equity for financial year N (A+B)	5,385,871.28	194,743,793.29	4,195,798.52	0.00	204,325,463.09
D. Changes in equity in financial year N	0.00	-15,895,082.81	-1,181,702.88	0.00	-17,076,785.69
1. Recognised income and expense in the year	0.00	20,741,431.70	-1,181,702.88	0.00	19,559,728.82
2. Transactions with owner(s)	0.00	-36,636,514.51	0.00	0.00	-36,636,514.51
3. Other changes in equity	0.00	0.00	0.00	0.00	0.00
E. Equity at end of financial year N (C+D)	5,385,871.28	178,848,710.48	3,014,095.64	0.00	187,248,677.40

Source: CNMV.



**IV Report by the Internal Control Body**





## Internal Audit Report Pursuant to Article 17.4 of the Recast Text of the Securities Market Act - 2017

INTERNAL CONTROL DEPARTMENT  
13 APRIL 2018

### 1.- INTRODUCTION

The CNMV's Internal Control Department has performed the audit relating to adaptation of the decisions adopted by the governing bodies to the procedural regulations applicable in each case, in implementation of the Audit Plan and Internal Control Actions approved by the Commission's Board in its session of 12 March 2018, thus complying with Article 17.4 of the Recast Text of the Securities Market Act, approved by Royal Legislative Decree 4/2015, of 23 October.

The work has been performed in accordance with the International Standards for the Professional Practice of Internal Auditing of the IIA (the Institute of Internal Auditors), pursuant to the Internal Audit Rules for the CNMV approved by a Resolution of the Board on 27 July 2016.

### 2.- AIMS AND SCOPE

The aim of the work is to verify adaptation to the procedural legislation applicable in adopting supervisory decisions by the CNMV's governing bodies in 2017.

The basic legislation applicable to CNMV procedures is as follows:

- Recast Text of the Securities Market Act.
- Law 39/2015, of 1 October, on the Common Administrative Procedure of Public Authorities.
- Law 40/2015, of 1 October, on the Legal Regime of the Public Sector.
- The CNMV's Internal Regulation.

It has also taken into account Resolutions on the delegation of powers of the CNMV in force in 2017.<sup>1</sup>

No scope limitations arose during the course of the work.

<sup>1</sup> Board Resolutions on delegation of 22 December 2016, 26 April 2017 and 25 October 2017.

### 3.- OPINION

In our opinion, having completed the audit work, it can be concluded that in 2017 the decisions adopted by the CNMV's governing bodies have met the requirements established in current legislation relating to the procedure and authority applicable in each case within the scope of the supervision entrusted to it by the Recast Text of the Securities Market Act and other legislation.

Director of the Internal Control Department  
Signed: Margarita García Muñoz

## Annexes



## Capital increases and public offerings<sup>1</sup>

I.1

Million euros

	Number of issuers			Number of issues		
	2016	2017	Change 17/16	2016	2017	Change 17/16
<b>Capital increases raising funds</b>	<b>30</b>	<b>35</b>	<b>5</b>	<b>54</b>	<b>68</b>	<b>14</b>
With pre-emption right	11	8	-3	11	8	-3
Without pre-emption right (OPS) <sup>2</sup>	3	3	0	4	4	0
Of which, increases	1	1	0	1	1	0
Accelerated book builds	0	3	3	0	4	4
Increases with non-monetary consideration <sup>2</sup>	3	8	5	4	12	8
Capital increases by conversion	8	5	-3	17	6	-11
Other	11	13	2	18	34	16
<b>Bonus issues</b>	<b>18</b>	<b>12</b>	<b>-6</b>	<b>25</b>	<b>16</b>	<b>-9</b>
Of which, dividend choice	12	9	-3	19	13	-6
<b>Total capital increases</b>	<b>45</b>	<b>45</b>	<b>0</b>	<b>79</b>	<b>84</b>	<b>5</b>
<b>Public share offerings</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>7</b>	<b>5</b>
Of which, increases	0	3	3	0	3	3

Source: CNMV. (1) Does not include data from the MAB, ETF or Latibex. (2) Subscription offering. (2) Capital increases with non-monetary consideration have been recorded at market prices.

## Capital increases and public offerings in 2017: cash amount

I.2

Million euros

Issuer	Cash amount <sup>1</sup>	Type of transaction	Date registered
Hispania Activos Inmobiliarios SOCIMI, S.A.	8.8	Capital increase for non-monetary consideration	03-Jan-17
Realia Business, S.A.	147.2	Capital increase with pre-emptive subscription rights	12-Jan-17
Amper, S.A.	6.0	Other capital increases	17-Jan-17
Alantra Partners, S.A.	12.0	Other capital increases	17-Jan-17
Alantra Partners, S.A.	5.2	Capital increase for non-monetary consideration	17-Jan-17
Oryzon Genomics, S.A.	0.0	Other capital increases	17-Jan-17
Repsol, S.A.	391.6	Bonus issue to meet dividend payment	19-Jan-17
Faes Farma, S.A.	21.3	Bonus issue to meet dividend payment	25-Jan-17
Iberdrola, S.A.	594.8	Bonus issue to meet dividend payment	31-Jan-17
ACS, Actividades de Construcción y Servicios, S.A.	76.7	Bonus issue to meet dividend payment	16-Feb-17
Edreams Odigeo, S.A.	0.1	Other capital increases	23-Feb-17

**Capital increases and public offerings in 2017: cash amount (continuation)**

I.2

Million euros

Issuer	Cash amount <sup>1</sup>	Type of transaction	Date registered
Cash, S.A. (Prosegur Cash)	750.0	Public offering	02-Mar-17
Montebalito, S.A.	43.9	Capital increase for non-monetary consideration	07-Mar-17
Axiare Patrimonio SOCIMI, S.A.	93.4	Monetary capital increase excluding pre-emptive subscription rights by means of accelerated book build	09-Mar-17
Quabit Inmobiliaria, S.A.	38.0	Capital increase with pre-emptive subscription rights	16-Mar-17
Neinor Homes, S.A.	609.3	Public offering	16-Mar-17
Neinor Homes, S.A.	100.0	Capital increase without pre-emption right (OPS) <sup>2</sup>	16-Mar-17
Gestamp Automoción, S.A.	870.2	Public offering	23-Mar-17
General de Alquiler de Maquinaria, S.A.	0.1	Capital increase by conversion	28-Mar-17
Abengoa, S.A.	511.9	Other capital increases	30-Mar-17
Abengoa, S.A.	10.0	Other capital increases	30-Mar-17
Abengoa, S.A.	5.0	Other capital increases	30-Mar-17
Abengoa, S.A.	1.7	Other capital increases	30-Mar-17
Abengoa, S.A.	1.7	Other capital increases	30-Mar-17
Abengoa, S.A.	5,292.9	Other capital increases	30-Mar-17
Abengoa, S.A.	1.0	Other capital increases	30-Mar-17
Abengoa, S.A.	0.5	Other capital increases	30-Mar-17
Abengoa, S.A.	0.2	Other capital increases	30-Mar-17
Abengoa, S.A.	0.2	Other capital increases	30-Mar-17
Oryzon Genomics, S.A.	18.2	Other capital increases	04-Apr-17
Cash, S.A. (Prosegur Cash)	75.0	Subscription offering. Exercise of greenshoe option	07-Apr-17
Gamesa Corporación Tecnológica, S.A.	7,965.2	Capital increase for non-monetary consideration	11-Apr-17
Neinor Homes, S.A.	66.1	Subscription offering. Exercise of greenshoe option	24-Apr-17
Banco Bilbao Vizcaya Argentaria, S.A.	716.4	Bonus issue to meet dividend payment	25-Apr-17
Sniace, S.A.	11.7	Capital increase with pre-emptive subscription rights	25-Apr-17
Indra Sistemas, S.A.	153.2	Capital increase for non-monetary consideration	26-Apr-17
Inmobiliaria Colonial, S.A.	253.1	Monetary capital increase excluding pre-emptive subscription rights by means of accelerated book build	08-May-17
Gestamp Automoción, S.A.	6.7	Subscription offering. Exercise of greenshoe option	08-May-17
Liberbank, S.A.	23.6	Capital increase by conversion	18-May-17
Indra Sistemas, S.A.	4.2	Capital increase for non-monetary consideration	25-May-17
Airbus SE	78.5	Other capital increases	25-May-17
Pharma Mar, S.A.	2.1	Other capital increases	01-Jun-17
Ferrovial, S.A.	134.0	Bonus issue to meet dividend payment	08-Jun-17
Amper, S.A.	2.0	Other capital increases	08-Jun-17
Unicaja Banco, S.A.	687.5	Capital increase without pre-emption right (OPS) <sup>2</sup>	15-Jun-17
Edreams Odigeo, S.A.	0.1	Other capital increases	22-Jun-17
Codere, S.A.	5.0	Other capital increases	29-Jun-17
Borges Agricultural & Industrial Nuts, S.A.	1.4	Capital increase for non-monetary consideration	06-Jul-17
Repsol, S.A.	448.9	Bonus issue to meet dividend payment	13-Jul-17
Talgo, S.A.	8.5	Bonus issue to meet dividend payment	20-Jul-17
Sacyr, S.A.	0.0	Bonus issue	25-Jul-17
ACS, Actividades de Construcción y Servicios, S.A.	156.6	Bonus issue to meet dividend payment	25-Jul-17
Grupo Ezentis, S.A.	2.2	Other capital increases	27-Jul-17

**Capital increases and public offerings in 2017: cash amount (continuation)**

I.2

Million euros

Issuer	Cash amount <sup>1</sup>	Type of transaction	Date registered
Grupo Ezentis, S.A.	1.2	Other capital increases	27-Jul-17
Unicaja Banco, S.A.	68.8	Subscription offering. Exercise of greenshoe option	27-Jul-17
Iberdrola, S.A.	535.6	Bonus issue to meet dividend payment	27-Jul-17
Banco Santander, S.A.	7,072.4	Capital increase with pre-emptive subscription rights	28-Jul-17
Euskaltel, S.A.	237.4	Capital increase for non-monetary consideration	08-Aug-17
INYPSA Informes y Proyectos, S.A.	30.4	Capital increase with pre-emptive subscription rights	10-Aug-17
Lar España Real Estate SOCIMI, S.A.	19.2	Other capital increases	17-Aug-17
Quabit Inmobiliaria, S.A.	0.0	Bonus issue	17-Aug-17
Edreams Odigeo, S.A.	0.1	Other capital increases	23-Aug-17
Laboratorio Reig Jofre, S.A.	2.9	Bonus issue to meet dividend payment	07-Sep-17
Coca-Cola European Partners plc	0.0	Other capital increases	12-Sep-17
Telefónica, S.A.	1,499.7	Capital increase by conversion	21-Sep-17
Applus Services, S.A.	137.2	Monetary capital increase excluding pre-emptive subscription rights by means of accelerated book build	29-Sep-17
Aedas Homes, S.A.	100.0	Capital increase without pre-emption right (OPS) <sup>2</sup>	05-Oct-17
Aedas Homes, S.A.	567.3	Public offering	05-Oct-17
Liberbank, S.A.	2.9	Capital increase by conversion	24-Oct-17
Coca-Cola European Partners plc	0.0	Other capital increases	24-Oct-17
Grupo Ezentis, S.A.	29.7	Capital increase with pre-emptive subscription rights	27-Oct-17
Banco Santander, S.A.	542.9	Bonus issue to meet dividend payment	14-Nov-17
Liberbank, S.A.	499.0	Capital increase with pre-emptive subscription rights	20-Nov-17
Papeles y Cartones de Europa, S.A.	0.0	Bonus issue	21-Nov-17
Ayco Grupo Inmobiliario, S.A.	2.9	Capital increase with pre-emptive subscription rights	21-Nov-17
Banco de Sabadell, S.A.	17.7	Capital increase by conversion	23-Nov-17
Edreams Odigeo, S.A.	0.1	Other capital increases	28-Nov-17
Ferrovial, S.A.	177.2	Bonus issue to meet dividend payment	28-Nov-17
Promotora de Informaciones, S.A.	104.9	Capital increase by conversion	28-Nov-17
Amper, S.A.	4.6	Other capital increases	30-Nov-17
Inmobiliaria Colonial, SOCIMI, S.A.	338.1	Monetary capital increase excluding pre-emptive subscription rights by means of accelerated book build	01-Dec-17
Amper, S.A.	2.1	Other capital increases	05-Dec-17
Airbus SE	4.3	Other capital increases	05-Dec-17
Quabit Inmobiliaria, S.A.	3.1	Capital increase for non-monetary consideration	14-Dec-17
Quabit Inmobiliaria, S.A.	6.2	Capital increase for non-monetary consideration	14-Dec-17
Quabit Inmobiliaria, S.A.	18.0	Capital increase for non-monetary consideration	14-Dec-17
Alantra Partners, S.A.	22.6	Capital increase for non-monetary consideration	19-Dec-17
Airbus SE	0.1	Other capital increases	21-Dec-17
Amper, S.A.	46.9	Other capital increases	21-Dec-17
Quabit Inmobiliaria, S.A.	29.0	Other capital increases	28-Dec-17
Ecolumber, S.A.	1.5	Other capital increases	29-Dec-17

Source: CNMV. (1) Issues of new shares not paid for in cash have been valued at market prices. (2) Subscription offering.

## Delistings in 2017<sup>1</sup>

I.3

Company	Market	Reason. Procedure	Date
Banco Popular Español, S.A.	SIBE	Other. Delisted as a result of cancellation of the company's shares following a ruling by the FROB	09/06/2017
Tecnocom, Telecomunicaciones y Energía, S.A.	SIBE	Technical. Due to merger.	22/05/2017
Cementos Portland Valderrivas, S.A.	SIBE	Having settled the bid made by the company itself in accordance with Article 7.4 of Royal Decree 1197/1991	24/02/2017
Unión Europea De Inversiones, S.A.	Open outcry	CNMV Board Resolution.	25/09/2017
Alza Real Estate, S.A.	Open outcry	Delisted by Regional Government of Catalonia.	14/06/2017

Source: CNMV. (1) Excludes MAB, Latibex and ETFs.

## Sector indices in the Madrid and Barcelona stock exchanges

I.4

Yield in the period (%)

	2014	2015	2016	2017	2017				
					1Q	2Q	3Q	4Q	
<b>Madrid Stock Exchange</b>									
Oil and energy	11.8	0.6	0.8	9.9	7.9	-7.4	16.3	-5.4	
Commodities, industry and construction	-1.8	2.1	2.0	2.6	8.9	-0.9	-8.9	4.4	
Consumer goods	-1.5	30.9	0.2	-2.1	4.4	3.0	-3.9	-5.3	
Consumer services	10.0	10.4	-8.0	23.3	13.0	7.2	-3.8	5.8	
Financial and real estate services	1.4	-24.2	-1.6	10.5	15.2	-0.5	2.6	-6.1	
Banking	1.6	-26.0	-1.8	10.6	16.0	-0.9	3.0	-6.6	
Real estate and others	36.3	18.4	-2.3	17.6	8.0	8.1	0.0	0.8	
Technology and telecommunications	2.5	-5.2	-9.0	7.5	16.2	-6.1	2.7	-4.2	
<b>Madrid Stock Exchange General Index</b>	<b>3.0</b>	<b>-7.4</b>	<b>-2.2</b>	<b>7.6</b>	<b>11.8</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-3.2</b>	
<b>Barcelona Stock Exchange</b>									
Electricity	30.9	15.2	-3.2	1.7	6.7	1.5	-4.9	-1.3	
Banks	7.6	-24.4	-3.0	9.3	16.0	-1.9	2.8	-6.5	
Chemical	-11.4	-24.7	27.0	11.9	10.5	-4.5	11.3	-4.6	
Cement, construction and real estate	2.3	-7.7	-5.6	15.6	11.0	0.2	-3.9	8.2	
Metallurgy	-10.0	18.7	47.6	-9.5	11.2	-12.6	-14.4	8.9	
Food, agriculture and forestry	-8.7	26.8	-2.2	6.0	1.5	4.8	-0.8	0.6	
Textiles and paper	-1.2	33.8	2.4	-8.2	1.6	1.8	-4.3	-7.2	
Trade and finance	-11.7	-9.4	3.9	-5.3	13.1	-0.7	-9.1	-7.2	
Sundry services	7.1	-8.3	-5.3	10.7	14.7	-1.1	-2.0	-0.5	
<b>BCN Global 100</b>	<b>5.9</b>	<b>-12.0</b>	<b>0.3</b>	<b>7.3</b>	<b>12.7</b>	<b>-1.6</b>	<b>-0.4</b>	<b>-3.0</b>	

Source: Thomson Datastream.

## Concentration of capitalisation by sector<sup>1</sup>

I.5

No. of companies required in order to achieve a specific percentage

Sector	2016				2017			
	25%	50%	75%	100%	25%	50%	75%	100%
Oil	1	1	1	1	1	1	1	1
Energy and water	1	2	3	9	1	2	3	9
Mining & base metals	1	2	2	7	1	2	2	7
Cement and construction materials	1	1	2	4	1	1	2	3
Chemical	1	1	2	8	1	1	1	8
Textile and paper	1	1	1	10	1	2	3	10
Metal-mechanical	1	2	4	15	1	1	1	15
Food	1	2	3	11	1	1	2	13
Construction	1	2	3	7	1	2	3	8
Real estate	1	2	4	18	1	2	4	18
Transport and communications	1	2	3	7	1	2	3	8
Other non-financial	1	3	7	29	1	2	7	29
Banks	1	2	3	9	1	2	3	9
Insurance	1	1	2	2	1	1	2	2
Portfolio companies	1	1	1	6	1	1	1	4
SICAV	0	0	0	0	0	0	0	0
Finance houses	0	0	0	0	0	0	0	0

Source: CNMV. (1) Only includes capitalisation of companies that were traded at some time during the year. Excludes Latibex, MAB and ETFs.

## Concentration of equity stock market trading

I.6

No. of companies required in order to achieve a specific percentage

	2016				2017			
	25%	50%	75%	100%	25%	50%	75%	100%
<b>All stock exchanges<sup>1</sup></b>	<b>2</b>	<b>5</b>	<b>15</b>	<b>144</b>	<b>2</b>	<b>5</b>	<b>16</b>	<b>147</b>
Electronic market	2	5	15	127	2	5	16	132
Spain	2	5	15	119	2	5	15	125
Foreign	1	1	1	8	1	1	1	7
Open outcry	1	2	3	12	1	2	3	11
Second market	1	1	1	5	1	1	2	4
ETFs	1	2	4	19	1	2	4	19
Alternative stock market (MAB)	7	51	222	3,473	5	45	202	3,360
LATIBEX	1	2	5	21	1	2	5	20

Source: CNMV. (1) Excludes Latibex, MAB and ETFs.

**Percentage of capitalisation by sector and the largest companies within each sector with respect to the overall market<sup>1</sup>**

1.7

Sector	% sector/market <sup>2</sup>	Companies with the largest capitalisation in the sector	% company/market <sup>3</sup>
Oil	3.2%	Repsol, S.A.	3.21%
Energy	13.6%	Iberdrola, S.A.	5.82%
Energy		Gas Natural SDG, S.A.	2.75%
Energy		Endesa, S.A.	2.70%
Mining & base metals	1.1%	Acerinox, S.A.	0.47%
Mining & base metals		CIE Automotiva, S.A.	0.45%
Mining & base metals		ArcelorMittal, S.A.	0.15%
Cement and construction materials	0.5%	Vidrala, S.A.	0.30%
Cement and construction materials		Cementos Molins, S.A.	0.14%
Cement and construction materials		Corporación Empresarial de Materiales de la Construcción, S.A.	0.01%
Chemical and pharmaceutical	0.6%	Grifols, S.A.	2.19%
Chemical and pharmaceutical		Almirall, S.A.	0.21%
Chemical and pharmaceutical		Laboratorios Farmacéuticos Rovi, S.A.	0.11%
Textile and paper	15.9%	Industria de Diseño Textil, S.A.	12.91%
Textile and paper		Ence Energía y Celulosa, S.A.	0.19%
Textile and paper		Papeles y Cartones de Europa, S.A.	0.16%
Metal-mechanical	1.9%	Zardoya Otis, S.A.	0.61%
Metal-mechanical		Gestamp Automoción, S.A.	0.49%
Metal-mechanical		Técnicas Reunidas, S.A.	0.21%
Food	1.0%	Ebro Foods, S.A.	0.43%
Food		Viscofan, S.A.	0.37%
Food		Telepizza Group, S.A.	0.07%
Construction	5.1%	Ferrovial, S.A.	1.98%
Construction		Actividades de Construcción y Servicios, S.A.	1.46%
Construction		Acciona, S.A.	0.56%
Real estate and SOCIMI (Spanish REIT companies)	2.3%	Merlin Properties. SOCIMI, S.A.	0.76%
Real estate and SOCIMI		Inmobiliaria Colonial. SOCIMI, S.A.	0.51%
Real estate and SOCIMI		Hispania Activos Inmobiliarios. SOCIMI, S.A.	0.24%
Transport and communications	15.9%	Telefónica, S.A.	6.02%
Transport and communications		Aena S.M.E., S.A.	3.62%
Transport and communications		Abertis Infraestructuras, S.A.	2.62%
Other non-financial	9.3%	Amadeus IT Group, S.A.	3.76%
Other non-financial		Gamesa Corporación Tecnológica, S.A.	1.11%
Other non-financial		Prosegur Compañía de Seguridad, S.A.	0.58%
Banks	27.2%	Banco Santander Central Hispano, S.A.	12.61%
Banks		Banco Bilbao Vizcaya Argentaria, S.A.	6.76%
Banks		CaixaBank, S.A.	3.32%
Insurance	1.8%	Mapfre, S.A.	1.18%
Insurance		Tecnocom. Telecomunicaciones y Energía, S.A.	0.63%
Portfolio companies	0.5%	Corporación Financiera Alba, S.A.	0.40%
Portfolio companies		Alantra Partners, S.A.	0.07%
Portfolio companies		Cartera Hotelera, S.A.	0.00%

Source: CNMV. (1) Capitalisation at year-end. (2) Capitalisation of the sector as a percentage of the overall market. (3) Capitalisation of the companies listed as a percentage of the overall market.

## Capitalisation and trading volume of Ibx 35 companies<sup>1</sup>

1.8

Million euros

Company	Market capitalisation <sup>2</sup>			Trading volume		
	2016	2017	% total <sup>3</sup>	2016	2017	% total <sup>3</sup>
Industria de Diseño Textil, S.A.	101,073.0	90,523.2	12.9	46,936.8	44,208.3	6.9
Banco Santander Central Hispano, S.A.	72,313.8	88,410.0	12.6	104,532.6	115,054.2	17.9
Banco Bilbao Vizcaya Argentaria, S.A.	42,118.3	47,422.0	6.8	60,261.9	64,607.4	10.1
Telefónica, S.A.	44,433.4	42,186.1	6.0	72,714.6	64,449.5	10.0
Iberdrola, S.A.	39,661.2	40,811.1	5.8	41,379.4	37,533.0	5.8
Amadeus IT Group, S.A.	18,944.0	26,377.6	3.8	10,793.3	17,589.8	2.7
Aena S.M.E., S.A.	19,447.5	25,350.0	3.6	30,615.8	12,707.9	2.0
CaixaBank, S.A.	18,781.7	23,261.8	3.3	17,169.4	24,897.2	3.9
Repsol, S.A.	19,668.9	22,521.5	3.2	15,736.9	27,514.6	4.3
Gas Natural SDG, S.A.	17,922.3	19,263.3	2.8	14,717.7	10,374.3	1.6
Endesa, S.A.	21,307.4	18,904.0	2.7	10,821.0	10,866.0	1.7
Abertis Infraestructuras, S.A.	13,167.1	18,371.6	2.6	12,331.6	16,140.9	2.5
International Consolidated Airlines Group, S.A.	10,940.1	15,434.3	2.2	15,294.4	7,003.4	1.1
Grifols, S.A.	12,020.3	15,379.2	2.2	7,120.6	6,343.8	1.0
Ferrovial, S.A.	12,449.7	13,858.1	2.0	6,688.1	8,765.8	1.4
Bankia, S.A.	11,183.3	11,479.9	1.6	9,161.4	9,772.0	1.5
Actividades de Construcción y Servicios, S.A.	9,446.2	10,264.4	1.5	13,432.3	9,572.6	1.5
Red Eléctrica Corporación, S.A.	9,698.9	10,123.6	1.4	7,746.7	10,958.1	1.7
Banco de Sabadell, S.A.	7,430.2	9,318.3	1.3	5,211.8	11,572.5	1.8
Mapfre, S.A.	8,930.7	8,247.0	1.2	10,726.6	5,525.5	0.9
Gamesa Corporación Tecnológica, S.A.	5,381.5	7,785.5	1.1	4,816.0	12,946.8	2.0
Bankinter, S.A.	6,615.7	7,104.6	1.0	9,829.7	6,559.7	1.0
Enagas, S.A.	5,759.5	5,698.6	0.8	11,181.1	10,114.0	1.6
Merlin properties, S.A.	4,852.7	5,308.4	0.8	5,356.1	4,998.7	0.8
Cellnex telecom, S.A.	3,166.0	4,946.4	0.7	3,930.4	4,872.2	0.8
Acciona, S.A.	4,004.2	3,895.9	0.6	13,253.8	3,262.6	0.5
Inmobiliaria Colonial, S.A.	2,349.0	3,605.7	0.5	4,228.5	3,107.0	0.5
Acerinox, S.A.	3,479.8	3,289.3	0.5	5,113.8	4,572.9	0.7
Mediaset España Comunicación, S.A.	3,754.4	3,151.3	0.5	3,998.7	3,609.1	0.6
Distribuidora Internacional de Alimentación, S.A.	2,903.8	2,678.4	0.4	6,164.6	6,511.5	1.0
Meliá Hoteles, S.A.	2,545.1	2,641.6	0.4	2,309.3	2,270.6	0.4
Viscofan, S.A.	2,183.4	2,563.7	0.4	2,699.1	1,995.2	0.3
Indra Sistemas, S.A.	1,708.6	2,014.7	0.3	3,357.4	2,337.8	0.4
Técnicas Reunidas, S.A.	2,178.0	1,479.0	0.2	2,514.4	3,690.2	0.6
ArcelorMittal, S.A.	910.7	1,058.3	0.2	5,694.9	6,531.0	1.0

Source: CNMV. (1) Companies in the Ibx 35 at 31 December 2016. (2) Capitalisation on the last day of the year. (3) With respect to the market total.

## Takeover bids authorised in 2017

1.9

Million euros

Company	Offeror	Purpose	% capital addressed by the bid	Amount paid	Result (%) <sup>1</sup>
Tecnocom, Telecomunicaciones y Energía, S.A. <sup>2</sup>	Indra Sistemas, S.A.	Voluntary takeover bid to take control	100.00	317.92	93.96
Clínica Baviera, S.A.	Aier Eye International (Europe), S.L.U.	Voluntary takeover bid to take control	90.00	146.55	86.83
Abertis Infraestructuras, S.A. <sup>3</sup>	Atlantia, S.p.A.	Voluntary takeover bid to take control	100.00	Outstanding	Outstanding
Sotogrande, S.A.	Sotogrande Luxco, S.À.R.L.	Delisting bid	1.08	1.17	0.85
Axiar Patrimonio SOCIMI, S.A.	Inmobiliaria Colonial, SOCIMI, S.A.	Voluntary takeover bid to take control	71.21	842.95	58.07
<b>Total</b>				<b>1,308.59</b>	

Source: CNMV. (1) Percentage of share capital admitted to trading. In the event of pro-rating, the co-efficient is indicated. (2) The amount paid reflects the equivalent cash price obtained on applying the swap ratio to the average price of the shares offered in the quarter before the prior announcement of the bid. (3) As of the report date, this bid is ongoing within a process of competing bids.

## Companies listed on Latibex by sector

1.10

Million euros, unless indicated otherwise

Sector	No. of companies		Market capitalisation			Trading volume		
	2016	2017	2016	2017	% change	2016	2017	% change
Oil	1	1	44.9	35.5	-20.88	35.6	20.2	-43.30
Energy and water	2	2	0.7	0.8	11.34	12.4	6.7	-45.79
Mining & base metals	5	5	159.6	154.2	-3.36	76.8	69.0	-10.24
Chemical	1	1	1.4	1.0	-24.55	1.7	3.6	106.09
Textile and paper	0	0	0.0	0.0	-	0.0	0.0	-100.00
Metal-mechanical	1	1	0.2	4.5	1,721.01	0.0	0.1	386.06
Food	0	0	0.0	0.0	-	0.0	0.0	-
Real estate	2	2	0.0	0.1	34.11	0.0	0.2	719.30
Transport and communications	1	1	0.6	0.2	-66.15	0.1	0.6	710.32
Other non-financial	1	1	0.1	0.2	77.19	2.3	2.4	1.03
Banks	4	4	16.8	7.5	-55.32	6.2	5.1	-17.53
Portfolio companies	1	1	0.0	0.0	14.68	5.9	4.9	-18.37
Finance houses	1	1	18.5	29.4	59.26	15.6	18.2	17.06
<b>Total</b>	<b>20</b>	<b>20</b>	<b>242.8</b>	<b>233.3</b>	<b>-3.89</b>	<b>156.7</b>	<b>130.8</b>	<b>-16.52</b>

Source: CNMV.

## Gross issues by public authorities

I.11

Nominal amount in million euros

	Amount				% year-on-year change		
	2014	2015	2016	2017	15/14	16/15	17/16
<b>Central Government</b>	<b>243,370</b>	<b>240,594</b>	<b>223,067</b>	<b>236,506</b>	<b>-1.1</b>	<b>-7.3</b>	<b>6.0</b>
Short term	99,396	97,871	100,996	94,439	-1.5	3.2	-6.5
Long term	143,974	142,723	122,071	142,067	-0.9	-14.5	16.4
<b>Autonomous regions</b>	<b>9,563</b>	<b>4,046</b>	<b>4,866</b>	<b>5,306</b>	<b>-57.7</b>	<b>20.3</b>	<b>9.0</b>
Short term	340	424	482	532	24.9	13.6	10.3
Long term	9,224	3,621	4,384	4,774	-60.7	21.1	8.9
<b>Local authorities</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>56</b>	<b>-</b>	<b>-</b>	<b>-</b>
Short term	0	0	0	0	-	-	-
Long term	53	0	0	56	-	-	-
<b>Total public authorities</b>	<b>252,987</b>	<b>244,639</b>	<b>227,933</b>	<b>241,868</b>	<b>-3.3</b>	<b>-6.8</b>	<b>6.1</b>

Source: Bank of Spain and CNMV.

## Net issues by public authorities

I.12

Nominal amount in million euros

	Amount				% year-on-year change		
	2014	2015	2016	2017	15/14	16/15	17/16
<b>Central Government</b>	<b>49,627</b>	<b>50,172</b>	<b>27,847</b>	<b>46,962</b>	<b>1.1</b>	<b>-44.5</b>	<b>68.6</b>
Short term	-11,248	4,509	-73	-3,528	-	-	-
Long term	60,875	45,662	27,920	50,490	-25.0	-38.9	80.8
<b>Autonomous regions</b>	<b>-2,298</b>	<b>-6,788</b>	<b>-2,549</b>	<b>113</b>	<b>-195.3</b>	<b>62.5</b>	<b>-</b>
Short term	-1,121	15	70	1	-	379.4	-98.8
Long term	-1,178	-6,803	-2,618	112	-477.6	61.5	-
<b>Local authorities</b>	<b>-240</b>	<b>0</b>	<b>0</b>	<b>-165</b>	<b>-</b>	<b>-</b>	<b>-</b>
Short term	-	-	-	-	-	-	-
Long term	-240	0	0	-165	-	-	-
<b>Total public authorities</b>	<b>47,088</b>	<b>43,383</b>	<b>25,299</b>	<b>46,910</b>	<b>-7.9</b>	<b>-41.7</b>	<b>85.4</b>

Source: Bank of Spain and CNMV.

## Number of issuers and issues filed with the CNMV: breakdown by instrument

I.13

	Number of issuers <sup>1</sup>		Number of issues	
	2016	2017	2016	2017
<b>Long-term</b>	<b>44</b>	<b>41</b>	<b>384</b>	<b>365</b>
Non-convertible bonds and debentures	16	16	277	276
of which, subordinated debt	1	4	2	4
Convertible bonds and debentures	0	0	0	0
Mortgage bonds	13	9	41	28
Territorial bonds	3	1	4	1
Securitisation bonds	20	21	61	58
asset-backed (ABS)	20	21	61	58
mortgage-backed (MBS)	0	0	0	0
Preferred shares	0	1	0	1
Other issues	1	1	1	1
<b>Short term<sup>2</sup></b>	<b>14</b>	<b>13</b>	<b>15</b>	<b>13</b>
Commercial paper	14	13	15	13
of which, asset-backed	1	1	1	1
<b>Total</b>	<b>51</b>	<b>48</b>	<b>399</b>	<b>378</b>

Source: CNMV. (1) In the case of issuers, the totals do not necessarily coincide with the sum, given that the same issuer may issue various types of instruments. (2) Shelf registrations.

## Main fixed-income issuers<sup>1</sup> registered with the CNMV in 2017

I.14

Nominal amount in million euros

Name of issuing company	Nominal amount issued		
	Total	Short term <sup>2</sup>	Long term
Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.	20,040	0	20,040
Bankia, S.A.	15,500	15,000	500
Banco de Sabadell, S.A.	15,197	7,000	8,197
CaixaBank, S.A.	14,082	3,000	11,082
Bankinter, S.A.	6,893	4,000	2,893
Banco de Santander, S.A.	6,501	0	6,501
TDA Sabadell RMBS 4, Fondo de Titulización	6,000	0	6,000
Santander Consumer Finance, S.A.	5,000	5,000	0
Bankinter Sociedad de Financiación, S.A.	5,000	5,000	0

Source: CNMV. (1) Issuers that registered issues exceeding 4 billion euros in 2017. (2) Nominal amount of shelf registrations.

## Main fixed-income issuers<sup>1</sup> registered with the CNMV in 2017. Breakdown by instrument

1.15

Nominal amount in million euros

Asset type	Issuer	Amount
Simple bonds and debentures	Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A.	20,040
	Banco de Sabadell, S.A.	2,347
Mortgage bonds	CaixaBank, S.A.	9,811
	Banco de Sabadell, S.A.	5,850
	Banco de Santander, S.A.	4,363
	Banco Popular Español, S.A.	2,600
	Bankinter, S.A.	2,300
	Liberbank, S.A.	2,000
Commercial paper <sup>2</sup>	Bankia, S.A.	15,000
	Banco de Sabadell, S.A.	7,000
	Santander Consumer Finance, S.A.	5,000
	Bankinter Sociedad de Financiación, S.A.	5,000
	Bankinter, S.A.	4,000
	CaixaBank, S.A.	3,000
	Kutxabank Empréstitos, S.A.	2,000
ABCP <sup>2</sup>	Fondo de Titulización de Activos Santander 2	3,000

Source: CNMV. (1) Issuers which issued more than 1.5 billion euros in 2017 in the corresponding financial instrument. (2) Nominal amount of shelf registrations.

## Commercial paper issuers: largest outstanding balances<sup>1</sup> at 31 December 2017

1.16

Million euros

Issuer	Amount	% of total	% accum.
Banco de Sabadell, S.A.	5,045	42.12	42.12
Santander Consumer Finance, S.A.	2,177	18.18	60.29
Bankia, S.A.	1,335	11.14	71.44
Bankinter, S.A.	1,115	9.31	80.75
Fondo de Titulización de Activos Santander II	1,080	9.02	89.76
Bankinter Sociedad de Financiación, S.A.	500	4.17	93.94

Source: AIAF. (1) Issuers with an outstanding balance greater than 500 million euros.

## Main securitisation bond issuers in 2017<sup>1</sup>

I.17

Million euros

Issuer	Amount	Assets securitised
TDA Sabadell RMBS 4, Fondo de Titulización	6,000	Mortgage loans
CaixaBank RMBS 2, Fondo de Titulización	2,720	Mortgage loans
CaixaBank RMBS 3, Fondo de Titulización	2,550	Mortgage loans
Fondo de Titulización del Déficit del Sistema Eléctrico, FTA	2,497	Other
CaixaBank Consumo 3, Fondo de Titulización	2,450	Consumer loans
IM Sabadell PYME 11, Fondo de Titulización	1,900	SMEs <sup>2</sup>
CaixaBank PYMES 9, Fondo de Titulización	1,850	SMEs <sup>2</sup>

Source: CNMV. (1) Issuers with CNMV-registered issues of more than 1.5 billion euros at year-end. (2) Includes funds whose pools include almost all loans to SMEs.

## Securitisation bonds, by type of asset securitised

I.18

Nominal amount in million euros

	2013	2014	2015	2016	2017
<b>Mortgage-backed securities (FTH)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Asset-backed securities (FTA)</b>	<b>28,593</b>	<b>29,008</b>	<b>28,370</b>	<b>35,505</b>	<b>29,415</b>
<b>Mortgage-backed FTA</b>	<b>7,204</b>	<b>17,310</b>	<b>9,458</b>	<b>19,621</b>	<b>14,885</b>
Mortgage loans	7,204	17,310	9,458	19,621	14,885
Mortgage bonds	0	0	0	0	0
Real estate developer loans	0	0	0	0	0
<b>FTA Companies</b>	<b>10,660</b>	<b>8,750</b>	<b>14,124</b>	<b>7,500</b>	<b>4,850</b>
SMEs <sup>1</sup>	6,185	8,750	11,124	5,000	3,750
FTPYME <sup>1</sup>	0	0	0	0	0
FTGENCAT <sup>1</sup>	0	0	0	0	0
Loans to companies <sup>2</sup>	3,325	0	3,000	2,500	0
Corporate loans <sup>3</sup>	0	0	0	0	0
Finance leases	1,150	0	0	0	1,100
<b>FTA others</b>	<b>10,729</b>	<b>2,948</b>	<b>4,788</b>	<b>8,384</b>	<b>9,680</b>
Subordinated debt	0	0	0	0	0
Treasury bonds	0	0	0	0	0
Government loans	0	0	0	0	0
Territorial bonds	0	0	0	0	0
Consumer loans	0	300	1,450	3,015	4,672
Auto loans	1,167	798	1,039	3,056	977
Accounts Receivable	0	0	0	0	0
Rights to future loans	0	0	0	0	0
Securitisation bonds	0	0	0	0	0
Other loans	9,562	1,850	2,299	2,313	4,032
<b>Total asset-backed bonds</b>	<b>28,593</b>	<b>29,008</b>	<b>28,370</b>	<b>35,505</b>	<b>29,415</b>
<b>Total asset-backed commercial paper<sup>4</sup></b>	<b>1,544</b>	<b>620</b>	<b>2,420</b>	<b>1,880</b>	<b>2,200</b>
<b>Total bonds and commercial paper</b>	<b>30,137</b>	<b>29,628</b>	<b>30,790</b>	<b>37,385</b>	<b>31,615</b>
<i>Pro memoria:</i>					
<b>Mortgage subtotal</b>	<b>7,204</b>	<b>17,310</b>	<b>9,458</b>	<b>19,621</b>	<b>14,885</b>

Source: CNMV. (1) Includes funds whose pools include almost all loans to SMEs. (2) Includes funds whose pools include loans to any type of business: self-employed, micro-enterprises, SMEs and larger companies. (3) Includes funds whose pools are only comprised of loans to large companies. (4) Gross issues of asset-back commercial paper programmes registered by the FTAs.

Nominal amount in million euros

	2013	2014	2015	2016	2017	% change 17/16
Commercial paper	51,768	26,728	10,521	9,977	3,820	-61.72
Bonds and debentures	723,081	466,010	176,151	21,816	8,413	-61.44
Securitisation bonds	473,321	249,268	122,259	10,361	6,207	-40.09
Mortgage bonds	268,646	285,925	103,861	17,230	6,583	-61.79
Territorial bonds	81,318	77,721	37,532	3,243	368	-88.65
Matador bonds	0	0	0	0	0	-
<b>Total private fixed income</b>	<b>1,124,814</b>	<b>856,384</b>	<b>328,066</b>	<b>52,267</b>	<b>19,183</b>	<b>-63.30</b>
Treasury Bills	1	10	11	0	0	-
Government bonds and debentures	4	42	82	18	9	-51.93
<b>Total public debt</b>	<b>5</b>	<b>52</b>	<b>93</b>	<b>18</b>	<b>9</b>	<b>-53.03</b>
<b>Total</b>	<b>1,124,819</b>	<b>856,436</b>	<b>328,159</b>	<b>52,285</b>	<b>19,192</b>	<b>-63.29</b>



## Statistical annexes II: financial entities and investment services

Annexes  
Statistical annexes II

Category	Number, investors, assets and breakdown of changes in assets of securities and real estate mutual funds <sup>1</sup>										Distribution net subscriptions mutual funds (%)	
	Assets					Pro memoria:						
	No. of funds	No. of investors	Amount	Change on Dec-16	Change on Dec-16	No. of funds	No. of investors	Amount	Change on Dec-16	Change <sup>2</sup>		Net yield distributed
Fixed income <sup>3</sup>	290	2,627,547	70,564	-16	279,563	2,627,547	70,564	-3,662	-3,662	-24	0	-16.7
Mixed fixed income <sup>4</sup>	155	1,197,523	43,407	7	153,725	1,197,523	43,407	3,341	2,891	451	-1	13.3
Mixed equity <sup>5</sup>	176	584,408	22,387	8	135,917	584,408	22,387	6,076	5,499	578	0	25.3
Euro equity	111	710,928	12,203	-1	315,231	710,928	12,203	3,537	2,550	988	0	11.7
International equity	211	1,865,367	24,065	10	693,080	1,865,367	24,065	6,386	4,514	1,872	-1	20.8
Guaranteed fixed-income	79	190,075	5,457	-43	-117,696	190,075	5,457	-3,223	-3,263	39	0	-15.0
Guaranteed equity <sup>6</sup>	188	527,533	15,417	-10	-24,912	527,533	15,417	-59	-310	251	0	-1.4
Global funds	225	1,086,937	35,512	22	428,215	1,086,937	35,512	14,595	13,406	1,190	-2	61.7
Passively managed	202	638,966	19,478	-18	-107,267	638,966	19,478	-4,124	-4,585	473	-12	-21.1
Absolute return	104	858,170	16,706	-2	292,845	858,170	16,706	4,491	4,287	203	0	19.7
<b>Total funds (Total MF+FFH+HF)</b>	<b>1,741</b>	<b>10,287,454</b>	<b>265,195</b>	<b>-64</b>	<b>2,033,843</b>	<b>10,287,454</b>	<b>265,195</b>	<b>27,333</b>	<b>21,325</b>	<b>6,023</b>	<b>-15</b>	<b>98.1</b>
Funds of hedge funds	7	3,491	209	2	2,469	3,491	209	189	193	-4	0	0.9
Hedge funds	35	3,255	2,024	5	806	3,255	2,024	350	209	141	0	1.0
<b>Total securities funds</b>	<b>1,783</b>	<b>10,294,200</b>	<b>267,428</b>	<b>-57</b>	<b>2,037,118</b>	<b>10,294,200</b>	<b>267,428</b>	<b>27,984</b>	<b>21,727</b>	<b>6,160</b>	<b>-15</b>	<b>100.0</b>
Real estate funds	3	1,097	360	0	-2,830	1,097	360	-10	-1	-9	0	-
Foreign UCITS <sup>7</sup>	1,013	2,226,991	150,421	72	478,387	2,226,991	150,421	35,431	-	-	-	-

Source: CNMV. (1) Fund compartments which have sent confidential statements (therefore excludes funds in process of dissolution or liquidation). The data of the special purpose compartments (outstanding up to November 2017) are only included in the totals, not in the breakdowns by category as they do not fall under a specific category. (2) For each category, the variation in assets is due to net subscriptions, including those due to changes in the investor profile, gross profits paid out and net yields on assets. (3) Includes Euro fixed income, Foreign fixed income, Monetary fixed income and Short-term monetary fixed income. (4) Includes Euro mixed fixed income and Foreign mixed fixed income. (5) Includes Euro mixed equity and Foreign mixed equity. (6) Includes Guaranteed return and Partial guarantee. (7) The row on foreign UCITS includes both companies and funds registered with the CNMV. Asset data for foreign UCITS refer to the volume of investment, i.e. the product of the number of shares and units marketed in Spain and their year-end value. Does not include the investment volume and number of investors of ETF.

## Fund portfolio as a percentage of the outstanding balance of Spanish securities

II.2

%

	2013	2014	2015	2016	2017
<b>Listed equities<sup>1</sup></b>	<b>1.7</b>	<b>2.0</b>	<b>2.3</b>	<b>2.3</b>	<b>2.6</b>
<b>Private fixed income</b>	<b>3.0</b>	<b>3.2</b>	<b>2.6</b>	<b>2.3</b>	<b>1.9</b>
Short term	9.6	11.7	18.0	24.5	14.8
Long term	2.8	2.9	2.1	1.5	1.6
<b>Public sector fixed-income</b>	<b>7.1</b>	<b>7.1</b>	<b>4.9</b>	<b>5.5</b>	<b>4.6</b>
Short term <sup>2</sup>	13.3	8.7	6.1	7.7	8.0
Long term	6.3	6.9	4.8	5.3	4.3

Source: CNMV and Bank of Spain (1) Realisation value of the portfolio over the capitalisation of domestic securities in the electronic market, open outcry market and MAB. (2) Does not include temporary asset acquisitions.

## Expenses charged to financial mutual funds

II.3

as % of average daily assets

	Management fees			Depository fees <sup>1</sup>		
	2015	2016	2017	2015	2016	2017
<b>Total mutual funds<sup>2</sup></b>	<b>1.00</b>	<b>0.95</b>	<b>0.91</b>	<b>0.09</b>	<b>0.08</b>	<b>0.08</b>
Fixed income	0.66	0.58	0.54	0.08	0.07	0.07
Mixed fixed income	1.15	1.12	1.05	0.09	0.09	0.09
Mixed equity	1.41	1.40	1.34	0.11	0.11	0.10
Euro equity	1.76	1.75	1.71	0.12	0.12	0.11
International equity	1.71	1.71	1.69	0.12	0.12	0.10
Guaranteed fixed income	0.84	0.68	0.48	0.06	0.06	0.05
Guaranteed equity	1.05	0.70	0.58	0.08	0.06	0.05
Global funds	1.06	1.26	1.07	0.08	0.10	0.09
Passively managed	0.64	0.56	0.52	0.07	0.06	0.06
Absolute return	0.99	0.96	0.91	0.08	0.08	0.07
<b>Funds of hedge funds</b>	<b>1.47</b>	<b>0.96</b>	<b>2.93</b>	<b>0.10</b>	<b>0.07</b>	<b>0.08</b>
<b>Hedge funds<sup>3</sup></b>	<b>2.30</b>	<b>2.38</b>	<b>2.75</b>	<b>0.02</b>	<b>0.01</b>	<b>0.00</b>

Source: CNMV. (1) Except in hedge funds where they are financing fees. (2) The data of the special purpose compartments are only included in the totals, not in the breakdowns by category as they do not fall under a specific category. (3) Percentage of average monthly assets.

## Yields and net subscriptions of mutual funds<sup>1</sup>

II.4

Yield (%) and net subscriptions (million euros)

	2013		2014		2015		2016		2017	
	Yield	Net subsc.	Yield	Net subsc.	Yield	Net subsc.	Yield	Net subsc.	Yield	Net subsc.
Fixed income <sup>2</sup>	2.28	13,405	2.41	13,821	0.10	-4,816	0.52	8,244	-0.13	-3,638
Mixed fixed income <sup>3</sup>	4.16	2,370	3.67	15,689	0.16	20,903	0.27	-4,751	1.10	2,891
Mixed equity <sup>4</sup>	10.85	2,673	4.70	6,842	0.15	8,227	1.19	-5,195	3.23	5,499
Euro equity <sup>5</sup>	28.06	1,734	2.09	-338	3.44	467	2.61	-538	11.16	2,550
Foreign equity <sup>6</sup>	20.30	866	6.61	2,716	7.84	4,110	4.15	-33	8.75	4,514
Guaranteed fixed-income	4.96	-6,718	2.54	-11,762	0.27	-8,094	-0.03	-3,700	0.72	-3,263
Guaranteed equity <sup>7</sup>	6.15	-2,689	2.64	-652	1.07	-2,396	0.19	5,466	1.61	-310
Global funds	8.71	-177	4.63	2,110	2.45	5,788	1.99	7,801	4.46	13,406
Passively managed <sup>8</sup>	8.88	12,675	7.74	5,632	0.53	-6,275	1.16	5,603	2.13	-4,585
Absolute return <sup>8</sup>	2.46	-53	1.98	1,736	0.12	4,803	0.38	944	1.44	4,287
<b>Total mutual funds<sup>9</sup></b>	<b>6.50</b>	<b>24,086</b>	<b>3.67</b>	<b>35,795</b>	<b>0.89</b>	<b>22,764</b>	<b>0.98</b>	<b>13,823</b>	<b>2.42</b>	<b>21,325</b>
Funds of hedge funds	5.09	-210	-0.51	-33	-0.86	-47	-0.39	-28	0.44	193
Hedge funds	15.79	36	5.50	162	5.18	321	4.40	-110	7.41	209
<b>Total funds (MF+FH+HF)</b>	<b>6.57</b>	<b>23,912</b>	<b>3.67</b>	<b>35,924</b>	<b>0.93</b>	<b>23,038</b>	<b>1.00</b>	<b>13,685</b>	<b>2.76</b>	<b>21,727</b>
<b>Real estate funds</b>	<b>-11.28</b>	<b>-36</b>	<b>-5.87</b>	<b>-3,085</b>	<b>-6.66</b>	<b>-1</b>	<b>-5.35</b>	<b>0</b>	<b>-2.60</b>	<b>-1</b>
<b>Pro memoria: amount marketed by Spanish firms and Spanish-resident foreign firms</b>										
Foreign UCITS	-	24,953	-	22,254	-	32,889	-	7,843	-	33,286

Source: CNMV (1) Fund compartments which have sent reserved statements (therefore excludes funds in process of dissolution or liquidation). (2) Until 1Q09 includes: Short-term fixed income, Long-term fixed income, Foreign fixed Income and Monetary fixed income. From 2Q09 includes: Euro fixed income, Foreign fixed income and Monetary fixed income. From 3Q11 includes: Euro fixed income, Foreign fixed income, Monetary fixed income and Short-term monetary fixed income. (3) Until 1Q09 includes: Mixed fixed income and Foreign mixed fixed income. From 2Q09 includes: Euro mixed fixed income and Foreign mixed fixed income. (4) Until 1Q09 includes: Mixed equity and Foreign mixed equity. From 2Q09 includes: Euro mixed equity and foreign mixed equity. (5) Until 1Q09 includes: Spanish equity and Euro equity. From 2Q09 includes: Euro equity (that now includes Spanish equity). (6) Until 1Q09 includes: Foreign equity Europe, Foreign equity Japan, Foreign equity USA, Foreign equity Emerging countries and Foreign equity Others. From 2Q09 includes: Foreign equity. (7) Until 1Q09 includes: Guaranteed equity. From 2Q09 includes: Guaranteed equity and Partial guarantee. (8) New categories from 2Q09. All absolute return funds were previously classified in Global Funds. (9) The data of the special purpose compartments are only included in the totals, not in the breakdowns by category as they do not fall under a specific category.

<b>Foreign UCITS marketed in Spain</b>			
	2016	2017	Change (%)
<b>No. of UCITS</b>	<b>941</b>	<b>1,013</b>	<b>7.7</b>
<b>No. of investors</b>	<b>1,748,604</b>	<b>2,226,991</b>	<b>27.4</b>
<b>Investment volume (million euros)</b>	<b>114,990</b>	<b>150,421</b>	<b>30.8</b>
<b>Breakdown by country of origin</b>			
Germany	32	35	9.4
Austria	23	21	-8.7
Belgium	4	5	25.0
Denmark	1	1	0.0
Finland	4	8	100.0
France	286	292	2.1
Netherlands	2	2	0.0
Ireland	160	184	15.0
Liechtenstein	6	3	-50.0
Luxembourg	391	429	9.7
United Kingdom	32	33	3.1

Source: CNMV.

#### **UCITS operators (SGIIC): registrations and de-registrations in 2017**

<b>UCITS operators</b>	<b>Controlling group</b>
<b>New registrations</b>	
Cobas Asset Management, SGIIC, S.A.	Independent
Rentamarkets Investment Managers, SGIIC, S.A.U.	Independent
EBN Capital, SGIIC, S.A.	EBN Banco de Negocios, S.A.
ACCI Capital Investments, SGIIC, S.A.	Independent
Anathea Gestión, SGIIC, S.A.	Independent
Buy & Hold Capital, SGIIC, S.A.	Independent
Finletic Capital, SGIIC, S.A.	Independent
Orienta Capital, SGIIC, S.A.	Independent
Grantia Capital, SGIIC, S.A.	Independent
<b>De-registrations</b>	
Banco Madrid Gestión de Activos, SGIIC, S.A.	Trea Capital Partners, SV, S.A.
<b>Foreign operators with branch</b>	
<b>New registrations</b>	
Auris Gestión de Patrimonio Sucursal en España	Independent
Lazard Fund Managers (Ireland) Limited, Sucursal en España	Independent

Source: CNMV.

**Foreign investment firms with community passport: home Member State<sup>1</sup>**

II.7

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	2016	2017
<b>No. of foreign investment firms operating in Spain</b>		
Free provision of services	2,793	2,833
Branches	46	53
<b>Breakdown by host State</b>		
<b>Free provision of services</b>		
Germany	61	65
Austria	20	21
Belgium	9	9
Bulgaria	9	9
Cyprus	166	184
Croatia	0	1
Denmark	22	22
Slovakia	2	2
Slovenia	1	1
Estonia	1	1
Finland	14	14
France	46	50
Greece	10	10
Netherlands	94	102
Hungary	1	1
Ireland	42	42
Italy	7	9
Latvia	2	2
Liechtenstein	23	25
Lithuania	1	1
Luxembourg	34	35
Malta	24	25
Norway	31	30
Portugal	8	9
United Kingdom	2,149	2,147
Czech Republic	2	2
Romania	1	1
Sweden	13	13
<b>Branches</b>		
Germany	1	2
Belgium	1	0
France	2	2
Greece	1	1
Netherlands	2	3
Luxembourg	2	2
Norway	1	1
Poland	1	1
Portugal	1	1
United Kingdom	34	40

Source: CNMV. (1) Countries stated in the notifications of investment firms from EU Member States and in authorisations of investment firms from non-EU countries.

**Registrations and de-registrations of broker-dealers, brokers, portfolio management companies, financial advisory firms and foreign investment firms with branches**

II.8

<b>Entity</b>	<b>Controlling group</b>
<b>Broker-dealers and brokers</b>	
<b>New registrations</b>	
Acapital BB, AV, S.A.	Independent
Corecapital Finanzas, AV, S.A.	Independent
EBN Securities, SV, S.A.	EBN Banco, S.A.
Finanbest Inversiones Inteligentes, AV, S.A.	Independent
Fundslink Capital, AV, S.A.	Independent
Greenside Investments, AV, S.A.	Independent
Inbestme Europe, AV, S.A.	Independent
KBL España Capital Markets, AV, S.A.	KBL European Private Bankers
Plusvalue, AV, S.A.	Independent
<b>De-registrations</b>	
Orienta Capital, AV, S.A.	Independent
<b>Portfolio management companies</b>	
<b>De-registrations</b>	
Ibercaja Patrimonios, SGC., S.A.	Ibercaja Banco, S.A.
<b>Financial advisory companies</b>	
<b>New registrations</b>	
A&G Private Wealth Solutions, EAFI, S.L.	EFG International
Ariete Financial Advisors, EAFI, S.L.	Independent
Avanza Capital Gestión Patrimonial, EAFI, S.L.	Independent
Fortior Capital, EAFI, S.L.	Independent
Francisco Galiana Guiu	Independent
Insignium Iberia, EAFI, S.A.	Independent
José María Manzanares Allén	Independent
Meridian 370, EAFI, S.L.	Independent
Micappital 2017, EAFI, S.L.	Independent
Nao Asesores, EAFI, S.L.	Independent
Opteam Asesores Financieros, EAFI, S.L.U.	Independent
Orfeo Capital, EAFI, S.L.	Independent
Poniente Capital Management, EAFI, S.L.	Independent
Return Kapital Advisors, EAFI, S.L.	Independent
Valores Financieros y Valores Éticos, EAFI, S.L.	Independent
Valorvento, EAFI, S.L.	Independent
<b>De-registrations</b>	
Buy & Hold Asesores, EAFI, S.L.	Independent
Ethical Finance, EAFI, S.L.	Independent
Extravalor, EAFI, S.L.	Independent
Greenside Investments, EAFI, S.L.	Independent
Juan María Soler Ruiz	Independent

**Registrations and registrations of broker-dealers, brokers, portfolio management companies, financial advisory firms and foreign investment firms with branches (continuation)** II.8

Entity	Controlling group
<b>Foreign investment firms with branch</b>	
<b>New registrations</b>	
Ayondo Markets Limited, Sucursal en España	Ayondo Markets Limited
EAA Portfolio Advisers GMBH, Sucursal en España	EAA Portfolio Advisers GMBH
Pairstech Capital Management LLP, Sucursal en España	Pairstech Capital Management LLP
Dinosaur Merchant Bank Limited, Sucursal en España	Dinosaur Merchant Bank Limited
Houlihan Lokey Emea LLP, Sucursal en España	Houlihan Lokey Emea LLP
SYZ Asset Management (Europe) Limited, Sucursal en España	SYZ Asset Management (Europe) Limited
Mirabaud Securities Holdings Limited, Sucursal en España	Mirabaud Securities Holdings Limited
Aegon Asset Management Pan-Europe B.V., Sucursal en España	Aegon Asset Management Pan-Europe B.V.
Evercore Partners International LLP, Sucursal en España	Evercore Partners International LLP
TFS Derivatives Limited, Sucursal en España	TFS Derivatives Limited
<b>De-registrations</b>	
Petercam, S.A., Sucursal en España	Petercam
Houlihan Lokey (Europe) Limited, Sucursal en España	Houlihan Lokey (Europe) Limited
Mirabaud Securities LLP, Sucursal en España	Mirabaud Securities LLP

Source: CNMV.

**Changes of control in broken-dealers, brokers and portfolio management companies** II.9

Entity	Buyer
<b>Acquisitions of control by Spanish financial institutions</b>	
Popular Bolsa, SV, S.A.	Banco Santander, S.A.
Ahorro Corporación Financiera, SV, S.A.	Stormharbour Partners, L.P.
Consulnor Servicios Financieros, SV, S.A. <sup>1</sup>	Banca March, S.A.

Source: CNMV. (1) Entity removed from the CNMV register on 9 March 2018.

**Spanish investment firms with community passport at 31 December 2017:  
host Member State** II.10

	2016	2017
<b>Number of firms with cross-border activity<sup>1</sup></b>		
Free provision of services	39	46
Branches	6	5
<b>Breakdown by country of Spanish investment firms providing cross-border services<sup>2,3</sup></b>		
<b>Free provision of services</b>		
Germany	21	21
Austria	12	12
Belgium	17	17
Bulgaria	2	2
Cyprus	1	1
Denmark	10	10
Slovakia	2	2
Slovenia	1	1
Estonia	1	1
Finland	9	9
France	21	21
Greece	9	10
Hungary	2	2
Ireland	15	15
Iceland	1	1
Italy	20	20
Latvia	1	1
Liechtenstein	2	2
Lithuania	1	1
Luxembourg	20	22
Malta	5	7
Norway	10	10
Netherlands	15	15
Poland	4	4
Portugal	31	34
United Kingdom	23	23
Czech Republic	2	2
Romania	3	3
Sweden	12	12
<b>Branches</b>		
Italy	1	3
Portugal	1	2
United Kingdom	4	3

Source: CNMV. (1) Does not include cross-border activity of financial advisory firms. (2) Countries stated in the notifications relating to free provision of services and in authorisations of branches. (3) Number of Spanish investment firms providing services in other countries. A single firm may provide services in more than one country.

## Cross-border activity of Spanish financial advisory firms

II.11

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	2016	2017
<b>Number of financial advisory firms with cross-border activity</b>		
Free provision of services	26	30
Branches	1	2
<b>Breakdown by country.</b>		
<b>Free provision of services<sup>1,2</sup></b>		
Germany	4	6
Belgium	2	2
Denmark	1	1
France	4	6
Ireland	1	2
Italy	3	4
Liechtenstein	1	1
Luxembourg	21	24
Malta	2	2
Norway	1	1
Netherlands	2	2
Poland	1	1
Portugal	4	4
United Kingdom	7	7
<b>Branches</b>		
Portugal	1	1
United Kingdom	0	1

Source: CNMV. (1) Countries stated in the notifications relating to free provision of services and in authorisations of branches. (2) Number of Spanish financial advisory firms providing services in other countries. A single firm may provide services in more than one country.

## Foreign credit institutions authorised to provide investment services in Spain at 31 December 2017: home Member State

II.12

	2016	2017
<b>Number of foreign credit institutions providing investment services in Spain</b>		
<b>EU credit institutions</b>		
Free provision of services	405	409
Subsidiaries of EU credit institutions under the free provision of services regime	0	0
Branches	55	52
<b>Non-EU credit institutions</b>		
Free provision of services	2	2
Branches	5	4
<b>Breakdown by host State</b>		
<b>Free provision of services</b>	<b>407</b>	<b>411</b>
<b>EU credit institutions</b>	<b>405</b>	<b>409</b>
Germany	55	57
Austria	32	33
Belgium	7	8
Cyprus	2	2

**Foreign credit institutions authorised to provide investment services  
in Spain at 31 December 2017: home Member State (continuation)** II.12

	2016	2017
Denmark	10	10
Finland	8	8
France	41	42
Greece	1	1
Hungary	6	6
Ireland	27	26
Iceland	2	1
Italy	9	8
Latvia	0	1
Liechtenstein	7	7
Luxembourg	54	54
Malta	11	9
Norway	3	3
Netherlands	26	26
Poland	1	1
Portugal	13	13
United Kingdom	81	84
Sweden	9	9
<b>Non-EU credit institutions</b>	<b>2</b>	<b>2</b>
Australia	1	1
Canada	1	1
<b>Subsidiaries of EU credit institutions under the free provision of services regime</b>	<b>0</b>	<b>0</b>
<b>Branches</b>	<b>60</b>	<b>56</b>
<b>EU credit institutions</b>	<b>55</b>	<b>52</b>
Germany	7	6
Austria	1	1
Belgium	1	1
France	8	8
Ireland	2	2
Italy	4	5
Luxembourg	9	8
Netherlands	6	5
Portugal	7	7
United Kingdom	10	9
<b>Non-EU credit institutions</b>	<b>5</b>	<b>4</b>
Argentina	1	1
United States	2	1
Japan	1	1
Switzerland	1	1

Source: Bank of Spain and CNMV.

## Number of shareholders of Ibex 35 companies<sup>1</sup> with significant shareholdings

III.1

Entities	Shareholding				
	3-5%	5-10%	10-25%	25-50%	50-100%
Abertis	2	–	1	–	–
Acciona	–	–	–	2	–
Acerinox	2	1	2	–	–
ACS	1	1	1	–	–
AENA	1	1	1	–	1
Amadeus	5	1	–	–	–
BBVA	–	1	–	–	–
B. Sabadell	1	1	–	–	–
B. Santander	–	1	–	–	–
Bankia	1	–	–	–	1
Bankinter	3	1	1	–	–
Caixabank	1	–	–	1	–
Cellnex	4	2	–	1	–
DIA	3	1	2	–	–
Enagás	4	1	–	–	–
Endesa	–	–	–	–	1
Ferrovial	1	2	1	–	–
Gas Natural	1	–	3	–	–
Grifols	3	3	–	–	–
Iberdrola	3	1	–	–	–
IAG	1	1	2	–	–
Indra	3	2	2	–	–
Inditex	–	1	–	–	1
Inmobiliaria Colonial	1	2	2	–	–
Mapfre	–	–	–	–	1
Mediaset	1	–	–	–	1
Meliá	1	–	–	–	1
Merlin	2	–	1	–	–
REE	2	1	1	–	–
Repsol	1	2	–	–	–
Sacyr	1	2	3 <sup>2</sup>	–	–
Siemens-Gamesa	–	1	–	–	1
Técnicas Reunidas	3	–	–	–	–
Telefónica	–	3	–	–	–
Viscofan	2	2	1	–	–
<b>Total</b>	<b>54</b>	<b>35</b>	<b>24</b>	<b>5</b>	<b>8</b>

Source: CNMV. (1) Composition of the Ibex 35 index at the close of the financial year. (2) Concerted action between Disa and Grupo Satocan.

Reference	Resolutions
(1/17)	<b>Resolution of the CNMV Board of 18 January 2017</b>  Resolution of the disciplinary proceedings brought against three natural persons for the alleged commission of a serious breach and the dismissal of a very serious breach, by two of them, of a very serious breach of Article 99 o) of the Securities Market Act – for the communication or use of insider information – and by the third of them for the alleged commission of a serious breach of Section 100 x) of the Securities Market Act, for the use of insider information. One of the very serious breaches was dismissed as the material author had already been convicted for the same acts and on the same legal grounds, and the material author of the serious breach was fined 28,350 euros.
(2/17)	<b>Ministerial Order of 17 February 2017</b>  Resolution, in relation to a very serious breach, not dismissed, of the disciplinary proceedings brought against three natural persons for the alleged commission, by two of them, of a very serious breach of Article 99 o) of the Securities Market Act – for the communication or use of insider information – and by the third of them for the alleged commission of a serious breach of Section 100 x) of the Securities Market Act – for the use of insider information. The material author of the very serious breach was fined 4,400,000 euros.
(3/17)	<b>Resolution of the CNMV Board of 27 February 2017</b>  Resolution of the disciplinary proceedings brought, on the one hand, against an investment firm and a natural person, for the alleged commission of a serious breach of Article 100 w) of the Securities Market Act – for market manipulation – and, on the other hand, against the same natural person for the alleged commission of a very serious breach of Article 107 quáter 3 c) of the Securities Market Act – for the naked short selling of shares. The investment firm was fined 25,000 euros and the natural person was fined a total amount of 40,000 euros.
(4/17)	<b>Resolution of the CNMV Board of 27 February 2017</b>  Resolution of the disciplinary proceedings brought against an investment firm for the alleged commission of a serious breach of Article 295.4 of the recast text of the Securities Market Act – for market manipulation. The investment firm was fined 650,000 euros.
(5/17)	<b>Resolution of the CNMV Board of 26 April 2017</b>  Resolution of the disciplinary proceedings brought against the Spanish branch of a foreign credit institution for the alleged commission of a very serious breach of Article 284.1 of the recast text of the Securities Market Act for the perception by third parties of unauthorised incentives within the scope of advice on investments and portfolio management. The credit institution was fined 1,200,000 euros.
(6/17)	<b>Resolution of the CNMV Board of 26 April 2017</b>  Resolution of the disciplinary proceedings brought against a credit institution for the alleged commission of a very serious breach of Section 99 z) bis of the Securities Market Act – for failure to comply with conduct of business rules on disclosures to clients. The credit institution was fined 500,000 euros.
(7/17)	<b>Resolution of the CNMV Board of 31 May 2017</b>  Resolution of the disciplinary proceedings brought against an investment firm for the alleged commission of two very serious breaches of Article 99 of the Securities Market Act, included in Article 99 l) – for keeping certain obligatory records with significant defects – and the other in Article 99 q) – for a breach of reserved activities. The investment firm was fined 275,000 euros.
(8/17)	<b>Resolution of the CNMV Board of 27 June 2017</b>  Resolution of the disciplinary proceedings brought against a credit institution for the alleged commission of a very serious breach of Section 99 z) bis of the Securities Market Act for the perception by third parties of unauthorised incentives within the scope of advice on investments. The credit institution was fined 5,000,000 euros.
(9/17)	<b>Resolution of the CNMV Board of 28 September 2017</b>  Resolution of the disciplinary proceedings brought against a legal person for the alleged commission of a very serious breach of Article 99 p) of the Securities Market Act – for failing to report significant shareholdings in a listed company. The legal person was fined 100,000 euros.
(10/17)	<b>Resolution of the CNMV Board of 25 October 2017</b>  Resolution of the disciplinary proceedings brought against an investment firm and its managing director for the alleged commission of two very serious breaches of Article 99 l) and z) ter of the Securities Market Act for various infringements in terms of internal organisation requirements and measures. The two breaches are proven and the investment firm is fined 450,000 euros and the managing director is removed from office and banned from holding managerial positions in financial institutions for a period of five years.
(11/17)	<b>Resolution of the CNMV Board of 25 October 2017</b>  Resolution of the disciplinary proceedings brought against one legal persona and two natural persons for the alleged commission of a very serious breach of Article 99 o) of the Securities Market Act – for the communication or use of insider information – as well as for the additional alleged commission, by one of the natural persons, of a serious breach of Article 100 x) of the Securities Market Act – for the use of insider information. The legal person was fined 136,000 euros, while one of the natural persons was fined 60,000 euros and the other was given two fines for a total sum of 60,000 euros.

Reference	Resolutions
(12/17)	<b>Resolution of the CNMV Board of 25 October 2017</b>  Resolution of the disciplinary proceedings brought against a credit institution for the alleged commission of a very serious breach of Section 99 z) bis of the Securities Market Act for the perception by third parties of unauthorised incentives within the scope of advice on investments. The credit institution was fined 500,000 euros.
(13/17)	<b>Resolution of the CNMV Board of 25 October 2017</b>  Resolution of the disciplinary proceedings brought against a listed company and its managing director for the alleged commission of a various serious breach of Article 99 i) of the Securities Market Act – for manipulating the share price of own shares – and a credit institution for the alleged commission of a serious breach of Article 100 x) bis of the Securities Market Act – for not notifying the CNMV of suspicious transactions regarding market abuse. The issuer company and its managing director were fined 80,000 and 20,000 euros respectively, while the credit institution was fined 40,000 euros.
(14/17)	<b>Resolution of the CNMV Board of 25 October 2017</b>  Resolution of the disciplinary proceedings brought against the management company of a collective investment management company for the alleged commission of two very serious breached of Article 80 o) – organisational deficiencies – and Article 80 e) – breach of prospectus conditions of two collective investment management companies – as well as an alleged commission of a serious breach of Article 81 m) of the same legal text – deficiencies in internal control procedures. A fine was imposed for a total sum of 160,000 euros.
(15/17)	<b>Resolution of the CNMV Board of 29 November 2017</b>  Resolution of the disciplinary proceedings brought against a natural person for the alleged commission of two very serious breaches of sections 1 and 3 of Article 286 of the recast text of the Securities Market Act for breaching obligations to notify and publish short positions, and for making naked short sales, respectively. A fine was imposed of a total sum of 190,000 euros.
(16/17)	<b>Resolution of the CNMV Board of 29 November 2017</b>  Resolution of the disciplinary proceedings brought against two natural persons for the alleged commission by one of them of a very serious breach of Article 99 o) of the Securities Market Act – for the use and communication to a third party of insider information – and by the other of a serious breach of Article 100 x) of the Securities Market Act – for the use of insider information. The resolution agreed to dismiss the case due to the existence of bis in idem with a criminal ruling against the same persons for the same facts.
(17/17)	<b>Resolution of the CNMV Board of 20 December 2017</b>  Resolution of the disciplinary proceedings brought against the management company of a collective investment management company for the alleged commission of a very serious breach of Article 52.1 a) of Law 25/2005, regulating venture capital companies, for accounting irregularities in relation to a venture capital fund under management. Since it was more favourable, the new Law 22/2014, regulating venture capital companies, was applied, and the breach was reduced to a serious under Article 94 b) of the new legal text. A fine of 50,000 euros was imposed.

No.	Date	Court	Appeal No.	Resolution	Ruling appealed
1	26/01/2017	National High Court	105/2015	Ruling	Ruling MECC 02/03/2015
Upholds the penalty imposed on a credit institution, in relation to a serious breach of Article 100 j) bis, of the Securities Market Act, by the Resolution of the CNMV Board dated 10 April 2014, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 2 March 2015.					
2	09/02/2017	National High Court	159/2016	Ruling	Ruling MECC 19/11/2015
Upholds the penalty imposed on a credit institution, in relation to a very serious breach of Article 99 z) bis, of the Securities Market Act, by the Ministry of Economic Affairs and Competition Order dated 12 February 2015, upheld on review, by not admitting the appeal as time-barred by a Ruling of the same ministry dated 19 November 2015.					
3	23/02/2017	Supreme Court	417/2015	Ruling	Ruling AN 29/09/2016
Accepts on appeal judicial review number 225/2016 lodged against the Ruling of the National High Court of 29 September 2016 as it considers the issue raised under the judicial review as subject to case law.					
4	15/03/2017	Supreme Court	398/2009	Ruling	Ruling AN 15/04/2014
Dismisses the appeal for judicial review lodged against the Ruling of the National High Court of 15 April 2014, upholding the fine imposed on the appealing credit institution in relation to a very serious breach of Article 99 ñ) of the Securities Market Act, by the Ministry of Economic Affairs and Competition Order dated 18 July 2018, upheld on review in a resolution from the same Ministry dated 6 May 2009.					
5	16/03/2017	National High Court	309/2015	Ruling	Ruling MECC 25/05/2015
Upholds the penalty imposed on a management company of venture capital companies, in relation to a serious breach of Article 52.2, e), of Law 25/2005 on venture capital companies, by the Resolution of the CNMV Board dated 22 October 2014, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 25 May 2015.					
6	17/04/2017	National High Court	1098/2014	Ruling	Ruling MECC 03/03/2014
Upholds the penalty imposed on a credit institution, in relation to a serious breach of Article 100 x) bis, of the Securities Market Act, by the Resolution of the CNMV Board dated 25 September 2013, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 3 March 2014.					
7	04/05/2017	National High Court	201/2016	Ruling	Ruling MECC 19/11/2015
Upholds the penalty imposed on a credit institution, in relation to a very serious breach of Article 99 z) bis, of the Securities Market Act, by the Ministry of Economic Affairs and Competition Order dated 12 February 2015, upheld on review, by not admitting the appeal lodged as time-barred, by a Resolution of the same Ministry dated 19 November 2015.					
8	17/05/2017	National High Court	71/2015	Ruling	Order MECC 19/12/2014
Upholds the administrative appeal lodged by a credit institution against the Ministry of Economic Affairs and Competition Order dated 19 December 2014 – imposing several penalties for very serious breached of Article 99 z) bis of the Securities Market Act – and annulling the penalties imposed as the disciplinary procedure was considered to be time-barred.					
9	24/05/2017	National High Court	171/2016	Ruling	Ruling MECC 19/11/2015
Upholds the penalty imposed on a credit institution, in relation to a very serious breach of Article 99 z) bis, of the Securities Market Act, by the Ministry of Economic Affairs and Competition Order dated 12 February 2015, upheld on review by a Ruling of the same ministry dated 19 November 2015, which did not admit the appeal lodged as time-barred.					
10	26/05/2017	National High Court	1278/2014	Ruling	Ruling MECC 25/03/2014
Upholds the administrative appeal lodged by a management company of collective investment management companies and annuls the penalties imposed in relation to three serious breaches of Article 81 n), o) and y) of the Law on Collective Investment Management Companies, by a Resolution of the CNMV Board dated 23 October 2013, upheld by a Ministry of Economic Affairs and Competition Resolution dated 25 March 2014.					
11	31/05/2017	National High Court	244/2015	Ruling	Order MECC 07/04/2015
Upholds the penalty imposed on a credit institution, in relation to a very serious breach of Article 99 z) bis, of the Securities Market Act, by the Ministry of Economic Affairs and Competition Order dated 7 April 2015.					
12	12/06/2017	Supreme Court	105/2015	Ruling	Ruling AN 26/01/2017
Accepts on appeal judicial review number 1883/2017 lodged against a Ruling of the National High Court dated 26 January 2017, as it considers the issue raised under the judicial review as subject to case law.					
13	18/09/2017	Supreme Court	309/2015	Ruling	Ruling AN 16/03/2017
Dismisses, as lacking in interest under judicial review, appeal number 2742/2017 lodged against the Ruling of the National High Court dated 16 March 2017.					

**List of rulings on contentious-administrative appeals against penalties in 2017 (continuation)**

III.3

No.	Date	Court	Appeal No.	Resolution	Ruling appealed
14	04/10/2017	National High Court	242/2015	Ruling	Order MECC 07/04/2015
Upholds the penalty imposed on a credit institution, in relation to a very serious breach of Article 99 z) bis, of the Securities Market Act, by the Ministry of Economic Affairs and Competition Order dated 7 April 2015.					
15	18/10/2017	Supreme Court	417/2015	Ruling	Ruling AN 29/09/2016
Dismisses the appeal for judicial review lodged against a Ruling of the National High Court dated 29 September 2016, and upholds the penalty imposed on a credit institution, in relation to a serious breach of Article 100 t), of the Securities Market Act, by the Resolution of the CNMV Board dated 21 May 2014, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 16 October 2015.					
16	24/10/2017	Supreme Court	1098/2014	Ruling	Ruling AN 17/04/2016
Dismisses, as lacking in interest under judicial review, appeal number 3352/2017 lodged against the Ruling of the National High Court dated 17 April 2016.					
17	02/11/2017	National High Court	415/2015	Ruling	Ruling MECC 28/09/2015
Partially upholds the appeal brought against the Ruling of the Ministry of Economic Affairs and Competition dated 28 September 2015, which confirmed on review the penalties imposed on two credit institutions in relation to three very serious breaches of Article 99 z) bis of the Securities Market Act, by Order of the same Ministry on 7 May 2014. The two penalties imposed on one the parties appealing were annulled, while the penalty imposed on the other was upheld.					
18	02/11/2017	National High Court	789/2016	Ruling	Ruling MECC 29/07/2016
Upholds the penalties imposed on a management company of collective investment management companies and its chairperson in relation to a very serious breach and a serious breach of Articles 80 a) and 81 m), respectively, of the Law on Collective Investment Management Companies by the Resolution of the CNMV Board dated 30 September 2015, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 29 July 2016.					
19	02/11/2017	National High Court	807/2016	Ruling	Ruling MECC 29/07/2016
Upholds the penalty imposed on an investment firm, in relation to a serious breach of Article 100 x) ter, of the Securities Market Act, by the Resolution of the CNMV Board dated 28 October 2015, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution 29 July 2016.					
20	16/11/2017	Supreme Court	316/2013	Ruling	Ruling AN 16/04/2015
Dismisses the appeal for judicial review lodged against a Ruling of the National High Court dated 16 April 2015, and upholds the penalties imposed on a natural person – director of an investment firm – in relation to very serious breaches of Article 99 l) and z) bis of the Securities Market Act, by Ministry of Economic Affairs and Competition Order dated 2 August 2012, upheld on appeal by Resolution of the same Ministry dated 26 March 2013.					
21	16/11/2017	National High Court	409/2016	Ruling	Ruling MECC 26/02/2016
Partially upholds the appeal brought against the Ruling of the Ministry of Economic Affairs and Competition dated 26 February 2016, which upheld on appeal the penalties imposed on an investment firm and its managing director in relation to very serious breaches of Article 99 z) bis, l) and z) ter of the Securities Market Act, by Order of the same Ministry dated 16 February 2005. The amount of the fine imposed on the investment firm was reduced in relation to the very serious breach of Article 99 z) bis of the Securities Market Act, while the rest of the penalties imposed were upheld.					
<b>Central Judicial Review Court</b>					
22	20/11/2016	No. 8	147/2014	Ruling	Ruling MECC 04/10/2013
Upholds the penalty imposed on a natural person, in relation to a very serious breach of Article 99 i), of the Securities Market Act, by the Ministry of Economic Affairs and Competition Order dated 16 May 2013, upheld on review by a Ruling of the same Ministry dated 4 October 2013.					
23	28/11/2017	National High Court	1/2017 (D.F.)	Ruling	Ruling MECIC 30/05/2017
Dismisses the special administrative appeal for the protection of fundamental rights imposed against the Ministry of Economic Affairs, Industry and Competition Resolution of 30 May 2017, upholding on appeal the penalty imposed for a serious breach of Article 296.6 of the recast text of the Securities Market Act by the CNMV Board Resolution dated 15 July 2016.					
24	14/12/2017	National High Court	775/2016	Ruling	Ruling MECC 26/08/2016
Upholds the penalty imposed on a natural person, in relation to a serious breach of Article 100 w), of the Securities Market Act, by the Resolution of the CNMV Board dated 26 May 2015, upheld on appeal by the Ministry of Economic Affairs and Competition Resolution dated 26 August 2016.					
25	20/12/2017	National High Court	775/2016	Ruling	Ruling MECC 26/03/2013
Dismisses the administrative appeal imposed by the Ministry of Economic Affairs and Competition Resolution dated 26 March 2013, upholding on review the Order of the same Ministry dated 2 August 2012, upholding the penalties imposed on a natural person – the director of an investment firm – in relation to very serious breaches of Article 99 l) and z) of the Securities Market Act.					



## A Spanish legislation

### A.1 Spanish Securities Market Commission (CNMV)

**CNMV Internal Regulation**, the recast text of the Regulation approved by CNMV Board Resolution on 10 July 2003 (*BOE 18/07/2003*) and subsequent amendments approved by the following CNMV Board Resolutions: 14 December 2004 (*BOE 29/12/2004*), 16 May 2007 (*BOE 31/05/2007*), 5 November 2008 (*BOE 20/11/2008*), 21 January 2009 (*BOE 27/01/2009*), 7 July 2010 (*BOE 15/07/2010*), 2 October 2013 (*BOE 02/11/2013*), 26 May 2015 (*BOE 06/06/2015*), 20 April 2016 (*BOE 06/05/2016*) and 7 February 2017 (*BOE 10/02/2017*).

Through a CNMV Board Resolution, dated 7 February 2017, various organisational changes were implemented. The structure of the Legal Affairs Directorate-General, established in Article 31.4, was modified to create a Deputy-Directorate General. The General Directorate of Legal Affairs is now responsible for certain functions, such as receiving and encouraging communications on alleged infringements of the rules governing the stock market (whistleblowing).

The Communication Department is entrusted with the task of managing, updating and carrying out maintenance of the CNMV website.

**CNMV Internal Regulation**, recast text of the Regulation approved by CNMV Board Resolution on 10 July 2003 (*BOE 18/07/2003*) and subsequent amendments approved by the following CNMV Board Resolutions: 14 December 2004 (*BOE 29/12/2004*), 16 May 2007 (*BOE 31/05/2007*), 5 November 2008 (*BOE 20/11/2008*), 21 January 2009 (*BOE 27/01/2009*), 7 July 2010 (*BOE 15/07/2010*), 2 October 2013 (*BOE 02/11/2013*), 26 May 2015 (*BOE 06/06/2015*), 20 April 2016 (*BOE 06/05/2016*), 7 February 2017 (*BOE 10/02/2017*) and 25 July 2017 (*BOE 31/07/2017*).

The main purpose of the modification of the CNMV Internal Regulation is to make the Information Systems Department directly dependent on the Vice-Chairperson of the CNMV rather than on the Chairperson.

The reason for this change derives from the special attention that the CNMV wishes to give to the Information Systems Department (Articles 27 and 32).

The opportunity has been taken to introduce a number of minor changes to the list of functions of the Directorates-General (including the possibility that the Director-General of Entities may make minor entries in the administrative register, such as those relating to mere documentary verifications and those related to supervised institutions), as well as making certain errata corrections in the section of the Internal Regulation relating to the CNMV's organisation.

### **CNMV Board Agreement, of 26 April 2017, on the delegation of powers.**

This agreement, comprising six chapters, delegates to the Chairperson, the Vice-Chairperson and the Executive Committee powers relating to primary and secondary markets, financial and corporate reports, market infrastructures, preventive resolution of investment firms, as well as powers within the scope of the Entities Directorate-General and the Legal Affairs Directorate-General and General Secretariat of the Board.

It repeals the Agreement of 22 December 2016, on the delegation of powers.

It took effect from the date of its publication in the Official State Gazette (*BOE*) on 5 May 2017.

### **CNMV Board Agreement, of 25 October 2017, which modifies the Agreement of 26 April 2017, on the delegation of powers.**

An amendment is made to Chapter III of the CNMV Board Agreement of 26 April 2017, on the delegation of powers. The power to authorise the inclusion of the securities or certificates referred to in *Technical Guide 4/2017* in the list of qualifications is delegated to the Executive Committee of the CNMV.

## **A.2 Listed companies**

### **Royal Decree-Law 9/2017, of 26 May, which transposes directives of the European Union in the areas of finance, trade, healthcare, and regarding the posting of workers.**

In the area of finance, it includes the transposition of Directive 2013/50/EU, which establishes transparency requirements regarding information on issuers whose securities are admitted to trading on a regulated market. The amendment introduces the power of the CNMV to suspend the exercise of voting rights associated with financial instruments that have been acquired without complying with the corresponding communication obligations. In addition, it approves the adaptation to Directive 98/26/EC on settlement finality in payment and securities settlement systems. In this sense, Title I amends:

- Law 41/1999, of 12 November, on payment and securities settlement systems and, in particular, the definition of finality and irrevocability of transfer orders, such that their determination by the systems is in accordance with the operating protocols of the pan-European platform TARGET2-Securities – which the Spanish central securities depository (Iberclear) will join in September 2017 – and the effects on the collateral provided.
- The recast text of the Securities Market Law (Spanish acronym: TRLMV), approved by Royal Legislative Decree 4/2015, of 23 October, establishing the precautionary suspension of the exercise of voting rights linked to shares purchased, until it has been verified that they have complied with the reporting obligations relating to significant holdings (Article 125 of the TRLMV) at the time of the initiation or opening of disciplinary proceedings.

The present Royal Decree-Law 9/2017 was published on 27 May 2017 in the Official State Gazette (*BOE*), leading to its immediate entry into force.

**CNMV Circular 1/2017, of 26 April**, on liquidity contracts.

Circular 1/2017 consists of six regulations, a repeal regulation and a final regulation. Additionally, it adds the Liquidity Contract Template in Annex I.

The approval of this circular by the CNMV is preceded by a process of public consultation in relation to liquidity contracts aimed primarily at issuers, investment firms, credit institutions, investor associations, market operators and other competent authorities.

Likewise, and prior to said public consultation, the CNMV informed ESMA at the end of 2016 of its intention to consider liquidity contracts as an accepted market practice, in accordance with the possibility established in Article 13 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council, of 16 April 2014, on market abuse, a principle that allows an exemption from the general prohibition on market manipulation or attempted manipulation in cases where there is a legitimate interest justifying the transaction. For its part, ESMA issued an opinion in which it concluded that the market practice communicated by the Commission is compatible with Article 13 of the regulation and that it also contains various mechanisms to limit threats to market confidence. The conclusions expressed in the opinion issued by ESMA have been taken into account when preparing the circular.

The main new features introduced by Circular 1/2017 with respect to the previous regulation fundamentally concern:

- The extension of the scope of application of the market practice to multilateral trading facilities.
- The establishment of a threshold linked to the daily average of the traded volume that may be executed in the framework of a liquidity contract, which will differ depending on whether or not the shares subject to the contract have a liquid market as defined in Article 2.1.17 of Regulation (EU) 600/2014, on markets in financial instruments (MiFIR).
- The inclusion of a maximum level of funds that may be assigned to the liquidity contract.
- The obligation for the financial intermediary that executes the market practice to be a market member.
- The requirement for the necessary balance between the volume of purchases and sales within the framework of the liquidity contract in the long term.
- The conditions for the introduction or modification of the orders in the auction periods, mainly relating to the price and volume of said orders.
- The conditions for carrying out block trades or other negotiated bilateral transactions, formalised in accordance with current legislation, so that these will only be allowed in the event that the execution of the order in question is made at the request of a third party other than the issuer of the shares and the financial intermediary acting on its behalf.

- The conditions applicable to transactions performed under liquidity contracts with shares that are traded under an arrangement known as “fixing”.
- The cases in which liquidity contract operations must be suspended.

In particular, the first regulation declares transactions performed under a liquidity contract to be an accepted practice.

With regard to the requirements of liquidity contracts, the second regulation establishes the following:

- Regarding the intermediary’s organisational structure, employees in charge of carrying out transactions on liquidity contracts in the area of portfolio management will not be able to participate in any transaction or management related to securities of the issuer if they carry out their activity in the area of the management of the internal account or the management of third-party orders.
- On the other hand, it has been established that the remuneration to the financial intermediary should be fixed, not linked to variables.
- Likewise, liquidity contracts must include the necessary mechanisms to avoid possible conflicts of interest between the issuer and the financial intermediary.
- There is an express prohibition on signing a liquidity contract with more than one financial intermediary.
- This includes the requirement for the financial intermediary to retain, for at least five years, a record of all orders entered, including those that were modified or cancelled, and the said financial intermediary must establish the internal procedures necessary to make this information available to the CNMV.
- Additionally, new requirements are introduced regarding the limits of the funds linked to liquidity contracts, depending on whether the shares subject to them have a liquid market or not, in accordance with the provisions of Article 2.1.17 of Regulation (EU) No. 600/2014 of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments (MiFIR), and in particular:
  - In cases where the shares subject to a liquidity contract have a liquid market, the cash and shares contributed to said contract may not jointly exceed the cash and shares that the financial intermediary would require if it operated exclusively during 13 trading sessions, either on the purchase side or the sales side (respecting the maximum daily volume thresholds indicated above), with a limit equivalent to 20 million euros.
  - In cases where the shares subject to a liquidity contract do not have a liquid market, the cash and shares contributed to said contract may not exceed, at least, one of the following limits: i) 25% of the daily average volume traded by the financial intermediary operating exclusively, either on the purchase side or on the sales side, over 20 trading sessions; ii) the result of multiplying 1% of the share capital of the issuer by the closing price of the share price on the day prior to the formalisation of the liquidity contract.

As regards the conditions for operating, they are established in the third regulation.

The main new feature is the releasing of the financial intermediary, allowing it to buy or sell through block trades or other negotiated bilateral transactions, although this is exclusively limited to when this is done at the initiative of a third party other than the issuer and the financial intermediary.

Likewise, the new Circular 1/2017 establishes limits on the financial intermediary's operations, reflecting that the daily volume executed by the latter under the liquidity contract cannot exceed:

- 15% of the daily average of the volume traded in the orders market in the previous 30 sessions, when the liquidity contract is subscribed by an issuer whose shares have a liquid market, in accordance with the MiFIR.
- 25% of the daily average of the volume traded in the orders market in the previous 30 sessions, when the liquidity contract is subscribed by an issuer whose shares do not have a liquid market, in accordance with the MiFIR. For the purpose of calculating this percentage, the circular establishes that the daily volume contracted for treasury shares will be taken into consideration at all trading venues where the transactions are carried out, also including shares of the issuer contracted in block trades or other negotiated bilateral transactions when they are made at the initiative of a third party other than the issuer and the financial intermediary.

As for the conditions with which the financial intermediary must comply during the auction periods and especially in the closing periods, Circular 1/2017 establishes the following new features:

- A limit to the aggregate volume of shares introduced by the intermediary, which must not exceed 10% of the theoretical volume resulting from the auction at the time of introduction of such orders.
- The impossibility for the financial intermediary to hold purchase and sale orders for shares simultaneously at any given time.
- The prohibition on introducing market orders or “at best” orders.
- The prices of purchase orders cannot be above or below certain limits.

The conditions for operating are extended to transactions carried out by financial intermediaries in auctions conducted under the fixing system, although a number of particularities are established that were clearly not regulated before, in particular:

- The daily average, for the allowed daily volume of transactions, will be calculated on the basis of the previous 30 sessions in which the security was subject to trading.
- The financial intermediary must enter the orders sufficiently in advance of the end time of the auction.

Finally, the circular extends the scope of the control obligation of financial intermediaries to all of the conditions included therein (not only the obligations on operating),

and establishes that said subjects must “have the controls and mechanisms necessary to monitor and ensure compliance with the conditions” established therein.

As regards the information requirements in the fourth regulation, new features are introduced in the public reporting obligations that the issuer of the securities must respect in relation to liquidity contract transactions.

Regarding the public reporting obligations that are undertaken quarterly relating to transactions performed under liquidity contracts, the obligation is established to report certain aspects such as:

- Whether the transactions were contracted through block trades or negotiated bilateral transactions.
- The cash used and obtained.
- The average purchase and sale prices.
- The number of transactions performed.
- The balance of the securities account and the cash account, all at the date of the reporting period and on the signing of the aforementioned contract.

As regards public reporting obligations in cases of termination of liquidity contracts, the issuer must provide information on the development of the execution of the contract and the reasons or causes that led to the termination. It introduces two new reporting obligations for the issuer, namely:

- In the cases of suspension of a liquidity contract considered in the fifth regulation, the issuer must notify the suspension and the reason for it.
- It must do so by providing a breakdown of the purchase and sale transactions made by the financial intermediary in the cases considered in specific sections of the second regulation (Sections 7.2 and 7.3, concerning the balance and proportionality of shares and cash, and the prior acquisition of shares to be deposited in the securities account, respectively), within five trading days following their execution. In this latter case, the issuer must ensure that said communications are available for public consultation for a period of five years as from the date on which said information was made public for the first time.

As regards restrictions, the fifth regulation establishes as a new feature in this area, in particular, one of the cases of suspension of liquidity contract operations which relates to tender offers of shares of the issuer. In this regard, Circular 1/2017 clarifies that it will be in these cases when “stabilisation transactions are carried out under the provisions of Article 5 of Regulation (EU) No. 596/2014 during the period in which the stabilisation is implemented and until the communication of the date on which the stabilisation or exercise of the greenshoe option has been carried out for the last time”.

It repeals CNMV Circular 3/2007, of 19 December, on liquidity contracts.

The circular was published in the Official State Gazette (*BOE*) on 10 May 2017 and came into force two months after said publication.

**Royal Decree 827/2017, of 1 September**, which amends Royal Decree 878/2015, of 2 October, on clearing, settlement and registration of marketable securities represented by book entries, on the legal regime of central securities depositories and central counterparties and on transparency requirements of issuers of securities admitted to trading in an official secondary market.

This regulation introduces as its main modifications: i) the adaptation of references to the previous regulation to the one currently in force (Royal Legislative Decree 4/2015, of 23 October, which approves the recast text of the Securities Market Law); ii) it endows the issuer's website with special importance in relation to the publication of the deadline for submission of the securities for their transformation into book entries, given that they should no longer be published in "newspapers with the largest circulation in the province in which the company has its registered office", but rather in the *Official Bulletin of the Companies Register* and on the company's website; iii) it allows the use not only of own accounts, but also of individual accounts and omnibus accounts to allow participating entities to deposit the securities of which they are holders; iv) it authorises the creation of deposits in the General Deposit Fund to cover payments of tariffs; v) and it repeals Article 46 and the second additional provision of Royal Decree 878/2015, of 2 October.

**Royal Decree-Law 21/2017, of 29 December**, on urgent measures to adapt Spanish law to European Union regulations on the securities market.

The purpose of this royal decree-law is to regulate certain aspects of the legal system relating to Spanish financial instrument trading venues in order to guarantee their full compliance with the standards contained in Directive 2014/65/EU of the European Parliament and of the Council, of 15 May 2014, relating to markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID II).

This regulation incorporates into Spanish legislation the regulations regarding Spanish financial instrument trading venues (organised securities trading systems). The immediate entry into force of these regulations was considered necessary for the basic operation of financial institutions and investment firms in relation to these financial instruments and the operation of the trading venues themselves. This avoids possible disruptions that could cause serious difficulties in the Spanish financial system at a time of major changes at a European Union level.

This royal decree-law is structured into two sections: one that tackles the rules on the organisation and functioning of regulated markets, multilateral trading facilities (MTF) and organised trading facilities (OTF), as well as certain provisions regarding the powers of the CNMV relating to all types of markets; and a second section that deals with the new penalty system.

It is made up of four Titles:

I. Regulated markets.

Firstly, transpositions are undertaken of issues relating to their organisation and operation under MiFID II, both for the markets themselves and for market operators, in such areas as the authorisation that they must obtain from the CNMV within a term of six months and their legal system. Regarding the regulation of market operators, new requirements are introduced in the area of corporate governance in such matters as appointments and conflicts of interest. Regulations are

also introduced on the supervision of the CNMV, direct electronic access, rules requiring that committees be transparent, fair and non-discriminatory, synchronisation of commercial clocks, volatility management mechanisms, market creation agreements, etc. Within this section, special mention should be made of the regulation of algorithmic trading systems, such as the prevention of anomalies in trading conditions, signalling of orders generated through algorithmic trading, etc.

Subsequently, in the section on the trading of financial instruments in regulated markets, there are issues related to the admission to trading and the suspension and exclusion from trading of financial instruments by regulated market operators and by the CNMV.

Finally, within the section focusing on access to a regulated market, it considers, among other aspects, the supervision of compliance with the regulations of the regulated market and other legal obligations, the choice of the clearing and settlement system or the central counterparty, and the right of members to designate a settlement system.

## II. Multilateral trading facilities and new organised trading facilities.

The rules common to both systems are considered, such as their creation (which will be subject to the system of prior authorisation and supervision by the CNMV); their organisation and operation requirements, such as access, reporting, suspension and exclusion of financial instruments from trading by market operators or companies that manage an MTF or an OTF, etc. Additionally, the specific requirements for each of the systems are established. These trading venues will have favourable regulatory treatment in European regulations and this will allow them to promote SMEs' access to the capital market, thereby improving their possibilities of funding.

## III. Other provisions that affect trading venues.

Preventive measures are established pursuant to which, when Spain is a host Member State of a regulated market, an MTF or an OTF and the CNMV has clear and demonstrable reasons to believe that said regulated market, MTF or OTF violates its obligations under MiFID II, it shall communicate the facts to the competent authority of the Member State of origin of the regulated market or to the MTF or OTF.

If, despite the measures adopted by the competent authority of the Member State of origin, the regulated market, MTF or OTF continues to carry out an action that is clearly detrimental to the interests of investors in Spain or to the proper functioning of the markets, the CNMV will adopt all the relevant measures for its protection. Such measures will include the possibility of preventing the regulated market, MTF or OTF from making its mechanisms available to remote members established in Spain.

## IV. The infringements and penalties system.

The penalty system is laid out, which classifies the infringements related to these new obligations.

The present Royal Decree 21/2017 came into effect on 3 January 2018.

**Royal Decree-Law 11/2017, of 23 June**, on urgent financial measures.

This royal decree-law regulates a series of urgent measures relating to the financial sector, with the purpose of allowing certain credit institutions to adopt policies and strategies to improve their resistance to risks that may arise in the exercise of their activity, as well as facilitating compliance with the requirements established by the new financial regulation and adapting it to international and European standards.

The possibility of joining institutional protection systems provided for in European regulations is expressly incorporated into the legal system governing credit cooperatives, by adopting a series of measures designed to facilitate their creation and enhance their effective functioning. A specialty is also introduced, following international standards, in the insolvency legislation relating to credit institutions and investment firms, such as the distinction between preferential and non-preferential claims within the category of ordinary claims.

To this end, this regulation amends Law 13/1989, of 26 May, on Credit Cooperatives; Royal Decree-Law 16/2011, of 14 October, establishing the Deposit Guarantee Fund of Credit Institutions; Law 11/2015, of 18 June, on the recovery and resolution of credit institutions and investment firms; and the recast text of the Securities Market Law (TRLMV), approved by Royal Legislative Decree 4/2015, of 23 October.

Article 217.3, section c) of the TRLMV is amended, in the sense that “debt financial instruments issued by credit institutions or investment firms that are in turn eligible for internal recapitalisation will not be considered as non-complex products in a resolution scenario”. This grants greater protection to the investor, in line with the new regulatory framework on resolutions created at a European level.

This royal decree-law came into force the day after its publication in the Official State Gazette (*BOE*).

**Royal Decree 683/2017, of 30 June**, amending the Corporate Income Tax Regulation, approved by Royal Decree 634/2015, of 10 July, in relation to the hedging of credit risk in financial institutions.

Among the transitory provisions introduced in this regulation, notable is the seventh, which establishes for the securitisation funds referred to in Title III of Law 5/2015, of 27 April, on the promotion of business finance, the transitional application of Article 9 of the aforementioned regulation with the wording that existed until that time, since the accounting regulations of this type of institution have not been subject to any amendment similar to that which has occurred in the case of Circular 4/2004, of 22 December, of the Bank of Spain, on rules relating to public and confidential financial information and financial statement templates.

“Seventh transitional provision. Impairment of debt instruments of securitisation funds.

While the original wording is maintained of CNMV Circular 2/2016, of 20 April, on accounting standards, annual financial statements, public financial statements and confidential statements of statistical information of securitisation funds, as regards impairment adjustments to debt instruments valued at amortised cost of

the securitisation funds referred to in Title III of Law 5/2015, of 27 April, on the promotion of business finance, the deductibility of the provisions relating thereto will be determined by applying the criteria established in Article 9 of this Regulation in its current version at 31 December 2015”.

**CNMV Circular 3/2017, of 29 November**, on the obligation for investment firms to publish on their websites certain matters relating to corporate governance and remuneration policy, amending CNMV Circular 7/2008, of 26 November, on accounting standards, annual financial statements and confidential statements of investment firms, management companies of collective investment schemes and management companies of venture capital firms.

The CNMV is authorised to specify the conditions according to which the web site must be set up and the information related to corporate governance and remuneration policy that investment firms – depending on their nature, scale and complexity – must make available on such websites. In accordance with Article 31.5 *ter*, such publication obligations do not apply to investment firms that do not provide auxiliary custodianship services, provide only one or more of the services of reception and transmission of orders, execution, discretionary portfolio management and investment advice, and are not authorised to hold customer money or securities on deposit, in the sense that they may never be debtors with respect to such clients. This circular establishes that the investment firms subject to such obligations must publish on their website, in a section entitled “Corporate Governance and Remuneration Policy”, a range of information, including information relating to their articles of association and other rules of internal organisation, the organisational structure and internal control procedures and the composition of the various governing bodies within the company.

In relation to information on remuneration policy, the information provided on this subject may be included in this circular in the section entitled “Corporate Governance and Remuneration Policy” or be included through a direct link to the document entitled “Solvency information”, as referred to in Article 191 of the recast text of the Securities Market Law.

The additional provision modifies CNMV Circular 7/2008, of 26 November, on accounting standards, annual financial statements and confidential statements of investment firms, management companies of collective investment schemes and managing companies of venture capital firms, to incorporate the new accounting treatment of intangible assets, with the purpose, among others, of establishing a harmonised regulation.

#### **A.5 Collective investment schemes, securitisation funds and venture capital firms**

**CNMV Circular 2/2017, of 25 October**, amending Circular 2/2011, of 9 June, on information on foreign collective investment schemes registered in the CNMV Registries.

CNMV Circular 2/2011, of 9 June, on information on foreign collective investment schemes registered in the CNMV Registries, regulates the information that foreign UCITS that are marketed in Spain must send to the CNMV and its partners and members. In addition, it stipulates the statistical statement which must also be sent to the CNMV on a quarterly basis.

The growth of the cross-border marketing of collective investment products makes it necessary to amend Circular 2/2011 in order to establish a general approach to the commercialisation of foreign UCITS in Spain, in order to determine the evolution and characteristics of this segment of the market.

For this reason, statistical statement Ao1 is modified to include new variables, both quantitative and qualitative.

On the other hand, non-harmonised foreign UCITS are explicitly included as obligors in the sending of statistical information. Therefore, any foreign UCITS that is marketed in Spain is required to send the Ao1 statistical statement.

## A.6 Other regulations

**Royal Decree-Law 1/2017, of 20 January**, on urgent consumer protection measures in the field of floor clauses.

This regulation (which comprises a preamble, four articles, three additional provisions, a single transitional provision, a single repealing provision and four final provisions) establishes an out-of-court settlement procedure prior to the filing of a possible legal action, without additional cost to the consumer and mandatory for credit institutions to recover the interest paid in excess under invalid floor clauses. During the time in which the preliminary claim is substantiated, the parties may not exercise against the other party any judicial or extrajudicial action in relation to it.

In the judicial phase, measures are established regarding the procedural costs that encourage the out-of-court recognition of the consumer's right and the acquiescence on the part of the credit institutions, with the measures adopted aiming to ensure that the consumer's rights are restored in the shortest possible time and allowing him/her to avoid prolonged legal proceedings.

Finally, it regulates the tax treatment of the amounts received for the reimbursement of clauses limiting interest rates on loans arising from agreements entered into with financial institutions, for which purpose the Personal Income Tax regulations are modified.

This royal decree-law came into effect on 22 January 2017.

**Order HFP/633/2017, of 28 June**, which approves the templates of powers of attorney that may be registered in the Electronic Registry of Powers of Attorney of the General State Administration and in the electronic registry of powers of attorney of Local Authorities, and establishes the signature systems that are valid for powers of attorney granted *apud acta* using electronic means.

These powers of attorney templates are distinguished according to the legally established categories:

- A general power of attorney for the agent to act on behalf of the principal in any administrative action and before any Administration. Template 1, which is included in Annex I of the order.

- A power of attorney for the agent to act on behalf of the principal in any administrative action before a specific Administration, entity or body. Template 2, which is included in Annex II of the order.
- A power of attorney allowing the agent to act on behalf of the principal exclusively to carry out specific procedures specified in the power of attorney. Template 3, which is included in Annex III of the order.
- Template 4, which is included in Annex IV of the order, to revoke the powers granted.

This law entered into force on 2 January 2018. Annexes I, II and III of Order HAP/1637/2012, of 5 July, which regulates the Electronic Registry of Powers of Attorney, are expressly repealed.

**Resolution of 7 June 2017**, of the Governing Committee of the Fund for Orderly Bank Restructuring (Spanish acronym: FROB), whereby it is agreed to adopt the necessary measures to execute the decision of the Single Resolution Board, at its extended executive meeting of 7 June 2017, at which it adopted the resolution order in relation to the entity Banco Popular Español, S.A., in compliance with the provisions of Article 29 of Regulation (EU) No. 806/2014 of the European Parliament and of the Council, of 15 July 2014, establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No. 1093/2010.

The FROB has thus proceeded to implement the measures agreed by the Single Resolution Board (SRB) in the order pursuant to which the SRB determined that Banco Popular meets the regulatory requirements for a declaration of resolution, considering that it finds itself in serious difficulties without there being reasonable prospects that other alternative measures in the private sector could prevent its non-viability within a sufficient period of time and because such measure is necessary for the public interest.

**Royal Decree-Law 15/2017, of 6 October**, on urgent measures regarding the movement of economic operators within the national territory.

By means of the approval of this royal decree-law, the amendment of Article 285.2 of the Spanish Limited Liability Companies Law is carried out, which is drafted as follows:

“As an exception to the provisions of the previous section, the administrative body will be competent to change the registered office within the national territory, unless otherwise provided in the articles of association. It will be considered that a provision contrary to the articles of association only exists when the latter expressly state that the administrative body does not have this power”.

That is, unless the articles of association clearly state otherwise, the administrative body (both the Board of Directors and the directors) can change the address to any place in Spain, without the approval of the General Shareholders' Meeting being necessary.

This royal decree-law entered into force on the day of its publication in the Official State Gazette (*BOE*).

**Law 9/2017, of 8 November**, on Public Sector Contracts, transposing Directives 2014/23/EU and 2014/24/EU, of the European Parliament and of the Council, of 26 February 2014, into the Spanish legal system.

This new regulation, in addition to transposing the European regulation, contains in the preamble and in Article 1 the outsourcing of other purposes and principles.

One of these is to reduce bureaucracy and administrative burdens. However, the law has 347 articles, 53 additional provisions, 5 transitional provisions, 1 repealing provision, 16 final provisions and 6 annexes, highlighting its detailed and quasi-regulatory nature.

Another of the aims of the regulation is the fight against corruption, for which purpose it cites integrity as a principle, which derives from the objectivity required of Public Administrations in Article 103 of the *Spanish Constitution*, as well as the prohibition on arbitrariness in public powers as per Article 9.3 of the *Spanish Constitution*.

In addition, the law aims to include environmental, social and innovation aspects among its award criteria, establishing itself, in its own words, as an instrument to implement public policies. In this same sense, it seeks to open trading to SMEs. In so doing, it aims to bring European regulations into alignment with the reality in the Spanish business community.

Also cited, in line with other regulations in this area, is the need to pursue quality (the quality-price ratio or that of procuring quality works, services and supplies) and, therefore, attempts are made to tighten regulations to avoid abnormally low offers.

Finally, Law 9/2017, like any other administrative law, invokes the constitutional principles of legal certainty, transparency, proportionality, equality and non-discrimination.

This royal decree-law came into effect four months after its publication in the Official State Gazette (*BOE*).

**Royal Decree-Law 18/2017, of 24 November**, amending the Commercial Code, the recast text of the Spanish Limited Liability Companies Act approved by Royal Legislative Decree 1/2010, of 2 July, and Law 22/2015, of 20 July, on Account Auditing, in matters of non-financial information and diversity.

This regulation transposes to Spanish internal legislation **Directive 2014/95/EU, of the European Parliament and of the Council, of 22 October 2014**, which amended Directive 2013/34/EU in relation to the presentation of non-financial information and information on diversity for certain large companies and certain groups.

The preamble of the royal decree-law offers a broad description of the content of the aforementioned directive, emphasising the importance that the latter places on the dissemination of non-financial information, “such as social and environmental factors”, with a special focus on policies of diversity of powers and points of view “that are applicable to their administrative body regarding issues such as age, sex, disability, or professional training and experience”. The non-financial information statement that must be prepared by companies to which the directive is applicable (and, therefore, those to which it will be applicable pursuant to the

Spanish regulation amended by the royal decree-law) may include references to measures adopted “to guarantee gender equality, the application of fundamental conventions of the International Labour Organization, working conditions, social dialogue, respect for the right of workers to be informed and consulted, respect for trade union rights, health and safety in the workplace and dialogue with local communities and the measures taken to ensure the protection and development of these communities”.

This royal decree-law entered into force on the day of its publication in the Official State Gazette (*BOE*).

**Royal Decree-Law 19/2017, of 24 November**, on basic payment accounts, transfers of payment accounts and the comparability of fees.

The aim of this royal decree-law is to guarantee the universal right of access to a basic payment account, improve the transparency and comparability of the fees charged for the payment accounts and simplify the transfer of payment accounts.

Regarding the outline of the objective scope, it should be noted that the regulation establishes a specific regulation on basic payment accounts. In addition, it regulates the transfer and comparability of fees charged for services rendered to any payment account, whether or not a basic account.

With regard to the subjective scope, it should be noted that the provisions of this regulation apply to individuals who act with a purpose unrelated to their commercial or business activity, trade or profession. On the side of service providers, the scope of application of the regulation is different depending on the matter regulated. Thus, in the case of comparability of services and fees of payment accounts or in the case of transfers of payment accounts, the entities bound by the royal decree-law are the payment service providers.

For all accounts in general, the royal decree-law establishes the right to transfer them to another entity or within the same entity – an obligation that affects all providers of payment services, not just credit institutions. The transfer will be made quickly, swiftly and effectively within a maximum period of 13 days. In addition, payment service providers may refuse to transfer the balance of a payment account for any customers who have obligations pending in that account. In addition, it goes even further than the directive, by allowing consumers to cancel accounts within 24 hours.

As for fees, the royal decree-law establishes that payment service providers shall provide the customer or potential customer with an informational document of the fees sufficiently in advance. In addition, they must provide each year, and free of charge, a statement of all the fees they have incurred for the services linked to a payment account.

In this context, the Bank of Spain may establish the requirements that both documents must meet, which must be precise, brief and with a clear structure. A website will be made available, free of charge, that enables a comparison between the fees applied by the payment service providers.

This royal decree-law entered into force on the day of its complete publication in the Official State Gazette (*BOE*).

### B.1 Trading venues

#### Regulatory technical standards and implementing technical standards of the Commission:

**Commission Delegated Regulation (EU) 2017/751**, of 16 March 2017, amending Delegated Regulations (EU) 2015/2205, (EU) 2016/592 and (EU) 2016/1178 as regards the deadline for compliance with clearing obligations for certain counterparties dealing with OTC derivatives, published on 29 April 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/568**, of 24 May 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, with regard to regulatory technical standards for the admission of financial instruments to trading on regulated markets, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/569**, of 24 May 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the suspension and removal of financial instruments from trading, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/570**, of 26 May 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards for the determination of a material market in terms of liquidity in relation to notifications of a temporary halt in trading, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/572**, of 2 June 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, with regard to regulatory technical standards on the specification of the offering of pre- and post-trade data and the level of disaggregation of data, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/573**, of 6 June 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards on requirements to ensure fair and non-discriminatory co-location services and fee structures, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/575**, of 8 June 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments with regard to the regulatory technical standards applicable to the data that execution venues must publish on the execution quality of transactions, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and will be applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/577**, of 13 June 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards on the volume cap mechanism and the provision of information for the purposes of transparency and other calculations, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/582**, of 29 June 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, with regard to regulatory technical standards specifying the obligation to clear derivatives traded on regulated markets and timing of acceptance for clearing, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/583**, of 14 July 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of bonds, structured finance products, emission allowances and derivatives, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/584**, of 14 July 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, with regard to regulatory technical standards specifying organisational requirements of trading venues, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/587**, of 14 July 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of shares, depository receipts, exchange-traded funds, certificates and other similar

financial instruments and on transaction execution obligations in respect of certain shares on a trading venue or by a systematic internaliser, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/588**, of 14 July 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, with regard to regulatory technical standards on the tick size regime for shares, depository receipts and exchange-traded funds, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/592**, of 1 December 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, with regard to regulatory technical standards for the criteria to establish when an activity is considered to be ancillary to the main business, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Implementing Regulation (EU) 2017/1005**, of 15 June 2017, laying down implementing technical standards with regard to the format and timing of the communications and the publication of the suspension and removal of financial instruments pursuant to Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/2194**, of 14 August 2017, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, on markets in financial instruments with regard to package orders.

The present regulation indicates the conditions in which there is a liquid market in package orders as a whole, as well as specific criteria by asset class for the following orders. Specifically, package orders consist exclusively of derivatives on: i) interest rates, ii) shares and similar instruments, iii) loans and (iv) commodities.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Commission Delegated Regulation (EU) 2017/2294**, of 28 August 2017, amending Regulation (EU) 2017/565 as regards the specification of the definition of systematic internalisers for the purposes of Directive 2014/65/EU.

This regulation shall enter into force on the day following its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/2417**, of 17 November 2017, amending Regulation (EU) No. 600/2014 of the European Parliament and of the Council,

on markets in financial instruments with regard to regulatory technical standards on the trading obligation for certain derivatives.

The present regulation entered into force on the day following its publication in the *Official Journal of the European Union*.

**Commission Implementing Regulation (EU) 2017/2446**, of 19 December 2017, amending Implementing Regulation (EU) 2016/1368 establishing a list of critical benchmarks used in financial markets pursuant to Regulation (EU) 2016/1011 of the European Parliament and of the Council.

The present regulation entered into force on the day following its publication in the *Official Journal of the European Union*.

## B.2 Issuers and listed companies

**Directive (EU) 2017/828 of the European Parliament and of the Council**, of 17 May 2017, amending Directive 2007/36/EC as regards the promotion of long-term shareholder engagement, published on 20 May 2017.

This directive amends Directive 2007/36/CE of the European Parliament and of the Council, of 11 July 2007, on the exercise of certain rights of shareholders in listed companies, which establishes the requirements related to the exercise of certain rights by shareholders at general meetings of companies that have their registered office in a Member State and whose shares are admitted to trading on a regulated market that is located or operates in a Member State. The Commission, in its communication “Action Plan: European company law and corporate governance – a modern legal framework for more engaged shareholders and sustainable companies”, of 12 December 2012, announced a series of measures in the area of corporate governance with which it sought the long-term engagement of shareholders and enhanced transparency between companies and investors. In this sense, Directive 2017/828 endorses the principles and aims stated in the communication, highlighting the following as the main developments:

- The inclusion of three new chapters:
  - Chapter *I bis*, which establishes the system and the obligations to which Member States are subject in relation to: i) the right of companies to identify their shareholders; ii) the information that intermediaries must transmit to the company; iii) the duty of intermediaries to facilitate shareholders’ exercise of their rights; and iv) the system of transparency of intermediaries’ rates.
  - Chapter *I ter*, which establishes the system and the obligations to which Member States are subject in relation to: i) the duty of Member States to ensure that institutional investors and asset managers comply with the requirements established to this effect in the directive, or to publish a clear and grounded explanation of the reasons why they have decided not to fulfil any of the requirements (“comply or explain”); ii) the transparency of the investment strategy of institutional investors; and iii) the transparency of asset managers and voting advisors.

- Chapter II *bis*, which establishes that the Commission shall be assisted by the European Securities Committee and that Member States shall i) establish the system of measures and penalties applicable in the event of non-compliance with the national provisions approved under this Directive and ii) adopt all necessary measures to guarantee its implementation.
- The inclusion of new articles relating to:
  - The right to vote on the remuneration policy of directors.
  - The information that must be provided and the right to vote on the report on director remuneration.
  - Transparency and approvals of related-party transactions.

The directive was published on 20 May 2017 and provides for a *vacatio legis* of 20 days from its publication. Member States must adopt the necessary measures to comply with the directive within a maximum period ending on 10 June 2019.

**Regulation (EU) 2017/1129 of the European Parliament and of the Council**, of 14 June 2017, on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC.

The European Parliament and the Council approved on 5 April and 16 May 2017, respectively, Regulation 2017/1129, on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC. Among the main new features of the Prospectus Regulations are:

Exceptions to the obligation to publish the prospectus:

- The amount from which this is mandatory is reduced from 5 to 1 million euros (expandable to 8 million by Member States depending on the size of their markets).
- The scope of admissions to trading of fungible securities with securities already admitted to trading on the same regulated market is extended and the limit is increased to those representing less than 20% (previously 10%).
- In certain cases, the admission to trading resulting from the conversion or exchange of other securities or the exercise of the rights conferred by other securities will be exempt from the obligation to publish the prospectus, provided that they are of the same class as the shares already admitted to trading in the same regulated market and represent less than 20% of the volume of shares already admitted (previously there was no limit).
- Included as an exception in the event of admission to trading of securities in a regulated market are those resulting from the conversion or exchange of other securities, own funds or admissible liabilities by a resolution authority in the exercise of its powers, pursuant to the provisions of Directive 2014/59/EU.
- The publication of a prospectus in the case of non-equity securities issued on a continuous or repeated basis by credit institutions will not be mandatory when

the aggregate amount of the offer in the European Union is less than 75 million euros (in a 12-month period), provided that the securities meet two conditions.

- In addition, there is a provision that the issuer, offeror or person requesting admission to trading in a regulated market may voluntarily draw up, when any of the forecast exceptions arise, a prospectus in accordance with the provisions of the regulations.

As regards the summary note:

- The obligation to publish a summary note is excluded, either when the prospectus refers to the admission to trading on a regulated market of non-equity securities, or when the securities are only to be traded in a regulated market or in a specific segment of this market, which can only be accessed by qualified investors, or when the securities have a minimum unit value of 100,000 euros.
- The summary note will have a maximum length of 7 pages at A4 size once printed and the maximum number of risk factors to be included in the summary is limited to 15.
- In cases where Regulation (EU) 1286/2014 requires the publication of a document of fundamental data, the issuer, the offeror or the person requesting admission to trading may substitute the content of the summary note for the information defined in the said regulation. For their part, the Member States may require that the content of the summary note be replaced by the information defined in the aforementioned regulation.

The regulation makes explicit for the first time the risk factors, which must be presented by category according to their nature and ordered according to their materiality. Thus, the following is stipulated:

- The risk factors should be limited to those that the issuer deems most relevant to the investor and its securities when making an investment decision. The prospectus will not include risks of a generic nature or that only serve to limit liability.
- The risk factors that are included should have their importance evaluated according to the likelihood that they will occur and the size of their negative impact (on a qualitative scale of low, medium and high).
- In each risk factor category that is established, the most important risk factors will be mentioned first, based on the evaluation referred to in the previous paragraph.
- The risk factors also include those that are due to the level of subordination of a security and the impact on the size or term provided for payments to the holders of the securities in case of insolvency, or any other similar procedure, including, as the case may be, the insolvency of a credit institution or its resolution or restructuring in accordance with Directive 2014/59/EU.

The regulation also introduces the concept of the universal registration document, which, once approved by the competent national authority for two consecutive years, will allow the issuer to submit subsequent ones without the need for prior approval.

It adds a simplified system for disclosure of information in secondary issues.

It includes the EU Growth Prospectus to facilitate access to funding and reduce the costs of drawing up prospectuses for those institutions that are not admitted to trading (i.e., SMEs, issuers other than SMEs but whose securities are listed on an SME market in expansion, issuers whose IPO does not exceed 20 million).

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

With certain exceptions, the Member States shall adopt the necessary measures to comply with the regulation in general, by 21 July 2019 at the latest.

**Regulation (EU) 2017/2402 of the European Parliament and of the Council**, of 12 December 2017, laying down a general framework for securitisation and creating a specific framework for simple, transparent and standardised securitisation, and amending Directives 2009/65/EC, 2009/138/EC and 2011/61/EU and Regulations (EC) No. 1060/2009 and (EU) No. 648/2012.

Regulation 2017/2402 pursues, among other things, the establishment of a prudential framework that is more sensitive to risk for simple, transparent and standardised securitisations (STS); prohibits re-securitisation in general; and indicates that the originator, the sponsor or the original lender must maintain a significant interest in the underlying exposures of the securitisation, and these, consequently, must maintain a significant net economic exposure to the underlying risks.

In particular, the regulation indicates those requirements that must be fulfilled in order to be able to use the STS designation without prejudice to the guidelines issued by the European Banking Authority for this purpose, differentiating in this regard the requirements that a long-term STS must comply with from those of a short-term STS.

The regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and will be applicable from 1 January 2019.

### B.3 Investment firms and credit institutions

#### Regulatory technical standards and implementing technical standards of the Commission:

**Commission Delegated Directive (EU) 2017/593**, of 7 April 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, with regard to the safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits, published on 31 March 2017.

This delegated directive supplements Directive 2014/65/EU in the following aspects:

- In relation to organisational requirements in terms of product governance, specifying the preliminary procedure for the approval of new financial products for investment firms, which must apply it to all products sold in the primary and secondary markets, regardless of the type of product or service

provided and the requirements applicable at the place of sale. Such standards can be applied in a proportionate manner, depending on the complexity of the product and the publicly available information, taking into account: i) the nature of the financial instrument, ii) the investment service and iii) the target market for the product, also establishing a series of obligations related to: i) information flows between producers and distributors and ii) periodic reviews of the processes implemented.

- In relation to the limitation on the receipt or payment of incentives, it establishes a non-exhaustive list of relevant situations regarding the condition that the incentives raise the quality of the corresponding customer service and, consequently, that they are understood as permitted (with there being, in any case, a ratio between the quality improvements and the incentives received). The situations mentioned are: i) provide the client with investment advice on a wide range of financial instruments (including an appropriate number of third-party instruments) and access to such products; ii) provide it with non-independent advice combined with an offer to annually evaluate whether the financial instruments in which it has invested continue to be suitable, or another continuous service; iii) provide the customer access, at a competitive price, to a wide range of financial instruments (including an appropriate number of third-party instruments), together with, for example, the provision of value-added tools, such as objective information tools that help it make investment decisions or enable it to follow up, model and adjust the range of instruments in which it has invested.
- It establishes the obligation to inform clients about all fees, commissions or monetary benefits received from third parties, in relation to independent advice or with the portfolio management service provided. Investment firms that provide execution and research services simultaneously must set their price and carry them out separately.
- It indicates that those investment firms that provide independent investment advice or portfolio management services should provide the client with additional clarifications regarding the receipt or payment of research services and, in particular, when the research is not paid directly by the investment firm with a charge to its own funds, but rather in exchange for payments deducted from a research payment account. This directive provides for a series of requirements in relation to research governance.

This directive came into force 20 days after its publication in the *Official Journal of the European Union* and Member States shall adopt and publish, by 3 July 2017, the legal, regulatory and administrative provisions necessary to comply with the provisions established therein. These provisions are applicable as of 3 January 2018.

**Commission Delegated Regulation (EU) 2017/180**, of 24 October 2016, supplementing Directive 2013/36/EU of the European Parliament and of the Council, with regard to regulatory technical standards for benchmarking portfolio assessment standards and assessment-sharing procedures (Text with EEA relevance).

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/208**, of 31 October 2016, supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council,

with regard to regulatory technical standards for additional liquidity outflows corresponding to collateral needs resulting from the impact of an adverse market scenario on an institution's derivatives transactions (Text with EEA relevance).

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Implementing Regulation (EU) 2017/461**, of 16 March 2017, laying down implementing technical standards with regard to common procedures, forms and templates for the consultation process between the relevant competent authorities for proposed acquisitions of qualifying holdings in credit institutions as referred to in Article 24 of Directive 2013/36/EU of the European Parliament and of the Council, published on 17 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Corrigendum to Commission Implementing Regulation (EU) 2016/322**, of 10 February 2016, amending Regulation (EU) No. 680/2014, laying down implementing technical standards with regard to supervisory reporting of institutions of the liquidity coverage requirement (OJ L 64, 10.3.2016), published on 17 March 2017.

**Commission Delegated Regulation (EU) 2017/565**, of 25 April 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/566**, of 18 May 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards for the ratio of unexecuted orders to transactions in order to prevent disorderly trading conditions, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/567**, of 18 May 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, with regard to definitions, transparency, portfolio compression and supervisory measures on product intervention and positions, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/576**, of 8 June 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the annual publication by investment firms of information on the identity of execution venues and on the quality of execution, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/578**, of 13 June 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards specifying the requirements on market making agreements and schemes, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/580**, of 24 June 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, with regard to regulatory technical standards for the maintenance of relevant data relating to orders in financial instruments, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/586**, of 14 July 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the exchange of information between competent authorities when cooperating in supervisory activities, on-the-spot verifications and investigations, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/589**, of 19 July 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying the organisational requirements of investment firms engaged in algorithmic trading, published on 31 March.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/867**, of 7 February 2017, on classes of arrangements to be protected in a partial property transfer under Article 76 of Directive 2014/59/EU of the European Parliament and of the Council, published on 20 May 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Implementing Regulation (EU) 2017/953**, of 6 June 2017, laying down implementing technical standards with regard to the format and the timing of position reports by investment firms and market operators of trading venues pursuant to Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Delegated Regulation (EU) 2017/1018**, of 29 June 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards specifying information to be notified by investment firms, market operators and credit institutions.

The aforementioned delegated regulation will apply to: i) investment firms, ii) market operators that manage multilateral trading facilities (MTF) or organised trading facilities (OTF), and iii) authorised credit institutions that provide one or several investment services or carry on one or several investment activities, and wish to use tied agents by virtue of: i) the right of freedom to provide investment services and activities and ii) the right of establishment. Delegated Regulation (EU) 2017/1018 establishes the information that must be communicated: i) for the purposes of passport notification of investment services and activities, ii) concerning the change of particulars of investment services and activities, iii) concerning arrangements to facilitate access to an MTF or OTF and iv) concerning the change of branch or tied agent particulars. It also lays out the information that should be included in a branch or a tied agent passport notification.

This delegated regulation was published on 17 June 2017 in the *Official Journal of the European Union* establishing a *vacatio legis* of 20 days from its publication, and it came into force as of 3 January 2018.

**Commission Implementing Regulation (EU) 2017/1093**, of 20 June 2017, laying down implementing technical standards with regard to the format of position reports by investment firms and market operators.

Implementing Regulation (EU) 2017/1093 establishes the templates (through annexes) to be used in the weekly and daily reports of derivative positions on commodities, emission allowances or derivatives thereof traded at trading venues by investment firms and market operators that manage trading venues.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Commission Implementing Regulation (EU) 2017/1105**, of 12 June 2017, establishing the forms referred to in Regulation (EU) 2015/848 of the European Parliament and of the Council, on insolvency proceedings.

The present regulation entered into force on 26 June 2017.

**Corrigendum to Commission Delegated Regulation (EU) 2017/653**, of 8 March 2017, supplementing Regulation (EU) No. 1286/2014 of the European Parliament and of the Council, on key information documents for packaged retail and insurance-based investment products (PRIIPs) by laying down regulatory technical standards with regard to the presentation, content, review and revision of key information documents and the conditions for fulfilling the requirement to provide such documents.

**Corrigendum to Commission Delegated Directive (EU) 2017/593**, of 7 April 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to the safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits.

**Commission Implementing Regulation (EU) 2017/1486**, of 10 July 2017, amending Implementing Regulation (EU) 2016/2070 as regards benchmarking portfolios and reporting instructions.

**Commission Decision (EU) 2017/1518**, of 31 August 2017, confirming the participation of Ireland in Regulation (EU) 2017/353 of the European Parliament and of the Council, replacing Annexes A and B to Regulation (EU) 2015/848 on insolvency proceedings.

This decision will enter into force on the day following its publication in the *Official Journal of the European Union*.

**Corrigendum to Commission Delegated Regulation (EU) 2017/565**, of 25 April 2016, supplementing Directive 2014/65/EU of the European Parliament and the Council, as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

**Commission Delegated Regulation (EU) 2017/1943**, of 14 July 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, with regard to regulatory technical standards on information and requirements for the authorisation of investment firms.

The purpose of this regulation is to allow the competent authorities to carry out a thorough assessment as part of the procedure for granting and denying authorisation applications to investment firms.

Therefore, the applicant will be required to submit accurate information to the competent authority at the time of the initial request for authorisation.

In order to ensure that the competent authority's assessment is based on accurate information, a certified copy of the deed of incorporation and articles of association is required, as well as a copy of the company's registration in the national companies register.

In addition, the applicant should provide information on the available sources of capital, including the means used to transfer the financial resources when funding is obtained, in order to allow the competent authorities to assess compliance with all relevant requirements in the area of financial crime.

On the other hand, and with the aim of allowing the competent authorities to assess the reputation of any person directing the activities of an investment firm and of any shareholders and proposed partners with qualified holdings, it is important to require that the applicant provide information about these people. In particular, information will be required on relevant education and professional training, as well as regarding professional experience, of the members of the management body and of the persons who effectively manage the activity, their related skills and any representatives.

Additionally, the applicant must present financial information related to the investment firm to the competent authorities, so that they can evaluate the financial strength of the company.

The present regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* (26 October 2017) and will be mandatory in all its elements and directly applicable in each Member State.

**Commission Implementing Regulation (EU) 2017/1945**, of 19 June 2017, laying down implementing technical standards with regard to notifications by and to applicant and authorised investment firms in accordance with Directive 2014/65/EU of the European Parliament and of the Council.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Commission Delegated Regulation (EU) 2017/1946**, of 11 July 2017, supplementing Directives 2004/39/EC and 2014/65/EU of the European Parliament and of the Council, with regard to regulatory technical standards for an exhaustive list of information to be included by proposed acquirers in the notification of a proposed acquisition of a qualifying holding in an investment firm.

Regulation 2017/1946 establishes the rules regarding the information that a proposed acquirer must include in the notification of an acquisition proposal addressed to the competent authorities of the investment company in which it wishes to acquire or increase a qualified holding (“target entity”), in order for these authorities to assess the acquisition proposal.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Corrigendum to Commission Delegated Regulation (EU) 2017/1018**, of 29 June 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards specifying information to be notified by investment firms, market operators and credit institutions.

**Commission Delegated Regulation (EU) 2017/2188**, of 11 August 2017, amending Regulation (EU) No. 575/2013 of the European Parliament and of the Council as regards the waiver on own fund requirements for certain covered bonds.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 1 January 2018.

**Commission Delegated Regulation (EU) 2017/2295**, of 4 September 2017, supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for disclosure of encumbered and unencumbered assets.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*, except for Article 2, which will be applicable as of 2 January 2019.

**Regulation (EU) 2017/2401 of the European Parliament and of the Council**, of 12 December 2017, amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms.

Regulation (EU) 2017/2401 considers that, in view of the aims of Regulation 2017/2402, it is necessary to modify the capital requirements established in Regulation (EU) No. 575/2013, on prudential requirements of credit institutions and investment firms, amending Regulation (EU) No. 648/2012 (Regulation 575/2013) applicable

to institutions acting as originators, sponsors or investors in securitisation transactions, in order to adequately reflect the specific characteristics of simple, transparent and standardised securitisations (STS) when said securitisations meet the additional requirements established in Regulation 2017/2401 in order to resolve shortcomings that emerged during the financial crisis. For this purpose, it states that all entities must use the same methods to calculate the capital requirements of securitisation positions in accordance with Regulation 575/2013.

The regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and will be applicable from 1 January 2019.

**Commission Implementing Regulation (EU) 2017/2382**, of 14 December 2017, laying down implementing technical standards with regard to standard forms, templates and procedures for the transmission of information in accordance with Directive 2014/65/EU of the European Parliament and of the Council.

This regulation entered into force on the day following its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Regulation (EU) 2017/2395 of the European Parliament and of the Council**, of 12 December 2017, amending Regulation (EU) No. 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposure treatment of certain public sector exposures denominated in the domestic currency of any Member State.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 3 January 2018.

**Directive (EU) 2017/2399 of the European Parliament and of the Council**, of 12 December 2017, amending Directive 2014/59/EU as regards the ranking of unsecured debt instruments in insolvency hierarchy.

This directive came into force 20 days after its publication in the *Official Journal of the European Union*.

#### **B.4 Market infrastructures**

**Corrigendum to Directive 2014/65/EU of the European Parliament and of the Council**, of 15 May 2014, on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014), published on 10 March 2017.

#### **Regulatory technical standards and implementing technical standards of the Commission:**

**Commission Delegated Regulation (EU) 2017/104**, of 19 October 2016, amending Delegated Regulation (EU) No. 148/2013, supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council, on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards on the minimum details of the data to be reported to trade repositories (Text with EEA relevance).

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 1 November 2017.

**Commission Implementing Regulation (EU) 2017/105**, of 19 October 2016, amending Implementing Regulation (EU) No. 1247/2012, laying down implementing technical standards with regard to the format and frequency of trade reports to trade repositories according to Regulation (EU) No. 648/2012 of the European Parliament and of the Council, on OTC derivatives, central counterparties and trade repositories (Text with EEA relevance).

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 1 November 2017.

**Commission Delegated Regulation (EU) 2017/323**, of 20 January 2017, correcting Delegated Regulation (EU) 2016/2251, supplementing Regulation (EU) No. 648/2012 of the European Parliament and of the Council, on OTC derivatives, central counterparties and trade repositories with regard to regulatory technical standards for risk-mitigation techniques for OTC derivative contracts not cleared by a central counterparty (Text with EEA relevance).

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 4 January 2017.

**Commission Delegated Regulation (EU) 2017/389**, of 11 November 2016, supplementing Regulation (EU) No. 909/2014 of the European Parliament and of the Council, as regards the parameters for the calculation of cash penalties for settlement fails and the operations of CSDs in host Member States, published on 10 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 10 March 2019.

**Commission Delegated Regulation (EU) 2017/390**, of 11 November 2016, supplementing Regulation (EU) No. 909/2014 of the European Parliament and of the Council, with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services, published on 10 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/391**, of 11 November 2016, supplementing Regulation (EU) No. 909/2014 of the European Parliament and of the Council, with regard to regulatory technical standards further specifying the content of the reporting on internalised settlements, published on 10 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 10 March 2019.

**Commission Implementing Regulation (EU) 2017/393**, of 11 November 2016, laying down implementing technical standards with regard to the templates and procedures for the reporting and transmission of information on internalised settlements in accordance with Regulation (EU) No. 909/2014 of the European Parliament and of the Council, published on 10 March 2017.

The present regulation entered into force on 10 March 2019.

**Commission Implementing Regulation (EU) 2017/394**, of 11 November 2016, laying down implementing technical standards with regard to standard forms, templates and procedures for the authorisation, review and evaluation of central securities depositories, for cooperation between authorities of the home Member State and the host Member State, for the consultation of authorities involved in the authorisation to provide banking-type ancillary services, for access involving central securities depositories, and with regard to the format of the records to be maintained by central securities depositories in accordance with Regulation (EU) No. 909/2014 of the European Parliament and of the Council, published on 10 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/581**, of 24 June 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, with regard to regulatory technical standards on clearing access in respect of trading venues and central counterparties, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/751**, of 16 March 2017, amending Delegated Regulations (EU) 2015/2205, (EU) 2016/592 and (EU) 2016/1178 as regards the deadline for compliance with clearing obligations for certain counterparties dealing with OTC derivatives, published on 29 April 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Implementing Regulation (EU) 2017/954**, of 6 June 2017, on the extension of the transitional periods related to own fund requirements for exposures to central counterparties set out in Regulations (EU) No. 575/2013 and (EU) No. 648/2012 of the European Parliament and of the Council.

Implementing Regulation (EU) 2017/954 establishes that the periods of 15 months mentioned in Article 497.2 of Regulation (EU) No. 575/2013, in relation to the own fund requirements for exposures to central counterparties, and in Article 89.5 *bis*, second paragraph, of Regulation (EU) No. 648/2012, in relation to the transitional provisions, will be extended an additional six months.

This implementing regulation was published on 7 June 2017 and came into force three days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/979**, of 2 March 2017, amending Regulation (EU) No. 648/2012 of the European Parliament and of the Council, on OTC derivatives, central counterparties and trade repositories with regard to the list of exempted entities.

It was determined that central banks and public agencies responsible for the management of public debt, or intervening in it, in Australia, Canada, Hong Kong,

Mexico, Singapore and Switzerland should be exempt from the requirements in the area of clearing and reporting established in Regulation (EU) No. 648/2012.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Corrigendum to Commission Delegated Regulation (EU) 2017/575**, of 8 June 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments with regard to the regulatory technical standards applicable to the data that execution venues must publish on the execution quality of transactions.

**Decision (EU) 2017/2080 of the European Central Bank**, of 22 September 2017, amending Decision ECB/2010/9 on access to and use of certain TARGET2 data.

This decision entered into force on the day following its publication in the *Official Journal of the European Union*.

**Decision (EU) 2017/2081 of the European Central Bank**, of 10 October 2017, amending Decision ECB/2007/7 concerning the terms and conditions of TARGET2-ECB.

This decision entered into force on 20 October 2017 and became applicable as of 13 November 2017.

**Commission Delegated Regulation (EU) 2017/2154**, of 22 September 2017, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, with regard to regulatory technical standards on indirect clearing arrangements.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Commission Delegated Regulation (EU) 2017/2155**, of 22 September 2017, amending Delegated Regulation (EU) No. 149/2013 with regard to regulatory technical standards on indirect clearing arrangements.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Commission Implementing Regulation (EU) 2017/2241**, of 6 December 2017, on the extension of the transitional periods related to own fund requirements for exposures to central counterparties set out in Regulations (EU) No. 575/2013 and (EU) No. 648/2012 of the European Parliament and of the Council.

This regulation came into force three days after its publication in the *Official Journal of the European Union*.

## **B.5 European System of Financial Supervision**

**Regulation (EU) 2017/353 of the European Parliament and of the Council**, of 15 February 2017, replacing Annexes A and B to Regulation (EU) 2015/848 on insolvency proceedings.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Corrigendum to Commission Implementing Decision (EU) 2015/1505**, of 8 September 2015, laying down the technical specifications and the formats related to the trust lists in accordance with Article 22, section 5, of Regulation (EU) No. 910/2014 of the European Parliament and of the Council, on electronic identification and trust services for electronic transactions in the internal market (OJ L 235, 9.9.2015), published on 7 March 2017.

**Regulation (EU) 2017/826 of the European Parliament and of the Council**, of 17 May 2017, on establishing an EU programme to support specific activities enhancing the involvement of consumers and other end-users of financial services in EU policy-making in the area of financial services for the period 2017-2020, published on 19 May 2017.

**Regulation (EU) 2017/827 of the European Parliament and of the Council**, of 17 May 2017, amending Regulation (EU) No. 258/2014, establishing an EU Programme to support specific activities in the field of financial reporting and auditing for the period 2014-2020, published on 19 May 2017.

This regulation will enter into force on the day of its publication in the *Official Journal of the European Union*.

#### **Regulatory technical standards and implementing technical standards of the Commission:**

**Commission Delegated Regulation (EU) 2017/579**, of 13 June 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, on markets in financial instruments with regard to regulatory technical standards on the direct, substantial and foreseeable effect of derivative contracts within the European Union and the prevention of the evasion of rules and obligations, published on 31 March 2017.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Commission Delegated Regulation (EU) 2017/585**, of 14 July 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, with regard to regulatory technical standards for the data standards and formats for financial instrument reference data and technical measures in relation to arrangements to be made by the European Securities and Markets Authority and competent authorities, published on 31 March 2017.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/586**, of 14 July 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, with regard to regulatory technical standards for the exchange of information between competent authorities when cooperating in supervisory activities, on-the-spot verifications and investigations, published on 31 March 2017.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/590**, of 28 July 2016, supplementing Regulation (EU) No. 600/2014 of the European Parliament and of the Council, with regard to regulatory technical standards for the reporting of transactions to competent authorities, published on 31 March 2017.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Commission Implementing Regulation (EU) 2017/980**, of 7 June 2017, laying down implementing technical standards with regard to standard forms, templates and procedures for cooperation in supervisory activities, on-site verifications, and investigations and the exchange of information between competent authorities in accordance with Directive 2014/65/EU, of the European Parliament and of the Council.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Commission Implementing Regulation (EU) 2017/981**, of 7 June 2017, laying down implementing technical standards with regard to standard forms, templates and procedures for the consultation of other competent authorities prior to granting an authorisation in accordance with Directive 2014/65/EU of the European Parliament and of the Council.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Commission Implementing Regulation (EU) 2017/1111**, of 22 June 2017, laying down implementing technical standards with regard to procedures and forms for submitting information on sanctions and measures in accordance with Directive 2014/65/EU of the European Parliament and of the Council.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Commission Implementing Regulation (EU) 2017/1443**, of 29 June 2017, amending Implementing Regulation (EU) No. 680/2014, laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No. 575/2013 of the European Parliament and of the Council.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Regulation (EU) 2017/1538 of the European Central Bank**, of 25 August 2017, amending Regulation (EU) 2015/534 on reporting of supervisory financial information.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Regulation (EU) 2017/1539 of the European Central Bank**, of 25 August 2017, laying down the date of application of Regulation (EU) 2017/1538, amending Regulation (EU) 2015/534 on reporting of supervisory financial information (ECB/2017/25) to less significant supervised entities which are subject to national accounting frameworks.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Implementing Regulation (EU) 2017/1944**, of 13 June 2017, laying down implementing technical standards with regard to standard forms, templates and procedures for the consultation process between relevant competent authorities in relation to the notification of a proposed acquisition of a qualifying holding in an investment firm in accordance with Directives 2004/39/EC and 2014/65/EU of the European Parliament and of the Council.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/2055**, of 23 June 2017, supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for the cooperation and exchange of information between competent authorities relating to the exercise of the right of establishment and the freedom to provide services of payment institutions.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Regulation (EU) 2017/2094 of the European Central Bank**, of 3 November 2017, amending Regulation (EU) No. 795/2014 on oversight requirements for systemically important payment systems.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Implementing Regulation (EU) 2017/2189**, of 24 November 2017, amending and correcting Implementing Regulation (EU) 2015/2450, laying down implementing technical standards with regard to the templates for the submission of information to supervisory authorities in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Implementing Regulation (EU) 2017/2190**, of 24 November 2017, amending and correcting Implementing Regulation (EU) 2015/2452, laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

### Regulatory technical standards and implementing technical standards of the Commission:

**Commission Delegated Regulation (EU) 2017/571**, of 2 June 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council, with regard to regulatory technical standards on the authorisation, organisational requirements and publication of transactions for data reporting services providers, published on 31 March 2017.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Implementing Regulation (EU) 2017/1110**, of 22 June 2017, laying down implementing technical standards with regard to the standard forms, templates and procedures for the authorisation of data reporting service providers and related notifications in accordance with Directive 2014/65/EU of the European Parliament and of the Council, on markets in financial instruments.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

## B.7 Collective investment

**Regulation (EU) 2017/1991 of the European Parliament and of the Council**, of 25 October 2017, amending Regulation (EU) No. 345/2013 on European venture capital funds and Regulation (EU) No. 346/2013 on European social entrepreneurship funds.

The purpose of this regulation is to strengthen the internal market for venture capital funds (VECA) and social entrepreneurship funds (SEF) that are eligible in the European Union, by reinforcing the use of the designations of these funds by the managers that wish to market them in the European Union: European venture capital funds (EuVECA) and European social entrepreneurship funds (EuSEF).

To do so, the following modifications, among others, are introduced:

- The restriction is eliminated whereby only the managers whose managed assets do not exceed the limit referred to in Article 3.2, letter b), of Directive 2011/61/EU of the European Parliament and of the Council, of 8 June 2011, on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No. 1060/2009 and (EU) No. 1095/2010, could use the designations “EuVECA” and “EuSEF”, respectively. In this sense, the use of these designations is extended to the managers of collective investment undertakings that manage portfolios of eligible VECAs and SEFs, provided that they meet the conditions for taking up and engaging in the business of alternative investment fund managers in accordance with the aforementioned Directive 2011/61/EU.
- The initial capital is set at 50,000 euros, which must be available to both the internally managed VECAs and SEFs, as well as the external managers of these funds.

- The own funds and the human and technical resources that are needed for the correct management of the funds are defined (i.e. the funds shall represent at least one eighth of the general fixed expenses charged by the manager in the previous year; when the value of the eligible venture capital funds managed by the manager exceeds 250,000 euros, it must provide an additional amount of own funds, etc.)
- It specifies the information that must be included in the applications for registration of the eligible VECAs and SEFs by the managers of authorised collective investment schemes wishing to use the designations “EuVECA” and “EuSEF”, with the competent authority having a period of two months to inform the manager whether the VECA or SEF has been considered admissible and, therefore, has been registered as an EuVECA or EuSEF.

With regard to the specific amendments for the EuVECAs included in the regulation, it is worth highlighting:

- The clarification of the definition of eligible portfolio company as: i) any company that has not been admitted to trading on a regulated market or on a multilateral trading facility and employs a maximum of 499 persons or ii) any company, whether a small or medium-sized enterprise, listed on an expanding SME market.
- The creation of the possibility to offer more favourable treatment to private investors than to public investors, provided that such treatment is compatible with the rules governing State aid and is indicated in the regulations or the incorporation documents of the fund.
- Finally, with regard to the specific modifications for EuSEFs, the information that is to be included in the annual report is expanded. In this regard, it must include, in addition to the information previously required, a description of how environmental and climatic risks are taken into account in the investment strategy of the eligible SEFs.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 1 March 2018.

## **B.8 Other regulations**

**Regulation (EU) 2017/1131 of the European Parliament and of the Council**, of 14 June 2017, on money market funds (MMF).

This regulation incorporates measures to regulate, in a uniform manner throughout the European Union, the functioning of MMFs, the composition of their portfolios and management measures to deal with crises such as those which may result from a sudden and massive withdrawal of funds.

The entry into force of this regulation occurred 20 days after its publication in the *Official Journal of the European Union*, and will be applicable, with certain exceptions, from 21 July 2018.

**Commission Delegated Regulation (EU) 2017/389**, of 11 November 2016, supplementing Regulation (EU) No. 909/2014 of the European Parliament and of the Council as regards the parameters for the calculation of cash penalties for settlement fails and the operations of CSDs in host Member States, published on 10 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 10 March 2019.

**Commission Delegated Regulation (EU) 2017/72**, of 23 September 2016, supplementing Regulation (EU) No. 575/2013 of the European Parliament and of the Council, with regard to regulatory technical standards that specify conditions for data waiver permissions (Text with EEA relevance).

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Implementing Regulation (EU) 2017/309**, of 23 February 2017, laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 December 2016 until 30 March 2017 in accordance with Directive 2009/138/EC of the European Parliament and of the Council, on the taking-up and engagement in the business of insurance and reinsurance (Text with EEA relevance).

This regulation shall enter into force on the day following its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/591**, of 1 December 2016, supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards for the application of position limits to commodity derivatives, published on 31 March 2017.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 3 January 2018.

**Corrigendum to Regulation (EU) 2016/1011 of the European Parliament and of the Council**, of June 8 2016, on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014, published on 24 May 2017.

**Commission Implementing Regulation (EU) 2017/1421**, of 2 August 2017, laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 June to 29 September 2017, in accordance with Directive 2009/138/EC of the European Parliament and of the Council, on the taking-up and engagement in the business of insurance and reinsurance.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable as of 30 June 2017.

**Commission Implementing Regulation (EU) 2017/1469**, of 11 August 2017, laying down a standardised presentation format for the insurance product information document.

This regulation will enter into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/1542**, of 8 June 2017, amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates).

The present regulation entered into force on the day following its publication in the *Official Journal of the European Union*.

**Commission Regulation (EU) 2017/1986**, of 31 October 2017, amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, as regards International Financial Reporting Standard 16.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Regulation (EU) 2017/1987**, of 31 October 2017, amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, regarding International Financial Reporting Standard 15.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Regulation (EU) 2017/1988**, of 3 November 2017, amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, regarding International Financial Reporting Standard 4.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Regulation (EU) 2017/1989**, of 6 November 2017, amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, regarding International Accounting Standard 12.

This regulation came into force three days after its publication in the *Official Journal of the European Union*.

**Commission Regulation (EU) 2017/1990**, of 6 November 2017, amending Regulation (EC) No. 1126/2008, adopting certain International Accounting Standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council, regarding International Accounting Standard 7.

The present regulation entered into force 20 days after its publication in the *Official Journal of the European Union*.

**Commission Delegated Regulation (EU) 2017/2358**, of 21 September 2017, supplementing Directive (EU) 2016/97 of the European Parliament and of the Council, with regard to product oversight and governance requirements for insurance undertakings and insurance distributors.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 23 February 2018.

**Commission Delegated Regulation (EU) 2017/2359**, of 21 September 2017, supplementing Directive (EU) 2016/97 of the European Parliament and of the Council, with regard to information requirements and conduct-of-business rules applicable to the distribution of insurance-based investment products.

This regulation entered into force 20 days after its publication in the *Official Journal of the European Union* and is applicable from 23 February 2018.

## **B.9 ESMA/EBA guidelines and recommendations**

**Calibration of circuit breakers and publication of trading halts under MiFID II.**

**Guidelines on participant default rules and procedures.**

**Guidelines on access by a CSD to the Transaction Feeds of a CCP or of a Trading Venue.**

**Update of the ESMA guidelines on transaction reporting, order record keeping and clock synchronisation under MiFID II.**

## **B.10 Technical guidelines and publications of the CNMV**

### **CNMV Activity Plan**

**2017-2018 CNMV strategic areas.**

The purpose of the publication of the CNMV's Activity Plan is to increase transparency and promote the exchange of information.

The lines of action or strategy for this period (2017-2018) are aimed at:

- Prioritising attention relative to the supervision and promotion of the transparency and integrity of the market.
- Enhancing the attractiveness and competitiveness of the Spanish securities markets.
- Promoting the monitoring of financial stability in capital markets.
- Strengthening financial education and investor attention.

To achieve this end, in 2017 the CNMV plans to execute multiple initiatives with the aim of:

- Improving the functioning of the CNMV (for example, implementation of the “CNMV Citizen’s Portfolio”).
- Carrying out specific actions in relation to the supervision of markets, for example, through the simplification of procedures or the critical review of certain issuance guidelines (equities, fixed income, securitisation and commercial paper).
- Carrying out specific actions in relation to the supervision of financial intermediaries, such as, the horizontal review of:
  - The adaptation of Collective Investment Scheme Management Companies to corporate governance requirements.
  - Compliance with various regulatory aspects related to stress procedures established by management companies.
  - Compliance with the depository obligations included in CNMV Circular 4/2016, of 29 June, relating to the functions of depositories of collective investment schemes and institutions regulated by Law 22/2014, of 12 November.
- Carrying out actions in the area of investor relations and other interested parties. For example, through the FinTech proposal submission webpage; the preparation of a new Financial Education Plan for the period 2017-2020; the review of the Investor Section of its website, or the publication of criteria for the application of the MiFID II Directive and for the application of packaged retail investment products (PRIIPs).

Along with the foregoing, notable is the CNMV’s intention to:

- Review the structure and format of the Claims Report.
- Design a system of out-of-court settlement of claims in collaboration with the Ministry of Economy and Competitiveness and other supervisors.

**Measures in relation to the commercialisation of CFDs and other speculative products to retail customers.**

On 21 March 2017, the CNMV published a statement of measures regarding the commercialisation of CFDs and other speculative products to retail customers. Both in Spain and in other European countries there is a growing commercialisation of increasingly complex and risky instruments to retail customers on the part of certain financial intermediaries, such as financial contracts for differences (CFDs), rolling foreign exchange contracts (hereinafter “forex products”) or binary options.

For this reason, the CNMV has adopted certain measures to strengthen the protection of retail investors in Spain when investing in CFDs, forex products or binary options.

The CNMV requires that any intermediaries that market these products (CFD or forex) and have a leverage ratio of more than ten times their capital, or which market binary options to retail customers resident in Spain and do so outside the scope of investment advice, must ensure that:

- They expressly warn customers that the CNMV considers that, due to their complexity and risk, the acquisition of these products is not suitable for retail customers.
- Customers are informed of the cost they would incur if they decided to close their position immediately after contracting the product and, in the case of CFDs and forex products, are warned that, due to the leverage involved, the losses may exceed the amount initially disbursed for the acquisition of the product.
- They receive from the client a handwritten text or a verbal recording that demonstrates that they are aware that the product they are going to acquire is especially complex and that the CNMV considers that it is not suitable for retail investors.
- Advertising elements used by institutions to promote CFDs, forex products or binary options always contain a warning regarding the difficulty of understanding these products and the fact that the CNMV considers that they are not suitable for retail investors due to their complexity and risk.

Regulated institutions requested to do so by the CNMV for this purpose must adapt their procedures as soon as possible and, at any event, within one month from the date of receipt of the request.

In addition, the CNMV highlights its intention to contact the various securities supervisors of other countries, urging them to demand the same conduct from intermediaries registered in their territory who sell this type of product to Spanish customers.

The CNMV intends to defend before the ESMA the adoption of measures at a European level aimed at improving the protection of investors in this area.

#### **Ten pieces of advice to avoid fly-by-night operations.**

The CNMV publishes a list of ten recommendations for investors to avoid institutions that are not authorised to provide investment services, labelled “fly-by-night operators” by the supervisor. Among others, it recommends paying attention to the characteristics of the institutions; being suspicious of techniques to attract investors, above all when detecting warning signs and frequent techniques, particularly over the Internet and social networks; being suspicious of high returns without risk and complex products; paying special attention to fees and expenses; ensuring that the product exists; and, of course, if they fail to recover their money, filing a complaint.

This publication is in the same vein as the CNMV’s warnings regarding unregistered institutions, which seeks to warn the market of those companies that are not registered in the corresponding CNMV registry and, therefore, are not authorised to provide investment services.

## Technical guide 4/2017 for the evaluation of the knowledge and skills of personnel responsible for informing and advising.

Article 193 of the recast text of the Securities Market Law (TRLMV), approved by Royal Legislative Decree 4/2015, of 23 October, which is a transposition of Article 13.2 of Directive 2004/39 (MiFID I), relating to internal organisation requirements, establishes that investment firms and other institutions providing investment services must define and apply appropriate policies and procedures to guarantee that the company, its directors, its personnel and its agents comply with the obligations imposed on them by the stock market regulations.

Furthermore, CNMV Circular 1/2014, of 26 February, on internal organisation requirements and the control functions of institutions providing investment services, develops and specifies the organisational structure and the internal control requirements of institutions providing investment services to ensure that, in general, their organisation reflects the range of services they provide. In the procedural guidelines on internal control functions prepared by the CNMV as a result of the publication of said circular, it is pointed out that the obligor institutions must have personnel training and assessment procedures that guarantee that such personnel act with honesty, impartiality and professionalism in the interests of customers. The guidelines also state that the procedures should include periodic assessments of employees so that they do not provide investment services without the required training and experience.

Likewise, EU Directive 2014/65 (MiFID II), following the same lines as MiFID I but providing greater detail, establishes in Articles 24.2 and 25 that investment firms must understand the characteristics of the financial instruments offered or recommended to customers and, to that end, Member States must require these companies to ensure and demonstrate to the competent authorities that the persons giving information or advising clients have the knowledge and skills necessary to fulfil their obligations. To this end, Member States shall publish the criteria used to assess such knowledge and skills. In short, MiFID II expressly establishes the obligation for the personnel providing advice or information to have the necessary knowledge and skills and requires that Member States publish the criteria used to assess them.

In accordance with the foregoing, the European Securities Market Authority (ESMA) published *Guidelines for the assessment of knowledge and competence* on 22 March 2016, which will be applicable from 1 January 2018.

This technical guide, taking into account these ESMA guidelines, specifies the criteria that the CNMV considers appropriate for institutions to demonstrate that personnel who provide information or advice on investment services possess the necessary knowledge and skills.

The aim is for investors to understand the risks of the products in which they invest, making it necessary for those offering such products to have the relevant knowledge to understand them and to explain how they work, as well as assessing whether they are adequate or suitable for each client, which must be guaranteed by institutions providing investment services. Although the person informing or advising having adequate knowledge is not a guarantee of adequate service provision, it is an essential requirement.

Following a report from its Advisory Committee, the CNMV Board approved the said technical guide on 27 June 2017, under the provisions of Article 21.3 and 21.4

of the TRLMV, whose measures and criteria will be applied for supervisory purposes from January 2018.

### **Technical guide 3/2017 on audit commissions of public interest entities.**

One of the main and most innovative recommendations of the Olivencia Code (the first of the Spanish corporate governance codes, published nearly two decades ago) was that listed companies should create, within the board of directors, an audit committee formed exclusively of external directors, responsible for accounting information and control as well as relations with the external auditor. Since then, and as in other countries, audit committees have acquired growing importance in companies' corporate governance and within the Spanish business community.

In 2002, the recommendation to have an audit committee became a legal obligation for entities with listed securities. Furthermore, in 2015, Law 22/2015, of 20 July, on Accounts Auditing (Spanish acronym: LAC), which attributed to the CNMV supervisory powers in this area, extended this obligation, with some exceptions, to public interest entities (Spanish acronym: EIP), a concept that mainly includes, in addition to listed companies, certain financial institutions subject to supervision and companies that exceed a certain size.

Both the LAC and the Spanish Limited Liability Companies Act contain rules on the composition, operation and responsibilities of audit committees. The said rules were supplemented, as regards listed companies, by a series of recommendations contained in the 2015 Corporate Governance Code of listed companies. These rules and recommendations form a relatively detailed set, but the accumulated experience in the practical operation of audit committees and constant dialogue on the part of the CNMV with companies and financial institutions, audit firms, professionals and other national and foreign supervisors has revealed certain doubts regarding the scope of their functions and responsibilities. This has made it possible to identify certain good practices that it is advisable to publish, which has led to the preparation of a technical guide that incorporates certain additional criteria, which, in addition, may be particularly useful for those EIPs that were not obliged to set up an audit committee until the entry into force of the LAC.

In any case, in line with the highly diverse group of entities to which this guide is addressed, it is important to highlight, first of all, the need for EIPs to adapt the principles and recommendations to their particular circumstances and characteristics, depending on their size, complexity and the sectors in which they operate. Additionally, some of these entities, particularly financial institutions, are subject to specific sector requirements that could affect the content or scope of some of the criteria or recommendations.

On 27 June 2017, following a report from its Advisory Committee, the CNMV Board approved the aforementioned technical guidelines, pursuant to the provisions of Articles 21.3 and 21.4 of the TRLMV, approved by Royal Legislative Decree 4/2015, of 23 October.

*Technical Guide 3/2017* therefore establishes the basic principles that audit committees must take into account in the performance of their duties. These principles are: responsibility; caution; constructive dialogue among its members and continuous dialogue with the internal audit department, the auditor and senior management; as well as sufficient analysis capacity with the option of seeking expert advice.

It also sets out a set of criteria and good practices that audit committees must observe when performing their supervisory and advisory functions to the board of directors, which generally replicate the recommendations contained in the Corporate Governance Code of listed companies. The application of these criteria and good practices may vary according to the principle of proportionality, subject to the scale and complexity of the entity, as well as its business and the sectors in which it operates.

#### **Joint announcement by the CNMV and the Bank of Spain on the migration of IBERCLEAR to the platform TARGET2-SECURITIES (T2S).**

#### **Questions and answers on the application of the MiFID II Directive.**

This document, published on the CNMV's website on 30 October, sets out the interpretative criteria that are considered appropriate with regard to the issues raised by the main sector associations in relation to the provision of investment services. However, these criteria are not final, but will be subject to review in light of their transposition into Spanish national legislation and the interpretation at a European level, within the scope of ESMA, of certain issues currently under discussion.

The document addresses the following areas: product governance obligations, incentives, incentives as regards analysis, conflicts of interest, general information requirements for clients, unbiased, clear and non-misleading information, information on the entity and its services, information on financial instruments, information on the safeguarding and use of financial instruments, information on costs and expenses, independent advice, periodic information on the portfolio management service, registration obligations, the recording of telephone conversations or electronic communications, the assessment of suitability and appropriateness, non-complex financial instruments, structured deposits, contracts with clients, better execution, and knowledge and competence.

The latest update of this document on the application of MiFID II refers to:

- Incentives in relation to the analysis service.

The CNMV establishes that in the event that the fund's prospectus does not provide that the brokerage fees include analysis services, the inclusion for the first time of the analysis cost as chargeable to the investment fund would entail granting the corresponding information right to unit-holders, and states that, in such cases, this cost may only be charged to the fund from the time at which the prospectus is updated, and in cases where the fund's prospectus does provide for the existence of brokerage fees that include analysis services, their substitution for the analysis cost (unrelated to the brokerage fee) would not grant an entitlement to information rights.

- Information on costs and expenses.

Compliance with *ex ante* reporting obligations on expenses by means of a link to a list on a web page with standardised transactions depends on whether or not a standardisation of the expenses for the type of financial instrument or specific service is appropriate. Thus, for example, in the case of products that only have explicit costs established in terms of volume, such as equities, compliance with the obligation through the standardised information

technique could be feasible, which does not occur in information on costs in the case of products such as fixed income or others that include implicit costs in the price, as they are different in each transaction. In addition, the CNMV understands that this obligation would not be considered met if a list of standardised rates or costs is offered that include all the products and services of the entity.

### **Questions and answers on the application of Regulation 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).**

On 22 December 2017, the CNMV published a question and answer document with which it aimed to convey the interpretation criteria to entities that provide investment services in order to promote an adequate application of the obligations which, in accordance with Regulation 1286/2014 of the European Parliament and of the Council, of 26 November 2014, on key information documents for packaged retail and insurance-based investment products (PRIIPs), are applicable from 31 December 2017.

This document does not have a regulatory character, and the criteria included in it must be revised once more information becomes available from practical experience in the application of the rule and in the interpretation at a European level of the issues under discussion.

These issues are of various kinds and affect, among other issues, the subjective and objective scope of the PRIIPs Regulation, the obligations of producers of packaged retail and insurance-based investment products, the obligations of distributors, and the content of the key information document for the investor.

### **Statement on the streamlining of the CNMV's procedures for the verification of fixed-income issues for qualified investors.**

The CNMV has decided to introduce changes in order to streamline the procedures for the verification of fixed-income issues aimed at qualified investors, with the goal of making the Spanish market more attractive for the admission to trading of bonds and debentures of both Spanish companies and companies from the rest of the European Union, applying for this purpose a criterion based on a lower degree of substantive review and thus eliminating the unnecessary specifications that had been required in this sense.

### **Statement regarding the ESMA guidelines relating to product governance requirements under MiFID II.**

The CNMV announces that it will adopt the guidelines published on 2 June 2017 by ESMA regarding the MiFID II product governance requirements. Notable, among others, are those relating to the categories to be taken into account by producers and distributors for the identification of the target market and the definition of the distribution strategy, while at the same time it is indicated that the market must be identified by the producer and the distributor, as well as identifying the negative target market (i.e. the group of customers for whom the product is incompatible), and the method for evaluating the compatibility of the products with respect to the needs of the end customer group to whom those products are to be offered or recommended.

### **Instructions for the notification of the auxiliary activity exception.**

The CNMV has published on its website instructions for making notifications regarding the exception provided in Article 2.1, letter j), of MiFID II, in relation to the obligation to obtain authorisation as an investment firm for entities that operate with commodities derivatives, by providing an online service through their website. In short, the notification will be made through the online service, which will require the companies' prior registration on the website.

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### Composition of the CNMV Board as at 30 April 2018

<b>Chairperson</b>	Mr Sebastián Albella Amigo
<b>Vice-Chairperson</b>	Ms Ana María Martínez-Pina García
<b>Board Members</b>	Mr Juan Manuel Santos-Suárez Márquez
	Ms Beatriz Gloria Viana Miguel
	Mr Fernando Francisco Navarrete Rojas (Secretary General of the Treasury and Financial Policy)
	Mr Javier Alonso Ruiz-Ojeda (Bank of Spain Deputy Governor)
	Mr Ángel Benito Benito
<b>Secretary</b>	Mr Miguel Martínez Gimeno

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### Composition of the CNMV Executive Committee as at 30 April 2018<sup>1</sup>

<b>Chairperson</b>	Mr Sebastián Albella Amigo
<b>Vice-Chairperson</b>	Ms Ana María Martínez-Pina García
<b>Board Members</b>	Mr Juan Manuel Santos-Suárez Márquez
	Ms Beatriz Gloria Viana Miguel
	Mr Ángel Benito Benito
<b>Secretary</b>	Mr Miguel Martínez Gimeno

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<sup>1</sup> The creation, constitution and functions of the Executive Committee are regulated by Article 26 of the recast text of the Securities Market Act, approved by Royal Legislative Decree 4/2014, of 23 October, as written in Law 44/2002, of 22 November, on Measures to Reform the Financial System.

## Composition of the CNMV Advisory Committee as at 30 April 2018<sup>2</sup>

Chairperson	Ms Ana María Martínez-Pina García
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Secretary	Mr Miguel Martínez Gimeno
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Technical Secretary	Mr Víctor Rodríguez Quejido
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### Members

#### Representatives of market infrastructures

Member	Mr Jaime Aguilar Fernández-Hontoria
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Alternate	Mr Ignacio Olivares Blanco
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Member	Mr Jorge Yzaguirre Scharfhausen
--------	---------------------------------

Alternate	Mr Gonzalo Gómez Retuerto
-----------	---------------------------

Member	Ms Ana Ibáñez Díaz-Bustamante
--------	-------------------------------

Alternate	Mr Ignacio Solloa Mendoza
-----------	---------------------------

#### Representatives of issuers

Member	Ms María Luz Medrano Aranguren
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Alternate	Mr Íñigo Elorriaga Fernández de Arroyabe
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Member	Mr Francisco Javier Zapata Cirugeda
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Alternate	Mr Rafael Piqueras Bautista
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#### Representatives of investors

Member	Mr Ángel Martínez-Aldama Hervás
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Alternate	Ms Virginia Arizmendi Ortega
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Member	Ms Elisa Ricón Holgueras
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Alternate	Ms Pilar Lluesma Rodrigo
-----------	--------------------------

Member	Mr Manuel Pardos Vicente
--------	--------------------------

Alternate	Ms Ana María Solanas Forcada
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Member	Mr Fernando Herrero Sáez de Eguilaz
--------	-------------------------------------

Alternate	Mr Santiago Pérez Beltrán
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#### Representatives of credit institutions and insurance companies

Member	Mr Javier Rodríguez Pellitero
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Alternate	Ms Patricia Rodríguez Fernández de Castro
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Member	Mr José María Méndez Álvarez-Cedrón
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Alternate	Mr Antonio Jesús Romero Mora
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Member	Ms Cristina Freijanes Presmanes
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Alternate	Ms Zorione Arregui Elkorobarrutia
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Member	Ms Pilar González de Frutos
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Alternate	Ms María Aránzazu del Valle Schaan
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**Representatives of professional associations**

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Member	Mr Rafael Antonio Sanmartín Argos
Alternate	Mr Valentín Pich Rosell
Member	Mr Carlos Tusquets Trías de Bes
Alternate	Mr Santiago Satrustegui Pérez de Vilaamil
Member	Mr Fernando Vives Ruiz
Alternate	Mr Javier García de Enterría y Lorenzo-Velázquez

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**Representatives of the Investment Guarantee Fund**

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Member	Mr Ignacio Santillán Fraile
Alternate	Mr José Ignacio García-Junceda Fernández

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**Representatives of the Autonomous Regions with an official secondary market**

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*Basque Country*

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Member	Mr Alberto Alberdi Arizgoitia
Alternate	Mr Francisco Javier Arnaez Arrecigor

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*Catalonia*

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Member	Mr Josep Maria Sánchez i Pascual
Alternate	Ms Alba Currià Reynal

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*Valencia*

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Member	Mr Manuel Illueca Muñoz
Alternate	Mr Nicolás Jannone Bellot

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CNMV organisational chart

