CNMV
Comisión
Nacional
del Mercado
de Valores

Annual Report 2005
regarding its actions and
the securities markets

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Acronyms

AIAF	Asociación de Intermediarios de Activos Financieros/Spanish Brokers' Association
ANCV	Agencia nacional de codificación de valores/Spain's national securities numbering agency
ANNA	Association of National Numbering Agencies
ASCRI	Asociación española de entidades de capital-riesgo/Spanish association of venture capital firms
AV	Broker
AVB	Broker and market member
BME	Bolsas y Mercados Españoles
BOE	Boletín Oficial del Estado /Spain's Official State Gazette
BTA	Asset-backed bond
BTH	Mortgage-backed bond
CADE	Spanish government bond book-entry centre
CESR	Committee of European Securities Regulators
CNMV	Comisión Nacional del Mercado de Valores
CSR	Corporate Social Responsibility
EC	European Commission
ECB	European Central Bank
ECLAC	Economic Commission for Latin America and the Caribbean
ECR	Venture capital firm
EMU	Economic and Monetary Union (euro area)
EPA	Spain's Labour Force Survey
EU	European Union
FG	Guaranteed fund
FIAMM	Money market fund
FII	Real estate investment fund
FIM	Securities investment fund
FSAP	Financial Services Action Plan
FTA	Asset securitisation fund
FTH	Mortgage securitisation fund
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards

IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IGBM	Índice General de la Bolsa de Madrid/Madrid Stock Exchange General Index
IIC	Collective investment scheme
IIMV	Instituto Iberoamericano del Mercado de Valores
IMF	International Monetary Fund
INVERCO	Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones
IOSCO	International Organization of Securities Commissions
ISIN	International Securities Identification Number
LATIBEX	Market in Latin American securities
LIIC	Collective investment institutions law
MAB	Mercado Alternativo Bursátil / Alternative Stock Market
MEFF	Mercado español de futuros y opciones financieros/Spanish market in financial futures and options
MFAO	Mercado de Futuros del Aceite de Oliva/Olive oil futures market
MMU	CNMV Market Monitoring Unit
MTF	Multilateral Trading Facility
NYSE	New York Stock Exchange
OECD	Organisation for Economic Co-operation and Development
PIOB	Public Interest Oversight Board
PTM	Proprietary Trading Member
RD	Royal Decree
ROE	Return On Equity
SCLV	Securities Clearing and Settlement Service
SENAF	Sistema Electrónico de Negociación de Activos Financieros/ An electronic trading platform for Spanish public debt
SEPBLAC	Bank of Spain's money laundering authority
SGC	Portfolio management company
SGECR	Venture capital firm management company
SGFT	Securitisation fund management company
SGIIC	Collective investment scheme management company
SIBE	Spain's electronic market
SICAV	Open-end investment company
SII	Real estate investment company
SIM	Securities investment company
SIMCAV	Open-end securities investment company
SME	Small and Medium Enterprises
SRI	Socially Responsible Investment
SV	Broker-dealer
SVB	Broker-dealer and market member
UCITS	Undertakings for Collective Investment in Transferable Securities

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1 Overview

This chapter provides an overview of Spanish and worldwide economic and financial markets' performance in 2005. The aim in describing the main features of the world and Spanish economy is not so much to offer a detailed analysis of macroeconomic results, but to give a framework in which to view the operation of financial markets, including their main weaknesses and the risk factors which might affect them in the near future.

In 2005, securities markets conducted their business in a favourable economic context, albeit one that was more complex than in the previous year. International economic performance was generally positive, with widespread growth. However, the US trade deficit and Asian currency imbalances persist, and there is uncertainty as regards their possible correction. If oil prices stabilise at current high levels, which are already raising inflation, this would be a setback.

Monetary policy tightened, primarily in the United States, and also in the euro area towards year-end. Nevertheless, the securities markets performed well, in terms of both trading and appreciation. Investors were encouraged by the confidence that economies will continue to grow, that monetary conditions will not be too restrictive, and that businesses are in sound overall health to implement their capex plans.

1.1 International situation

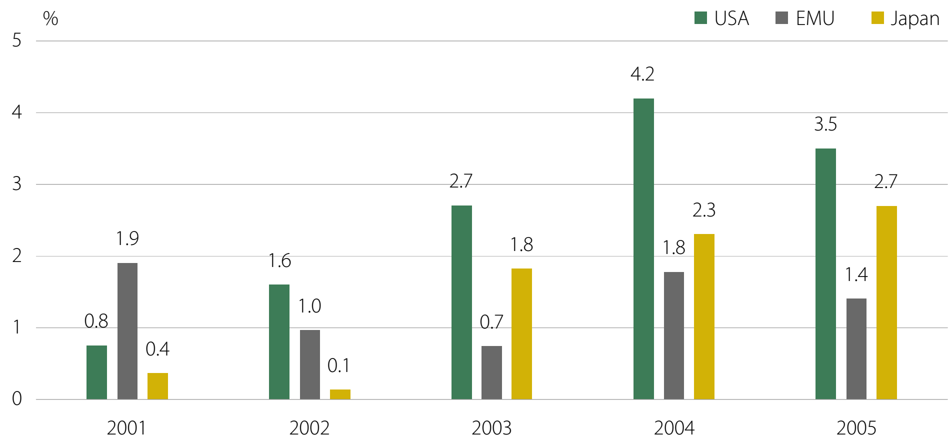
The global economy expanded significantly in 2005, in both developed and emerging countries. The global growth rate was 4.3%, with developed countries attaining 2.7% growth and emerging countries 6.4%. These rates are slightly lower than in the previous year, and the deceleration was widespread.

The main global growth drivers in 2005 were still the United States and Asian emerging economies, helped by consolidation of the recovery in Japan.

The US economy recorded sound growth (3.5%), although short of the 2004 figure. US growth still hinges mainly on dynamic household spending and expansive fiscal policy; the export sector contributed negatively to growth, although in 2005 this contribution was slightly lower than in 2004.

Emerging economies (especially in Asia) attained healthy growth rates. In 2005, China achieved close to 10% growth, in line with the impressive trend in the last three years. Fixed capital investment and exports were the main drivers. In Japan, economic recovery took a firm hold due to stronger internal demand, while the foreign sector contributed less to GDP growth.

Annual GDP growth FIGURE 1.1



Source: Spanish Ministry of Economy and Finance.

Latin American economies continued to enjoy a boom, growing for the third consecutive year, albeit slightly more slowly than in 2004. The international situation boosted these economies since higher prices of commodities, especially oil, continued to improve the region's terms of trade, especially for net exporters. There was also an increase in export volumes and emigrants' remittances. This situation boosted the current account surplus. The combination of economic growth and increasing current account surplus is a positive situation and one that is almost unprecedented, at least in the region's recent history.

The euro area continued to be sluggish in 2005 due to the weak economic performance by the two major players, Germany and France (1.1% and 1.4%, respectively). Stable growth rates in Germany and deceleration in France[1] led to overall deceleration in the euro zone from 1.8% to 1.4%. The lack of dynamism is explained by the poor performance by private consumption expenditure, possibly burdened by greater uncertainty about employment and income and the need to save in order to offset the cutbacks in public social benefits. Although there are no factors in sight which look likely to modify households' spending propensity, in the second half of 2005 the euro area economy did gain in dynamism due to the recovery in net exports and private investment on the back of growing business confidence.

Outside the euro area, economic growth in the UK declined significantly in 2005[2], due to more sluggish internal demand, which particularly affected manufacturing industry.

1. 2.4% growth in 2004.
2. GDP growth was 1.8% in 2005, compared with 3.2% in 2004.

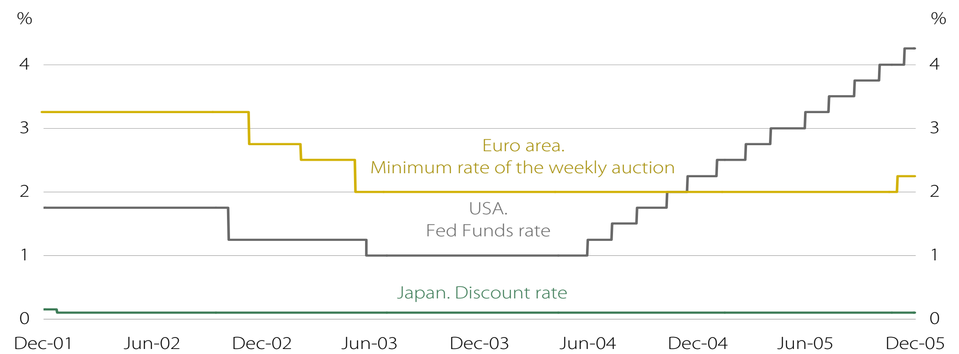
One of the most negative elements on the international economic stage in 2005 was the increase in commodity prices, especially energy products. Furthermore, widespread economic growth greatly increased demand. On the supply side, speculation about the real level of worldwide reserves and technical limitations on increasing production to keep pace with demand, plus uncertainties about the political situation in exporter countries, led to sharp increases in oil prices, concentrated at the end of the summer. Brent crude prices averaged 54.4 dollars per barrel in 2005, compared with 38.4 dollars in 2004 and 28.9 dollars in 2003.

Oil price FIGURE 1.2

Source: Datastream.

Rising oil prices have been gradually passed on to prices in the oil-importing countries, although in a moderate way and so far without triggering an increase in long-term inflation expectations. In the United States, consumer prices increased by 3.4% year-on-year, compared with 2.7% in 2004. In the euro area, economic weakness offset inflationary pressure and, although prices accelerated in the third quarter, the year ended with 2.2% inflation, just 0.1 points higher than in 2004. Furthermore, although consumer prices declined further in Japan in 2005, the deflation of recent years looks set to end in 2006.

Central bank base rates FIGURE 1.3



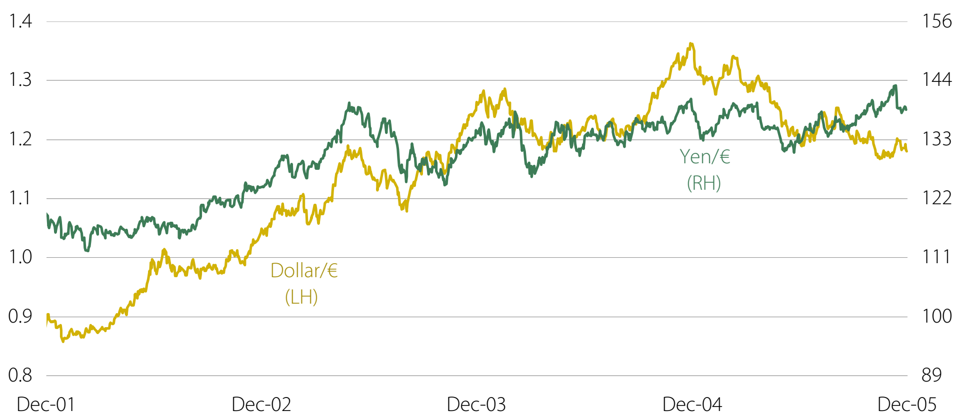
Source: Reuters.

To keep inflationary tensions in check, the Federal Reserve continued to implement the policy of gradually increasing official interest rates which it commenced in June 2004. In 2005, it announced eight increases, each of 25 basis points, in addition to the five quarter-point increases in 2004. At 2005 year-end, the US official rate stood at 4.25%. In the euro area, the ECB held its official rate steady at 2.0% until December, when it raised it by a quarter of a point.

In currency markets, the dollar rallied against the euro, breaking the weak trend it had maintained since February 2002 (see Figure 1.4). The dollar gained 13.4% in 2005, to reach 1.18 per euro (from 1.36 per euro at 2004 year-end, having depreciated by 57.8% since 2002). Among the reasons for this turnaround are the increase in the interest rate spread in favour of the dollar and sluggish economic growth in Europe.

The dollar performed similarly against the yen, gaining 14.3% in 2005, to 118.6 yen per dollar. Stability prevailed in the dollar's performance against many of the emerging Asian currencies. The modification of China's exchange policy in July 2005 caused the dollar to depreciate slightly against the renminbi.

Euro exchange rate against the US dollar and the Japanese yen FIGURE 1.4



Source: European Central Bank.

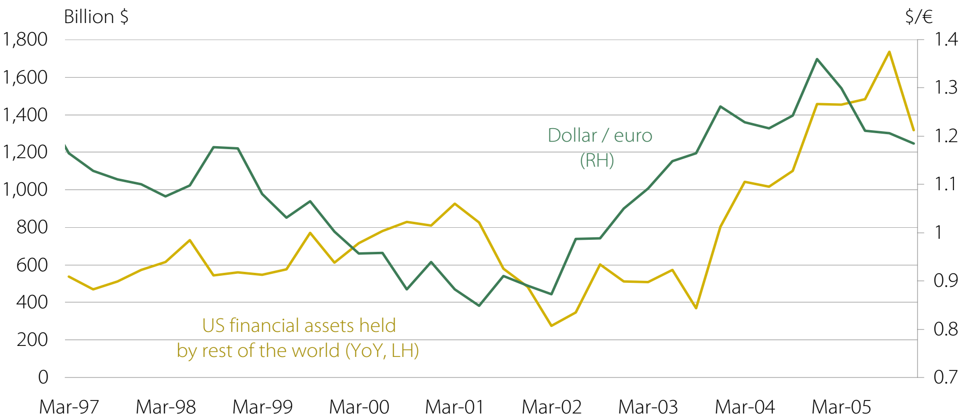
Macroeconomic risks

The apparently favourable global economic situation is not risk-free. Firstly, prevailing uncertainty about oil prices may have a major impact on economies, particularly affecting monetary policy. The prospects of widespread economic growth continue to suggest upward pressure on oil prices from the demand side. There is some consensus that prices will remain high, although the current level is still clearly lower than in the 1970s and 1980s.

One reason why the inflationary impact of rising oil prices has so far been moderate is the labour market situation. The incorporation of immigrant workers in many European countries, companies' decision to relocate parts of the manufacturing process to countries where labour costs are lower, and labour market deregulation in

Accumulation of US assets by the rest of the world

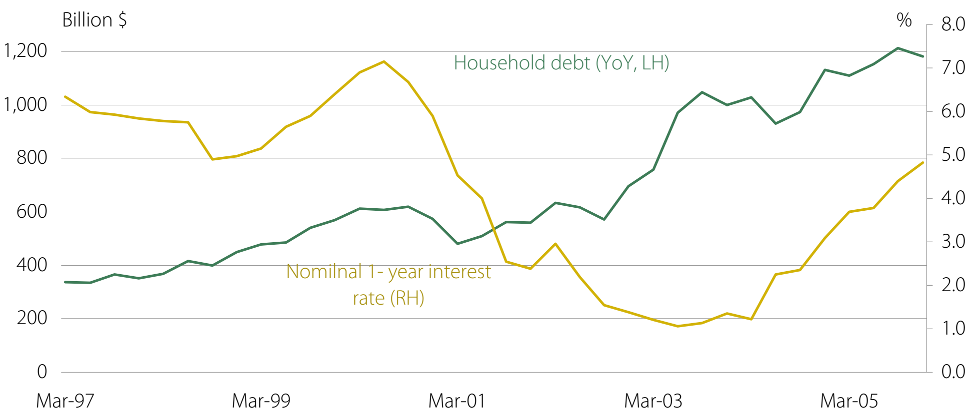
FIGURE 1.5



Source: Federal Reserve and European Central Bank.

United States: household debt

FIGURE 1.6



Source: Federal Reserve and Datastream.

some cases have together reduced labour's bargaining power and mitigated the risk of unleashing cost-price spirals. However, economic conditions in the United States and social demands in European countries raise the possibility that these conditions may be modified in the coming years.

Another risk factor are the major imbalances in the US economy, particularly the huge and growing trade deficit in an economic and financial context which shows no sign of correcting in the short term. The US economy's increasing borrowing (mainly households and the public sector) is being met by the rest of the world, mainly by acquiring dollar-denominated fixed-income securities.

A significant decline in the appetite for dollar-denominated assets due to a loss of confidence by investors could trigger sharp depreciation by the dollar, an increase in volatility in the currency, equity and fixed-income markets, and a decline in financial asset prices.

Household consumption expenditure is another risk to be considered. In the United States, household spending, which has contributed significantly to economic growth, is being financed by borrowing. Indebtedness has soared in recent years (see Figure 1.6) and families may well adopt a different tack and seek to rebalance their financial position. Tightening US monetary policy makes this change in consumers' attitude more likely, since interest rate hikes increase the debt service burden and, moreover, families may see their income expectations reduced if unemployment creeps upwards.

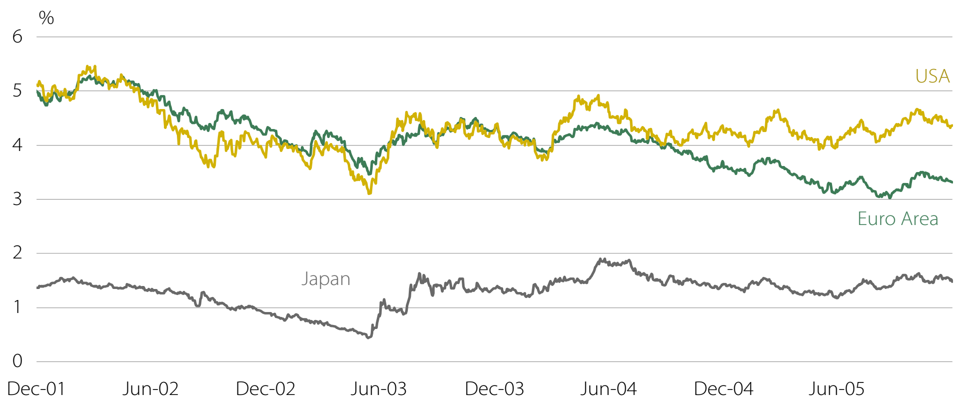
Money and securities markets

Monetary and fixed-income markets have reacted only partially to changes in monetary policies by the Federal Reserve and European Central Bank. US interest rates have increased generally, especially in short-term assets, with returns on one-year deposits up from 3.1% to 4.8%. Although long-term debt yields also increased, the gain was more moderate and the yield curve flattened somewhat.

In the euro area, yields on one-year deposits increased to 2.8%, and the same occurred with short-term public debt. However, lack of confirmation of expected increases in the official ECB interest rates triggered declines in the yields on long-term issues until the last quarter of 2005, when they increased in line with US yields (see Figure 1.7).

In 2005, the private debt markets did not react notably to the turnaround in monetary policy, nor to the credit rating downgrades on auto manufacturers General Motors and Ford. Accordingly, the credit risk spread in dollar-denominated corporate debt was lower at year-end than at the beginning of the year. Neither were there substantial changes in the credit risk premium in debt issued by the private sector in euro (see Figure 1.8).

10-year public debt yields FIGURE 1.7

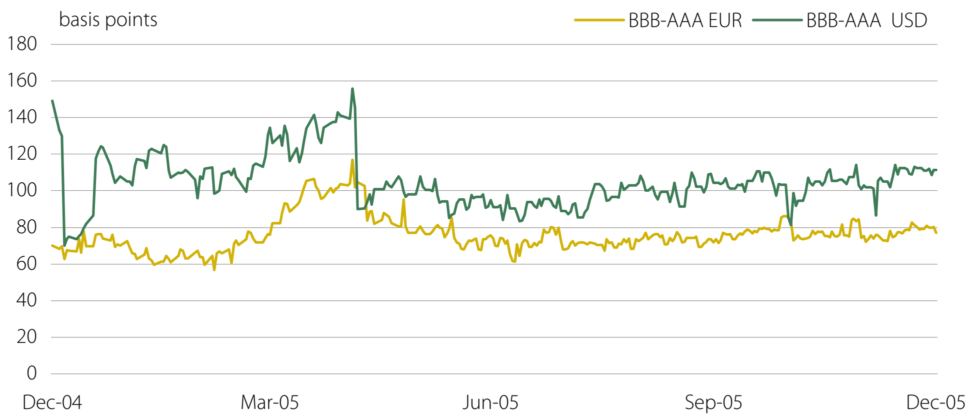


Source: Reuters.

Equity markets performed very differently in the United States and in other developed countries. In the United States, yields were practically nil or negative, as evidenced by the Dow Jones Industrial Index, whereas in Europe and Japan the markets appreciated notably.

The stagnation of US equities, contrasting with the country's economic growth and sound corporate earnings, is explained by the increase in the discount rate applied to future profits as a result of monetary policy expectations. In contrast, neither Europe nor Japan saw widespread expectations of greater monetary tightening which could undermine business, whose earnings prospects remained good.

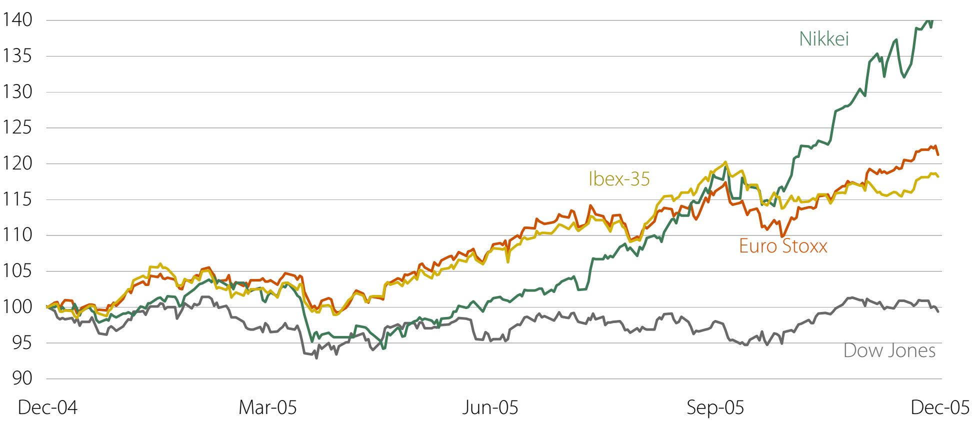
Private debt risk premium (BBB-AAA) [1] FIGURE 1.8



Source: Reuters.

1. Yield spread between issues with the highest ratings from Standard & Poor's (AAA, generally sovereign debt) and the lowest rating within investment grade (BBB). Bonds lower than BBB are usually called junk bonds.

Performance by the world's main stock indexes FIGURE 1.9



Source: Reuters.

Daily data. Baseline 100: Indexes on 31/12/2004.

Liquidity and the positive outlook also shaped trading, which grew significantly in general. In Europe and Japan, this increase mainly reflects the increase in the prices of traded shares, but in the US it is due to an increase in trading activity, since share prices scarcely moved upwards.

Equity markets: indexes and trading TABLE 1.1

Stock exchange	Index			Trading in 2005	
	Name	% change		Billion euro	% chg 05/04[1]
		2004	2005		
Developed countries					
New York	Dow Jones Ind. Av.	3.1	-0.6	11,410.2	21.6
Nasdaq	Nasdaq Composite	8.6	1.4	8,140.7	15.1
Tokyo	Nikkei	7.6	40.2	3,603.2	43.4
London	FTSE 100	7.5	16.7	4,583.2	11.2
Euro area[2]	Euro Stoxx 50	6.9	21.3	6,707.9	36.4
Euronext[3]	Euronext 100	8.0	23.2	2,345.1	18.1
Germany	DAX 30	7.3	27.1	1,545.8	24.9
Italy	MIB 30	16.9	13.3	1,050.9	35.0
Spain	Ibex 35	17.4	18.2	853.6	32.9
Latin America					
Buenos Aires	Merval	28.3	12.2	5.5	41.1
São Paulo	Bovespa	17.8	27.7	134.8	32.3
Santiago	IGPA	22.1	2.7	15.5	43.1
México	IPC	46.9	37.8	45.9	20.3
Lima	IGRA	52.4	29.4	2.1	64.6

Source: Reuters, World Federation of Exchanges and CNMV.

1. In local currency.
2. Volume traded in euro area stock exchanges. Includes complete OMX, though some markets do not trade in euro.
3. Refers to the markets integrated into Euronext: Paris, Brussels, Amsterdam, Lisbon and Porto.

1.2 The Spanish economy

Spain's economy continued to grow in 2005. GDP increased by 3.5%, vs. 3.1% in 2004. This was again among the fastest growth rates in EMU[3]. Household consumption expenditure and investment in housing continued to be the main growth drivers in the Spanish economy, although in 2005 the capital goods investment component of spending also contributed to growth in internal demand (see Table 1.2).

Households continued to base their spending on higher gross disposable income and wealth, which factored in the significant growth recorded in employment and asset

3. GDP growth in the EMU was 1.4% in 2005, vs. 3.4% in Spain.

appreciation. Although house prices rose by 13.9% in Spain in 2005, the pace of buying remained strong, as evidenced by the 24.5% growth in home purchase lending.

Consequently, in 2005 there was a further increase in households' debt service burden and level of indebtedness (see figure 1.10). The parallel increase in household financial wealth, driven by rising house prices and financial asset appreciation throughout the year, mitigated the impact of increased indebtedness on households' financial position, which is still sound. Furthermore, an interest burden of just over 5% of gross disposable income is sustainable in view of the likely performance by business and employment. However, in the last four years, household debt has increased by more than 30 percentage points and the interest rate burden by 1.5% of gross disposable income, with the result that Spanish households' spending decisions have become more sensitive to interest rates.

This implies that rising interest rates and stabilising home prices may, on the one hand, increase the financial burden and, on the other hand, reduce the wealth effect deriving from both capital gains on house price appreciation and its foreseeable

Spain's economic indicators

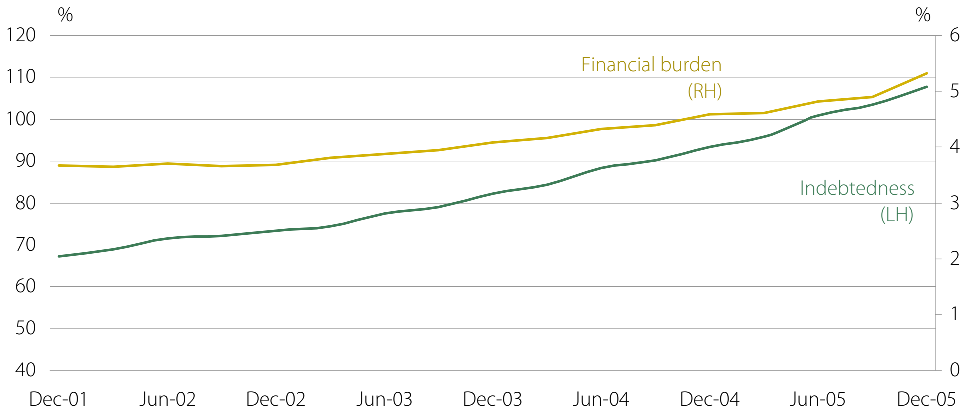
TABLE 1.2

Annual rate of change, unless indicated otherwise	2001	2002	2003	2004	2005
GDP (at constant prices)[1]					
GDP (at market prices)	3.5	2.7	3.0	3.1	3.4
Internal demand[2]	3.7	3.4	3.8	4.9	5.3
Household spending	3.4	3.2	3.1	4.8	4.4
Government spending	3.9	4.5	4.8	6.0	4.5
Gross fixed capital formation	4.5	3.3	5.5	4.9	7.2
i. Capital goods	0.1	-2.9	2.5	3.7	9.5
ii. Construction	6.8	6.2	6.3	5.5	6.0
Net external demand[2]	-0.2	-0.7	-0.8	-1.8	-1.9
Exports	4.0	1.8	3.6	3.3	1.0
Imports	4.2	3.9	6.0	9.3	7.1
Other indicators					
CPI. December / December[3]	2.7	4.0	2.6	3.2	3.7
Employment growth: LFS fourth quarter	5.5	3.6	2.9	4.4	4.9
Unemployment rate: LFS fourth quarter (% of working population)	15.5	11.9	13.1	12.8	8.7
Current and capital account balance of payment (% of GDP)	-3.1	-2.2	-2.5	-4.3	-6.7
Government lending/borrowing (% of GDP)	-0.5	-0.3	0.0	-0.1	1.1

Source: INE and Ministry of Economy and Finance.

1. National Accounts baseline 2000.
2. Contribution to GDP growth.
3. Instituto Nacional de Estadística (INE) data.

Household indebtedness[1] and financial burden[2] FIGURE 1.10



Source: Bank of Spain and CNMV.

1. Ratio between total borrowing and gross disposable household income.
2. Ratio between interest payments and gross disposable household income.

negative effects on the value of financial assets. Interest rate expectations point to an increase in 2006 which, if in line with the market consensus, could be absorbed by Spanish households without undermining spending. The available research suggests that the current housing market situation is more likely to be considered as a long episode of over-valuation than as a speculative bubble, and the deceleration is therefore also likely to be absorbed without notably impacting households' spending decisions.

Nevertheless, additional vulnerability stems from the fact that the households with the lowest incomes are those bearing the biggest financial burden, according to the Bank of Spain[4]. Moreover, if construction activity slows, job cuts would hit workers who have recently entered the labour market, many of whom are immigrants who have arrived in Spain in the last few years.

Overall, the situations suggests that the changes on the cards for 2006 in interest rates and the prices of real estate and financial assets should not have a major impact on spending decisions by Spanish households if business and employment growth conditions continue. This means that the key factor for assessing the aforementioned risks is continuity in the long process of expansion in the Spanish economy in the last decade and, therefore, ongoing improvement in its potential growth capacity.

Another element of vulnerability in the Spanish economy is its foreign trade deficit, which totalled 6.7% of GDP in 2005. Spain's foreign trade position is deteriorating rapidly, since the deficit has doubled in four years (see Table 1.2). This performance reflects both cyclical and transitory factors such as low growth in the main export markets (like Germany and France) and the increase in oil prices. However, these factors explain, at best, no more than one-third of the deficit's growth, which points

4. *Encuesta Financiera de las Familias españolas* - Household Financial Survey

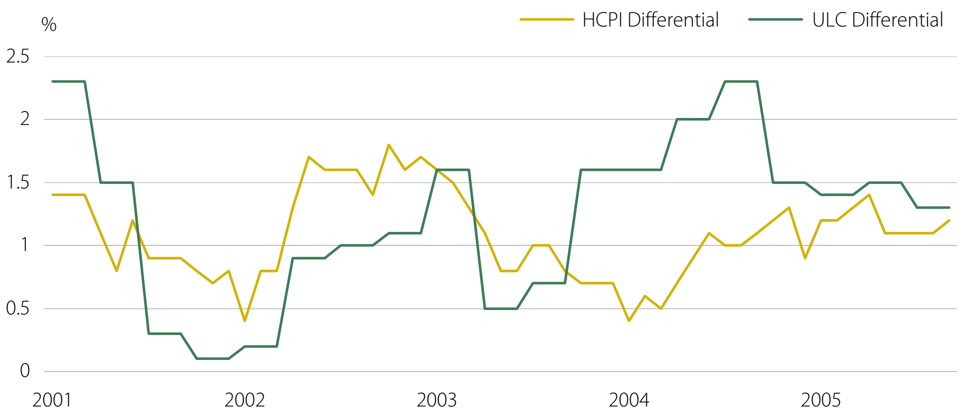
to a loss of competitiveness in the Spanish economy, evidenced by both cost and price performance and weak productivity.

Indices of competitiveness and unit labour costs point to a cumulative loss of around one percentage point per year since the euro's introduction. Due to this loss of competitiveness (and, the fact that Spain's main export markets posted only moderate growth), goods exports inched up by only 1% in 2005. In contrast, imports of goods continued to grow rapidly (7.1%), albeit less than in 2004, in line with higher internal demand. The positive balance of payments for services declined due to strong growth in tourism payments. All of this translated into a further increase in the current account deficit.

Furthermore, OECD statistics show that, between 1995 and 2004, Spain ranked third-worst in labour productivity among EU countries, ahead of only The Netherlands and Italy. National accounts figures published by Spain's Statistics Institute (INE) show that overall productivity in Spain increased by just 0.3% in 2005, which implies a decline of 0.2 points year-on-year. In view of the strong job growth in Spain in recent years (see Table 1.2), slight growth in apparent employment productivity might have been expected, but total factor productivity – identifiable with the pace of technological progress and economic efficiency– has also been very sluggish for almost a decade and this performance points to defects[5] which might affect Spain's long-term growth potential.

The dynamism of the Spanish economy in 2005 led to significant job creation, as evidenced by the working population survey (Table 1.2). Despite the increase in employment and the reduction in the unemployment rate (8.7% at year-end), average wages decelerated due partly to the number of temporary contracts. Modest produc-

Consumer price and ULC growth differential between Spain and EMU FIGURE 1.11



Source: Bank of Spain and Ministry of Economy and Finance.

HCPI: harmonised consumer price index. ULC: Unit labour costs.

5. Mainly technological, but also in terms of worker qualifications and business strategies, market operation and productive public capital.

tivity growth prevented a larger decline in unit labour costs. However, unit labour costs (ULC) decelerated to 2.2%, 0.6 points lower than in 2004.

Spain's inflation differential vs. the rest of EMU widened in 2005 (see Figure 1.11). Spanish inflation, in terms of the harmonised CPI, increased to almost 3.7% (from 3.2% in 2004), while in EMU inflation declined from 2.4% to 2.2%. Persistent inflation in Spain reflects both higher economic growth and cost problems. In 2005, the most inflationary CPI components were, in addition to fuels and transport-related items, various types of services: relating to housing, vehicles, insurance, social services, hospitals, finance and education. The prices of these items increased by an annual average of between 4% and 5%. The causes of inflation are evidenced by the fact that in 2005 prices increased by 0.9% for industrial products ex-energy, 9.6% for energy products, 3.4% for foods, beverages and tobacco and 3.8% for services.

1.3 Financial decisions by economic agents

Three aspects relating to agents' financial decisions in 2005 were reflected by securities markets' performance. Firstly, companies' preference for bank loans as a source of finance; secondly, the increasing presence of foreign investors, especially in fixed-income securities; thirdly, lower household savings, and investment of those savings in low-risk instruments.

In 2005, companies continued to prefer self-financing and bank loans. Lower interest rates led non-financial companies to increasingly use this source of financing. Accordingly, of net liabilities contracted in the first three quarters (see Table 1.3), 49.4% were loans, a similar percentage to 2004, but higher than at the end of the 1990s (35%-40%).

Furthermore, in 2005, companies made less use of share issues, with financing through this channel accounting for less than 9% of net new liabilities. Between 1999 and 2003, this method accounted for 30% of companies' financing.

Borrowing by non-financial companies and, to a lesser degree, households is driving a major increase in borrowing by the Spanish economy as a whole[6], amounting to 7.1% of GDP (see Chart 1.12).

Consequently, from the first to the third quarters, the Spanish economy contracted liabilities against the rest of the world which exceeded the figure for all of 2004 (see Table 1.4). As in 2004, most new liabilities were fixed-income issues, particularly by financial institutions. In other words, it is mainly credit institutions which are directly providing funds to companies via loans[7] while raising funds from the rest of the world.

As a result of asset appreciation in recent years, non-residents' portfolios include a large proportion of shares, both listed and unlisted, as well as long-term fixed-in-

6. The Spanish economy's borrowing in 4Q04 and 9M05 was 6.2% of GDP, vs. 4.8% in 2004.
7. The value of loans arranged by non-financial companies from financial companies was 86.6 billion euro in 9M05, vs. 46.4 billion in the same period in 2004.

Net acquisition of financial liabilities by non-financial companies

TABLE 1.3

Million euro

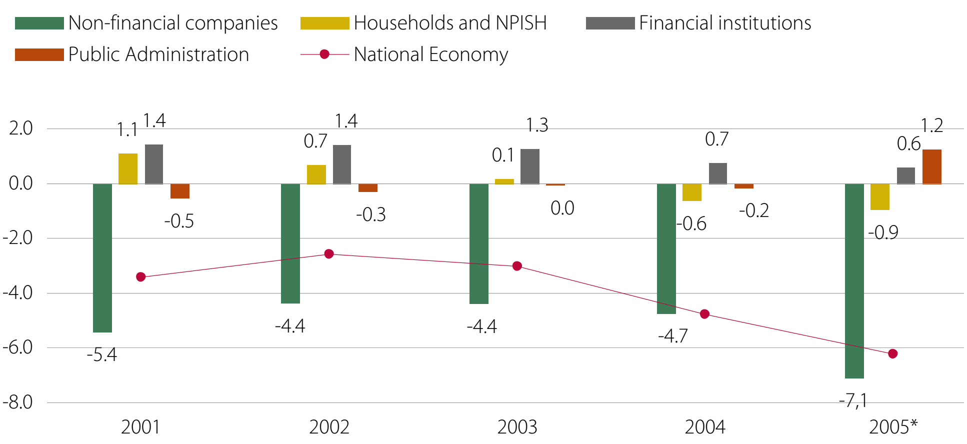
	2001	2002	2003	2004	2005[1]	% chg. 05/04[2]
Securities other than shares	-717	-2,340	-1,271	160	192	-74
Short-term securities	776	-1,263	-799	418	-555	—
Long-term securities	-1,493	-1,077	-473	-257	746	—
Loans	67,268	60,788	72,680	77,200	89,722	72
Short-term loans	5,136	5,517	3,652	21,577	29,293	335
Long-term loans	62,131	55,272	69,028	55,623	60,430	33
Shares and other equities	33,103	43,144	40,259	22,600	15,782	95
Listed shares	2,714	1,134	1,220	934	1,783	280
Unlisted shares	18,170	27,586	24,318	8,134	4,191	-23
Other equities (excluding Funds)	12,219	14,424	14,722	13,532	9,807	-7
Insurance underwriting reserves	-2,145	-1,606	-228	-449	-263	47
Other accounts receivable	40,442	37,083	49,482	57,171	76,230	94
Total	**137,950**	**137,069**	**160,922**	**156,682**	**181,666**	**68**

Source: Bank of Spain, "Financial Accounts of the Spanish Economy".

1. Figures for 9M05.
2. Percentage change in 9M05 and 9M04.

Spanish economy: lending (+)/borrowing (-) (% of GDP)

FIGURE 1.12



Source: Bank of Spain, "Financial Accounts of the Spanish Economy".

* The figures for 2005 are calculated as the sum of the first three quarters of 2005 and the last quarter of 2004.

Net acquisition of financial assets by non-residents

TABLE 1.4

Million euro

	2001	2002	2003	2004	2005[2]	% chg. 05/04[3]
Cash and deposits[1]	16,825	28,941	54,135	14,117	32,381	103.1
Securities other than shares	19,642	31,150	41,383	101,847	94,389	36.3
Loans	27,021	21,812	21,767	8,702	9,166	90.5
Shares and other equities	29,647	29,282	8,613	16,195	4,885	76.1
Listed shares	7,962	-707	-7,220	5,894	568	—
Unlisted shares	17,153	20,299	8,325	3,061	3,439	37.5
Other equities (excluding Funds)	4,749	6,054	7,013	6,627	4,244	-17.1
Mutual fund units	-217	3,637	495	612	-3,365	—
Other accounts receivable	772	1,246	1,505	3,879	7,280	99.8
Total	**93,907**	**112,431**	**127,404**	**144,739**	**148,102**	**53.6**

Source: Bank of Spain. "Financial Accounts of the Spanish Economy", and CNMV.

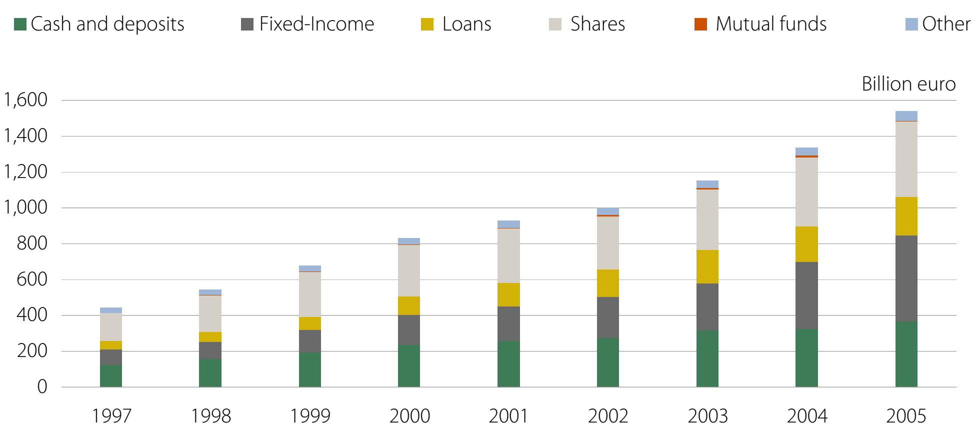
1. Includes monetary gold and SDRs.
2. Figures for 9M05.
3. Percentage change in 9M05 and 9M04.

come securities (see Figure 1.13). Non-residents hold about half of the outstanding balance of public debt and they are very active players in the stock market[8].

The third major characteristic in terms of the impact of agents' decisions on securities markets is households' preference for low-risk products. Households' preferred savings products continued to be bank deposits (whose demand increased by 17.4%), despite their low yields, followed by mutual funds (up 25.6%) and pension plans (up 49%).

Breakdown of non-residents' Spanish assets

FIGURE 1.13



Source: Bank of Spain, "Financial Accounts of the Spanish Economy". See Annex I.2.

8. See Annexes I.3 and I.5.

Household investment portfolios still comprise mainly cash and deposits, followed by shares. Growing wealth in the form of shares is due mainly to appreciation. In fact, although share acquisitions increased by only 6.2%, the balance of these instruments increased by 12.2%. Appreciation of holdings in pension plans was low since, although households increased their holdings by 49%, their portfolio value crept up by a mere 6.6% (see Annex I.2 and Figure 1.14).

1.4 Overview of the Spanish markets

Net acquisition of financial assets by households[1]

TABLE 1.5

Million euro

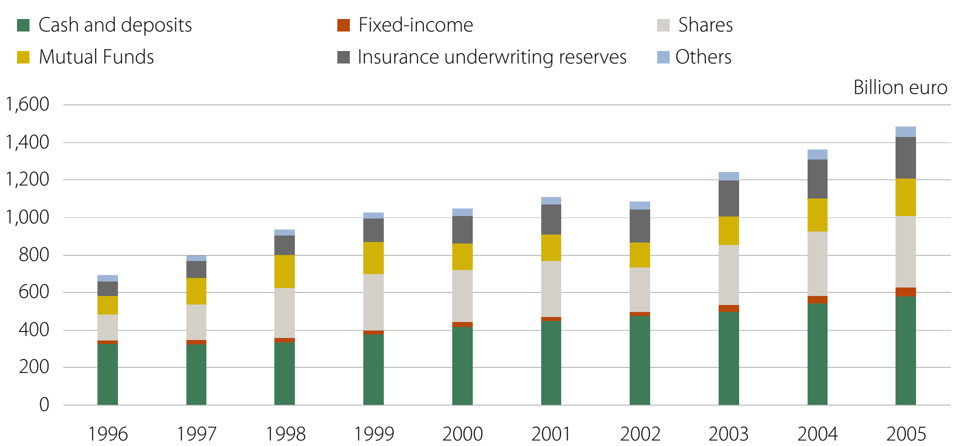
	2001	2002	2003	2004	2005[2]	% chg. 05/04[3]
Cash and deposits	29,072	36,701	29,202	46,470	35,596	17.4
Securities other than shares	344	2,355	2,283	3,607	2,669	4.8
Shares and other equities	3,419	5,980	22,623	13,103	14,489	6.2
Listed shares	-526	2,385	-735	-1,025	431	-78.5
Unlisted shares	-2,811	282	4,558	628	-715	—
Other equities (excluding Funds)	1,437	1,526	910	884	407	-38.9
Mutual fund units	5,319	1,788	17,890	12,841	14,534	25.6
Shares issued by investment companies	0	0	0	-225	-168	—
Insurance underwriting reserves[4]	17,520	18,248	14,105	14,338	11,069	49.0
Other accounts receivable	-978	-2,465	3,416	5,079	5,585	-16.0
Total	**49,377**	**60,819**	**71,629**	**82,598**	**69,408**	**14.6**

Source: Bank of Spain, "Financial Accounts of the Spanish Economy".

1. Includes private non-profit institutions.
2. Figures for 9M05.
3. Percentage change in 9M05 and 9M04.
4. Includes pension plans.

Breakdown of households' financial assets

FIGURE 1.14

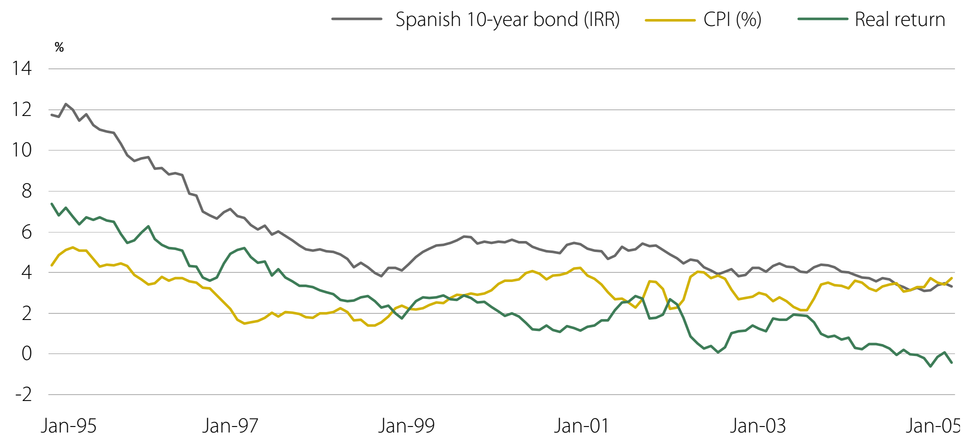


Source: Bank of Spain, "Financial Accounts of the Spanish Economy". See Annex I.2.

The Spanish economic situation and financial conditions were favourable to the country's financial markets. As shown in Figure 1.3, the European Central Bank held official rates unchanged until late in 2005. Stable inflation expectations and loose financial conditions contributed to a slight decline in medium- and long-term yields in Spain last year, although they stabilised in the last month. This decline in yields, coupled with rising inflation, kept real interest rates at close to zero or even in negative territory (see Figure 1.15).

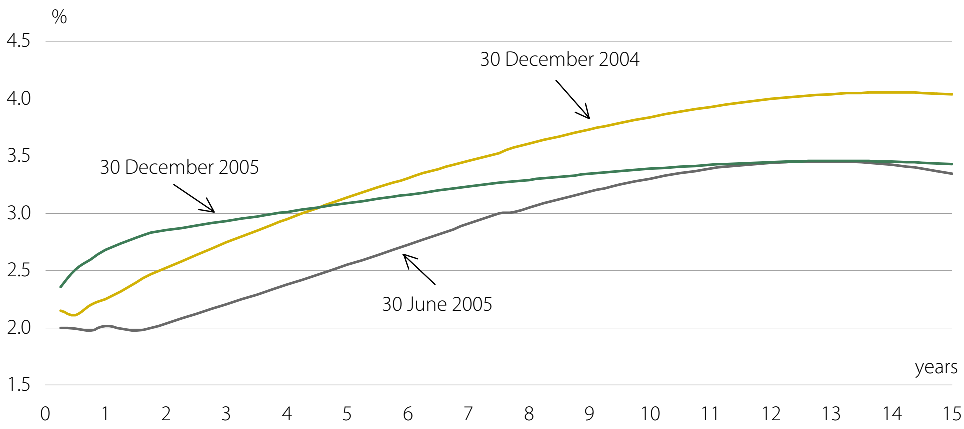
The interest rate curve shifted downwards in the first half of 2005, reflecting loose financial conditions. The increase in official interest rates led to an increase in short-term rates at year-end, which slightly flattened the curve, although the slope remained positive (see Figure 1.16).

Long-term debt yields FIGURE 1.15



Source: Datastream and CNMV.

Interest rate curve FIGURE 1.16



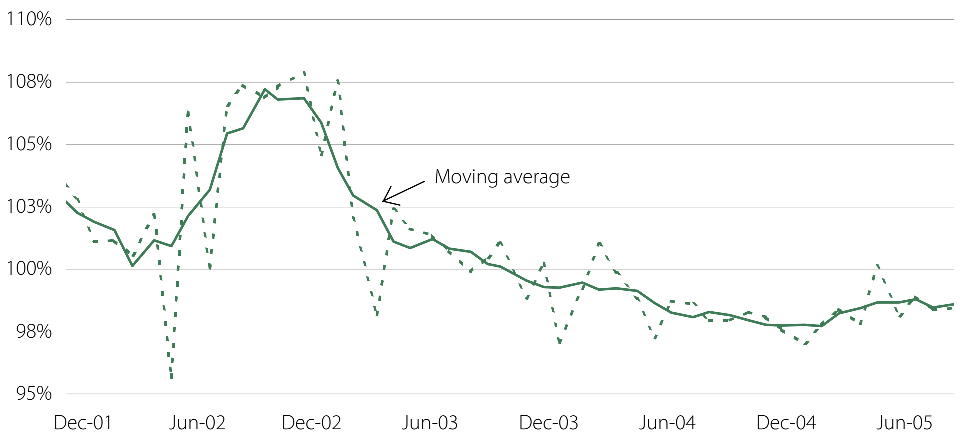
Source: Bank of Spain and CNMV.

Financial conditions also seem to have contributed to the reduction in Spanish savers' risk aversion in the last three years. Only at 2005 year-end did the downward trend appear to slow (see Figure 1.17).

Equity market performance was also very positive in 2005, as the Ibex-35 Index gained 18.2%, marking the third consecutive year of gains.

Moreover, returns on investments in Spanish equities are higher than reflected by the index because of dividend distributions and other forms of shareholder remuneration, such as refunds of the issue premium, that have gained in popularity in recent years. Specifically, the volume of issue premium refunds doubled in 2005 due to a bonus issue by Telefónica[9].

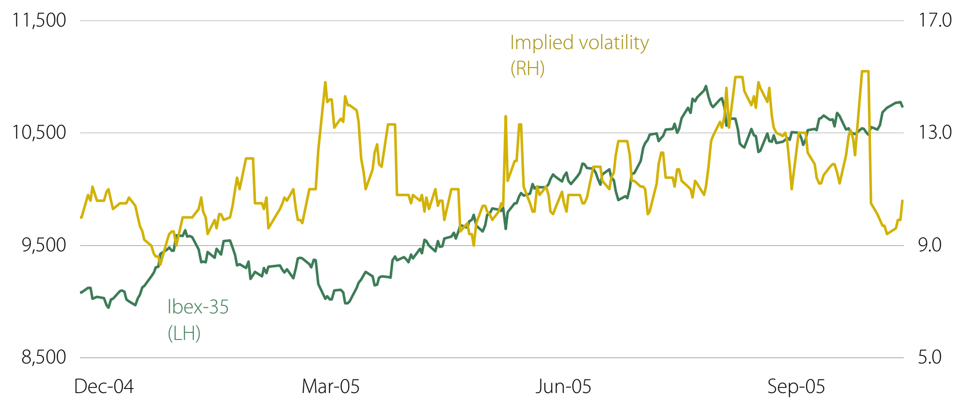
Risk aversion index[1] FIGURE 1.17



Aparicio Roqueiro, Carlos. *La aversión al riesgo en el mercado español de renta variable y sus determinantes*. Monografías CNMV. Nº 9. 2005.

1. Spline Indicator.

Ibex-35 performance and implied volatility[1] FIGURE 1.18



Source: Bolsas y Mercados Españoles.

1. Implied volatility published by MEFF for the front derivative.

9. 1-for-25.

This change in shareholder remuneration policy commenced after the crisis in 2000, when many companies concluded a period of “value creation” (i.e. retention of earnings to finance investments in what were considered to be growth areas).

Ibex-35 performance adjusted to include dividend payments[10] (see Figure 1.14) indicates higher growth in the yields offered by Spanish equities in recent years (22% in 2005 and 21.1% in 2004).

Shareholder remuneration

TABLE 1.6

Million euro

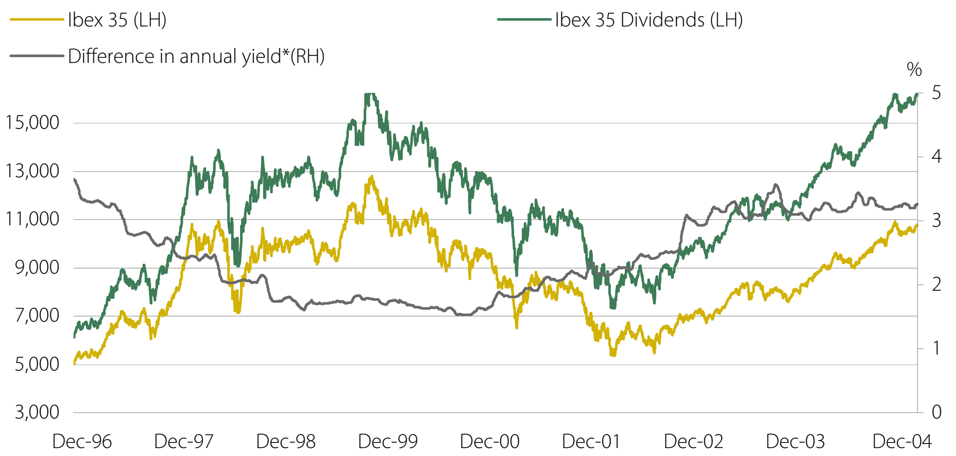
	Dividends	Issue premium refunds	Reduction of par value and refund of capital contribution	Total	Total / previous year's capitalisation
2000	7,011.7	51.2	323.4	7,386.4	1.6%
2001	8,474.4	42.0	217.2	8,733.6	1.7%
2002	8,446.8	28.8	223.8	8,699.3	1.8%
2003	9,411.5	2,480.8	273.0	12,165.2	3.3%
2004	11,678.0	2,288.8	208.5	14,175.4	3.1%
2005[1]	14,435.7	4,463.8	224.0	19,123.5	3.4%

Source: Bolsas y Mercados Españoles. Informe de mercado 2005.

1. From January to November 2005.

Dividends paid by Ibex 35 companies

FIGURE 1.19



Source: Sociedad Bolsas.

* Difference in annual yield between the Ibex 35 with dividends and the Ibex 35. Monthly moving average.

10. In this index, unlike the Ibex-35, adjustments are made to take account of dividend payments and other similar shareholder remuneration when they occur. For further information, visit the Sociedad de Bolsas Website, www.sbolsas.com

2 Equity Markets

This chapter describes the performance of the Spanish stock exchanges and also the Latibex organised trading system, on which shares of Latin American companies are traded in euro.

Spanish equity markets were characterised by rising share prices in 2005 and this was reflected in increases in both market capitalisation and trading volumes.

Total market capitalisation rose by 17.3% to 657.132 billion euro. This was solely due to the increase in share prices, as in 2005 the market value of delisted companies was greater than the value of increases in capital and new listings. In 2005, in fact, the primary market was marked for the number of medium-sized companies that delisted as a result of a decision by their parent company or after a shareholding was acquired by venture capital investors.

The volume of trading reached a total of 853.588 billion euro, up 32.9% on the previous year. Although rising share prices were the main reason for this increase, a rise in the number of orders and trades was a further cause, generating increased market liquidity.

As for the Latibex market, the very major increases in both trading and market capitalisation were due to an extraordinary 83.9% increase in corporate earnings. This was driven by companies' strong trading performance and also by the appreciation of Latin American currencies.

2.1 Market size

2.1.1 Market capitalisation

The market capitalisation of the Spanish stock markets grew by 17.3% in 2005 (see Table 2.1) in line with the rise in share prices, as illustrated by the 18.2% rise in the Ibex 35 index. The fact that the increase in market capitalisation was slightly below the growth of the index is accounted for by delistings of medium-sized companies as explained in section 2.1.2 below.

Capitalisation of equities in the Spanish stock markets[1]

TABLE 2.1

Million euro

	2002	2003	2004	2005	% change 05 / 04
Total markets	**367,313.3**	**464,480.5**	**560,271.7**	**657,132.1**	**17.3**
Electronic market	**339,634.5**	**433,971.0**	**525,695.1**	**616,684.7**	**17.3**
Spanish	302,643.0	384,338.6	470,960.6	552,372.1	17.3
Foreign [2]	36,991.5	49,632.4	54,734.6	64,312.7	17.5
Open outcry[3]	**27,295.8**	**30,139.9**	**34,284.0**	**40,140.1**	**17.1**
Madrid	21,121.8	23,146.8	21,278.8	24,936.2	17.2
Barcelona	4,095.3	5,216.5	8,392.5	10,086.7	20.2
Bilbao	1,727.4	3,467.8	2,472.3	2,919.5	18.1
Valencia	2,330.5	3,182.3	4,910.8	4,832.0	-1.6
Second Market	**383.0**	**369.5**	**292.5**	**307.4**	**5.1**

Source: CNMV.

1. Includes only the market values of companies that were traded during the year.
2. Excluding Latibex.
3. Includes companies registered with the CNMV as Collective Investment Schemes (IIC).

An analysis of market capitalisation by sector (see Table 2.2) shows how share prices moved in different sectors. Nearly all sectors showed strong gains and only the transport and communications sector registered a fall in value, which was due to the decline in Telefónica shares. Significantly, Telefónica, which has traditionally had the highest market capitalisation of any Spanish listed company, was overtaken during the year by Banco Santander Central Hispano (BSCH).

As can be seen in Table 2.3, the market capitalisation of the Spanish market was again highly concentrated among a relatively small number of stocks[1]. Thus, the three largest Spanish companies[2] accounted for 29.8% of the total market value of stocks traded on the electronic market, and Ibex 35 stocks at the close of the year[3] accounted for 77.9%.

The size of the Spanish stock market relative to GDP was similar to that in other European countries. In terms of market capitalisation relative to GDP, the Spanish market was in third place after London and Euronext. On the basis of the ratio of trading volume to GDP, the Spanish market was in second place after the London Stock Exchange (see Table 2.4).

1. See Annex I.10 and Annex I.11 for a more detailed analysis of market capitalisation by sector.
2. Banco Santander Central Hispano, Telefónica and Banco Bilbao Vizcaya Argentaria.
3. See Annexes I.12 and I.13 for more information on Ibex-35 companies.

Listed companies by sector at 31 December[1]

TABLE 2.2

Capitalisation in million euro

	Number		Capitalisation		
Sector	**2004**	**2005**	**2004**	**2005**	**% chg 05/04**
Oil	2	2	31,338.7	40,460.5	29.1
Energy and water	11	11	58,843.7	74,707.0	27.0
Mining and base metals	11	10	15,407.3	18,278.0	18.6
Cement and construction materials	6	6	3,089.8	4,195.3	35.8
Chemicals	4	4	18,005.1	25,789.5	43.2
Textiles and paper	20	20	16,315.3	20,829,2	27.7
Metal-mechanical	17	14	33,009.8	35,552.3	7.7
Food	19	18	15,992.2	19,049.6	19.1
Construction	7	7	24,022.9	36,968.8	53.9
Real estate	31	30	11,561.8	21,582.6	86.7
Transport and communications	9	9	125,008.8	121,302.0	-3.0
Other non-financial	24	22	34,931.5	33,831.3	-3.1
Total non-financial sector	**161**	**153**	**387,526.8**	**452,546.0**	**16.8**
Banks	15	15	136,265.0	163,142.2	19.7
Insurance	3	2	4,063.1	5,099.1	25.5
Portfolio companies	18	15	3,425.7	2,322.1	-32.2
SICAVs[2]	3,087	3,112	28,991.1	34,022.7	17.4
Finance houses	0	1	—	0	—
Total financial sector	**3,123**	**3,145**	**172,744.9**	**204,586.1**	**18.4**
Total	**3,284**	**3,298**	**560,271.7**	**657,132.1**	**17.3**

Source: CNMV.

1. Excluding companies traded on Latibex. Market values at year end.
2. ncludes open-end securities investment companies (SICAVs) and closed-end securities investment companies (SIMs).

Concentration of equity market capitalisation[1]

TABLE 2.3

No. of companies required to attain a given percentage

	2004				2005			
	25%	**50%**	**75%**	**100%**	**25%**	**50%**	**75%**	**100%**
Total markets	**3**	**8**	**25**	**3,284**	**2**	**8**	**23**	**3,298**
Electronic market	3	7	19	128	3	8	20	126
Spanish	2	6	17	122	3	7	19	121
Foreign[2]	1	2	3	6	1	2	2	5
Open outcry	17	148	753	3,139	16	149	764	3,158
Second Market	1	2	5	17	1	2	3	14

Source: CNMV.

1. Market values at each year-end.
2. Excluding Latibex.

Market capitalisation and trading in 2005

TABLE 2.4

	Market capitalisation/GDP (%)	Trading /GDP (%)
New York	106.7	113.2
USA[1]	136.2	198.7
Tokyo	107.2	98.7
London	147.1	258.6
Euronext[2]	87.2	89.1
Germany	46.2	55.2
Italy	49.2	56.6
Spain	72.7	94.4

Source: International Federation of Stock Exchanges, Eurostat and CNMV.

1. The numerator is the combined total value of the NYSE, Nasdaq and American SE.
2. The denominator is the combined total GDP of France, The Netherlands, Belgium and Portugal.

2.1.2 Listed companies

The number of companies admitted to trading on the Spanish stock exchanges at the end of the year, not including open-end securities investment companies (SICAVs), was 187. This was a reduction (of 11 companies) compared with the previous year (see Table 2.5). The companies that delisted from the electronic market included medium-sized companies such as Terra Networks, Amadeus or Aldeasa.

Of the four stocks that were admitted to the electronic market during the year, only one, Corporación Dermoestética, was previously unlisted, as the other three newly-admitted stocks were already being traded on the open outcry market.

Companies listed on the Spanish stock exchanges

TABLE 2.5

	Total market	Total market Ex SICAV	Electronic market[1]			Open outcry		Second Market
			Total	Spanish	Foreign	Ex SICAVs	SICAVs	
Total no. of companies								
Listed at 31/12/04	3,284	198	128	122	6	53	3,086	17
Listed at 31/12/05	3,298	187	126	121	5	47	3,111	14
Listed in 2005	**59**	**5**	**4**	**4**	**0**	**0**	**54**	**1**
Newly listed	56	2	1	1	0	0	54	1
Listed due to mergers	0	0	0	0	0	0	0	0
Change of market	3	3	3	3	0	0	0	0
Delisted in 2005	**45**	**16**	**6**	**5**	**1**	**6**	**29**	**4**
Delisted	37	12	5	4	1	3	25	4
Delisted due to mergers	5	1	1	1	0	0	4	0
Change of market	3	3	0	0	0	3	0	0
Net change in 2005	**14**	**-11**	**-2**	**-1**	**-1**	**-6**	**25**	**-3**

Source: CNMV.

1. Excluding Latibex.

2.1.3 Delistings

A total of 42 companies were delisted from the Spanish stock exchanges in 2005[4]; six of these were listed on the electronic market, four on the second market and 32 on the open outcry market.

There were fewer delistings than in the previous year, but the companies involved were larger. The market capitalisation of the delisted companies at end-2004 had amounted to 16.888 billion euro, or 3.2% of the total value of shares being traded on the electronic market at the end of that year.

Companies delisted in 2005 included Terra Networks, which was absorbed by Telefónica, and Volkswagen, which ceased to be listed on the Spanish market. Delistings by venture capital firms played in important role and this is explained in more detail in the next subsection.

Delistings following acquisition by venture capital firms

Some of the main companies delisted from the Spanish electronic market (Amadeus, Cortefiel and Recoletos) in 2005 were public-to-private transactions carried out by venture capital firms, involving the acquisition of a significant shareholding in a listed company by means of a tender offer with the stated aim of delisting it.

These transactions, of a kind which has hitherto been rare in the Spanish market, although they are common in other countries, took place against a background of increasing venture capitalist activity in Spain (see Chapter 9). The only listed company previously taken private by a venture capital firm had been Parques Reunidos, in 2004. Parques Reunidos, however, with a market capitalisation of 168.5 million euro, was of considerably less significance than Amadeus, Cortefiel and Recoletos, whose combined market value was 6.732 billion euro.

One noteworthy aspect of these transactions was the high cash value of takeover offers prior to delisting. In the period from 2001 to 2005, the cash value of delisting takeover bids by venture capital firms amounted to 6.089 billion euro compared with a total of 4.241 billion euro for the 33 non-venture capital bids.

The interest being shown by venture capital firms in public-to-private deals in Spain arises from a number of factors:

i. Low interest rates are enabling venture capital firms to structure highly leveraged buy-outs, albeit with expectations of high returns. This was the case with the Amadeus and Cortefiel acquisitions.

ii. The high levels of liquidity within the sector and the build-up of cash reserves available for investment, particularly by cross-border investors who are increasingly active in Spain. This means that larger companies may be possible acquisition targets.

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4. See Annex A.I.8.

iii. The increasing amount of risk undertaken by banks specialising in the provision of finance for transactions of this kind.

Public-to-private deals also have advantages for sellers. Firstly, the sale of a company to a venture capital firm is an efficient way of allowing the founding members to sell out (in the case of a family business) or disposing of a strategic industrial holding. Secondly, competition among global investors is pushing up prices, with the result that venture capital firms have been willing to pay prices for listed companies that are higher in relation to market values and company-specific fundamentals.

This is borne out by the prices being paid in takeover deals prior to delisting. The average liquidity premium paid in venture capitalist-led delisting takeovers was 30.4% above the average share price in the previous six months, compared with an average premium of 28.2% in other deals (for the period 2001 to 2005).

The difference is even more marked in P/E terms: on an individual net earnings basis, the P/E ratio was 46.0 for companies acquired by venture capital investors compared with 33.5 for other companies.

2.2 Share issues and public offerings

New share issues fell dramatically in 2005, both in number and in value (see Tables 2.6 and 2.7). It should be remembered, however, that 2004 was an exceptional year because of the BSCH bid to acquire Abbey National Bank in the UK[5].

The most significant issues in value terms resulted from capital increases by Metrovacesa and Banco Popular[6]. These amounted to 35.7% and 28.3% of the total market value of all new issues. Other noteworthy issues were carried out by Sogecable, Grupo Empresarial Ence, Ercros and Sos Cuetara[7]. Banco Bilbao Vizcaya Argentaria filed a capital increase with the CNMV, but in the event this did not take place.

There were only two share offerings, both of them by Corporación Dermoestética as part of its flotation.

5. The cash value of the bid was 12.756 billion euro.
6. The Banco Popular share issue was done using an accelerated bookbuilding process, with the entire issue being taken up by Goldman Sachs Int. in its own name, but on behalf of final investors. Before the new shares were officially admitted to trading, a special market transaction took place in which the shares were transferred to final investors.
7. See Annex I.7.

New share issues and public offerings[1]

TABLE 2.6

	Number of issuers		Number of issues	
	2004	2005	2004	2005
Capital increases	**31**	**23**	**36**	**25**
Of which: primary offerings[2]	3	0	3	0
- with Spanish tranche	3	0	3	0
- with international tranche	2	0	2	0
Secondary offerings	**6**	**1**	**6**	**2**
- with Spanish tranche	5	1	5	1
- with international tranche	2	1	2	2
Total	**37**	**24**	**42**	**27**
Pro memoria: IPOs:				
Via primary or secondary offerings[2]	3	1	3	2

Source: CNMV.

1. Includes all registered offerings, including the BBVA issue that was not carried out.
2. Primary Public Offering: A public subscription rights offering, with existing shareholders waiving their preferential rights.

New share issues and public offerings: cash value[1]

TABLE 2.7

Million euro

	2004	2005	% Change 05/04
Capital increases	**18,748.0**	**2,803.4**	**-85.0**
Of which: primary offerings	1,101.9	—	—
- with Spanish tranche	537.9	—	—
- with international tranche	564.0	—	—
Secondary offerings	**2,987.6**	**157.1**	**-94.7**
- with Spanish tranche	1,664.4	54.6	-96.7
- with international tranche	1,323.2	102.5	-92.3
Total	**21,735.6**	**2,960.5**	**-86.4**
Pro memoria: IPOs:			
Via primary or secondary public offering	2,015.1	157.1	-92.2

Source: CNMV.

1. The Banco Bilbao Vizcaya Argentaria 2005 offering has not been included in these figures as it never actually took place. The purpose of the issue was to finance the takeover of BNL, which failed.

2.3 Trading

2.3.1 Spot trading

Market trading volumes rose sharply in 2005, not only because of increases in the prices of traded shares, but also because of the rising number of matched transactions and orders. In 2005, the number of trades totalled 17.1 million, an increase of 25.7% on 2004, while the total number of orders was 31.9 million, a rise of 24.4%.

The bulk of this trading was done on the electronic market. This market saw a notable increase in trading by foreign companies, particularly as a result of the interest surrounding Jazztel.

Most trading on the electronic market is of the "regular trading" type, which saw strong growth in both order and block trading (see Table 2.9). Block trading plays a vital role in trading by institutional investors in Spanish stocks included in global indices. The lack of IPO activity resulted in a sharp fall in public offering-related bargains; however, the opposite was true in the case of takeover-related trading.

Equities trading TABLE 2.8

Million euro

	2002	2003	2004	2005	% Chg 05 / 04
Total markets	**444,935.53**	**495,493.95**	**642,108.80**	**853,588.1**	**32.9**
Electronic market	**439,739.84**	**489,307.27**	**636,527.38**	**847,663.7**	**33.2**
Spanish	435,420.76	486,798.97	630,361.68	832,548.6	32.1
Foreign [1]	4,319.08	2,508.30	6,165.69	15,115.1	145.1
Open outcry	**4,967.27**	**4,444.72**	**5,193.68**	**5,898.5**	**13.6**
Madrid	3,235.30	3,009.83	3,316.03	3,671.1	10.7
Barcelona	948.62	871.13	1,123.63	1,560.2	38.9
Bilbao	297.81	147.45	212.65	241.7	13.7
Valencia	485.54	416.31	541.38	425.5	-21.4
Second market	**17.90**	**13.34**	**21.31**	**25.9**	**21.8**

Source: CNMV.

1. Excluding Latibex.

Trading on the electronic market by type[1]

TABLE 2.9

Million euro

	2002	2003	2004	2005	% Chg 05/04
Regular trading	406,062.2	455,745.8	599,874.2	800,550.0	33.5
Orders	259,160.7	272,384.1	353,532.0	490,031.7	38.6
Put-throughs	75,910.0	60,127.7	71,360.1	82,403.1	15.5
Block trades	70,991.5	123,233.9	174,982.0	228,115.1	30.4
Off-hours	18,685.0	15,947.6	26,037.3	27,863.0	7.0
Authorised trades	4,822.4	3,009.8	1,367.2	4,773.4	249.2
Art. 36.1 SML trades	2,116.1	4,704.1	826.0	1.3	-99.8
Tender offers	1,571.2	4,823.7	1,698.8	6,682.8	293.4
Public offerings for sale	1,800.5	417.4	3,057.2	226.4	-92.6
Declared trades	566.5	747.8	278.5	2,298.9	725.4
Options	4,096.9	3,911.0	3,388.3	5,268.0	55.5
Total trading	**439,720.8**	**489,307.3**	**636,527.4**	**847,663.7**	**33.2**

Source: CNMV.

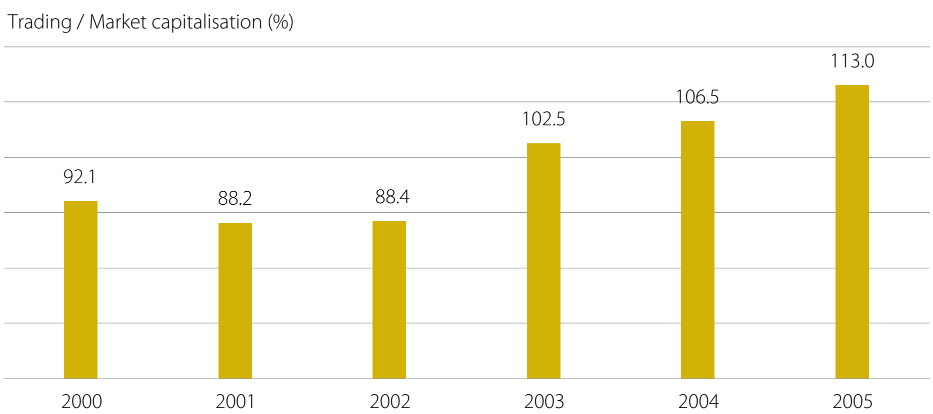
1. Excluding trading on Latibex.

The electronic market showed significant increases both in liquidity, as shown by a rising turnover velocity (see Figure 2.1), and in depth, as reflected in the higher relative value of orders that would be required to have an effect on market prices[8].

Trading was concentrated most heavily in the banking, transport and communications, and energy and water sectors (see Table 2.10). In 2005, Telefónica, despite its falling share price, continued to be the most-traded stock on the Spanish market, slightly ahead of Banco Santander Central Hispano.

Turnover velocity[1] on the electronic market

FIGURE 2.1



Source: CNMV.

1. Annual total trading volume / average market capitalisation for the year.

8. The Sociedad de Bolsas publishes data on market depth, which is defined as the value of orders necessary to bring about a 1% change in the Ibex-35 Index. This value was 0.025% of the total value of the market in 2004 and 0.037% in 2005.

Equity market trading by sector

TABLE 2.10

	2004	2005
Banks	37.8	35.3
Transport and communications	22.9	21.3
Energy and water	12.3	13.6
Oil	8.2	7.8
Food	3.6	3.6
Construction	3.0	3.9
Textile and paper	1.6	1.9
Other *	10.6	12.6

Source: CNMV.

* The "other" category includes real estate, mining and base metals, chemicals, metal-mechanical, cement and construction materials, financials, portfolio companies, insurance, SICAVs and other non-financials.

The three largest companies traded on the electronic market[9] accounted for more than half the total volume of trading on all markets (see Table 2.11). If the field is narrowed to include only Ibex 35 companies at year-end, the share of total market trading accounted for by the same three companies increases to 92.0%.

Trades on the Spanish exchanges are executed by market members. There was a fall in the number of members in 2005 (see Table 2.12). The largest member group is made up of broker-dealers (39), followed by banks (15). Although these entities are normally only members of one or two of the Spanish stock exchanges, four entities were operating in all of them[10]. There was one major change in the composition of this group: the departure of Invercaixa as a result of La Caixa deciding to operate as a member in its own right[11].

Concentration of equities trading in Spanish stock markets

TABLE 2.11

No. of companies required to attain a given percentage

	2004				2005			
	25%	50%	75%	100%	25%	50%	75%	100%
Total markets	**2**	**3**	**8**	**3,258**	**2**	**3**	**9**	**3,303**
Electronic market	**2**	**3**	**7**	**134**	**2**	**3**	**9**	**132**
Spanish	2	3	7	128	2	3	8	126
Foreign	1	1	2	6	1	1	2	6
Open outcry	**23**	**95**	**284**	**3,104**	**9**	**58**	**231**	**3,156**
Second market	**1**	**1**	**2**	**20**	**1**	**1**	**2**	**15**

Source: CNMV.

9. Telefónica (18.8%), BSCH (18.7%) and BBVA (12.9%).
10. Banco Bilbao Vizcaya Argentaria, Banesto Bolsa, Renta 4 and Santander Investment Bolsa.
11. Other companies that ceased to be members of the Madrid Stock Exchange were: Lisbon Brokers, Ahorro Corporación Financiera, ABN Amro Securities, BNP Paribas (Spanish branch) and Santander Central Hispano Bolsa. The last three of these intermediaries, together with Invercaixa and DL Corporation, also left the Barcelona Stock Exchange. The Barcelona and Madrid exchanges also gained two new members: La Caixa de Barcelona and Santander Investment Bolsa.

Market members TABLE 2.12

	2004	2005
Madrid Stock Exchange	56	53
Barcelona Stock Exchange	36	34
Bilbao Stock Exchange	9	9
Valencia Stock Exchange	20	25
Total exchanges	**68**	**66**

Source: Official Spanish Stock Markets Bulletins.

The Alternative Market

Under the legislation governing collective investment schemes (Instituciones de Inversión Colectiva, IIC), namely the IIC Law of 2003(1) and its implementing regulations(2), SICAVs no longer have to be listed on the stock market provided that there is a mechanism in place to ensure that their shares remain liquid. The methods currently being used by these companies to maintain the liquidity of their shares are: (i) setting up a system similar to that used by mutual funds to handle subscriptions and redemptions; (ii) having their shares quoted on an organised trading system (OTS), or (iii) continuing to be traded on a stock exchange.

BME, the company that operates Spain's exchanges, has set up an OTS, known as the Alternative Stock Market (Mercado Alternativo Bursátil, MAB), for the trading of shares of SICAVs and other stocks that require a special system, such as small-cap companies. This OTS was authorised by the Spanish cabinet(3) and comes under the supervision of the CNMV. It began initial operational trials in February 2006.

Any exchange-traded SICAV may become part of this trading system, as may newly-incorporated SICAVs provided that they have appointed Iberclear or one of the Spanish stock exchanges' clearing and settlement services to register share transfers. One feature of MAB which is likely to be of interest to SICAVs is its range of services to facilitate compliance with the regulations applicable to collective investment schemes. These services include:

– Liquidity: the SIBE technology platform supports two types of trading:

i. Net asset value trades. This allows orders to be entered that specify the number of shares but not the price: the latter will be determined at the end of the session on the basis of the SICAV's net asset value. Orders may be entered either by the SICAV management company, if it is a MAB participant, or by a market member.

ii. Fixing trades. These are done according to an auction system in which prices are fixed twice a day. Orders are entered that specify both the number and the prices of shares. With this system of trading, which is similar to that used for other types of company, the management company cannot trade on the market directly but must do so through an intermediary.

- Back office services: At the end of trading, MAB takes charge of all follow-up administrative tasks, including the production and dissemination of all price and net asset value information required by regulations. The clearing function is performed by Iberclear, using the same procedures and clearing times as for other shares.

- Disseminating information over the system and via the normal stock market modes of communication.

1. Law 35/2003, of 4 November, on Collective Investment Schemes.
2. Royal Decree 1309/2005, of 4 November, approving the Regulation under Law 35/2003, of 4 November, on Collective Investment Schemes and amending the tax rules applicable to Collective Investment Schemes (Articles 51 to 54).
3. Cabinet decision dated 30/12/2005.

2.3.2 Margin trading and securities lending

Under Spanish regulations, stock market transactions may be done on credit in the form of cash for purchases of shares[12] and in the form of securities in the case of a sale[13].

Margin trading for sales of securities and securities lending TABLE 2.13

Million euro

	Margin trading for sales of securities[1]		Securities lending[2]	
	Outstanding balance	Trading	Outstanding balance[3]	Trading
2000	4.4	151.4	12,102.0	87,406.4
2001	8.5	174.1	20,141.4	89,606.0
2002	7.8	161.2	14,125.3	106,983.2
2003	17.3	199.8	28,873.1	161,775.2
2004	18.2	139.2	54,518.5	306,056.7
2005	28.5	152.2	66,737.5	393,964.1

Source: CNMV.

1. Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.
2. Regulated by Article 36.7 of the Securities Market Law and Order ECO/764/2004.
3. Total balance less the amount of any relending.

12. This type of margin trading is regulated by the Ministerial Order of 25 March 1991 on the margin system of stock market trading.
13. Trades carried out under either (i) Ministerial Order dated 25 March 1991 on the margin system in spot transactions. or (ii) Article 36.7 of the Securities Market Law and Order ECO/764/2004.

Securities lending allows investors to engage in short sales, thus increasing market liquidity generally. In 2005 the volume of trades using securities lending rose by 28.7% (see Table 2.13).

Margin trading for securities purchases[1] TABLE 2.14

Million euro

	Outstanding balance	Trading
2000	54.7	1,121.3
2001	43.1	534.1
2002	31.5	382.9
2003	32.8	346.1
2004	46.7	401.8
2005	52.3	465.0

Source: CNMV.

1. Transactions performed in accordance with Ministerial Order dated 25 March 1991 on the margin system in spot transactions.

2.4 Takeover bids

In 2005 authorisation was given for a total of 13 takeover bids[14], although four of these were never completed (see Table 2.15). The total value of bids was sharply up on the 2004 figure for the following reasons: (i) they were directed at larger companies; (ii) bidders generally aimed to take over all the shares of the target companies; and (iii) in most cases, the bidder did not previously hold an interest in the target company.

In twelve of the bids that were authorised, the aim was to take over all of the shares. Of these twelve, in nine cases the purpose of the bid was to take control of the company; in one case, it was to increase the holding of the principal shareholders; and

Takeover bids TABLE 2.15

Million euro

	2001	2002	2003	2004	2005
Authorised[1]					
Number	19	17	13	9	13
Potential value[2]	7,865	5,589	7,535	2,048	7,511
Completed[3]					
Number	18	17	12	9	9
Value	4,648	4,318	4,335	1,973	6,822

Source: CNMV.

1. Bids authorised in year 2005.
2. Excluding unsuccessful bids.
3. All bids launched in 2005, including bids ending up in 2006, excluding unsuccessful bids.

14. See Annex I.14.

in two cases it was to buy back own shares in order to apply for a delisting. The only other bid was for a portion of the shares only and was unsuccessful as the minimum number of shares specified by the bidder was not reached. Venture capital firms played an important role in this bidding activity, as described in section 1.

Some notable features of takeover bids authorised during the year were as follows:

- Nine of the bids were conditional on a minimum number of shares being purchased. This minimum number was achieved in five cases, and in one case the bid failed as the limit was not reached; in three cases the bid was withdrawn.

- A interesting development was the announcement of two takeover bids for Cortefiel, both of them conditional on a resolution by the general meeting of the target company for the removal of certain restrictions from the articles of association.

- Three bids were rejected by the boards of directors of the target companies. In all cases, the rejection was due to the bid price being too low and also, in the case of Duro Felguera, on the partial nature of the offer.

- Competing bids were launched for Aldeasa and Cortefiel. A procedure was implemented whereby increased bids were presented in sealed envelopes, in accordance with the rules on competing offers. This was the first use of the procedure since this recent change to the rules on takeovers came into effect[15] .

- Three takeovers were arranged by agreement with the principal shareholders: (i) the takeover of Amadeus, following an agreement between Air France, Iberia and Lufthansa, holders of 86.35% of the share capital; (ii) an offer for Grupo Inmocaral, where the majority shareholder had agreed to sell 51% of the share capital; and (iii) a bid for CIE Automotive by the principal shareholder with the aim of purchasing all of the shares.

A further six takeover bids were submitted in 2005 but had not been either approved or rejected by the end of the year. The target companies of these bids were Endesa, Sogecable, Unión Fenosa, Cementos Lemona, and Hullas del Coto Cortés, plus a new bid for Cortefiel, aimed at delisting the stock.

2.5 Latibex

This organised trading system for Latin American stocks traded in euro is owned by Bolsas y Mercados Españoles (BME). Latibex enjoyed another year of growth in 2005 (see Table 2.16 and Annex I.15). The number of listed companies was increased by the addition of new issuers from Mexico and Brazil[16], although BBVA Bancomer was delisted from the market. A steep rise in prices, reflected in an 83.9% increase in the FTSE Latibex All Share Index (see Figure 2.2), resulted in some substantial increases in both market capitalisation and share trading volumes.

15. Royal Decree 432/2003, of 11 April, partially amended Royal Decree 1197/1991, of 26 July, on the rules applicable to takeover bids.
16. The companies that joined Latibex were Brazil's Usinas Siderúrgicas de Minas Gerais and Mexico's Corporación Geo and Sare Holding.

Companies traded on Latibex by country

TABLE 2.16

In million euro unless stated otherwise

	No. of stocks		Market capitalisation			Trading		
Country	2004	2005	2004	2005	% Chg	2004	2005	% Chg 05/04
Argentina	2	2	707,7	834,9	18.0	0.0	3.6	7,408.0
Brazil	14	15	73,388.0	145,297.3	98.0	208.6	340.6	63.3
Chile	4	4	11,041.1	17,234.4	56.1	37.5	51.4	37.1
Costa Rica	1	1	38,2	53,2	39.3	5.1	4.5	-11.8
Mexico	7	8	38,328.9	57,743.6	50.7	90.6	128.6	41.9
Peru	1	1	129,0	134,3	4.1	1.7	2.5	47.1
Puerto Rico	1	1	1,121.9	1,086.5	-3.2	22.9	25.6	11.8
Total	**30**	**32**	**124,754.8**	**222,384.1**	**78.3**	**366.4**	**556.7**	**51.9**

Source: CNMV.

FTSE Latibex All Share Index

FIGURE 2.2

Source: Bolsas y Mercados Españoles.

The market capitalisation of Latibex as a whole grew at a rapid pace, thanks largely to the price effect; the impact of increases in capital was not significant and new admissions to trading were offset by the delisting of BBVA Bancomer. As will be seen from the box below, the increase in companies' share prices is due in large measure to the appreciation of the currencies in their countries of origin against the euro, especially in the case of Brazilian and Mexican companies.

Trading volumes under the Latibex system were relatively low in relation to the value of the companies being traded, since most of the dealing takes place on the stock markets in their home countries. There was also an improvement in market liquidity, with more than half of the market's stocks being traded on every business day of the year, up from a quarter in 2004.

Latibex share price movements

In 2005 the FTSE Latibex All Share Index grew strongly to levels that were nearly twice those prevailing at the beginning of the year. The index reflects price movements in euro of shares traded on the Latibex market in Latin American stocks. This year saw the market's third consecutive annual rise, after the sharp fall in 2002 caused by the crisis in Argentina, and was due in large measure to economic recovery in the region, which helped to drive up local currencies and share prices.

Latin America experienced substantial economic growth for the third consecutive year on the back of strong domestic and foreign demand. This growth was also underpinned by higher oil prices in the case of oil exporting countries. However, it does not wholly explain the rise in the index, mainly because economic growth in Brazil and Mexico, the countries most highly represented in the index, was moderate.

The rise in the index reflects the appreciation against the euro of the currencies of the countries of origin of companies listed on the Latibex market. Rising demand for these countries' exports helped them to build up their foreign currency reserves and this translated into a strengthening of these currencies against the dollar, their benchmark currency. In addition, the US dollar strengthened against the euro. All of this impacted on the Latibex index and nearly half of the growth in the index can be attributed to the currency factor, especially the sharp rises in the Mexican peso and the Brazilian real. Rises in other currencies such as the Argentine peso and the Chilean peso were of a similar order, but the lower weighting of Argentine and Chilean stocks in the index, as well as their less spectacular performance in local currency terms, lessened their impact on the index as a whole.

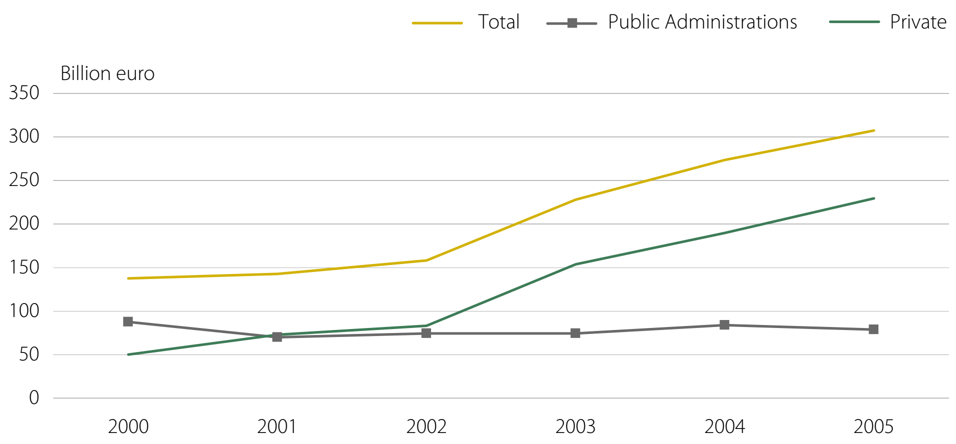
From a sectoral viewpoint, the main contributors to the growth in the index were in the energy sector, driven by rising oil prices and exchange rates, the largest company in the sector being Brazil's Petrobras. The second-biggest contributor was telecommunications, especially América Móvil, a Mexican mobile phone company whose sharp rise in local currency terms was increased still further by the strength of the Mexican peso. Other sectors showing strong growth were metal products and banking. The only sector that fell back was chemicals, dragged down by the sharp fall in Braskem on the Brazilian stock exchange as rising commodity prices began to bite.

Members of the Spanish stock exchanges are also members of the Latibex system, which is part of the SIBE electronic trading system. In addition, members of Latin American exchanges on which Latibex stocks are listed may also be members of the Latibex system provided that they meet certain requirements. In 2005 an Argentine securities house, Allaría Ledesma y Cía., joined Chile's Banchile Corredores de Bolsa and Brazil's Bradesco as an exchange member. The presence of these stockbroking houses is helping to strengthen the links between Latin American stock markets and the Latibex market in Spain.

3 Fixed-income markets

In 2005, the primary and secondary markets in fixed-income remained buoyant, and private fixed-income expanded significantly.

Fixed-income issuance in Spain FIGURE 3.1



Source: Bank of Spain and CNMV.

In 2005, securities issued by financial institutions constituted the bulk of primary market activity in Spain. Gross issues by this sector amounted to 82% of the total (78% in 2004). Of the three largest sectors[1], the financial institutions sector was the only one to increase its issuance volume on 2005, although at a lower rate than in 2004. As in previous years, its buoyancy responded to the need to raise funds to cater for the expansion of mortgage lending in parallel with residential construction, in a context of lower interest rates making it difficult to capture bank deposits due to their low yields.

The lower public sector borrowing requirement meant that their issuance volume was reduced to much lower than that of the private sector. Non-financial companies also reduced their volume of issues, since they had a good year in terms of earnings and, therefore, had less need to resort to external financing. In 2005, the outstanding balance of public debt issues in the Spanish market was exceeded by that of

1. Public administrations, financial institutions and non-financial companies.

private fixed-income (see Table 3.1); this was similar to the situation occurring in EMU as a whole since the end of 2000.

The Spanish fixed-income market differs from the situation in the EMU in that non-financial companies are less prominent and are more likely to use self-financing or bank loans[2]. In 2005, the outstanding balance of financial sector issues in Spain gained weight once again in the private fixed-income market, while non-financial companies accounted for only 2.1% of the total in Spain, compared with 10.8% in the EMU.

Gross issues and outstanding balances: breakdown by issuer

TABLE 3.1

Nominal amounts in million euro

	Amount		(% change)		Pro memoria: EMU	
	2004	2005	2004	2005	2005	% chg 05/04
Gross issues	**414,055**	**490,611**	**29.3**	**18.5**	**9,831,000**	**18.8**
Public administrations	83,859	75,011	4.8	-10.6	1,498,000	-3.0
Private fixed-income:	330,196	415,600	37.5	25.9	8,333,000	23.8
Financial institutions	321,439	404,414	41.8	25.8	7,303,000	28.1
Non-financial companies	8,757	11,186	-34.5	27.7	1,030,000	0.1
Net issues	**129,158**	**178,794**	**70.0**	**38.4**	**718,000**	**8.4**
Public administrations	8,183	6,682	287.4	-18.3	204,100	-10.9
Private fixed-income:	120,975	172,112	63.8	42.3	513,900	18.6
Financial institutions	120,955	172,242	61.7	42.4	494,700	16.4
Non-financial companies	20	-129	-102.1	-734.9	19,200	137.0
Outstanding balance	**668,729**	**853,630**	**23.7**	**27.6**	**10,237,000**	**8.8**
Public administrations	338,917	346,265	2.3	2.2	4,589,000	5.0
Private fixed-income:	329,812	507,365	57.6	53.8	5,648,000	12.0
Financial institutions	318,778	496,461	60.7	55.7	5,036,000	13.2
Non-financial companies	11,034	10,905	0.2	-1.2	612,000	2.9

Source: Bank of Spain, CNMV and ECB.

2. See Chapter 1.3 for a more detailed explanation of the finance decisions made by non-financial companies.

3.1 Public debt

3.1.1 Issues

The positive situation of the Spanish economy and the favourable budgetary situation reduced the government's issuing activity in 2005, and the gross and net volume of issues was lower than planned, especially in the case of Treasury Bills.

Gross issues by public administrations amounted to 75.011 billion euro, i.e. 10.6% less than in 2004 [3]. The central government and local governments decreased their issuing activity, whereas regional governments increased their issuing activity to account for over 11% of total gross issues[4].

Net issues in 2005 totalled 6.682 billion euro: a net 10.225 billion euro of long-term securities issued and a net 3.543 billion euro of short-term securities redeemed[5]. This issuing policy increased the average maturity of Spanish government debt to 6.61 years, from 6.16 years in 2004.

The outstanding balance of fixed-income issues by public administrations amounted to 346.265 billion euro at 31 December, i.e. a mere 2.2% more than in 2004 (see Table 3.1). Of that total, the outstanding balance of issues by regional governments was 29.527 billion euro, 11% more than in 2004.

3.1.2 Trading

There are two large trading segments in the public debt book-entry market: trading between market members and trading between registered dealers and third parties. There are two types of trading between market members: via electronic platforms (Senaf, MTS-España, EuroMTS, Brokertec, etc.)[6] and bilateral trading.

Trading between market members and with third parties may be outright (spot or forward) or temporary (repos and sell-buybacks/buy-sellbacks). Within the electronic platforms, Senaf and MTS-España provide spot trading with government debentures and bonds and Treasury Bills; and, in sell-buybacks/buy-sellbacks with government debentures and bonds. EuroMTS and Brokertec provide mainly spot trading in the main bond and debenture references.

In 2005, trading in the public debt book-entry market decreased by 2.7% on 2004 (see Table 3.2). However, outright trades grew significantly (17.5%) due to higher trading in bonds and debentures (18.4%) mainly in the second half of the year, when expectations grew as to an increase in interest rates by the ECB; this finally occurred at the beginning of December.

3. See Annex I.16.
4. 8.3% in 2004.
5. See Annex I.17.
6. Senaf and MTS-España are recognised as organised trading systems—a category expressly regulated by the Securities Market Law and supervised by the CNMV. EuroMTS and Brokertec are domiciled in the UK, in accordance with the authorisation and supervision requirements of that country.

This increase in outright trades only affected trading between market members and third parties, which increased by 29.2%[7]. This growth counteracted an 11.4% decline in trading between market members, mainly in government debentures and bonds, which accounted for 96% of the total trading between market members and which decreased by 12.6%. Trading in government debentures and bonds between market members has been steadily declining in recent years, and trading in 2005 was a little less than half of that registered in 2002.

Public debt trading. Overall market TABLE 3.2

Nominal amount in million euro

	2001	2002	2003	2004	2005	% Chg 05/04
Bills:	**2,723,403**	**2,235,874**	**2,607,855**	**2,273,364**	**2,230,340**	**-1.9**
Outright	58,505	40,096	90,195	115,549	116,447	0.8
Spot	58,116	40,096	89,751	114,951	116,087	1.0
Forward	389	0	444	598	360	-39.8
Repos	2,186,934	1,994,454	2,076,928	1,770,719	1,709,753	-3.4
Sell-buybacks/Buy-sellbacks	477,963	201,32 4	440,732	387,095	404,139	4.4
Debentures and bonds:	**13,517,341**	**16,569,559**	**18,682,476**	**20,560,318**	**19,984,874**	**-2.8**
Outright	2,008,605	2,289,343	2,220,233	2,133,892	2,526,914	18.4
Spot	1,983,641	2,270,847	2,157,130	2,021,747	2,221,814	9.9
Forward	24,963	18,496	63,103	112,145	305,100	172.1
Repos	6,565,894	8,191,374	9,100,744	10,707,375	9,700,501	-9.4
Sell-buybacks/Buy-sellbacks	4,942,842	6,088,842	7,361,498	7,719,051	7,757,459	0.5
Total	**16,240,744**	**18,805,433**	**21,290,331**	**22,833,682**	**22,215,214**	**-2.7**

Source: Bank of Spain.

The decrease in public debt trading was most noticeable in the electronic platforms, which lost 36% of their annual volume. One of the main reasons for this decrease is the loss of appeal by the Spanish bond market for day traders due to the increasing uniformity with the German bond market and low market volatility given the stability of interest rates in 2005. Just before the European Central Bank increased interest rates, trading between market members in bonds and debentures experienced a significant increase, particularly in the platforms, where average trading per day in October and November was 76% higher than the average in the rest of the year.

The highest volumes of trading in bonds and debentures between market members was in the two months before the ECB increased official interest rates at the beginning of December. In October and November, average daily trading was 27% higher than in the other ten months of the year. In the electronic trading platforms, the

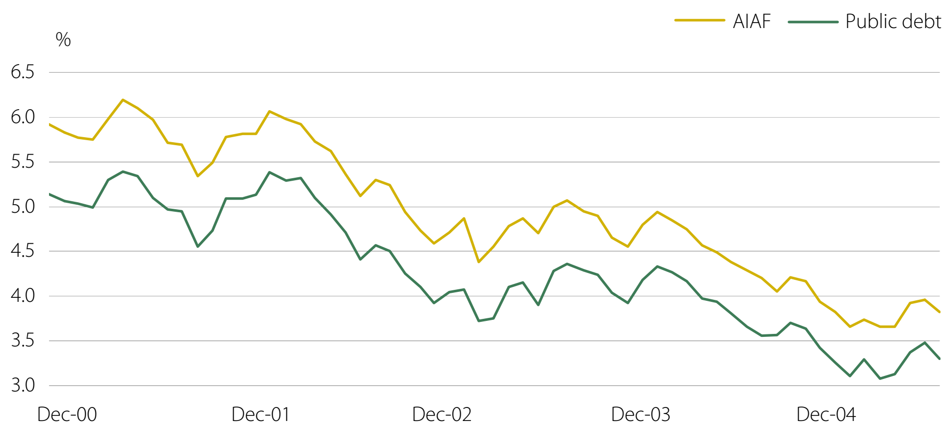
7. An increase of 11.9% in bills and 29.5% in bonds and debentures (see Annex I.21).

difference between the average daily trading in the two periods mentioned above was higher still: 76%.

The yields on bonds in the first half of the year maintained the downward trend which commenced in the middle of 2004. This trend was cut short in October and November due to growing expectations of an increase in interest rates by the ECB. The rise in interest rates affected short-term yields but not the long-term yields, which returned to their previous trend since long-term inflation prospects did not increase. As a result, the interest rate curves flattened.

The yield on ten-year government debentures, Spain's benchmark bond, was 3.37% at 2005 year-end, i.e. 27 basis points lower than at 2004 year-end. The spread against the German bond was maintained at around 5 basis points. Conversely, the yield on three-year public debt was 2.91%, an increase of 33 basis points, and there were no changes in the yield spread against Germany, which remained at 5 basis points.

Long-term fixed-income yield: private and public debt FIGURE 3.2



Source: Reuters and AIAF.

3.2 Private fixed-income

3.2.1 Instruments

Spain has two private fixed-income markets: AIAF and the stock exchanges. The markets currently trade in the following products:

– AIAF only: commercial paper and securitised commercial paper[8], mortgage covered bonds (cédulas hipotecarias), territorial covered bonds (cédulas territoriales), mortgage-backed securities (MBS) and asset-backed securities (ABS), preference shares and other securities.

8. Commercial paper issued by securitisation funds.

- Stock exchanges only: convertible and exchangeable bonds and debentures.

- Both markets: corporate and public non-convertible bonds and debentures[9] and the former "Matador" bonds.

3.2.2 Issuers, issues and outstanding balances in the stock exchange

In 2005, the number of issuers, issues and outstanding balances in both markets mentioned above.

There were 417 issuers in the fixed-income market: 23 were listed in both markets, 361 in AIAF alone and 33 in the stock market alone. There were 3,103 issues in both markets: 91% in AIAF and the other 9% in the stock markets. The outstanding balance of listed securities amounted to 465.734 billion euro, 96.3% of which was in AIAF (see Tables 3.3 and 3.4).

In AIAF, the outstanding balance grew 46%, primarily in bonds and debentures, which include securitisation bonds, and in mortgage covered bonds. By sector, the largest issuers were banks and thrifts and financial institutions, which accounted for 96% of the outstanding balance and 89% of issues listed in the market at 2005 year-end.

The outstanding balance on the stock exchanges[10] increased by 17.5% and amounted to 17.055 billion euro at year-end. The Barcelona Stock Exchange was the only one to register an increase in the outstanding balance.

Issuers, issues and outstanding balances of fixed-income in AIAF TABLE 3.3

Nominal amount in million euro

	No. of issuers		No. of issues		Outstanding balance		
	2004	2005	2004	2005	2004	2005	% chg. 05/04
Commercial paper	63	66	1,593	1,724	45,177	57,719	27.8
Bonds and debentures	272	362	786	1,018	196,613	290,547	47.8
Mortgage covered bonds	10	12	41	54	57,324	90,550	58.0
Territorial covered bonds	3	3	5	8	5,800	7,575	30.6
Matador bonds	20	20	34	32	2,515	2,288	-9.0
Total	**324**	**384**	**2,459**	**2,836**	**307,429**	**448,679**	**45.9**

Source: CNMV.

9. Both markets can trade in fixed-income issued by both private issuers and public entities. These secondary markets are deemed to be in the private fixed-income area since their initial focus was on trading private securities; nevertheless, fixed-income trading in the stock exchanges in recent years has been dominated by debt issued by regional governments.
10. The stock exchange outstanding balance does not include issues in the public debt book-entry market, although they may be traded in the electronic market.

In terms of sectors, non-financial companies reduced their outstanding balance by a little over a third, financial companies substantially increased their outstanding balance (by 64%) since asset-backed securities were admitted to trading on the Barcelona stock exchange; the outstanding balance of the public sector also increased somewhat moderately (by 9%) due to debt securities issued by the Catalunya regional government. This situation caused public fixed-income to decrease in weighting in the stock exchanges for the first time in recent years.

Issuers, issues and outstanding balances of fixed-income in the stock markets TABLE 3.4

Nominal amount in million euro

	No. of issuers		No. of issues		Outstanding balance		
	2004	2005	2004	2005	2004	2005	% chg. 05/04
Total	**52**	**56**	**265**	**267**	**14,482**	**17,055**	**17.8**
Regional	3	3	87	92	7,198	8,457	17.5
Other	49	53	178	175	7,284	8,598	18.0
Barcelona Stock	41	45	204	202	12,111	14,835	22.5
Bilbao Stock	42	42	153	128	4,904	3,938	-19.7
Madrid Stock	34	34	134	111	3,846	3,059	-20.5
Valencia Stock	38	38	177	160	5,159	4,391	-14.9

Source: CNMV.

3.2.3 Primary market in private fixed-income

As shown in Table 3.1, gross private fixed-income issues in Spain in 2005 increased by 25.9% on 2004, slightly less than the growth rate registered in 2004. They amounted to 415.600 billion euro: 64% short-term securities and 36% long-term securities, although long-term securities grew faster (30.9%) (see Table 3.5). Financial institutions accounted for 97% of total gross private fixed-income issues.

The figures shown in Table 3.5 include the issues registered at the CNMV and also the number of issues that, in accordance with the changes in legislation in 2005[11], do not require the preparation or filing of an issuance prospectus, and which are only required to issue listing particulars when they are intended to be traded on a regulated market[12].

11. Article 30.Bis of the Securities Market Law, as amended by Royal Decree-Law 5/2005 of 11 March and Royal Decree-Law 1310/2005 of 4 November.
12. When securities are offered to the public, issuers are required to publish and file an issuance prospectus at the CNMV containing all the necessary information to enable investors to carry out an adequate evaluation of the financial situation of the issuer and of the rights inherent to the securities. If the issuer intends to list securities on an organised market, it must file listing particulars at the CNMV which are less detailed than the issuance prospectus.

Gross issues registered[1] at the CNMV: detail by instrument

TABLE 3.5

Nominal amount in million euro

	2002	2003	2004	2005	% chg. 05/04
Long term	**39,658**	**84,318**	**115,594**	**151,347**	**30.9**
Non-convertible bonds and debentures	5,254	17,948	38,094	41,907	10.0
of which: subordinated debt	*1,909*	*4,076*	*4,395*	*1,905*	*-56.7*
Convertible bonds and debentures	260	187	97	163	67.2
Mortgage covered bonds	11,674	17,864	19,074	35,560	86.4
Territorial covered bonds	0	4,200	1,600	1,775	10.9
Backed securities	18,908	37,212	50,759	70,497	38.9
asset-backed (ABS)	*12,119*	*32,182*	*43,745*	*63,647*	*45.5*
mortgage-backed (MBS)	*6,789*	*5,030*	*7,014*	*6,850*	*-2.3*
Preference shares	3,237	3,760	5,542	1,356	-75.5
Other issues	326	3,146	428	89	-79.1
Short term	**104,713**	**155,772**	**214,603**	**264,253**	**23.1**
Commercial paper[2]	104,713	155,772	214,603	264,253	23.1
Of which, asset-backed	*6,114*	*3,870*	*3,724*	*2,709*	*-27.2*
Total	**144,371**	**240,091**	**30,196**	**415,600**	**25.9**

Source: CNMV.

1. This includes the volume of issues admitted to trading without publishing issuance prospectuses.
2. The figures for commercial paper refer to the amount placed in the year.

Issues that only required listing particulars to be filed amounted to 42.524 billion euro in 2005. This figure includes 24,248.5 million euro in non-convertible bonds and debentures, 18,000 million euro in mortgage covered bonds and the rest in territorial covered bonds (275 million euro) and convertible bonds and debentures (0.7 million euro).

The two instruments with the most weighting in gross total issues in Spain were commercial paper (63%) and asset- and mortgage-backed securities (17%). Issuance of these two types of assets increased significantly, especially commercial paper, which came close to 50.000 billion euro in absolute terms. These two factors, along with the mortgage covered bonds, account for 100% of the growth in private fixed-income issuing in 2005. Over half of gross issues were mortgage covered bonds, which do not require a prospectus, issued by credit institutions and aimed at institutional investors.

Issues of preference shares and subordinated debt declined, breaking the rising trend of previous years. In 2005, gross issues of these two instruments amounted to practically half of the 2004 figure, even taking account of issues in other countries[13].

Exemption from the obligation to publish a prospectus in certain cases envisaged in the Prospectus Directive

The transposition of Directive 2003/71/EC of the European Parliament and the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, more commonly known as the Prospectus Directive, into Royal Decree-Law 5/2005, dated 11 March, on urgent reforms to boost productivity, established, inter alia, that, in the case of certain public offerings, issuers are not required to publish a prospectus.

Article 30 bis of the Royal Decree-Law stipulates that *"the obligation to publish a prospectus shall not apply to the following types of offering that, for the purposes of this law, are not deemed to be public offerings:*

a. An offering of securities addressed solely to qualified investors.

b. An offering of securities addressed to fewer than 100 natural or legal persons per Member State, other than qualified investors.

c. An offering of securities addressed to investors who acquire securities for a total consideration of at least 50,000 euro each, per offering.

d. An offering of securities whose unit nominal value amounts to at least 50,000 euro.

e. An offering of securities amounting to a total of less than 2,500,000 euro, which limit shall be calculated over a period of 12 months."

Articles 26 and 41 of Royal Decree 1310/2005, of 4 November, which partially implements Law 24/1998, of 28 July, on the securities market, as regards the admission to listing of securities on official secondary markets, public offerings and the prospectus required for such purposes, specify the exemptions from the obligation to publish a prospectus and the exemptions from the obligation to publish a public offering prospectus.

This exemption from the obligation to publish a prospectus does not free issuers from the obligation to file listing particulars if they are asking for admission to trading on a regulated market. The information contained in

13. The total amount of preference share issues amounted to 6.447 billion euro in 2004 and 3.271 billion euro in 2005, of which 1.915 billion were issued abroad. The nominal value of total subordinated debt issues in 2004 was 6.645 billion euro and, in 2005, this total fell to 3.392 billion euro: 1.487 corresponded to issues outside Spain.

these listing particulars shows that in 2005 there were 40 fixed-income issues, 79 equity issues and 1,072 warrant issues made by this method.

In 2005, fixed-income securities represented 94% of the total nominal value issued. Fixed income securities amounted to 45.524 billion euro; 53% corresponded to non-convertible bonds and debentures and 40% to mortgage covered bonds. Almost all of them were issued by credit institutions or financial institutions linked to them and were for institutional investors.

For a comprehensive view of the issuing activity of Spanish companies it is important to take account of issuance in other countries, which has attained a notable dimension in a short space of time. Over the last two years, out of total long-term fixed-income issued by Spanish companies, issues in other countries doubled from 7% in 2003 to 16% in 2005. This matter is described in more detail further down (see box in this chapter).

Issues in other countries were mainly in non-convertible bonds and debentures, gross issues of which amounted to 41.907 billion euro within Spain and 33.772 billion euro outside Spain. Including issues in other countries, non-convertible bonds and debentures issued by Spanish companies came close to matching the amount of assets backed securities in 2005, in contrast with previous years.

The increase in Spanish issues abroad over the last two years is a result of the change in legislation implemented in Law 19/2003 regarding preference shares and other debt instruments. Availing themselves of this legislation, certain Spanish issuers seized the opportunity to diversify their markets for issues, a trend which has been growing year on year, as shown in the following table.

Gross private fixed-income issued by Spanish issuers in other countries

TABLE 3.6

Nominal amount in million euro

	2003	2004	2005
Preference shares	400	905	1,915
Subordinated debt	0	2,250	1,487
Bonds	0	0	11,056
Debentures	0	3,891	21,229
Total (pursuant to Law 19/2003)	**400**	**7,047**	**35,687**
Backed securities	10,864	12,628	12,507
Total	**11,264**	**19,675**	**48,194**

Source: CNMV, based on information from the Bank of Spain.

Issues in other countries of preference shares and other types of debt pursuant to Law 19/2003

Law 19/2003, of 4 July[14], introduced a second additional provision in Law 13/1985, of 25 May[15], which specifies the conditions that must be met by preference shares issued by credit institutions in order to qualify as equity and for the purposes of their legal system. These securities were not previously regulated in Spanish legislation and were being issued in other jurisdictions (e.g. the Cayman Islands). In order to classify as preference shares under this Law, securities must:

a. be issued by a credit institution or by an institution resident in Spain or a territory of the European Union not considered to be a tax haven, and whose voting rights correspond to a credit institution that is the controlling company of a consolidable group or subgroup of credit institutions and whose sole activity or purpose is to issue preference shares;

b. entitle holders to receive a pre-set non-cumulative remuneration;

c. not give holders voting rights, except in the exceptional circumstances that are established in the respective issuance conditions,

d. be perpetual; and

e. be listed in organised secondary markets.

The provision applies to debt instruments issued by companies which meet the requirements of paragraph a) above and "whose sole activity or purpose is to issue preference shares and/or other financial instruments, provided that they meet the requirements of being listed on organised markets and, where appropriate, that there is a permanent deposit and guarantee on the part of the parent company……".

At 2005 year-end, there were 79 issues amounting to 43.133 billion euro; 36.176, billion euro of bonds and debentures, 3.736 billion euro of subordinated debt and 3.220 billion euro of preferential shares[16].

The issuers were linked mainly to banks (86% of the total amount issued). Thrifts played a significantly smaller role (9% of the total).

The issues were made mainly in Luxembourg and also, to a lesser extent, in the US, Germany and London. The securities were then listed mainly in Luxembourg and London: 45 issues were listed in Luxembourg (44.9% of the total amount issued); there were fewer issues listed in London (30) but their amount was higher (52.6% of the total). The third main listing venue was Amsterdam, with 4 issues

14. Law 19/2003, of 4 July, concerning the legal regime applicable to capital movements and foreign economic transactions and specific measures to prevent money laundering.
15. Law 13/1985, of 25 May, on investment coefficients, equity and disclosure obligations of financial intermediaries.
16. This trend is continuing since, in the first two months of 2006, there were 25 issues amounting to 14.919 billion euro.

and 2.5% of the total issued. In preference shares, four issues were listed in several markets, among which, apart from the three mentioned above, were Frankfurt and New York.

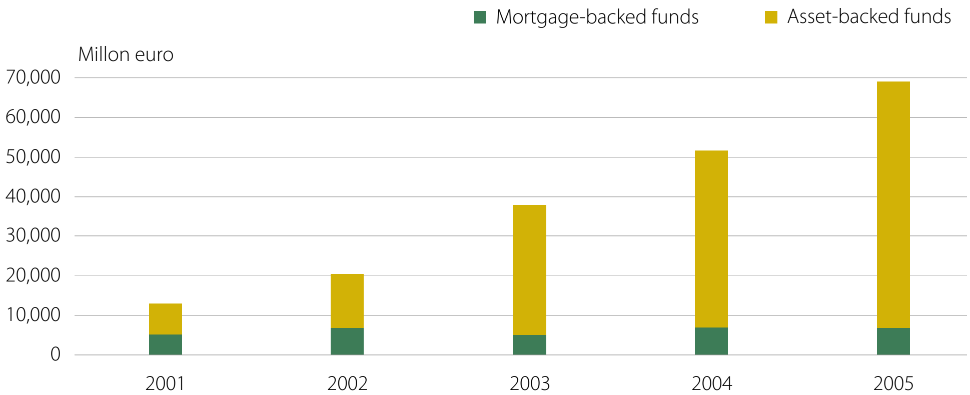
Most of the issues are denominated in euro, but a far from negligible amount are in dollars, pounds sterling and also a residual amount in yen, Canadian dollar and the Czech koruna.

Asset- and mortgage-backed securities

Asset- and mortgage-backed securities were the second-largest category of fixed-income instruments in terms of issue volume, behind commercial paper.

Asset-backed securities (ABS) represented the bulk of this segment and have been growing significantly for some years (see Figure 3.3).

Asset- and mortgage-backed securities registered at the CNMV FIGURE 3.3



Source: CNMV.

Close to 80% of asset-backed securities (ABS) in 2005 were mortgage covered bonds, mortgage transfer certificates and mortgage participations. Securitisation of loans to SMEs accounted for a little over 6% of ABS. In addition to those assets, loans to property developers, consumer credit, automobile purchase loans, loans to finance agricultural and livestock operations, special territorial covered bonds and bank bonds were securitised.

The largest individual securitisation operations were in the ABS segment, where nine issues amounted to 2 billion euro or more. The three largest issues (5.4 billion euro, 5.0 billion euro and 3.9 billion euro), backed by special mortgage covered bonds originated by several thrifts, were managed by Ahorro y Titulización. One of the most noteworthy ABS issues was the securitisation of Santander Central Hispano mortgage loans and non-mortgage loans to companies and self-employed individuals to finance their economic activity and to purchase property to carry on this activity, which amounted to 3.100 billion euro.

Mortgage-backed securities (MBS) fell[17] in terms of both the number of issues and the amount. Only three of the seven mortgage-backed security (MBS) issues registered in 2005 were worth more than a 1 billion euro, including notably AYT Genova Hipotecario VII, managed by Ahorro y Titulización (1.4 billion euro).

In 2005, the main new features in the primary securities market were related to securitisation, in particular a) funds whose main assets were securitisation bonds[18] and b) funds in which each series of bonds issued by the fund are backed univocally by the related mortgage covered bonds which are part of their assets.

Two CDOs were registered: Santander Auto 1, whose assets consist of mortgage covered bonds, and Caja San Fernando CDO I, whose assets consist of bonds backed by assets of all types, in euro and dollars.

In the second type, the funds Intermoney Master Cédulas FTA and AYT Cédulas Cajas Global were registered. Both funds are open in terms of both assets and liabilities and, because all classes of bonds are compartmentalised, ordinary redemption or early settlement of a compartment will not affect the rest or mean that the fund is liquidated. The main difference between the funds is that the first type can issue up to 15 series of bonds and the second type can have a maximum of 50 series outstanding at any given moment, and is structured in the form of a shelf registration.

3.2.4 Secondary markets in fixed-income: AIAF and stock exchanges

In Spain, private fixed-income issues are traded via AIAF and the stock exchanges[19]. In AIAF, trading can be done in two segments: the first one is among market members and the second one is between market members and their clients. Trading with clients is bilateral but trading among members can be bilateral or via an electronic system (Senaf).

In the stock exchanges, trading can be done electronically or via open outcry. The electronic trading system[20] interconnects the four stock exchanges; the traditional open outcry segment[21] exists in all the stock exchanges except the Madrid stock exchange.

17. Annex I.26 shows the largest issuers of asset- and mortgage-backed securities in 2005, all of which had issues worth over 1,100 million euro and represented a little under 70% of the total amount issued.
18. Collateralised Debt Obligations (CDO).
19. Neither of those two markets trade exclusively in private fixed-income.
20. As SIBE does for equities, the electronic fixed-income market interconnects trading in the four Spanish stock exchanges in real time. This is an order-driven market in which private fixed-income securities and public debt securities are traded electronically via the market members' trading terminals. Securities are traded continuously and electronically, all activity is disclosed in real time, and the market is anonymous in terms of both orders and trades.
21. In the Barcelona and Bilbao stock exchanges, public debt issued by the corresponding regional government is classified as open outcry trading although trading is via the telephone.

In 2005, fixed-income trading increased in both AIAF and in the stock exchanges. In nominal terms, the combined amount was 965.910 billion euro; 877.812 billion euro in AIAF and 87.998 billion euro in the stock exchanges (see Tables 3.7 and 3.8).

In AIAF, commercial paper and bonds and debentures were the most dynamic segments, each accounting for approximately 46% of the total. Trading in commercial paper was almost entirely for third parties and in over two thirds of the cases by repos.

Trading in bonds and debentures was mainly in the form of sell-buybacks and buy-sellbacks, which accounted for a little over 60% of the total nominal amount. In bonds and debentures, trading in asset-backed securities was the largest single segment, followed by mortgage-backed securities; together they accounted for 78% of the total.

Total trading on AIAF*

TABLE 3.7

Nominal amount in million euro

	2001	2002	2003	2004	2005	% chg. 05/04
By type of asset						
Commercial paper	100,812	212,702	265,604	291,903	408,185	39.8
Bonds and debentures	38,820	52,146	94,694	227,127	404,410	78.1
Mortgage covered bonds	2,100	4,164	16,745	46,014	60,061	30.5
Territorial covered bonds	—	—	3,939	3,357	2,740	-18.4
Matador bonds	2,001	3,458	3,107	3,629	2,416	-33.4
Total	**143,733**	**272,470**	**384,089**	**572,030**	**877,812**	**53.5**
By type of transaction						
Outright	75,879	86,587	142,861	242,333	322,819	33.2
Repos	29,682	151,008	191,866	197,778	284,520	43.9
Sell-buybacks/Buy-sellbacks	38,172	34,876	49,362	131,919	270,473	105.0

Source: CNMV.

* Proprietary and third-party trading.

Fixed-income trading in the stock exchanges

TABLE 3.8

Nominal amount in million euro

	2001	2002	2003	2004	2005	% chg. 05/04
Total	**50,829**	**64,861**	**66,566**	**77,017**	**87,998**	**14.3**
Regional	49,815	63,998	64,758	76,259	83,204	9.1
Other	1,014	863	1,808	758	4,794	532.6

Source: CNMV.

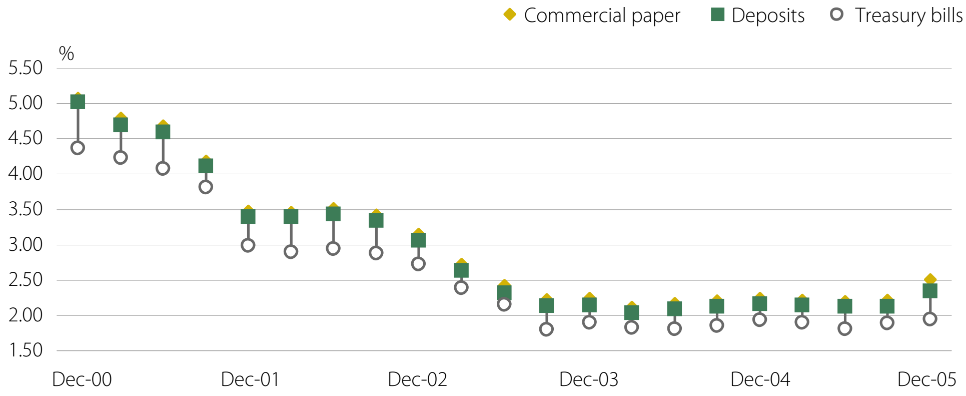
Trading in bonds and debentures registered the highest growth year-on-year, mainly via sell-buybacks and buy-sellbacks Conversely, trading in territorial covered bonds and "matador" bonds declined.

With 82 billion euro, the Barcelona Stock Exchange accounted for the bulk of trading (93%) in the stock market segment. Specifically, trading was concentrated in public debt securities issued by the Catalunya regional government (77.6 billion euro).

There was also a substantial increase in trading in asset-backed securities[22] which accounted for 4.8% of the amount traded in the stock market.

Average commercial paper yields declined slightly for most of the year but picked up significantly as expectations escalated with regard to an increase in interest rates by the ECB. The spread with respect to Treasury Bills, which had remained stable until then, also increased in the last few months (see Figure 3.4).

Yields* on commercial paper, interbank deposits and three-month repos FIGURE 3.4



Source: AIAF and Bank of Spain.

* Quarterly average.

The yield on long-term private debt remained in line with that of public debt, i.e. it decreased in the first half of the year and increased slightly over the rest of the year (see Figure 3.2). The spread between these two instruments remained quite stable, although it increased slightly in the months in which tensions were running high in the international bond markets due to the situation of the U.S. multinational General Motors. The yield on private debt maturing at over 10 years traded on AIAF was 3.82% at 2005 year-end, 38 basis points less than at 2004 year-end.

22. Trading increased from 110 million euro in 2004 to 3.726 billion euro in 2005; 92% corresponded to securities issued in 2005 and backed by loans granted by financial institutions to companies based in Catalunya.

4 Record-keeping, counterparties, clearing and settlement

There are five securities clearing and settlement platforms for Spain's spot markets. Those five platforms are managed by four central securities depositories: Iberclear (with the Iberclear CADE and Iberclear SCLV platforms), SCLBarcelona, SCLBilbao and SCLValencia. Iberclear operates with securities traded nationwide and the other platforms with securities traded only in their respective stock exchanges.

Iberclear is also the central registrar for securities traded in Spain's spot markets, although the Bilbao, Barcelona and Valencia stock markets keep a record of the securities that are settled there.

Since 2003, MeffClear has been able to provide counterparty services to various segments. Specifically, it currently provides central counterparty services for trades in repos on AIAF and certain of the bilateral debt trades on other platforms[1].

Iberclear is supervised by the CNMV, while the other three depositories, SCLBarcelona, SCLBilbao and SCLValencia, are monitored by the regional governments of Catalunya, the Basque Country and Valencia, respectively. The CNMV is also in charge of supervising MeffClear.

4.1 Iberclear

Iberclear[2] is in charge of registering, clearing and settling securities in Spain. Iberclear is 100% owned by the Bolsas y Mercados Españoles (BME) holding company and it focuses principally on securities traded in the stock exchanges, public debt market and AIAF. At 2005 year-end, Iberclear had 244 members, ten less than at 2004 year-end (see Table 4.1).

In general, the activity indicators of the two platforms managed by Iberclear (Iberclear–CADE for securities traded in the AIAF fixed-income market and the Public Debt Book-Entry Market; and Iberclear-SCLV for securities traded in the stock exchanges and Latibex) reflected trading performance in their benchmark markets (see Chapters 2 and 3).

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1. In bilateral debt agreements traded outside the SENAF platform it is the parties who decide if the trade is settled through Iberclear or Meffclear.
2. Trade name of "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal".

Iberclear members

TABLE 4.1

	2004	2005
Total Iberclear*	**254**	**244**
Stock exchanges	105	98
Latibex	89	85
AIAF	76	74
Public debt	207	199

Public debt: CNMV.

* The total is lower than the sum of the number of clearing members in the various markets since many companies are members of more than one market.

4.1.1 Iberclear–CADE

At 2005 year-end, 3,204 issues were registered in the Iberclear-CADE platform with a nominal value of 787,337 million euro. Most of them were listed on AIAF, which accounted for 90% of the total number[3].

Public debt and AIAF issues increased significantly with respect to 2004 both in number and nominal value (see Table 4.2).

In 2005, Iberclear–CADE settled a total of 8,552,276 trades[4], of which 88.2% were in the Book-Entry Debt Market. The number and amount of public debt trades decreased with respect to 2004, especially due to repos and sell/buybacks and buy/sell-backs, which constitute the bulk of trading. However, trading rose in all segments of AIAF except for temporary transfers (see Tables 4.3 and 4.4).

In 2005, there was an increase in the number of failed settlements (i.e. occasions when entities had insufficient securities on the settlement date). In 2004, the number of failed settlements rose by 42%, or 54% if measured in terms of the amount of the shortfall. This variation was felt most in the final quarter of the year, in which 40% of the failed settlements for the year were concentrated. Non-resident entities were responsible for the bulk of failed settlements, representing 71% of the number and 50% of the amount.

Iberclear - CADE. Record-keeping activities

TABLE 4.2

Million euro

Registered securities	Public debt		AIAF		Total		
	2004	2005	2004	2005	2004	2005	% chg. 05/04
Number of issues	272	315	2,531	2,889	2,803	3,204	14.3
Nominal amount	322,755	337,539	315,274	449,798	638,029	787,337	23.4

Source: CNMV.

3. However, AIAF issues accounted for around less than 60% of the total nominal value.
4. Including 818,449 transfers.

Iberclear - CADE. Number of settled transactions

TABLE 4.3

Million euro

Type of transaction	Public debt 2004	Public debt 2005	AIAF 2004	AIAF 2005	Total 2004	Total 2005	Total % chg. 05/04
Outright trades	198,828	204,683	702,051	745,345	900,879	950,028	5.4
Repos and sell/buybacks and buy/sellbacks	7,419,759	6,697,683	66,473	86,116	7,486,232	6,783,799	-9.3
Outright transfers	386,161	417,428	127,284	174,285	513,445	591,713	15.2
Temporary transfers	256,003	226,735	149	1	256,152	226,736	-11.4
Total	**8,260,751**	**7,546,529**	**895,957**	**1,005,747**	**9,156,708**	**8,552,276**	**-6.6**

Source: CNMV.

Iberclear - CADE. Amount of settled trades*

TABLE 4.4

Million euro

Type of transaction	Public debt 2004	Public debt 2005	AIAF 2004	AIAF 2005	Total 2004	Total 2005	Total % chg. 05/04
Outright trades	2,703,020	3,252,731	325,410	411,578	3,028,430	3,664,309	21.0
Repos and sell/buybacks and buy/sellbacks	49,444,699	46,419,258	646,059	1,097,185	50,090,758	47,516,443	-5.1
Outright transfers	9,194,687	10,256,602	1,338,351	1,900,110	10,533,038	12,156,712	15.4
Temporary transfers	741,970	735,231	607	1	742,577	735,232	-0.9
Total	**62,084,376**	**60,663,822**	**2,310,427**	**3,408,874**	**64,394,803**	**64,072,696**	**-0.5**

Source: CNMV.

* Effective amount for outright trades, repos and sell/buybacks and buy/sellbacks; nominal amount for outright and temporary transfers.

One of the reasons for the increase in failed settlements of public debt is the fact that, at certain times, the Treasury repurchased securities to absorb surplus liquidity. This caused a shortage of debt securities in the market, which made it difficult for entities to buy securities of this type to settle sell/buybacks and buy/sellbacks.

Nevertheless, failed settlements on the CADE platform were insignificant with respect to the total settled (0.004% of the number of transactions and 0.01% of the amount settled), evidencing that the platform as a whole is performing satisfactorily.

4.1.2 Iberclear–SCLV

A total of 3,540 issues were registered in this platform at 2005 year-end, with a nominal value of 90,253 million euro. In 2005, the number of issues increased but the nominal amount fell slightly, by 0.5% (see Table 4.5), since the bulk of new issues were by open-end securities investment companies (SICAV).

Iberclear - SCLV. Record-keeping

TABLE 4.5

Million euro

	Stock exchange			Latibex		
	2004	2005	% chg. 05/04	2004	2005	% chg. 05/04
Number of issues	3,513	3,540	0.7	35	36	2.8
Registered amount*	90,724	90,253	-0.5	36	79	119.4

Source: CNMV.

* Nominal amount for the stock exchange and effective amount for Latibex.

Including all the Spanish stock exchanges and Latibex, 17,079,167 trades were settled in 2005, with a nominal value of 2,018,498 million euro. The number of settled trades rose 12.6% on 2004, whereas the cash volume increased 34.8%. This performance is in line with the market, where the number of trades increased after two years of continuous decline (see Table 4.6).

In 2005, the number of failed settlements increased by 40%, or 55.8% in terms of the amount of the shortfall. The increase in failed settlements reflected the initial operational problems after Iberclear Circular 3/2004 came into force, which established a new procedure for matching security transfer instructions between entities[5]. However, this situation was rectified from the second quarter onwards. Failed settlements on the SCLV platform were insignificant with respect to the total (0.42% of the number of trades and 0.67% of the amount settled), evidencing that the platform as a whole is performing satisfactorily.

Iberclear - SCLV. Settled transactions

TABLE 4.6

Million euro

Transactions	Stock exchange				Latibex			
	No. of transactions		Amount		No. of transactions		Amount	
	2004	2005	2004	2005	2004	2005	2004	2005
Purchases and sales	14,255,707	16,021,281	1,289,545	1,703,151	38,559	59,884	738	1,101
Failed settlements	39,143	67,174	5,085	11,332	872	2,245	14	48
Buy-ins	622	1,383	37	152	1	4	—	—
Transfers fop[1]	258,472	306,650	—	—	499	1,133	—	—
Transfers vp[2]	629,715	689,102	209,473	314,204	64	1,117	1	42
Total[3]	**15,143,894**	**17,017,033**	**1,499,081**	**2,017,355**	**39,122**	**62,134**	**739**	**1,143**

Source: CNMV.

1. Transfers fop = transfers free of payment.
2. Transfers vp = transfers versus payment.
3. Sum of purchases and sales, transfers fop and transfers vp.

5. This new transfer procedure is included in Iberclear Circular 3/2004.

4.1.3 Innovations and improvements

As in 2004, Iberclear continued to work on a number of projects aimed at improving its operating efficiency. Certain of these projects were implemented in 2005, but many others are expected to be completed in 2006.

In January, the CADE platform migrated from the Bank of Spain to Iberclear's IT system[6]. This change had little impact on Iberclear's procedures, but it meant that files are now exchanged directly between Iberclear and its members.

Also in 2005, the Single Communications Interface (Ventana Unificada de Comunicaciones) was developed, a major project that has three objectives: (i) to improve connectivity by unifying the information interchange systems of the CADE and SCLV platforms, (ii) to progress in standardisation by adapting the communications and files to international standards and (iii) to unify the procedures for matching bilateral transactions, based on the "unified matching system" (SUC):

– In March 2005, SUC-Transfers (SUC-Traspasos) was implemented[7]. The main new development that this system incorporates is that the trade is confirmed if the information sent by the two entities themselves match. The previous system involved an entity accepting or rejecting the instructions sent by the counterparty. Furthermore, this was the first procedure to communicate security settlement instructions with a design based on the ISO 15022 standard, thus enhancing standardisation.

– At the end of November 2005 the second part of the SUC project, SUC-Loans[8] (SUC-Préstamos), aimed at bilateral loans of listed securities, was put into action. This new system seeks to promote security lending since, in addition to establishing a system for matching the borrower's and lender's instructions, it makes Iberclear's resources available to participants in order to settle amounts relating to bilateral loans that are processed as collateral. This reduces the risks associated with the independent settlement of the loan and its collateral. The systems defined also meet the requirements of the international ISO 15022 standard.

– At 2005 year-end, work was being performed on unifying the information interchange systems of the two CADE and SCLV platforms.

– SUC-Fixed Income (SUC-Renta Fija), which was being defined in the last few months of 2005, can be expected to be implemented in mid-2006. SUC-Fixed Income is geared towards the unification of the procedures for matching security transactions in AIAF and in the Public Debt Market. It will also conform to the ISO 15022 standard, and will, therefore, achieve standardisation, connectivity and unification of matching procedures.

6. Established by Iberclear Instruction 7/2004.
7. Established by Iberclear Circular 3/2004.
8. Established by Iberclear Circular 4/2004.

In November 2005, the Unified Disclosure Application (Aplicación Unificada de Desglose) (AUD) was implemented to rationalise disclosures within the BME holding company markets by centralising this process. This enables each Stock Exchange Company to continue to offer its members any additional services that it considers appropriate. This application will not involve any changes in the disclosure mechanism.

The reform of centralised lending (which will be called administered security lending) continues, whereby Iberclear acts as a borrower of the securities and then lends them to the companies wishing to borrow them to cover their sales. It was not developed as expected in 2005, due, inter alia, to the delay in implementing SUC-Loans, which will be the basis for the new lending system. It is expected to be completed by the end of 2006.

Iberclear also implemented the necessary measures[9] regarding the system for contractual clearing and collateral agreements in order to modify the operating procedures as provided by Royal Decree Law[10] 5/2005, of 11 May, on urgent reforms to stimulate productivity and improve public trading. This Royal Decree Law establishes two types of financial collateral: transfer or pledge. Also, for pledged securities, it stipulates that parties can agree on the terms of disposition and substitution and execution of the pledge.

4.1.4 CO_2 emission allowances

The National Register for Greenhouse Gas (GHG) Emission Allowances (RENADE) became operational on 20 June 2005, and is managed by Iberclear[11]. RENADE is configured as an electronic database which ensures that the ownership and control of emission allowances are published and updated on an ongoing basis. The Register is supervised by the Ministry of Environment and it operates in accordance with international agreements[12] and EU and Spanish legislation[13].

Before it began operations, Iberclear registered the National Allocation Plan of Allowances in RENADE, which establishes the emission allowances assigned to sectors and companies for 2005 to 2007, in accordance with Directive 2003/87/EC (see Table 4.7)[14]. The total number of Spanish installations which have emission allowances under this Plan is 855.

9. Established by Iberclear Circular 2/2005.
10. This Royal Decree incorporates Directive 2002/47/CE of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements into Spanish Law.
11. Decision by the Spanish Cabinet of 19 November 2004.
12. United Nations Framework Convention on Climate Change and the Kyoto Protocol.
13. European Commission regulation relating to a standardised and guaranteed system of national registers provided for in the Kyoto Protocol and Law 1/2005, of 9 March, regulating the regime for the trading of greenhouse gas emission allowances.
14. Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

National Allocation Plan of Allowances: allocation by sector TABLE 4.7

Tonnes of CO_2	2005	2006	2007
Wall and floor tiles	875,395	875,395	875,395
Lime	2,456,300	2,456,300	2,456,300
Cement	27,536,362	27,536,362	27,536,362
Cogeneration	11,634,505	11,658,095	11,695,175
Frits	678,788	678,788	673,843
Generation: Coal	57,182,005	51,403,313	44,634,534
Generation: Combined cycle	16,614,739	12,015,900	12,768,948
Generation: Extrapeninsular	10,882,108	10,551,461	10,457,261
Generation: Fuel	1,489,649	584,948	0
Generation: Other power plants	809,041	809,041	809,041
Generation: Thermal combined cycle	1,580,661	1,580,661	1,580,661
Generation: Other various installations	1,858,600	1,582,896	1,605,544
Pulp and paper	5,237,856	5,237,856	5,237,856
Oil refining	15,250,000	15,250,000	15,250,000
Iron and steel	11,230,000	11,230,000	11,230,000
Roof tiles and bricks	4,718,707	4,718,707	4,718,707
Glass	2,243,994	2,243,994	2,243,994
Total	**172,278,710**	**160,413,717**	**153,773,621**
Note:			
Total number of installations that have CO_2 allowances			855

Source: RENADE.

4.2 Meffclear

Meffclear provides central counterparty services for trades in public debt instruments, mainly from the SENAF platform. It acts as a single counterparty for market members in trades in securities and financial instruments; i.e. when a trade is registered in Meffclear, the latter acts as a buyer vis-à-vis the seller, and as a seller vis-à-vis the buyer, thus assuming the counterparty risk. Participants have the obligation to settle their net position vis-à-vis the counterparty.

In 2005, Meffclear registered 1,392 trades for a total effective amount of 162,407 million euro[15]. In 2004, Meffclear experienced a large decrease in both the number of transactions and the effective volume settled (see Table 4.8), which is in line with the decrease in activity in the SENAF platform. Over 97.5% of Meffclear's activity (in terms of both trade numbers and value) was in SENAF trades and the remainder related to bilateral trades performed in other platforms[16].

15. The daily average was 671.99 million euro.
16. The average term of the transactions was 2.10 days (1.78 days for SENAF transactions and 25.66 days for bilateral transactions). In 2005, the average term of SENAF transactions fell from 2.10 days to 1.78 days.

In 2005, the same number of members (19) operated with the central counterparty as in 2004. A total of 14 members made trades, which were fairly concentrated as the five most active members accounted for 71.4% of the total volume registered.

Activity in Meffclear TABLE 4.8

	2004	2005
SENAF platform: effective trading	295,949	160,121
Bilateral transactions: effective trading	10,386	2,286
Total	**306,335**	**162,407**
Senaf platform: number of trades[1]	2,705	1,363
Bilateral transactions: number of trades[2]	104	29
Total	**2,809**	**1,392**
No. of participants	**19**	**19**

Source: CNMV.

1. Commenced on 15 September 2003.
2. Commenced on 2 October 2003.

5 Spain's derivatives markets

In 2005, trading increased significantly in the Spanish derivatives markets, despite the decrease in the average annual volatility of the spot markets.

The liquidity of the main stocks listed on the Spanish stock exchange and the arrival of new participants, mainly non-residents, increased trading in Spanish equity derivatives on Mercado Español de Futuros y Opciones Financieros (MEFF), which increased sharply in 2005 after three consecutive years of decline. Trading in contracts on individual stocks was very dynamic.

Warrant trading on the electronic market continued to grow at a strong pace.

5.1 MEFF

In 2005 the increase in trading on MEFF was higher than on the other major European derivatives markets, reversing the trend of prior years (see Table 5.2). Only the Italian derivatives market, IDEM/MIF, and the Dutch branch of Euronext grew at a comparable pace. Once again, most of the trading in financial derivatives in Europe was concentrated in the Eurex and Euronext markets.

Futures on Spanish stocks were the most traded products on MEFF by number of contracts. Trading in these products has grown steadily since their launch in 2001. In 2005 the trading volume exceeded 17.4 million contracts, an increase of 70.1%, and open interest increased from 1.6 million contracts at 2004 year-end to 1.9 million contracts at 2005 year-end.

As reflected in Table 5.3, trading was concentrated in contracts on the six stocks with the highest liquidity and capitalisation[1], all of which, particularly the Telefónica and SCH contracts, saw strong growth. Trading in stock options reversed the declining trend of the last few years and increased significantly, by 34.4%, to more than nine million contracts in 2005.

Trading in Ibex 35 contracts increased for the second consecutive year, albeit less than in 2004 (see Table 5.1). Trading was concentrated in Ibex 35 plus futures. Trading rose by 16.4% to more than 4.7 million contracts and open interest at year-end

1. Trading in BBVA, Endesa, Iberdrola, Repsol, SCH and Telefónica futures accounted for 95.5% of the total in 2005, as compared with 91.2% in 2004.

Trading on Spain's derivatives markets*

TABLE 5.1

No. of contracts, except where otherwise stated

	2002	2003	2004	2005	% chg. 05/04
MEFF RF	**51,060**	**1,371**	**98**	**46**	**-53.1**
Debt futures	51,050	1,371	98	46	-53.1
MEFF RV	**27,866,867**	**21,746,693**	**21,406,951**	**31,718,960**	**48.2**
Ibex 35 futures	3,515,016	3,227,206	4,158,120	4,816,463	15.8
Ibex 35 Plus	3,450,985	3,129,313	4,045,728	4,707,357	16.4
Ibex 35 Mini[1]	64,031	97,893	112,392	109,106	-2.9
Ibex 35 options	441,745	243,844	253,160	388,219	53.3
Stock futures	9,630,899	9,768,607	10,281,086	17,489,192	70.1
Stock options	14,278,332	8,507,035	6,714,585	9,025,086	34.4
S&P contracts[2]	875	0	—	—	—
Total MEFF	**27,917,927**	**21,748,064**	**21,407,049**	**31,719,006**	**48.2**
Electronic market	**1,232,351**	**1,609,679**	**1,825,468**	**2,049,281**	**12.3**
Warrants[3]	1,232,351	1,609,679	1,825,468	2,049,281	12.3
Pro-memoria					
Total EuroMEFF	**4,198,861**	**5,233,561**	**4,600,701**	**2,521,171**	**-45.2**
European debt futures[4]	2,583,383	2,879,779	2,815,703	1,440,370	-39.4
European index contracts[5]	1,604,330	2,322,356	1,784,965	1,080,801	-39.4
Other[6]	11,148	31,427	33	—	-100.0

Source: CNMV.

* Trading volume on MEFF and EuroMEFF is expressed as the number of contracts. Differences in the value of the underlying instruments prevent direct comparisons between products, but inter-year comparisons are meaningful.

1. The number of Ibex 35 Mini futures (multiples of 1 euro) was standardised to the size of the Ibex 35 Plus futures (multiples of 10 euro).
2. Futures and options on S&P Europe 350 and sector indexes (Financial, Technology and Telecommunications). MEFF suspended trading of these contracts on 10 November 2004.
3. Premiums traded, in thousands of euro, in the electronic market.
4. Includes futures on German debt (Bund, Böbl and Schatz) traded on Eurex and futures on the notional 10-year bond traded on Euronext Paris (until the connection was suspended on 30 December 2003).
5. Includes futures on the DAX 30, DJ Eurostoxx 50 and DJ Stoxx 50 indexes traded on Eurex, futures on the CAC 40, DJ Eurostoxx 50 and DJ Stoxx 50 indexes traded on Euronext Paris (until suspension of the connection on 30 December 2003), and futures and options on the PSI 20 index traded on Euronext Lisbon (until suspension of the connection on 19 March 2004).
6. Includes futures on Euribor traded on Euronext Paris (until suspension of the connection on 30 December 2003) and futures and options on individual stocks (Portugal Telecom and EDP) traded on Euronext Lisbon (until suspension of the connection on 19 March 2004).

Trading on European financial derivatives markets* TABLE 5.2

Thousands of contracts

Market	2002	2003	2004	2005	% chg. 05/04
Eurex[1]	801,201	1,014,932	984,328	1,162,532	18.1
Euronext[2]	689,208	693,232	740,996	735,480	-0.7
Euronext.Liffe[3]	253,986	335,826	362,126	389,119	7.5
Euronext Paris[4]	357,512	277,882	301,626	237,436	-21.3
Euronext Amsterdam[5]	77,710	79,524	77,243	108,925	1.0
OM[6]	60,921	76,611	92,430	102,402	10.8
MEFF	27,918	21,748	21,407	31,719	48.2
IDEM/MIF[7]	17,247	17,732	16,692	24,214	45.1

Source: Eurex and CNMV.

* Trading volume is expressed in number of contracts. Differences in the value of the underlying products traded on each market prevent direct comparisons between markets, but inter-year comparisons are meaningful.
1. Deutsche Terminbörse (DTB) and Swiss Options & Futures Exchange.
2. This market comprises the Paris, Amsterdam and Brussels spot markets and the Liffe derivatives and Lisbon and Porto markets.
3. Formerly Liffe: London International Financial Futures Exchange.
4. Formerly MATIF and MONEP derivatives markets.
5. Dutch branch of Euronext.
6. Stockholm Options Market.
7. Italian Derivatives Market (Borsa Italiana)/ Mercato Italiano Futures.

reached 83.3 thousand contracts, up from the 81.9 thousand contracts at 2004 year-end. Conversely, there was a reversal of the rising trend in trading in Ibex 35 mini futures, which decreased moderately (-2.9%).

The liquidity of MEFF RV products improved, as in 2004, as a result of the increase in trading by non-residents, both proprietary and for customers; noteworthy in this connection is the addition of new members[2] owing to the program to incentivate members that contribute liquidity.

Technical improvements were also introduced in 2005. A new options trading system by blocks came into operation in February for market participants that carry out large volume transactions. Additionally, the maximum maturity period of options, which was set at two and a half years in July 2004, was extended to five years.

Trading by MEFF members via EuroMEFF fell again in 2005, this time at a much faster pace than in 2004. This company provides access to trading in financial derivatives in foreign markets. Following suspension of the connections with Euronext Paris and Eu-

2. Since 2004 there is a new category of market member, the Proprietary Trading Member (PTM), which can only operate for its own account. PTMs are not required to be investment services firms or credit institutions and, accordingly, equity requirements are less stringent than for other members. Also, starting in 2004, MEFF allows non-resident entities to obtain Clearing Member status.

Trading in individual stock futures and options on MEFF RV TABLE 5.3

No. of contracts

	Options			Futures		
	2004	2005	% chg. 05/04	2004	2005	% chg. 05/04
Abertis	30,105	22,148	-26.4	—	—	—
Acerinox	80,476	439,963	446.7	—	—	—
Altadis	98,387	237,332	141.2	37,425	35,545	-5.0
Amadeus	388,458	151,377	-61.0	—	—	—
B, Popular	62,133	109,886	76.9	37,820	131,090	246.6
Bankinter	25,925	32,327	24.7	—	—	—
BBVA	909,304	1,011,611	11.3	1,715,030	2,2278,549	32.9
Endesa	437,818	536,802	22.6	313,076	1,297,923	314.6
Gas Natural	45,185	55,429	22.7	12,609	18,768	48.8
Iberdrola	251,768	260,029	3.3	291,144	968,875	232.8
Inditex	135,864	82,004	-39.4	44,881	24,892	-44.5
Indra	22,859	25,251	10.5	—	—	—
Repsol	735,308	1,106,473	50.5	681,979	477,562	-30.0
SCH	1,365,457	2,456,028	79.9	2,976,413	4,119,846	38.4
Sogecable	43,220	56,298	30.3	—	—	—
Telefónica	1,852,610	2,135,257	15.3	4,075,991	8,029,890	97.0
Tel. Móviles	67,488	74,321	10.1	51,449	93,772	82.3
Terra	13,323	2,117	-84.1	43,269	12,480	-71.2
TPI	43,724	38,759	-11.4	—	—	—
Unión Fenosa	105,173	191,674	82.2	—	—	—
Total	**6,714,585**	**9,025,086**	**34.4**	**10,281,086**	**17,489,192**	**70.1**

Source: CNMV.

ronext Lisbon[3], EuroMEFF only channelled transactions in 2005 towards the German Eurex market.

Stock exchange index trading, which continued to relate largely to futures on the DJ EuroStoxx 50 index (75%), declined sharply (by 39.4%). Trading in futures on German debt (Bund, Bobl and Schatz) on Eurex through EuroMEFF also fell sharply. Long-term interest rate derivatives transactions in the euro area continued to be made mostly on Eurex, the market where trading in contracts of this kind has concentrated since the practical disappearance of interest rate differentials in the euro area[4].

3. EuroMEFF suspended the connection with Euronext Paris on 30 December 2003. The connection with Euronext Lisbon was maintained through 19 March 2004.
4. In 2005 trading in long-term interest rate products was as follows: 615.8 million contracts on Eurex, 17.8 million contracts on Euronext.Liffe and 2.4 million contracts on OM.

5.2 Warrants

5.2.1 Issues

In 2005 the primary market in warrants was dynamic, in terms of both the amounts and the number of issues. The amount of premiums of warrants issues registered with the CNMV increased by 7.5% to 1.84 billion euro and related mainly to warrants on shares. The number of issues reached a record high in recent years: 1,720. Conversely, the number of issuers decreased to six[5].

MEFF membership figures TABLE 5.4

	2004	2005
MEFF renta variable	**86**	**109**
Custodian clearing members	33	38
Clearing members	34	34
Trading Members	16	31
Proprietary Trading Members	3	6
MEFF renta fija	**53**	**54**
Custodian clearing members	34	36
Clearing members	13	9
Traders	6	9

Source: MEFF and CNMV.

Warrants issues registered with the CNMV TABLE 5.5

Amounts in thousands of euro

	Number of		Amount [1]			
	Issuers	**Issues**	**Total**	**Shares**	**Indexes**	**Other**
2001	11	1,223	5,479,505	3,045,269	2,254,376	179,860
2002	9	1,132	2,338,903	1,652,480	665,616	20,804
2003	7	1,048	1,327,166	753,984	488,956	84,226
2004	7	1,600	1,525,247	929,004	553,758	42,485
2005[2]	6	1,720	1,840,016	1,180,845	559,910	99,262

Source: CNMV.

1. Premium amount.
2. Includes issues not requiring a prospectus by application of the new regulations (see Chapter 3).

5. The six warrants issuers in 2005, with the respective amounts issued (in brackets, in millions of euro) were as follows: Societe Generale Acceptance (819), Commerzbank (444), Bankinter (212), BBVA Banco de Financiación (178), Banesto Banco de Emisiones (117) and Banco Santander Central Hispano (69).

5.2.2 Trading

The secondary market in warrants on underlying financial assets grew in 2005 at the same pace as in 2004. Total warrant premiums traded on the stock exchange increased by 12.3% and the number of warrants traded in the year increased by 13.9%. The use of these products has recovered in the last few years from the drastic decline recorded in 2002 (see Table 5.6).

The total volume of warrants trading increased due to individual stocks, since the premiums traded in warrants on indexes and foreign currencies decreased (see Table 5.6).

Trading in warrants on the electronic market* TABLE 5.6

Premiums traded in thousands of euro

	Equities						Exchange rates[1]		Total	
	Indexes		Shares		Total		Total			
	Volume	No.	Volume	No.	Volume	No.	Volume	No.	Volume	No.
2001	415,185	233	1,207,676	802	1,622,860	1,035	12,609	45	4,635,469	1,080
2002	406,276	360	817,222	1,483	1,223,498	1,843	8,853	42	1,232,351	1,885
2003	480,781	350	1,094,271	1,383	1,575,053	1,733	34,627	66	1,609,679	1,799
2004	550,716	473	1,236,832	1,612	1,787,549	2,085	37,919	98	1,825,468	2,183
2005	501,472	523	1,523,688	1,800	2,025,160	2,323	24,121	163	2,049,281	2,486

* The No. refers to the number of issues which were traded in each period.

1. Includes fixed-income warrants in the years when there was trading in those products.

The most heavily-traded warrants continue to be those on the shares of the Spanish market's large-cap companies[6]. Warrants on foreign shares continued to have a lower weighting, accounting for only 8.1% of the total warrants on shares. Noteworthy among these once again were the warrants issued on shares of companies in the telecommunications industry[7].

Trading in index warrants focused mainly on the Ibex 35 index and, to a lesser extent, on the DAX 30 and Eurostoxx 50 indexes[8].

5.3 Other financial contracts

The CNMV's register of option purchase/sale contracts (formerly called "atypical financial contracts") declined again significantly in 2005. A nominal amount of 112.2 million euro was issued in 2005, far removed from the amounts recorded since 2000. Four

6. Warrants on Telefónica, Repsol, BBVA, Endesa and SCH accounted for 60.9% of total equity warrant trading.
7. The most heavily-traded foreign share warrants were on shares of Nokia, France Telecom, Alcatel, Deutsche Telecom and Cisco.
8. The amount of warrant premiums traded on the Ibex 35, DAX 30 and Eurostoxx 50 indexes accounted for 15.7%, 3.4% and 3.3% of total equity warrants.

issuers[9] registered contracts of this kind with the CNMV in 2005, as compared with eight in 2003 and 2004.

Issues of option purchase/sale option contracts registered with the CNMV TABLE 5.7

Amounts in thousands of euro

	No. of		Amount[1]			
	Issuers	Issues	Total	Shares	Indexes	Other
2001	23	76	2,093,886	2,093,886	—	—
2002	14	28	1,658,450	1,368,452	200,000	89,998
2003	8	41	500,838	474,511	26,327	—
2004	8	31	247,717	195,305	48,662	3,750
2005	4	12	112,200	87,800	16,400	8,000

Source: CNMV.

1. Nominal amount of contract.

5.4 Commodities derivatives markets

Mercado de Futuros sobre Aceite de Oliva (MFAO)[10], the olive oil futures market, grew strongly in 2005. 21,145 contracts[11] were traded in the year, i.e., an increase of 97.8% over 2004. Open interest at year-end also increased significantly, from 2,850 contracts at 2004 year-end to 7,625.

Several measures adopted in 2005 made it possible to increase the use of these products by the oil industry (cooperatives, oil mills, and bottling and processing firms), which gave rise to an increase in the number of market members[12] and, therefore, to greater market liquidity. On the one hand, important changes in trading were introduced: daily margin requirements were reduced from 12% to 6% of the total value of commitments undertaken, and settlement price adjustments at maturity improved as a result of higher oil quality. Also, Caja de Ahorros y Monte de Piedad de Córdoba (Cajasur), which is a leading bank for agriculture in Andalucía, became an MFAO clearing member.

Commodity warrants trading also saw strong growth in 2005. These warrants are traded on a specific segment of the electronic market. Rising oil prices boosted trading in Brent oil warrants. Premiums traded increased seven-fold, exceeding 9.8 million euro. Also, trading commenced in warrants on the price of gold, totalling 2.8 million euro.

9. Banco Guipuzcoano (78 million euro), Sabadell Banca Privada (24 million euro), Caja de Ahorros y Monte de Piedad de Guipúzkoa y San Sebastián (8.4 million euro) and Caja Rural Aragonesa y de los Pirineos (7.8 million euro).
10. MFAO commenced operations on 6 February 2004. This is the second commodity derivatives market to be authorised in Spain, the first being FC&M (mercado de Futuros sobre Cítricos y Mercaderías), and it is the world's first olive oil derivatives market.
11. Each olive oil futures contract represents one tonne.
12. The number of customers increased from 56 at 2004 year-end to 117 in 2005.

MFAO membership figures

TABLE 5.8

	2004	2005
Custodian clearing members	5	5
Clearing members	6	7
Traders	2	2
Industrial members	1	1
Total	**14**	**15**

Source: MFAO.

II Financial institutions and investment services

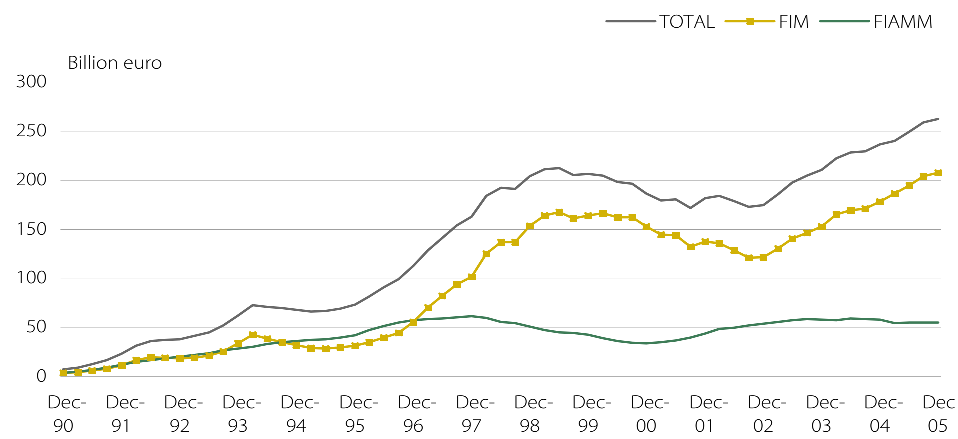
6 Collective investment

Overall, collective investment schemes (IIC) and the entities providing service to them (IIC management companies and custodians) performed satisfactorily.

The assets managed by mutual funds and security investment companies increased substantially as a result of both new subscriptions by investors, particularly in more conservative categories of funds, and the appreciation of their equities portfolio. Also noteworthy was the increase in the assets managed by foreign IICs marketed in Spain, through which a significant number of Spanish investors seeks alternative financial instruments.

With regard to IIC management companies, total income increased notably as a result of the increase in the assets under management. Activity was highly concentrated on management companies belonging to banks and there was a significant disparity in profits.

Mutual fund assets in Spain FIGURE 6.1



Source: CNMV.

The IIC[1] Regulation implementing the 2003 IIC Law[2] was enacted in 2005. The Regulation aims to (i) make the regulations more flexible in order to provide inves-

1. Royal Decree 1309/2005, approving the regulations implementing collective investment scheme Law 35/2003, and adapting the tax regime applicable to collective investment schemes.
2. IIC Law 35/2003.

tors with a wider range of products and to enable IICs to adapt to market changes, (ii) strengthen investor protection (iii) make the administrative regime more modern and agile. The main features of these new regulations are addressed in Annex A.1. The supervision of IICs is detailed in Chapter 11.

6.1 Mutual funds

6.1.1 Assets

Assets managed by mutual funds amounted to 262.2 billion euro[3] at 2005 year-end.

The size attained by Spain's mutual fund industry indicates that this is an established sector. Assets managed by mutual funds represent close to 30% of GDP and mutual funds accounted for approximately 13% of total household financial assets[4]. Spanish mutual fund assets rank sixth in Europe by volume and account for more than 5% of the total assets in the region[5]. With respect to the ratio of mutual fund assets to GDP, Spain is one of the leading countries in Europe, ahead of United Kingdom (28%) and Italy (27%), although far behind France (68%) and the average in Europe (48%).

The growth of security investment funds (FIM) offset the decrease in money market investment funds[6] (FIAMM), whose low rates of return made them less attractive. As a whole, mutual funds grew by more than 11% in 2005.

FIM assets increased by almost 30 billion euro in 2005, of which 62% related to net subscriptions and 38% to portfolio appreciation.

Subscriptions reflect the highly conservative nature of the average Spanish mutual fund investor. Table 6.1 shows that there were larger inflows of funds in 2005 into lower risk categories, despite their lower yields and the sizeable yields of other higher risk categories of funds, particularly equity funds (see Section 6.1.4). Indeed, good performance of equity prices explains the particularly significant appreciation of equity fund portfolios.

Despite the good performance of equities prices in the last three years, the conservative nature of Spanish investors led to overall equity security investment funds accounting for barely 12% of total assets managed by security investment funds at 2005 year-end, significantly lower than the European average (approximately 25%, according to several studies). However, it is possible that part of the investments by

3. 17.1 billion euro of total FIM assets relate to investments acquired by funds of funds and feeder funds. These investments were mainly in short-term fixed-income funds and global funds.
4. See Annex II.1.
5. Source: EFAMA (European Fund and Asset Management Association). Data through September 2005.
6. The IIC Law of 2003 eliminated the traditional distinction between FIMs and FIAMMs, classifying IICs as financial and non-financial. In this line, the IIC Regulation of November 2005 stipulates that all mutual funds (including money market funds) must be registered with the CNMV under the common name of mutual funds (fondos de inversión - FI) and the same commissions system will be applicable to them.

Spanish investors in the higher risk funds are carried out through foreign IICs marketed in Spain, the figures of which are analyzed separately in Section 6.5.

FIAMM assets were marked by stagnation basically because this category disappeared from the new 35/2003 Law, giving rise to a substantial transfer of funds to other equally conservative types of funds, particularly short-term fixed-income funds. Nevertheless, FIAMMs continued to represent a significant (over 20%) proportion of total securities investment fund assets.

Finally, assets managed by real estate funds increased by more than 50% in 2005, mainly as a result of the high subscription volume during the year. These assets continue to account for a minor percentage of total assets managed by mutual funds (2.4% in 2005), but their growth has been significant in the last few years, largely due to the increase in real estate prices, but also due to net subscriptions.

6.1.2 Investors and schemes

The number of investors in Spanish mutual funds reached 8.45 million in 2005 (nearly 570,000 more than in 2004), of which over three quarters invested in FIMs and the rest in FIAMMs.

The distribution of investors in the various FIM categories was in line with the growth in asset discussed above. This was not the case of FIAMMs, where investor numbers increased by 3.6% although the volume of assets was stable. The average assets invested in the funds sector as a whole amounted to 31,000 euro per investor.

An analysis of the various types of fund investors reveals the importance of mutual funds in household saving. At 2005 year-end, 97% of investors in funds were individuals and they owned 71% of FIM assets and 86% of FIAMM assets.

With respect to the number of securities funds registered with the CNMV in 2005, FIMs increased (by 114[7]) and FIAMMs decreased (by 11). The total number of securities funds at 2005 year-end was 2,723 and the average assets managed by them amounted to slightly over 96 million euro, a figure lagging far behind the estimates for Europe[8].

The number of real estate investment funds remained stable (7), leading to a substantial increase in the average size of these schemes (from 614 million euro per fund in 2004 to 925 million euro per fund in 2005).

7. Of this net increase (114), 60 related to global funds and 41 to guaranteed equity funds.
8. EFAMA (2005) Fact Book estimates that the average size of European mutual funds amounts to approximately 140 million euro and US mutual funds amount to approximately 725 million euro.

Mutual fund assets by category

TABLE 6.1

Thousand euro

Category	Assets	Change (vs. Dec. 2004)			
		%	Absolute value[1]	Net Subscription	Net yield
Short-term fixed-income	54,692,442	14.0	6,460,070	5,607,075	852,995
Long-term fixed-income	12,000,238	-3.3	-199,590	-460,898	261,309
Mixed fixed-income	9,573,642	43.4	2,033,772	1,660,870	372,902
Mixed equity	6,865,963	-1.5	265,389	-476,384	741,773
Spanish equity	9,741,746	21.1	1,899,658	275,992	1,623,666
Foreign fixed-income	2,446,718	16.7	257,987	176,930	81,057
Foreign mixed fixed-income	5,052,168	-1.3	936,166	688,730	247,436
Foreign mixed equity	3,139,611	31.6	241,582	-70,157	311,739
Euro equity	6,314,938	33.7	1,392,506	344,117	1,048,389
Guaranteed fixed income	13,442,040	-2.6	-131,575	-354,374	222,799
Guaranteed equity[2]	45,839,761	15.6	6,329,174	4,693,628	1,635,546
Global funds	23,730,069	29.4	5,097,875	3,928,149	1,169,726
Foreign equity Europe	5,802,483	54.6	2,094,189	1,173,666	920,523
Foreign equity Japan	1,592,859	161.9	984,703	680,639	304,064
Foreign equity USA	1,230,252	28.0	242,445	137,574	104,871
Foreign equity emerging countries	1,377,821	116.2	745,360	367,631	377,728
Other foreign equity	4,606,782	16.9	700,256	-51,264	751,520
Total FIM	**207,449,533**	**16.5**	**29,349,967**	**18,321,924**	**11,028,043**
Total FIAMM[3]	**54,751,347**	**-5.6**	**-3,237,444**	**-3,877,627**	**642,191**
Total securities funds	**262,200,880**	**11.1**	**26,112,523**	**14,444,297**	**11,670,234**
Total real estate funds	**6,471,588**	**50.5**	**2,170,742**	**1,807,618**	**363,124**

Source: CNMV.

1. Does not include changes due to change of fund category.
2. This category will be replaced shortly by the “guaranteed at maturity” and “partial guarantee” fund categories, depending on whether the initial investment is fully or less than 100% guaranteed, respectively.
3. The variation in total FIAMM assets does not coincide with the sum of net subscriptions and net yields since 2.008 billion euro in distributed gross earnings (dividends) were recorded separately in 2005..

Registrations and removals in 2005

TABLE 6.2

Type of schemes	Schemes registered at 31/12/04	Registrations	Removals	Schemes registered at 31/12/05
Collective investment:	**6,217**	**398**	**254**	**6,361**
Mutual funds	2,627	264	161	2,730
FIM	2,455	264	150	2,569
FIAMM	165	0	11	154
FII	7	0	0	7
Investment companies	3,099	98	73	3,124
SIM	84	0	36	48
SICAV	3,013	94	37	3,070
SII	2	4	0	6
SGIIC	116	4	8	112
Custodians	137	0	2	135
OICVM[1]	238	32	10	260

Source: CNMV.

1. Foreign Undertakings for Collective Investment in Transferable Securities..

Socially responsible investing (SRI) in Spain

The concept of socially responsible investing is broad and has changed substantially over the years. Initially it was related to the negative discrimination against companies whose activities clashed with investors' convictions. The current trend is to make a positive selection of companies which meet certain requirements or quality standards in management.

Positive selection is a suitable mechanism for encouraging companies to operate in a socially responsible manner, since only those which apply social or ethical policies in management will be chosen by investors. Also, socially responsible management can lead to improved corporate governance. SRI and good corporate governance are not only compatible but will actually tend to interact in the future.

In Spain, socially responsible collective investment schemes regulate themselves in accordance with an INVERCO Circular published at 1999 year-end, which was approved by the CNMV. The Circular's main purpose was to increase the transparency of information offered to investors, avoiding any misleading advertising in connection with these schemes.

– The Circular regulates socially responsible IICs and distinguishes them from solidarity IICs to avoid confusion. Solidarity IICs are distinctive because their management companies assign a portion of the management fee to certain charities or non-governmental organizations, whereas the differentiating factor in socially responsible IICs is that they have a specific investment criterion (they only invest in securities whose issuers conform to certain social responsibility yardsticks).

– Also, the regulations impose certain minimum requirements that socially responsible or ethical IICs must comply with in order to be considered as such. In particular, the investment policy must be stated in the prospectus, detailing the IIC's ethical code and establishing the selection criteria that the securities composing the fund portfolio must meet.

Although there was a perceived increase in 2005 in the interest for IICs of this kind, this sector is still underdeveloped in Spain. This could mainly be attributed to inadequate or insufficient dissemination of information, rather than to the self-regulatory framework, which, in principle, appears to be flexible enough not to obstruct development.

At 2005 year-end, there were 18 socially responsible collective investment schemes (17 mutual funds and 1 SICAV). The figures relating to assets managed by these entities and number of investors are small (0.40% of total IIC assets and 0.58% of investors) as compared with the figures for other European countries with a long-standing tradition in this area. For example, in the United Kingdom, the leading country in investments of this kind, socially responsible investing accounts for 36% of total assets managed by IICs.

With regard to the investment policy of these schemes in Spain, most of the mutual funds are mixed, since they invest in fixed-income and equity instruments, and they target private investors. These features are specific to Spanish entities, since SRI is mainly associated with equity funds and institutional investors in other countries.

6.1.3 Investment policy

Investment policy trends for mutual funds in 2005 were as follows:

– The FIMs increased their exposure to foreign securities, which has exceeded their exposure to Spanish securities since 2004.

– With respect to portfolio composition, FIMs increased investment in Spanish corporate fixed-income securities. Corporate fixed-income ranked second (after shares and mutual fund units), to the detriment of public fixed-income and repos.

– Investment in foreign fixed-income securities increased, but it declined as a percentage of total assets. Investment in foreign equities increased, helped by the dynamism of the European, Japanese and emerging stock exchanges, as well as by the appreciation of the US dollar.

– In the case of FIAMMs, investment in public fixed-income and repos also decreased in favour of investment in private fixed-income securities, probably in pursuit of higher yields.

Many mutual funds registered since the promulgation of the IIC Regulation envisage some of the new possibilities afforded by the Regulation[9]. However, the authorisation of certain new features was delayed until additional regulatory developments had been implemented.

Mutual funds have played a key role in the development of securities markets in Spain, contributing to their depth and liquidity. The relative weight of the mutual

Fund assets TABLE 6.3

Millions euro, at market prices

	FIM			FIAMM		
	2004	2005	% of total assets, 2005	2004	2005	% of total assets, 2005
Cash	5,280	6,564	3.2	1,227	1,643	3.0
Portfolio investments	173,383	202,102	97.4	56,830	53,172	97.1
Spanish securities	79,442	88,951	42.9	34,617	34,733	63.4
Shares and mutual fund units	26,361	28,858	13.9	0	0	0.0
Public fixed-income	12,690	11,547	5.6	3,167	2,691	4.9
Private fixed-income	17,884	25,811	12.4	16,087	19,876	36.3
Repos	22,349	22,251	10.7	15,358	12,166	22.2
Other	157	483	0.2	5	0	0.0
Foreign securities	93,941	113,151	54.5	22,213	18,439	33.7
Euros	85,480	100,440	48.4	22,203	18,431	33.7
Other	8,461	12,711	6.1	10	8	0.0
Net balance (Receivable-Payable)	-563	-1,216	-0.6	-68	-63	-0.1
Assets	**178,100**	**207,450**	**100.0**	**57,989**	**54,751**	**100.0**

Source: CNMV.

9. These include the expansion of assets qualifying for investment, in particular the possibility of investing between 5% and 50% of assets in other IICs. Another novelty is the possibility of investing more than 10% of assets at credit institutions in demand deposits or time deposits at under twelve months and in unlisted money market instruments and, up to 10% in all kinds of securities and IICs, including hedge funds, funds of funds and venture capital firms.

funds portfolio in the outstanding balance of the various financial assets gives a measure of their importance as institutional investors[10]. For example, mutual funds have accounted for close to 5% of the Spanish stock exchanges market capitalisation on a stable basis since 2003. They have also owned approximately 10% of the outstanding balance of private fixed-income in- struments in the last few years (particularly due to short-term securities invest- ment). Meanwhile, their share of investment in public fixed-income has decreased.

This stabilisation of Spanish institutional investment in Spanish markets is in line with their increasing exposure to foreign securities. This may be a reflection of the disappearance of exchange rate risks among European currencies, since investments are largely in euro.

Significant holdings by mutual funds in listed companies

The growing importance of mutual funds in the financial markets led to one of the main new features of the IIC Regulation in connection with management companies' obligations. Pursuant to Article 81 of the Regulation, fund management companies are generally obliged to describe, in their annual report, their policy relating to the voting rights inherent to the securities in the fund portfolios they manage.

Additionally, management companies are obliged to exercise the voting rights on such securities where (i) the issuer is a Spanish company, (ii) they fund has held the shares for more than 12 months, and (iii) the holding amounts to at least 1% of the capital stock of the investee.

At 2005 year-end, ten IIC management companies managed funds whose total investment in securities of Spanish issuers exceeded 1% of the capital stock of the investee. Two of these (Bestinver Gestión and Santander Gestión) are particularly noteworthy because of both the number of securities in the electronic market in which they had significant holdings and the volume of the holdings (see Table 6.4). At year-end there were 33 companies in which the mutual funds held significant investments. Of these, only two were Ibex 35 companies and, therefore, the bulk of significant investments was in medium and small capitalisation companies. In certain cases, the aggregate holdings of all the mutual funds of a given management company accounted for a sizeable proportion of the company's total capital stock (in some cases over 10%).

6.1.4 Yields and commissions

In 2005 all fund categories had positive net yields[11], although the range was very broad.

In line with the stock market's rising trend, the increase in the yield of equity funds, particularly foreign funds, was noteworthy (see Table 6.5), with yields in excess of 40% in certain categories.

10. See Annex II.1.
11. Net of commissions charged.

Significant holdings of IIC management companies TABLE 6.4

Management Company	Number of securities on the electronic market	Range of holdings* (%)	
		Maximum	Minimum
Bestinver Gestión	21	7.8	1.2
Santander Gestión	10	3.9	1.1
Bansabadell Inversión	7	2.1	1.1
Barclays Fondos	7	1.6	1.0
Ibercaja Gestión	2	3.7	1.2
Sogeval	2	1.3	1.0
Gaesco Gestión	1	1.0	1.0
Gesbeta Meespierson	1	1.7	1.7
Gestora Bancaza	1	2.2	2.2
Renta 4 Gestora	1	1.7	1.7

Source: CNMV.

* Maximum and minimum holdings of the funds managed by the management company in the capital stock of the company in the electronic market.

Conversely, pure fixed-income categories, both short- and long-term, had modest yields as a result of the trends in interest rates. The average yields of these categories were lower than the inflation rate in Spain in 2005 (3.7%); in other words, in real terms the yield was negative (see figure 6.2). Mutual fund assets whose yield was lower than the inflation rate accounted for 64% of the total assets managed by mutual funds in 2005[12].

With respect to expenses charged to mutual funds[13], the decline initiated several years ago in management commissions as a percentage of daily average assets continued for both FIM and FIAMM funds. In the case of FIM funds, these commissions decreased from 1.16% of daily average assets in 2004 to 1.13% in 2005. In the case of FIAMMs the decline in management commissions was from 0.87% to 0.84%.

The main causes of this behaviour include the greater relative weight of assets managed by the fixed-income fund categories and the adjustment of commissions to the lower yields in a context of low interest rates.

Custodian commissions (the second-most important type of expenses in terms of volume) maintained their relative weight with respect to daily average assets for both FIMs (0.10%) and FIAMMs (0.11%).

12. These assets related to 54% of investors and involved 41% of schemes.
13. See Annex II.2.

Mutual fund yields: detail by category

TABLE 6.5

%

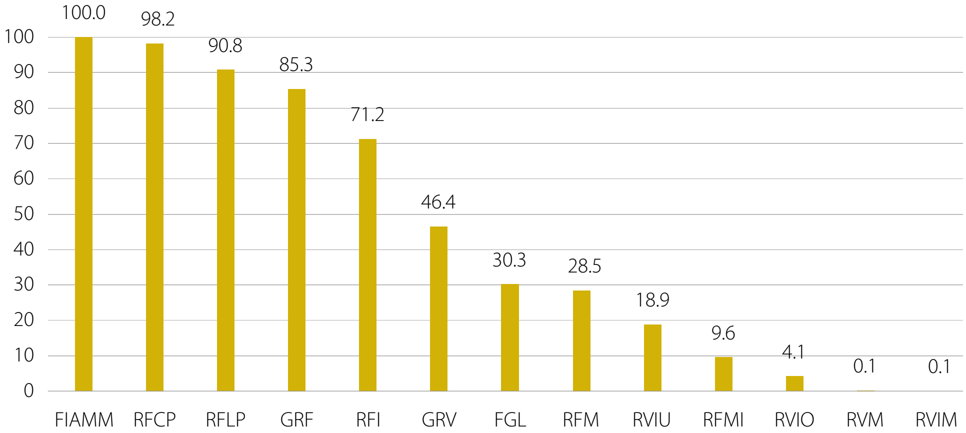
Category	2001	2002	2003	2004	2005
Short-term fixed-income (RFCP)	3.8	2.7	1.9	1.8	1.6
Long-term fixed-income (RFLP)	4.0	4.3	2.6	3.4	2.2
Mixed fixed-income (RFM)	-0.5	-3.8	5.1	4.0	4.7
Mixed equity (RVM)	-6.6	-15.9	11.3	6.9	11.7
Spanish equity (RVN)	-8.8	-26.9	29.0	19.5	20.8
Foreign fixed-income (RFI)	2.9	-0.6	1.7	1.8	3.8
Foreign fixed mixed income (RFMI)	-1.3	-2.4	2.4	3.0	5.4
Foreign mixed equity (RVMI)	-8.6	-18.0	7.6	4.3	12.2
Euro equity (RVE)	-19.0	-33.5	16.9	9.2	22.6
Foreign equity (RVI)	-20.8	—	—	—	—
Guaranteed fixed-income (GRF)	4.4	4.5	2.4	2.5	1.7
Guaranteed equity (GRV)[1]	0.2	0.4	2.7	3.9	3.8
Global funds	-10.4	-12.4	5.8	2.3	6.3
Foreign equity Europe (RVIE)	—	-33.8	13.4	8.6	22.3
Foreign equity Japan (RVIJ)	—	-25.4	11.8	5.9	40.5
Foreign equity USA (RVIU)	—	-34.3	10.0	0.4	12.6
Foreign equity emerging countries (RVIM)	—	-24.5	26.5	22.9	52.2
Other foreign equity (RVIO)	**—**	**-35.2**	**11.8**	**4.7**	**21.2**
Total FIM	**-2.9**	**-5.6**	**5.2**	**4.2**	**6.4**
Total FIAMM	**3.6**	**2.4**	**1.5**	**1.2**	**1.2**
Total securities funds	**-1.6**	**-3.3**	**4.0**	**3.4**	**5.2**
Total real estate funds	**7.5**	**7.9**	**6.9**	**6.7**	**5.4**

Source: CNMV.

1. This category will be replaced shortly by the “guaranteed at maturity” and “partial guarantee” fund categories if the initial investment is fully or less than 100% guaranteed, respectively.

Percentage of security investment fund assets with yields lower than the inflation rate

FIGURE 6.2



Source: CNMV.

Mutual fund management and custodian commissions

Management and custodian commissions together account for approximately 98% of total mutual fund expenses. In the last few years these expenses have decreased, although the degree of decline differs on the basis of certain fund and investor features. An internal study conducted by the CNMV on the trend in commissions from 2000 to 2004 revealed the following:

– Commissions decreased more in fixed-income, but tended to remain stable in equity funds.

– There is a positive correlation between the size of the fund and management company and the commission level.

– There is a negative correlation between the average investment per shareholder (measured as average assets per investor) and the commissions charged.

– As for differences between financial groups, independent firms charge lower commissions.

– With respect to types of fund investor, there are major differences between commissions borne by institutional investors (lower) and private investors (higher).

– Finally, there is a positive correlation between the age of the fund and average commissions, therefore contradicting the “learning curve” theory.

Average management commissions as a percentage of daily average assets*

	FIM		FIAMM	
Size of fund	**2000**	**2004**	**2000**	**2004**
Large	1.51	1.25	1.08	1.16
Small	1.42	0.91	1.01	0.83
Size of management company	**2000**	**2004**	**2000**	**2004**
Large	1.46	1.26	1.06	0.90
Medium	1.54	1.19	1.06	0.87
Small	1.40	1.15	1.00	0.84
Financial group	**2000**	**2004**	**2000**	**2004**
Banks	1.48	1.27	1.04	0.86
Savings Banks	1.52	1.19	1.10	0.92
Other	1.38	1.15	0.95	0.82
Assets / investor ratio	**2000**	**2004**	**2000**	**2004**
Group I (highest ratio)	1.10	0.62	0.84	0.61
Group II	1.50	1.34	1.05	0.90
Group III	1.70	1.39	1.11	0.99
Group IV (lowest ratio)	1.70	1.61	1.19	0.99
Investor type	**2000**	**2004**	**2000**	**2004**
Legal entities	1.26	0.94	0.96	0.85
Individuals	1.54	1.30	1.06	0.88
Age of fund	**2000**	**2004**	**2000**	**2004**
Group I (oldest)	1.69	1.49	1.12	0.99
Group II	1.38	1.08	1.06	0.95
Group III	1.44	1.13	1.11	0.95
Group IV (youngest)	1.40	1.24	0.92	0.60

Source: CNMV.

* Data screened to remove repetitions and outliers.

The decline in commissions appears to have been driven by a decrease in the maximum commissions that are legally applicable and in the yields obtained in the last few years. However, preliminary conclusions suggest that investors do not consider commissions when deciding how to invest. This may be indicate (i) lack of price competition in the industry or concentration of market power in financial groups; (ii) high customer loyalty attained by Spanish financial institutions; or (iii) deficiencies in the dissemination of appropriate information among investors in connection with the supply of investment opportunities.

6.2 Open-end security investment companies (SICAV)

Pursuant to the 2003 IIC Law, the only security investment companies that are deemed to be collective investment schemes are open-end security investment companies (SICAV).

Since the entry into force of the IIC Law in 2003, many closed-end security investment companies (SIM) transformed into SICAVs, a trend that continued in 2005 because SIMs would otherwise be required to be removed from the CNMV's registers. At 2005 year-end, 36 SIMs had been deregistered: of these, 31 became SICAVs, 3 became ordinary corporations and 2 were dissolved. However, 48 were still registered[14].

SICAVs are institutions which target wealthier investors than mutual funds. Average assets per SICAV shareholder exceeded 65,000 euro at 2005 year-end, as compared with an average of 31,000 euro per mutual fund investor. There are also substantial differences in the average size of the institutions. Thus, average assets amount to 96 million euro in the case of mutual funds and to 8.7 million euro in the case of SICAV. Therefore, although the number of SICAVs exceeds that of mutual funds (see Table 6.2), the assets they manage represent only 10% of total fund assets and SICAV investors represent only 5% of total number of fund investors (see Table 6.6).

At 2005 year-end, there were 3,070 SICAVs, 57 more than in 2004, and their invested assets exceeded 26.7 billion euro (approximately 3% of Spain's GDP). These institutions have expanded rapidly in recent years (see Figure 6.3). SICAVs had a good year overall in 2005 in view of the increase in the number of investors (13.9%) and in assets (15.4%).

With respect to these institutions investment policies, Spanish securities continue to outweigh foreign securities (in contrast with mutual funds) despite decreasing to 49.7% at year-end. Within Spanish securities, the proportion of equities is large and it increased in 2005. Despite a decrease in 2005, the relative weight of investment in repos was also significant (see Table 6.6).

One of the novelties introduced by the 2003 IIC Law and Regulation relates to the liquidity mechanisms that must be in place at SICAVs. Under this Law, SICAVs were no longer required to be listed on the stock exchange in order to be considered as IICs and to qualify for IIC tax treatment. The IIC regulations provided three possible liquidity mechanisms for these entities:

i. trading of shares on stock exchanges,

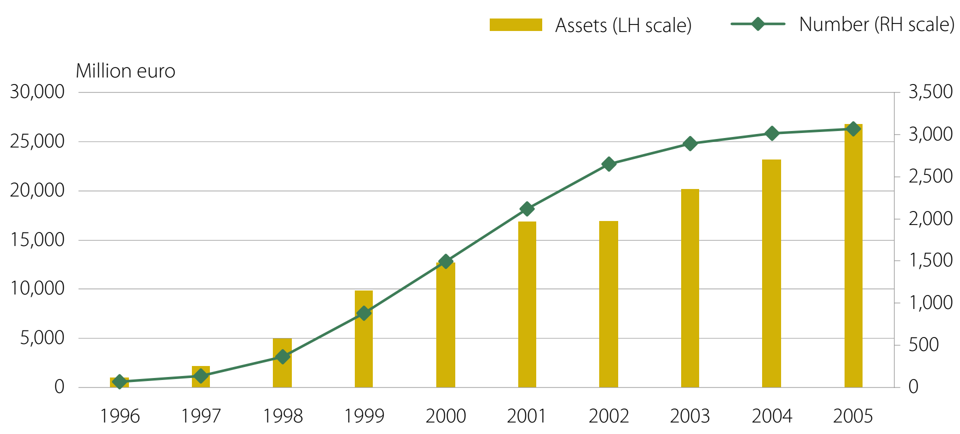
ii. trading of shares on other markets or organized trading systems, or

iii. existence of a mechanism to acquire and sell shares similar to that used by mutual funds to arrange subscriptions and redemptions.

14. The deadline for transformation of SIMs into SICAVs was February 5, 2006.

Number of SICAVs and assets

FIGURE 6.3



Source: CNMV.

Detail of SICAV assets

TABLE 6.6

Thousands euro

	2004	2005	% chg. 05/04
No. of shareholders	**359,151**	**409,044**	**13.89**
Assets	**23,176,453**	**26,751,806**	**15.43**
Spanish securities	**12,243,399**	**13,285,150**	**8.51**
Shares	4,055,236	5,546,922	36.78
Mutual fund units	735,715	928,641	26.22
Public money market assets	89,241	127,571	42.95
Other public fixed-income	709,828	841,122	18.50
Private money market assets	140,080	327,900	134.08
Other private fixed-income	328,776	389,900	18.59
Spanish warrants and options	6,873	15,558	126.36
Repos	6,177,591	5,107,468	-17.32
Unlisted securities	59	68	15.25
Foreign securities	**10,218,650**	**12,764,717**	**24.92**
Euros	7,268,430	8,974,096	23.47
Other	2,950,220	3,790,621	28.49
Cash	**579,288**	**694,557**	**19.90**
Net balance*	**135,116**	**7,382**	**-94.54**

Source: CNMV.

* Difference between other accounts receivable and payable.

Alternative (ii) above includes the "Alternative Stock Market" (MAB), developed by BME as an Alternative Trading System (ATS) and authorised by the Cabinet on 30 December 2005. A segment of MAB has been designed to provide liquidity to SICAVs and another segment is used to trade securities of small and medium-sized companies. MAB, which commenced technical tests at the end of February 2006, is under the supervision of the CNMV.

6.3 IIC management companies (SGIIC)

IIC management companies (SGIIC) did well in 2005, although there were substantial differences among the various entities (to be analyzed later).

SGIICs managed all the mutual funds and nearly 96.3% of the registered SICAVs[15 16]. At 2005 year-end there were 112 SGIICs registered with the CNMV, following the registration of four[17] and the removal of eight[18].

6.3.1 Managed assets and schemes

The number of portfolios and the volume of assets managed by SGIICs increased in 2005, as discussed in the two preceding sections (see Tables 6.7 and 6.8). There was an increase in assets managed for FIMs and SICAVs and a decrease in those managed for FIAMMs and SIMs.

The average assets managed per institution increased substantially (from 2.3 billion euro in 2004 to 2.6 billion euro in 2005) as a result of the increase in the volume of assets under management and the decrease in the number of management companies.

However, there is a persistent high degree of concentration among SGIICs. At 2005 year-end, the 10 largest SGIICs accounted for 68.2% of total IIC assets and 71.9% of investors. In 2004, those percentages were 70.6% and 71.9%, respectively.

Another distinctive feature of Spanish SGIICs is that a high percentage of them belong to banks and, to a lesser degree, savings banks. Specifically, the assets managed by management companies belonging to banks and savings banks exceeded 90% of total IIC assets at 2005 year-end (banks: 62%; savings banks: 28%).

However, the banks' market share decreased slightly in 2005 (more than 2 percentage points) and the decline was distributed equally among savings banks and independent groups. This could be the result of the high volume of guaranteed funds that matured (they are concentrated particularly at bank-owned management companies).

15. Accounting for 93.8% of assets.
16. Mutual funds are not legal entities and, accordingly, they do not need to be managed by entities of this kind. Investment companies are legal entities and may be self-managed or may delegate management to another company (such as an SGIIC, an SGC, an SAV, etc.).
17. Three were independent. For further details, see Annex II.3.
18. Of the SGIICs that were deregistered, two (Lusogest and BI Gestión Colectiva) were absorbed by the same SGIIC (Espirito Santo Gestión), two became ordinary corporations and four were liquidated.

Number of portfolios managed by SGIICs: detail by IIC type

TABLE 6.7

	31/12/2004	31/12/2005	% chg. 05/04
FIAMM	165	154	-6.7
FIM	2,456	2,569	4.6
SIM	62	32	-48.4
SICAV	2,900	2,957	2.0
Real estate investment funds	7	7	0.0
Real estate investment companies	2	6	200.0
Total	**5,592**	**5,725**	**2.4**

Source: CNMV.

Assets managed by SGIIC: detail by IIC type

TABLE 6.8

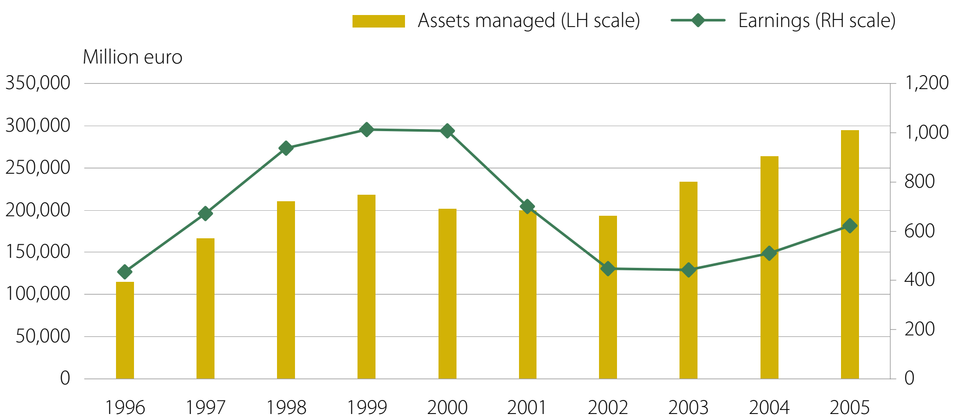
Thousand euro

	31/12/2004	31/12/2005	% chg. 05/04
FIAMM	57,988,791	54,751,347	-5.6
FIM	178,099,563	207,449,533	16.5
SIM	1,314,316	404,813	-69.2
SICAV	21,609,354	25,081,071	16.1
Real estate investment funds	4,300,846	6,471,588	50.5
Real estate investment companies	56,440	213,879	278.9
Total	263,369,310	294,372,231	11.8

Source: CNMV.

IIC management companies: assets managed and earnings

FIGURE 6.4



Source: CNMV.

6.3.2 Earnings

SGIICs' aggregate pre-tax earnings grew by 21.6% in 2005 (see Table 6.9), but were still below the record highs of 1999 and 2000 (see Figure 6.4).

Statement of income for SGIICs TABLE 6.9

Thousand euro

	2004	2005	% chg. 05/04
Financial income	27,138	29,633	9.2
Net income from securities	2,816	7,847	178.7
Net commission revenues	**767,831**	**897,419**	**16.9**
Commission revenues	2,733,081	3,045,152	11.4
IIC management	2,672,345	2,976,233	11.4
Subscription and redemption	54,332	60,109	10.6
Other	6,404	8,810	37.6
Commission expenses	1,965,250	2,147,733	9.3
Total net revenues	**797,785**	**934,899**	**17.2**
Operating expenses	265,378	286,779	8.1
Personnel expenses	127,232	144,208	13.3
General expenses	138,146	142,571	3.2
Operating income	**532,407**	**648,120**	**21.7**
Depreciation and amortization expense and other	16,776	14,593	-13.0
Other gains and losses	-3,542	-10,748	203.4
Income before taxes	**512,089**	**622,779**	**21.6**
Taxes	178,336	215,279	20.7
Income after taxes	**333,753**	**407,500**	**22.1**

Source: CNMV.

IIC commission revenues grew less than IIC managed assets, although this was offset by lower growth in commissions paid.

The rise in earnings in 2005 gave rise to an increase in the sector's ROE before taxes from 49% in 2004 to 53% in 2005. However, once again, there was a wide disparity among firms. The improvement in the ROE is attributed to the strength of the larger, more profitable management companies, while the number of loss-making companies (16) continues to be substantial and SGIIC statements of income disclose certain weaknesses.

6.4 IIC custodians

Custodians are entrusted with the deposit and custody of the securities, cash and other assets of IICs, and with monitoring the actions of SGIICs and other IIC managers[19]. Custodians guard, custody and monitor the assets, these roles being essential for investor protection. Banks, savings banks, credit cooperatives, broker-dealers and brokers can operate as custodians. Custodians must be registered at the CNMV.

At 2005 year-end, 138 IIC custodians were registered with the CNMV, two less than at 2004 year-end. The reduction in the number of companies of this kind continued due to the consolidation of the industry in the last few years, which became manifest in the two foregoing cases as the custodians that were deregistered were absorbed by others. With respect to the market share of the various kinds of custodian entities, banks continued to be the leading providers of this service, accounting for more than 66% of IIC assets under custody, followed by savings banks (26.8%), credit cooperatives (3.8%) and broker-dealers and brokers (2.9%).

6.5 Foreign IICs marketed in Spain

The total volume of funds managed by foreign IICs that were raised in Spain increased significantly again in 2005 (see Table 6.10). These assets, which totalled 33.6 billion euro, exceeded the figure for other Spanish IICs, such as SICAVs, and have practically tripled in the last three years. They account for 11.6% of Spanish security IICs.

The reasons for the successful internationalisation of investment in IICs by Spanish investors are: (i) there is growing interest in institutions of this kind among wealthier investors, (ii) portfolio management is increasingly popular, (iii) direct sales of these products in certain large marketing networks have increased, and (iv) some IIC trading, advisory and analysis platforms have performed well. The notable appreciation of equity portfolios also played an important role in the growth of assets managed by foreign institutions, since most are associated with high-risk investments.

The number of foreign IICs operating in Spain increased by 22 to 260 in 2005 and the number of investors in foreign IICs marketed in Spain exceeded 560,000, i.e. 6.3% of total investors in Spanish IICs that invest in securities. The bulk of these schemes are domiciled in Luxembourg (62%), although there was a significant increase in 2005 in the number domiciled in Ireland.

The 129 entities which market these products in Spain are highly concentrated, with the 10 largest accounting for nearly 70% of the funds managed[20]. With respect to the financial groups to which these marketing entities belong, one entity clearly stands out over the rest[21], as it represents one third of the assets marketed.

19. Article 57 of Collective Investment Scheme Law 35/2003, dated November 4.
20. The largest (Allfunds Bank) stands apart from the others with a market share in excess of 20%.
21. Santander Central Hispano.

Foreign IICs marketed in Spain

TABLE 6.10

	31/12/2004	31/12/2005	% chg. 05/04
Investment volume (thousand euro)	**17,785,559**	**33,614,758**	**89.0**
Investment funds	3,498,117	8,267,289	136.3
Investment companies	14,287,442	25,347,469	77.4
No. of investors	**321,805**	**560,515**	**74.2**
Investment funds	51,364	104,089	102.6
Investment companies	270,441	456,426	68.8
No. of firms[1]	**238**	**260**	**9.2**
Investment funds	93	115	23.7
Investment companies	145	145	0.0
Home state			
Luxembourg	164	161	-1.8
Ireland	25	47	88.0
France	34	35	2.9
Germany	11	11	0.0
United Kingdom	3	5	66.7
The Netherlands	1	1	0.0

Source: CNMV.

1. Many of these schemes are structured in various sub-funds (compartments). The compartments may be guaranteed.

7 Provision of investment services

Investment services can be provided by broker-dealers and brokers, portfolio management companies and credit institutions. Credit institutions command almost all of the market in services such as securities administration and custody and Collective Investment Schemes (IIC) marketing. Broker-dealers and brokers have a larger market share in order processing and execution.

Generally speaking, 2005 was once again a favourable year for investment services. This activity gained as a result of the substantial increase in stock market trading, private fixed-income issues and demand for collective investment products by investors.

Portfolio management also expanded in 2005, particularly in firms specialising in this activity.

7.1 Broker-dealers and brokers

In 2005, the number of broker-dealers and brokers remained practically the same, while the Commission continued to receive notifications of intent from foreign investment firms to provide investment services in Spain under the free provision of services regime.

The majority of foreign investment firms were from the UK, as in previous years. However, in 2005 notifications of intent were received for the first time from investment firms based in Cyprus and Malta.

The number of branches of foreign investment firms remained steady: in 2005, there was a net reduction of two firms but in the first quarter of 2006 three deregistrations were filed and six new branches were registered[1].

Spanish investment firms are less dynamic in expanding abroad. In 2005, five firms notified their intent to provide services abroad, which makes a total of 36 firms that have expanded their activities outside Spain. Germany, Portugal, the UK, France and Italy continue to be the main host countries. Spanish firms also prefer to oper-

1. See Annex II.5 for details of the foreign broker-dealers and brokers under the free provision of services regime and with branches.

ate abroad under the free provision of services regime. Only two firms had a branch abroad[2].

Spanish firms appear to be using representatives as a way of expanding their market scope. In 2005, the number of representatives increased again and 7,101 were registered at year-end (see table 7.1). However, Mapfre Inversión SV accounts for 79.1% of the total, Allianz Inversiones SV holds the second-largest share with 8.2%, and Axa the third-largest share; those three firms take full advantage of their insurance products sales network. Aside from these firms, almost 40 other firms had contracts with representatives.

Firms registered and removed TABLE 7.1

Type of firm	Firms at 31/12/04	Registrations	Removals	Firms at 31/12/05
Spanish investment services firms	**103**	**7**	**8**	**102**
Broker-dealers	48	3	5	46
Brokers	55	5	4	56
Foreign investment services firms	**817**	**115**	**49**	**883**
Investment services firms with branch	19	1	3	17
Investment services firms under the free provision of services regime	798	114	46	866
Pro memoria				
Representatives	**6,793**	**889**	**581**	**7,101**

Source: CNMV.

As shown in Table 7.1., the number of broker-dealers and brokers hardly changed: eight firms were removed and seven were registered. However, a qualitative change is occurring, as the number of firms related to financial groups is being reduced in net relative terms, and, therefore, independent groups are growing in relative terms.

This trend reflects the legislation adopted[3], which has led Spanish and international financial groups to commence a slow process of restructuring and simplifying their service provision channels by one of the following procedures:

(i) the transfer of investment services from broker-dealers and brokers to their bank parent companies, in the case of Spanish financial groups, or to bank branches established in Spain, in the case of international financial groups.

2. See Annex II.6 for details of the cross-border actions by Spanish broker-dealers and brokers.
3. The regulations referred to are as follows: (i) the transposition of Directive 93/22, on Investment Services into Spanish law (Law 37/1998, on the reform of the Securities Market Law, which permitted large international financial groups to open branches in Spain and gave banking entities direct access to the stock markets) and (ii) Law 35/2003 on Collective Investment Schemes (IIC), which broadened the activities in which Collective Investment Scheme Management Companies could engage, especially discretionary portfolio management and IIC marketing.

(ii) the transfer of investment services from broker-dealers and brokers to the group's IIC management company (SGIIC), thereby taking maximum advantage of the new possibilities that the Collective Investment Scheme Law offers these firms.

(iii) the transfer of investment services to other broker-dealers and brokers in the group.

As shown in Annex II.7, in 2005 six firms related to financial groups were removed and three were registered.

Two registrations were linked to Swiss financial groups, which cannot use the European passport, and the other was a firm linked to an insurance company. Insurance companies are not yet able to provide investment services directly and, therefore, they must operate in the security market via broker-dealers or brokers.

Although there was a net reduction in the number of firms related to independent groups (three registrations versus five removals), eight new firms are in the process of being registered, all of them independent.

7.1.1 Solvency and profitability

In 2005, the profits of the sector amounted to 426.7 million euro in aggregate terms, a 25% increase on 2004. The breakdown by type of firm is discussed below.

In 2005, the sector's solvency situation can generally be considered as good. The surplus equity over the solvency coefficient remains high[4], and the number of loss-making firms has declined: at year-end there were 14 loss-making firms, 12 less than in 2004. However, the amount of losses was considerably higher (see table 7.2), although this can be mainly attributed to one firm[5].

In 2005, the return on equity (ROE) increased in line with earnings. As shown by figure 7.1, broker-dealers that are market members continued to be the most profitable segment, with an average ROE of 41%. In 2005, the ROE increased substantially more in relative terms at broker-dealers and brokers that are non-market members.

Certain firms, particularly brokers that are non-market members, continued to have a lower ROE (or a negative ROE in the case of loss-making firms) and there were a reasonable number of firms whose ROE was lower than the Ibex 35 appreciation in the year[6]. The income statements of the various types of firms and the reasons for the increase in the ROE are discussed below.

4. See Chapter 11, table 11.2 for details of the broker-dealers' and brokers' surplus equity over the solvency coefficient.
5. Eurosafei had losses of 12.4 million euro in 2005 (in 2004 it had obtained earnings of 1.8 million euro). These losses account for 60.1% of the total losses of the broker-dealers which are market members.
6. The number of firms whose ROE was less than the Ibex 35 appreciation was: 8 broker-dealers that are market members, 2 broker-dealers that are non-market members, 7 brokers that are market-members and 17 brokers that are non-market members.

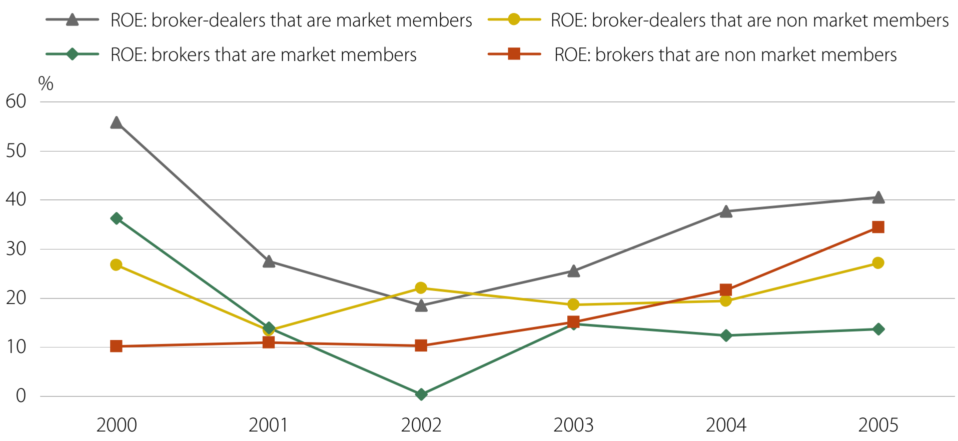
Performance of the loss-making firms: number and amount TABLE 7.2

Thousand euro

	No. of firms		Amount of losses	
	2004	2005	2004	2005
Broker-dealers that are market members	3	4	-3,617	-17,463
Broker-dealers that are non-market members	1	0	-713	0
Brokers that are market members	5	2	-1,788	-716
Brokers that are non-market members	17	8	-6,399	-2,469
Total	**26**	**14**	**-12,517**	**-20,648**

Source: CNMV.

Broker-dealers and brokers: ROE before taxes FIGURE 7.1



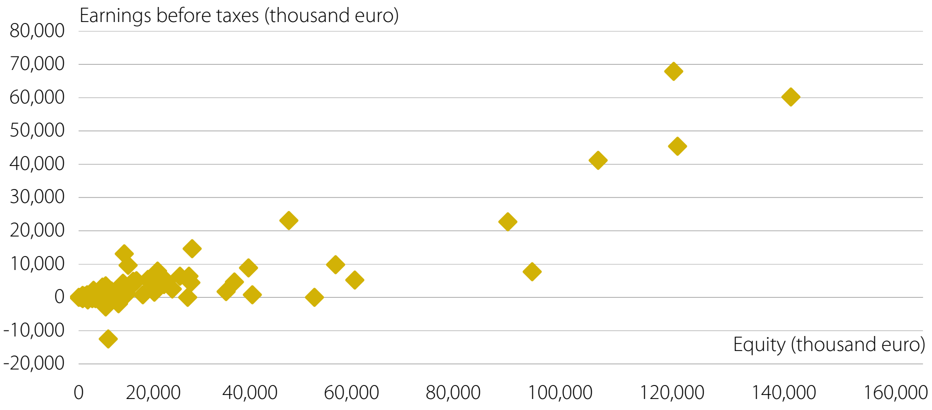
Source: CNMV.

7.1.2 Breakdown of the sector

The broker-dealer and broker sector is made up of firms that are highly diverse, in terms of both the services that they offer, based on their legal structure, and their size and business approach.

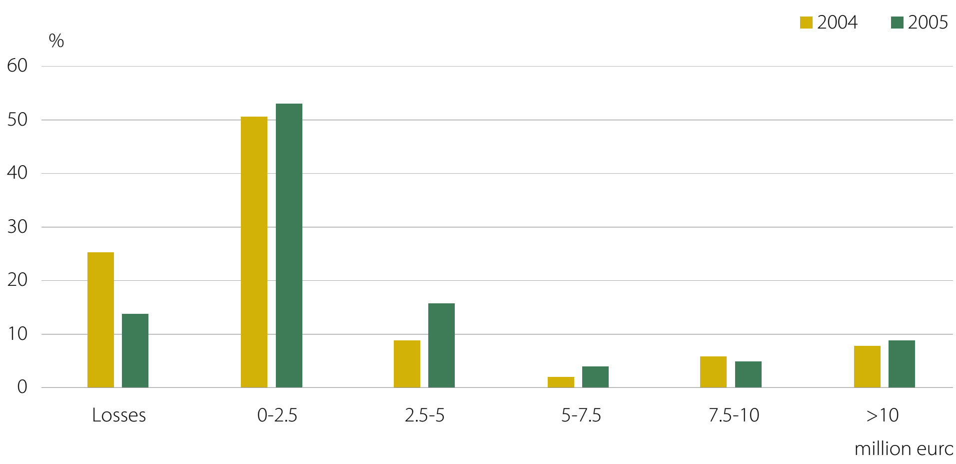
As regards the various alternatives of their legal structure, broker-dealers can trade for their own account or for third parties, whereas brokers can only trade for third parties; and both types of firms can become a stock market member. Aside from the individual characteristics of each firm, the income statements of the four types of firms (broker-dealers that are market members, broker-dealers that are non-market members, brokers that are market members, and brokers that are non-market members) differ greatly. There are a small number of large firms with high earnings (10%), and also several small highly-profitable firms (see figure 7.2). This results in a wide disparity in earnings which should be taken into account in the aggregate analyses.

Broker-dealers and brokers: earnings and equity FIGURE 7.2



Source: CNMV.

Broker-dealers and brokers: frequency of earnings before tax FIGURE 7.3



Source: CNMV.

The industry's good overall figures conceal a wide distribution, since a small number of large profitable firms coexist with a number of weak or unprofitable firms.

Figure 7.3 illustrates that most of the broker-dealers and brokers (65% of the total in 2005) recorded earnings of less than 5 million euro in 2005. There was only a small number of firms with earnings over this amount (18 of the 102 firms), but their weighting was high (they obtained 83.3% of the sector's total net earnings). 12% of the firms reported losses.

7.1.3 Broker-dealers: income statement

Broker-dealers increased earnings in 2005. The most significant aspects in the performance of the broker-dealers that are market members and those that are non-market members is summarised below (see table 7.3.).

Broker-dealers: income statement

TABLE 7.3

Thousand euro

	Members		Non-members	
	2005	% chg. 05/04	2005	% chg. 05/04
Financial income	53,153	-28.7	4,123	4.6
Net income from securities trading	197,510	n.m.	2,881	529.0
Net commission revenues	**564,848**	**18.2**	**65,237**	**6.2**
Commission revenues	732,710	18.4	86,730	6.8
Brokering	475,689	11.9	27,155	13.7
IIC subscription and reimbursement	75,389	19.8	43,482	3.6
Placement and underwriting	58,651	47.0	0	0.0
Portfolio management	15,706	41.0	3,201	6.6
Other	107,275	34.6	12,892	4.3
Commission expenses	167,862	19.0	21,493	8.5
Total net revenues	**815,511**	**60.7**	**72,241**	**9.8**
Operating expenses	370,430	11.8	33,885	-2.8
Personnel expenses	238,590	16.2	23,090	-3.7
General expenses	131,840	4.7	10,795	-0.7
Operating income	**445,081**	**152.7**	**38,356**	**23.9**
Depreciation and other charges	22,295	-31.9	1,657	14.8
Other gains and losses	-92,093	n.m.	975	n.m.
Earnings before taxes	**330,693**	**18.2**	**37,674**	**33.4**
Taxes	103,518	26.1	12,644	26.6
Earnings after taxes	227,175	14.9	25,030	37.2

Source: CNMV.
n.m.: the rate of change is not meaningful since the signs are different.

Broker-dealers that are market-members (SVB)

The increase in earnings in this subsector was due to the growth in net commission revenues, which offset the rise in operating expenses. It was also supported by the substantial decrease in redemptions.

Although the increase in earnings was fairly widespread, earnings declined at six out of the 38 firms. These decreases came at medium-sized firms (their weighting was less than 3% of the total) and small-sized firms (with a weighting of less than 0.5% of the total). All the large firms significantly increased their earnings. Accordingly, the concentration of the broker-dealers and brokers segment remained high, since seven firms posted more than 75% of the earnings before tax of the broker-dealers that are market members.

Also, the number of loss-making firms increased from three to four, and the amount of losses multiplied by four as a result of the high losses incurred by one firm (see footnote 5). It was detected that two of these firms[7] may not meet the solvency coefficient.

Broker-dealers that are non-market members (SV)

At this group of firms, the increase in earnings can be explained by a (moderate) increase in net commission revenues, and a reduction in operating expenses. Proprietary trading (financial income and net income from securities) and extraordinary results also contributed to the large increase in earnings.

This increase was widespread and just one of the eight firms active at year-end posted lower earnings than in 2004. None of the firms made losses in 2005 or had difficulties in meeting the equity requirements stipulated by legislation. Most of the activity remained concentrated at one firm[8].

7.1.4 Brokers – income statement

Earnings increased considerably at brokers that are non-market members, and also at brokers that are market members (correcting for the change in status of one firm).

Brokers that are market-members (AVB)

Net commission revenues, total net revenues and operating income all fell, but this performance can be explained mainly by the fact that a large broker changed its status to that of broker-dealer/market member[9]. If we disregard this effect, the earnings of the brokers that are market members would have increased substantially in 2005[10].

The good performance by brokers, disregarding the effect of the change in status, can be explained by the increase in earnings of a single firm that concentrates most of the business in this segment.

Aside from this case, three of the ten firms active at 2005 year-end experienced a decline in earnings with respect to 2004.

The number of loss-making firms and the amount of losses decreased, owing to: (i) the favourable performance of two firms, which went on to post earnings in 2005, and (ii) the removal of another loss-making firm in 2004. All the firms met the solvency coefficient by a wide margin at year-end.

7. Deutsche Securities and Eurosafei.
8. Mapfre Inversión recorded earnings of 22.6 million euro in 2005, 60.1% of the total broker-dealers' earnings.
9. Ibersecurities AVB reregistered as a broker-dealer and market member in February 2005. This firm obtained 55.4% of earnings before tax of the brokers that are market-members in 2004.
10. The increase in earnings before tax of the brokers that are market-members, except for Ibersecurities, was 197%.

Brokers: income statement TABLE 7.4

Thousand euro

	Members		Non-members	
	2005	% chg. 05/04	2005	% chg. 05/04
Financial income	3,015	0.8	7,381	57.6
Net income from securities trading	2,931	2,471.1	374	-26.4
Net commission revenues	**17,541**	**-39.1**	**164,327**	**27.8**
Commission revenues	22,807	-34.1	204,118	30.4
Brokering	19,335	-31.7	76,623	28.0
IIC subscription and reimbursement	348	-69.8	45,542	80.0
Placement and underwriting	0	-100.0	3,821	225.5
Portfolio management	657	16.5	14,014	6.3
Other	2,467	-43.8	64,118	12.5
Commission expenses	5,266	9.5	39,791	42.6
Total net revenues	**23,487**	**-26.4**	**172,082**	**28.6**
Operating expenses	19,356	-24.5	109,038	12.9
Personnel expenses	11,235	-20.8	69,222	15.8
General expenses	8,121	-29.1	39,816	8.1
Operating income	**4,131**	**-33.8**	**63,044**	**69.6**
Depreciation and other charges	469	-49.4	7,284	-3.7
Other gains and losses	482	17.3	-1,226	31.4
Earnings before taxes	**3,844**	**-25.2**	**54,534**	**90,1**
Taxes	1,140	-48.5	18,362	69,4
Earnings after taxes	**2,704**	**-7.4**	**36,172**	**102,7**

Source: CNMV.

Brokers that are non-market members (AV)

The substantial increase in earnings (90% before tax) was due to a significant increase in total net revenues and the low growth in operating expenses and containment of depreciation charges.

The individual data shows better performance than at the other segments, mainly by the smaller loss-making firms. The number of loss-making firms declined from 17 to 8[11] and the amount of losses fell by 61%. Also, eleven firms that recorded losses at 2004 year-end went on to post earnings in 2005. None of the brokers had

11. Two of the eight firms had just been formed.

Gross commission revenues TABLE 7.5

Thousand euro

	2001	2002	2003	2004	2005	% chg. 05/04
Type of service						
Brokering	640,392	533,901	467,762	537,235	598,802	11.5
IIC subscription and reimbursement	138,339	121,224	116,477	131,361	164,761	25.4
Placement and underwriting	54,982	49,287	91,890	41,259	62,472	51.4
Portfolio management	19,544	17,530	19,465	27,888	33,578	20.4
Other	139,315	129,525	135,027	153,409	186,752	21.7
Total	**992,572**	**851,467**	**830,621**	**891,152**	**1,046,365**	**17.4**
Type of firm						
Broker-dealers - members	74.2	70.9	72.6	69.4	70.0	—
Broker-dealers – non-members	6.3	7.5	7.6	9.1	8.3	—
Brokers - members	6.9	6.5	4.1	3.9	2.2	—
Brokers – non-members	12.6	15.1	15.7	17.6	19.5	—
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	—

Source: CNMV.

solvency difficulties at year-end, as the only firm in this situation was deregistered in November.

7.1.5 Detail of commission revenues

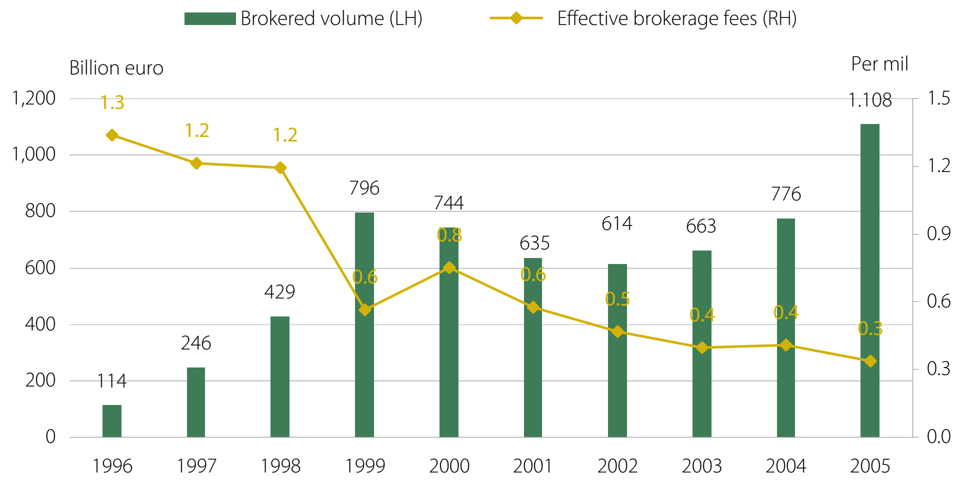
In 2005, gross commission revenues were in excess of one billion euro, the highest figure since 2000. The bulk of the revenues were obtained by broker-dealers that are market members, followed by brokers (see table 7.5).

As shown in the preceding section, ordinary revenues increased significantly in 2005. Revenues increased in all services, especially, placement and underwriting.

Brokers performed better, as they increased commission revenues by 30.4%. The increase in revenues at broker-dealers was more moderate (18.4% at market members and 6.8% at non-market members) Brokers that are market members performed worse since their ordinary revenues fell by 34.1%.

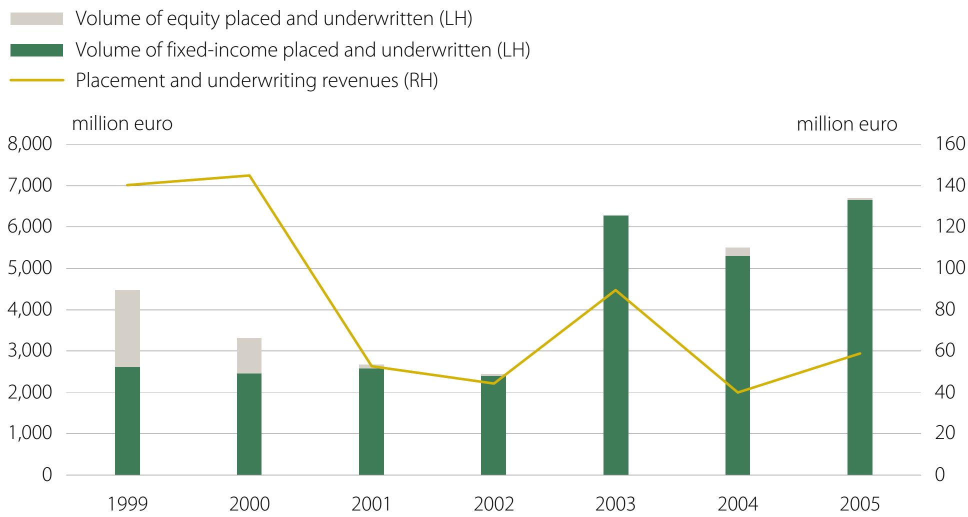
Commission revenues from brokering, which is the main source of revenues for broker-dealers and brokers that are market members, was the slowest-growing component. Although market trading significantly increased and broker-dealers that are market members recovered market share, the decrease in average brokerage fees (see figure 7.4) prevented the increase in activity from producing more revenues.

Broker-dealers that are stock exchange members: brokered volume and average brokerage fees in Spanish equities FIGURE 7.4



Source: CNMV.

Broker-dealers that are market members: placement and underwriting commission revenues and volume FIGURE 7.5



Source: CNMV.

IIC marketing continued to be the second-largest source of revenue for broker-dealers and brokers. The positive performance by this sector (see Chapter 6) enabled these revenues to increase by 25.4% in 2005.

Placement and underwriting commissions recovered after the decline experienced in 2004. Unlike in 2004, the volume of placement and underwriting increased substantially in 2005. Average fees also recovered. As a result, this fee class increased by 47% at broker-dealers that are market members (see figure 7.5).

7.2 Portfolio management companies (SGC)

In 2005, the number of portfolio management companies continued to decrease. Their number was reduced by five, largely due to the growing competition from credit institutions and broker-dealers and brokers, which also offer complementary securities services to their clients.

One firm[12] opted to reregister as a broker-dealer, with the aim of broadening its range of services. At year-end, there were 17 portfolio management companies on the books, four less than at 2004 year-end[13].

Because of the reduction in the number of firms, portfolio management services to individuals experienced a notable increase. The number of portfolio management contracts rose by 5% and the assets managed exceeded 3 billion euro, i.e. annual growth of 48.3% (see table 7.6).

The sector's results improved substantially, since commission revenues increased by 43.4%. This, coupled with the decline in operating expenses, caused earnings before taxes to rise 60.3% (see table 7.7). These aggregate data do not include the data of one large firm[14] which was deregistered close to year-end. Including that firm makes the figures even better: commission revenues increased by 58.7% and earnings before tax by 78.8%.

Assets managed by portfolio management companies

TABLE 7.6

Thousand euro

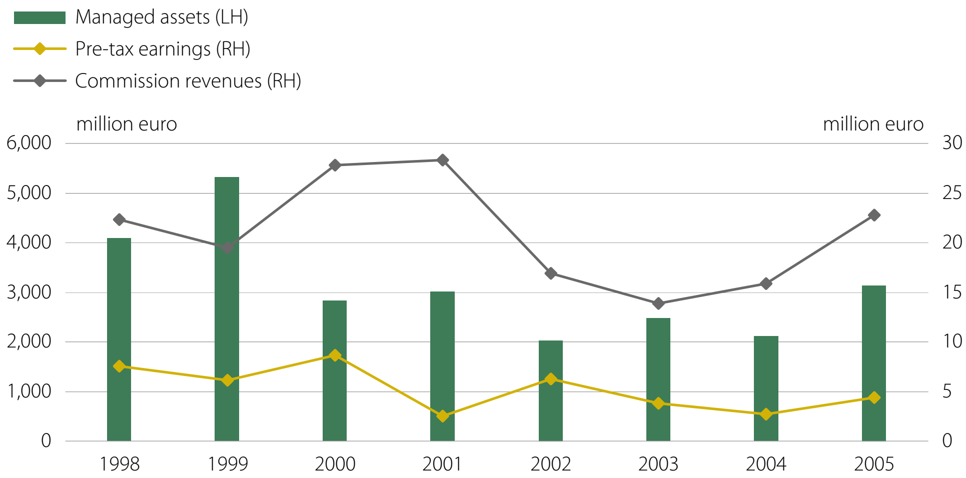
	31-12-04	31-12-05	% chg. 05/04
Total			
Number of portfolios	3,851	4,043	5.0
Assets	2,111,344	3,130,210	48.3
Breakdown by portfolio type			
SIMCAV			
Number	35	34	-2.9
Assets	215,044	242,905	13.0
Other managed portfolios			
Number	3,816	4,009	5.1
Assets	1,896,300	2,887,305	52.3

Source: CNMV.

12. Unicorp Patrimonio.
13. See Annex II.5 for details of the firms.
14. Unicorp Patrimonio.

Portfolio management companies: managed assets, commission revenues and pre-tax earnings

FIGURE 7.6



Source: CNMV.

Portfolio management companies: income statement

TABLE 7.7

Thousand euro

	2004	2005	% chg. 05/04
Financial income	550	488	-11.3
Net income from securities trading	89	64	-28.1
Net commission revenues	**15,155**	**14,570**	**-3.9**
Commission revenues	15,868	22,756	43.4
Portfolio management	10,450	18,148	73.7
Advice	3,265	592	85.0
Other	2,153	4,016	-21.2
Commission expenses	713	8,186	1.048.1
Total net revenues	**15,794**	**15,122**	**-4.3**
Operating expenses	11,266	9,908	-12.1
Personnel expenses	6,679	5,809	-13.0
General expenses	4,587	4,099	-10.6
Operating income	**4,528**	**5,214**	**15.2**
Depreciation and other charges	985	805	-18.3
Other gains and losses	-811	-29	-96.4
Earnings before tax	**2,732**	**4,380**	**60.3**
Taxes	1,002	1,404	40.1
Earnings after tax	**1,730**	**2,976**	**72.0**

Source: CNMV.

The portfolio management companies recovered market share in portfolio management: in 2005 they obtained 35.1% of the total portfolio management revenues compared with 27.3% in 2004[15].

In line with the earnings increase, portfolio management companies' return on equity (ROE) improved significantly, from 6.2% in 2004 to 19.8%.

The solvency of these firms also improved significantly. Three of the six portfolio management companies that were making losses in 2004 went on to obtain profits in 2005, and one was deregistered. At year-end, there were only two loss-making portfolio management companies, both of which had just been created[16]. The amount of losses fell from 770 thousand euro in 2004 to 364 thousand euro. Surplus equity over the solvency coefficient remained sufficient[17].

The concentration of portfolio management companies remained extremely high, even though it declined in 2005: one firm[18] accounted for half of the total earnings, and four firms[19] obtained 89%.

7.3 Credit institutions

7.3.1 Authorisation and registration

Credit institutions can provide all the activities envisaged in Article 63 of the Securities Market Law (investment services and complementary activities), provided that this is envisaged in their legal regime and bylaws and that they have specific authorisation from the regulator[20].

At 2005 year-end, 206 Spanish credit institutions (banks, thrifts and cooperatives) were registered in the CNMV's Official Register of Spanish Credit Institutions that provide investment services.

Foreign credit institutions authorised to operate in Spain may also provide investment services, provided that these activities are envisaged in their authorisation regime[21]. Foreign credit institutions can operate in Spain through a physical establishment (branch) or without one.

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15. After portfolio management companies, broker-dealers that are market members obtained the largest proportion of portfolio management commission revenues (30.1% of the total), followed by brokers that are non-members (27.1%).
16. They were registered in 2004.
17. See Chapter 11, table 11.2.
18. Santander Carteras registered 49% of total earnings of portfolio management companies in 2005 (65% in 2004).
19. Santander Carteras, Deutsche Asset Management, Ibercaja Patrimonios and Kutxa Gestión Privada.
20. The Bank of Spain is in charge of authorising credit institutions. The Bank of Spain informs the CNMV about credit institutions authorised to provide investment services.
21. Foreign investment firms wishing to provide investment services in Spain must abide by the provisions of Royal Decree 1245/1995, of 14 July, on bank creation, cross-border activities and other matters relating to the legal system applicable to credit entities.

At 2005 year-end, 48 foreign credit institutions with branches in Spain were registered in the CNMV's Register for the purpose of providing investment services. Of the 48, 40 were authorised in other EU member states[22]. Eight firms were authorised in non-EU countries; the US is the non-EU country with the largest number of firms registered in Spain (3).

According to the CNMV's Register, foreign credit institutions without a physical establishment which notified their intent to provide services in Spain amounted to 298. All the firms except one (Dresdner Bank–Schweiz–AG) had been authorised in other EU member states[23]. The number of firms that provide services without a physical establishment increased considerably in 2005, specifically by 25.7%, in line with the previous years' trend, and, therefore, they were one of the main sources of competition in the investment services market.

7.3.2 Securities trading by credit institutions

Activities related to the securities market are a major source of revenue for credit institutions, and account for nearly a third of their total commission revenues in 2005. Services related to the securities market contribute 8.9% of commissions. Mutual fund marketing commissions were even more important: 16.6% of their total commission revenues in 2005 (see table 7.8).

Credit institutions: commission revenues for providing securities services and marketing non-banking financial products TABLE 7.8

Million euro

	2002	2003	2004	2005	% total commissions 2005
Securities services	**1,083**	**1,054**	**1,074**	**1,173**	**8.9**
Placement and underwriting	238	189	123	97	0.8
Trading	229	273	305	365	2.7
Administration and custody	562	542	588	634	4.8
Asset management	54	49	58	76	0.6
Marketing of non-banking financial products	**2,080**	**2,310**	**2,813**	**3,273**	**24.8**
Mutual funds	1,544	1,658	1,977	2,179	16.6
Pension funds	183	202	231	371	2.8
Insurance	326	422	574	676	5.1
Other	26	29	31	47	0.3
Pro memoria:					
Total commission revenues	**9,831**	**10,517**	**11,762**	**13,194**	**100**

Source: Bank of Spain and CNMV.

22. See Annex II.8.
23. See Annex II.8.

In the majority of investment services, credit institutions have a greater market share than do broker-dealers and brokers (see table 7.9). However, in 2005, credit institutions market share in placement and underwriting to the broker-dealers and brokers. In 2005, credit institutions obtained 61% of placement and underwriting commissions, compared with 74.9% in 2004.

Credit institutions continued to dominate mutual fund marketing and securities administration and custody activities. There is also a sizeable difference between the market value of the securities deposited at credit institutions (1,682 billion euro at 30 June 2005) compared with just 60.5 billion euro at broker-dealers and brokers.

Commission revenues for providing investment services in 2005

TABLE 7.9

Million euro

	Broker-dealers and brokers	Portfolio management companies	Credit institutions	Total	Credit institutions/ total (%)
Placement and underwriting	62	—	97	129	61.0
Buying and selling	624	—	365	752	37.0
Asset management	35	19	76	87	58.4
Administration and custody	19	—	634	484	97.1
Mutual fund marketing	165	—	2,813	1,699	92.9

Source: Bank of Spain and CNMV.

Securities deposited[1] at credit institutions at 31 December

TABLE 7.10

Billion euro

	2002	2003	2004	2005[2]	% chg. 05/04
Fixed income	**648.6**	**741.4**	**896.4**	**987.4**	**10.1**
Debt securities	575.0	670.4	812.7	900.4	10.8
Commercial paper and notes discounted	73.6	71.0	83.7	87.0	3.9
Equities	**467.8**	**578.9**	**649.2**	**694.6**	**7.0**
Listed shares	414.8	541.5	607.9	653.2	7.5
Unlisted shares	53.0	37.4	41.3	41.4	0.2
Total	**1,166.4**	**1,320.3**	**1,545.6**	**1,682.0**	**8,8**

Source: Bank of Spain and CNMV.

1. Listed securities are recorded at their market value and unlisted securities at their nominal value.
2. At 30 June.

8 Venture capital firms

8.1 Legal framework

In November 2005, the Spanish government enacted Law 25/2005 regulating venture capital firms (ECR). The reform in this new venture capital law respects the basic structure of Law 1/1999[1] and is based on four cornerstones:

- A simplified system was established for venture capital firms. This simplified system aims to create a more flexible and less protectionist vehicle which is more suitable for qualified investors. Entities of this type will able to issue non-standard shares or units that can only be subscribed by promoters, founders or management companies.

- The administrative regime was made more agile. The periods established for the creation and amendment of bylaws and management regulations for these entities were made more flexible. An administrative silence procedure[2] was introduced for authorising simplified entities.

- The CNMV, as the supervisor of venture capital firms, received most of the powers to authorise them[3].

- Investment rules were made more flexible. New financial concepts common to EU countries were introduced; most noteworthy is investment in listed companies in order to delist them (public-to-private), investment by venture capital firms in other venture capital firms, and the introduction of venture capital firms that invest mainly in other venture capital firms as a means of making venture capital more accessible to small investors. Lastly, the Law also expands the scope of advice that venture capital firms[4] offer companies in which they do not hold ownership interests.

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1. Law 1/1999, dated 5 January, was the preceding Law regulating venture capital firms and their operators. It was amended by Law 44/2002 on Measures to Reform the Financial System.
2. In requesting authorisation from the CNMV, if the venture capital firm does not receive a response from the CNMV within a month, the request is understood to be authorised.
3. Under this Law, companies already operating in the market can be expected to register with the CNMV.
4. Under the preceding Law 1/1999 many companies that engaged in venture capital found it more beneficial not to incorporate in accordance with this Law, and, therefore were not filed in the relevant CNMV register.

The objectives of this Law are twofold: to provide venture capital firms with a more flexible legal framework in order to stimulate their development and, accordingly, the financing of RDI activities, and to establish a legal framework that makes it more attractive to incorporate venture capital firms in accordance with this Law.

8.2 Venture capital firms registered with the CNMV

In 2005, seven venture capital funds and eleven venture capital companies filed with the CNMV, giving a total of 43 funds and 78 companies at year-end (see table 8.1). In particular, the number of venture capital firm management companies continues to grow, with nine new entities registered with the CNMV[5], seven of which belong to independent groups and two to a controlling group; there were 45 operators registered at year-end.

Registration and removal of venture capital firms in 2005 TABLE 8.1

	Situation at 31/12/2004	Registrations	Removals	Situation at 31/12/2005
Firms	**144**	**27**	**5**	**166**
Venture capital funds	38	7	2	43
Venture capital companies	70	11	3	78
Venture capital firm management companies	36	9	0	45

Source: CNMV.

The registered firms are mainly concentrated in Madrid and Catalonia (around 70% of the total). Spanish financial groups control 30% of those firms. Foreign financial groups have a small presence, controlling only eleven firms.

Public institutions own 44.6% of venture capital fund assets. Local and regional governments use this instrument to finance projects in their respective areas. However, in recent years, private capital is gradually taking the place of public capital.

According to the CNMV's register of capital venture firms, it is estimated that in 2005 venture capital firms managed 4.444 billion euro and that net investment amounted to 2.393 billion euro. Compared with 2004, there has been a substantial increase in the capital managed (21.5%) and a slight decrease in net investment (2.1%).

However, the CNMV's register of venture capital firms represents only a part of the sector's activities. Owing to the legal restrictions imposed by Law 1/1999 for registration with the CNMV, there were companies which, though having venture capi-

5. The registrations of venture capital firm management companies were: BCN Ventures, SGECR, S.A., Corpfin Capital Gestión, SGECR, S.A, GED Iberian Private Equito, SGECR, S.A., Interdin Capital, SGECR, S.A., MCH Private Equito Investments, SGECR, S.A., NMAS1 Eolia, SGECR, S.A., Proyectos Empresariales Capital Riesgo, SGECR, S.A., Expides Gestión, SGECR, S.A. and Uninvest, SGECR, S.A.

tal as their primary purpose, preferred not to incorporate as venture capital firms[6]. In order to obtain a more accurate view of the sector, the data provided by ASCRI (Spanish Association of Venture Capital Firms) should be considered.

According to ASCRI, venture capital firms in Spain managed 12 billion euro in 2005. Gross investment totalled 3.967 billion euro, more than double[7] the 2004 figure, and net investment by venture capital firms amounted to 2.577 billion euro. In 2004, the venture capital sector experienced significant growth, with a 29.5% increase in assets managed.

8.3 Characteristics of venture capital firms registered with the CNMV during the term of Law 1/1999

While Law 1/1999 was in force (January 1999 - November 2005), the sector grew significantly, in terms of both the number of companies registered with the CNMV and the capital invested. Venture capital in Spain has developed with certain distinctive characteristics, which are discussed below.

In Spain, venture capital has been directed predominantly at institutional investors. The companies that were registered were closed, and has not been much interest in retail marketing despite it being permitted under Law 1/1999. The exceptions to this are the two open companies that are listed on the Stock Exchange.

Another noteworthy aspect is that venture capital is gradually becoming a private activity. The role of the public sector has been declining due to a growing presence of financial institutions and, more recently, large fortunes and non-financial companies. Whereas, in 1999, 53% of venture capital firm projects were promoted by the public sector, this percentage was below 8% in 2005. Individuals are also playing an increasingly significant role in the promotion of venture capital firms, particularly venture capital companies (SCR).

As regards the characteristics of the incorporated companies and funds, the majority have a small number of investors, generally fewer than ten, and also a small volume of assets. The average number of venture capital firms managed by each management company was lower than two; in fact, most operators were established in order to manage a single venture capital firm. This explains the operators' small size: the average number of employees is around seven.

The firms are not very specialised in terms of investment policy. The most common practice was to search for specific business opportunities, regardless of the investee's sector and location. Nevertheless, there are 20 specialised venture capital companies (17 in technology, two in infrastructure, and one in wind power). As regards the geographical sphere of investment, venture capital firms that invest in Spain and the

6. The restrictions referred to a minimum percentage invested and to a minimum period of investment, among others. Under the new Law, it is expected that the number of companies registered with the CNMV will increase.
7. The sizeable increase in investments by venture capital firms is mainly due to five buy-out transactions: Auna, Amadeus, Panrico, Recoletos and Cortefiel. These transactions represent 81% of total investment; three of them, Amadeus, Recoletos and Cortefiel, were delisted (see chapter 2).

EU predominate, although mention should also be made of the regional entities, of which there are 43, which focused their investment in specific autonomous regions.

The degree of management professionalisation is low. A comparison of the number of investments per venture capital firm and the assets managed by each management company shows that Spanish venture capital is a "tailor-made product" for each investor or group of investors.

In venture capital, management commissions were relatively low, particularly when compared with collective investment. The average management commission fluctuated between 1.5% and 2% of committed assets. Although the complexity of managing these firms' investments might lead one to expect higher management fees, there are other reasons why they are low: small numbers of investors (which simplifies administration), clear links between operators and investors, and a predominance of remuneration on the basis of results.

Lastly, the operators were mostly Spanish. There are few foreign venture capital management companies: at the end of 2005, only two foreign management companies were registered.

III Regulation and supervision of the securities markets

9 Issuer disclosure and corporate governance

The availability of comprehensive and accurate information about issuers is fundamental to ensure market integrity and investor protection. It is also advisable to publicise the regulations implemented by companies to guarantee that their decision-making bodies function appropriately. The CNMV supervises compliance by issuers of all obligations in these two areas that are imposed by the securities market regulations.

9.1 Issuer disclosure

Issuer disclosure is a necessary condition for the correct operation of the securities market and for investor protection. The regulations sets forth requirements, in regard not only to content, but also to the conditions and periods for disclosure.

The information is classified into three broad areas: (i) periodic public disclosure about companies' economic and financial situation, (ii) information on specific events which might affect the value of securities issued (regulatory disclosures and other notifications) and (iii) information concerning significant holdings and stock options for Board members. The CNMV supervises compliance with all of these requirements.

9.1.1 Annual information, auditors' reports and periodic public disclosure

Application of International Financial Reporting Standards

All private issuers whose securities are listed on any official secondary market must disclose information periodically[1]. Under EU regulations[2], since the beginning of 2005, consolidated annual financial statements are drawn up in line with International Financial Reporting Standards (IFRS).

To facilitate the correct application of IFRS, throughout 2005 the CNMV held meetings with non-financial listed companies, which are required to publish their ac-

1. Article 35 of the Securities Market Law 24/1988. Institutions exempt from this law are "[...] the State, Autonomous Regions and International Bodies to which Spain belongs, as well as any other public entities designated by the government [...]".
2. Regulation 1606/2002 of the European Parliament and of the Council, of 19 July 2002, on the application of international accounting standards.

counts in line with the new regulations[3]. These meetings were aimed at clarifying any possible doubts in regard to interpretation and avoiding asymmetry in the application of accounting criteria. The meetings also enabled the CNMV to obtain information about relevant issues for the correct implementation of the new accounting system, including the following:

- Accounting policies chosen by listed companies, from among the various options permitted by the new regulations.

- The level of involvement of the governing bodies, Audit Committee and Board of Directors, in defining and endorsing new accounting policies.

- The degree to which internal control systems conform to the requirements of the new accounting framework.

- The estimated effects on equity and 2004 earnings of the process of migration to the adopted IFRS.

The meetings showed that issuers had used sufficient foresight in planning the work to adapt accounting policies and internal procedures:

- The IFRS affecting each company and their impact had been analysed.

- In general, companies had implemented prudent accounting policies, applying treatments which generate the least possible volatility in income and equity[4]. Companies had also applied the criteria envisaged for adjustments and write-downs deriving from the process of transition to IFRS.

- The issuers' audit committees had endorsed, or were close to endorsing, the accounting policies adopted. Furthermore, the external auditors had analysed the qualitative effects of transition to the new standards, and had commenced a review of the quantitative adjustments, with no significant differences of opinion emerging.

Annual financial statements and auditors' reports

The CNMV periodically verifies that the auditors' reports and annual financial statements and management reports are complete and are available to the public within the legally established period.

Furthermore, if a qualified auditors' report is received, the CNMV asks the issuer about the reasons for the qualifications and its plans to resolve them. It may also request further detail as to certain aspects of annual financial statements.

3. Credit institutions were not invited to the meetings since their accounting framework is set by the Bank of Spain in its Circular 4/2004, dated 22 December, to Credit Institutions, concerning standards for the disclosure of public and reserved financial information and model financial statements.
4. For example, cost being chosen instead of fair value for tangible and intangible assets.

Audits of issuers filed with the CNMV

TABLE 9.1

Percentage of total auditors' reports filed

	2002		2003		2004	
	No.	**%**	**No.**	**%**	**No**	**%**
1. Total auditors' reports filed	**679**	**100.0**	**690**	**100.0**	**715**	**100**
Individual financial statements	452	66.6	473	68.6	506	70.8
Consolidated financial statements	227	33.4	217	31.4	209	29.2
Special reports under Ministerial Order 30/9/92)	65		50		34	
2. Auditors' opinion						
Unqualified opinion	570	83.9	615	89.1	636	89.0
Opinion with exception on uniformity	13	1.9	2	0.3	31	4.3
Other qualified opinion	96	14.1	73	10.6	48	6.7
3. Types of qualification						
Nº of reports with exceptions	71	10.5	45	6.5	29	4.1
Nº of reports with uncertainties, etc	49	7.2	43	6.2	27	3.8
Nº of reports with limitations	12	1.8	5	0.7	5	0.7
4. Effect of exceptions						
4.1 On earnings						
Nº of reports with positive effects	18	2.7	18	2.6	12	1.7
Nº of reports with negative effects	44	6.5	21	3.0	13	1.8
4.2 On equity						
Nº of reports with positive effects	15	2.2	11	1.6	3	0.4
Nº of reports with negative effects	9	1.3	5	0.7	3	0.4
5. Nature of uncertainties, etc.						
Going concern	10	1.5	14	2.0	7	1.0
Tax contingencies	17	2.5	10	1.4	4	0.6
Asset recovery	12	1.8	15	2.2	10	1.4
Disputes and litigation	15	2.2	10	1.4	11	1.5
Denial of opinion or adverse opinion	1	0.1	1	0.1	11	1.5
Other uncertainties	14	2.1	16	2.3	0	0.0

Source: CNMV's Public Register of Auditors' Reports. They relate to auditors' reports on annual financial statements and to special reports filed with the CNMV through 31 December each year. Percentages are calculated with respect to the total number of auditors' reports received.

In 2005, the CNMV received a total of 715 auditors' reports and 34 special auditors' reports[5] referring to the 2004 financial statements. Most ordinary reports expressed a favourable opinion on the accounts analysed, as in the previous year (see Table 9.1). Among the auditors' reports which did not express favourable opinions, 39% included an opinion that was qualified on the basis of uniformity, where the auditors explicitly stated that they agreed with the change. Excluding these exceptions relating to lack of uniformity, 93.3% of auditors' reports contained favourable opinions[6].

The CNMV performed the following actions:

- 100 companies were issued with subpoenas to file auditors' and special auditors' reports, since the legal deadline for doing so had expired.

- 19 companies were ordered to explain the qualifications contained in their auditors' reports[7]. These companies were asked to provide information about the actions of their audit committees, in view of the adverse opinion expressed by the auditor. The audit committees were also required to provide a clear statement about the preparation and presentation to the Shareholders' Meeting of a report on the activity in the year, including a description of any discrepancies between the Board of Directors and the external auditors.

- 9 companies were required to file information in addition to that presented in the annual financial statements and to explain any discrepancies detected between the annual financial statements and periodic public disclosure.

To facilitate dissemination of all of this information, the CNMV website provides public access to issuers' annual financial statements, directors' reports and auditors' reports, a summary of exceptions, the response to subpoenas resulting from qualified opinions and requests for further information in addition to that contained in the report, special auditors' reports and the CNMV report[8], for 2004, concerning all issuers' audits.

5. The purpose of special auditors' reports is to update the information contained in qualified auditors' reports. The update is issued as of the end of the first half of the year after the one to which the qualified auditors' report refers.
6. Uniformity principle. Once a criterion has been adopted in applying accounting standards, it must be maintained consistently, unless the originating circumstances change, in which case this change of circumstances and its impact on the annual financial statements must be disclosed in the notes to financial statements.
7. See Annex III.1. The issuers considered include Fondo de Titulización EAS Spain, whose securities are not listed in a securities market but which must file its auditors' report in line with the specific regulation applicable to securitisation funds.
8. "Summary of Auditors' Reports on Issuers Filed with the CNMV (excluding SICAV). FY2004". This report is available in Spanish on the CNMV website.

Periodic public financial disclosure

Listed companies are obliged to disclose financial information periodically[9]. The specific content is determined by Finance Ministry regulations[10] and the CNMV is empowered to modify formal or detailed aspects thereof. In 2005, the CNMV published Circular 1/2005[11] to adapt disclosure models to IFRS, establishing the following:

- Minimum periodic public disclosure for the first half of 2005[12] in line with IFRS. This included information on the process of migration to the new standards.

- The form and degree of detail of disclosure of related-party transactions[13].

- Half-yearly disclosure about the issuance of debt securities, and other securities that create debt-claims, by the companies obliged to present half-yearly PPD or by a company belonging to their consolidable group. Issues for which a group entity has provided some kind of guarantee must also be disclosed.

The entry into force of this Circular brought major modifications in half-yearly disclosure in 2005 and some companies had trouble adapting to the new requirements. The CNMV detected incidents relating to (i) application of IFRS and information on its effects on PPD, (ii) errors in distinguishing the accounting movements to be included under the headings of equity, reserves and retained earnings, and (iii) insufficient information in respect of related-party transactions.

As a result, the CNMV issued subpoenas to (i) 3 companies which were asked to provide an accurate account of their application of IFRS, since there were doubts as to whether they were being applied correctly, (ii) 19 companies which were asked to explain their IFRS transition process and (iii) 30 companies which were asked to complete the information concerning related-party transactions.

9.1.2 Significant events and other disclosures filed with the CNMV

In 2005, the CNMV received 7,063 disclosures from issuers, considerably more than in the previous year.

The increase in disclosures of price-sensitive information was due mainly to notifications of (i) acquisitions or sales of shareholdings, in a year of numerous M&A transactions due to takeovers, acquisitions and sales of shareholdings, divestments

9. Periodic Public Disclosure – PPD, half-yearly.
10. Ministerial Order dated 18 January 1991, concerning periodic public disclosure by issuers of securities listed in the stock exchange.
11. CNMV Circular 1/2005, dated 1 April, in amendment of the periodic public disclosure forms for issuers of securities listed in the stock exchange.
12. First period in which annual consolidated financial statements had to be drawn up in line with IFRS for companies whose financial year coincides with the calendar year; otherwise, the first disclosure under IFRS would refer to the second half of 2005.
13. This information must be filed on a half-yearly basis in accordance with Order EHA/3050/2004 dated 15 September.

Significant events and other disclosures filed with the CNMV TABLE 9.2

Type	2004	2005	% chg. 05/04
Significant events	**5,204**	**5,671**	**9.0**
Acquisitions or sales of shareholdings	87	495	469.0
Notices and resolutions of shareholders' meetings	582	557	-4.3
Issuers' advance results	966	923	-4.5
Changes in the Board and other governing bodies	355	344	-3.1
Audit Committee (Law 44/2002)	49	10	-79.6
Periodic disclosure by asset-backed funds	805	1,209	50.2
Periodic disclosure of mortgage-backed funds	735	809	10.1
Annual corporate governance report	201	286	42.3
Suspensions and resumption of trading	135	96	-28.9
Delistings (including prior agreements)	74	69	-6.8
Other	1,215	873	-28.1
Other disclosure	**1,334**	**1,392**	**4.3**
Announcement of coupon and dividend payments	288	237	-17.7
Information about issuers' results	447	454	1.6
Presentations about companies	151	269	78.1
Other	448	432	-3.6
Total	**6,538**	**7,063**	**8.0**

Source: CNMV.

of subsidiaries or divisions, etc[14], and (ii) periodic disclosure by asset- and mortgage-backed funds, which use this procedure to file information about their activity.

As regards other kinds of disclosure, in 2005 there was a notable increase in those referring to presentations about companies, in response to the CNMV's recommendation that public presentations to analysts, investors or the media be disclosed in this way.

Non-selective disclosure of price-sensitive information

If disclosure standards in Spain's markets are to be maintained, listed companies must constantly strive to meet the market's information needs. As a result, companies frequently hold meetings or conferences calls with analysts, institutional investors and other securities market professionals.

This kind of meeting with specialist groups must be compatible with the obligation to disclose significant information generally, not selectively, as

14. 117 listed companies filed information of this type with the CNMV.

established in the Securities Market Law. In order to reduce the risk of asymmetry in this regard, the Chairman of the CNMV sent a letter to all listed companies reminding them of this obligation, and including recommendations for the arrangement of certain kinds of information meetings with analysts, investors and other securities market professionals. These recommendations, which had been submitted for public consultation, are as follows:

Recommendations

1. Companies must comply with the recommended transparency requirements when disseminating new information via meetings or presentations.

2. Companies must give notice of said meetings, via notification to the CNMV which will be made public in the web site section entitled "Otras comunicaciones". The notification must be given even if the meeting is not open to the public.

3. The notification must state the purpose, date and time of the meeting, as well as any means (e.g. webcast) by which the meeting may be followed by interested parties. Webcasting these meetings is recommended as very good practice.

4. The documentation or slides to be presented during the meeting must be disseminated via the company's website and notification to the CNMV before the meeting starts.

5. Companies must avoid providing incomplete or unclear information at such meetings about important matters which might be considered to be price-sensitive.

6. At the end of a meeting, companies must provide a summary of the response to the questions that were raised, unless:

    a. The entire event is recorded and made available to investors on the company's web site, and remains there for a period of no less than one month

    b. All responses are merely a reiteration, with no additional nuances, of information that has already been made public.

7. Compliance with recommendations 4 and 6 does not exempt listed companies from the obligation to officially notify the CNMV, in accordance with the provisions of Article 82.2 of the Securities Market Law, of specific decisions or information considered to be price-sensitive.

9.1.3 Significant holdings

The Securities Market Law[15] and its implementing regulations[16] require investors to disclose acquisitions or sales of holdings in listed companies when they attain certain percentages of share capital[17] that are considered to be significant. The information must be sent to the company affected, to the stock exchanges where the shares are traded and to the CNMV. Directors of listed companies must disclose any acquisition or sale of shares in the company, regardless of the percentage of share capital.

Royal Decree 1333/2005[18], concerning market abuse, extended the requirements to directors and executives of Spanish-resident issuers. Accordingly, they must notify the CNMV of any transaction performed with the issuer's shares or with financial contracts whose underlying assets are said shares[19]. Among the information now required is the transaction price and market in which the transaction was performed.

In 2005, 2,835 notifications of significant holdings were filed with the CNMV[20], of which 7% arrived after the legal deadline, leading the CNMV to send out subpoenas to the parties concerned. Thirteen notifications were received from executives regarding share transactions.

9.1.4 Options and other rights associated with remuneration systems

Securities market regulations[21] require directors of listed companies to disclose acquisitions or sales of options on such companies' stock, or other contracts attributing the right to subscribe to or acquire shares from their owner.

The CNMV received 183 disclosures of stock options during 2005, from 84 directors, relating to 22 listed companies. Table 9.3 shows the companies which had stock options at 2005 year-end, mainly as part of remuneration systems.

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15. Article 53 of the Securities Market Law.
16. Royal Decree 377/1991, dated 15 March, on disclosure of significant holdings in listed companies and acquisitions of own shares by listed companies (amended by Royal Decree 2590/1998, dated 7 December, concerning changes to the legal framework applicable to negotiable securities and Royal Decree 1370/2000, dated 19 July, concerning stock options). Further implemented by Ministerial Order dated 23 April 1991 and CNMV Circulars 2/1991 and 4/2000.
17. According to Royal Decree 377/1991, these percentages are 5% and multiples thereof. In the event that the acquirer is resident in a tax haven or territory without securities markets supervisory bodies, the threshold is 1% and multiples thereof.
18. Royal Decree 1333/2005, dated 11 November, implementing Securities Market Law 24/1988, dated 28 July, concerning market abuse.
19. The deadline for disclosure is five business days after execution of the transaction.
20. Annex III.2 indicates the number of significant shareholders in Ibex 35 listed companies at year-end, classified by tranches.
21. Royal Decree 1370/2000, dated 19 July, concerning disclosure of significant holdings, and CNMV Circular 4/2000, dated 2 August, establishing the forms for disclosure of stock options and remuneration systems for directors and managers of listed companies.

9.1.5 Own shares

The First Additional Disposition of Spain's Corporations Law[22] and the Royal Decree[23] concerning the disclosure of significant holdings and acquisition of own shares, establish the obligation of listed companies to disclose to the CNMV any acquisition of own shares or shares in their parent company in excess of 1% of the share capital.

In 2005, the CNMV received 186 disclosures of own share acquisitions, a 23% decline vs. 2004.

Disclosure of stock options at 31/12/2005 TABLE 9.3

Company	Index/Market	No. of Directors
ACS	Ibex 35	4
Altadis	Ibex 35	2
Bankinter	Ibex 35	10
Banco Santander Central Hispano	Ibex 35	4
Construcciones y Auxiliar de Ferrocarriles (CAF)	Electronic market	4
Campofrío	Electronic market	4
Grupo Ferrovial	Ibex 35	3
Grupo Prisa	Ibex 35	7
Iberia Líneas Aéreas	Ibex 35	2
Indra Sistemas	Ibex 35	3
Informes y proyectos	Electronic market	1
Jazztel	Electronic market	10
La Seda de Barcelona	Electronic market	4
Natra	Electronic market	3
Natraceutical	Electronic market	4
Service Point Solutions	Electronic market	4
Sogecable	Ibex 35	1
Tele Pizza	Electronic market	9
Telefónica Móviles	Ibex 35	1
Transportes Azkar	Electronic market	2
TOTAL: 20 companies		**82**

Source: CNMV.

22. Royal Legislative Decree 1564/1989, dated 22 December, approving the amended text of Spain's Corporations Law.
23. Royal Decree 377/1991, dated 15 March, concerning disclosure of significant holdings in listed companies and acquisitions of own shares by listed companies (amended by Royal Decree 2590/1998, dated 7 December, concerning changes to the legal framework applicable to negotiable securities and Royal Decree 1370/2000, dated 19 July, concerning stock options).

Electronic prospectus

As part of the effort to promote e-government, the CNMV continues work to simplify its supervisory operations. One such initiative is the electronic prospectus, which makes registration easier since it eliminates, or at least minimises, the volume of paper documentation.

These initiatives by the CNMV date back to 1998, with the decision[1] to implement the CIFRADOC/CNMV system[2], delimiting the areas in which that system would be used. This system has since been extended to areas such as disclosure by real estate IICs, SGIICs, foreign IICs, investment firms and venture capital companies.

Continuing with this project, work commenced late in 2005 to enable fixed income securities issuers to present the required prospectus for certain kinds of issues or listings in electronic format via the CIFRADOC/CNMV encryption and electronic signature system.

In the first phase, scheduled for implementation in the first quarter of 2006, the plan is to apply the electronic prospectus to issues of debentures and listings of securities notes[3]. In the future, this mechanism will be expanded to include shelf registrations and their corresponding issues.

Although application of this new system of electronic transfer required a notable initial effort by the regulator, the governing bodies of markets and the issuers themselves, the CNMV considers that the new system will soon contribute significantly to enhancing and speeding up the prospectus registration process, while at the same time facilitating homogenisation and standardisation of their information content.

1. CNMV decision for implementation of the CIFRADOC/CNMV system.
2. CIFRADOC/CNMV is an electronic information exchange system based on encryption and electronic signature technology. It allows administrative documents to be filed with the CNMV online, guaranteeing authenticity, integrity, confidentiality and non-denial.
3. Annexes V and XIII of (EC) Regulation No. 809/2004 of the Commission, dated 29 April 2004, concerning application of Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

9.2 Corporate governance

Spanish regulations establish various corporate governance requirements for companies with securities listed on official markets.

The main regulations in this connection are Law 44/2002, which sets out disclosure obligations for related-party transactions and the operation of the audit committee; Law 26/2003, which regulates disclosure of shareholder agreements and imposes the obligation to prepare an Annual Corporate Governance Report; and Law 62/2003, concerning tax, administrative and labour measures, which requires all issuers of listed securities to have an audit committee[24].

Some of these measure are aimed at avoiding conflicts of interest between companies' directors and their shareholders, and others are designed to encourage directors to fulfil their corporate governance duties. Finally, many of them are aimed at fostering transparency by Boards of Directors, so that shareholders are better informed and may make the decisions they consider to be in their best interests. In 2005, efforts were ongoing to improve corporate governance at listed companies.

9.2.1 Bylaw restrictions

The bylaws of certain listed companies establish restrictions which make it difficult to take control of the company by acquiring its shares in the market. These restrictions include limiting the number of votes which shareholders may exercise at the Shareholders' Meeting, setting a minimum number of shares to entitle attendance at the Shareholders' Meeting, requiring supermajorities for certain decisions, both by the Board of Directors and the General Shareholders' Meeting, and imposing specific requirements for appointment as a director.

To increase the transparency of this kind of restriction and enable investors to evaluate them adequately, securities market regulations[25] establish the obligation to provide a list of these measures in the Annual Corporate Governance Report. The following conclusions may be drawn from the information provided by companies in that report:

– At 2005 year-end, 22 of the 182 listed companies analysed[26] had restrictions on a shareholder's voting rights in their Bylaws. In most of these cases, the limit was set at 10%, although in some cases it was just 5% and in others it stood at 33%. Of the companies listed on the Ibex 35, only eight had a restriction of this kind, which was 10% in all cases; in three of those eight companies, no shareholder owned more than the stated percentage.

– In 2005, only one company took measures to remove the restriction on voting rights; this was due to a change in its ownership structure[27] .

24. Other regulations are Order ECO 3722/2003 concerning the Annual Report on Corporate Governance and other disclosures, Order ECO 354/2004, concerning the Annual Report on Corporate Governance at savings banks and Order EHA 3050/2004, concerning related-party transactions disclosure requirements for issuers.
25. CNMV Circular 1/2004, dated 17 March, concerning the Annual Report on Corporate Governance by listed companies and other issuers of securities traded in official securities markets, and other information instruments for listed corporations.
26. Companies listed on the stock exchange, excluding SICAV and the second market. Foreign companies and companies whose fiscal year does not coincide with the calendar year are excluded.
27. This company was Cortefiel, when a takeover bid for its shares was made dependent upon the Shareholders' Meeting of Cortefiel modifying its Bylaws prior to acceptance, in order to remove restrictions on voting and on the appointment of directors.

– Most listed companies required a minimum number of shares for attendance at the Shareholders' Meeting. In many cases this restriction was not quantitatively significant, but 10 companies had set the minimum at 1 thousandth of share capital, the legal limit. Of the Ibex 35 companies, one of them had set the limit at 1 thousandth, 5 had a limit of between 500 and 2,000 shares, 24 had a limit of less than 500 shares, and another 5 companies had no limit.

9.2.2 Shareholder agreements

According to the legal definition, shareholder agreements are those agreements which regulate the exercise of voting rights at Shareholders' Meetings or restrict or condition the free sale of shares in listed corporations.

The regulation concerning transparency at listed companies[28] requires disclosure of shareholder agreements and other pacts affecting listed companies as well as entities controlling listed companies.

When a shareholder agreement is reached, extended or modified, this must be notified to the CNMV and the affected company. Once these notifications are sent, the text of the agreement must be deposited at the Mercantile Register. Table 9.4 lists the agreements notified in 2005 and which were in force at 31 December 2005.

There may be agreements which have not yet been notified to the CNMV, since Transparency Law 23/2003 granted a 3-year grace period for disclosure, publication and deposit of agreements affecting more than 5% of a listed company's share capital that were entered into, modified or extended before that law came into force.

Shareholder agreements: percentage of share capital affected TABLE 9.4

Company	Market	% of share capital affected
Agrupación Actividades e Inversiones Inmobiliarias	Open outcry	86.3
Antena 3 de Televisión, S.A.	Electronic market	39.5
Campofrío Alimentación	Electronic market	10.0
Cementos Molins	Open outcry	81.7
Cortefiel	Electronic market	86.8
Fomento de Construcciones y Contratas	Electronic market	45.6
La Seda de Barcelona	Electronic market	13.8
Nicolás Correa	Electronic market	46.6

Source: CNMV.

28. Law 26/2003, dated 17 July, in amendment of Law 24/1988, dated 28 July, concerning the Securities Market, and the consolidated text of the Spanish Corporations Law, approved by Royal Legislative Decree 1564/1989, dated 22 December, in order to enhance the transparency of listed corporations.

9.2.3 Related-party transactions with listed companies

Listed companies may perform related-party transactions which may consist in the transfer of funds, services or other obligations, regardless of whether or not there is a consideration.

A party is considered to be related to another when it exercises or may exercise control over it, directly or indirectly, or has or may have a significant influence over financial and operating decision-making.

Transactions with related parties may be a source of conflicts of interest, since they offer the possibility of gains to certain parties related to the company, to the detriment of the company's own shareholders. This is the reason why they must be regulated and why Spanish Law 44/2002 introduced the obligation for issuers to disclose related party transactions, and Order EHA/3050/2004 specifically defined those transactions.

In 2005, listed companies started to disclose transactions performed with majority shareholders, directors, executives and other related parties in their half-yearly public disclosure to the CNMV, referring to 2004. Most of the companies considered (85%) stated that they had performed one or other related-party transaction in the period. Among the companies which did not disclose related-party transactions[29] were firms with a considerable weighting on the Madrid Stock Exchange General Index (IGBM).

A total of 1,037 transactions were disclosed, amounting to 64.530 billion euro. Concentration was high, since just ten companies[30] accounted for 85% of that amount.

The most significant related-party transactions, in terms of number and amount, were those performed with core shareholders (see Table below).

The variety of related-party transactions disclosed was considerable; for example, as many as 29 different kind of transaction with core shareholders were disclosed. Loans and the provision of services were the most frequent (and largest) transactions.

Among the related-party transactions with directors and executives, remuneration and loans were the most common. The principal transactions with persons or companies belonging to the group were the provision of guarantees.

Disclosure of transactions by administrators and managers

On 11 November, Royal Decree 1333/2005 was approved, implementing Securities Market Law 24/1988, dated 28 July, concerning market abuse. This enactment effec-

29. Acerinox, Aldeasa, Arcelor, Banco de Sabadell, Banco Pastor, Banesto, Corporación Mapfre, Cortefiel, EADS, FCC, Inditex, La Seda de Barcelona, SCH, Aguas de Barcelona, Tecnocom-Telecom y Energía, Tubacex and Zardoya Otis.
30. Telefónica Móviles, Repsol YPF, Sol Meliá, Telefónica, Endesa, Gas Natural, Abertis, Enagás, Iberdrola and Cepsa.

Related-party transactions at listed companies

TABLE 9.5

1H05

Transactions with...	No. of companies	Type of transaction[1]	No. of transactions	Amount (€ Mn)
Core shareholders	54	29	440	50,161
Directors and executives	79	23	367	5,422
Group persons or companies	32	25	158	7,476
Other related parties	18	18	72	1,471
Total	**116[2]**	**33[3]**	**1,037**	**64,530**
% of total				
Core shareholders	46.6	87.9	42.4	77.7
Directors and executives	68.1	69.7	35.4	8.4
Group persons or companies	27.6	75.8	15.2	11.6
Other related parties	15.5	54.5	6.9	2.3

Source: CNMV.

1. Number of transaction types used in each category of related party.
2. Total number of companies considered.
3. Total number of transaction types included in the half-yearly periodic public disclosure.

tively transposed into Spanish law the following Directives: Commission Directive 2003/124/EC of 22 December 2003 as regards the definition and public disclosure of inside information and the definition of market manipulation; Commission Directive 2003/125/CE as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest; and Commission Directive 2004/72/CE as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions. All three Directives, as well as EC Regulation 2273/2003 as regards exemptions for buy-back programmes and stabilisation of financial instruments, further implement and complement Directive 2003/6/CE of the European Parliament and the Council on insider dealing and market manipulation.

Article 9.1 of Royal Decree 1333/2005 establishes the obligation to disclose to the CNMV all transactions with shares in listed companies performed by their directors or executives, including those performed by persons with whom the director or executive maintains a close relationship. Notification to the supervisor and the market of transactions performed with issuer's shares by executives of listed companies is very important for investors and also helps the competent authorities to supervise the market.

Article 9.2 of Royal Decree 1333/2005 provides that "executives shall be understood to be any person responsible at senior level who commonly has access to inside information related directly or indirectly to the issuer and who, furthermore, is competent to make management decisions affecting the future development and business prospects of the issuer."

Article 9.3.d provides that directors and executives have a close relationship with all legal entities in which they hold management positions or whose management they control, those legal entities which they control directly or indirectly or which were created for their benefit, and those legal entities whose economic interests broadly coincide with those of the director or executive.

Of the scenarios described in the preceding paragraph, an important new development is the consideration, under the heading of related party, of all entities in which the director or executive of a listed company simultaneously holds a management position, regardless of whether the decision-making capacity attached to said position is joint or joint and several. Many directors and executives of listed companies are in this situation; under the Royal Decree, they are obliged indirectly to disclose all transactions performed by any legal entity in which they occupy a management position, in the terms of Article 9.2 of the Royal Decree.

9.2.4 Remote voting in shareholders' meetings

Correct operation of general shareholders' meetings with the involvement of all shareholders in decision-making constitutes a fundamental requirement for good corporate governance. In order to facilitate the participation of shareholders whose place of residence may make their physical presence at meetings more difficult, the regulations to foster transparency included the possibility that companies may establish electronic means for voting at the shareholders' meeting.

For this mechanism to be used with the utmost guarantees, certain requirements must be established such as the certification of the identity of the person who is voting. Furthermore, for use of this method to be widespread among shareholders, not only must the scope and advantages of remote voting be explained and divulged among shareholders, but there must also be efficient comprehensible procedures in place for any shareholder to use.

In 2005, 27 of the companies listed on the Ibex 35 had developed IT systems to enable their shareholders to vote remotely using electronic methods. In some cases, the companies broadcast the general shareholders' meeting live and enabled their shareholders to vote as though physically present. However, despite all of these new developments, the use of electronic remote voting systems is still not widespread.

9.2.5 Listed companies websites

According to the Transparency Law, listed companies must have a website to divulge significant information to the markets and to their shareholders. The implementing regulation[31] specifies the minimum content of the website and indicates that this information must be structured in a simple and accessible manner.

31. CNMV Circular 1/2004, dated 17 March.

The CNMV constantly reviews the website content of companies listed in Spain, to ensure that they include all obligatory content, such as significant events or notice of meetings. The degree of compliance improved considerably in 2005 with respect to the previous year, since at year-end 67% of companies met with the requirements, vs. 50% in 2004. Most cases of non-compliance were not very significant and were concentrated in companies listed on open outcry markets.

The Transparency Law also extended the disclosure obligations to savings banks, if they have securities listed on official markets. In 2005, the CNMV published the implementing regulation in regard to the information to be provided by savings banks[32].

The CNMV analysed the websites of the forty savings banks which, in accordance with the regulation, were obliged to have one; 65% of them had a website which was satisfactorily in line with the regulations, in terms of both content and accessibility. The rest of savings banks must introduce improvements, and just one bank had no specific space for investor information on its website.

9.2.6 Securities issuers' corporate governance reports

In December 2005, the CNMV presented the first Report on Corporate Governance of Entities with Securities Admitted to Trading on Official Secondary Markets[33]. The report analyses the main aspects contained in the annual corporate governance reports for 2004 published by 182 listed companies, 42 savings banks and 19 issuers of fixed income securities.

Some highlights of the Report are as follows:

- The average free float of listed companies was 39%. At 31% of companies there was a person or legal entity exercising or potentially exercising control[34].

- On average, Boards of Directors comprised 9.7 members. Their breakdown by director type was as follows: 20.6% were executive directors, 43.5% were proprietary directors, 31.7% were independent and 4.2% external directors. As for their operation, in 20.3% of companies required supermajorities to approve resolutions. 37.9% of companies had a delegate committee with executive powers, and very few companies had specific regulations governing the Board's delegate committees.

- Just 11% of listed companies disclosed conflicts of interest.

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32. CNMV Circular 2/2005, dated 21 April, concerning the annual report on corporate governance and other information from savings banks with securities admitted to trading on official securities markets.
33. This report is available in Spanish at the CNMV website, in the section entitled "Reports and Publications".
34. Control in line with the provisions of Article 4 of the Securities Market Law.

– The audit committees and appointment and remunerations committees comprised a broad majority of external directors. 59.3% of companies had an appointments committee, responsible for proposing 63% of new directors.

– Only 8.2% of listed companies had a strategy and investment committee, which is optional.

– The total volume of related-party transactions with core shareholders amounted to 33.839 billion euro, and related-party transactions performed with directors and executives totalled 2.628 billion euro.

– Average attendance at Shareholders' Meetings was 71.6% in 2004.

As regards the other 19 issuers of securities other than shares[35], in 71.4% of cases, core shareholdings accounted for 100% of share capital. On average, Boards comprised 11 members, and external directors were an ample majority. The aggregate amount of related-party transactions with core shareholders was 6.864 billion euro and related party transactions with directors and executives totalled 350,000 euro.

Finally, the 42 annual corporate governance reports filed in 2004 by savings banks with securities listed on official securities markets[36] evidenced that:

– The General Assemblies comprise, on average, 26% members of municipal corporations, 36% depositors, 12% founders, 10% employees and 16% other members. At 83% of the savings banks analysed, the group of municipal corporations and the group of depositors held the majority of voting rights in the banks' governing bodies. In 38% of savings banks there was an audit committee, whose responsibilities were undertaken in the remainder of cases by the control committee.

– With regard to related-party transactions, the average amount of such transactions with members of the Board was 231,000 euro, while credit, guarantee or collateral transactions with political parties totalled 43 million euro and transactions with public institutions totalled 2.488 billion euro.

9.2.7 Unified Good Corporate Governance Guidelines

In response to the mandate provided in Order ECO/3722/2003, dated 26 December, concerning the annual report on corporate governance, that the CNMV issue a single document in regard to corporate governance containing the existing recommendations set forth in the Olivencia and Aldama Reports, the Cabinet agreed in July 2005 that the CNMV should undertake those tasks with the support of a Special Task Force[37].

35. Obliged to publish an annual report on corporate governance under the Third Additional Provision of the Transparency Law.
36. Obliged to publish an annual report on corporate governance under the Second Additional Provision of the Transparency Law, as implemented by CNMV Circular 2/2005, dated 21 April, concerning the annual report on corporate governance and other information from savings banks with securities admitted to trading on official Securities Markets.
37. By Government decision dated 25 July 2005.

The annual report on corporate governance of savings banks

The CNMV approved Circular 2/2005[1] which implements the form of the annual report on corporate governance (IAGC) and other information which savings banks with securities admitted to trading on official markets must present. This Circular outlines the information which must be disclosed by savings banks, in parallel with the provisions of Circular 1/2004 for listed corporations.

This new Circular takes into consideration the peculiar legal status of savings banks, whose governing bodies comprise municipal corporations, depositors, founding persons or entities and employees. They also sometimes include representatives of the regional government where the savings bank is located, and other public entities and corporations. Indeed in the very first section of the specimen IAGC, information must be provided about the degree of representation of the various different groups involved in governance, the decision-making process and the workings of general assemblies, among other aspects.

Savings banks must provide detailed information as to the credit, guarantee or collateral transactions performed with members of the Board, the control committee and political parties, credit transactions with public institutions which have designated general directors, and related-party and intragroup transactions; in particular they must disclose significant operations performed with members of their governing bodies, managers or group entities.

Furthermore, disclosure is required in regard to the group's business structure and risk control systems, as well as strategic and stable investments and divestments, the financial viability thereof and their suitability to the entity's strategic plans.

Finally, information is required in regard to the remuneration received by the members of the Board of Directors, control committee and management personnel of the savings bank. Furthermore, savings banks must detail the degree to which they apply the recommendations in connection with good governance. In 2005, savings banks delivered their first IAGCs, the main conclusions of which are outlined in section 9.2.6.

1. CNMV Circular 2/2005, dated 21 April, concerning the annual report on corporate governance and other information from savings banks with securities admitted to trading on official Securities Markets. This Circular complies with the mandates under the First Final Provision of Order ECO/354/2004, dated 17 February, concerning the annual report on corporate governance and other information from savings banks with securities admitted to trading on official securities markets.

The Task Force, led by the CNMV Chairman, comprised members of the Administration and private sector, the latter appointed by the Secretary of State for the Economy, at the proposal of the Chairman of the CNMV. The private sector representatives were Jesús Caínzos, Ana María Llopis, Cándido Paz-Ares, Aldo Olcese and Vicente Salas. For the Government, in representation of the Finance Ministry, the members were the Director General of the Treasury and Financial Policy, Soledad Núñez, and the Head of Legal Affairs at the Secretariat of State for the Economy, Carmen Tejera; representing the Justice Ministry, the Director General of Registries and Notaries, Pilar Blanco, and the Director of the State Legal Service, Joaquín de Fuentes; and representing the Bank of Spain, José Manuel Gómez de Miguel, Head of the Regulation Division. At the proposal of the CNMV Chairman, the group also decided to extend a permanent invitation to the meetings to José María Garrido and Enrique Piñel, as experts on corporate governance in the European Union. The Director of the CNMV's Legal Services, Javier Rodríguez Pellitero, acted as Secretary.

The result of this work was a project to develop Unified Good Governance Guidelines for Listed Companies, which was submitted for public consultation and published early in 2006. The document was based on two basic principles:

– Compliance is optional, subject to the *comply or explain* principle[38].

– The recommendations are general and do not detail all scenarios in which possible exceptions to one or more of them might be accepted.

The document contains 74 recommendations regarding various aspects of the composition, operation and rules of organisation of the decision-making and consultancy bodies of listed companies, and their members. It also contains ancillary recommendations to increase shareholders' participation in Shareholders' Meetings, to ensure auditors' independence and to enhance the legal control of governing bodies.

Some notable recommendations are as follows:

– At the Shareholders' Meeting, restrictions on the maximum number of votes should removed, and matters which are substantially independent should be voted separately.

– The annual report on corporate governance should disclose the existence of proprietary directors representing over 5% of share capital, and whether there are shareholders not represented on the Board whose shareholding is larger than that of other shareholders who are represented. There must be efforts to ensure diversity on the Board and, when there are few or no female Board members, the reasons for this must be explained and the corrective measures outlined.

– Some circumstances are listed which might prevent a director from being considered to be independent.

38. Listed companies will have to disclose their compliance for the first time when their 2006 Annual Report on Good Governance is approved.

– It is possible to dismiss independent directors as a result of takeovers, mergers or other similar corporate transactions involving a change in the ownership structure.

– Directors' remuneration should be detailed individually. It is also recommended that only executive directors receive remuneration linked to the company's performance.

– The appointments and remunerations committee is split into two separate committees.

10 Market supervision

The CNMV supervises all official Spanish securities markets and organised trading systems, except the public debt book-entry market, which is supervised by the Bank of Spain. The CNMV also supervises post-trading, such as securities registration, clearing and settlement, as well as the activities of the central counterparties.

Within the scope of this supervision, in 2005 the CNMV analysed more than 62,000 secondary market transactions[1], accounting for 2 for every 1,000 market operations, due to some characteristic which triggered the supervisor's alert system. These alerts process information from the markets themselves which points to situations considered to potentially warrant examination, as well as other kinds of data, ranging from macroeconomic information to monitoring of investment recommendations and rumours spread via the Internet.

Most alerts are triggered in the equities market and in securities settlement (see Table 10.1).

Summary of supervisory activity 2005 TABLE 10.1

	Equities	Fixed-income	Derivatives	Settlement	Total
Number of transactions	17,092,434	572,377	2,759,641	23,814,992	44,239,444
Supervisory signals[1]	32,938	3,175	6,359	20,379	62,851
Information requests	319	40	35	20	414
Supervisory reports	259	30	49	20	358
Reports sent to other Directorates and bodies	42	4	14	7	67
Periodic reports	13	12	24	12	61

Source: CNMV.

1. Signals that identify transactions or groups of transactions in which there have been unusual movements in certain parameters in order to analyse them for supervisory purposes.

When that analysis reveals the need to perform a more detailed study or for the CNMV to intervene immediately, the supervision report issued by the Directorate of Secondary Markets is sent to the Market Monitoring Unit, or other CNMV departments, to proceed with further supervisory work. In 2005, 67 such reports were issued.

1. The 62,851 transactions analysed in 2005 represent a 1.5% increase on 2004. By markets, the largest increase came in supervisory signals (up 24.2%).

10.1 Actions in the various markets

10.1.1 Equities

Suspension of trading due to disclosure of information

The CNMV has the power to suspend trading in a security if it suspects that there is significant information related to it that is not widely known to the market as a whole. Suspension of trading is maintained only for as long as necessary to ensure that such information is adequately disseminated, in order to minimise the cost to investors in liquidity terms.

Takeover regulations[2] also trigger a suspension of trading as soon as the CNMV receives the request for authorisation of an operation of this kind. Furthermore, at the end of the period for accepting a delisting offer, the CNMV formally suspends trading in the security until delisting is performed.

In 2005, there were fewer suspensions of trading to disclose price-sensitive information abut the number resulting from takeover bids increased in line with the increase in takeovers in 2005 (see Table 10.2).

Temporary suspensions of trading TABLE 10.2

	2004	2005
Number of issuers suspended	**57**	**44**
Number of suspensions	**74**	**68**
Presentation of takeover bid	8	12
Disclosure of significant information	60	54
Expiry of period for acceptance of delisting offers	5	1
Other	1	1

Source: CNMV.

The CNMV continued to make every effort to reduce suspension times. Accordingly, the average duration of trading suspensions was cut by 47.8% on the electronic market and by 67.4% in the case of the open outcry markets, as compared with 2004. Furthermore, in order to minimise uncertainty for investors, where possible, the the notices of suspension indicated scheduled times for resumption of trading.

Delistings

Most of the 42 delistings in 2005 were due to deregistrations of collective investment schemes, liquidation of companies, and mergers.

There were only three cases of delisting following 100% takeovers and just one due to a delisting offer[3].

2. Article 13 of Royal Decree 1197/1991, dated 26 July, concerning takeover bids.
3. The delisting offer for Transportes Azkar, approved in 2005, was completed in 2006.

Supervision of illiquid securities

The CNMV performed a specific analysis of mid- and small-cap securities with low liquidity levels. Since rumours tends to generate considerable volatility in the market performance of these securities, they are highly vulnerable to manipulation. The CNMV's supervision of these securities focused on analysing the possible existence of price manipulation which might have triggered spikes in volatility.

Supervision of trading with own shares

Share buyback programmes warranted special attention[4] regulated by the European Commission Regulation implementing the Market Abuse Directive[5]. This regulation entailed a new approach whereby share buybacks and financial instrument stabilisation programmes were exempt from the rules on market abuse.

Throughout last year, the CNMV carefully monitored transactions with own shares under buyback programmes notified by issuers and implemented during 2005. Specifically, supervision focused on compliance by issuers with the obligations set forth in the aforementioned Regulation, as well as with the conditions established in the buyback programmes themselves.

Furthermore, the CNMV drafted a series of recommendations to intermediaries for the correct execution of such programmes in order to avoid, as far as possible, a significant impact on securities' trading performance.

Furthermore, actions aimed at prosecuting market abuse resulted in the identification of signs of possible price manipulation in respect using own shares during the primary market pricing phase. Signs were also uncovered of a possible price manipulation due to a predominance of trading in own shares.

Supervision of the Telefónica-Terra merger

The announcement of merger of Terra Networks into Telefónica's led to a detailed analysis of the trading of Terra shares in the period immediately prior to the announcement, to see if there had been artificial control of the price at 2004 year-end, when there were rumours in regard to possible takeover plans by Telefónica[6]. The analysis did not reveal any indications of artificial influence to alter market prices.

4. A buyback programme refers to trading in own shares in accordance with Articles 19 to 24 of Directive 91/1977, the second Council Directive, dated 13 December 1976, [...] aimed at safeguarding the interests of investors and third parties as regards the creation of a corporation, as well as maintenance and modification of its share capital.
5. Commission Regulation (EC) No 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments.
6. These rumours were sparked by the launch of a takeover bid by Deutsche Telekom for its Internet subsidiary T-Online, a company with similar characteristics to Terra Networks.

Supervision of the Aldeasa takeover

The takeover bids for Aldeasa launched consecutively by GEA, Advent International and Retail Airport Finance were also examined by the regulator. At the outset of the process, the CNMV detected persistent rumours about the existence of various competing bids. In order to assess whether inside information was being used, a detailed analysis was performed of the share and market performance before, during and after the takeover bids were unveiled, including stock loans, intra-day trading and short selling. Furthermore, the main traders in the share were asked to supply information about the owners and the parties who gave the orders, and the replies were compared and contrasted with information received from guarantor banks and institutions intervening on behalf of offerers. Moreover, some of the companies involved in presenting the various bids were asked to submit regulatory disclosures to clarify matters.

Block trades

Block trades consist of the transfer of a packet of shares by a single shareholder or a small group of shareholders, to a number of institutional and professional investors.

Block trades may be performed either via bought deals or via book building operations. A bought deal is one in which an underwriting financial institution buys the packet and then places it among institutional investors The financial institution therefore undertakes the risk In book building, the chosen financial institution first collects requests from institutional investors during a given period, so as to determine the price at which to buy the share packet.

Transactions of this type do not require a prospectus since they are aimed solely at qualified investors and, according to Article 30 bis of the Spanish Securities Market Law, are not considered to be public offerings. This article was modified by Royal Decree Law 5 /2005, dated 11 March, concerning urgent reforms for enhancing productivity and improving public procurements, which transposed certain legal aspects of Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading, published on 31/12/2003 (Prospectus Directive).

Block trades may significantly impact the share price not just because of their size but also because of the information relating to the identity of the buyers and sellers.

But the fact that information on transactions is not made public and is known only by those investors involved in the process also causes information asymmetry between market participants. These effects are compounded if the packets are placed over a period, since the investors involved have full information at all times but others are only informed when each operation is notified to the stock market.

To avoid this kind of asymmetry and prevent a deterioration in market integrity, the CNMV is working on the possibility of drafting recommendations for conducting and disclosing block trades.

10.1.2 Fixed-income

During 2005, convertible issues were monitored with particular attention. In valuing these products, a number of aspects relating to fixed income and equity markets come into play, sometimes deriving in arbitrage. The task of supervision, performed in both markets, becomes more intense as the conversion dates approach in order to rule out the existence of manipulative practices.

In the AIAF market, the CNMV continued to supervise preference share issues, closely monitoring the disclosure of such transactions in this market[7].

10.1.3 Derivatives

As part of the CNMV's general supervision of activity of warrants, certificates and other products, in 2005 it focused particularly on the activity of specialists. This control consisted of automatically measuring ranges, volumes and market presence times, in line with the market's own rules[8].

As for the rest of derivative products, in 2005 supervision continued to focus on operational aspects of the effective transfer between owners and discretionary assignment of operations between various accounts managed for tax reasons.

Furthermore, specific analyses were performed in regard to activity in derivative markets prior to the disclosure of significant corporate transactions, to detect any impact on prices of contracts traded in MEFF. Particular attention was also paid to examining and assessing the activity of proprietary trading members.

In the Olive Oil Futures Exchange, supervision focused especially on analysing positions in the weeks prior to maturity and on monitoring settlement by physical delivery. A sign of this market's maturity is the fact that there were no cases of non-compliance in settlement of contracts by physical delivery, which exceeded 14,000 tonnes.

7. AIAF regulated the information which issuers must disclose when there are changes or variations in the terms and conditions of such securities. AIAF Circular 2/2005, dated 20 October, concerning documentation and procedures for admission to trading in the AIAF Fixed Income Market.
8. Operating instruction 39/2003, of Sociedad de Bolsas, concerning the parameters regarding the presence of specialists in the segment of trading warrants, certificates and other products.

10.1.4 Record-keeping, counterparties, clearing and settlement

Due to the entry into operation of the Single Matching System, as part of the Single Communications Interface[9], the CNMV closely monitored developments in the efficiency of settlement and the adjustments performed by Iberclear to improve the system. After solving some teething problems with the new system, satisfactory efficiency levels were attained.

Finally, it is worth noting that in 2005 an on-site inspection was performed in Iberclear, in partnership with the Bank of Spain, in order to review compliance with its mandate, in line with current regulations.

10.2 Market Monitoring Unit

The mandate of CNMV's Market Monitoring Unit (MMU) is to investigate the possible existence of practices contrary to market integrity. Most especially, the MMU focuses on situations in which there may have been market abuse.

Among other tasks, the MMU verifies that issuers and institutions which provide advisory or investment services implement procedures to comply with the code of conduct set forth in Spain's Securities Market Law[10], implemented in Royal Decree 1333/2005 concerning Market Abuse[11].

Table 10.3 lists the interventions by the MMU during 2005.

Market Monitoring Unit's actions in 2005 TABLE 10.3

	2004	2005
Parties investigated	**446**	**461**
Individuals	158	264
Legal entities	288	197
Actions during the investigations	**507**	**1,086**
Subpoenas	438	1,013
Requests to foreign institutions for assistance	26	26
Depositions	24	25
Visits	19	22
Subsequent actions	**13**	**10**
Prior notification and warnings	9	3
Initiation of disciplinary proceedings	4	7

Source: CNMV.

9. For a more detailed description of this project, see Chapter 4 concerning record-keeping, counterparties, clearing and settlement.
10. Articles 83 and 83 bis of Securities Market Law 24/1988, dated 28 July.
11. Royal Decree 1333/2005, dated 11 November, implementing Securities Market Law 24/1988, dated 28 July, concerning Market Abuse.

MMU investigations may lead to other actions by the supervisor if it is considered that there are signs of practices which are not fully compliant with current regulations. In 2005, these actions were as follows:

- Initiation of disciplinary proceedings: the Executive Committee of the CNMV decided to initiate two disciplinary proceedings due to possible market manipulation, involving six persons or legal entities; four disciplinary proceedings for possible disclosure or use of inside information, involving seven people; and two cases of possible non-compliance with other regulations, involving two people.

- Warnings: the Executive Committee of the CNMV decided to send three warnings to issuers and financial advisers urging them to either improve or comply fully with the codes of conduct set forth in their own codes of conduct when dealing with privileged information.

Cooperation with other supervisors to identify final owners

Financial institutions are playing a growing role in Spain's securities markets. These institutions operate both on their own behalf and on behalf of other investors, who may or may not be resident in Spain[12].

Since its creation, the MMU has turned to other financial supervisors for help in identifying the final investors in operations performed in the Spanish market in the name of these financial institutions. Requests for international assistance are based mainly on multilateral or bilateral Memoranda of Understanding (MOU) for consultation, cooperation and exchange of information signed by the CNMV[13]. These requests are usually aimed at financial supervisors in the leading developed countries, since that is where the financial institutions with significant activity in the Spanish securities market are based.

In 2005, there was a marked improvement in cooperation in terms of the delivery of information by supervisors which in previous years had been somewhat reluctant in this respect. This improvement enabled the MMU to close several open investigations, one of which led to disciplinary proceedings for possible insider trading by a Spanish resident who had acquired securities via a financial institution located in a jurisdiction which had previously not provided information.

10.3 Supervision of takeover bids

As regards takeover bids, the CNMV analyses compliance with regulations in force concerning information which the offerer must provide to shareholders[14], the conditions of the bid and, in the case of delisting offers, the offer price. Some highlights in 2005 were as follows:

12. For further information concerning the relative size of the operations performed by non-residents in Spain's securities markets, see Chapter 1.
13. The MOU currently in force may be viewed in Spanish on the CNMV website.
14. For further details on takeovers approved in 2005, see Chapter 2.

Royal Decree 1333/2005 concerning Market Abuse

Royal Decree 1333/2005, implementing Securities Market Law 24/1988 concerning Market Abuse, introduced a number of highly significant new features, some of which will lead to forthcoming regulations by the CNMV, such as:

- Definition of the the concepts of insider trading and market manipulation and listing of a series of indications which lead to the suspicion that a particular practice may constitute market manipulation.

- Establishment of the procedure and elements to take into account for the Spanish supervisor to be able to declare a practice acceptable. This will be done by means of a CNMV Circular.

- Regulation of issuers' obligations concerning price-sensitive information and establishment of the means and deadlines for notification to the supervisory body, with the possibility of delaying disclosure in certain circumstances. Issuers' obligation to disclose on their web site any price-sensitive information and to endeavour that the disclosure to all investor categories in all Member States where the issuer has listed the securities or applied for listing is as close to simultaneous as possible.

- Certain internal rules for issuers, such as the duty of confidentiality in certain circumstances and the obligation to keep records of all persons having access to inside information.

- The obligation, on the part of issuers' directors and executives and of persons closely related to them, to notify the supervisor, and the deadlines and contents of such notifications. Disclosure obligations refer to transactions with the issuers own shares and other financial instruments. The Royal Decree also empowered the CNMV to establish specific disclosure forms.

- Regulation of conditions which must be met for the drafting and presentation of investment recommendations and, in the event, for disclosing conflicts of interest affecting the persons making such recommendations. As regards recommendations, the scope of the Royal Decree includes independent analysts, but excludes journalists who are subject to an equivalent regulation, such as their codes of conduct, provided that said regulation has similar effects to those set out in the Royal Decree. The Royal Decree also regulated the dissemination of recommendations made by third parties.

- In 2005 there were some delisting offers, such as Global Steel Wire and Transportes Azkar[15]. Aldeasa, Recoletos and Amadeus were also delisted. In all cases, despite there being a delisting offer, a thorough examination was performed of the valuation reports and opinions issued by independent experts and their compliance with the valuation regulations was verified.

- In the Aldeasa bid by Gestión de Explotaciones Aeroportuarias, the CNMV issued a warning to the effect that the takeover had been authorised in line with the provisions for cases of acquisition or increase of a significant shareholding[16]

- In the Cortefiel takeover, for the first time, two bids were conditional upon modifying the Articles of Association[17], since in both bids the shareholders were asked to remove restrictions on voting and access to the company's board.

- In 2005, competing offers were filed for Aldeasa and Cortefiel. The procedure for presenting improved offers in sealed envelopes was used for the first time since the new regulations came into force[18].

When Gas Natural presented its takeover bid for Endesa in 2005, the Executive Committee of the CNMV deemed it advisable to send letters to the Chairmen of the companies involved and Iberdrola, since the offer entailed plans to sell assets to the latter company. These letters were aimed at ensuring compliance with the obligations set forth in Spanish takeover regulations. Furthermore, each letter reminded the company to which it was addressed of its obligations during the process, in line with their individual roles:

- Gas Natural was required to continue issuing regulatory disclosures of any information complementing or expanding on the information already registered, and it was reminded that it should ensure that the operation generated value for all shareholders, including minority shareholders.

- The letter addressed to the Chairman of Endesa emphasised the duty of the Board of Directors of a company that is the target of a takeover bid to refrain from performing any operation aimed at hampering the offer, as provided in Article 14 of the Royal Decree. Moreover, it outlined those actions which the CNMV would consider to contravene said Article, expressly excepting those referring to the search for rival bids. The section below lists the implications of duty to abstain that is incumbent upon the Boards of Directors of companies that are takeover targets.

- Iberdrola, which had reached an agreement with Gas Natural subject to the success of the takeover bid, was required to comply with its obligation to disclose

15. Transportes Azkar was delisted in February 2006.
16. In accordance with Article 1 of Royal Decree 1197/1991, concerning bids to acquire or increase the holding. Unlike delisting takeovers, which are regulated by Article 7 of said Decree, this procedure does not imply CNMV supervision of the price offered in the transaction.
17. Article 21 of Royal Decree 1197/1991, dated 26 July, concerning takeover bids, amended by Royal Decree 432/2003.
18. Article 36 of Royal Decree 1197/1991, which provides for withdrawal and modification of the offer.

any information related to that agreement which complemented, amplified or modified that already registered.

On 16 September 2005, Endesa filed a contentious-administrative appeal with the National Court (Audiencia Nacional) against the aforementioned decision by the CNMV Executive Committee. Without assessing the underlying merits of the case, Section Six of the Contentious-Administrative Tribunal decided, as of 10 November, to provisionally suspend execution of that resolution .

Article 14 of the Royal Decree Concerning Takeover Bids

Article 14 of the Royal Decree concerning Takeover Bids establishes that the governing body of a takeover target company must refrain from performing, either directly or through any party acting in concert, any operation which is aimed at hampering the success of the bid.

The actions restricted by the regulations involve making decisions outside the normal course of the company's business which modify its share capital through the issuance of shares or other securities or instruments entitling their holders to acquire or subscribe for shares, bonds of any class, encumbrances and disposals of assets, or performance of transactions with the shares to which the takeover bid refers.

In the European Directive relating to takeover bids[1], this passivity rule is regulated by Article 9.2 and 9.3, whose transposition by Member States is voluntary. Unlike current Spanish regulations, articles 9.2 and 9.3 establish the obligation of the target's governing body to obtain approval at the general shareholders' meeting before undertaking any action which could jeopardise the offer's chances of success, except for the search for other offers, and in particular any securities issue which might constitute a lasting impediment to the acquisition of control of the company in question.

Furthermore, decisions that were approved and not applied by the directors prior to being made aware of the offer, which are not part of the company's normal business and might hamper the takeover, will also require approval at the shareholders' meeting.

1. Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids.

11 Supervision

In 2005, the CNMV commenced a sweeping review of its policy of supervision of financial institutions with a view to improving efficacy. Under the new approach, planning of supervisory action is based on identifying risks at institutions and assessing activities prior to supervision.

In accordance with the new approach, risks are monitored individually at each institution, making it possible to establish its risk profile and define, as objectively as possible, the supervisory attention that each one requires. The individual profiles identified in this way also make it possible to obtain risk maps at various scales (sector, subsector, financial group, etc.), thus making it easier to set priorities and plan supervisory action. This bottom-up approach is complemented with an analysis of the impact of various macro-financial and market scenarios on the supervised institutions.

The decision as to which institutions are to receive on-site supervision is based, in particular, on the outcome of previous inspections, the audit reports on their financial statements as well as special and supplementary auditors' reports, complaints and suits filed by investors, annual reports by the institutions' own internal control bodies, and monitoring of corrective measures. All these factors also make it possible to perform on-site inspections of limited scope, focused on the risk area where the most significant weaknesses detected using the sector risk map are located. Also, particular efforts are devoted to reviewing the institutions' procedure manuals using a dynamic approach that focuses on the institution's own management of risks, particularly those deriving from potential conflicts of interest.

This new supervisory initiative by the CNMV is in line with those adopted by other leading European supervisors and is fully congruent with the growing importance which regulation attaches to identifying, measuring and controlling risks at financial institutions, as observed, for example, in the new recommendations of the Banking Supervision Committee (Basel II).

11.1 Supervision of investment firms

Prudential supervision of broker-dealers and dealers followed a twin corrective-preventive approach in order to ensure that firms have a stable lasting equity balance and that their business plans are viable.

In line with the risk-based supervisory approach, particular attention was devoted to the quality of internal control procedures and their degree of compliance. The role of the firms' own internal control units was enhanced, and this was particularly visible in the improved content of the reports filed with the CNMV. Additionally, the boards of directors also participated more in the processes and decisions relating to the quality of internal control.

The result was greater discipline in the sector, visible both in the compliance with regulations and in the adoption of corrective measures. Increasingly, it is the firms themselves that detect weaknesses on a timely basis and notify them to the CNMV along with the corrective measures they plan to implement.

That improvement translated into a reduction in the number of incidents which required a CNMV subpoena. These incidents totalled 1,190 in 2004 and 676 in 2005, most of which were information requests (see Table 11.1)

Supervision of broker-dealers and brokers: CNMV subpoenas in 2005 TABLE 11.1

	Actions		
Type of subpoena	**Remote**	**On site**	**Total**
For filing information late	100	—	100
Requesting information	143	341	484
Corrective measures or recommendations	45	47	92
Total	**288**	**388**	**676**

Source: CNMV.

11.1.1 Prudential supervision

Prudential supervision of broker-dealers and dealers focused on their earnings performance, compliance with solvency requirements, risk diversification, and liquidity. The supervisory approach was to foster the adoption of preventive measures so as to ensure continued compliance with the prudential requirements.

As indicated in Chapter 7, earnings were generally good in the sector last year and there was a reduction in the number of firms reporting losses. This improved the sector's financial solvency. As a whole, firms' equity was considerably above the required level (see Table 11.2). Incidents of non-compliance or strict compliance were few and far between.

The CNMV performs prudential supervision on both an individual and consolidated basis. At the end of 2005, there were 52 financial groups subject to supervision on a consolidated basis, two less than in 2004. A major new feature in this area was the entry into force of the Law on the Supervision of Financial Conglomerates and its implementing regulations[1]. The new rules expand the scope of consolidated-basis supervision to adequately address the question of financial conglomerates.

1. Law 5/2005, of 22 April, on supervision of financial conglomerates, and Royal Decree 1332/2005, of 11 November, implementing that law.

Broker-dealers and brokers: surplus equity over solvency coefficient[1]. 2005

TABLE 11.2

	Total surplus[2]	Average surplus per firm[3]		Number of firms, in terms of equity surplus				
		Amount[2]	%[4]	<50%	<100%	<200%	<500%	>=500%
Broker-dealers	**846,054**	**18,392**	**487.78**	**5**	**4**	**6**	**13**	**18**
Stock exchange members	718,227	18,901	474.61	4	3	5	11	15
Non-members	127,827	15,978	577.85	1	1	1	2	3
Brokers	**115,612**	**2,065**	**243.88**	**7**	**13**	**10**	**14**	**12**
Stock exchange members	21,118	2,112	364.67	0	1	2	4	3
Non-members	94,494	2,054	227.07	7	12	8	10	9
Portfolio management companies	**9,593**	**564**	**61.3**	**4**	**4**	**3**	**4**	**2**
Total	**971,259**	**8,162**	**410.67**	**16**	**21**	**19**	**31**	**32**

Source: CNMV.

1. Surplus computable equity over that required for capital adequacy purposes.
2. Thousand euro.
3. Average weighted by each firm's required equity.
4. As a percentage of required equity.

Its application necessarily requires a change in the supervisory approach to take account of the growing complexity of financial institutions and groups, exacerbated in some cases by their international dimension. The table summarises the new regulations, their implications for supervision practices and the steps taken by the CNMV to ensure they are applied correctly.

Supervision of financial conglomerates

The Law concerning the Supervision of Financial Conglomerates[1] introduced a new supervision system for regulated financial sector entities integrated into a financial conglomerate. The new law affects institutions authorised in Spain and in other EU countries. It also affects institutions authorised in third countries provided that they perform activities reserved for credit institutions, investment firms, insurers and reinsurers, collective investment institution management companies (SGIICs) and pension fund managers.

Under the law, supervision focuses on monitoring solvency, capital requirements, risk concentration, intra-group transactions and risk management and internal control procedures and mechanisms. For this purpose, it en-

1. Law 5/2005, dated 22 April, concerning the supervision of financial conglomerates. The law sets out the features which define a conglomerate.

tails a series of measures aimed at facilitating the exercise of so-called additional supervision, that is, supervision at financial conglomerate level, in addition to individual or consolidated supervision.

These measures include cooperation between the various authorities involved in supervising a financial conglomerate, both nationally and internationally. The law establishes that they must consult and cooperate with each other and envisages the creation of a coordinator of supervisory activity in respect of the conglomerate.

To enhance efficiency and avoid overlapping regulatory activity, coordination between supervisors requires greater convergence of methods and competencies between the various authorities. This is why, having harmonised the regulation and laid the foundations for cooperation and information exchange, European regulators are now turning their attention to standardising the supervisory function.

In coordination with other national and European supervisors, the CNMV is studying ways to efficiently approach supervision of financial conglomerates and, in general, compliance with the obligations deriving from the system of shared responsibility which characterises European regulation.

In 2005, the new Ministerial Order entered into force regulating the treatment of instrumental and transitory credit balances pertaining to the clients of broker-dealers and brokers[2] (see table). As a preventive measure, the CNMV notified all institutions affected by the new regulation of its intention to pay special attention to strict compliance with this aspect.

Modification of the investment regime governing credit balances of clients of broker-dealers and brokers

The clients of broker-dealers and brokers may have instrumental or transitory monetary balances at those firms to cover their transactions with securities. For appropriate investor protection, it is crucial that those balances be handled properly.

On 18 March 2005, Spain's Finance Ministry approved a Ministerial Order introducing amendments with respect to the investment of these balances by the firms. The main new features were as follows:

2. Ministerial Order dated 18 March 2005, concerning the transitory and instrumental investment of credit account balances pertaining to the clients of broker-dealers and brokers.

Modification of the assets in which clients' instrumental and transitory balances may be invested. Hitherto, they were confined to the asset classes defined in CNMV Circular 6/1990 for the purposes of broker-dealers' and brokers' liquidity coefficients. The new Ministerial Order limits the categories of assets as follows:

– Cash deposits in credit institutions subject to prudential supervision and domiciled in European Union or OECD countries.

– Repos acquisitions, with a residual maturity period less than or equal to two days and zero weighting for the purposes of credit risk in line with the provisions of Article 51 of Royal Decree 1343/1992.

To further strengthen the requirements of accounting separation and reconciliation envisaged in CNMV Circular 1/1998, absolute separation is required between the accounts in depositories which contain the firm's own balances and those containing the balances of its clients, it being forbidden to book the entity's and clients' positions under the same account.

Accordingly, the denomination of these accounts in the depository institution must expressly state that they are "<firm> client balances". In these cases, the broker-dealer or broker will declare that it is acting on behalf of third parties.

The Ministerial Order also provides for implementation by the CNMV, exceptionally and in specific circumstances, of precautionary measures consisting of further restricting or conditioning the investment of clients' balances by broker-dealers or dealers which present solvency, earnings, viability, liquidity or organisational deficiency risks.

11.1.2 Codes of conduct and conflicts of interest

Supervisory actions in 2005 focused particularly on assessing compliance with codes of conduct. They centred both on compliance with firms' formal obligations (record-keeping and filing of documentation supporting orders, formal arrangement of relations with clients, information supplied to clients, publication and application of rates) and on avoidance of conflicts of interest. Supervisory actions were often based on queries and complaints by investors.

A substantial part of the work focused on order handling (reception, transmission and execution) and subsequent allotment, where there may be improper discrimination between clients and where money laundering may be detected.

Significant weaknesses were observed in firms' procedures and controls; some actually lacked such procedures. Incidents detected included misuse of the MEFF "daily account", where a firm aggregates all the transactions for its clients on that market during the day and then subsequently allots the results among them. This practice is not transparent and may lead to arbitrary actions and even conceal money laundering. In some cases, the CNMV was unable to obtain sufficient explanations from the firms involved and, consequently, it reported the incidents to the SEPBLAC[3] as being suspect of money laundering.

Controls to detect conflicts of interest revealed the existence of numerous incidents arising from the lack of suitable barriers between the firms' various departments and of improper practices in the sale of products for which investment firms receive sizeable commissions.

Regarding the organisation structure and Chinese walls at investment firms, the CNMV examined the extent to which persons with responsibilities and functions in particularly-sensitive areas (control, proprietary account, brokerage, management of client accounts, research, and origination) actually operated independently. This analysis took account of the fact that many investment firms are part of multifaceted financial groups and that it is common for group components to share resources. The reviews revealed that, occasionally, the small size of firms makes it difficult for all functions to be kept independent. Nevertheless, firms and their groups are implementing control procedures to ensure that each function is performed in such a way as to offer guarantees of equitable treatment of all clients.

As for conflicts of interest in selling products, the CNMV detected deficiencies at a large number of firms. In particular, some firms failed to disclose to clients that they had relations or commercial agreements with the issuers or managers of the financial products they distribute.

11.1.3 Internal control: operating risk, contingency plans and safeguards for continuity in the provision of services

As a result of the electricity blackout in Madrid on 18 November 2004, which impacted some firms' trading, clearing and settlement processes, the CNMV conducted an exhaustive examination of the contingency and continuity plans that firms must have in place to overcome unexpected events and safeguard their information systems. This examination reinforced the regular checks which the CNMV performs by analysing the reports by firms' auditors and internal control bodies[4]

11.1.4 Adoption of precautionary measures

Activities last year included verifying that two firms (a dealer and a portfolio management company[5]) in the same group were complying with the order to suspend activities that had been issued in the course of a disciplinary proceeding. The sus-

3. Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales e Infracciones Monetarias (Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences).
4. The obligations of auditors and the firms' internal control bodies in this connection are set out, respectively, in articles 14.1.f) and 16.1.c) of Royal Decree 867/2001 on the Legal Regime of broker-dealers and brokers, and Rule 7 of Circular 1/98, on internal systems for the control, monitoring and continuous assessment of risks.
5. D.L. Corporation, A.V. and Investment Corporation CJ, S.G.C, respectively.

pension arose from qualifications in the auditors' reports for 2004 of the firms in the group and from the existence of previous supervisory incidents at those firms. While the suspension was in force, the CNMV's Supervision Directorate ascertained that it was effectively being applied, investigated the origin of the qualifications, and assessed their impact on the equity situation of the group and its components. Those firms were wound up in 2005.

11.1.5 Accelerating processes at the CNMV

In order to make investment firms more aware of the regulatory requirements and expedite processes, in 2005 the CNMV approved a block of standard forms for authorisation and subsequent amendments. These forms can be downloaded from the Commission's web site (www.cnmv.es)[6].

The standard forms cover significant aspects of reporting: information on the board of directors, shareholder and group structure, material and human resources, internal control procedures, codes of conduct, relations with clients, etc. In particular, they include sections on the integrity of directors and general managers and similar, suitability of shareholders, and relations and conflicts of interest between any of them and the applicant firm.

Each section indicates the minimum documentation required for the application and the rules that apply, which are accessible via hyperlinks.

11.2 Supervision of codes of conduct in the provision of investment services by credit institutions

In 2005, the CNMV established a new unit to supervise credit institutions' compliance with the codes of conduct relating to the securities markets. The unit's first act was to implement a plan to supervise the marketing of securities and financial instruments among retail investors. However, the unit's medium-term goal is to implement a systematic system to supervise the provision of investment services by credit institutions.

11.2.1 Marketing of financial products by credit institutions

Recent social and economic developments, coinciding with rapid development of the markets, have led to growing interest in ever-more complex financial products.

This phenomenon is positive since it increases the options for meeting the financial needs of businesses and citizens. However, complex, high-risk products may be inappropriate for many investors, which makes it necessary to pay very close attention to how they are sold in the retail market.

The CNMV constantly reviews financial institutions' commercial practices. In particular, it encourages firms themselves to adopt internal control measures that ensure compliance with their codes of conduct. Most initiatives in this area are ad-

6. Section entitled "Legislation, case law and other provisions".

dressed at credit institutions, which play a key role in the retail sale of financial products in Spain.

The new unit for supervising credit institutions will make the CNMV's supervision of the retail sale of financial products more systematic and comprehensive. In 2005, the new unit commenced an in-depth review of credit institutions' commercial practices, addressing such issues as the contractual and periodic information to be delivered to clients, procedures for classifying clients on the basis of their risk profile, classification of products and their distribution on the basis of the risk profiles, and training of staff in the commercial networks.

In the short time since that review commenced, the CNMV has observed that institutions have already implemented improvement processes in the areas connected with the marketing of financial products: development of policies and procedures, information systems for profiling clients and products, training plans for the commercial networks, establishment of internal controls in distribution, advertising, etc. Nevertheless, there is still much to be done in order to attain fully satisfactory standards of investor protection.

In particular, institutions must make an effort to adapt to the requirements on codes of conduct contained in the Markets in Financial Instruments Directive, which will be transposed shortly. To facilitate the sector's adaptation to this new regulation, last year the CNMV conducted an intense education campaign about the directive, including presentations at Spain's four stock exchanges and the CECA, as well as talks, conferences and round tables in various industry forums.

11.2.2 Conflicts of interest in marketing securities issued by the firms themselves

The CNMV devotes particular attention to possible conflicts of interest in the marketing of securities issued by credit institutions themselves, particularly instruments with special characteristics, such as preference shares and subordinated debt.

The Commission's experience is that, when financial institutions market securities issued by them among their retail customers, conflicts of interest can arise, particularly when setting the conditions for remuneration of securities such as preference shares and subordinated debt.

In order to avoid such practices and their negative effect on investors, last year the CNMV circulated, to all the institutions, its position on the precautions and behaviour patterns that it considers to be appropriate in these cases and stated its intention of strengthening its supervisory and disciplinary actions in this area.

The position and patterns it circulated can be summarised as follows:

- Firms must have internal procedures to ensure that the financial conditions of an issue are in line with market conditions.

- A firm's organisational structure must ensure the proper separation and independence between persons or areas of activity that may give rise to conflicts of interest in the following stages of the process: establishment of the issue conditions, drafting of the prospectus, publication of recommendations, and marketing to retail clients.

– Those guidelines should be incorporated into the internal control procedures approved by the institution's board of directors or the body responsible for this task and, consequently, their compliance should be reviewed by the body in charge of internal control.

11.3 Supervision of collective investment institutions

Supervision of collective investment institutions focuses on prudential requirements, the handling of conflicts of interest, human and technical resources, internal control systems and investor information. Furthermore, in the case of real estate IICs, it examines the action of depository institutions, whose function is vital for investor protection and for maintaining the sector's stability. In the area of real estate IICs, where investments are generally less liquid, the controls centred on the valuation criteria used.

The supervisory actions performed led to various kinds of subpoenas (see Table 11.3), most of which were requests for further information. The fact that remote inspections triggered the largest number of actions is because each of these normally refers to a single incident or matter, whereas those deriving from on-site supervision tend to combine all the incidents detected during inspection of the institution.

Supervision of the IICs: subpoenas issued by the CNMV in 2005 TABLE 11.3

	Actions		
Type of subpoena	**Remote**	**On site**	**Total**
For filing information late	290	—	290
Requesting information	566	102	668
Corrective measures or recommendations	270	72	342
Other	8	25	33
Total	**1,134**	**199**	**1,333**

Source: CNMV.

11.3.1 Supervision of prudential requirements regarding IICs and their management companies

One of the main objectives of supervision in the area of IICs is to verify compliance with legal coefficients, some of which were modified last year in the new IIC regulation[7]. In this area, as in previous years, special attention was paid to compliance with requirements relating to equity and participants in investment and

7. Royal Decree 1309/2005, dated 4 November, implementing the Regulation of Law 35/2003, dated 4 November, concerning collective investment institutions, and adapting the tax regime applicable to collective investment institutions.

capital funds, and shareholders in the SICAV area (with the analysis including checking compliance with treasury stock restrictions).

Compliance with liquidity coefficients was also checked (it is these coefficients that guarantee the availability of sufficient liquidity to cater for reimbursements so that it is not necessary to make divestments not justified by management criteria), as was compliance with the diversification coefficients and legal limits provided for transactions with derivatives.

At the same time, in view of the notifications of incidents received from depository institutions, compliance by depositories with their obligations to supervise and monitor IIC management companies was also checked.

Checking the legal suitability of investment assets is always an important part of IIC supervision. In 2005, periodic analyses on the legal suitability of assets focused especially on investment in structured products, in order to detect unsuitable underlying assets, and also on compliance with the requirements established for investment in other collective investment institutions.

In this regard, the new IIC Regulation recognises new assets eligible for investment by IICs, including deposits at credit institutions and derivative financial instruments whose underlying assets are credit risk, volatility or others authorised by the CNMV.

Furthermore, the new Regulation sets out the requirements for investment in unauthorised IICs in accordance with Directive 85/611/EEC[8] and introduced a series of new assets which, as a whole, may not exceed 10% of equity. This group includes assets which previously did to qualify for investment or which were subject to greater restrictions, such as venture capital firms, funds of funds and hedge funds.

The CNMV also checked the prudential requirements which must be fulfilled by collective investment institutions' management companies. The analyses focused on the financial situation of these institutions, in order to anticipate possible solvency problems and, where such problems were detected, to request plans for returning to compliance with legal requirements. As indicated in Chapter 6, the results of these institutions during 2005 were clearly positive, thus underpinning the industry's long-standing solvency.

11.3.2 Conflicts of interest

The Spanish collective investment industry is characterised by the existence of strong group relations. Most management companies work with a depository which is part of the same financial group, whose parent often provides comprehensive services in the securities markets: brokerage, underwriting and placement, M&A ad-

8. Council Directive 85/611/CEE of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS). Amended by Directive 2004/39/CE.

New features in the IIC Regulation. Royal Decree 1309/05

The reform of the IIC Regulation basically had two aims: to make the rules for IICs more flexible and to strengthen investor protection. With these aims, the Regulation (RIIC) introduces several new feature, including the following:

1 More flexible operating rules

- *New legal formulae.* The new features refer to structuring of IICs into compartments, and the classes of units or shares. Each compartment will de facto behave almost as if it were an independent IIC. The classes of shares or units may be used as a means to rationalise the IIC offering (fundamentally mutual funds) by making it possible to differentiate the costs incurred depending on the marketing channel, investor profile or other circumstances.

- *New products:* hedge funds, funds of hedge fund, exchange-traded funds, index funds and index-tracking funds. Regulation of the first two categories has raised considerable expectation in the sector and its practical implementation is pending further regulatory developments scheduled for publication in the first few months of 2006.

- *New qualifying assets:* Deposits in credit institutions, unlisted money-market instruments, derivative financial instruments whose underlying assets are credit, volatility or other risks authorised by the CNMV. Furthermore, a maximum 10% investment is permitted in assets which do not meet the general requirements: Spanish venture capital firms, funds of funds and hedge funds in general, depending on the provisions of the prospectus.

- *Investor liquidity.* It is possible to reduce the frequency of subscription and reimbursement in all investment funds from daily to at most fortnightly, and various mechanisms are introduced to provide SICAV shares with liquidity.

- *Extension of the scope of action of SGIICs.* One of the main services which they can offer is that of discretionary portfolio management and IIC marketing. It is also possible to use omnibus accounts to market their IICs abroad.

2 Investor protection

- *Transparency.* Information must now be filed electronically, and the compulsory content in public information is enhanced: clear definition of investment policy, detail of charges, ratio of total costs incurred, information on portfolio rotation, voting rights, etc.

- *Fees and expenses chargeable to mutual funds.* In addition to the fees disclosed in the prospectus, funds may only be charged expenses that are expressly specified in the prospectus, for services actually rendered that are indispensable for their activity and which do not correspond to services inherent to the functions of manager or depository.

- *Internal controls and codes of conduct.* It is obligatory to have procedures that avoid conflicts of interest in the purchase of assets, the catalogue of related-party transactions has been expanded, measures must be taken to avoid market timing, and greater control must be exercised with regard to the liquidity of the securities in which investments are made.

- *Requirements for management companies and depositories.* Outsourcing of functions by SGIICs is regulated and equity requirements are modified. Moreover, measures aimed at strengthening supervisory activities performed by depositories are also implemented.

Existing IICs have one year to adapt to the Regulation. Full application of the Regulation in some cases requires detailed rule-making. Furthermore, lower level regulations will remain in force where that they do not contravene the provisions of the Regulation.

visory, etc. This obliges the CNMV to pay special attention to the conflicts of interest which may arise from these relations.

The new IIC regulation has introduced tougher requirements in this connection, such as the requirement that firms have procedures for allocation and disclosure before executing trades, implementation of measures to avoid market timing (making it impossible to apply the previous day's net asset value to subscriptions and reimbursements) and extension of the definition of related-party transaction to any other business, transaction or service by any company in the same group as the manager or depository.

In 2005, the CNMV's main actions in relation to the prevention of conflicts of interest in the sphere of related-party transactions were as follows:

- *Analysis of fee retrocession to group companies for investments in foreign IICs.* An overall analysis was performed in 2005 of group intermediaries' receipt of retrocession fees associated to IIC investments. The analysis was aimed at identifying situations in which investments in other IICs were channelled to the managed IIC via intermediaries in the same financial group which received retrocession fees.

  As a complement to this study, the CNMV analysed IIC investments in compartmentalised funds and foreign SICAVs, which offer the possibility of acquiring different classes or series of shares or units. The CNMV particularly examined the acquisition of expensive classes/series, checking whether, for the amounts invested, it would have been possible to acquire "institutional" classes/series, whose management fee is generally lower. In short, the aim was to verify compliance, for these investments, with Article 46.2 of the IIC Law, which obliges management companies to act in the interests of the investors or shareholders of the managed institutions.

In general, it is safe to say that practices contrary to the interests of investors in this sphere are not widespread; rather, they are generally isolated incidents against which the CNMV acts with the utmost rigour.

– *Analysis of brokerage fees in domestic equities.* This study was aimed at identifying any IIC incurring above-market brokerage fees for domestic equities and any discrimination by brokers between fees charged to group IICs, vs. other institutional clients. The improvement in the information available to the CNMV in regard to the prices for this service (as a result of a change in the confidential filings by broker-dealers and brokers), allowed a more accurate assessment of situations which might jeopardise investors' interests.

– *Put-throughs between IICs with the same management company.* Current regulations require IICs to perform their transactions on goods, rights, securities or instruments in line with market prices and conditions, unless they can be performed in more favourable conditions for the institution. In this regard, if the operation is considered to be a related-party transaction, the management company must define a formal internal procedure to ensure that put-throughs are performed exclusively in the interest of the IIC and at prices or conditions equal to or better than those of the market. The review examined compliance with the above by examining specific transactions performed with securities from certain issuers.

– *Analysis of fees and expenses incurred by mutual funds.* Operating expenses incurred by mutual funds in the year were examined in order to ensure that they had been charged correctly. In particular, the analysis considered whether they were really necessary for the fund's normal operations, and whether they were envisaged in the fund's regulations.

– *Analysis of allocation of the outcome of OTC transactions to guaranteed funds at the end of the initial marketing period*. The IIC Regulation stipulates that, under certain conditions, during the marketing period, guaranteed funds may not value transactions with derivatives. Since the funds raised in this period may differ from what was initially projected, the need may arise to undo positions at prices other than those previously agreed. Losses may therefore be generated which, nevertheless, may not be allocated to the IIC since they were originated by arranging excessive positions in derivatives to obtain the target return.

In this context, the CNMV reviewed all guaranteed equity funds in order to detect any IIC which had allocated the losses to the fund. Furthermore, marketing institutions were asked to meet more stringent reporting requirements in this connection when launching new guaranteed funds or renewing their guarantees.

11.3.3 Corporate governance, resources, procedures and internal control

A substantial part of the CNMV's supervisory actions in 2005 consisted of verifying the resources available to management companies and their internal control procedures. Furthermore, a special review was performed of their corporate governance and, in the event, how their organisational structure fitted into the financial group to which they belonged.

- *Corporate governance at SGIICs.* The fundamental objective of these reviews was, on the one hand, to guarantee that management, administration and risk control at management companies are duly segregated and, on the other, to pre-empt conflicts of interest deriving from the performance of related-party transactions between managed IICs and other group companies.

  The group's organisational structure must ensure that decisions in each area of activity in securities markets by companies belonging to the same group[9] be made independently. Furthermore, the requirements for related-party transactions must be met. As regards this last point, on-site reviews took special care to verify whether the body in charge of monitoring related-party transactions was sufficiently independent so as to fulfil its role.

  Moreover, when the IIC's depository belonged to the same group as the management company, the existence of effective measures to separate both institutions was double-checked.

- *Internal control of management companies.* In accordance with the requirements for management companies to obtain and maintain their authorisation[10], SGIICs were checked for sound administrative and accounting structures, as well as suitable human and technical resources in respect of their purpose. The existence of adequate internal control procedures and mechanisms for proper, prudent administration of the company was also verified, including risk management procedures, IT control and security mechanisms and bodies and procedures to prevent money laundering.

- *Procedures for allocation and disclosure of trades.* The reviews that commenced in 2004 continued in regard to assignment and breakdown procedures in securities trades for IIC portfolios, aimed at pre-empting conflicts of interest and, in the event, imposing sanctions when they were inadequately resolved.

  In 2005, particular attention was paid to on-site supervisory visits specifically to verify internal procedures established by the SGIICs to guarantee the absence of arbitrage in allocating positions between IICs under management when or-

9. Separate areas of activity, as referred to in Article 83 of the Securities Market Law.
10. Article 43 of Law 35/2003, dated 4 November, concerning Collective Investment Institutions.

ders are global or fail to identify the IICs to which the operations are eventually assigned.

– *Systematic analysis of yields.* The CNMV periodically analyses IICs' yields so as to detect deficiencies in internal controls established by management companies, as well as one-off errors in the valuation of institutions or the incorrect allocation of expenses. In these cases, subpoenas are issued to resolve these matters. However, the absence of a specific regulation on the patterns of conduct in these cases of errors hampers standardisation of remedial processes.

– *Asset valuation: fixed-income, bilateral operations, preference shares and underlying IICs.* An analysis was performed of compliance with the regulation on alternative valuation procedures for fixed-income assets when their price may not be considered to be representative of the market situation. This involved an examination of the systems established by management companies, focused especially on valuation procedures for preference shares.

  Furthermore, specific analyses were performed on IIC investments in securities issued by companies and institutions whose credit ratings were downgraded in 2005. These reviews focused on asset valuation, trades and possible non-compliance with the provisions of the institution's prospectus.

11.3.4 Investor information

As usual, the CNMV paid special attention to compliance with management companies' obligation to inform investors, especially in respect of the prospectus and quarterly information. Furthermore, since the IIC Law of 2003 obliges management companies to maintain a web site and use it to divulge public documentation relating to its products (complete prospectus, simplified prospectus and annual, quarterly and half-yearly reports), controls were implemented to verify compliance with this new obligation. The result of the review was satisfactory, since it was found that all institutions adequately fulfilled this obligation.

Particular attention was also paid to reviewing auditors' reports. The regulation provides that auditors' reports and annual reports must be sent to the CNMV. That information is complemented with the auditors' recommendations and the report on the degree of compliance with the internal control memorandum. All of these documents are very useful for the CNMV's supervisory work.

11.3.5 Supervision of IIC depositories

As in previous years, the CNMV supervised the activities of IIC depositories, in both settlement and custody, as well as supervising and overseeing SGIICs' management activities.

Since IIC depositories are credit institutions or broker-dealers or brokers which tend to also provide a range of other services, on-site reviews laid particular emphasis on verifying the existence of a specific department focused on compliance with the tasks attributed to the depository by law, as well as the implementation of adequate internal procedures, plus the necessary technical and human resources.

During 2005, the number of incidents notified to the CNMV by depositories increased. Consequently, in order to enhance the quality and efficiency of remote supervisory activities relating to IIC depositories, a new supervisory approach was adopted, aimed mainly at orienting the analysis towards qualitative aspects, such as organisational structure, suitable technical and human resources and procedures implemented by the depositories to ensure compliance with their tasks.

In addition to supervisory activities, a number of educational activities were implemented in order to facilitate depositories' adaptation to ongoing regulatory changes. Accordingly, in partnership with various associations, informative sessions were organised for financial institutions that act as IIC depositories to explain the significant changes in the regulation of the sector and to highlight the importance of the control and supervisory tasks assigned to these institutions.

11.3.6 Supervision of real estate IICs

The special characteristics of IICs which invest in real estate, which must guarantee reimbursement of their units while investing a significant percentage of their funds in illiquid assets whose valuation is complex, means that these institutions require a special approach when it comes to supervision.

In 2005, supervision of these IICs focused particularly on compliance with obligations relating to the valuation of real estate. Furthermore, thorough monitoring was performed of the recent problems in Germany, where certain real estate investment funds were obliged to suspend reimbursements in a context of crisis in the real estate sector. In this regard, the regulations applicable to IICs in Spain offer sufficient guarantees of investor protection as regards valuations, subscriptions and liquidity management of the funds.

11.3.7 New features in IIC authorisation

The entry into force of the Collective Investment Institution Law approved in 2003 notably speeded up authorisation of these investment vehicles by using simpler, shorter procedures. The regulation deriving from the new law, approved last year, introduced further improvements in this connection, summarised in the box below.

Among the new features in the processes of authorisation and registration of IICs, and in response to the increasing complexity of collective investment products, in particular guaranteed funds, the CNMV implemented a set of measures aimed at enhancing institutions' transparency vis-à-vis their investors. Those measures range from requiring that funds be named appropriately to requiring publication on the CNMV's web site of relevant economic figures for comparison purposes. To facilitate dissemination of these measures, the CNMV notified them to the Spanish Association of Collective Investment Institutions in early 2006. This process to improve transparency will culminate with approval of a new simplified prospectus.

Improvements in the IIC authorisation process introduced under the new regulation

Expediting paperwork, by simplifying procedures and accelerating administrative decision-making, enhances competitiveness in this sector of the Spanish financial industry and enables the collective investment product offering to adapt more quickly to investors' needs.

With this in mind, the legislators introduced significant improvements in the new IIC Law (LIIC) approved in 2003. The Regulation implementing this law (RIIC), approved in 2005, takes the same line and introduces further significant new features.

In the context of investment funds, the LIIC establishes that, once pertinent permission has been obtained, a mutual fund may be created simply by means of a contract between the management company and the depository, and that granting a public instrument is optional. Logically, this practice also applies to other administrative processes such as, for example, those relating to mergers between two or more funds and amendments to management regulations.

One important feature of the new IIC regulation is the authorisation and registration of investment funds by the CNMV in a single act. In practice, this reduces the time necessary to launch the new fund, enabling institutions to more accurately estimate the date from which they will be able to launch the new product.

As for SICAVs, the LIIC removes the obligation for their shares to be listed. Specifically, the regulation sets out three alternatives for providing SICAVs with liquidity: listing of their shares, trading of their shares on an organised trading system, or establishment of a mechanism for the acquisition and sale of shares similar to the one used by mutual funds to process subscriptions and reimbursements.

In this regard, in December 2005 authorisation was granted to the first SICAV whose shares were not listed in any market or organised trading system. Also authorised was the Alternative Stock Market (Mercado Alternativo Bursátil), a trading system run by BME and initially aimed at SICAVs (see Chapter 2).

Another major new development in relation to SICAVs affects the system for disclosing significant shareholdings. The RIIC applies the existing system for funds to SICAVS and, since January 2006, this information is being filed electronically on a quarterly basis. The first notification corresponded to significant shareholdings at 31 December 2005.

Finally, the new RIIC envisages the creation of compartments (for SICAVs) and of share classes (for mutual funds) by means of an update to the prospectus and prior authorisation from the CNMV. For SICAVs, compartmentalisation does not require an amendment to the Articles of Association, provided that they allow for this possibility, which simplifies the process considerably.

11.4 Supervision of venture capital firms

In view of the characteristics of venture capital firms and the profile of their investors, supervision is limited to reviewing their annual accounts and analysing legal coefficients based on confidential filings. However, this latter task is hampered by the absence of lower-level regulations governing the method for calculating those coefficients.

The 2005 review of audits and annual accounts of venture capital companies and funds evidenced the existence of a number of companies with scope limitations in their auditors' reports because of the auditor's lack of access to the audited annual accounts of companies included in their portfolios. Where those investments accounted for more than 25% of the total equity of the venture capital fund or company, the CNMV requested information from the venture capital firm to assess whether an audit of the investee's accounts confirmed the initial valuation was confirmed.

Furthermore, the CNMV performed analyses to detect non-compliance with the investment and risk diversification coefficients, with no significant incidents being reported.

11.5 Supervision of securitisation fund management companies

As in 2004, supervision of securitisation fund management companies focused on analysing the resources and measures implemented by these companies to adequately control their activity, and reviewing the funds' financial statements and compliance with the general conditions established when they were set up.

Inspections revealed the need for certain improvements in automating some administrative and management tasks, standardising some procedures and the generally adapting internal control systems.

These aspects to be improved are even more significant due to the sector's strong growth in recent years, as evidenced by securitisation volume, the number and type of funds, the range of securitised assets, and the number and diversity of assignors[11], as well as the fact that headcounts have recently soared at these institutions, making it necessary to review staff are suitably trained for the specific activity which they perform.

11. See Chapter 3.

Accordingly, the CNMV held meetings last year with all institutions in Spain's securitisation sector to urge them to implement the necessary measures to mitigate operating risk deriving from the aforementioned weaknesses.

11.6 Assistance in the prevention of money laundering

Since the Cooperation Agreement between the CNMV and the Executive Service of the Commission for the Prevention of Money Laundering and Financial Offences (SEPBLAC) was signed in June 2003, the CNMV has been supervising compliance with the obligations in terms of money laundering prevention at both IICs and broker-dealers and brokers.

In 2005, the CNMV held a number of meetings with the SEPBLAC to pool knowledge in regard to the supervision of procedures for preventing money laundering and coordinate and clarify the doubts and problems arising in application of the work programmes contained in the Cooperation Agreement.

Furthermore, various notifications were sent to the SEPBLAC in connection with suspect operations detected. The conclusions of inspections performed under the work programme contained in the Cooperation Agreement signed with the CNMV were also delivered. With a view to the review of the Agreement, it would seem advisable to revise the work programme to take into consideration the relative size of the firms in the broker-dealer and broker sector and their resources.

The CNMV also participates in the group set up by the Commission for the Prevention of Money Laundering and Financial Offences to draft a catalogue of risk transactions for institutions operating in securities markets.

12 Investor assistance

The CNMV has an investor assistance service for investors to present queries, complaints and claims. This service is not only useful for investors, but it also helps supervision, since it is a source of information about practices which might point to deficiencies at investment firms, and even irregularities which require the Commission's attention.

The CNMV's investor assistance service also publishes warnings about unregistered companies, and performs educational and informational activities. These activities are aimed at improving investors' ability to assess for themselves the offers they receive from a variety of companies through different channels. The Commission's web site (www.cnmv.es) plays a pivotal role in this area, in parallel with the publication of printed materials, the organisation of or involvement in public events, and media relations.

Furthermore, the CNMV is increasingly monitoring advertising for financial products and services, as well as intermediaries' marketing activities, since both are particularly sensitive areas for investor protection.

12.1 Financial institutions' customer care services

Financial institutions providing services relating to securities markets must have a customer care department separate from the rest of commercial or operating services and independent with regard to decision-making. Furthermore, it may appoint a customer ombudsperson to handle certain kinds of complaint[1]. Financial institutions' clients must exhaust these channels before filing a claim with the CNMV.

The legal status of the ombudsperson with respect to the institution in question is different from that of the customer care department since, as well as being optional, the ombudsperson is independent of the hierarchical structure of the company or group and his/her decisions are binding upon the company, without prejudice to the parties' legal rights. Furthermore, the same person may act as ombudsperson for more than one company.

1. The basic regulation for both services stems from Chapter V of Law 44/2002, dated 22 November, concerning measures to reform the financial system. That chapter was later implemented by Royal Decree 303/2004, dated 20 February, approving the regulations concerning ombudsperson for customers of financial services and, more specifically, by Order ECO/734/2004, dated 11 March, concerning financial institutions' customer care departments and services and the ombudsperson.

Almost two years after the detailed rules regulation in this regard were issued[2], almost all credit institutions, investment services companies and collective investment institution management companies have customer care services to handle investors' queries, complaints and claims.

The number of credit institutions voluntarily appointing an ombudsperson is increasing, but they are nevertheless still a minority, and it is an unusual practice at other firms. 32.5% of banks and savings banks have ombudspersons and almost all cooperative credit firms share an ombudsperson service via the National Association of Credit Cooperatives. The percentage is 25% among collective investment institutions' management companies, 18% among broker-dealers and brokers and 12% among portfolio management companies.

The larger number of ombudspersons among credit institutions is due to the fact that many of them, especially the largest ones with the biggest market shares, already employed an ombudsperson prior to entry into force of the new regulations.

Among entities which have both customer care services and ombudspersons, the regulations regarding the latter[3] tend to consider the ombudsperson as a second level. Consequently, at these entities, clients may, if they wish, refer their complaints to the ombudsperson after first sending them to the customer care service.

Some entities with both services restrict the ombudsperson's sphere of activity to complaints or claims above a certain amount. One of them allows access to the ombudsperson for issues related to insurance, pensions and banking, but not for issues related to securities markets.

12.2 Complaints, claims and suits filed with the CNMV

12.2.1 Complaints and claims

In 2005, the CNMV Claims Department, which previously reported to the General Secretariat, was merged into the Investor Assistance Office.

The Quarterly Report on Queries and Claims was also created, featuring the most frequently-asked or interesting questions posed by investors to the CNMV, as well as the criteria used in responding to them. The aim of publishing this report is to make both investors and firms (particularly their customer care services and ombudspersons) aware of the CNMV's criteria with respect to the adequate application of regulations in the sphere of investor protection.

2. Order ECO/734/2004.
3. Order ECO/734/2004 indicates that the institutions must have a customer protection regulation specifying essential aspects to guarantee the quality and independence of customer care. This regulation must be reviewed beforehand by the CNMV in the case of investment firms and SGIICs and by the Bank of Spain in the case of credit institutions. Section 1 of Chapter 12 of the CNMV 2004 Annual Report contains a brief summary of the contents of the regulation and the rules governing customer defence.

Modifications in claims processing

In 2005, the CNMV introduced two major changes in its customer claims service.

Firstly, it began to distinguish clearly between complaints and claims. The main difference is that complaints do not lead to the respondent being asked to present its side of the story. Furthermore, the CNMV's response is always merely informative. In contrast, claims processing require that the respondent be given the opportunity to present its case, and the resolution may vary in content.

A second modification refers to the conditions for accepting claims against financial institutions which provide services in the securities markets. For the CNMV to accept these claims, the new rules[4] require that they first be filed with the entity's customer care service or ombudsperson, if any (see section 12.1).

To adapt to the new regulation, the CNMV devised an internal procedure with regard to processing and resolving claims, specifying the requirements for their acceptance. In particular, a deposition is required in which the claimant must state that the matters raised in the written claim have not been the subject of litigation or appeal before the courts and are not pending resolution by another administrative body.

Overview

Overall, in 2005 the CNMV received 1,048 written claims or complaints, a 36% increase with respect to the previous year. Claims originating in Catalunya (73 in total) were processed by the CNMV office in Barcelona.

Most written complaints or claims addressed to the CNMV referred to financial institutions, especially banks and savings banks (see Table 12.1), in view of their widespread involvement in marketing financial products to retail customers. Most were claims rather than complaints. Complaints accounted for 24% of disciplinary files and all referred to actions by issuers in the context of takeover bids in which investors objected to the consideration offered and other related aspects. There were a number of complaints in regard to the Terra Networks, Global Steel Wire and Amadeus operations.

As for resolving claims (see Table 12.2), the requirement that they must first be filed with the financial institutions' customer care service or ombudsperson led to a considerable number being rejected by the CNMV. This requirement also explains the notable decline in the number of claims resolved through mutual agreement between the parties, since customer care services or, in the event, ombudspersons had already issued their opinions on such cases.

4. Order ECO/734/2004. It entered into force on 24 July 2004.

Respondents in complaints and claims

TABLE 12.1

	No. of files		%	
	2004	2005	2004	2005
Market governing and supervisory bodies	**2**	**0**	**0.3**	**0.0**
Financial institutions	**712**	**774**	**92.2**	**73.9**
Banks and savings banks	620	724	80.3	69.1
Broker-dealers and brokers	75	32	9.7	3.1
SGCs, SGIICs and investment companies	17	18	2.2	1.7
Unregistered entities	**28**	**4**	**3.6**	**0.4**
Securities issuers	**21**	**260**	**2.7**	**24.8**
Other	**9**	**10**	**1.2**	**1.0**
Total complaints and claims	**772**	**1,048**	**100.0**	**100.0**
Pro memoria:				
Complaints	205	256	26.6	24.4
Claims	567	792	73.4	75.6

Source: CNMV.

Outcome of claims

TABLE 12.2

	No. of files		%	
	2004	2005	2004	2005
Claims with a pronouncement or resolution	**501**	**519**	**88.4**	**65.5**
Resolved by mutual agreement	118	80	20.8	10.1
CNMV report favourable to claimant	80	160	14.1	20.2
CNMV report not favourable to claimant	296	271	52.2	34.2
Claim withdrawn	7	8	1.2	1.0
Claims not requiring pronouncement	**52**	**157**	**9.2**	**19.8**
Outside CNMV jurisdiction	42	43	7.4	5.4
Claim not accepted	10	114	1.8	14.4
Other	**14**	**116**	**2.5**	**14.6**
Total claims	**567**	**792**	**100.0**	**100.0**

Source: CNMV.

Particularly significant complaints and claims

Processing and execution of securities orders

Delays in executing orders and failure to execute them properly (in the client's opinion) or inappropriate execution were the main causes for complaints in this connection. Some persons claimed that orders had been executed without their consent or in conditions other than those requested, delays in transfer of ownership due to inheritance, discrepancies in the settlement of debts, and technical problems or operating restrictions at the institution which prevented orders from being processed through the desired channel.

Fees and charges for investment services

Many investment service users complain about the fees and expenses which they are charged by firms. Many do not know the firms are free to set their maximum fees, subject only to the obligation to notify them to the supervisor, advertise them and deliver a copy of the fee sheet with any contractual documents.

First must notify their clients of any modification of fees and expenses which may apply to a contractual relationship. That notice must be in writing, although it may be included with any mandatory periodic information supplied to clients. Clients have a maximum period of two months from receipt of that notice to modify or cancel their contract, and during that period the pre-existing fees apply, unless the new fees are clearly more beneficial to the client.

Neither the regulations nor the administration and deposit contracts contain procedures to guarantee the delivery of notifications. The impossibility of proving lack of notification is harmful to the investor, who lacks the evidence with which to enforce his rights.

Some investors disagree with fee settlement breakdowns. Codes of conduct oblige firms to provide clear information and to allow transparent calculation of the effective net cost of a transaction.

Information and documentation supplied by mutual funds

The most frequent claims referred to advice and information received at the time of purchasing a mutual fund product, or afterwards, when the product's characteristics changed.

When buying into investment funds, investors must be given, free of charge, the simplified prospectus and latest half-yearly report and, if they so request, the full prospectus and latest annual and quarterly reports that were published. The basic conditions and characteristics of mutual funds are set out in the prospectus. This information prevails over any other supplied by the firm. Investors should base their investment decision on that documentation. Complaints and claims are often filed because investors became aware belatedly of conditions which they had not noticed initially, such as the existence of back-end fees or a specific investment policy.

Firms are obliged to supply their clients with all the information which might be relevant for making investment decisions and to obtain information about their clients' financial situation, investment experience and goals, when significant to the services which they are to provide. However, securities market regulations do not rule out the possibility of offering the same product to investors with different risk profiles, provided they are adequately informed as to the product's characteristics.

Management companies may merge funds or make significant changes in their characteristics. In the case of guaranteed funds, modifications are made to coincide with the expiry date of the guarantee. Management companies must notify investors of the scheduled changes before the new conditions come into force, and establish a minimum period of one month in which investments may be reimbursed without fees or expenses, if the investor wishes. To exercise this right to withdrawal at no charge, investors must file a reimbursement order because otherwise they will implicitly be understood to have accepted the new conditions.

Transfers between investment funds

Investors may not agree with the fees for transfers between investment funds. Sometimes this is because they mistake the benevolent tax treatment currently applicable to transfers[5] with management companies' power to charge the fees set out in the prospectus. Other times, the discrepancy arises due to a delay in executing the transfer from guaranteed funds when the guarantee expires, which prevents investors from benefiting from the period of exemption from transfer fees as laid out in the regulations.

Delays in transfers due to mistakes attributable to the firm implies non-compliance with deadlines and, among other consequences, means that a different net asset value is applied. Investors claim their right to be informed with due diligence in regard to all matters concerning their transactions and they demand compensation when the result has been harmful to their interests.

Law 35/2003, concerning collective investment institutions, provides that, in order to commence a transfer, the investor or shareholder must first approach the new company, and that it is the new company which must notify the original company, within at most one business day from receipt of the duly completed application form. The original company has at most two business days from receipt of the notification to make such checks as it deems necessary. Transfers must be performed as from the third working day after receipt of the application, and within the legally-established deadlines for reimbursements or share disposals.

Inheritances

Although complaints and claims in this connection are not as common, they merit special attention from a qualitative standpoint. Their origin is varied. Three very frequent issues are as follows:

- Delays in performing changes to registered ownership of securities as a result of wills and last testaments. Changes in the ownership of securities arising from last wills and testaments are performed once the legitimacy to inherit has been proven, inheritance tax has been paid, and the heir accredits entitlement to the specific assets.

5. Transfers from investment funds managed by one SGIIC to another do not trigger capital gains tax.

– Fees for transferring ownership to heirs. Complaints arise due to disagreements over the amount of fees and lack of knowledge as to their existence.

– Difficulties in exercising the right of withdrawal without charge by persons inheriting mutual fund holdings. Following an investor's death, until the heirs have completed the necessary procedures to transfer ownership, no-one (neither the deceased investor nor the heirs, due to lack of proof of legitimacy) are able to exercise the right to withdrawal free of charge in the one-month period established for that purpose. Later, when the estate has been resolved, the heirs find that they are investors in a fund which does not interest them, and sometimes they may have to pay a back-end fee.

12.2.2 Accusations

On 10 June 2005, the Chairman of the CNMV, exercising the powers conferred upon him by Article 12.4 of the CNMV Internal Regulation, dated 10 July 2003, issued a *"Provisional Instruction on the Processing and Resolution of Accusations within CNMV Jurisdiction"*. That instruction was aimed at defining the concept of litigation in line with our legal system, clearly differentiating it from other writs such as claims, queries or mere information received by the supervisory body.

The instruction also established the body in charge of handling such accusations, namely the Directorate of Litigation and Enforcement, since an accusation is a means of securing ex officio initiation of disciplinary proceedings as recognised by the procedural regulation for disciplinary measures[6].

The instruction comprises two rules. The first refers to the content of the accusation, indicating the requirements which it must meet as an instrument at the disposal of any party wishing to draw attention to irregularities which, in the accuser's view, may constitute offences under the Securities Market Law or the Law concerning Collective Investment Institutions. This rule also provides that accuser's are entitled to receive notification as to the outcome of the matter, whether the case is closed or disciplinary proceedings are commenced.

The second rule refers to how action will be processed. It emphasises mainly that all accusations filed with the CNMV in matters within its jurisdiction must lead to an investigation and, once it is completed, the competent body must issue an explicit decision so that disciplinary proceedings may commence, if appropriate.

In 2005, 23 accusations were filed with the CNMV. Almost half of the total referred to securities issuers, and a considerable number referred to matters of corporate governance (see Table 12.3). At year-end, processing had been completed for 16 accusations, none of which had led to disciplinary proceedings.

6. Royal Decree 1398/1993, dated 4 August.

Accusations filed with the CNMV in 2005

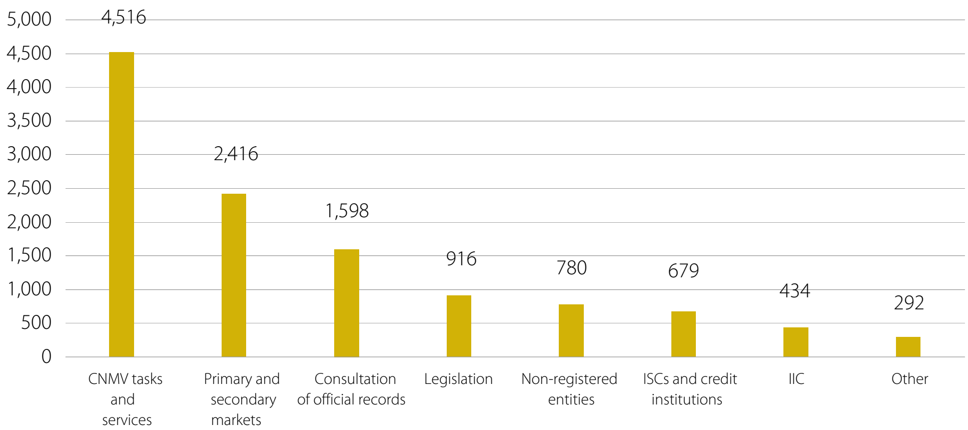
TABLE 12.3

	Number
Entities against which accusations were filed	
Market governing bodies	1
Banks and savings banks	3
Broker-dealers and brokers	4
Securities issuers	12
Other	3
Issue	
Securities trading	5
Codes of conduct	4
Corporate governance	8
Treasury stock at unlisted companies	3
Other	3
Situation at 31/12/2005	
Total	**23**
In process	7
Under investigation by competent directorate	5
Pending the outcome of further action	2
Closed	16

Source: CNMV.

Information and queries in 2005: number of queries per topic

FIGURE 12.1



Source: CNMV.

12.3 Query service

In 2005, the CNMV handled 11,691 queries, of which 184 were resolved at the CNMV delegation in Catalunya. Most queries were aimed at matters relating to the content of official records, securities market legislation and the services provided by the CNMV. The delisting and suspension of trading in securities, public offerings and the operation of markets were the subject of a considerable number of information requests.

12.4 Investor education and information

The CNMV has undertaken to try to improve investors' financial expertise. Although it is almost impossible to assess the efficacy of the activities performed in this sphere in the short term, it is unquestionable that the degree of development of markets depends largely on investors' training and their capacity to take full advantage of the available information.

12.4.1 Publications aimed at investors

In the last quarter of 2005, the CNMV started a new line of small-format publications called Investor Files (*Fichas del Inversor*). These publications offer a practical view of specific aspects of securities markets, such as product characteristics, how markets operate, relations with brokers, or fees and expenses. The first titles published were "*CNMV Investor Services*", "*Transfers between Investment Funds*" and "*What is a Takeover Bid and How to React to One*", of which 40,000 copies were distributed.

The CNMV also published a new investor guide, "*Investment Funds and Collective Investment*", which replaces the previous guide on this matter published in 2002. The new publication includes the latest legislation on the matter as well as a new format. The following guides have been published so far:

– *What you should know about.....investment funds and collective investment.* (2005)

– *What you should know about.....options and futures.* (2004)

– *What you should know about.....securities orders.* (2004)

– *What you should know about.....shareholders' rights and responsibilities.* (2002)

– *What you should know about.....fixed income products.* (2002)

– *What you should know about.....fly-by-night financial operations.* (2002)

– *What you should know about.....investment services companies.* (2002)

As in previous years, the industry continued to assist with distributing the guides among investors. At year-end, 217 cooperation agreements of this type had been signed, of which 163 involved securities market entities. Furthermore, the guides were publicised in various media and posted in electronic format on a number of institutional and private web sites. Since publication of this series commenced and until the end of 2005, 305,000 copies had been distributed among individual investors. All the guides are available in English in the *Investors' Corner* section of the CNMV web site.

Investor guides: number of distribution agreements and copies circulated TABLE 12.4

	No. of agreements	No. of copies	%
Markets: stock markets and MEFF	5	81,575	26.7
Consumer associations	8	12,354	4.0
Securities market entities:	163	127,391	41.7
Broker-dealers	39	41,313	13.5
Brokers	37	19,230	6.3
Portfolio management companies	17	9,060	3.0
SGIICs	65	52,900	17.3
Branches of foreign investment services firms	5	4,888	1.6
Credit institutions	16	12,404	4.1
Universities and other education institutions	25	9,027	3.0
Investor Assistance Office (CNMV)	—	62,831	20.6
Total	**217**	**305,582**	**100.0**

Source: CNMV.

12.4.2 Participation in meetings and public events aimed at investors

The CNMV also encourages direct communication with investors via participation in meetings and open-door events. The purpose is to closely monitor investors' problems and concerns, and help them to access the services offered by the CNMV.

In 2005, the CNMV participated for the first time in the Bolsalia and Borsadiner fairs on the stock exchange and financial markets, which were held in Madrid and Barcelona, respectively. With more than 15,000 visitors, these popular events are an excellent channel for showcasing and explaining the work of the CNMV.

At those fairs, which lasted three days, the Commission described its activities in investor information and financial education: responses to queries, analysis of suggestions, processing of complaints, informative talks, access to information available in public registers and the CNMV web site, specific publications aimed at non-professional investors, etc. Furthermore, more than 6,500 copies of the brochure outlining the services offered by the Investor Assistance Office were distributed.

40% of the questions posed by visitors referred to the CNMV's own activities. The rest related to different aspects of securities markets: incidents with intermediaries (23.3%), operation and information (10.3%), markets and companies (18.4%) and collective investment institutions (6.5%).

Particularly significant was the CNMV's participation in the "New Trends in Investor Protection" meeting, held in Valencia and sponsored by the Valencia Regional Government, via the Valencia Finance Institute. Distinguished representatives of Spanish and other European consumer associations attended, as well as representatives of the CNMV, the Committee of European Securities Regulators (CESR) and the Valencia Finance Institute, all of whom debated the efficiency of policies to protect retail investors, the role of consumer associations and current approaches in educating small investors.

12.4.3 Other information activities

In 2005, the CNMV continued to give talks and conferences aimed at the public in general throughout Spain to enhance investor knowledge of significant matters relating to securities markets. Thirty-nine conferences were held in partnership with other groups: consumer associations, professional bodies, public and private universities, financial institutions, foundations and securities exchanges. Also noteworthy were the educational and information activities performed during 2005 via the media, at both national and local level.

In order to increase the efficacy and scope of these actions, the CNMV has set up a stable network of contacts with public and private institutions. Accordingly, in 2005 a round of talks was held with consumer associations belonging to the Consumer and Users Council and with the Municipal Consumer Information Bureaux (OMIC), in order to establish cooperation agreements to prepare and distribute publications and organise education activities. In 2006, these contacts will be extended to include other groups.

The *Investors' Corner* section of the CNMV web site is still one of the main channels of communication with citizens interested in securities markets. In 2005 the "Information" section was redesigned to highlight the services offered by the Investor Assistance Office and how to obtain them. One major change was direct access to quarterly reports concerning queries and claims.

12.5 Information quality and marketing practices

The CNMV places special emphasis on ensuring that information received by investors is comprehensive and accurate.

To this end, in 2005, as in previous years, the CNMV send notifications to issuers and financial institutions reminding them of the need to meet certain obligations in regard to information to the public in placement processes (public offerings, special subordinate bond issues, preference shareholdings, etc.). In particular, these notifications underlined the importance of providing the prospectus and a summary of it and of observing certain rules of conduct.

Furthermore, the CNMV constantly monitors advertising of investment products and services since, although the prospectus is the official reference document for investors, advertising plays a major role in private investors' investment decisions.

The duty to protect investors assigned to the CNMV under Spain's Securities Market Law explains why the Commission seeks to ensure that firms do not use misleading advertising with regard to their offering of financial services or products; the advertising should not present the product or service in a biased manner (highlighting the advantages and downplaying or concealing the risks, conditions or small print) and should not raise unrealistic expectations in the target audience.

In order to ensure that advertising campaigns uphold these principles, the CNMV offers to vet advertising before it is released. Many firms now submit their promotional materials for vetting before launching campaigns, to ensure that it meets certain standards of clarity, veracity and balance. Furthermore, the CNMV can implement other kinds of initiatives as provided by regulation to restrict the dissemination of campaigns which it considers might mislead the target public as regards the essential characteristics or risks of a particular product or service.

Table 12.5 lists the actions performed in 2005. Almost 50% of pre-launch analyses of advertising campaigns by collective investment institutions correspond to guaranteed funds, due to the broad offering of this product class by financial institutions.

CNMV actions concerning advertising in 2005 TABLE 12.5

	Prior analyses	Subsequent check	Total
IICs	172	9	181
Foreign IICs	8	5	13
Issues and public offerings	28	1	29
Financial services	10	2	12
Total	**218**	**17**	**235**

Source: CNMV.

The clear prevalence of prior analyses indicates the increasing divulgence and acceptance of this system by the sector. Furthermore, the main obstacle to post-launch campaign control is the restricted sphere of dissemination of certain promotional actions (limited territorial scope, media aimed solely at clients or other circumstances which prevent advertising messages becoming widely known).

12.6 Investor Protection Scheme

In 2005, the manager of the Investor Protection Scheme (*Fondo General de Garantía de Inversiones, S.A.*, "FOGAIN") continued to receive and process applications for compensation from clients of the five entities covered to date by the scheme, all by virtue of the retroactive effect of coverage, as determined by the fourth final provision of Royal Decree 948/2001, dated 3 August, concerning investor compensation systems[7].

At year-end, the cumulative amount of compensation (distributed in line with the criteria established by the Secretary of State for the Economy's Resolution dated 1 August 2002) totalled 63,099,931.41 euro, with a total of 8,465 clients indemnified and 9,525 claims processed.

7. Those firms are AVA Asesores de Valores, A.V. S.A., Gescartera Dinero, A.V., S.A., Broker Balear, A.V., S.A., Bolsa 8, A.V., S.A. and XM Patrimonios, A.V., S.A.

On the same date, FOGAIN had 122 members: 45 were broker-dealers, 57 brokers, 18 portfolio management companies and 2 collective investment institution management companies. The latter joined FOGAIN under the provisions of the new regulation in line with the IIC Law, which allows these entities to provide discretionary management of customer portfolios.

During the year, after checking the information provided by the firms with that held by the CNMV, all members paid their contributions to FOGAIN in line with its annual budget; there were no incidents in this connection.

FOGAIN focused particularly on recovering as much as possible of the amounts of compensation paid, since it subrogates to recipients' indemnity rights. Furthermore, it availed itself of new IT systems and other necessary means to operate efficiently. In November, FOGAIN presented to the CNMV its budget for 2006 which was approved by the CNMV Board on 30 December. The expenses budget totalled 784,559 euro, 17% less than in the previous year.

Finally, last year FOGAIN positioned itself as a representative of the interests of investment firms. Among the activities performed in line with this new role, two working groups were set up: one to consider the rules of intervention in securities markets and another to address money laundering. Based on the findings of this second working group, in December FOGAIN organised a meeting on the prevention of money laundering in the sphere of investment firms.

13 Disciplinary proceedings

The CNMV is able to impose penalties directly for minor or serious violations of securities market regulations. Responsibility for punishing the most serious violations lies with the Ministry of Economic Affairs and Finance, following the submission of a report by the CNMV that will include a penalty recommendation. The CNMV, however, is responsible for investigating all violations through the initiation of disciplinary proceedings.

In 2005 the cases investigated by the CNMV were of more than usual complexity and significance because of the nature and extent of the violations that came under investigation. These included a number of cases involving alleged misuse of insider information and market manipulation, the investigation of which is always complex.

All penalties imposed during the year were of an economic character and resulted, in the majority of cases, from investigations initiated in the course of the previous year. The type of violation to which these investigations most commonly related was failure to disclose significant holdings in listed companies.

A noteworthy development during the year was the introduction of regulations for internally investigating and pursuing possible violations of regulations reported to the CNMV by members of the public. This initiative means that reports of violations are now treated separately from claims, complaints and other written communications to the CNMV, thus enabling it to discharge its role of ensuring market supervision and discipline more effectively.

13.1 Disciplinary proceedings

13.1.1 Statistics

In 2005, the CNMV's Executive Committee initiated a total of 14 new investigations for a total of 24 alleged violations. At the same time, the CNMV completed 21 investigations of cases relating to a total of 36 violations. Three of these cases had been initiated in 2003 and 18 in 2004 (see Table 13.1)[1].

1. A list of decisions reached in disciplinary proceedings is provided in Annex III.3 along with a brief summary of each decision.

Proceedings initiated and concluded in 2005

TABLE 13.1

Number of proceedings initiated	**27**	**14**
Number of proceedings concluded	37	21
Of which:		
Initiated in 2004	9	18
Initiated in 2003	27	3
Initiated in 2002	1	—

Source: CNMV.

Nature of violations leading to disciplinary proceedings

TABLE 13.2

	2004	2005
1. Nature of violations for which proceedings were initiated	**34**	**24**
Very serious	32	15
Serious	2	9
Minor	—	—
2. Nature of violations for which proceedings concluded	**58**	**36**
Very serious violations	**25**	**25**
Proceedings initiated in 2003	16	4
Proceedings initiated in 2004	9	21
Serious violations	**23**	**11**
Proceedings initiated in 2002	1	—
Proceedings initiated in 2003	22	5
Proceedings initiated in 2004	—	6
Minor violations	**10**	—
Proceedings initiated in 2003	10	—

Source: CNMV.

Penalties imposed

TABLE 13.3

	2004		2005	
	No.	Amount[1]	No.	Amount[1]
Fines	58	3,149	53	1,636
Disqualification of directors	1	—	—	—
Public reprimand	11	—	—	—
Private reprimand	3	—	—	—

Source: CNMV.

1. Thousand euro.

Number of violations subject to investigation, by type

TABLE 13.4

	Cases opened		Cases closed	
	2004	2005	2004	2005
Very serious violations	**32**	**15**	**25**	**25**
Failure to disclose / incorrect disclosure of significant holdings	22	—	9	13
Engaging in prohibited activities	2	3	2	3
Market manipulation	—	1	—	—
Breach of coefficients	—	—	4	—
Failure to disclose significant events / provision of misleading, incorrect or materially incomplete information	—	—	1	—
Violation of general securities market regulations	3	3	3	5
Violation of general IIC regulations	—	—	4	—
Accounting irregularities	1	2	—	—
Unregistered issues	—	—	2	—
Insider dealing	2	6	—	2
Obstruction of inspections	2	—	—	2
Serious violations	2	9	23	11
Accounting irregularities	—	—	1	3
Engaging in prohibited activities	—	—	2	1
Breach of coefficients	—	—	10	1
Violation of general securities market regulations	—	4	—	—
Violation of general IIC regulations	1	1	4	1
Breach of rules of conduct	1	3	3	5
Market manipulation	—	1	3	—
Minor violations	—	—	10	—
Violation of general securities market regulations	—	—	-	—
Violation of general IIC regulations	—	—	8	—
Breach of coefficients	—	—	2	—

Source: CNMV.

Concluded investigation proceedings resulted in the imposition of 53 penalties, all of them fines, amounting to a total of 1,636,000 euro (see Table 13.3).

Of the different types of violation that were investigated (see Table 13.4), the following are especially worthy of note:

– In the cases under investigation, six alleged violations related to the use of insider information and two related to market manipulation; a further three cases were especially serious and related to breaches of the general securities market regulations.

– In the cases that were concluded, 13 resulted in penalties for failing to disclose significant holdings in listed companies, two related to the use of inside information and four related to engaging in regulated activities without permission.

13.1.2 Public register of penalties for serious or very serious violations[2]

In 2005 the following decisions in cases involving serious or very serious violations were recorded in the public register of penalties:

– CNMV Resolution dated 30 June 2005 publicly disclosing the imposition of penalties for a serious violation by as required by Article 103 of Law 24/1988, of 28 July, on the Securities Market.

– CNMV Resolution of 30 June 2005 publicly disclosing the imposition of a penalty for a very serious violation by as required by Article 102 of Law 24/1988, of 28 July, on the Securities Market.

– CNMV Resolution of 30 June 2005 publicly disclosing the imposition of penalties for a serious violation by as required by Article 103 of Law 24/1988, of 28 July, on the Securities Market.

– CNMV Resolution of 30 June 2005 publicly disclosing the imposition of penalties for a serious violation by as required by Article 103 of Law 24/1988, of 28 July, on the Securities Market.

13.1.3 CNMV's position on specific issues

Persons in possession of inside information - the duty to abstain

In 2005, four investigation procedures were initiated for alleged breaches of the duty of holders of inside information to abstain from certain activities, and penalties were imposed following two other investigations of similar violations.

Article 81.2 of the Securities Market Law requires any person in possession of inside information to "*abstain from engaging, for his own account or for the account of a third party, whether directly or indirectly*", in certain types of actions, including those described in point a) of the same Article: "*carrying out any transaction in any negotiable securities (...) to which the said information relates*". As stated later on in the same section of the Article, this prohibition "*shall apply to any person who possesses inside information where that person knows, or ought to have known, that it is inside information*".

The essence of the duty to abstain is based on the concept of "*inside information*", the legal definition of which is provided in Article 81.1 of the Securities Market Law. This defines inside information as "*any information of a precise nature, relating, di-*

2. Securities Market Law, Article 92.j)..

rectly or indirectly, to one or more negotiable securities (...) or to one or more issuers of such negotiable securities (...) which has not been made public and which, if it were or had been made public, would be or would have been likely to have a significant effect on the prices of those negotiable securities in an organised market or trading system".

The characteristics of preciseness and of being likely to have an effect on price are defined in Article 1 of Royal Decree 1333/2005 of 11 November implementing the market abuse provisions of the Securities Market Law (this legislation completed the transposition to Spanish law of the EU directives on market abuse).

The Royal Decree provides, firstly, that information can have a significant effect on a price "*where that information is information that a reasonable investor could use as part of the basis of his investment decisions*". Secondly, it provides that information is of a precise nature "*if it indicates a set of circumstances which exists or may reasonably be expected to come into existence or an event which has occurred or may reasonably be expected to do so and if it is specific enough to enable a conclusion to be drawn as to the possible effect of that set of circumstances or event on the prices of negotiable securities or related financial instruments or, if applicable, derivative financial instruments related thereto*".

These two characteristics, precision and being likely to have an effect, are intimately linked. As Whereas Clause (1) to Directive 2003/124/EC[3] states, "*reasonable investors base their investment decisions on information already available to them, that is to say, on ex ante available information. Therefore, the question whether, in making an investment decision, a reasonable investor would be likely to take into account a particular piece of information should be appraised on the basis of the ex ante available information. Such an assessment has to take into consideration the anticipated impact of the information in light of the totality of the related issuer's activity, the reliability of the source of information and any other market variables likely to affect the related financial instrument or derivative financial instrument related thereto in the given circumstances*".

In view of the definition of inside information and the notes describing the nature of such information, for information to be deemed to be inside information it must be sufficiently precise to allow a reasonable investor, when in possession of the information, to come to a conclusion as to the effect it might have on the securities concerned if it were to be made public. That is, a reasonable investor should be able to anticipate the value or utility embodied in the information in question which is not equally accessible to investors generally.

On this basis, it must be concluded that Article 81.2 of the Securities Market Law, in imposing a duty of abstention on any person in possession of inside information who is, or ought to have been, aware of its nature – this being the only subjective element – establishes a rebuttable legal presumption of the existence of a causal relation between the inside information possessed by a person and the actions of that

3. Commission Directive 2003/124/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the definition and public disclosure of inside information and the definition of market manipulation.

person. There is, in fact, a presumption that any person in possession of information embodying a certain value, who is, or ought to have been, aware that it is inside information and does not abstain from, but carries out, a transaction consistent with that value, has based his decision on that information and has therefore made unlawful use of it.

For this reason, the burden of proof that this presumed relation or use did not exist falls on the person who failed in his duty to abstain.

Market manipulation

In 2005 two investigations into alleged cases of market manipulation were initiated.

Market manipulation is defined in Article 83 ter of the Securities Market Law, and is classified as either "very serious" or "serious" in Articles 99 i) and 100 w) of that Law, depending on whether or not there has been "*a significant price change*", this being the condition that distinguishes the two types of violation.

Article 83 ter cited above, which was added to the Securities Market Law by the 2002 Law on Urgent Measures to reform the Financial System[4], has its antecedents in the principles that provided the rationale for the EU legislation on market abuse contained in Directive 2003/6/EC of the Parliament and the Council[5], known as the "market abuse directive". Article 83 was actually a forerunner in Spanish law of the general principles of the legislation on market manipulation contained in that Directive, having taken as a reference the Political Agreement of the ECOFIN Council of 7 May 2002. The Market Abuse Directive is a framework Directive setting out general principles and was later supplemented by implementing legislative instruments adopted by the European Commission[6].

The core definition of market manipulation in Article 1.2 of the Market Abuse Directive was transcribed verbatim in Article 83 ter of the Securities Market Law.

In addition, Article 4 of Directive 2003/124/EC, one of the legislative instruments implementing the Market Abuse Directive, provides a set of signals or indications

4. Law 44/2002 of 22 November on Urgent Measures to reform the Financial System.
5. Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse).
6. The instruments are: Commission Regulation (EC) No 2273/2003 of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards exemptions for buy-back programmes and stabilisation of financial instruments; Commission Directive 2003/124/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the definition and public disclosure of inside information and the definition of market manipulation; Commission Directive 2003/125/EC of 22 December 2003 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest; and Commission Directive 2004/72/EC of 29 April 2004 implementing Directive 2003/6/EC of the European Parliament and of the Council as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions.

to be taken into account in deciding whether a particular form of conduct should be treated as market manipulation. These signals have been included in the body of Royal Decree 1333/2005[7].

In conclusion, then, the purposes of this legislation are to ensure market integrity and transparency, both of which are adversely affected by market abuse in general and by market manipulation practices in particular[8].

Spanish legislation on market manipulation holds that market manipulation can be identified where artificial market conditions are or may be created in relation to a security which can or do result in third parties being misled on vital aspects of the market, such as supply, demand or price, or impose unfair conditions on them. Artificial conditions may be the result of (i) manipulation through action: planning or executing transactions, contracts or orders in relation to securities or financial instruments, or the abusive exercise of market power on supply or demand; or (ii) manipulation through information: the dissemination of false or misleading information concerning securities or financial instruments.

13.2 Litigation department: judicial reviews of penalty decisions and other court proceedings

The CNMV is represented by its Litigation and Enforcement Department in all its dealings with courts and tribunals of all kinds in the different branches of the law. Some of the most frequent and also most complex cases with which the Department has to deal fall into two groups:

– Judicial appeals against decisions at administrative law: the department complies with the Law Regulating the System of Administrative Appeals and is involved throughout the proceedings in arguing in support of CNMV decisions against which appeals have been brought.

– In courts of law at all levels, especially criminal courts, the Department provides assistance and cooperation when required, mainly in trials for fraud and embezzlement.

As Table 13.5 shows, during the year a total of 14 rulings was reached by the Ministry of Economy and Finance on appeals against administrative decisions, most of them appeals against CNMV decisions.

Ten judgments were reached in courts of law on appeal in administrative cases involving penalty or other decisions by the CNMV or the Ministry[9].

The CNMV also responded to a total of 157 requests for assistance from a variety of courts and tribunals in the course of the year.

7. Royal Decree 1333/2005 of 11 November, implementing Law 24/1988, of 28 July, on the Securities Market, in the area of market abuse.
8. Whereas clauses (2), (12) and (15) to Directive 2003/6/EC, and the preamble to the Law on Urgent Measures to reform the Financial System.
9. A full list of these court judgments and a brief description of each is provided in Annex III.4.

CNMV interaction with the judicial system in 2005 TABLE 13.5

	Ongoing	Decided
Administrative appeals	**10**	**14**
Appeals to a higher instance	5	8
Appeals for reconsideration	5	6
Appeals to the courts against administrative decisions	**26**	**10**
		Cases where assistance provided
Assisting in court proceedings		157

Source: CNMV.

13.3 Alerts on unauthorised firms

When an unregistered entity is discovered to be operating by the CNMV or another regulator, an alert to investors is published on the CNMV website. The following alerts were posted on the website in 2005[10]:

- An alert concerning an unregistered company that was subject to disciplinary proceedings, as required by Article 64.7 of the Securities Market Law.
- Thirteen communications alerting investors on 15 companies that were not registered with the CNMV, pursuant to Article 14 of the Securities Market Law which requires the CNMV to make available all information necessary to ensure that investors are protected.
- In the field of international cooperation, the CNMV published a total of 184 communications from supervisory authorities in other countries alerting investors to a total of 410 unregistered companies.

10. A detailed list of alerts is provided at Annex III.5.

14 Coordination and cooperation in regulation and supervision

14.1 Relations with other supervisors

14.1.1 Coordination with Spanish supervisors

The increasing complexity of financial institutions, which often belong to conglomerates grouping together various kinds of institutions and whose scope of activities is broadening to include other financial sectors, makes it necessary for supervisors to cooperate. In Spain, banking is supervised by the Bank of Spain, insurance by the Directorate-General of Insurance and Pension Funds, and securities by the CNMV.

In 2005, coordination of supervisory activities between the three supervisors was improved. Periodic technical meetings were held to exchange opinions and pool experience in regard to common topics in each body's jurisdiction. There were also frequent information exchanges. In this connection, the Directorate-General of Insurance was notified regarding certain incidents detected in the supervision of some IIC management companies, in case the circumstances might also affect the group's pension funds.

The CNMV Directorate of Supervision's action plan included inspections coordinated with the Bank of Spain to achieve complementarity. In line with the cooperation agreement signed in 2004[1], the CNMV gave the Bank of Spain advance notice of inspections at credit institutions. The Commission also informed the Bank of the outcome and conclusions of these actions.

14.1.2 Cooperation with supervisors in other countries

Protocol between CESR, CEBS and CEIOPS

CESR, CEBS[2] and CEIOPS[3] signed a memorandum of understanding in November 2005 to hold regular meetings between their chairmen's offices and general secretariats. The actions envisaged in this protocol are as follows: (i) exchange of information for the application of common policies, (ii) exchange of experience, (iii) drafting of joint reports for European groups and committees.

1. For further information on the cooperation agreements between the CNMV, the Bank of Spain and the Directorate-General of Insurance, see Chapter 17 of the CNMV Annual Report for 2004.
2. Committee of European Banking Supervisors.
3. Committee of European Insurance and Occupational Pensions Supervisors.

Cooperation in investigations

The CNMV Directorate of Litigation and Enforcement handles cooperation with other supervisors in investigations. During 2005, that Directorate issued 39 requests for assistance from foreign regulators (26 in 2004) and received 38 requests from foreign regulators (37 in 2004).

Half of the requests for cooperation related to investigations into market abuse, while the other half referred to investigations into activities performed in the securities market without due authorisation.

Agreements with other regulators

In 2005, the CNMV ended its involvement in the Romania Peer Review in which, with other European regulators, it assessed the technical capacity of financial supervisors in Rumania, which is a candidate for entry into the European Union as from 2007. One recommendation was to increase the number of bilateral agreements with other jurisdictions in the sphere of cooperation and information exchange.

In this context, the CNMV signed an MoU with the Romanian Securities Commission. In partnership with Italian securities regulator CONSOB, in 2005 the CNMV participated in the Twinning Light Project to provide technical assistance to the Romanian Securities Commission, specifically in drafting rules for transparency, prospectuses and Central Securities Depositories and Central Counterparties.

Furthermore, the CNMV helped the Polish Securities Commission, as part of the European Commission TAIEX programme[4] concerning matters relating to market abuse and securities clearing and settlement.

White Paper on Financial Services

In 2005, the European Commission published a White paper on Financial Services Policy, outlining the central themes of regulatory actions in the sphere of securities markets for the 2005-2010 period.

The report did not focus on a single part of the European regulatory process, but on the coordinated application of the rules approved so far. The White Paper therefore signals a change of era, from the one dominated by the Financial Services Action Plan and the major framework directives of recent years, towards one which, in the Commission's view, must be characterised by regulatory consolidation and supervisory harmonisation. Against this backdrop, coordination between European securities commissions within CESR acquires increasing importance.

4. Technical Assistance Information Exchange Instrument.

The targets set forth in the White Paper are as follows:

i. dynamic consolidation of an open, integrated, competitive and economically efficient European financial market.

ii. removal of economic barriers to the provision of financial services and free circulation of capital in the European Union, at the lowest possible cost, with adequate standards of conduct, financial stability and consumer protection

iii. implementation, compliance and ongoing evaluation of existing legislation, and application of "better regulation" criteria to future initiatives

iv. intensification of cooperation and convergence of supervision, relations with other financial markets, and European influence at global level

To achieve these objectives, the following policies are identified:

i. "Better regulation." Regulation must be based on open and transparent consultations with prior evaluation of their impact. A cost-benefit analysis must be performed and, when necessary, the effect on financial stability must also be considered, as must the correct operation of markets and consumer protection.

ii. Adequate regulatory and supervisory framework. The tasks and responsibilities of home and host country must be clarified, and the possibility considered of delegating supervision between supervisors. The pooling of information between supervisors must be secure and reliable, especially in crises.

iii. Future European regulation. In the securities sector, clearing and settlement are seen as areas where the possibility of regulation requires most urgent evaluation. Cross-border clearing and settlement is more expensive than domestic clearing and settlement due to technical, legal and fiscal barriers and the fact that there is no European Union level regulation.

14.2 International working groups on securities markets regulation and supervision

The CNMV was actively involved in the various forums and working groups set up in the main international organisations to debate and analyse regulation and supervision of securities markets, as well as to improve cooperation and technical assistance between the various regulators and supervisors. Table 14.1 summarises this activity.

Attendance at international meetings and participation in technical assistance missions TABLE 14.1

	Number of meetings	
	2004	2005
CESR	102	126
IOSCO	35	43
European Union	35	36
OECD	9	9
Other forums	20	31
Total	**201**	**245**
Technical assistance missions	4	5

Source: CNMV.

14.2.1 CESR permanent working groups

The Committee of European Securities Regulators (CESR) acts as advisor to the European Commission at level 2[5] of the regulatory process[6].

In addition to certain actions relating to the process of preparing European regulations, CESR's activity was channelled through permanent expert groups set up to analyse specific topics:

Operational group responsible for surveillance and exchange of information: CESR-Pol

This group of experts continues to work on the mandates given to it the previous year, such as: (i) analysis of the operation and functioning of the CESR Multilateral Memorandum of Understanding (MoU) and (ii) analysis of the problems encountered in international cooperation.

Furthermore, in 2005 the group was restructured to increase its efficiency, for which purpose a sub-committee called Surveillance & Intelligence was created. The idea was to enhance the operational efficiency of CESR-Pol from a practical standpoint, by pooling experience and sharing investigation methods.

5. Levels 3 and 2 are those indicated in the European regulatory arrangement proposed in the "Final Report of the Committee of Wise Men on the Regulation of European Securities Markets" (Lamfalussy report) and adopted by the Stockholm European Council Meeting on 22 March 2001.
6. The European Commission's mandates to the CESR for developing level-two measures are listed in legislative annex B.3.

Operational group responsible for financial reporting: CESR-Fin

In 2005, this group continued to focus on the implementation of IFRS[7] and on adequate coordination between European regulators in supervising financial information provided by listed companies.

This group performed the following tasks, among others:

- *Technical report to the European Commission on the equivalence of IFRS and GAAP in Canada, United States and Japan*. The aim is to determine whether issuers in third countries with securities listed in a EU market or wishing to perform a share offering in Europe may use their own accounting regulations to draft their financial statements. CESR concluded that, from a global standpoint, it may be considered that the accounting principles of Canada, United States and Japan are equivalent (but not identical) to IFRS except in certain aspects referring mainly to the disclosure of financial information.

- *Recommendation in regard to various earnings indicators*, aimed at ensuring that indicators published by European issuers are appropriate and useful for making investment decisions.

- *Public statement - CESR reminds issuers and investors about the importance of clear and transparent disclosure on the use of any options made available by applicable financial reporting standards, and in regard to decisions about accounting policies in the absence of specific guidelines under IFRS.*

The various sub-committees for accounting, supervision of financial reporting and auditing were very active in 2005. The Sub-Committee on International Standards Endorsement revised the draft regulations published by the IASB[8] in 2005 and the new versions proposed for some IFRS/IAS. The Sub-Committee for European Enforcers Coordination Sessions set up a database containing the decisions of each supervisor regarding practical aspects relating to the application of IFRS. The Audit Task-Force worked on various topics such as possible difficulties in audit reports resulting from implementing IFRS and the role of securities regulators in supervising auditors.

Review Panel

This work group was set up in 2004 to review the application of the standards, principles and recommendations of CESR in both national legislation and European regulations when so required by the European Commission.

In 2005, the Review Panel analysed implementation of the following topics: (i) cold calling standards, and (ii) CESR financial standard number 1, defining the processes for reviewing financial information.

7. International Financial Reporting Standards.
8. International Accounting Standards Board.

14.2.2. CESR's actions concerning level 3 legislative measures

CESR's jurisdiction also encompasses level 3, seeking uniform and consistent application of the European regulations. The main level 3 actions in 2005 were as follows:

- Creation of a permanent expert contact group to implement the Prospectus Directive[9], which entered into force on 1 July 2005. This group will not be empowered to draft recommendations, principles and/or standards, but it will be able to propose them for adoption by CESR.

- Review of the following regulations concerning UCITS[10]: (i) European Commission Recommendations concerning the use of derivative financial instruments and the requirements for simplified prospectuses, and (ii) CESR's principles on transition periods applicable to the implementation of the UCITS Directive. The notification procedure for cross-border activities was also simplified.

A report on European Commission Recommendations found that they had been implemented in almost all EU countries, including Spain.

14.2.3 International Organisation of Securities Commissions (IOSCO)

In 2005, IOSCO implemented its Strategic Plan, under which all its members must sign and adopt the Multilateral Memorandum of Understanding concerning the consultation, cooperation and exchange of information by 1 January 2010. This implied a rigorous mandatory procedure to verify the following aspects: (i) members' capacity to obtain the information necessary for an investigation and to share it with other securities regulators and supervisors, (ii) amendment of legislation as necessary to adapt to the uses envisaged in the MMoU and (iii) implementation of rigorous confidentiality requirements.

The fight against financial fraud continued to engage IOSCO, especially following the corporate crises in previous years. In 2005, the report entitled Strengthening Capital Markets against Financial Fraud was completed[11]. The report pinpointed a number of areas which have been recurring themes in corporate crises and in which further attention was advised:

i. supervision of auditors' work and efficacy of auditing standards;

ii. improvement in corporate governance practices;

iii. the role of intermediaries in the current securities exchanges;

9. Directive 2003/71/CE of the European Parliament and the Council, dated 4 November 2003, on the prospectus to be published when securities are offered to the public or admitted to trading.
10. Undertakings for Collective Investment in Transferable Securities.
11. Strengthening Capital Markets Against Financial Fraud, Report of the Technical Committee of IOSCO, March 2005, IOSCOPD192.

iv. the private sector's role in analysing financial information and financial reporting requirements;

v. regulation and transparency in corporate bond markets;

vi. the use of complex corporate structures; and,

vii. improved cooperation between securities regulators and/or supervisors

All of these areas were evaluated and assigned for further development, either to permanent working groups, dependent upon the Technical Committee, or to specific working groups created for this purpose. The latter include a Chairmen's Sub-Committee, chaired jointly by the CNMV and Australian Securities Commission, concerning the independence of members of the boards of directors of securities issuers.

The work performed by the five IOSCO permanent groups includes the following activities and documents.

Accounting, auditing and information disclosure

In 2005, four international organisations (IOSCO, Basel Committee on Banking Supervision, International Association of Insurance Supervisors, and the World Bank) established a Public Interest Oversight Board (PIOB). Its purpose is to oversee the integrate if the process of drafting International Audit Standards in the areas of audit performance and standards, training and ethics drawn up by the three main committees on audit standards (IAASB, IAESB and IESBA) that form part of the International Federation of Accountants (IFAC).

In order to attract leading international institutions in the financial area, the Spanish government invited the PIOB to establish its permanent headquarters in Spain, offering a tax system for the PIOB and its staff that is comparable to that which applies to other international bodies headquartered in Spain, such as IOSCO. With the assistance of the CNMV, the PIOB was provided with premises in Madrid to house the general secretariat. The PIOB was established under Spanish law as a foundation (*Fundación Consejo Internacional de Supervisión Pública en estándares de auditoría, ética profesional y materias relacionadas*) early in 2005 and the law granting it special tax status was passed on 29 March 2005.

Secondary markets

The document *Policies On Error Trades* was published[12]. This document compiles the measures which the world's main securities markets implement in the event of cancelling a transaction because of human error or a fault in the electronic trading systems.

12. Policies On Error Trades, Report of the Technical Committee of IOSCO, October 2005, IOSCOPD208.

Another report published was *Exchange Demutualisation In Emerging Markets*[13], concerning the following topics: (i) possible privatisation strategies for exchanges such as those of Brazil or China, where this process has not yet commenced, or India, which has commenced demutualisation (ii) implications for the legislation of these countries of widespread demutualisation of international securities markets.

Intermediaries

The document *Principles on Outsourcing of Financial Services for Market Intermediaries*[14] was published, establishing a set of action standards for subcontractors in areas such as supplier selection, client confidentiality and concentration in outsourcing. An essential aspect is that the companies must be legally answerable to the regulator in respect of outsourced tasks.

In this connection, IOSCO worked closely with the Joint Forum, which also published a complementary report to that of IOSCO (see section 14.2.4).

Inspection and information exchange

This group reviewed and assessed the cooperation capacity of countries which do not have sufficient securities regulation and countries classified as uncooperative. A list of countries with which securities regulators and supervisors had had negative cooperation experiences was drawn up. Of these, several voluntarily accepted an assessment of legislation by IOSCO experts to identify the obstacles which hamper cooperation.

Collective Investment Institutions

Documents of interest in this area were as follows:

i. *Best Practices Standards On Anti Market Timing And Associated Issues For CIS*[15] , including recommended practices to avoid jeopardising investors in mutual funds due to the possibility of market timing, buying and selling shareholdings in investment funds when the net asset value has not yet been updated in line with some markets' closing prices. The standards are aimed at introducing mechanisms to ensure investor protection.

ii. *Anti-Money Laundering Guidance for Collective Investment Schemes*[16], based on the 40 recommendations of the Financial Action Group in regard to the prevention of money laundering and the IOSCO document on "Client Iden-

13. Exchange Demutualisation In Emerging Markets, Report of the Technical Committee of IOSCO, April 2005, IOSCOPD200.
14. Principles on Outsourcing of Financial Services for Market Intermediaries, Report of the Technical Committee of IOSCO, February 2005, IOSCOPD187.
15. Best Practices Standards On Anti Market Timing And Associated Issues For CIS, Report of the Technical Committee of IOSCO, October 2005, IOSCOPD207.
16. Anti-Money Laundering Guidance for Collective Investment Schemes, Report of the Technical Committee of IOSCO, October 2005, IOSCOPD205.

tification and Beneficial Ownership", develops the procedures to be applied within the sphere of collective investment institutions.

14.2.4 Other international forums

Joint Forum

The CNMV is a founding member of this international forum of regulators from all three financial sectors (banking, securities and insurance), represented by the Basel Committee on Banking Supervision, IOSCO and the International Association of Insurance Supervisors, respectively. The objective of the Joint Forum is to study aspects relating to financial stability from an inter-sector, cross-border standpoint.

With this aim, the Joint Forum published the following reports in 2005: (i) *Outsourcing in Financial Services*[17] which develops a series of action principles for financial institutions and regulators in the banking, securities and insurance sectors, in order to mitigate risk in this activity, (ii) *Credit Risk Transfer*[18], containing a series of recommendations for market participants and supervisors with regard to risk management, information disclosure and supervision.

OECD

As a member of the corporate governance Steering Group, the CNMV participated in the regional panels in Latin America and Middle East focusing on the interpretation and monitoring of governance principles considering each territory's specific features.

Expert group in clearing and settlement

In 2005, an operating group of experts was set up to implement the standards for clearing and settlement systems published in 2004 by CESR and the Council of the European Central Bank. This group was the precursor of the European Commission's CESAME group[19]. It comprises 20 senior representatives of private entities and 4 observers from public bodies related to the processes of clearing and settlement; it is chaired by the Commission.

CESAME will act as advisor to the Commission in regard to the market initiatives to remove the barriers which prevent integration of the clearing and settlement systems in the European Union, identified in the two Giovannini Reports[20]. It will also coordinate actions between the public and private sectors, and will monitor the results of the process and disseminate the necessary information on the state of the reform.

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17. Outsourcing in Financial Services, Joint Forum, February 2005, IOSCOPD184.
18. Credit Risk Transfer, Joint Forum, March 2005, IOSCOPD194.
19. The European Commission's Clearing and Settlement Advisory and Monitoring Expert Group.
20. The first Giovannini Report, of November 2001, identified 15 barriers hampering cross-border securities transactions in the European Union. The second Report, of April 2003, detailed measures to be implemented to remove the barriers identified in the first Report.

14.3 Cooperation with Latin America

Within the scope of the CNMV's international activity, Latin America accounts for most technical cooperation activity. This cooperation takes place via bilateral meetings or missions and through the Instituto Iberoamericano del Mercado de Valores (IIMV). In 2005, the CNMV was involved in the following activities:

- The Offshore Financial Centre assessment, in an official IMF mission in Panama, to assess compliance with international securities markets standards as set out in the IOSCO principles.

- A pilot project launched by IOSCO at global level, as advisor and evaluator of compliance with the objectives and principles of IOSCO in Ecuador.

- A number of regional seminars to train employees at Latin American regulators. One such seminar was held in Lima and was attended by representatives of the Central American regulators and markets.

- Meetings of the Council of Securities Regulators of the Americas (COSRA), as an observer, in which topics of debate included financing SMEs and regulators' technical expertise.

Instituto Iberoamericano del Mercado de Valores

In 2005, Fundación Instituto Iberoamericano del Mercado de Valores performed a number of activities in order to foster the development of securities markets in Latin America, via dissemination of information on how they work and the rules which govern them, as well as fostering international cooperation.

Specifically, in partnership with the CNMV and the Directorate-General of the Treasury and Financial Policy, the Institute focused its efforts and resources on analysing and examining the following areas:

- The specific rules governing private and public fixed-income markets and, in particular, the initiatives and experiences to enhance these markets' competitiveness.

- The legal framework and international standards for depository and custody entities in securities markets, as well as the risks and hedging mechanisms in clearing and settlement systems and central securities depositories.

- Supervisory bodies' inspection processes and actions, intervention at firms in crisis, disciplinary proceedings and the necessary collaboration with regard to cross-border transactions.

- Rules and role of rating agencies in the operation of financial markets.

– Computer applications and tools, system security and international trends in technology and the internet.

During 2005, seven training, cooperation and information events were held, all in Latin America, involving 158 securities commission personnel from 19 countries, enabling securities market regulators and supervisors to exchange experiences.

IV CNMV: organisation, finance and institutional aspects

15 Organisation

In 2005, there were no changes in the structure or heads of the CNMV directorates. The most significant organisational change was the integration of the Complaints Department, which was previously tied to the General Secretariat, into the Directorate of Investors. This development is discussed in Chapter 12.

The CNMV continued to invest in its human and material resources in order to adapt them to the increasingly numerous and complex supervision requirements. The number of employees increased significantly and IT resources continued to be enhanced in order to bring them into line with new legal requirements and to expand e-government services.

The framework of internal operating procedures, the majority of which were established in 2004, has been expanded with the approval of two new service instructions.

15.1 Human resources

The CNMV had 369 employees at the end of 2005, i.e. 51 more than at 2004 year-end. As the following tables show, the increase in staff was mainly due to the technical and clerical staff at the Directorates-General of Securities Market Participants and of Markets and Investors.

CNMV staff: composition by professional category TABLE 15.1

Number of employees at 31 December

	2004	2005
Services	9	9
Clerical/Computer operators	50	64
Technical	237	275
Management	22	21
Total	**318**	**369**

Source: CNMV.

Breakdown of CNMV staff by division TABLE 15.2

Number of employees at 31 December

	2004	2005
Line Directorates-General:	213	256
Securities Market Participants	104	118
Markets and Investors	73	98
Legal Counsel	36	40
Directorates	94	99
Board	11	14
Total	**318**	**369**

Source: CNMV.

At the end of 2005, the CNMV conducted a selection process to cover ten new positions: 9 technical personnel to join the Directorates-General of Markets and Investors (4) and of Securities Market Participants (1), and the Directorates of Studies and Statistics (3) and of Information Systems (1), and a head of Human Resources.

As is standard practice at the CNMV, the selection process was focused on university graduates with over three years' professional experience in fields similar to those in which the CNMV operates or persons with post-graduate training. These selection processes were conducted over the last few months of 2005 and the first four months of 2006.

15.2 Information systems

In 2005, the CNMV enhanced its information systems in order to provide greater security in the data storage and communications equipment.

Computer applications were implemented to meet the new legislative requirements for IIC and fixed-income securities prospectuses and to enhance e-government services and dissemination of information.

In order to conform to current IIC regulations, it is necessary to re-engineer the computer tools used for the registration and supervision of entities in the area of collective investment. Much work has been done on adapting the current IIC electronic prospectus so as to take into account the possibility of being structured in compartments and to include different classes of shares and units. The new electronic prospectus will be up and running in 2006.

The change in the regulatory system for the primary securities market, with new forms of issue prospectuses, has prompted the need to implement a new tool that facilitates the drafting of fixed-income prospectuses. Therefore, an electronic prospectus form was developed[1], which was similar to the form already successfully

1. See box on electronic prospectuses in Chapter 9 on Issuers' Disclosures and Corporate Governance.

implemented for collective investment schemes, and which will be available to users of the CNMV's e-government services in the first quarter of 2006.

The expansion of e-government has seen the inclusion of a new process (e-government using CIFRADOC/CNMV) in the "*CNMV Online*" service.

The "*CNMV Online*" service provides remote access to the CNMV via the internet. Users of "*CNMV Online*" can file documentation, duly signed (electronic signature), to the CNMV from anywhere in the world that has an internet connection, consult the status of their processes or download the latest versions of the computer applications that the CNMV offers firms under its supervision as a means of facilitating those processes. In order to file documents at the CNMV using "*CNMV Online*", the user must first be registered with the CNMV as a user of the CIFRADOC/CNMV system.

In 2005, the process of disclosing significant holdings by SICAV was incorporated into the "*CNMV Online*" services.It is now possible to perform 31 processes online; the use of the online channel is obligatory in five cases, but it also predominates in the processes where its use is voluntary.

These processes can be divided into three major groups:

i. 24 processes performed directly using the CIFRADOC/CNMV encryption and electronic signature system (see table 15.3). Some of these processes can only be carried out online.

ii. 4 fee payment processes, which require the use of a public key certificate accepted by the State Tax Administration[2].

iii. 3 processes of obtaining data for professional disseminators, public agencies and authorised users, which require a username and password.

In 2005, close to 38,000 processes were handled online via the "CNMV Online" system, which has over 1,100 users.

The CNMV has been using XBRL (Extensible Business Reporting Language), the standard for exchanging financial information, since 2005. The CNMV, together with the Banco de España, is one of the founders and main promoters behind XBRL España, which approved the XBRL taxonomy called IPP[3] which includes periodic financial statements (quarterly and half-yearly) that listed companies have to file at the CNMV, in accordance with Circular 1/2005.

Listed companies filed information relating to the first half-year, third quarter and second half of 2005 in XBRL format. At the end of February there were over 9,000 XBRL reports on the CNMV web site.

2. Ministry of Finance Order 729/2003.
3. Información Pública Periódica - Periodic Public Disclosure.

Processes that can be carried out using CIFRADOC/CNMV

TABLE 15.3

	Procedure
Investment firms	
Registration and changes of agents of broker-dealers, brokers and portfolio management companies	Voluntary
Filing of financial statements of broker-dealers, brokers and portfolio management companies	Voluntary
Filing of financial statements of consolidable groups of broker-dealers and brokers	Voluntary
Filing of statistical statements of foreign IICs	Voluntary
Monitoring of ongoing processes	Voluntary
Issuers	
Disclosure of significant events	Voluntary
Filing of the commercial paper placement reports	Voluntary
Filing of quarterly and half-yearly financial statements*	Obligatory
Filing of the annual corporate governance report*	Obligatory
Filing of information about securitised notes	Voluntary
AIAF market	
Admissions to listing	Voluntary
Daily trading	Voluntary
Collective investment schemes	
Registrations and updates of IIC prospectuses*	Obligatory
Disclosure of significant holdings by mutual funds*	Obligatory
Filing of IIC financial statements	Voluntary
Filing of statistical information for the European Union	Voluntary
Filing of management companies' financial statements	Voluntary
Filing of statistical statements of foreign IICs	Voluntary
Filing of real estate funds' financial statements	Voluntary
Filing of quarterly and half-yearly public financial statements of SIM and SIMCAV	Voluntary
Monitoring of ongoing processes	Voluntary
Disclosure of significant holdings by SICAV	Voluntary
Venture capital firms	
Filing of financial statements*	Obligatory
Monitoring of ongoing processes	Voluntary

Source: CNMV.

* May only be processed online.

15.3 Relocation of CNMV units and services

The CNMV's 2006-2009 Action Plan, which is part of the national budget for 2006, aims to enhance the CNMV's efficacy and efficiency and, essentially, to improve, adapt and optimise its physical infrastructures and information systems.

A fundamental part of meeting this objective is to equip the CNMV with offices that are suited to its needs, so that it is financially sustainable and is able to maintain adequate reserves. Therefore, the Commission has decided to acquire a new building to house all of its units and services in Madrid; they are currently scattered over three locations (Castellana, 19; Castellana, 15; and Serrano, 47), and it has decided to concentrate its resources in two locations: the Castellana 19 building, owned by the CNMV (this building is to undergo significant remodelling in order to adapt it to the new requirements) and leased offices in the Serrano 47 building, which currently houses the Directorate-General of Securities Market Participants. The new facilities must meet the needs of the CNMV and its employees and will incorporate the latest advances in information technology.

The solution taken to resolve the urgent problem of space for the CNMV's units and services in Madrid will entail an increase in operating expenses and investments between 2005 and 2008 in order to return, by 2009, to a level of expenditure in line with 2004 (adjusted for inflation). The multiyear programme includes these projections and also reflects a reform of the legal framework on fees, which will be adjusted in line with the projected expenses, i.e. significantly reduced.

15.4 Internal procedures

In 2005, no new procedures were approved, strictly speaking; however, two interim service instructions were approved[4]: one relates to requests for information, queries and complaints by investors within the CNMV's brief, and the other refers to the processing and resolution of reports of violations within the CNMV's brief.

Both instructions clarify the difference between complaints and claims and establish a single specific regulation for handling them, which the CNMV had previously lacked. See Chapter 12.2 on "Complaints, claims and reports of violations filed with the CNMV" for a summary of these instructions.

4. Article 12.6 of the CNMV Internal Regulation, dated 10 July 2003, establishes that "the Chairman shall be entitled to manage the activities of the bodies that report to him via service instructions". The word "interim" in the title of both these instructions indicates that they can be reviewed in the light of any issues arising in their application

16 Finances

16.1 Revenues and expenses

In 2005, the CNMV obtained 54.3 million euro in revenues and incurred 29.9 million euro in expenses; therefore, the surplus for the year amounted to 24.4 million euro.

The bulk of the Commission's revenues were from the collection of fees for registration and supervision activities, which amounted to 51.6 million euro in 2005.

The other revenues were mainly from interest and, to a lessor extent, from the sale of publications and other sources (professional information disseminators, recovery of the expenses of publishing delisting notices in BORME[1], expenses charged to winners of tenders, etc...).

Total expenses increased by 5.3%. The CNMV's main item of expenses is personnel, which account for 66.3% of the total. The growth in this item in 2005 is largely due to the increase in the average number of employees.

Other management expenses increased by 7.7% in 2005, mainly in the areas of leases and advertising. Lease expenses include the lease of new offices to meet the space requirements due to the increase in staff, and the temporary relocation of staff during the scheduled renovation of the headquarters. The increase in advertising expenses reflects the CNMV's participation, for the first time, in the Bolsalia 2005 Securities Market Fair.

Other management expenses also include a decline in independent professional services expenses due to the reduction in commissions paid to the Spanish Tax Agency for summary collection of fees due.

On 15 July 2005 and 20 January 2006, at the request of the CNMV, the government agreed to distribute the results for 2003 and 2004, establishing that 13.9 million euro and 10 million euro, respectively, be paid into the Treasury.

1. BORME is the acronym for Boletín Oficial del Registro Mercantil (the Official Bulletin of the Mercantile Register).

16.2 Fee structure

Table 16.1 shows the fees for the various services that the CMNV performs. Revenues from most categories of fees increased in 2005, particularly those for the registration of prospectuses and for market supervision.

The increase in prospectus registration fee revenues was due to the higher-than-expected increase in fixed-income issues in the official markets (stock exchanges and AIAF). There was also a large increase in fees for authorisation of takeover bids.

In the area of market supervision fees, there was an increase in revenues for supervision of Iberclear members as a result of the increase in the system balances (see Chapter 4) and there was also a considerable increase in revenues for supervision of members of the stock markets.

Law 23/2005, of 18 November, on tax reform to enhance productivity, entered into force on 20 November 2005. This law amends the limits on the CNMV's fees to issuers and financial institutions for vetting and supervision activities relating to the fixed-income market. The amendments are:

Fees for registering prospectuses:

– Prospectuses for issuance of securities with maturity or redemption at over 18 months. The minimum flat fee was reduced from 1,626 euro to 975 euro.

– Prospectuses for securities admitted to trading on a stock exchange. Minimum and maximum fees were set at 975 euro and 9,000 euro, respectively.

Fees for inspecting and supervising certain items:

– Process of vetting the listing requirements for securities in secondary fixed-income markets (AIAF): Minimum and maximum fees were set at 975 euro and 9,000 euro, respectively.

– Supervision of members of the securities clearing and settlement service. The fee rate was halved; i.e. for fixed-income securities it was cut from 0.012 per mil to 0.006 per mil.

This amendment involves a substantial reduction in the fees for a number of items, either by reducing the applicable rate or by imposing a cap on fees which were not previously capped. Given the date that this law came into force, it did not significantly affect the CNMV's revenues in 2005. Application of the law is expected to reduce revenues by at least 10 million euro in 2006.

CNMV fee revenues

TABLE 16.1

Thousand euro

Activity or service	2004	2005	% chg. 05/04
Registration of prospectuses and market participants	**12,370.0**	**14,360.5**	**16.1**
Prospectus registration	11,536.8	13,201.4	14.4
Issue prospectuses	5,999.5	5,912.2	-1.5
Listing prospectuses	108.6	545.7	402.5
Vetting of AIAF listing requirements	5,428.7	6,743.5	24.2
Market participant registration	631.8	572.8	-9.3
Authorisation of takeover bids	201.5	586.3	191.0
Market supervision	**19,856.2**	**25,123.2**	**26.5**
Members of AIAF	133.1	157.1	18.0
Iberclear members.	14,871.1	18,858.6	26.8
Stock exchange members	4,595.5	5,787.0	25.9
MEFF RF members	3.4	3.0	-11.8
MEFF RV members	252.4	316.6	25.4
MFAO members	0.7	0.9	28.6
Market participant supervision	**10,899.5**	**12,086.0**	**10.9**
IIC supervision	10,091.3	11,226.4	11.2
FIM and FIAMM	8,899.1	9,840.2	10.6
SIM and SIMCAV	1,054.7	1,172.6	11.2
Real estate investment funds	135.8	209.5	54.3
Securities investment companies	1.7	4.1	141.2
Supervision of IIC and FTH operators	210.4	223.8	6.4
IIC operators	200.2	213.0	6.4
Securitisation fund operators	10.2	10.8	5.9
Supervision of investment firms	597.8	635.8	6.4
Portfolio management companies	17.1	16.0	-6.4
Broker-dealers and brokers	580.7	619.8	6.7
Issuance of certificates	**0.8**	**0.8**	**0.0**
Total	**43,126.6**	**51,570.5**	**19.6**

Source: CNMV.

17 National Securities Numbering Agency (ANCV)

The CNMV discharges the functions of the National Securities Numbering Agency (ANCV), whose main goal is to administer International Securities Identification Numbers (ISIN)[1] and to facilitate their use. The ANCV is a full member of the International Association of National Numbering Agencies (ANNA).

The ANCV data base decreased by 2.9% in relation to 2004, to 20,496 references. The most significant changes related to issues of both asset backed bonds and covered bonds, both mortgage and territorial. This trend was driven by greater trading in ISIN-numbered option contracts, due mainly to the creation of options on certain stocks and of Ibex-35 options with maturity at over one year.

At year-end, there were 19,397 financial instruments with a current ISIN, i.e. 2.8% more than in 2004.

Number of securities and other financial instruments with an ISIN[1] TABLE 17.1

	Listed			Total		
	2004	**2005**	**% chg. 05/04**	**2004**	**2005**	**% chg. 05/04**
Public debt[2]	249	256	2.8	255	260	2.0
Equities[3]	3,306	3,335	0.9	13,268	13,468	1.5
Debentures	366	372	1.6	456	465	2.0
Bonds	561	761	35.7	584	790	35.3
Covered bonds	71	83	16.9	96	120	25.0
Commercial paper	1,662	1,788	7.6	1,662	1,788	7.6
Warrants	835	804	-3.7	1,028	807	-21.5
Treasury Bills	9	9	0.0	9	9	0.0
Options	1,472	1,647	11.9	1,472	1,647	11.9
Futures	44	43	-2.3	44	43	-2.3
Total	**8,575**	**9,098**	**6.1**	**18,874**	**19,397**	**2.8**

Source: CNMV.

1. At 31 December. ANCV data base. ISIN code.
2. Except Treasury Bills.
3. Shares, mutual fund shares and other equities.

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1. International Securities Identification Numbering System

With respect to the number of queries handled by the ANCV, the trend observed in previous years of increased use of the CNMV web site was maintained. As a result, the number of queries handled directly by the agency decreased.

Queries handled directly by the ANCV TABLE 17.2

	2004	2005	% chg. 05/04
Spanish codes	784	636	-18.9
Foreign codes	378	280	-25.9
Total	**1,162**	**916**	**-21.2**

Source: CNMV.

The ANCV is authorised to allocate ISIN codes before the documentation has been vetted by the CNMV in the case of issues not involving a public offering[2]. Therefore, an issuer must request an ISIN code in writing and supply the documentation required for the issue so that the ANCV can identify it and allocate a suitable code.

2. By Royal Decree 5/2005, dated 11 March, on urgent reforms to enhance productivity and improve government procurements. Public offerings are defined in Article 30 bis of the Securities Market Law.

18 CNMV Advisory Committee

The CNMV Advisory Committee is the body which provides advice to the Board. Its opinion must obligatorily be sought before decisions are made on any of the following issues:

- Approval of CNMV Circulars.
- Imposition of penalties for very serious violations.
- Authorisation, revocation and mergers and takeovers of investment firms.
- Authorisation and revocation of branches of investment firms from non-EU Member States.

In addition to its consultative role to the Board, the Advisory Committee provides advice on draft regulations relating generally to the securities markets which are referred to it by the Government or the Ministry of Finance.

The Committee is composed of representatives of issuers, investors, markets and the autonomous regions with devolved powers in the area of securities markets[1]. The Committee is chaired by the Vice-President of the CNMV, who does not have a vote.

In 2005, the Committee held ten meetings, during which it was required to discuss draft regulations, penalties and mergers and takeovers of investment services firms and branches. In matters of regulation, the Advisory Committee made a pronouncement on:

- CNMV Circular 1/2005, of 1 April, on forms for periodic public disclosure by entities with listed securities.
- CNMV Circular 2/2005, of 21 April, on the annual report on corporate governance and other information of savings banks with securities listed on official securities markets.

1. See Annexes CNMV: Organisation.

- Royal Decree 1310/2005, dated 4 November, concerning the listing of securities in official secondary markets, primary and secondary public offerings and the required prospectuses[2].

- Ministerial Order EHA/3537/2005, of 10 November, on issues[3].

- Royal Decree 1333/2005, of 11 November, regarding market abuse[4].

- Royal Decree 1332/2005, of 11 November, on supervision of financial conglomerates.

- Draft Law on distance marketing of financial services[5].

With respect to penalties, the Committee expressed its opinion on seven penalty proceedings relating to very serious violations by both companies and individuals (see Chapter 14).

In takeovers and mergers of investment services firms and branches, the Committee analysed 15 authorisations of various types to change or transform investment services firms (see Chapter 7).

In order to achieve greater participation by the sector, the CNMV has decided to enhance the role of the Advisory Committee not only as a body which provides advice to the CNMV's Board on legal matters, but also on other matters relating to the international sphere and market integrity. In particular, in 2005 the Committee addressed the following issues:

- Two proposals by the CESR which advise the European Commission on implementing measures for the Directive on Markets in Financial Instruments.

- Two proposals, also by the CESR, concerning eligible assets for investments of collective investment schemes.

- Various reports concerning: the adaptation of issues to the Prospectus Directive, at the request of the CNMV and AIAF; the CNMV's first quarterly report relating to the queries and complaints handled; and a possible case of market manipulation. This last report highlighted the difficulty in establishing clear, objective penalty criteria in cases of this type.

2. This Royal Decree implements the Securities Market Law and aims to increase protection for investors and promote efficiency in the securities market.
3. This implements Royal Decree 1310/2005, dated 4 November.
4. This Royal Decree implements the Securities Market Law and transposes various second-level EU directives concerning insider trading and market manipulation into Spanish law.
5. This Draft Law is required to implement the EC Directive of the same name which establishes certain safeguards to protect investors.

V Report by the Internal Control Body

Comisión Nacional del Mercado de Valores

Directorate of Internal Control

CONTROL REPORT ON THE CONFORMITY OF THE DECISIONS ADOPTED BY THE CNMV'S GOVERNING BODIES TO THE PROCEDURAL REGULATIONS APPLICABLE IN EACH CASE

(Second Additional Provision of Law 44/2002).2005

I. INTRODUCTION

The Internal Control Directorate of the Comisión Nacional del Mercado de Valores has examined the degree to which the decisions adopted by the CNMV's governing bodies conformed to the procedural regulations applicable in each case, in accordance with the Internal Control Action Plan approved by the Commission's Board on 20 December 2005, thus discharging the duty imposed by the Second Additional Provision of Law 44/2002, dated 22 November, on Measures to Reform the Financial System (published in the Official State Gazette on 23 November).

The work was performed in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA), as established by the Rules for Internal Audit of the CNMV approved by the Commission's Board on 28 December 2004.

The report was referred to the Executive Committee, in compliance with rule 11.4 of the Rules for Internal Audit of the CNMV, on 23 March 2005. The final report was issued after the end of the period for comments.

II. OBJECTIVE AND SCOPE

The purpose of the audit work was to determine the degree to which the decisions adopted by the CNMV's governing bodies in 2005 conformed to the applicable procedural regulations.

The specific regulations applicable to the CNMV's procedures were as follows:

- Securities Market Law (Law 24/1998, dated 28 July).
- CNMV Internal Regulations (RRI).
- CNMV Internal Operating Procedures, in the terms of articles 38,39 and 40 of the RRI.

The decisions dated 14 December 2004 and 21 April 2005 regarding the delegation of powers to the Chairman, Vice-Chairman and Executive Committee of the CNMV were also taken into account.

There were no scope limitations on the performance of the work.

III. OPINION

In our opinion, having completed the audit work, it can be concluded that, during 2005, the governing bodies of the Comisión Nacional del Mercado de Valores, within the scope of the supervision assigned by the Securities Market Law and other regulations, complied with the requirements of current legislation in terms of both procedures and scope of powers.

Madrid, 10 April 2006
Director of Internal Control

Margarita García Muñoz

VI Financial statements of the CNMV

1 Summary of Financial Statements 2005

1.1 Balance sheet

Euros

Account No.	Assets	2005	2004
	A) Fixed Assets	**30,806,696.90**	**30,855,821.01**
20	I. Investments for general use		
21,(281)	II. Intangible assets	1,715,357.44	1,453,892.80
22,(282)	III. Tangible fixed assets	29,090,103.59	29,388,820.97
23	IV. Investments managed for other public bodies		
25,26,(297)	V. Permanent financial investments	1,235.87	13,107.24
27	**B) Deferred Charges**		
	C) Current Assets	**103,953,856.70**	**92,634,285.85**
30,31,32,33,34, 35,36,(39))	I. Inventories		
45,46,47,55,(490)	II. Accounts receivable	9,068,251.04	8,008,822.80
54,56,(549), (597),(598)	III. Short-term financial investments	91,210,629.45	83,752,564.78
57	IV. Cash	3,523,134.20	758,367.64
480,580	V. Accruals	151,842.01	114,530.63
	Grand Total (A+B+C)	**134,760,553.60**	**123,490,106.86**

1.1 Balance sheet (continuation)

Euros

Account No.	Liabilities	2005	2004
	A) Equity	**129,885,020.05**	**119,369,080.96**
	I. Own funds	5,358,108.09	5,357,639.39
100	Own equity	4,204,102.67	4,204,102.67
101,103	Equity received in cession or assignment	1,194,338.74	1,194,338.74
(107),(108)	Equity delivered in cession or assignment	-40,333.32	-40,802.02
(109)	Equity delivered for general use		
11	II. Reserves	80,766,756.46	80,766,756.46
120,(121)	III. Prior years' income	19,302,416.95	13,942,268.16
129	IV. Income for the year	24,457,738.55	19,302,416.95
14	**B) Provisions for Contingencies and Expenses**	**1,472,621.65**	**1,454,148.42**
	C) Long-Term Debt		
15	I. Debentures and other tradeable securities issued		
17,18	II. Other long-term debt		
259	III. Uncalled capital		
	D) Current Liabilities	**3,402,911.90**	**2,666,877.48**
50	I. Debentures and other tradeable securities issued		
520,526	II. Bank debt		
42,45,47, 521,523, 527, 528, 529,55, 56	III. Accounts payable	3,402,911.90	2,666,877.48
485,585	IV. Accruals		
	Grand Total (A+B+C+D)	**134,760,553.60**	**123,490,106.86**

1.2 Statement of revenues and expenditure

Euros

Accounts No.	Debit	2005	2004
	A) Expenses	**29,883,374.32**	**28,368,508.77**
71	1. Decrease in finished-product and product-in-process inventories		
60,61	2. Cost of goods and services provided		
	3. Operating expenses of services and employee welfare expenses	29,289,251.08	27,216,540.79
64	- Personnel and employee welfare expenses	19,827,730.36	18,439,846.82
68	- Fixed asset depreciation	976,096.64	905,559.84
675,69,(793),(794) (796),(798),(799)	- Change in provisions for, and losses on, bad debts	10,978.32	10,375.83
62,63,676	- Other management expenses	8,462,123.59	7,854,495.56
66	- Financial expenses, exchange losses and other similar expenses	12,322.17	6,262.74
	4. Transfers and subsidies	398,755.08	383,109.53
650,651	- Current transfers and subsidies	398,755.08	383,109.53
655,656	- Capital transfers and subsidies		
670,671,674, 678, 679	5. Extraordinary deficit and expenses	195,368.16	768,858.45
	Surplus	**24,457,738.55**	**19,302,416.95**

1.2 Statement of revenues and expenditure (continuation)

Euros

Account No.	Credit	2005	2004
	B) Revenues	**54,341,112.87**	**47,670,925.72**
70,741,742	1. Sales and services		
71	2. Increase in finished-product and product-in-process inventories		
	3. Ordinary revenues	51,570,524.99	43,126,586.07
740,744	- Fee revenues	51,570,524.99	43,126,586.07
729	- Employee welfare		
	4. Other ordinary revenues	2,755,119.46	2,641,263.59
76	- Financial revenues, exchange gains and similar	1,947,693.76	1,980,964.30
773,775,776,777, 78,790	- Other revenues	807,425.70	660,299.29
	5. Transfers and subsidies		
750,751	- Current transfers and subsidies		
755,756	- Capital transfers and subsidies		
770,771,774, 778,779	6. Extraordinary gains and revenues	15,468.42	1,903,076.06
	Deficit		

1.3 Cash flow statement. Source and application of funds

Euros

Funds applied	2005	2004
1. Funds applied in operations	28,457,973.64	26,698,030.62
c) Outside services	8,433,158.13	7,775,843.53
d) Taxes	18,274.48	37,366.59
e) Personnel expenses	19,508,448.45	18,326,836.98
g) Transfers and subsidies	398,755.08	383,109.53
h) Financial expenses	12,322.17	6,262.74
i) Other current losses and extraordinary expenses	76,037.01	158,235.42
j) Provision for current assets	10,978.32	10,375.83
4. Fixed asset acquisitions and additions	1,047,525.92	858,158.23
b) Intangible assets	672,010.73	523,436.19
c) Tangible fixed assets	375,515.19	334,722.04
5. Direct decrease in equity	13,942,268.16	3,101.33
b) Assignments	0.00	3,101.33
c) Delivered for general use	13,942,268.16	0.00
7. Provisions for contingencies and expenses	323,117.73	52,211.90
Total funds applied	**43,770,885.45**	**27,611,502.08**
Funds obtained in excess of funds applied (increase in working capital)	**10,583,536.43**	**18,180,407.75**

1.3 Cash flow statement. Source and application of funds (continuation)

Euros

Funds obtained	2005	2004
1. Funds from operations	54,321,935.44	45,786,531.17
e) Fees, charges and special levies	51,570,524.99	43,126,586.07
g) Financial revenues	1,928,516.33	1,980,964.30
h) Other current revenues and extraordinary expenses	822,894.12	678,980.80
3. Direct increase in equity	468.70	0.00
b) Assignment	468.70	0.00
5. Fixed asset disposals and other retirements	32,017.74	5,378.66
c) Tangible fixed assets	968.94	5,378.66
d) Financial assets	31,048.80	0.00
Total funds obtained	**54,354,421.88**	**45,791,909.83**

1.4 Cash flow statement. Change in working capital.

Euros

Change in working capital (summary)	2005		2004	
	Increase	Increase	Increase	Increase
2. Accounts receivable	464,198.68	0.00	5,588,240.35	0.00
a) Trade accounts receivable	464,008.83	0.00	5,588,240.35	0.00
b) Other accounts receivable	189.85	0.00	0.00	0.00
3. Accounts payable	0.00	685,767.69	0.00	148,433.59
a) Trade accounts payable	0.00	550,522.27	0.00	78,372.29
b) Other accounts payable	0.00	135,245.42	0.00	70,061.30
4. Short-term financial investments	7,458,064.67	0.00	7,281,868.62	0.00
6. Other non-bank accounts	544,962.83	0.00	6,923,015.99	0.00
7. Cash on hand and at banks	2,765,773.31	1,006.75	3,268.07	1,470,596.68
a) Cash	0.00	1,006.75	3,268.07	0.00
c) Other banks and credit institutions	2,765,773.31	0.00	0.00	1,470,596.68
8. Accruals	37,311.38	0.00	3,044.99	0.00
Total	**11,270,310.87**	**686,774.44**	**19,799,438.02**	**1,619,030.27**
Change in working capital	**10,583,536.43**	**0.00**	**18,180,407.75**	**0.00**

2 Government Audit Office report

ECONOMY AND
FINANCE MINISTRY

STATE SECRETARIAT
OF FINANCE AND BUDGETS

STATE COMPTROLLER`S OFFICE

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE COMISIÓN NACIONAL DEL MERCADO DE VALORES (CNMV)

(Year 2005)

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CONTENTS

I.- INTRODUCTION

Through the National Audit Office, the State Comptroller's Office, using the powers attributed to it by article 168 of the General Budget Law, has drafted this auditors' report.

The financial statements to which this report refers were authorised by the CNMV on 27 March 2006 and placed at the disposal of this National Audit Office on 29 March 2006.

Our work was performed in line with the Audit Standards for the Public Sector.

II.- OBJECTIVE AND SCOPE OF WORK

The objective of our work is to check whether the financial statements that were examined give, in all material respects, a true and fair view of the entity's equity, financial position and results of its operations in accordance with the applicable accounting and budgetary standards and principles and contain the necessary information for appropriate interpretation and understanding.

Our examination comprised the balance sheet as at 31 December 2005, the statement of revenues and expenditure and the notes to financial statements for the year then ended.

In accordance with current legislation, the figures for 2004 relating to each item in the 2005 balance sheet and statement of revenues and expenditure were included for the purposes of comparison. Our opinion refers solely to the 2005 financial statements. On 9 June 2005, this National Audit Office issued an auditors' report on the 2004 accounts, in which it expressed a favourable opinion.

In the performance of our work, there were no limitations to the application of auditing standards and procedures.

III.- OPINION

In our opinion, the 2005 financial statements of the Comisión Nacional del Mercado de Valores (CNMV) present, in all material respects, a true and fair view of the entity's equity, financial position and the results of its operations and contain the necessary information for appropriate interpretation and understanding in accordance with the applicable accounting and budgetary standards and principles.

Madrid, 5 May 2006
National Auditor-Area Manager

María Jesús Piñón Gorricho

Head of Financial Control and
Audit of the State Public Sector

Alberto Girón González

Annexes

Statistical annexes I

International economic indicators

I.1

	GDP [1]			Internal demand [2]			Unemployment rate [3]		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
OECD	2.0	3.3	2.7	2.1	3.3	2.9	7.1	6.9	6.6
USA	2.7	4.2	3.5	3.2	5.0	3.8	6.0	5.5	5.1
Japan	1.8	2.3	2.7	1.2	1.5	2.5	5.2	4.7	4.4
Euro area	0.7	1.8	1.4	1.3	1.8	1.6	8.7	8.9	8.6
Germany	-0.2	1.1	1.1	0.5	0.0	0.3	10.5	10.6	11.7
Spain	3.0	3.1	3.4	3.8	4.9	5.3	11.5	11.0	9.2
France	0.9	2.1	1.4	1.8	3.1	2.4	9.9	10.0	9.9
Italy	0.1	0.9	0.1	0.9	0.7	0.4	8.4	8.0	7.7
UK	2.5	3.1	1.8	2.7	3.9	1.9	3.0	2.7	2.8
Latin America & Caribbean	2.0	5.9	4.3	—	—	—	10.9	10.3	9.3

	Inflation [4]			Budgetary balance [5]			Current account balance [5]		
	2003	2004	2005	2003	2004	2005	2003	2004	2005
OECD	2.5	2.5	2.7	-4.0	-3.6	-3.2	-1.1	-1.3	-1.8
USA	2.3	2.7	3.4	-5.0	-4.7	-3.7	-4.7	-5.7	-6.5
Japan	-0.3	0.0	-0.3	-7.7	-6.5	-6.5	3.2	3.7	3.4
Euro area	2.1	2.1	2.2	-3.0	-2.7	-2.9	0.3	0.5	-0.2
Germany	1.0	1.7	2.0	-4.0	-3.7	-3.9	2.2	3.8	4.0
Spain	3.0	3.0	3.4	0.0	-0.1	1.1	-3.5	-5.2	-7.7
France	2.1	2.2	1.7	-4.2	-3.6	-3.2	0.4	-0.4	-2.0
Italy	2.7	2.2	2.0	-3.3	-3.3	-4.3	-1.3	-0.9	-1.4
UK	1.4	1.3	2.0	-3.3	-3.2	-3.1	-2.1	-3.0	-3.9
Latin America & Caribbean	8.5	7.4	6.3	-3.0	-1.8	-1.7	0.5	0.9	1.3

Sources: Ministry of Economy and Finance, OECD Economic Outlook No. 78 and ECLAC

1. Annual rate of change, in real terms (%).
2. Contribution to annual growth (%).
3. Annual average (% of active population).
4. Consumer price index. Average annual rate of change.
5. Surplus (+) or deficit (-) as a % of GDP.

Composition of households' financial assets[1] (%)

I.2

Million euro

	Balance	Cash and deposits	Fixed-income securities	Shares	Mutual funds and investment companies	Insurance underwriting reserves	Other
1997	793,913	40.9	2.8	23.9	17.8	11.3	3.3
1998	934,660	35.8	2.5	28.6	18.8	11.1	3.2
1999	1,028,234	36.5	2.3	29.3	16.7	12.0	3.2
2000	1,046,774	39.8	2.5	26.4	13.7	13.9	3.6
2001	1,107,311	40.2	2.2	26.9	12.8	14.5	3.3
2002	1,083,945	43.6	2.4	21.7	12.4	16.1	3.8
2003	1,242,683	40.1	3.1	25.3	12.6	15.4	3.6
2004	1,359,943	39.9	3.0	25.0	13.2	15.2	3.6
2005[2]	1,484,815	39.0	3.3	25.7	13.5	14.9	3.7

Promemoria: breakdown of change in portfolio between December 2004 and September 2005

Variation. %	9.2	6.6	17.1	12.2	11.8	6.6	11.3
Change in absolute value	124,872	35,828	7,085	41,566	21,143	13,665	5,584
- acquisition of assets	69,408	35,596	2,669	123	14,366	11,069	5,585
- approximate price effect	55,464	232	4,416	41,444	6,777	2,596	-1

Source: Bank of Spain. "Financial accounts of the Spanish economy" and CNMV

1. Includes private non-profit institutions.
2. Figures for the first three quarters of 2005.

Composition of non-residents financial assets

I.3

Million euro

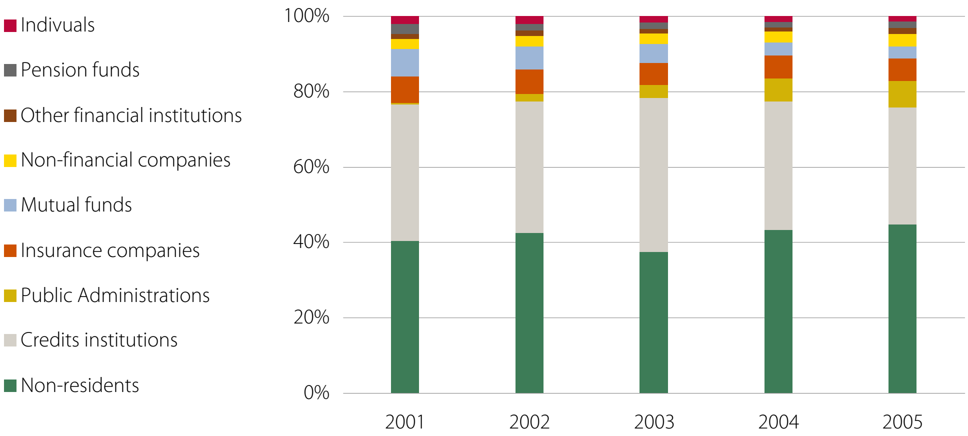
	Balance	Cash and deposits	Fixed-income securities	Loans	Shares	Mutual funds	Other
1997	441,623	123,704	83,870	47,160	154,998	2,419	29,472
1998	542,146	151,357	95,566	55,821	202,765	3,817	32,820
1999	677,016	186,044	125,537	77,731	247,661	4,008	36,034
2000	832,624	230,571	167,051	103,081	286,030	3,354	42,537
2001	928,193	251,683	191,874	133,680	304,554	3,092	43,309
2002	999,946	267,988	229,458	153,933	297,287	6,726	44,555
2003	1,150,847	311,807	261,901	183,565	340,274	7,242	46,060
2004	1,335,907	320,916	372,264	197,403	387,489	7,895	49,939
2005[1]	1,537,671	361,096	478,973	215,798	420,009	4,577	57,219

Source: Bank of Spain, "Financial accounts of the Spanish economy" and CNMV

1. Figures for the first three quarters of 2005.

Balance of public debt by holder

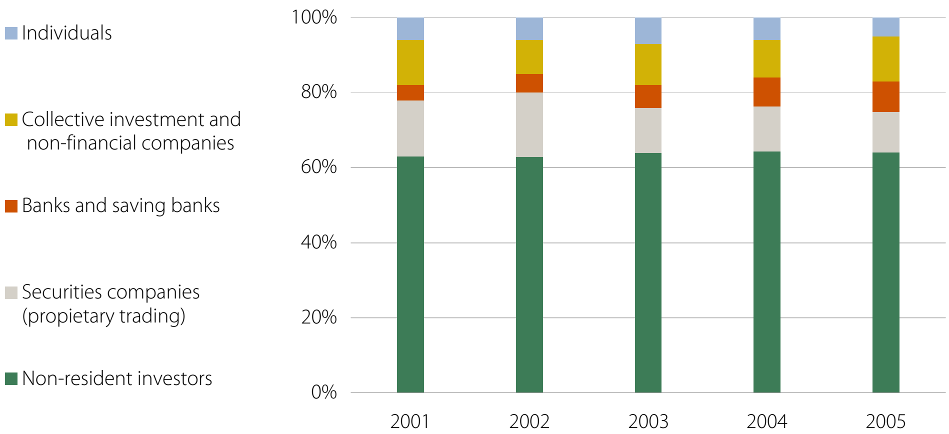
I.4



Source: Directorate-General of the Treasury and Finance Policy

Stock market trading, by participant

I.5



Source: Bolsas y Mercados Españoles

Pre-tax earnings of companies listed in the Madrid Stock Exchange General Index (IGBM)

Amounts in million euro

Sector	2003 Spanish GAAP[1]	2004 Spanish GAAP[1]	2004 IFRS	% chg. 2004[1]	2005 IFRS	% chg. 05/04
Oil & energy	9,805	10,719	11,251	5.0	16,708	48.5
Commodities, industry & construction	2,998	4,455	4,002	-10.2	4,716	17.9
Consumer goods	1,527	1,835	2,308	25.8	2,646	14.6
Consumer services	871	2,200	1,816	-17.5	2,739	50.8
Financial & real estate services	12,097	13,574	13,545	-0.2	20,297	49.9
Technology & telecommunications	5,718	7,039	7,540	7.1	9,636	27.8
Total index	**33,015**	**39,822**	**40,461**	**1.6**	**56,741**	**40.2**
Pro memoria: Ibex 35[2]	28,949	34,611	35,107	1.4	49,547	41.1

Source: Bolsas y Mercados Españoles and CNMV

1. Percentage change in earnings in 2004 under IFRS and Spanish GAAP.
2. Earnings of the companies that were in the index at year-end. Does not include Arcelor as it is not a Spanish issuer.

Equity issues registered with the CNMV in 2005

I.7

Actual amount in million euro

Issuer	Actual amount	Instrument	Date registered
Fersa Energías Renovables	15	Issue for consideration	13-01-05
Avanzit	60.9	Issue for consideration	27-01-05
Dinamia Capital Privado	0	Bonus issue	10-02-05
Banco de la Pequeña y Mediana Empresa	15	Issue for consideration	17-02-05
Banco Popular Español	792.9	Issue for consideration	14-03-05
Banco Guipuzcoano	49.9	Issue for consideration	05-05-05
Metrovacesa	0	Bonus issue	05-05-05
Banco de Valencia	0	Bonus issue	13-05-05
Fadesa Inmobiliaria	25.6	Issue for consideration	13-05-05
Faes Farma	0	Bonus issue	19-05-05
Sogecable	185	Issue for consideration	20-05-05
Papeles y Cartones de Europa	32.9	Issue for consideration	31-05-05
EADS	38.2	Issue for consideration	07-06-05
Sos Cuetara	120.2	Issue for consideration	10-06-05
Ercros	126.3	Issue for consideration	16-06-05
Metrovacesa	1,000.3	Issue for consideration	16-06-05
Sacyr Vallehermoso	0	Bonus issue	23-06-05
Corporación Dermoestética	54.7	Combined primary and secondary offering	28-06-05
Zardoya Otis	0	Bonus issue	28-06-05
Natraceutical	40.1	Issue for consideration	07-07-05
Banco Bilbao Vizcaya Argentaria[1]	0	Issue for consideration	21-07-05
Tecnocom, Telecomunicaciones y Energía	8.3	Issue for consideration	14-09-05
Dinamia Capital Privado	44.9	Issue for consideration	27-10-05
Natra	40.2	Issue for consideration	02-11-05
La Seda de Barcelona	72.7	Issue for consideration	04-11-05
Grupo Empresarial Ence	135.0	Issue for consideration	08-11-05

Source: CNMV

1. Banco Bilbao Vizcaya Argentaria registered a capital increase with the CNMV for an amount of 6,692.3 million euro which it did not ultimately perform.

Companies delisted in 2005

Company	Market[1]	Reason. Procedure	Date
Global Steel Wire	Electronic	Upon settlement of the tender offer made by the company itself under article 7.4 of Royal Decree 1197/1991.	03/06/05
Terra Networks	Electronic	Merger. Technical	18/07/05
Recoletos Grupo de Comunicación	Electronic	At the issuer's request. Intermediate procedure.	04/08/05
Volkswagen Aktiengesellschaft	Electronic	At the issuer's request. It is still listed in its home market.	08/08/05
Aldeasa	Electronic	At the issuer's request. Intermediate procedure.	13/12/05
Amadeus Global Travel Distr.	Electronic	At the issuer's request. Intermediate procedure.	16/12/05
Terrena	Open outcry	At the issuer's request. Intermediate procedure.	01/04/05
Banco Vitalicio de España	Open outcry	At the issuer's request. Intermediate procedure.	10/08/05
Minero Siderúrgica de Ponferrada	Open outcry	At the issuer's request. Intermediate procedure.	06/10/05
Fibur 3000 de Inversiones	Open outcry, CII	Removal from Administrative Register of CII. Technical	03/02/05
Inversiones Inverarte	Open outcry, CII	Liquidation of the company and removal from Administrative Register of CII. Technical	09/02/05
Inversiones Leal	Open outcry, CII	Liquidation of the company and removal from Administrative Register of CII. Technical	18/03/05
Livorno Inversiones	Open outcry, CII	Removal from Administrative Register of CII. Technical	23/03/05
Finanzasa	Open outcry, IIC	Removal from Administrative Register of CII. Technical	29/03/05
Azevrec	Open outcry, IIC	At the issuer's request. Technical	30/03/05
Bankinter de Inversiones	Open outcry, IIC	At the issuer's request. Due to dissolution.	19/04/05
Bifero	Open outcry, IIC	Removal from Administrative Register of CII. Technical	11/05/05
Infiper Valores	Open outcry, IIC	Removal from Administrative Register of CII. Technical	11/05/05
Cignus Valores	Open outcry, IIC	At the issuer's request. Technical	31/05/05
Hercasol	Open outcry, IIC	Delisted in Valencia, still listed in Barcelona.	17/05/05
Inversions Tona 2000	Open outcry, IIC	Removal from Administrative Register of CII. Converted to ordinary corporation. Technical	24/06/05
Fontecilla	Open outcry, IIC	Removal from Administrative Register of CII. Technical	06/06/05
Valores Madrid	Open outcry, IIC	Removal from Administrative Register of CII. Technical	06/06/05
Eurotítulos	Open outcry, IIC	Removal from Administrative Register of CII. Technical	17/06/05
Terra Finance	Open outcry, IIC	Removal from Administrative Register of CII. Converted to ordinary corporation.	11/07/05
Inversiones Verfani	Open outcry, IIC	Liquidation. Removal from Administrative Register of CII. Technical	18/08/05
Zeleste 4	Open outcry, IIC	Decision to liquidate and dissolve the company. Technical	19/09/05
Socyam	Open outcry, IIC	Dissolution of the SICAV. Technical	20/09/05

Companies delisted in 2005 (Continuation)

Company	Market[1]	Reason. Procedure	Date
Zawazky de Inversiones	Open outcry, CII	Merger. Technical	21/09/05
Galafate Inversiones	Open outcry, IIC	Removal from Administrative Register of CII. Technical	21/09/05
Inversiones Habana 2000	Open outcry, IIC	Removal from Administrative Register of CII. Technical	21/09/05
Elyob Cartera	Open outcry, IIC	Converted to limited company. Technical	22/09/05
Cartera Cabrera	Open outcry, IIC	Merger. Technical	07/10/05
Gesamer Inversiones	Open outcry, IIC	Removal from Administrative Register of CII. Technical	21/10/05
Rasal Cartera	Open outcry, IIC	Removal from Administrative Register of CII. Technical	24/10/05
Mobinversora	Open outcry, IIC	Removal from Administrative Register of CII. Technical	09/11/05
Inversiones institucionales	Open outcry, IIC	Removal from Administrative Register of CII. Converted to limited company. Technical	22/11/02
Cartera Delhi	Open outcry, IIC	Merger. Technical	29/11/05
Cartera Delfi 2	Open outcry, IIC	Merger. Technical	29/11/05
Inmo Dealer	Second market	At the issuer's request. Delisted by the Valencia regional government.	22/07/05
Barcelonesa de Inversiones Mobiliarias	Second market	At the issuer's request. Delisted by the Catalan regional government.	19/10/05
Ramón Ventula	Second market	The company converted its shares into registered securities by unanimous agreement of the shareholders. Delisted by the Catalan regional government.	09/12/05
Inmocahispa	Second market	At the issuer's request. Delisted by the Catalan regional government.	14/12/05

Source: CNMV

1. If the company is a collective investment institution (CII), this is stated in this column.

Performance by the Madrid and Barcelona Stock Exchange sector indices

% change over previous period

	2002	2003	2004	2005	1Q	2Q	3Q	4Q
Madrid Stock Exchange								
Oil & energy	-20.5	25.0	20.1	28.0	5.2	9.1	14.6	-2.7
Commodities, industry & construction	-4.1	26.9	28.7	43.4	10.1	18.1	13.9	-3.2
Consumer goods	3.1	-7.9	34.7	24.2	5.2	2.5	9.3	5.4
Consumer services	-22.7	40.0	34.3	21.2	6.3	7.4	6.5	-0.3
Financial & real estate services	-24.4	30.5	8.9	22.7	2.8	4.1	12.3	2.0
Technology & telecommunications	-41.4	40.6	18.4	-6.6	-1.8	0.7	1.4	-6.9
Madrid Stock Exchange General	**-23.1**	**27.4**	**18.7**	**20.6**	**3.7**	**6.2**	**10.5**	**-0.9**
Barcelona Stock Exchange								
Electricity	-27.1	29.4	17.1	29.9	4.9	10.5	10.9	1.1
Banks	-29.4	31.1	5.7	19.4	1.0	2.0	13.1	2.5
Chemicals	-21.6	23.1	23.4	29.1	7.4	3.4	26.8	-8.3
Cement, construction & real estate	8.6	20.9	29.9	56.9	13.5	24.3	16.2	-4.3
Metallurgy	-8.2	13.4	28.5	17.7	3.6	-0.3	11.3	2.3
Food, agriculture & forestry	-4.3	30.4	27.8	35.6	18.5	11.5	5.7	-3.0
Textiles & paper	-6.7	24.8	33.2	32.5	6.5	-3.2	15.8	11.0
Commerce & finance	-7.8	-16.5	33.6	26.7	14.1	2.2	11.3	-2.4
Sundry services	-39.3	39.1	23.0	-2.2	2.2	-0.9	1.9	-5.2
Barcelona Stock Exchange General	**-31.2**	**32.0**	**17.6**	**12.7**	**2.2**	**2.8**	**9.2**	**-1.8**

Source: Bolsas y Mercados Españoles

Concentration of capitalisation by sector[1]

I.10

No. of companies required to attain a given percentage

Sector	2003				2004			
	25%	50%	75%	100%	25%	50%	75%	100%
Oil	1	1	2	2	1	1	2	2
Energy & water	1	2	3	11	1	2	4	11
Mining & base metals	1	1	2	11	1	1	2	10
Cement & construction materials	1	2	3	6	1	2	3	6
Chemicals	1	1	1	4	1	1	1	4
Textile & paper	1	1	1	20	1	1	1	20
Metal-mechanical	1	1	2	17	1	1	1	14
Food	1	1	3	19	1	1	4	18
Construction	2	3	4	7	1	3	4	7
Real estate	2	3	5	31	2	3	5	30
Transport & communications	1	1	2	9	1	1	2	9
Other non-financial	3	5	9	24	2	4	7	22
Banks	1	2	3	15	1	2	3	15
Insurance	1	1	2	3	1	1	2	2
Portfolio companies	1	1	2	18	1	1	2	15
SICAV	23	225	904	3,087	26	232	920	3,112
Finance companies	0	0	0	0	1	1	1	1

Source: CNMV

1. Includes only the capitalisation of companies that were traded in the year. Excluding Latibex.

Percentage of capitalisation by sector and largest companies with respect to the overall market[1]

Sector	% Sector/ Market [2]	Companies with the largest capitalisation in the sector[3]	% Company / Market[4]
0. Oil	6.2	Repsol YPF	4.6
		CEPSA	1.6
1. Energy & water	11.4	Endesa	3.6
		Iberdrola	3.2
		Gas Natural	1.6
2. Mining & base metals	2.8	Arcelor	2.1
		Acerinox	0.5
		Tubos Reunidos	0.1
3. Cement & construction materials	0.6	Cementos Portland	0.3
		Cementos Molins	0.1
		Uralita	0.1
4. Chemicals	3.9	Bayer Aktiengesellschaft	3.5
		Zeltia	0.2
		Faes Farma	0.1
5. Textile & paper	3.2	Inditex	2.6
		Grupo Empresarial Ence	0.1
		Tafisa	0.1
6. Metal-mechanical	5.4	EADS	4.1
		Zardoya Otis	0.8
		Abengoa	0.2
7. Food	2.9	Altadis	1.6
		Ebro Puleva	0.3
		Sociedad Anónima Damm	0.3
8. Construction	5.6	ACS	1.5
		Grupo Ferrovial	1.2
		FCC	1.0
9. Real estate	3.3	Metrovacesa	0.8
		Fadesa Inmobiliaria	0.5
		Inmobiliaria Colonial	0.4
10. Transport & communications	18.5	Telefónica	9.5
		Telefónica Móviles	5.8
		Abertis Infraestructuras	1.9
11. Other non-financial	5.2	Gestevision Telecinco	0.8
		Sogecable	0.7
		Antena 3 Televisión	0.7
12. Banks	24.8	Banco Santander Central Hispano	10.6
		Banco Bilbao Vizcaya Argentaria	7.8
		Banco Popular Español	1.9

Percentage of capitalisation by sector and largest companies with respect to the overall market[1] (continuation)

I.11

Sector	% Sector/ Market [2]	Companies with the largest capitalisation in the sector[3]	% Company/ Market[4]
13. Insurance	0.8	Corporación Mapfre	0.5
		Grupo Catalana de Occidente	0.3
14. Portfolio companies	0.4	NH Hoteles	0.2
		Dinamia Capital Privado	0.0
		Unión Europea de Inversiones	0.0
15. SICAV[5]	5.2	Morinvest	0.2
		Keblar de Inversiones	0.2
		Alazan Inversiones 2001	0.1
16. Finance companies	0.0	Agrupación Servicios Financieros	0.0

Source: CNMV

1. Capitalisation at year-end.
2. Capitalisation of companies in a sector as a percentage of total market capitalisation.
3. The three largest companies in terms of capitalisation in each sector.
4. Company capitalisation as a percentage of total market capitalisation.
5. Includes open-end securities investment companies (SICAV) and closed-end securities investment companies (SIM).

Capitalisation and trading of Ibex 35 companies

Million euro and percentage of market total in 2005

Company	Capitalisation[1]			Trading		
	2004	2005	% Total[2]	2004	2005	% Total[2]
Telefónica	68,688.7	62,547.6	9.7	130,822.4	160,344.6	24.8
Banco Santander Central Hispano	57,101.7	69,735.4	10.8	112,947.0	159,517.1	24.7
Banco Bilbao Vizcaya Argentaria	44,250.6	51,134.0	7.9	101,530.4	109,819.1	17.0
Telefónica Móviles	40,100.9	38,412.0	5.9	4,300.5	5,036.9	0.8
Repsol YPF	23,391.7	30,118.7	4.7	52,101.0	65,548.0	10.1
Endesa	18,305.8	23,525.5	3.6	34,591.2	49,031.7	7.6
Iberdrola	16,859.0	20,816.8	3.2	26,978.0	36,166.8	5.6
Inditex	13,526.3	17,172.8	2.7	9,357.4	12,574.9	1.9
Arcelor	11,292.0	13,467.2	2.1	3,159.2	4,414.0	0.7
Banco Popular Español	11,028.2	12,519.0	1.9	18,375.5	21,077.9	3.3
Gas Natural	10,191,4	10,594.4	1.6	5,169.7	5,537.0	0.9
Altadis	9,544.6	10,316.6	1.6	20,437.3	25,284.9	3.9
Abertis Infraestructuras	8,934.0	12,310.7	1.9	4,249.9	5,499.3	0.9
Banco Español de Crédito[3]	7,297.4	8,769.4	1.4	1,383.9	1,763.6	0.3
ACS	5,928.3	9,601.7	1.5	7,002.3	13,581.3	2.1
Unión FENOSA	5,895.5	9,576.1	1.5	6,562.7	13,478.5	2.1
Grupo Ferrovial	5,515.2	8,205.5	1.3	4,308.2	7,065.1	1.1
Banco de Sabadell	5,263.3	6,781.0	1.0	4,545.3	4,820.0	0.7
FCC	4,626.0	6,254.2	1.0	2,565.0	3,492.5	0.5
Amadeus Global Tr. Distrib.[4]	4,466.3	4,336.5	0.7	7,482.4	6,472.7	1.0
Acciona	4,137.1	6,002.3	0.9	3,132.2	4,421.3	0.7
Sogecable	4,115.3	4,522.5	0.7	7,758.4	7,830.4	1.2
Promotora de Informaciones	3,417.9	3,150.9	0.5	2,142.0	2,169.0	0.3
Sacyr Vallehermoso	3,233.8	5,654.1	0.9	2,180.2	3,636.6	0.6
Acerinox	3,108.4	3,189.3	0.5	5,941.2	6,548.3	1.0
Bankinter	3,011.8	3,652.0	0.6	1,994.4	2,667.6	0.4
ENAGAS	2,912.6	3,772.0	0.6	2,416.2	5,710.9	0.9
Corporación MAPFRE	2,589.7	3,332.7	0.5	2,112.1	2,887.8	0.4
Telefónica Publicidad e Inform.	2,511.4	2,588.5	0.4	2,447.1	2,438.2	0.4
Gamesa Corporación Tecnológica	2,506.0	3,007.2	0.5	4,478.6	6,427.5	1.0
Metrovacesa	2,422.7	5,221.7	0.8	2,231.6	5,161.7	0.8
Iberia Líneas Aéreas de España	2,390.5	2,159.8	0.3	4,132.9	5,500.1	0.9
Red Eléctrica de España[5]	2,232.0	3,538.7	0.5	2,108.2	4,885.9	0.8
Indra Sistemas	1,940.8	2,413.6	0.4	2,846.4	4,453.6	0.7
NH Hoteles[3]	1,166.6	1,583.8	0.2	1,418.8	2,622.5	0.4
Gestevisión Telecinco	3,744.0	5,258.4	0.8	4,825.0	7,863.5	1.2
Antena 3 Televisión[6]	2,952.8	4,475.6	0.7	1,941.2	5,126.9	0.8
Cintra Conc. Infr. y Transp.[5]	3,968.2	4,798.2	0.7	2,584.6	4,914.8	0.8

Source: CNMV

1. Capitalisation on last day of year.
2. With respect to total market.
3. Removed from the index on 01/07/2005.
4. Removed from the index on 28/06/2005.
5. Added to the index on 01/07/2005.
6. Added to the index on 08/07/2005.

Market data of Ibex 35 companies

	Yield		Volatility		P/E ratio[5]		Dividend yield[6]	
	2004	2005	2004	2005	2004	2005	2004	2005
Telefónica	19.1	-8.3	18.1	12.7	23.2	21.4	1.5	1.6
Banco Santander Central Hispano	-2.8	22.1	18.3	14.1	14.4	15.1	3.5	3.2
Banco Bilbao Vizcaya Argentaria	19.2	15.6	18.3	12.9	14.4	12.7	3.2	3.2
Telefónica Móviles	11.8	-4.2	19.8	18.1	42.5	39.9	2.0	2.2
Repsol YPF	23.9	28.8	14.6	17.7	9.3	12.6	2.4	2.0
Endesa	13.4	28.5	16.0	15.9	12.3	16.1	4.3	3.6
Iberdrola	19.3	23.5	11.3	12.2	15.6	19.2	3.9	3.4
Inditex	34.8	27.0	21.8	16.8	26.9	33.5	0.6	1.1
Arcelor	29.1	19.3	27.9	23.3	4.9	9.8	5.5	4.8
Banco Popular Español	2.5	6.2	13.3	12.3	14.8	13.7	3.4	3.5
Gas Natural	22.7	4.0	13.2	13.6	17.4	18.3	2.9	3.2
Altadis	49.8	13.7	19.8	14.4	16.6	18.8	2.5	2.5
Abertis Infraestructuras	35.1	37.8	13.4	16.3	21.2	29.8	2.9	2.2
Banco Español de Crédito[1]	10.6	20.2	14.3	13.5	16.7	15.1	2.5	2.1
ACS	30.2	62.0	15.7	18.9	37.8	17.1	3.6	1.8
Unión FENOSA	30.0	62.4	16.5	17.9	17.8	27.7	2.8	2.0
Grupo Ferrovial	41.5	48.8	19.2	22.7	13.2	20.8	1.7	1.5
Banco de Sabadell	10.1	28.8	15.0	15.1	14.8	18.9	2.9	2.6
FCC	21.2	35.2	16.6	18.4	11.4	16.1	3.1	2.9
Amadeus Global Tr. Distrib[2]	47.0	-2.9	27.3	7.7	20.2	21.0	0.9	0.0
Acciona	34.9	45.1	16.1	22.0	18.9	27.0	2.2	1.8
Sogecable	18.1	4.6	28.3	20.7	--	--	0.0	0.0
Promotora de Informaciones	35.8	-7.8	25.6	18.1	47.2	45.4	0.7	0.8
Sacyr Vallehermoso	3.8	74.8	16.5	22.0	10.6	19.7	2.7	2.1
Acerinox	26.4	4.1	18.6	18.2	14.7	15.6	2.0	2.2
Bankinter	20.4	19.6	16.5	15.4	18.8	18.5	2.7	2.5
ENAGAS	41.9	29.5	17.3	19.4	24.4	33.6	2.7	2.1
Corporación MAPFRE	-3.5	28.7	20.4	18.4	11.6	15.4	2.4	2.0
Telefónica Publicidad e Inform.	56.8	5.1	28.9	15.9	36.4	37.4	3.6	4.2
Gamesa Corporación Tecnológica	18.4	20.0	27.0	22.9	26.4	34.2	2.8	2.4
Metrovacesa	38.9	72.2	15.0	22.5	21.9	37.1	2.7	2.3
Iberia Líneas Aéreas de España	11.8	-10.2	29.3	23.6	--	13.5	1.2	2.2
Red Eléctrica de España[3]	26.9	58.5	13.0	19.0	16.0	20.9	3.6	2.6
Indra Sistemas	23.6	31.3	19.9	17.3	27.6	36.8	1.3	3.2
NH Hoteles[1]	7.1	35.8	18.8	22.0	10.9	37.0	2.6	1.2
Gestevisión Telecinco	26.5	40.4	24.6	23.2	--	14.9	--	3.5
Antena 3 Televisión[4]	52.4	49.5	28.3	27.2	--	19.4	--	2.1
Cintra Conc. Infr. y Transp[3]	2.9	20.9	21.4	22.4	--	33.8	--	0.6

Source: CNMV and Datastream

1. Removed from the index on 01/07/2005.
2. Removed from the index on 28/06/2005.
3. Added to the index on 01/07/2005.
4. Added to the index on 08/07/2005.
5. Price/earnings ratio. Source: Datastream Thomson.
6. Ratio of dividends distributed to price. Source: Datastream Thomson.

Takeover bids authorised in 2005

Amounts in million euro and %

Offeree	Offeror	Purpose	% of capital covered by bid	Actual cash amount	% Attained
Aldeasa	Gestión de explotaciones aeroportuarias	Acquire control	100.00 (min.=80.00%)	Bid withdrawn	Bid withdrawn
Duro Felguera	Udra Industrial	Acquire stake	Maximum 44.00 (min.=25.00%)	Bid failed	Bid failed
Aldeasa	Dufry Holding y Dufry Investment	Acquire control	100.00 (min.= 50.01%)	Bid withdrawn	Bid withdrawn
Recoletos Grupo de Comunicación	Retos Cartera	Acquire control	100.00 (min.= 71.92%)	856.3	90.98[1]
Aldeasa	Retail Airport Finance	Acquire control	65.42	470.8	93.72[2]
Global Steel Wire	Global Steel Wire	Delisting	17.38	20.2	78.11
Amadeus Global Travel Distribution	Wam Acquisition	Acquire control	23.89 (min.= 18.61%)	3,833.7	94.73[3]
Cortefiel	Coral Retail Industries	Acquire control	100.00 (min.= 75.00%)	Bid withdrawn	Bid withdrawn
Cortefiel	MEP Retail España	Acquire control	100.00 (min.= 75.00%)	1,249.4	86.82
Cie Automotive	Instituto Sectorial de Promoción y Gestión de Empresas	Increase stake	33.00 (min.= 18.44%)	71.4	70.30[4]
Agrupació Actividades e Inversiones Inmobiliarias	Promociones Vandix	Acquire control	21.00	5.9	39.11[5]
Grupo Inmocaral	Inversiones Empresariales Tersina y Desarrollo Empresarial Quetro	Acquire control	100.00 (min.= 51.00%)	182.1	72.35
Transportes Azkar	Transportes Azkar	Delisting	35.42	131.8	97.42
Total amount				**6,821.6**	

Source: CNMV

1. Does not include 7.01% sold indirectly to the offeror outside the scope of the takeover bid in the same conditions.
2. Does not include 34.58% sold directly to the offeror outside the scope of the takeover bid in the same conditions.
3. Does not include 75.45% sold directly to the offeror outside the scope of the takeover bid in the same conditions.
4. Does not include 12.98% sold indirectly to the offeror outside the scope of the takeover bid in the same conditions.
5. Does not include 12.79% sold directly to the offeror outside the scope of the takeover bid in the same conditions.

Companies listed in Latibex, by sector

I.15

Amounts in million euro, except where otherwise indicated

	No. of companies		Capitalisation			Trading		
Sector	2004	2005	2004	2005	% chg. 05/04	2004	2005	% chg. 05/04
Oil	2	2	32,459	65,122	100.6	53.0	65.8	24.2
Energy & water	4	4	13,915	19,759	42.0	39.6	54.5	37.6
Mining & base metals	4	5	24,703	45,473	84.1	86.4	169.9	96.6
Chemicals	1	1	2,234	1,705	-23.7	7.7	18.4	139.0
Textile & paper	2	2	2,016	2,418	19.9	9.0	7.1	-21.1
Metal-mechanical	1	1	2,275	2,868	26.1	14.8	31.8	114.9
Food	2	2	2,019	3,080	52.6	7.1	20.4	187.3
Real estate	0	2	—	1,877	—	—	5.7	—
Transport & communications	3	3	27,880	56,258	101.8	67.2	83.3	24.0
Other non-financials	2	2	1,579	1,833	16.1	3.8	7.8	105.3
Banks	7	6	13,231	18,343	38.6	56.7	69.9	23.3
Finance companies	2	2	2,444	3,650	49.3	21.0	22.0	4.8
Total	**30**	**32**	**124,755**	**222,384**	**78.3**	**366.4**	**556.7**	**51.9**

Source: CNMV

Gross issues by Public Administrations

I.16

Amounts in million euro

	Amount			Change (%)	
	2003	2004	2005	2004	2005
State	**73,089**	**78,616**	**67,806**	**7.6**	**-13.8**
Short term	36,208	36,964	29,512	2.1	-20.2
Long term	36,881	41,652	38,293	12.9	-8.1
Autonomous Regions	**7,975**	**7,131**	**8,910**	**-10.6**	**24.9**
Short term	3,785	4,056	4,102	7.1	1.2
Long term	4,190	3,076	4,807	-26.6	56.3
Local governments	**102**	**310**	**200**	**204.5**	**-35.4**
Short term	—	—	—	—	—
Long term	102	310	200	204.5	-35.4
Total public administrations	**81,166**	**86,057**	**76,916**	**6.0**	**-10.6**

Source: Bank of Spain

Net issues by Public Administrations

I.17

Amounts in million euro

	Amount			Change (%)	
	2003	2004	2005	2004	2005
State	**328**	**6.650**	**3.890**	**1.929.0**	**-41.5**
Short term	2.935	-1.653	-3.819	-156.3	131.0
Long term	-2.608	8.304	7.709	-418.4	-7.2
Autonomous Regions	**1.822**	**1.551**	**2.797**	**-14.9**	**80.3**
Short term	-154	230	276	-250.0	19.8
Long term	1.976	1.321	2.521	-33.2	90.9
Local governments	**-38**	**-18**	**-5**	**-52.4**	**-73.1**
Short term	—	—	—	—	—
Largo plazo	-38	-18	-5	-52.4	-73.1
Total public administrations	**2.112**	**8.183**	**6.682**	**287.4**	**-18.3**

Source: Bank of Spain

Public debt trading by account holders.
Outright trades (1). repos and sell/buybacks and buy/sellbacks.

I.18

Nominal amounts in million euro

	2001	2002	2003	2004	2005	% chg. 05/04
Treasury bills:	**491.981**	**223.432**	**508.880**	**472.518**	**484.161**	**2.5**
Outright	21,790	14,770	62,075	85,222	82,515	-3.2
Spot	21,631	14,770	61,662	84,833	82,389	-2.9
Forward	159	0	413	389	126	-67.7
Repos	22,191	9,206	7,030	1,990	411	-79.3
Sell/buybacks and buy/ sellbacks	448,000	199,455	439,775	385,306	401,234	4.1
Bonds and debentures:	**5,175,151**	**6,239,664**	**7,217,133**	**7,308,084**	**7,260,528**	**-0.7**
Outright	792,774	997,195	901,582	562,627	491,550	-12.6
Spot	775,417	982,835	882,482	552,418	481,854	-12.8
Forward	17,357	14,360	19,099	10,209	9,696	-5.0
Repos	62,686	88,078	58,550	94,254	69,327	-26.4
Sell/buybacks and buy/ sellbacks	4,319,691	5,154,391	6,257,002	6,651,203	6,699,650	0.7
Total	**5,667,131**	**6,463,096**	**7,726,013**	**7,780,602**	**7,744,688**	**-0.5**

Source: Bank of Spain

1. Outright trades consist of spot and forward trades.

Treasury bill trading between account holders. Breakdown by trade type.

I.19

Nominal amounts in million euro

	2001	2002	2003	2004	2005	% chg. 05/04
Outright[1]	**21,790**	**14,770**	**62,075**	**85,222**	**82,515**	**-3.2**
Senaf	—	—	27,093	36,350	13,119	-63.9
MTS-España	—	191	13,103	13,580	16,959	24.9
EuroMTS	—	—	—	180	170	-5.6
Brokertec	—	—	—	—	—	—
Bilateral trading	21,790	14,579	21,879	35,112	52,267	48.9
Repos[2]	**470,191**	**208,661**	**446,806**	**387,297**	**401,646**	**3.7**
Senaf	—	1,866	30,527	18,211	25,543	40.3
MTS-España	—	—	243	—	—	—
EuroMTS	—	—	—	—	—	—
Brokertec	—	—	—	—	—	—
Bilateral trading	470,191	206,795	416,036	369,086	376,103	1.9
Total	**491,981**	**223,432**	**508,880**	**472,518**	**484,161**	**2.5**

Source: Bank of Spain and Directorate-General of the Treasury and Finance Policy

1. Outright trades consist of spot and forward trades
2. Repos also include sell/buybacks and buy/sellbacks

Government bond and debenture trading between account holders. Breakdown by trade type.

I.20

Nominal amounts in million euro

	2001	2002	2003	2004	2005	% chg. 05/04
Outright[1]	**792,774**	**997,195**	**901,582**	**562,627**	**491,550**	**-12.6**
Senaf	319,000	440,628	253,653	69,758	57,554	-17.5
MTS-España	—	105,175	183,208	85,265	83,830	-1.7
EuroMTS	116,162	105,031	111,705	47,503	24,462	-48.5
Brokertec	7,344	6,403	2,137	337	312	-7.4
Bilateral trading	350,268	339,958	350,879	359,764	325,392	-9.6
Repos[2]	**4,382,377**	**5,242,469**	**6,315,551**	**6,745,457**	**6,768,978**	**0.3**
Senaf	—	26,217	436,455	277,358	127,478	-54.0
MTS-España	—	—	7,501	388	—	-100.0
EuroMTS	—	—	—	—	—	—
Brokertec	—	—	—	—	—	—
Bilateral trading	4,382,377	5,216,252	5,871,595	6,467,711	6,641,500	2.7
Total	**5,175,151**	**6,239,664**	**7,217,133**	**7,308,084**	**7,260,528**	**-0.7**

Source: Bank of Spain and Directorate-General of the Treasury and Finance Policy

1. Outright trades consist of spot and forward trades.
2. Repos also include sell/buybacks and buy/sellbacks.

Trading in government debt with third parties: Outright trades[1], repos and sell/buybacks and buy/sellbacks

I.21

Nominal amounts in million euro

	2001	2002	2003	2004	2005	% chg. 05/04
Treasury bills:	**2,231,422**	**2,012,442**	**2,098,975**	**1,800,846**	**1,746,179**	**-3.0**
Outright	36,715	25,326	28,120	30,328	33,933	11.9
Spot	36,485	25,325	28,089	30,119	33,698	11.9
Forward	230	0	31	209	234	11.9
Repos	2,164,743	1,985,247	2,069,898	1,768,729	1,709,341	-3.4
Sell/buybacks and buy/ sellbacks	29,964	1,868	957	1,789	2,905	62.3
Bonos y Obligaciones:	**8,342,190**	**10,329,895**	**11,465,342**	**13,252,235**	**12,724,347**	**-4.0**
Outright	1,215,831	1,292,148	1,318,652	1,571,265	2,035,364	29.5
Spot	1,208,224	1,288,012	1,274,648	1,469,329	1,739,960	18.4
Forward	7,606	4,136	44,004	101,936	295,404	189.8
Repos	6,503,208	8,103,296	9,042,194	10,613,122	9,631,174	-9.3
Sell/buybacks and buy/ sellbacks	623,151	934,451	1,104,496	1,067,848	1,057,808	-0.9
Total	**10,573,612**	**12,342,337**	**13,564,317**	**15,053,081**	**14,470,526**	**-3.9**

Source: Bank of Spain

1. Outright trades consist of spot and forward trades.

Number of issuers and issues registered with the CNMV: breakdown by instrument

I.22

	Number of issuers		Number of issues	
	2004	2005	2004	2005
Long term	**120**	**122**	**196**	**187**
Non-convertible bonds and debentures	52	49	96	93
of which: subordinated debt[1]	36	21	39	22
Convertible bonds and debentures	2	4	3	4
Mortgage covered bonds	9	9	17	21
Territorial covered bonds	2	2	2	3
Securitisation bonds	52	57	49	58
asset-backed (BTA)	43	50	40	51
mortgage-backed (BTH)	9	7	9	7
Preference shares	12	6	26	7
Other issues	2	1	3	1
Short term	**58**	**68**	**62**	**81**
Commercial paper	58	68	62	81
Of which, asset backed	3	3	3	3
Total	**158**	**159**	**258**	**268**

Source: CNMV

1. Issuer figures are not mutually exclusive as a given issuer may have issued several types of instrument.

Main issuers[1] of fixed-income in 2005

Amounts in million euro

Company	Nominal amount issued		
	Total	Short term[2]	Long term
Caja de Ahorros y Monte de Piedad de Madrid	16,500	2,000	14,500
Banco de Sabadell	10,250	6,500	3,750
BBVA Banco de Financiación	10,000	10,000	0
Banco Popular Español	9,700	7,200	2,500
Banco Santander Central Hispano	9,000	0	9,000
Banco Bilbao Vizcaya Argentaria	8,500	0	8,500
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	8,200	4,000	4,200
Caja de Ahorros y Pensiones de Barcelona	8,000	3,000	5,000
Bankinter	7,075	5,000	2,075
Banco Español de Crédito	6,750	0	6,750
Banco Pastor	5,750	4,000	1,750
AYT Cédulas Cajas Global Fondo de Titulización de Activos	5,400	0	5,400
Santander Consumer Finance	5,000	5,000	0
AYT Cedulas Cajas IX, Fondo de Titulización de Activos	5,000	0	5,000
BPE Financiaciones	4,500	0	4,500
Caixa D´Estalvis de Catalunya	4,335	2,400	1,945

Source: CNMV

1. Issuers that issued over 4 billion euro in 2005.
2. Commercial paper: issue or shelf registration.

Main issuers[1] of fixed-income in 2005. Breakdown by instrument

I.24

Amount in million euro

Asset type	Issuer	Amount
Non-convertible bonds & debentures	Caja de Ahorros y Monte de Piedad de Madrid	10,500
	BPE Financiaciones	4,500
	Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	4,200
	Banco Español de Crédito	2,750
	Banco de Sabadell	2,250
	Bankinter	2,075
	Caixa D´Estalvis de Catalunya	1,945
	Ente público RTVE	1,500
	Caja de Ahorros de Galicia	1,280
	Banco de Crédito Local de España, S.A.	1,000
	Banesto Banco de Emisiones, S.A.	1,000
Mortgage covered bonds	Banco Santander Central Hispano	9,000
	Banco Bilbao Vizcaya Argentaria	8,500
	Caja de Ahorros y Pensiones de Barcelona	5,000
	Banco Español de Crédito	4,000
	Caja de Ahorros y Monte de Piedad de Madrid	4,000
	Banco Popular Español	2,500
	Banco de Sabadell	1,500
	Banco Pastor	1,000
Territorial covered bonds	Banco de Crédito Local de España	1,000
Preference shares	Santander Finance Capital	1,000
Commercial paper[2]	BBVA Banco de Financiación	10,000
	Banco Popular Español	7,200
	Banco de Sabadell	6,500
	Santander Consumer Finance	5,000
	Bankinter	5,000
	Banco Pastor	4,000
	Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	4,000
	Banco de Andalucía	3,000
	Caja de Ahorros y Pensiones de Barcelona	3,000
	Caixa d´Estalvis de Catalunya	2,400
	Caja de Ahorros del Mediterráneo	2,000
	Caja de Ahorros de Galicia	2,000
	Caja de Ahorros y Monte de Piedad de Madrid	2,000
	M.P. y C.A. de Ronda[3]	1,500
	Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea	1,500
	Caja de Ahorros de Salamanca y Soria	1,250
	Caja de Ahorros y Monte de Piedad de Navarra	1,200
	Telefónica	1,000
	Iberdrola	1,000
	Caixa de Aforros de Vigo, Ourense e Pontevedra (Caixanova)	1,000
	Fondo de Titulización de Activos Santander I[4]	1,000

Source: CNMV

1. Issuers that issued over 1 billion euro of the corresponding financial instrument in 2005.
2. Amount of issue or shelf registration.
3. Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga y Antequera.
4. Asset backed commercial paper.

Issuers of commercial paper: largest outstanding balances at 31 December 2005

I.25

Amounts in million euro

Issuer	Amount	% of total
BBVA Banco de Financiación	25,140	11.3
Banesto Banco de Emisiones	19,400	8.7
Santander Consumer Finance	18,088	8.1
Banco Popular	15,265	6.9
Banco Sabadell	14,157	6.4
Bankinter	12,322	5.5
Santander Investment Services	9,996	4.5
Caixa d'Estalvis de Catalunya	9,376	4.2
Banco Pastor	6,976	3.1
Caja de Ahorros y Pensiones de Barcelona	6,066	2.7
Caja de Ahorros de Valencia, Castellón y Alicante, Bancaja	6,024	2.7
Banco de Andalucía	5,820	2.6
Caja de Ahorros del Mediterráneo	4,858	2.2
Caja de Ahorros de Salamanca y Soria	4,087	1.8
Caja de Ahorros de Galicia	4,009	1.8

Source: CNMV

Main issuers (1) of asset-backed securities in 2005

I.26

Amounts in million euro

Issuer	Amount	Assets securitised
AYT Cédulas Cajas Global Fondo de Titulización de Activos	5,400	Mortgage covered bonds
AYT Cédulas Cajas IX, Fondo de Titulización de Activos	5,000	Mortgage covered bonds
AYT Cédulas Cajas X, Fondo de Titulización de Activos	3,900	Mortgage covered bonds
Fondo de Titulización de Activos, Santander Empresas1	3,100	Mortgage and non-mortgage loans[2]
Cédulas TDA 6, Fondo de Titulización de Activos	3,000	Mortgage covered bonds
IM Cédulas 4, Fondo de Titulización de Activos	2,075	Mortgage covered bonds
TDA CAM 4, Fondo de Titulización de Activos	2,000	Mortgage participations and Mortgage assignment certificates
Cédulas TDA 7, Fondo de Titulización de Activos	2,000	Mortgage covered bonds
TDA CAM 5, Fondo de Titulización de Activos	2,000	Mortgage participations and Mortgage assignment certificates
Bankinter 10, Fondo de Titulización de Activos	1,740	Mortgage participations
Bancaja 8, Fondo de Titulización de Activos	1,680	Mortgage assignment certificates
Intermoney Master Cédulas, Fondo de Titulización de Activos	1,655	Mortgage covered bonds
Fondo de Titulización de Activos Santander Auto 1	1,598	New car loans and Consumer loans
FTPYME Bancaja 4 Fondo de Titulización de Activos	1,524	SME loans
HIPOCAT 8, Fondo de Titulización de Activos	1,500	Mortgage assignment certificates
BBVA Hipotecario 3, Fondo de Titulización de Activos	1,450	Mortgage assignment certificates
Fondo de Titulización de Activos UCI 14	1,450	Mortgage participations and Mortgage assignment certificates
AYT Génova Hipotecario VII, Fondo de Titulización Hipotecaria (FTH)	1,400	Mortgage securitization
IM Cédulas 5, Fondo de Titulización de Activos	1,250	Mortgage covered bonds
BBVA-4 PYME, Fondo de Titulización de Activos	1,250	SME Loans
AYT Bonos Tesorería I, Fondo de Titulización de Activos	1,180	Non-convertible treasury bonds
Rural Hipotecario VII, Fondo de Titulización de Activos	1,100	Mortgage participations and Mortgage assignment certificates

Source: CNMV

1. Issuers that issued over 1.1 billion euro in 2005.
2. To companies and self-employed workers to finance business activities and acquisition of real estate for business purposes.

Proprietary trading on AIAF.

I.27

Million euro nominal

	2001	2002	2003	2004	2005	% chg. 05/04
Commercial paper	5,853	5,637	2,946	9,440	28,474	201.6
Bonds and debentures	24,509	32,498	48,875	122,989	249,375	102.8
Mortgage covered bonds	143	204	184	5,950	5,651	-5.0
Territorial covered bonds	0	0	4	4	111	2,677.5
Matador bonds	1,727	3,275	2,992	3,519	2,363	-32.8
Total	**32,232**	**41,614**	**55,001**	**141,902**	**285,975**	**101.5**

Source: CNMV

Statistical annexes II

Funds' portfolio as a percentage of the outstanding balance of Spanish securities

II.1

%

	2001	2002	2003	2004	2005
Listed equities[1]	**2.6**	**2.9**	**4.8**	**5.2**	**4.9**
Private fixed-income[2]	**14.4**	**10.6**	**9.9**	**11.1**	**10.2**
short term	28.6	21.2	16.0	18.2	17.2
long term	7.8	5.2	6.4	7.1	6.4
Public fixed-income	**9.5**	**7.9**	**7.0**	**5.4**	**4.8**
short term[3]	14.2	18.9	16.7	12.0	12.5
long term	8.8	6.3	5.5	4.5	3.8

Source: CNMV and Bank of Spain

1. Realisation value. The outstanding balance data relate to the capitalisation of Spanish securities in the electronic market.
2. Nominal amounts for fixed-income.
3. Excluding repos.

Mutual fund expenses

II.2

	2004		2005		
	Million euro	**% of daily average assets**	**Million euro**	**% of daily average assets**	**% chg. 05/04**
FIM					
Management fees	1,949.50	1.16	2,209.65	1.13	13.34
Depository fees	164.6	0.10	187.41	0.10	13.86
Other operating expenses	44.4	0.03	56.95	0.03	28.27
Total expenses	**2,158.40**	**1.28**	**2,454.01**	**1.26**	**13.70**
FIAMM					
Management fees	501.7	0.87	464.18	0.84	-7.48
Depository fees	64.7	0.11	59.67	0.11	-7.77
Other operating expenses	3.9	0.01	3.55	0.01	-8.97
Total expenses	**570.3**	**0.99**	**527.40**	**0.96**	**-7.52**

Source: CNMV

Changes in the register of SGIIC and controlling groups. 2005

II.3

IIC management companies	Controlling group
Registrations	
Welzia Management, S.A., SGIIC	Independent
Gottardo Gestión, S.G.I.I.C., S.A.	Gottardo
Pactio Gestion, SGIIC, S.A.	Independent
Atlas Capital Gestion, SGIIC, S.A.	Independent
Removals	
HSBC Fund Management España, SGIIC, S.A.	HSBC
ABF España Gestion de Fondos, S.G.I.I.C., S.A.	Calyon
Atlantico Fondos, SGIIC, S.A.	Banco Sabadell
Lusogest, S.G.I.I.C., S.A.	Banco Espirito Santo
Gestion de Activos Mobiliarios Agrupados, GAMA, SGIIC, SA, en liquidacion	Independent
Gesmusini, S.G.I.I.C., S.A.	Mapfre
B.I. Gestión Colectiva, SGIIC, S.A.	Banco Espirito Santo
Swiss Life Gestion, S.G.I.I.C., S.A.	La Caixa

Source: CNMV

Changes in control at SGIIC. 2005

II.4

Firm or group	Buyer
Takeovers by Spanish financial institutions	
Inversafei, S.G.I.I.C., S.A.	Banco Inversis Net
Takeovers by foreign financial institutions	
Afina Gestion Colectiva, S.G.I.I.C., S.A.	Commerzbank
B.I. Gestion Colectiva, S.G.I.I.C., S.A.	Banco Espirito Santo
NIBC Petercam Gestion, SGIIC, SA	NIBC

Source: CNMV

Foreign investment firms using the single passport: Home country[1]

II.5

No.of firms

Country	2004	2005
Free provision of services	**798**	**866**
United Kingdom	576	620
France	57	58
The Netherlands	38	43
Ireland	25	26
Austria	22	27
Germany	15	16
Belgium	12	9
Luxembourg	8	9
Norway	8	9
Sweden	8	8
Greece	6	7
Denmark	6	7
Finland	5	5
Italy	5	5
Portugal	5	6
Cyprus	1	9
Malta	0	1
Slovenia	1	1
Branches	**19**	**17**
United Kingdom	13	14
France	2	2
Germany	1	0
Belgium	1	0
Portugal	1	0
The Netherlands	1	1
Total	**817**	**883**

Source: CNMV

1. Countries stated in the notifications from investment services firms from EU member states and authorisations of investment services firms from non-EU states.

Register of firms: registrations, removals and controlling groups of investment firms. 2005

II.6

Registrations and removals. 2005

Spanish broker-dealers and brokers *	Controlling group
Registrations	
Privary, Agencia de Valores, S.A.	Independent[1]
Catalana Occidente Capital, Agencia de Valorers, S.A.	Catalana Occidente
Gottardo Patrimonios, Agencia de Valores, S.A.	Gottardo
Rothschild Gestión, Agencia de Valores, S.A.	Rothschild
Artimis, Agencia de Valores, S.A.	Independent[1]
Unicorp Patrimonio, Sociedad de Valores, S.A.	Unicaja
Removals	
Urquijo Bolsa de Valores, Sociedad de Valores	KBL
Abn Amro Equities (Spain), Sociedad de Valores, S.A.	Abn-Amro
Cortal Consors, Sociedad de Valores, S.A.	Cortal Consors
Ahorro Corporación Net, Sociedad de Valores, S.A.	Ahorro Corporación
BCN Finances, Agencia de Valores, S.A.	Credit Agricoles
D.L. Corporation, Agencia de Valores, S.A.	Independent[1]
Aguilar y De La Fuente, Agencia de Valores, S.A.	Independent[1]

Portfolio management companies	Controlling group
Registrations	
Solventis Gestión, Sociedad Gestora de Carteras, S.A.	Independent[1]
Removals	
Finanzas Patrimoniales, Sociedad Gestora de Carteras, S.A.	Independent[1]
Garanza Sociedad de Servicios de Inversión, Sociedad Gestora de Carteras, S.A.	Independent[1]
Unicorp Patrimonio, Sociedad Gestora de Carteras, S.A.	Unicaja
Investment Corporation C.J., Sociedad Gestora de Carteras, S.A.	Independent[1]
Gestora Europea de Inversiones, Sociedad Gestora de Carteras, S.A.	Banco Popular

EU investment firms	Controlling group
Registrations	
J.P. Morgan Securities Limited, Sucursal en España	JP Morgan
Removals	
Vika Vermittlung Internationaler Kapitalanlagen GMBH, Sucursal en España	Vika
NIBC Petercam Derivatives, N.V., Sucursal en España	NIBC Petercam
Lisbon Brokers, Sociedade Corretora, S.A., Sucursal en España	Independent[1]

Source: CNMV

* Does not include changes of category, of which there were 2 in 2005: Ibersecurities changed from AVB to SVB and Nordkapp from SV to SVB.

1. Firms not controlled by financial or industrial groups.

Changes in control of investment firms. 2005

Firm or group	Type	Buyer
Eurosafei	Broker-dealer	Banco Inversis Net
Euroactivos	Broker	Banco Inversis Net
Afina Pentor	Broker	Commerzbank
Artimis	Broker	Vega

Source: CNMV

Spanish investment firms using the single passport: Host country[1]

II.7

	No.of firms	
Country	**2004**	**2005**
Free provision of services:	**134**	**139**
Germany	19	19
Portugal	14	14
United Kingdom	12	14
France	12	12
Italy	10	11
The Netherlands	9	10
Belgium	9	10
Luxembourg	9	9
Ireland	8	8
Austria	5	5
Sweden	5	5
Greece	5	5
Denmark	5	5
Finland	5	5
Iceland	3	3
Norway	3	3
Liechtenstein	1	1
Branches:	**2**	**2**
United Kingdom	1	1
Portugal	1	1
Pro memoria: Total investment firms with crossborder activities[2]		
Free provision of services	31	36
Branches	2	2

Source: CNMV

1. Countries stated in the notifications of free provision of services and in authorisations to open branches.
2. Number of Spanish investment firms providing services in other states, disregarding the number of states as a given firm may provide services in more than one state.

Foreign credit institutions using the single passport to provide investment services in Spain at 31 December 2005: Home state

II.8

	No.of credit institutions
Country	
Free provision of services	**297**
France	55
United Kingdom	50
Luxembourg	46
Germany	33
The Netherlands	26
Ireland	24
Austria	18
Portugal	9
Belgium	6
Denmark	6
Italy	5
Sweden	3
Cyprus	2
Finland	2
Liechtenstein	2
Norway	2
Iceland	1
Malta	1
Hungary	1
Branches	**40**
France	11
United Kingdom	7
Portugal	6
Germany	5
The Netherlands	4
Luxembourg	2
Belgium	2
Italy	2
Denmark	1

Source: CNMV

Statistical annexes III

Demands issued to companies in connection with audit qualifications on the 2004 financial statements

III.1

Companies with qualifications which remedied the situation or established a plan for doing so

Issuer	Market / Segment[1]
Fletamentos Marítimos	Open outcry
Montebalito	Open outcry
Service Point Solutions	Electronic market
Urbanizaciones y transportes	Electronic market
Vidrala	Electronic market

Companies with qualifications whose resolution depends on future events or which can not be resolved in the short term

Issuer	Market / Segment[1]
Avanzit	Electronic market
Carroggio, S.A. de Ediciones	Open outcry
Compañía de Inversiones, CINSA	Open outcry
EAS Spain. Fondo de titulización de activos.	Unlisted[2]
Española del Zinc	Electronic market
Funespaña	Electronic market
Hullas del Coto Cortés	Open outcry
Minero Siderúrgica de Ponferrada	Open outcry
Promociones y Conciertos Inmobiliarios	Open outcry
Sniace	Electronic market
Hullera Vasco-Leonesa	Open outcry
Sociedad Española del Acumulador Tudor	Electronic market
Tableros de Fibras	Electronic market
Tecnocom, Telecomunicaciones y Energía	Electronic market

Source: CNMV

1. Market/segment in which the issuers' securities were listed at the date on which the financial statements were authorised.
2. This asset-backed fund was subpoenaed by the CNMV due to a qualification in the auditors' report on its financial statements.

Number of shareholders with a significant holding[1] in Ibex-35 companies[2]

III.2

Company	Stake			
	5%-10%	10%-25%	25%-50%	>50%
Abertis	2	2	-	-
Acciona	-	-	-	1
Acerinox	-	3	-	-
ACS	1	2	-	-
Altadis	4	1	-	-
Antena 3	1	2	1	-
B. Popular	2	1	-	-
B. Sabadell	1	1	-	-
Bankinter	-	3	-	-
BBVA	2	-	-	-
Cintra	-	-	-	1
Enagás	6	1	-	-
Endesa	4	-	-	-
FCC	-	1	-	1
Ferrovial	-	-	-	1
Gamesa	4	-	1	-
Gas Natural	2	-	2	-
Iberdrola	4	-	-	-
Iberia	4	1	-	-
Inditex	2	-	-	1
Indra	3	2	-	-
Mapfre	1	-	-	1
Metrovacesa	3	2	-	-
Prisa	-	-	-	1
REE	1	1	-	-
Repsol YPF	2	2	-	-
Sacyr	4	2	-	-
SCH	3	-	-	-
Sogecable	1	2	-	-
Telecinco	1	1	-	1
Telefónica	4	-	-	-
T. Móviles	-	-	-	1
TPI	-	-	-	1
Unión Fenosa	-	2	-	-
Total	**62**	**32**	**4**	**10**

Source: CNMV

1. Holdings over 5%. Royal Decree dated 15 March, on the disclosure of significant holdings in listed companies and acquisition of own shares by listed companies, states that significant holdings are those above 5% in general and above 1% if the investor is domiciled in a tax haven.
2. For reasons of uniformity, Arcelor is not included because it is governed by different legislation since its registered offices are in Luxembourg.

Outcome of disciplinary proceedings in 2005

Reference	Resolution
(1/05)	**Ministerial Order dated 13 January 2005**
	Resolution on disciplinary proceedings against an individual for an alleged serious breach under article 99 o) of the Securities Market Law -insider trading-. Fine of 30,050.61 euro.
(2/05)	**CNMV Board Resolution dated 18 January 2005**
	Resolution on the alleged commission by an investment firm of two serious breaches under articles 100.t (breach of the code of conduct) and article 100.c (breach of accounting regulations) of the Securities Market Law. The firm was found not guilty of breaching article 100.t; for the breach of article 100.c, the firm was fined 9,000 euro and a member of its Board of Directors was fined 4,500 euro.
(3/05)	**CNMV Board Resolution dated 18 January 2005**
	Resolution on the alleged commission by an investment firm of three serious breaches under articles 100.t (breach of code of conduct), 100.c (breach of accounting regulations) and 100.g (breach of liquidity coefficient) of the Securities Market Law. The firm was found not guilty of breaching article 100.t; in connection with the other breaches, the firm was fined a total of 24,000 euro and a member of its Board of Directors was fined 12,000 euro.
(4/05)	**Ministerial Order dated 25 January 2005**
	Resolution of a disciplinary proceeding against a legal entity for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 6,000 euro.
(5/05)	**Ministerial Order dated 25 January 2005**
	Resolution of a disciplinary proceeding against a legal entity for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 6,000 euro.
(6/05)	**Ministerial Order dated 25 January 2005**
	Resolution on disciplinary proceedings against an individual for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 6,000 euro.
(7/05)	**Ministerial Order dated 25 January 2005**
	Resolution of a disciplinary proceeding against a legal entity for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 6,000 euro.
(8/05)	**Ministerial Order dated 25 January 2005**
	Resolution of a disciplinary proceeding against a legal entity for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 6,000 euro.
(9/05)	**Ministerial Order dated 25 January 2005**
	Resolution on disciplinary proceedings against an individual for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 6,000 euro.
(10/05)	**Ministerial Order dated 25 January 2005**
	Resolution of a disciplinary proceeding against a legal entity for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 6,000 euro.
(11/05)	**Ministerial Order dated 25 January 2005**
	Resolution of a disciplinary proceeding against a legal entity for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 6,000 euro.

Reference	Resolution
(12/05)	**Ministerial Order dated 14 February 2005**
	Resolution on the alleged commission by an investment firm of a very serious breach under article 99.l of the Securities Market Law for failure to comply with the obligations established in article 70.1 of that law. The firm was fined 12,000 euro and a member of its Board of Directors was fined 9,000 euro.
(13/05)	**Ministerial Order dated 14 February 2005**
	Resolution on disciplinary proceedings against an individual for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 12.000 euro.
(14/05)	**Ministerial Order dated 14 February 2005**
	Resolution of a disciplinary proceeding against a legal entity for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 12.000 euro.
(15/05)	**Ministerial Order dated 14 February 2005**
	Resolution on disciplinary proceedings against an individual for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 12.000 euro.
(16/05)	**Ministerial Order dated 14 February 2005**
	Resolution of a disciplinary proceeding against a legal entity for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 6,000 euro.
(17/05)	**Ministerial Order dated 18 February 2005**
	Resolution on the alleged commission by an individual of two very serious breaches, under articles 99.o (insider trading) and 99.t (obstruction of the CNMV inspection) of the Securities Market Law. The person was fined a total of 36,050.61 euro.
(18/05)	**Ministerial Order dated 28 March 2005**
	Resolution on the alleged commission by an investment firm of two very serious breaches under articles 99.l (failure to comply with the obligations established in article 70.1 of the Securities Market Law) and 99.q (performance of activities without authorisation) of the Securities Market Law. The firm was fined a total of 33,000 euro and a member of its Board of Directors was fined 16,000 euro.
(19/05)	**Ministerial Order dated 29 March 2005**
	Resolution on the alleged commission by an investment firm of a very serious breach under article 99.q of the Securities Market Law (performance of activities without authorisation). The firm was fined 12,000 euro and a member of its Board of Directors was fined 6,000 euro.
(20/05)	**CNMV Board Resolution dated 1 April 2005**
	Resolution on the alleged commission by an investment firm of two serious breaches under articles 100.c (breach of accounting regulations) and 100.o (performance of activities without authorisation) of the Securities Market Law. The firm was fined 24,000 euro and a member of its Board of Directors was fined 12,000 euro.
(21/05)	**Ministerial Order dated 12 April 2005**
	Resolution on disciplinary proceeding against a limited company for alleged commission of a very serious breach under article 99.q of the Securities Market Law (habitual performance of activities reserved for investment firms). The firm and two of its directors were fined 300,506.05 euro each.

Outcome of disciplinary proceedings in 2005 (continuation)

Reference	Resolution
(22/05)	**Ministerial Order dated 12 April 2005**
	Resolution on disciplinary proceedings against an individual for an alleged serious breach under article 99.p of the Securities Market Law (failure to disclose significant holdings, or disclosure after the legally-established deadline). Fine of 9,000 euro.
(23/05)	**CNMV Board Resolution dated 29 June 2005**
	Resolution on the alleged commission by an SGIIC and two investment firms, all belonging to the same financial group, of a serious breach under article 100.t of the Securities Market Law (breach of codes of conduct) and, in the case of the SGIIC, of a serious breach under the Collective Investment Institutions Law regarding subscriptions and reimbursements of units in mutual funds. Two fines totalling 45,000 euro were imposed on the SGIIC and each investment firm was fined 30,000 euro. Also, four individual who were members of the companies' Board of Directors were fined a total of 81,000 euro.
(24/05)	**Ministerial Order dated 29 July 2005**
	Resolution on the alleged commission by an investment firm of a very serious breach under article 99.l (breach of the provisions of article 70.1) of the Securities Market Law. The firm was fined 104,000 euro and a member of its Board of Directors was fined 52,000 euro.
(25/05)	**Ministerial Order dated 24 October 2005**
	Resolution on the alleged commission by two investment firms of a very serious breach under article 99.l (breach of the provisions of article 70.1) of the Securities Market Law. Each of the firms was fined 15,000 euro and two members of their Boards of Directors were fined a total of 24,000 euro.

Source: CNMV

Court judgements in 2005 on administrative appeals against penalties

No.	Date	Court	Appeal No.	Appealed order
1	14/03/2005	National Court	379/2002	Ministry of Economy and Finance Order 23/05/2002
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 23 May 2002 for breach of article 100.x in connection with article 81.a.2 of the Securities Market Law.				
2	15/03/2005	Supreme Court	680/1998	National Court decision 8/5/2002
Upheld the National Court decision of 8 May 2002 which rejected administrative appeal 680/1998 against Ministry of Economy and Finance Order dated 14 January 1998 that imposed a penalty for breach of article 99.ñ of the Securities Market Law.				
3	21/03/2005	National Court	419/2002	Ministry of Economy and Finance Order 26/04/2002
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 26 April 2002 for breach of article 99.q in connection with article 64 of the Securities Market Law.				
4	22/06/2005	National Court	87/2004	Ministry of Economy and Finance Orders 18/12/2003 – 19/12/2003
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 18 December 2003, which rejected the appeal against the Comisión Nacional del Mercado de Valores resolution dated 14 July 2003 for breach of articles 100.o and 100.t of the Securities Market Law.				
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 19 December 2003 for breach of articles 99.e and 99.l of the Securities Market Law in connection with articles 70.1.h and 70.3 of the law.				
5	28/06/2005	National Court	571/2003	Ministry of Economy and Finance Order 18/07/2003
Overturned Ministry of Economy and Finance Order dated 18 July 2003 due to failure to obtain the mandatory prior report from the Bank of Spain; the court ordered the proceeding to be set back to the omitted step.				
6	28/07/2005	National Court	147/2004	Ministry of Economy and Finance Order 23/01/2004
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 23 January 2004 for a breach of article 99.q of the Securities Market Law in connection with article 64.6 and article 63.1.a of the Securities Market Law.				
7	14/09/2005	National Court	105/2004	Ministry of Economy and Finance Orders 18/12/2003-19/12/2003
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 18 December 2003, which rejected the appeal against the Comisión Nacional del Mercado de Valores resolution dated 14 July 2003 for breach of article 100.o of the Securities Market Law.				
Upheld the penalty imposed by Ministry of Economy and Finance Order dated 19 December 2003 for breach of articles 99.e and 99.l of the Securities Market Law in connection with articles 70.1.h and 70.3 of the law.				
8	11/10/2005	Supreme Court	543/1999	National Court decision 17/10/2002
Upheld the National Court decision dated 17 October 2002 arising from the imposition of penalties for breach of article 99.i of the Securities Market Law, which partly upheld the appeal against the Ministry of Economy and Finance Order dated 14 October 1998.				
9	21/10/2005	Supreme Court	125/1999	National Court decision 5/07/2002
Upheld the National Court decision dated 5 July 2002 arising from the imposition of penalties for breach of article 99.i of the Securities Market Law, which partly upheld the appeal against the Ministry of Economy and Finance Order dated 14 October 1998.				
10	17/10/2005	Supreme Court	302/1999	National Court decision 2/10/2002
Upheld the National Court decision dated 2 October 2002 arising from the imposition of penalties for breach of article 99.i of the Securities Market Law, which partly upheld the appeal against the Ministry of Economy and Finance Order dated 14 October 1998.				

Source: CNMV

Public warnings about unauthorised firms

CNMV warnings about unauthorised firms undergoing disciplinary proceedings

Date	Firm	Regulator
05/07/2005	Deribolsa, S. L. [B04402053]	CNMV

Other CNMV warnings about unauthorised firms

24/01/2005	Esicamo, S.A.	CNMV
	www.esicamo.com	
24/01/2005	Alexander Rothko and Associates LTD.	CNMV
	www.alexanderrothkoassociates.com	
21/03/2005	Strike Servicios y Asesoramiento, S.L.	CNMV
21/03/2005	Silverstone Management, S.L.	CNMV
21/03/2005	Richmond Royce Advisory Services, S.L.	CNMV
21/03/2005	Molgar Brokers, S.L.	CNMV
21/03/2005	Millenium Business Services, S.L.	CNMV
11/07/2005	Vip Bronze, S.L. [B-63646822]	CNMV
11/07/2005	Morgan Lynch	CNMV
03/10/2005	St. George Europe, S.L. [B53946109]	CNMV
24/10/2005	Morton Management, S.L. [B29623295]	CNMV
26/12/2005	Standard Provident International, S.L. [B-92261817]	CNMV
26/12/2005	Murrayfield Investment Management, S.L. [B-92126101]	CNMV

Public warnings from foreign regulators

12/01/2005	Inveteratus Asset Management	FMA (Austria)
12/01/2005	City Fidelity Trust Bank	FSC (Isle of Man)
	City Fidelity Trust Bank Private Clients International	
	National West Bank	
	National West Bank International	
	National West Bank Private Clients International	
	www.nationalwestbank.com	
19/01/2005	Bruxelles Bank Finance & Security Service	CBF (Belgium)
	www.bbfss.com	
19/01/2005	Trinity Finance Online	FSC (Isle of Man)
	Trinity Finance Online Inc	
	Trinity Finance Online PLC	
	www.trinity-fnc.net	
26/01/2005	Continental Trust Bank	JFSC (Jersey)
	Crystal Bonds & Securities	
	www.cbsec.net	
26/01/2005	Nexus Ltd.	FSC (Isle of Man)
	www.thenexussolution.com	

Public warnings about unauthorised firms (continuation)

Date	Firm	Regulador
09/02/2005	Capital Management Group	SFC (Hong Kong)
	Global Options Group	
	Hantec Group Asset Management Limited	
	Mission Finance Limited	
	Smith Barney	
	Union Bank of China	
	UBHK Securities Company Limited	
	Vantage International Management Inc	
	Vantage International Management Group Inc	
	WeNew.net	
	World Trade Assets Market Inc.	
	World Trade Assets Association	
	World Trade Assets Institute	
	Yamato & Associates	
16/02/2005	DCCR Investissement	AMF (France)
16/02/2005	Atlas Insvest LLC.	SSMA (Slovenia)
	www.siport.org	
16/02/2005	Hamilton Marketing	SSMA (Slovenia)
	www.hamilton-marketing.com	
16/02/2005	CEEM Central & Eastern European Markets Asset Management AG	SSMA (Slovenia)
	ALBAG Geselshaft Fur Allgemeine Finanzierungsberatung GmbH	
	KS Asset Management AG	
	KS Asset Management Schweiz AG	
16/02/2005	Euro Asian PLC	FSC (Isle of Man)
	www.euroasiaplc.com	
16/02/2005	Avatar s.p.a.	CONSOB (Italy)
16/02/2005	Management Solutions & Finance	JFSC (Jersey)
	MSF Group Finance and Securities	
	MSF Group Finance and Securities Jersey	
	MSF Group Finance and Securities A.E.	
	MSF Finance U.S.	
	MSF Asset Management	
	MSF Mutual Fund Management Company	
	MSF Finance	
	MSF Leasing	
	MSF Mutual Fund Management	
	MSF Ventures	
	MSF Insurance	

Public warnings about unauthorised firms (continuation)

III.5

Date	Firm	Regulator
	MSF Insurance Brokers	
	www.msf-online.org	
16/02/2005	Global Futures Exchange & Trading Co. Inc.	CONSOB (Italy)
	www.globalfutures.com	
16/02/2005	NEXCEL Group Finance & Securities	JFSC (Jersey)
	NEXCEL Group Finance and Securities Jersey	
	NEXCEL Finance U.S.	
	NEXCEL Asset Management	
	NEXCEL Mutual Fund Management Company	
	NEXCEL Finance	
	NEXCEL Leasing	
	NEXCEL Ventures	
	NEXCEL Insurance	
	NEXCEL Insurance Brokers	
	www.ngfsonline.com	
23/02/2005	www.cfssbv.net	FSC (Isle of Man)
	City Financial & Security	
	City Financial & Security Services B.V.	
23/02/2005	Warner Beck Incorporated	SFC (Hong Kong)
	Porter Ventures	
	SMI Limited (BVI)	
	Harrison Lee Partners	
	Regions Bank	
16/03/2005	Azkenta, S.A.	AMF (France)
16/03/2005	Mercantilebanc Inc.	JFSC (Jersey)
	UBS Trustco	
	UBS Trust Plc	
	www.ubstrustco.co.ur	
16/03/2005	Carrington Rothschild Capital	AMF (France)
16/03/2005	Harrison Lee Partners	SFC (Hong Kong)
	Euro Yen Usd	
	Bernard Simpson Consultants	
	Premium Alliance	
	R J MacAllistor Ltd	
	Rockwell & Bond S A	
	Parlement Associates Inc.	
	Youngson International Holding	
16/03/2005	Phoenix Kapitaldienst GmbH	BAFIN (Germany)
16/03/2005	Advance Fee Fraud	FSC (Isle of Man)
	Cynthia Hayton	

Public warnings about unauthorised firms (continuation)

Date	Firm	Regulator
16/03/2005	Heritage Financial Inc.	SFSA (Sweden)
23/03/2005	Central Security Clearing System	FSC (Isle of Man)
30/03/2005	www.orcb.net	SFC (Hong Kong)
13/04/2005	Bailey and Bennett Mergers and Acquisitions	FSA (UK)
13/04/2005	http://standardoffshoreonline.com	FSC (Isle of Man)
	Standard Offshore Bank	
13/04/2005	http://gmo-online.net	FSC (Isle of Man)
	Global Monetary Organisation	
13/04/2005	http://pacificassurancetrust.com	FSC (Isle of Man)
	Pacific Assurance Trust	
20/04/2005	Bell International Asset Management	SFSA (Sweden)
	www.bellinternationalam.com	
20/04/2005	Piccadilly Finance	JFSC (Jersey)
	Finascore Fudiciary	
	Finascore Finance	
	www.finascorre.com	
27/04/2005	Asian European Finance	SFC (Hong Kong)
	Asia Pacific Investment Management Ltd	
	Asia Pacific Group	
	Asia Pacific Asset Management Ltd	
	Asia Pacific Fund Managers Ltd	
	Asia Pacific Group Investment Inc	
	Asia Pacific Holdings Ltd	
	Asia Pacific International Investment Trust	
	Continental Allied Incorporated	
27/04/2005	http://societiale.com	FSC (Isle of Man)
	Banco Societiale Limited	
27/04/2005	Rhode s Law Office UK	FSC (Isle of Man)
27/04/2005	Global Financial Trust Bank	FSC (Isle of Man)
	www.gtf.uk.com	
27/04/2005	Gregory & Krest Investment	FSC (Isle of Man)
	Gregory & Krest Investment Service Online Banking	
	Gregory & Krest Investment Services Offshore	
	Gregory & Krest Investment Bank	
	www.gkrestonline.com	
11/05/2005	First Colonial Management	SFC (Hong Kong)
	Orion Ventures Limited	
	Smith Klein Venture	
11/05/2005	Intercontinental Bank	CBF (Belgium)
	Banque Internationale Commerciale	

Public warnings about unauthorised firms (continuation)

III.5

Date	Firm	Regulator
11/05/2005	Nedcredit Bank	JFSC (Jersey)
	Nedcredit Bank Plc	
	Nedcredit Online Banking	
	www.nedcreditbank.co.uk	
11/05/2005	Advantage IEC	FSA (UK)
11/05/2005	US Capital FX	FSA (UK)
11/05/2005	Alexander Rothko Associates	FSA (UK)
11/05/2005	Bailey and Bennett Mergers and Acquisitions	FSA (UK)
11/05/2005	Charterhouse International Inc	FSA (UK)
	Kensington Price Consulting	
11/05/2005	Insta Trade Inc	FSA (UK)
11/05/2005	International Options Trading (PTY) Ltd	FSA (UK)
11/05/2005	Jardine Windsor Asset Management	FSA (UK)
11/05/2005	Langley Advisory Services AG	FSA (UK)
11/05/2005	Liberty One Advisers LLC	FSA (UK)
11/05/2005	Meissner Goodison Lee & Associates	FSA (UK)
11/05/2005	Nationwide Mergers & Acquisitions Inc	FSA (UK)
11/05/2005	OPM Resources	FSA (UK)
11/05/2005	Polson and Strong	FSA (UK)
25/05/2005	Gregory & Krest Investment	JFSC (Jersey)
	Gregory & Krest Investment Service Online Banking	
	Gregory & Krest Investment Services Offshore	
	Gregory & Krest Investment Bank	
	www.gkrestonline.com	
	Gregory & Krest Investment Foreing Finance	
	Gregory & Krest Investment & Trust Corporation	
	Gregory & Krest Investment and Securities	
	Gregory & Krest Treasury Management Services	
25/05/2005	APAC Finance Ltd	SFC (Hong Kong)
	Crown Choice International Ltd	
	Crown Sense Ltd	
	Iontrack Ltd	
	Options International Ltd	
	Sinowest International Corp Ltd	
	Trimark World Capital Corp	
	SouthTrust Bank	
	The Williams Group	
25/05/2005	Roy Atkinson	FSC (Isle of Man)
	Isle of Man Securities Courier and Finance	
	www.isleofmanscfc.com	

Public warnings about unauthorised firms (continuation)

Date	Firm	Regulator
01/06/2005	Orion Ventures Limited	SFC (Hong Kong)
01/06/2005	www.metroincbank.com	FSC (Isle of Man)
	Metro Incorporated Bank	
01/06/2005	City Credit Online	JFSC (Jersey)
	City Bank Online	
	City Credit Online A.D.	
	www.cityconline.com	
08/06/2005	www.esfs-g.com	JFSC (Jersey)
	Euro-Swiss Finance and Securities (ESFS) Group	
	ESFS Group (Jersey)	
	ESFS Offshore Private Banking (Jersey)	
	ESFS Offshore Private Banking	
08/06/2005	www.esfs-g.com	FSC (Isle of Man)
	Euro-Swiss Finance and Securities (ESFS) Group	
	ESFS Group (Isle of Man)	
	ESFS Group (Isle of Man) Limited	
	ESFS Group Offshore Private Banking (Isle of Man)	
08/06/2005	Banco Societiale Ltd	FSC (Isle of Man)
	htttp://www.societiale.org	
	http://societiale.org	
15/06/2005	www.hibtc.com	FSC (Isle of Man)
	Habib Investment Banking & Trading Company	
	Security and Equity Corporation	
15/06/2005	www.barriecredits.com	FSC (Isle of Man)
	Barrie Credit Union Ltd	
15/06/2005	SMI Limited (BVI)	SFC (Hong Kong)
	Global Investor s Network System	
22/06/2005	Standard Investment Clearing House	FSC (Isle of Man)
	www.stdich.com	
22/06/2005	Royal Offshore Bank	JFSC (Jersey)
	Royal Offshore Bank Jersey	
	Royal Offshore Bank (ROB) of Jersey	
	Guardian Offshore Bank	
	www.royaloffshore.com	
22/06/2005	White Horse Corp	JFSC (Jersey)
	White Horse Corporation	
	WHC Banking Services	
	WHC Bank Inc	
	WHC Trust	
	www.whitehorsecorp.com	

Public warnings about unauthorised firms (continuation)

III.5

Date	Firm	Regulator
22/06/2005	Bernard Simpson Consultants	SFC (Hong Kong)
	Smith & Henderson	
	Taylor Ferguson	
	Wells Fargo (no relacionada con Wells Fargo & Company,US)	
	Wilton & Smythe Associates	
06/07/2005	Emerging Equity Group	FSA (UK)
06/07/2005	Brentwood Hall	FSA (UK)
06/07/2005	Esquela Investments Ltd.	FSA (UK)
06/07/2005	Fairchild Pierce	FSA (UK)
06/07/2005	Fordham Financial Management	FSA (UK)
06/07/2005	Landmark Trade Services Limited	FSA (UK)
06/07/2005	Mercantile Sterling Management	FSA (UK)
06/07/2005	eBay (no relacionada con eBay Inc., USA)	SFC (Hong Kong)
	LaSalle Bank (no relacionado con LaSalle Bank, USA)	
	The Stockton Group	
06/07/2005	Nexus Futures	FSA (UK)
06/07/2005	Tradelinx Investments Ltd	FSA (UK)
	Tradelinx Securities Group	
06/07/2005	The Roth Group GmbH	FSA (UK)
13/07/2005	www.recoveredfundaccount.com	JFSC (Jersey)
13/07/2005	Reality Millions	JFSC (Jersey)
	RM Private Trust	
	Midas Private Fund	
	ITBG Securities Underwriters Corporation	
	International Business and International Trust Company	
	International Business and Investment Trust Company	
	www.realitymillions.com	
13/07/2005	World Financial Bank Limited	FSC (Isle of Man)
13/07/2005	Royal Offshore Bank	FSC (Isle of Man)
	www.royaloffshore.com	
13/07/2005	Bacchus Legal & Fiduciary	FSC (Isle of Man)
13/07/2005	BPB Interbank Fiduciary	FSC (Isle of Man)
13/07/2005	Bernard Simpson Consultants	SFC (Hong Kong)
	Charles Schwab Bank (no relacionado con Charles Schwab Bank, NA)	
	Edenville Consultancy Limited	
	First Swiss Financial Management AG	
	Opus Financial Group	
	The Kaikatsu Group	

Public warnings about unauthorised firms (continuation)

Date	Firm	Regulator
20/07/2005	Warner Beck Incorporated	NAFM (Netherlands)
20/07/2005	Pacific Express Investment Bank	FSC (Isle of Man)
	Pacific Investment bank	
	www.pxivbank.com	
20/07/2005	Investecbv Trust & Finance BV	FSC (Isle of Man)
	www.investecbv.com	
03/08/2005	The Stockton Group	NAFM (Netherlands)
03/08/2005	Bernard Simpson Consultants	SFC (Hong Kong)
	Landmark Trade Services Limited	
	The Kaikatsu Group	
	Devlin Stern & Associates	
03/08/2005	Atlantic Express Bank	FSC (Isle of Man)
	www.atlanticexpressbank.com	
10/08/2005	Bentley International Management Ltd	SFC (Hong Kong)
	Morgan Lansky Inc.	
	The Prestige Perspective	
10/08/2005	Ivory Bank OnLine	FSC (Isle of Man)
10/08/2005	Maxwell Carter	FSC (Isle of Man)
	Maxwell Cater	
31/08/2005	Goldfield Consultants	FSA (UK)
31/08/2005	Montague Stearn Advisory	FSA (UK)
31/08/2005	Arthur Forbes Consulting	FSA (UK)
31/08/2005	Noble Investments and Securities SL	FSA (UK)
31/08/2005	Royal Finance Group	FSC (Isle of Man)
	Royal Finance Group Isle of Man	
	www.royalfinancegroup.com	
31/08/2005	Oakmont International LLC	FSA (UK)
	Stratford Advisory Services	
31/08/2005	Trinity Management	FSA (UK)
31/08/2005	Mission Finance Limited	SFC (Hong Kong)
	Youngson International Holding	
	Youngson International Holdings Limited	
	Woodson Ross & Associates	
31/08/2005	Greenwood Warren	FSC (Isle of Man)
14/09/2005	Brown Friedmann & Co. Ltd.	FMA (Austria)
	Brown & Lampe U.S. Portfolio Management Ltd.	
14/09/2005	Dragon Securities	SFSA (Sweden)
14/09/2005	Brown Friedmann & Co. Ltd.	FMA (Austria)
	Brown & Lampe U.S. Portfolio Management Ltd.	

Public warnings about unauthorised firms (continuation) III.5

Date	Firm	Regulator
14/09/2005	Advance Fee Fraud	FSC (Isle of Man)
	Mike Stevenson	
14/09/2005	Global Medical Financing	SFSA (Sweden)
14/09/2005	Harmon Bauer International Inc.	SFSA (Sweden)
14/09/2005	First China Corporate Management Group	SFSA (Sweden)
14/09/2005	Mercury Global Ltd	SFSA (Sweden)
21/09/2005	Finanzmarketing GmbH & Co. KG.	CONSOB (Italy)
21/09/2005	Cheoy Lee Asset Management Asia	SFSA (Sweden)
21/09/2005	Citicap Equity Consultants S.L.	FSC (Isle of Man)
21/09/2005	Legend Merchant Group Inc	FSC (Isle of Man)
28/09/2005	First China Corporate Management Group	SFSA (Sweden)
28/09/2005	Bell International Asset Management	FSC (Isle of Man)
28/09/2005	Lenox International LLP	SFSA (Sweden)
05/10/2005	The Kaikatsu Group	SFC (Hong Kong)
13/10/2005	Universal Credit Union of Sweden Economic	SFSA (Sweden)
13/10/2005	First China Corporate Management Group	SFSA (Sweden)
13/10/2005	Euroswift Private Bank	JFSC (Jersey)
	Euroswift	
	www.euroswiftpb.com	
13/10/2005	Charles Fleming Co., Ltd	SFSA (Sweden)
02/11/2005	GM Services LLC	NAFM (Netherlands)
	www.gm-services.net	
02/11/2005	Hojgaard Pierson	DFSA (Denmark)
	www.hpforex.com	
02/11/2005	Fong & Marcus Mergers and Acquisitions	SFSA (Sweden)
	www.fongma.com	
	International Stock and Asset Compliance Center	
	www.stockandasset.org	
16/11/2005	Chabert Asset Management	SFSA (Sweden)
16/11/2005	APS International Bank	JFSC (Jersey)
	APS bank (sic)	
	APS Group	
	APS Online Banking	
	www.apsgroups.com	
16/11/2005	Advance Fee Fraud	FSC (Isle of Man)
	Greenwood Warren	
	Martin Campbell	
	Michael Banks	
	Michael Goodwood	

Public warnings about unauthorised firms (continuation)

Date	Firm	Regulator
16/11/2005	Global Options Group	SFC (Hong Kong)
	Rockwell & Bond S A	
	Global Commodities Inc.	
	Beacon Capital Management	
	Factor Ten Financial	
	Hong Kong and Shanghai Securities Ltd	
	Bernard Simpson Consultans	
16/11/2005	Rapid Private Bank	FSC (Isle of Man)
	www.rapidprivatebank.com	
16/11/2005	Inland Paradize Lotto	FSC (Isle of Man)
16/11/2005	Virgin Sky Promotions	FSC (Isle of Man)
16/11/2005	Citi Express Finance and Securities	FSC (Isle of Man)
	Citi Securities Ltd	
	A.J.Brown & Co Ltd	
	www.citisecuritiesltd.com	
23/11/2005	First Swiss Financial Management AG	SFSA (Sweden)
23/11/2005	Isle of Man Financial Group	FSC (Isle of Man)
	www.iomfg.co.uk	
30/11/2005	Rockwell & Bond S A	SFC (Hong Kong)
	Landmark Trade Services Limited	
30/11/2005	Chadwick Seymour & Associates	FSA (UK)
30/11/2005	The Charinton Group GmbH	FSA (UK)
30/11/2005	Cohen & Partners	FSA (UK)
30/11/2005	Coleman Kleinfield & Associates	FSA (UK)
30/11/2005	Dempster, Hampton & Duke	FSA (UK)
30/11/2005	Donavan & Yung Partners	FSA (UK)
30/11/2005	The Toros Group	SFSA (Sweden)
30/11/2005	Finance Continental Corporation	FSA (UK)
	Finance Continental Inc	
30/11/2005	Woods and Sheldon	FSA (UK)
30/11/2005	Flemming Advisory	FSA (UK)
30/11/2005	Globus Trust Limited	FSA (UK)
30/11/2005	HC Consultants SL.	FSA (UK)
30/11/2005	Hydrogain Technologies Inc	FSA (UK)
30/11/2005	Jefferson Holt Consulting	FSA (UK)
30/11/2005	Milton Dewar Asset Management	FSA (UK)
30/11/2005	Montgomery Tate Associates	FSA (UK)
30/11/2005	Omega Equities	FSA (UK)
30/11/2005	Opes Ingenium Group	FSA (UK)

Public warnings about unauthorised firms (continuation)

III.5

Date	Firm	Regulator
30/11/2005	Oxbridge International Limited	FSA (UK)
30/11/2005	Ridgewell Capital Markets	FSA (UK)
30/11/2005	Stein Fitzgerald Associates	FSA (UK)
	Stein Fitzgerald Group	
30/11/2005	Strategic Corporate Services	FSA (UK)
30/11/2005	Thomson Hill Group	FSA (UK)
30/11/2005	Titan VC Zurich	FSA (UK)
	TVC Zurich	
30/11/2005	Trenton Hassel Investment Limited	FSA (UK)
07/12/2005	Jameson West Associates	AMF (France)
	www.jamesonwest.com	
07/12/2005	Advance Fee Fraud	FSC (Isle of Man)
	Victor R. Vasii	
07/12/2005	Finance Online	FSC (Isle of Man)
	www.iomfonline.co.uk	
07/12/2005	Flemings Offshore Bank	JFSC (Jersey)
	Flemings Offshore Bank Limited	
	Flemings Offshore Private Banking	
	www.flemings-offshore-bank.com	
07/12/2005	Marine Trust Bank	FSC (Isle of Man)
	Marine Trust Bank PLC	
	Marine Trust Bank Plc Securities, Inc	
	www.marinetrustbankplc.com	
07/12/2005	Private Investi Consulting	FSC (Isle of Man)
14/12/2005	Templeton Ltd. Surety Company	FSC (Isle of Man)
14/12/2005	Landmark Trade Services Limited	SFC (Hong Kong)
	Price Stone Group SI	
21/12/2005	Tomas Linz Transfer Agency	FMA (Austria)
	www.tomaslinzta.com	
21/12/2005	Begoshi & Partners	SFSA (Sweden)
21/12/2005	Select Capital Management Corporation	SFSA (Sweden)
21/12/2005	Premier Asset Management	SFSA (Sweden)
21/12/2005	Lee & Ching Associates	SFSA (Sweden)
21/12/2005	Wiranda Development	SFSA (Sweden)
28/12/2005	J. Lo Tranding Corp.	DFSA (Denmark)
	www.jlotrader.com	
28/12/2005	Woods & Sheldon (USA)	EI CBI (Ireland)
28/12/2005	Delta IMT	NAFM (Netherlands)
28/12/2005	Prestige Mergers and Acquisitions Corp	SFSA (Sweden)

Source: CNMV

Legislation Annexes

A. Spanish legislation

Main legislation approved in Spain in 2005.

A.1 Securities market regulations

Security issuers

- **Royal Decree Law 5/2005**, **dated 11 March**, on urgent reforms to enhance productivity and improve government procurements. This Royal Decree Law transposed Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading, making it possible to use the single passport for prospectuses and enabling issuers of securities to choose the competent authority and regulatory system for authorising the prospectus.

  It also transposed Directive 2002/47/EC of the European Parliament and of the Council of 6 June 2002 on financial collateral arrangements, by establishing a system for contractual clearing and financial collateral agreements that requires no formalities apart from the provision of the collateral and a statement of this fact in writing.

- **Royal Decree 1310/2005**, **of 4 November**, partly implementing the Securities Market Law (Law 24/1988, of 28 July) with regard to the listing on official secondary markets of public offerings for sale or subscription, and the prospectus required for this purpose. This Royal Decree, issued in implementation of Royal Decree Law 5/2005, implemented the standard Europe-wide requirements for the approval of the prospectus and established a system for listing and public offerings that is modern, effective and efficient, enabling Spain's securities markets to maintain and improve their competitiveness while preserving legal certainty. To this end, it modernised the existing regulations in this area (Royal Decree 291/1992, of 27 March, on issues and public offerings for the sale of securities, and the Regulation of the Official Stock Exchanges, of 30 June 1967).

- **Ministry of Economy and Finance Order EHA/3537/2005**, **of 10 November**, implementing article 27.4 of the Securities Market Law (Law 24/1988, of 28 July). This order refers to the forms contained in Commission Regulation (EC) 809/2004 of 29 April, to which prospectuses issued in accordance with Directive

2003/71 of the European Parliament and of the Council must conform. The Regulation contains a total of 17 annexes setting out the various forms of prospectus that are applicable depending on the section of the prospectus in question (registration document, securities note, or summary note), the type of issuer, the class of security, and even the name of the security. Prospectuses for securities not within the scope of this Directive must conform to the forms approved by the CNMV.

- **Ministry of Economy and Finance Order EHA/3536/2005, of 10 November**, determining future debt claims that qualify for inclusion in asset securitisation funds and empowering the Comisión Nacional del Mercado de Valores to issue specific rules for the accounting and reporting obligations of asset securitisation funds and their management companies. Implementation of Royal Decree 926/1998, dated 14 May, regulating asset securitisation funds and management companies of securitisation funds. That Royal Decree distinguishes between receivables in the assignor's assets and future debt claims representing revenues or collections whose magnitude is known or estimated, which are assigned contractually, providing unequivocal proof of the assignment of ownership. The category of future debt claims includes a specific type of right, namely a toll road concessionaire's toll collection right, and the Ministry of Economy and Finance is empowered to determine other such rights and the conditions of their assignment to an asset securitisation fund.

Secondary markets

- **Royal Decree 1333/2005, of 11 November**, implementing the Securities Market Law (Law 24/1988, of 28 July) in the area of market abuse with the goal of culminating the transposition of Directive 2003/6/EC of the European Parliament and of the Council on insider dealing and market manipulation. Previously, this Directive had been transposed into Spanish law in the form of articles 81 to 83 ter of Title VII of the Securities Market Law (Law 24/1988, of 28 July), as amended by Law 44/2002, of 22 November, on measures to reform the financial system.

  The Royal Decree also transposed Commission Directive 2003/124/EC of 22 December 2003 implementing Directive 2003/6/EC as regards the definition and public disclosure of inside information and the definition of market manipulation; Commission Directive 2003/125/EC as regards the fair presentation of investment recommendations and the disclosure of conflicts of interest, and Directive 2004/72/EC as regards accepted market practices, the definition of inside information in relation to derivatives on commodities, the drawing up of lists of insiders, the notification of managers' transactions and the notification of suspicious transactions.

- **Resolution of 20 July 2005**, of the Directorate-General of the Treasury and Finance Policy regulating Market Makers in Public Debt of the Kingdom of Spain. This regulation replaced the Resolution of 5 March 2005 so as to adapt the rules governing market makers to the changes that have taken place in the public debt markets in the last two years and it introduced measures to promote the market in strips.

Investment firms

– **Order EHA/848/2005, dated 18 March**, which determines the investment regime for the instrumental and temporary credit balances of broker-dealers and brokers with their clients. This Order defined the liquid, low-risk assets in which the instrumental and temporary credit balances of broker-dealers and brokers with their clients can be invested. The Order sets out specific situations in which investment in such assets is more constrained for a broker or broker-dealer that is in a situation of risk with regard to its solvency, earnings, viability, liquidity or organisational deficiencies.

Collective investment institutions

– **Royal Decree 1309/2005, of 4 November**, approving the Regulation under Law 35/2003, of 4 November, on collective investment institutions, and adapting the tax regime for collective investment institutions. Law 35/2003, of 4 November, which introduced major changes in the Spanish collective investment industry, had three fundamental goals: (i) to provide the industry with sufficient flexibility to enable its structures to adapt to the constant changes required by the market; (ii) to establish the necessary measures and procedures to guarantee appropriate investor protection; and (iii) to modernise the entire administrative system, simplify procedures and shorten authorisation deadlines. Since the Law merely established broad principles, it was necessary to approve a Regulation to specify and implement its goals.

i. The goal of providing collective investment institutions with more flexibility is pursued through a number of measures that seek to avoid restrictions and unnecessary obstacles to the scope of investment and action by Spanish collective investment institutions. In particular, the Regulation allows the creation of classes of units or shares within a given collective investment institution, it regulates hedge funds, and eliminates the obligation that the shares of securities investment companies be listed on the stock exchange.

ii. Investor protection is pursued by specifying and elaborating upon the management companies' duties of diligence and loyalty, and the depository's duty to oversee the management company's actions. Moreover, the regulation imposes a set of codes of conduct on management companies, depositories, marketers and investment companies with the aim of avoiding conflicts of interest.

iii. The goal of improving the system of government intervention is pursued in the regulation by establishing the possibility of creating and modifying compartments in collective investment institutions and establishing rules for government intervention.

iv. Finally, the regulation transposed Directives 2001/107/EC and 2001/108/EC into Spanish law. Firstly, the Regulation established definitive rules for financial collective investment institutions' investment policies, expanding their investment scope to include bank deposits, collective investment institutions, financial derivatives and unlisted money market instruments, among others. It also completed the rules governing management companies by specifying, among others, the requirements for outsourcing and the rules governing equity.

Financial conglomerates

- **Royal Decree 1332/2005, of 11 November**, implementing Law 5/2005, of 22 April, on the supervision of financial conglomerates, and amending other laws on the financial sector. This Royal Decree completed the transposition into Spanish law of Directive 2002/87/EC and also transposed Directive 2005/1/EC, of 9 March 2005. It was published with two basic aims: to establish a system of additional oversight for financial conglomerates, and to review the industry rules so as to ensure coherence and efficiency in the system.

Venture capital firms

- **Law 25/2005, of 24 November**, on Venture Capital Firms and their Management Companies. As venture capital was relatively underdeveloped in Spain, this law introduced changes to make this activity more flexible and dynamic, while respecting the basic content of Law 1/1999, of 5 January, which it superseded. The changes can be summarised under three headings: (i) accelerating the administrative system; (ii) making the investment rules more flexible; and (iii) introducing venture capital practices that are standard in more advanced countries.

Accounting regulations

- **Circular 1/2005, of 1 April**, of the Comisión Nacional del Mercado de Valores, amending the forms for periodic public disclosures by issuers of listed securities. This Circular pursues three goals: (i) it amends the forms for periodic public disclosure by issuers of listed securities to include the changes resulting from applying International Financial Reporting Standards (IFRS), which are obligatory for financial statements for financial years that commenced in 2005; (ii) it includes a new section detailing related-party transactions as a result of the amendment made to article 35 of the Securities Market Law by Law 44/2002, on measures to reform the financial system; and (iii) the information already being disclosed by issuers of debentures and other debt securities was standardised and detailed, and a transition period was established for the presentation of the financial information, clarifying how to transition to the new disclosure forms.

Corporate governance

- **Circular 2/2005, of 21 April**, of the Comisión Nacional del Mercado de Valores, regarding the annual report on corporate governance report and other disclosures by savings banks with listed securities. This Circular implements the mandates of Order ECO/354/2004, of 17 February, symmetrically with the provisions of CNMV Circular 1/2004 for listed corporations and other issuers of securities listed on official secondary markets in securities while taking account of the specific features of savings banks. Moreover, savings banks that issue preference participations are subject to specific reporting requirements, and those which do not issue such securities are exempted from completing certain sections of the general form.

– **Commission Recommendation (162/2005/EC), of 15 February**, on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. In accordance with this Recommendation, a listed company's management team should be subject to effective independent oversight. To achieve this goal, the Board of Directors or supervisory board must have a sufficient number of independent directors. A director is understood to be independent when he has no commercial, family or other ties to the company, its significant shareholders or executives, so that there are no conflicts of interest that might cloud his judgement.

Comisión Nacional del Mercado de Valores

– **Law 23/2005, of 18 November**, on tax reforms to enhance productivity. In order to stimulate competitiveness in the financial market, Title IV of this Law sharply reduced the fees charged by the Comisión Nacional del Mercado de Valores for various services, by either lowering the existing caps or introducing caps where none existed. The areas affected are the registration of prospectuses for primary or secondary public offerings of equities and fixed-income securities, registration of prospectuses for listing equities and fixed-income securities, supervision of the process of checking the requirements for listing in secondary markets in fixed-income securities, and processing applications for the authorisation of takeover bids.

A.2 Other Spanish regulations that affect the securities markets

– **Law 19/2005, of 14 November**, on Societas Europaea domiciled in Spain. This Law is in compliance with the mandate contained in article 68 of Council Regulation (EC) 2157/2001, of 8 October 2001, on the Statute for a European company (SE), which requires Member States of the European Union to adopt all necessary measures to ensure the enforceability of the directly-applicable rules contained in the Regulation.

The European Company (SE) is a new corporate form that is added to the existing list of possibilities in the various jurisdictions, thus expanding the freedom of establishment in the territory of the European Union. Though aimed primarily at large companies, the SE has been conceived so that medium-sized and even small enterprises may avail of it. The legal regimen for the European Company (SE) is similar to that of a corporation (Sociedad Anónima): legal personality, limited liability of shareholders, capital represented by shares. The minimum capital is 120,000 euro. It will be governed by a general meeting of shareholders and may have a supervisory organ with the powers to appoint members of the management organ and oversee their performance. As for taxation, an SE is treated like any multinational and both it and its branches are subject to domestic tax legislation.

- **Royal Decree 54/2004, dated 21 January**, amending the regulation of Law 19/1993, dated 28 December, on certain measures to prevent money laundering, approved by Royal Decree 925/1995, dated 9 June, and other regulations governing the banking, financial and insurance system. This Royal Decree incorporates the amendment, by Law 19/2003, of 4 July, of Law 19/1993, of 28 December, on prevention of money laundering in the light of Directive 2001/97/EC of the European Parliament and of the Council of 4 December 2001, amending the Regulation on this issue, which was contained in Royal Decree 925/1995, of 9 June. It also includes standards proposed by various international bodies and amendments based on experience gained in recent years and organisational changes in the Spanish Administration.

- **Resolution of 21 October 2005**, by the General Secretariat for the Prevention of Pollution and Climate Change, entrusting Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. with keeping the National Register of Emission Rights referred to in article 25 of Royal Decree 5/2004, of 27 August, regulating the System for Trading in Greenhouse Gas Emission Rights.

B. European legislation

In 1999, the European Commission drew up the Financial Services Action Plan (FSAP) with the aim of improving the single market in financial services in the following five years on the basis of legislative measures. In 2004, the bulk of the legislative phase had concluded since 39 of the 42 legislative proposals had been adopted. Regarding securities, the regulation yet to be approved relates to the equity of investment firms and credit institutions; it has been approved by the European Parliament but is pending approval by the Council.

At the end of 2005, the European Commission proposed conducting the first part of the evaluation of the FSAP. To this end, it asked for comments from interested parties about the regulatory process overall and the specific adoption of legislative measures. The conclusions of Part I will be published in mid-2006.

The European Commission also drew up a draft Directive on payment services[1] and a Proposal for a Regulation of the European Parliament and of the Council on information on the payer accompanying transfers of funds[2]. It also released a number of Green Papers for public consultation that may lead to proposals for legislation in the future:

- Green Paper on financial services policy[3] (2005-2010). The goal is to consolidate the progress made towards an integrated, open, competitive European financial

1. COM(2005) 603.
2. COM(2005) 343.
3. COM(2005) 177.

market. It focuses on three areas: investment funds, retail financial services, and asset management.

- Green Paper on the enhancement of the EU framework for investment funds[4]. This seeks to respond to the profound structural changes that have taken place in the area of fund marketing.

- Green Paper on mortgage credit in the EU[5]. The goal is to assess the advisability of action by the Commission in this area. It also seeks to foster more advanced integration of interested markets in such decisive areas as consumer protection, legal issues, mortgage collateral, and mortgage funding. These actions may also affect the capital markets in the area of securitisation.

Additionally, a White Paper was drafted regarding policy on financial services in 2005-2010 (see box in chapter 14).

Below are described the principal items of legislation adopted by the European Council and the European Commission in the area of securities during 2005. Additionally, the final section details mandates from the European Commission to the Commission of European Securities Regulators (CESR) for the development of level 2 measures. CESR's level 3 activities and the actions by the permanent working groups are described in chapter 14 of this report.

B.1 Legislation approved by the European Parliament and Council.

The following legislation was approved by the European Parliament and Council in 2005:

- **Directive 2005/1/EC** of the European Parliament and of the Council of 9 March 2005 amending Council Directives 73/239/EEC, 85/611/EEC, 91/675/EEC, 92/49/EEC and 93/6/EEC and Directives 94/19/EC, 98/78/EC, 2000/12/EC, 2001/34/EC, 2002/83/EC and 2002/87/EC in order to establish a new organisational structure for financial services committees.

  This Directive's basic goal is to expand the Lamfalussy model or process (originally conceived for securities) to the banking and insurance industries. Accordingly, following the model established in the field of securities with the creation of the European Securities Committee, two new financial services committees were recognised for level 2 measures: the European Banking Committee (EBC) and the European Insurance and Occupational Pensions Committee (EIOPC).

- **Directive 2005/29/EC** of the European Parliament and of the Council of 11 May 2005 concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and

4. COM(2005) 314.
5. COM(2005) 327.

Regulation (EC) No 2006/2004 of the European Parliament and of the Council ('Unfair Commercial Practices Directive').

The Directive prohibits unfair commercial practices by companies in their dealings with consumers before, during and after a commercial transaction in connection with a product, including financial services. Regarding financial services and real estate, Member States may impose requirements that are more demanding or restrictive than those contained in the Directive.

B.2 Legislation approved by the European Commission

In 2005, the European Commission approved the following regulations, all with the aim of amending the IFRS adopted by Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

- Commission Regulation (EC) No 211/2005 of 4 February 2005 amending Regulation (EC) No 1725/2003 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 Standards (IFRS) 1 and 2 and International Accounting Standards (IASs) No 12, 16, 19, 32, 33, 38 and 39 The main new development in this Regulation was the adoption of IFRS 2 on share-based payments, which departed from the previous approach (under which share-based payments were excluded from the financial statements) by requiring that the effect of share-based payments, including those arising from stock options granted to executives and employees, be disclosed in the financial statements.

- **Commission Regulation (EC) No 1073/2005 of 7 July 2005** amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards IFRIC[6] interpretation 2. This regulation clarifies that the classification of the contribution by cooperative members as a financial liability or as equity depends on the characteristics of such contributions, particularly the conditions for redemption.

- **Commission Regulation (EC) No 1751/2005 of 25 October 2005** amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards IFRS 1, IAS 39 and SIC[7] 12. This regulation was adopted to facilitate the transition to IAS/IFRS by amending IAS 39 (Financial Instruments: Recognition and Measurement- Transition and Initial Recognition of Financial Assets and Financial Liabilities) and to coordinate SIC 12 (Scope of SIC-12 Consolidation - Special purpose entities) with SIC 19 (Employee benefits) and IFRS 2 (Share-based payment).

6. International Financial Reporting Interpretations Committee.
7. Standing Interpretations Committee.

- **Commission Regulation (EC) No 1864/2005 of 15 November 2005** amending Regulation (EC) No 1725/2003 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 No 1 and International Accounting Standards Nos. 32 and 39. This regulation completes IAS 39, which had been approved originally without certain provisions on fair value and hedge accounting.

- **Commission Regulation (EC) No 1910/2005 of 8 November 2005** amending Regulation (EC) No 1725/2003 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 1 and 6, IASs 1, 16, 19, 24, 38, and 39, International Financial Reporting Interpretations Committee's Interpretations 4 and 5. The main features of this regulation are the adoption of IFRS 6 (Exploration for and Evaluation of Mineral Resources), the amendment of IAS 19 (Employee Benefits) and the implementation of IFRIC interpretations 4 (Determining whether an Arrangement contains a Lease) and 5 (Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds).

- **Commission Regulation (EC) No 2106/2005 of 21 December 2005** amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards International Accounting Standard (IAS) 39. This regulation introduced an amendment based on the standard risk management practice of considering the exchange rate risk of a planned intragroup transaction as being hedged, whereas IAS 39 previously only allowed external transactions to be considered to be hedged.

B.3 European Commission mandates to CESR to implement Level 2 measures

In 2005, CESR continued to advise the European Commission on drafting level 2 regulations to implement the main level 1 directives that form part of the Financial Services Action Plan (FSAP). Experts from the CNMV participated in all the CESR working groups advising the Commission. In 2005, the CESR received advisory mandates from the European Commission in relation to the following Level 2 regulations:

- **Transparency Directive 2004/109/EC**. In 2005, the CESR was given a mandate to provide advice on the filing and storage of the information regulated in the Directive; it completed this task during the year. The advice provided to the European Commission addressed the following specific areas:

  - Dissemination of the information regulated in the Directive.

  - Disclosure of major holdings.

  - Content of semi-annual reports.

- Equivalence of transparency requirements for third-country issuers.

- Procedures to apply where the issuer can choose their home country in accordance with the provisions of the Directive.

– **Regulation (EC) 809/2004 as regards information contained in prospectuses**. Advice was sought regarding the possibility of amending the regulations governing the historical financial information to be disclosed in prospectuses, particularly for issuers with a complex financial history. This advisory work was also completed in 2005.

Additionally, in 2005 CESR completed the mandated received from the Commission in 2004 with regard to Directive 2004/39/EC on markets in financial instruments. On two occasions in 2005, CESR provided advice to the European Commission on the detailed rule-making under this Directive, which is probably the central pillar of the new European regulation of securities markets. The issues covered by these mandates were as follows.

– Independence of the compliance function at investment firms.

– Investment firms' obligations with regard to internal systems, resources and procedures depending on the activities they perform.

– Investment firms obligations to avoid undue risks when outsourcing services.

– Obligations regarding record-keeping of transactions performed for clients.

– Methods and procedures for safeguarding client assets.

– Reliable, clear and unambiguous information in communications between investment firms and clients.

– Minimum content of contracts and information for clients.

– Research reports and measures for avoiding potential conflicts of interest in research.

– Best execution principle for client orders.

– Suitability test for getting to know the client and providing him with the services or products that best fit his profile.

– Order execution that does not include advice or recommendations from intermediaries on non-complex instruments.

– Criteria for considering certain companies to be eligible counterparties.

– Exchange of information between supervisors.

- Obligations on host countries to cooperate.

- Criteria and methods for reporting trades to the competent authorities.

- Transparency with regard to pre-trading and post-trading information to be disclosed, and the mechanisms for disclosing it for transactions on organised markets and on multilateral trading facilities or by systematic internalisers.

- Criteria to be considered prior to listing of financial instruments.

- Organisation systems that investment firms must have for the normal conduct of their business.

- Rules of conduct to be applied by investment firms providing services to clients.

CNMV organisation

Composition of the CNMV Board

President	Manuel Conthe Gutiérrez
Vice-President	Carlos Arenillas Lorente
Commissioners	Soledad Núñez Ramos[1]
	Gonzalo Gil García
	Soledad Plaza y Jabat
	Julio Segura Sánchez[2]
	Luis Perezagua Clamagirand
Secretary	Javier Rodríguez Pellitero

Composition of the CNMV Executive Committee[3]

President	Manuel Conthe Gutiérrez
Vice-President	Carlos Arenillas Lorente
Commissioners	Soledad Plaza y Jabat
	Julio Segura Sánchez
	Luis Perezagua Clamagirand
Secretary	Javier Rodríguez Pellitero

1. Director-General of the Treasury and Finance Policy. Appointed by Royal Decree 133/2005, of 4 February. Took the place of Belén Romana García.
2. Appointed by Order EHA/689/2006, of 13 March. Took the place of Juan Junquera González.
3. The creation, constitution and functions of the Executive Committee are regulated by Article 18 of Securities Market Law 24/1988, of 28 July, as amended by Law 44/2002, dated 22 November, on Measures to Reform the Financial System.

Composition of the CNMV Advisory Committee[4]

President	Carlos Arenillas Lorente
Secretary	Javier Rodríguez Pellitero

Members

Representatives of the members of the official secondary markets

Member	Sebastián Albella Amigo
Alternate	Ignacio Olivares Blanco
Member	Jaime Aguilar Fernández-Hontoria
Alternate	Manuel Ardanza Fresno
Member	José Mª Antúnez Xaus
Alternate	Antonio Gallego González
Member	Ignacio Solloa Mendoza
Alternate	Luis Vía Fernández
Member	Francisco Oña Navarro
Alternate	Julio Alcántara Lera
Member	Ignacio Gómez-Sancha Trueba
Alternate	Ana Ibáñez Díaz-Bustamante

Representatives of the issuers

Member	José Mª Méndez Álvarez-Cedrón
Alternate	Juan Carlos Manzano-Monis López-Chicheri
Member	José Luis Alonso Iglesias
Alternate	Mª Teresa Saez Ponte
Member	Ana Bartolomé Delicado
Alternate	Teresa Conesa Fábregues
Member	Juan Luis Sabater Navarro
Alternate	Luis Cortés Domínguez

4. Royal Decree 504/2003, dated 2 May, which regulated the CNMV Advisory Committee, applied for the first time to the replacement of the members of the Advisory Committee on 1 April 2004.

Composition of the CNMV Advisory Committee (Continuation)

Representatives of the investors

Member	Manuel Pardos Vicente
Alternate	Ana Isabel Ceballo Sierra
Member	Pilar González de Frutos
Alternate	Mª Aranzazu del Valle Schaan
Member	Antonio Mª Malpica Muñoz
Alternate	José Manuel Pomarón Bagües
Member	Mariano Rabadán Forniés
Alternate	Ángel Martínez-Aldama Hervás

Representatives of the Autonomous Regions with an official secondary market

Basque Country	
Member	Juan Miguel Bilbao Garai
Alternate	Miguel Bengoechea Romero
Catalunya	
Member	Miquel Salazar i Canalda
Alternate	Josep María Sánchez i Pascual
Valencia	
Member	Enrique Pérez Boada
Alternate	Nicolás Jannone Bellot

Directorates of the CNMV

Directorate-General	Directorate	Subdirectorate
SECURITIES MARKET PARTICIPANTS Antonio Carrascosa	SUPERVISION Mª José Gómez	BROKER-DEALERS AND BROKERS
		COLLECTIVE INVESTMENT INSTITUTIONS
		CREDIT INSTITUTIONS
	AUTHORISATION AND REGISTRATION Antonio Moreno	BROKER-DEALERS AND BROKERS
		COLLECTIVE INVESTMENT INSTITUTIONS
		VENTURE CAPITAL AND SUPPORT UNIT
		IIC MANAGEMENT COMPANIES
		CONTRACTS AND FEES
LEGAL AFFAIRS Javier Rodríguez	LEGAL COUNSEL	
	LITIGATION Silvia García	
		MARKET MONITORING UNIT
MARKETS AND INVESTORS Ángel Benito	INVESTORS Elena Brito	COMPLAINTS AND CLAIMS
	PRIMARY MARKETS Carlos Lázaro	ISSUERS
		TAKEOVERS
	SECONDARY MARKETS Antonio Mas	EQUITIES
		FIXED-INCOME
		DERIVATIVES
	FINANCIAL REPORTS Paulino García	FINANCIAL DISCLOSURE
		CORPORATE GOVERNANCE

Directorates of the CNMV (Continuation)

Directorate-General	Directorate	Subdirectorate
	INFORMATION SYSTEMS Francisco Javier Nozal	DEVELOPMENT AND ANCV
		INFRASTRUCTURE
	GENERAL SECRETARIAT Salvador Meca	FINANCE
		INTERNAL REGULATIONS
		OFFICIAL REGISTERS AND DOCUMENTATION
	INTERNATIONAL RELATIONS Rodrigo Buenaventura	
	STUDIES AND STATISTICS Nieves García	STUDIES
		STATISTICS
	ASSISTANT TO THE PRESIDENT Rafael Sánchez	BARCELONA OFFICE
	INTERNAL CONTROL[1] Margarita García	

1. Under article 41 of the CNMV Internal Regulation, this body reports directly to the CNMV Executive Committee.